



April 27, 2016

In reply, please refer to LAC-14381

DOCKET NO. 50-409

ATTN: Document Control Desk  
U.S. Nuclear Regulatory Commission  
Washington, DC 20555-0001

SUBJECT: Dairyland Power Cooperative  
La Crosse Boiling Water Reactor (LACBWR)  
Possession-Only License DPR-45  
Financial Statement and Auditors' Report

REFERENCE: 1) 10 CFR 50.71(b)

In accordance with the requirements of Reference 1, we are forwarding three (3) copies of the Financial Statements and Independent Auditors' Reports for Dairyland Power Cooperative as of December 31, 2015 and 2014. We will forward our 2015 Annual Report to you when it is completed.

Sincerely,

Phil M. Moilien  
Vice President and CFO

PMM:KAS:pjw

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Enclosures

cc: Cynthia D. Pederson, Regional Administrator  
Marlayna Vaaler, FSME  
Ed Bowen, DPC  
Cheryl Olson, LACBWR



A Touchstone Energy® Cooperative

Dairyland Power Cooperative is an equal opportunity provider and employer.

Dairyland Power Cooperative is an equal opportunity provider and employer.

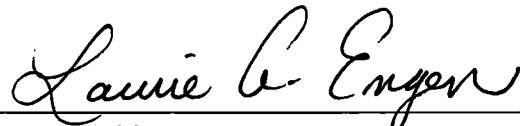
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STATE OF WISCONSIN )

COUNTY OF LA CROSSE )

Personally came before me this 26<sup>th</sup> day of April, 2016, the  
above named, Phil M. Moilien, to me known to be the person who executed the foregoing  
instrument and acknowledged the same.



Notary Public, La Crosse County Wisconsin

My commission expires 5-25-2018

LAURIE A. ENGEN  
Notary Public  
State of Wisconsin

**Deloitte.**

**Dairyland Power  
Cooperative and  
Subsidiary**

Consolidated Financial Statements as of and  
for the Years Ended December 31, 2015 and 2014,  
and Independent Auditors' Report

# Dairyland Power Cooperative and Subsidiary

Consolidated Financial Statements as of and  
for the Years Ended December 31, 2015 and 2014,  
and Independent Auditors' Report



Deloitte & Touche LLP  
Suite 2800  
50 South Sixth Street  
Minneapolis, MN 55402  
USA

Tel: +1 612 397 4000  
Fax: +1 612 397 4450  
[www.deloitte.com](http://www.deloitte.com)

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Dairyland Power Cooperative  
La Crosse, Wisconsin

We have audited the accompanying consolidated financial statements of Dairyland Power Cooperative and subsidiary (the "Cooperative"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of revenues, expenses, and comprehensive income, member and patron equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

March 28, 2016

# DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2015 AND 2014 (In thousands)

	2015	2014
<b>ASSETS</b>		
ELECTRIC PLANT:		
Plant and equipment—at original cost	\$ 1,569,980	\$ 1,520,662
Less accumulated depreciation	<u>(580,036)</u>	<u>(545,215)</u>
Net plant and equipment	989,944	975,447
Construction work in progress	<u>189,855</u>	<u>162,529</u>
Total electric plant	<u>1,179,799</u>	<u>1,137,976</u>
OTHER ASSETS:		
Nuclear decommissioning funds	94,676	92,954
Investments under debt agreements—marketable securities	3,779	3,777
Other property and investments	10,885	10,197
Investments in capital term certificates of National Rural Utilities Cooperative Finance Corporation	9,176	9,176
Regulatory assets (Note 1)	54,199	35,348
Investment for deferred compensation	1,429	1,391
Deferred charges (Note 1)	<u>28,139</u>	<u>25,924</u>
Total other assets	<u>202,283</u>	<u>178,767</u>
CURRENT ASSETS:		
Cash and cash equivalents	26,386	25,871
Accounts receivable:		
Energy sales—net of allowance for doubtful accounts of \$10 for 2015 and 2014, respectively	35,287	40,478
Other	2,479	3,340
Inventories:		
Fossil fuels	49,220	41,236
Materials and supplies	20,086	19,090
Prepaid expenses and other	<u>16,225</u>	<u>10,416</u>
Total current assets	<u>149,683</u>	<u>140,431</u>
TOTAL	<u>\$ 1,531,765</u>	<u>\$ 1,457,174</u>

(Continued)

# DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2015 AND 2014 (In thousands)

	2015	2014
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CAPITALIZATION:</b>		
Member and patron equities:		
Membership fees	\$ 1	\$ 1
Patronage capital	254,265	231,196
Accumulated other comprehensive income	<u>2,415</u>	<u>2,719</u>
Total member and patron equities	256,681	233,916
Long-term obligations	<u>775,857</u>	<u>866,918</u>
Total capitalization	<u>1,032,538</u>	<u>1,100,834</u>
<b>OTHER LIABILITIES:</b>		
Estimated decommissioning liabilities	88,114	87,936
Asset retirement obligations	9,116	4,370
Postretirement health insurance obligation	4,482	4,113
Accrued benefits	888	1,044
Deferred compensation	1,429	1,391
Obligations under capital leases	3,974	3,186
Other deferred credits (Note 1)	<u>76,336</u>	<u>9,556</u>
Total other liabilities	<u>184,339</u>	<u>111,596</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term obligations and obligations under capital leases	49,409	46,619
Line of credit	196,000	127,000
Advances from member cooperatives	10,758	13,530
Advances from Great River Energy	-	6,568
Accounts payable	32,459	32,651
Accrued expenses:	-	-
Payroll, vacation, and benefits	7,133	10,720
Interest	238	327
Property and other taxes	3,190	2,646
Other	<u>15,701</u>	<u>4,683</u>
Total current liabilities	<u>314,888</u>	<u>244,744</u>
<b>TOTAL</b>	<u><u>\$ 1,531,765</u></u>	<u><u>\$ 1,457,174</u></u>

See notes to consolidated financial statements.

(Concluded)



# DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(In thousands)

	2015	2014
UTILITY OPERATIONS:		
Operating revenues:		
Sales of electric energy	\$ 398,933	\$ 425,364
Other	<u>19,391</u>	<u>22,300</u>
Total operating revenues	<u>418,324</u>	<u>447,664</u>
Operating expenses:		
Fuel	114,191	121,885
Purchased and interchanged power	74,130	102,471
Other operating expenses	84,309	80,462
Depreciation and amortization	44,619	42,521
Maintenance	32,579	35,330
Property and other taxes	<u>8,916</u>	<u>7,877</u>
Total operating expenses	<u>358,744</u>	<u>390,546</u>
Operating margin before interest and other	<u>59,580</u>	<u>57,118</u>
Interest and other:		
Interest expense	39,844	41,188
Allowance for funds used in construction—equity	(2,776)	(1,873)
Other—net	<u>3,376</u>	<u>147</u>
Total interest and other	<u>40,444</u>	<u>39,462</u>
OPERATING MARGIN	19,136	17,656
NONOPERATING MARGIN (Note 1)	<u>7,590</u>	<u>5,207</u>
NET MARGIN AND EARNINGS	26,726	22,863
OTHER COMPREHENSIVE LOSS—Postretirement health insurance obligation adjustments	<u>(304)</u>	<u>(379)</u>
COMPREHENSIVE INCOME	<u>\$ 26,422</u>	<u>\$ 22,484</u>

See notes to consolidated financial statements.

# DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF MEMBER AND PATRON EQUITIES FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(In thousands)

	Membership Fees	Accumulated Other Comprehensive Income (Loss)	Patronage Capital	Total Member and Patron Equities
BALANCE—December 31, 2013	\$ 15	\$ 3,098	\$ 211,742	\$ 214,855
Net margin and earnings	-	-	22,863	22,863
Postretirement health insurance obligation adjustments	-	(379)	-	(379)
Return of membership fees	(14)	-	-	(14)
Retirement of capital credits	<u>-</u>	<u>-</u>	<u>(3,409)</u>	<u>(3,409)</u>
BALANCE—December 31, 2014	1	2,719	231,196	233,916
Net margin and earnings	-	-	26,726	26,726
Postretirement health insurance obligation adjustments	-	(304)	-	(304)
Retirement of capital credits	<u>-</u>	<u>-</u>	<u>(3,657)</u>	<u>(3,657)</u>
BALANCE—December 31, 2015	<u>\$ 1</u>	<u>\$ 2,415</u>	<u>\$ 254,265</u>	<u>\$ 256,681</u>

See notes to consolidated financial statements.

# DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In thousands)

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net margin and earnings	\$ 26,726	\$ 22,863
Adjustments to reconcile net margin and earnings to net cash provided by operating activities:		
Depreciation and amortization:		
Charged to operating expenses	44,619	42,521
Charged through other operating elements such as fuel expense	1,731	1,704
Allowance for funds used in construction—equity	(2,776)	(1,873)
Gain on sale of property and equipment	(904)	-
Changes in operating elements:		
Accounts receivable	6,052	(2,268)
Inventories	(9,441)	1,781
Prepaid expenses and other assets	(6,878)	(1,196)
Accounts payable	(2,517)	8,543
Accrued expenses and other liabilities	75,841	(6,419)
Deferred charges and other	(19,944)	(12,776)
Total adjustments	85,783	30,017
Net cash provided by operating activities	112,509	52,880
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Electric plant additions	(78,395)	(89,490)
Advances to nuclear decommissioning funds	(78)	(75)
Proceeds from sale of property and equipment	1,529	-
Purchase of investments	(172,873)	(135,080)
Proceeds from sale of investments and economic development loans	172,055	163,204
Net cash used in investing activities	(77,762)	(61,441)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under line of credit	123,000	115,000
Repayments under line of credit	(54,000)	(147,000)
Borrowings under long-term obligations	45,816	92,588
Repayments of long-term obligations	(136,051)	(49,761)
Retirement of capital credits	(3,657)	(3,423)
Borrowings of advances from member cooperatives	226,078	248,194
Repayments of advances from member cooperatives	(235,418)	(251,484)
Net cash provided (used) by financing activities	(34,232)	4,114
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	515	(4,447)
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	25,871	30,318
<b>CASH AND CASH EQUIVALENTS—End of year</b>	\$ 26,386	\$ 25,871
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 43,067	\$ 43,413
Electric plant additions funded through accounts payable and accrued expenses	\$ 11,115	\$ 8,790
Electric plant additions under capital leases	\$ 2,752	\$ 3,395

See notes to consolidated financial statements.

# DAIRYLAND POWER COOPERATIVE AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (All dollar amounts in thousands)

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### 1. NATURE OF BUSINESS AND ORGANIZATION

**Business**—Dairyland Power Cooperative and subsidiary (“Dairyland” or the “Cooperative”) is an electric generation and transmission cooperative organized under the laws of the states of Wisconsin and Minnesota. The Cooperative, whose principal offices are located in Wisconsin, provides wholesale electric service to class A members engaged in the retail sale of electricity to member consumers located in Wisconsin, Minnesota, Iowa, and Illinois, and provides electric and other services to class C, D, and E members.

**Principles of Consolidation**—The consolidated financial statements include the accounts of Dairyland and Dairyland’s wholly owned subsidiary, Genoa FuelTech, Inc. All intercompany balances and transactions have been eliminated in consolidation.

**Accounting System and Reporting**—The accounting records of the Cooperative are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission as adopted by the Rural Utilities Service (RUS), the Cooperative’s principal regulatory agency.

**Electric Plant**—The cost of renewals and betterments of units of property (as distinguished from minor items of property) includes contract work, direct labor and materials, allocable overhead, and allowance for funds used during construction, and is charged to electric plant accounts. Included in accumulated depreciation are nonlegal or noncontractual costs of removal components. As a result, the cost of units of property retired, sold, or otherwise disposed of, plus removal costs, less salvage, is charged to accumulated depreciation and no profit or loss is recognized in connection with ordinary retirements of property units. A provision for these nonlegal or noncontractual costs of removal components is recognized based on depreciation rates determined by a third-party depreciation study completed in July 2011 and approved by RUS in 2012. The Cooperative is unable to obtain the information to separate the cumulative removal costs as of December 31, 2015 and 2014. Maintenance and repair costs and replacement and renewal of minor items of property are charged to operations.

**Depreciation**—Depreciation, which is based on the straight-line method at rates that are designed to amortize the original cost of properties over their estimated useful lives, includes a provision for the cost of removing and decommissioning the properties. The provision for depreciation averaged 3.0% of depreciable plant balances for 2015 and 2014.

**Allowance for Funds Used during Construction**—Allowance for funds used during construction (AFUDC) represents the cost of external and internal funds used for construction purposes, and is capitalized as a component of electric plant by applying a rate (3.61% in 2015 and 3.16% in 2014) to certain electric plant additions under construction. The amount of such allowance was \$5,272 in 2015 and \$3,311 in 2014. The borrowed funds component of AFUDC for 2015 and 2014, was \$2,496 and \$1,438, respectively (representing 1.71% and 1.37% in 2015 and 2014, respectively). The equity component of AFUDC for 2015 and 2014 was \$2,776 and \$1,873, respectively, (representing 1.90% and 1.79% in 2015 and 2014, respectively). The borrowed funds components were included as a reduction of interest expense in the consolidated statements of revenues, expenses, and comprehensive income.

**Recoverability of Long-Lived Assets**—The Cooperative accounts for the impairment or disposal of long-lived assets, such as property and equipment, whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when estimated undiscounted cash flows expected to result from the use of the asset, plus net proceeds expected from disposition of the asset (if any) are less than the carrying value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value based on quoted market prices or other valuation techniques. To date, management has determined that no impairment of these assets exists.

**Investments**—Investments in marketable debt and equity securities classified as available for sale are reported at fair value, with the interest, dividend income, and realized gains reported in nonoperating margin. The Cooperative continually monitors the difference between cost and estimated fair value of its investments. If any of the Cooperative's investments experience a decline in value that the Cooperative believes is other than temporary, the Cooperative will realize the loss as a reduction in investment income on decommissioning funds. In 2015 and 2014, the Cooperative realized \$3,018 and \$1,994, respectively, of losses on these investments as a result of other-than-temporary impairment (OTTI).

**Regulatory Assets and Liabilities**—The Cooperative's accounting policies and the consolidated financial statements conform to accounting principles generally accepted in the United States of America applicable to electric cooperatives. During 2015, the Cooperative established a regulatory asset for a contract termination fee related to a power purchase agreement. This is being amortized to purchased power expense over the 5 year remaining term of the original contract beginning November 2015. During 2014, the Cooperative established a regulatory asset related to unrecovered plant balances upon closure of the Alma 4&5 generating stations. This is being amortized through rates over 10 years beginning in 2015 with the expected following year's portion included in other current assets at December 31, 2015 and 2014, respectively. During 2013, the Cooperative established a regulatory asset of \$16,700 for increased estimated costs in the nuclear decommissioning liability. The amortization of this regulatory asset will be deferred pending the outcome of the second nuclear contract damages claim with the U.S. government as described in Note 15.

The regulatory assets as of December 31, 2015 and 2014, include the following:

	2015	2014
Power purchase contract termination fee	\$ 20,958	\$ -
Alma 4&5 unrecovered plant balances	16,541	18,648
Nuclear decommissioning methodology change	<u>16,700</u>	<u>16,700</u>
Total regulatory assets	<u>\$ 54,199</u>	<u>\$ 35,348</u>

**Deferred Charges**—Deferred charges represent future revenue to the Cooperative associated with costs that will be recovered from customers through the rate-making process. As of December 31, 2015, the Cooperative's deferred charges are being reflected in rates charged to customers. If all or a separable portion of the Cooperative's operations become no longer subject to the provisions of regulatory accounting, a write-off of deferred charges would be required, unless some form of transition recovery (refund) continues through rates established and collected for the Cooperative's remaining regulated operations. In addition, the Cooperative would be required to determine any impairment to the carrying costs of deregulated plant and inventory assets. The noncurrent portion of deferred charges as of December 31, 2015 and 2014, include the following:

	2015	2014
Pension prepayment	\$ 16,139	\$ 18,829
Deferred nuclear litigation and plant expenses	9,228	5,274
Other	<u>2,772</u>	<u>1,821</u>
Total deferred charges	<u>\$ 28,139</u>	<u>\$ 25,924</u>

The voluntary prepayment to the Cooperative's multiemployer defined-benefit pension plan to reduce future funding amounts is being amortized to benefits expense over ten years beginning in 2013 as prescribed by RUS. Litigation expenses and certain plant expenses from the second nuclear contract damages claim against the United States government, as discussed in Note 15, are being deferred pending the outcome of that litigation.

**Cash and Cash Equivalents**—Cash equivalents include all highly liquid investments with original maturities of three months or less. Cash equivalents consist primarily of commercial paper, stated at cost, which approximates market.

**Fossil Fuels and Materials and Supplies**—Coal inventories as well as materials and supplies inventories are stated at the lower of average cost or market prices.

**Nitrogen Oxide Emission Allowances**—Beginning in 2009, the U.S. Environmental Protection Agency (EPA) requires power plants to hold sufficient allowances to cover emissions of nitrogen oxide. Under these requirements, the Cooperative is required to surrender one emission allowance per ton of nitrogen oxide emitted. Actual emissions during 2015 and 2014 did not require the Cooperative to purchase additional allowances beyond what was allocated under the program. As of December 31, 2015 and 2014, allowances are recorded in inventory at lower of average cost or market prices at a total cost of \$0. The obligation to EPA to meet 2015 and 2014 emissions are \$0. The transfer to EPA for the 2014 annual allowances occurred in May 2015. The transfer to EPA for the 2015 annual allowances is expected to occur in May 2016. The remaining allowances in inventory as of December 31, 2015 will be surrendered to EPA, as applicable, under the terms of the consent decree described in Note 10.

**Deferred Credits**—Deferred credits represent both future revenue to the Cooperative associated with customer prepayments and noncurrent obligations and reserves related to operations. As of December 31, 2015, the Cooperative's deferred credits are being considered when determining rates charged to customers.

The noncurrent portion of deferred credits as of December 31, 2015 and 2014, include the following:

	2015	2014
Unearned revenue—contract prepayment	\$ 74,472	\$ -
Environmental mitigation projects	660	2,158
Plant salvage reserve	690	4,904
Other	<u>514</u>	<u>2,494</u>
Total deferred credits	<u>\$ 76,336</u>	<u>\$ 9,556</u>

Unearned revenue—contract prepayment is from the settlement payment received from Great River Energy (GRE) as discussed in Note 13, and is being recognized into revenue through 2029. Costs for environmental mitigation projects are being incurred annually and must be completed by 2018, as discussed in Note 10. Plant salvage reserve is available to offset future costs related to the Alma plant dismantlement.

**Sales of Electric Energy**—Revenues from sales of electric energy are recognized when energy is delivered. The class A wholesale rates approved by the Cooperative's board of directors (the "Board of Directors") have a power cost adjustment that allows for increases or decreases in class A member power billings based upon actual power costs compared to plan. For 2015 and 2014, the power cost adjustment to the class A members resulted in (credits) and charges to sales billed of (\$2,198) and \$1,454, respectively. These amounts are recorded in sales of electric energy in operating revenues on the consolidated statements of revenues, expenses, and comprehensive income.

**Other Operating Revenue**—Other operating revenue primarily includes revenue received from transmission service and is recorded as services are provided. During 2015 and 2014, the Cooperative's board of directors implemented revenue deferral plans which were approved by RUS in February 2016 and February 2015, respectively. Other operating revenue for 2015 was reduced by \$4,400 which will be deferred into 2016 revenue recognition. Other operating revenue for 2014 was reduced by \$2,200 and was deferred into 2015 revenue recognition. As a condition of the RUS approval for the plans, the Cooperative is to maintain a segregated cash balance of at least the amount of unrecognized deferred revenue during the year. The Cooperative has met this requirement through its deposits in the RUS debt prepayment program.

**Accounting for Energy Contracts**—Contracts that did not meet the accounting definition of a derivative are accounted for at historical cost. The Cooperative's energy contracts that qualify as derivatives continue to be accounted for at fair value, unless those contracts meet the requirements of and have been designated as "normal purchase/normal sale." The Cooperative does not have any energy contracts that are required to be accounted for at fair value as of December 31, 2015 and 2014.

**Nonoperating Margin**—The nonoperating margin for the years ended December 31, 2015 and 2014, includes the following:

	2015	2014
Investment income	\$ 5,529	\$ 3,643
Investment income on nuclear decommissioning funds:		
Net (losses) earnings	(14)	163
Realized gains	2,439	2,302
Realized losses and losses due to OTTI	(3,799)	(2,978)
Provision—recorded as estimated decommissioning liabilities	1,374	513
Other	<u>2,061</u>	<u>1,564</u>
Nonoperating margin	<u>\$ 7,590</u>	<u>\$ 5,207</u>

**Use of Estimates**—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant estimates in the consolidated financial statements relate to inventory reserve, postretirement benefit obligations, asset retirement obligation liabilities, fixed-asset depreciable lives, and litigation and contingencies. Actual results could differ from those estimates.

**Accumulated Other Comprehensive Income (Loss)**—Accumulated other comprehensive income (loss) is comprised solely of a postretirement health insurance obligation. See additional information in Note 11. The components for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Balance—beginning of year	<u>\$ 2,719</u>	<u>\$ 3,098</u>
Recognition in expense:		
Amortization of prior service cost	(102)	(102)
Amortization of unrecognized actuarial gain	(158)	(184)
Actuarial assumption changes	<u>(44)</u>	<u>(93)</u>
Net other comprehensive loss	<u>(304)</u>	<u>(379)</u>
Balance—end of year	<u>\$ 2,415</u>	<u>\$ 2,719</u>

**Concentration of Risk**—During fiscal years 2015 and 2014, the Cooperative derived 6% and 10%, respectively, of its revenue from a single customer.

Approximately 45% of the labor force for the Cooperative is under a collective bargaining agreement that expires January 31, 2017.

**Subsequent Events**—The Cooperative considered events for recognition or disclosure in the consolidated financial statements that occurred subsequent to December 31, 2015, through March 28, 2016, the date the consolidated financial statements were available to be issued. All material subsequent events have been disclosed in these consolidated financial statements.



## **2. RECENTLY ISSUED ACCOUNTING STANDARDS UPDATES**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-1, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by one year for all entities and permits early adoption on a limited basis. ASU 2014-09 is effective for the Cooperative in 2019. Management is in the process of evaluating the guidance and has not yet determined if the adoption of this guidance will have a material impact on the Cooperative's consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330)*. This guidance requires entities to measure most inventory "at the lower of cost and net realizable value," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The Cooperative is still in the process of evaluating the guidance, but does not believe that the adoption of this guidance will have a material impact on the consolidated financial statements. This guidance is effective for the Cooperative in 2017.

In August 2015, the FASB issued ASU 2015-13, *Derivatives and Hedging (Topic 815): Application of the Normal Purchases and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets (a consensus of the FASB Emerging Issues Task Force)*. This guidance amends ASC 815 to clarify the application of the normal purchases and normal sales (NPNS) scope exception to purchases or sales of electricity on a forward basis that are transmitted through, or delivered to a location within, a nodal energy market. For a derivative contract to be classified as NPNS, the contract cannot settle net and must result in physical delivery. Under ASU 2015-13, a forward contract to purchase or sell—at a specified location—electricity that must be transmitted through or delivered to a grid operated by an independent system operator may qualify for the NPNS scope exception. This guidance was effective for the Cooperative in 2015 and its adoption did not have a material effect on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The Cooperative is still in the process of evaluating the impact this guidance will have on the consolidated financial statements. This guidance is effective for the Cooperative in 2020.

## **3. INCOME TAXES**

The Internal Revenue Service has determined that Dairyland is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. Accordingly, the Cooperative's utility operations are generally exempt from federal and state income taxes, and, no provision for such taxes is recorded in the consolidated financial statements.

#### 4. AVAILABLE-FOR-SALE INVESTMENTS

Investments in the nuclear decommissioning trust (NDT) and under debt agreements are classified as available-for-sale, recorded at fair value, and include the following as of December 31, 2015 and 2014:

	Fair Value		
		Debt	
	NDT	Agreements	Total
<b>2015</b>			
Cash and cash equivalents	\$ 3,440	\$ 3,779	\$ 7,219
U.S. government securities	61,314	-	61,314
Corporate bonds	26,342	-	26,342
Foreign obligations	<u>3,580</u>	<u>-</u>	<u>3,580</u>
	<u>\$ 94,676</u>	<u>\$ 3,779</u>	<u>\$ 98,455</u>
		Fair Value	
		Debt	
	NDT	Agreements	Total
<b>2014</b>			
Cash and cash equivalents	\$ 3,338	\$ 3,777	\$ 7,115
U.S. government securities	47,705	-	47,705
Corporate bonds	18,964	-	18,964
Common stocks	19,951	-	19,951
Foreign obligations	<u>2,996</u>	<u>-</u>	<u>2,996</u>
	<u>\$ 92,954</u>	<u>\$ 3,777</u>	<u>\$ 96,731</u>

Investments under debt agreements represent amounts arising from the sale of assets that are encumbered by mortgages and restricted by the RUS for use on future generation and transmission construction projects.

The contractual maturities of marketable debt securities, which include U.S. government securities, foreign obligations, and corporate bonds, as of December 31, 2015, are as follows:

	Fair Value	Cost
Due within 1 year	\$ 267	\$ 267
Due after 1 year through 5 years	44,346	44,648
Due after 5 years through 10 years	7,647	7,959
Due after 10 years	<u>38,976</u>	<u>41,279</u>
	<u>\$ 91,236</u>	<u>\$ 94,153</u>

Information regarding the sale of available-for-sale marketable securities, including nuclear decommissioning trusts, for the years ended December 31, 2015 and 2014, is as follows:

	2015	2014
Proceeds from sale of securities	\$ 171,873	\$ 133,774
Realized gains	1,658	1,318

For the purposes of determining realized gains and losses, the cost of securities sold is based upon specific identification.

Securities in the portfolio are reviewed to determine whether they have been other-than-temporarily impaired. The Cooperative has recorded impairment write-downs of its investments of \$3,018 and \$1,994 in 2015 and 2014, respectively, as the Cooperative cannot represent that it has the intent and ability to hold securities until they recover in value, since that decision is outside of its sole control. In accordance with restrictions enacted by the Nuclear Regulatory Commission, the Cooperative does not control the day-to-day management of nuclear decommissioning trust fund investments. The nuclear decommissioning trust of the Cooperative is managed by independent investment managers with discretion to buy, sell, and invest to achieve the broad investment objectives set forth by the Cooperative.

Investment income included in nonoperating margin on the consolidated statements of revenues, expenses and comprehensive income is net of investment fees of approximately \$416 and \$255 for the years ended December 31, 2015 and 2014, respectively.

## 5. LINES OF CREDIT

To provide interim financing capabilities, the Cooperative has arranged committed lines of credit with availability aggregating approximately \$350,000. On November 30, 2015, a syndicated credit facility was executed with CoBank acting as lead arranger. This facility has a five-year term and provides funds both for short-term working capital requirements and for capital projects until permanent financing can be obtained. Some capital projects will last longer than one year, but the intent is to pay down the line of credit as permanent funding is received. Compensating balance requirements and fees relating to the lines of credit were not significant in 2015 and 2014. Information regarding line of credit balances and activity for the years ended December 31, 2015 and 2014, is as follows:

	2015	2014
Interest rate at year-end	<u>1.42 %</u>	<u>1.12 %</u>
Total committed availability at year-end	<u>\$ 350,000</u>	<u>\$ 300,000</u>
Total borrowings outstanding at year-end	<u>\$ 196,000</u>	<u>\$ 127,000</u>
Average borrowings outstanding during year	<u>\$ 126,000</u>	<u>\$ 102,615</u>

The Cooperative also allows member cooperatives to prepay their power bills and pays interest on these prepayments based on current short-term borrowing rates. Advances from member cooperatives totaled \$10,758 and \$13,530 at December 31, 2015 and 2014, respectively. Interest expense on member cooperative advances was \$103 during both 2015 and 2014. These amounts have been included in interest expense in the consolidated statements of revenues, expenses, and comprehensive income.

## 6. LONG-TERM OBLIGATIONS

Long-term obligations as of December 31, 2015 and 2014, consist of the following:

	2015	2014
Federal Financing Bank obligations—1.93–4.46%	\$ 334,386	\$ 347,570
Federal Financing Bank obligations—4.52–6.80%	<u>347,324</u>	<u>408,131</u>
Total Federal Financing Bank	681,710	755,701
RUS obligations—4.125% and grant funds	5,237	5,618
CoBank notes—2.6%, 2.9%, 4.3%, 6.2%, and 7.4%.	46,113	57,194
Private bonds placement obligations—3.42%	<u>90,833</u>	<u>94,167</u>
Long-term debt	823,893	912,680
Less current maturities	<u>(48,036)</u>	<u>(45,762)</u>
Total long-term obligations	<u>\$ 775,857</u>	<u>\$ 866,918</u>

Quarterly principal and interest payments on the long-term obligations to the Federal Financing Bank extend through 2048. Long-term obligations to the RUS are payable in equal monthly principal and interest installments through 2024. Payments on the CoBank 2.6%, 2.9%, 4.3%, 6.2%, and 7.4% notes are due monthly or quarterly through 2023. The private bond placement is an amortizing 30-year term loan at an interest rate of 3.42%. Quarterly principal and interest payments on this obligation extend through 2043.

The Cooperative executed, filed, and recorded an indenture of mortgage, security agreement, and financing statement, dated as of September 13, 2011 (the “Indenture”), between the Cooperative, as grantor, and U.S. Bank National Association, as trustee. The perfected lien of the Indenture on substantially all of the Cooperative’s assets secured equally and ratably all of the Cooperative’s long-term debt with the exception of unsecured notes to CoBank (balances of \$28,243 and \$34,917 at December 31, 2015 and 2014, respectively). The Cooperative is required to maintain and has maintained certain financial ratios related to earnings in accordance with the covenants of its loan agreements as of December 31, 2015.

Scheduled maturities of the Cooperative’s long-term obligations as of December 31, 2015, were as follows:

Years Ending December 31	
2016	\$ 48,036
2017	47,636
2018	43,199
2019	42,762
2020	42,856
Thereafter	<u>599,404</u>
Total	<u>\$ 823,893</u>

## 7. LEASES

**Operating Leases**—The Cooperative has entered into lease agreements under which it is the lessee on an operating lease for a Caterpillar coal dozer, six rail cars, and fleet vehicles. These transactions are covered in the master lease agreement and have lease terms ranging from four to 15 years. At the end of the leases, the Cooperative can either purchase the equipment at fair market value, continue to lease the assets, or return the equipment to the lessor. Rent expense was \$628 and \$757 in 2015 and 2014, respectively. The schedule of future minimum lease payments as of December 31, 2015, is as follows:

### Years Ending December 31

2016	\$ 493
2017	262
2018	205
2019	131
2020	56
Thereafter	<u>20</u>
Total	<u>\$ 1,167</u>

**Capital Leases**—The Cooperative has entered into several capital lease agreements for work equipment and computer equipment. The transactions are covered in the master lease agreement with lease terms of four, five, or nine years. At the end of the lease, the Cooperative can purchase the equipment for a bargain purchase price. The gross amount of the leases was \$2,804 and \$4,090 as of December 31, 2015 and 2014, respectively. The accumulated amortization of the capital leases was \$1,856 and \$1,155 as of December 31, 2015 and 2014, respectively. The principal and interest payments were \$1,335 and \$1,026 in 2015 and 2014, respectively. The schedule of future minimum lease payments as of December 31, 2015, is as follows:

### Years Ending December 31

2016	\$ 1,518
2017	1,213
2018	1,124
2019	833
2020	634
Thereafter	<u>422</u>
Total minimum lease payments	5,744
Amounts representing interest	<u>(397)</u>
Present value of minimum lease payments	5,347
Current maturities	<u>(1,373)</u>
Long-term capital lease obligations	<u>\$ 3,974</u>

## 8. FINANCIAL INSTRUMENTS

The fair value of the Cooperative's financial instruments other than marketable securities and short-term borrowings, based on the rates for similar securities and present value models using current rates available as of December 31, 2015 and 2014, is estimated to be as follows:

	2015		2014	
	Recorded Value	Fair Value	Recorded Value	Fair Value
Assets:				
Other property and investments	\$ 10,885	\$ 10,885	\$ 10,197	\$ 10,197
Investments in capital term certificates of NRUCFC	9,176	9,176	9,176	9,176
Liabilities—long-term obligations	823,893	1,122,868	912,680	1,151,253

**Assets and Liabilities Measured at Fair Value**—Accounting principles generally accepted in the United States of America establish a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and provides for required disclosures about fair value measurements. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

A description of the inputs used in the valuation of assets and liabilities are as follows:

Level 1 inputs utilize observable market data in active markets for identical assets or liabilities. Level 2 inputs consist of observable market data, other than that included in Level 1, that are either directly or indirectly observable. Level 3 inputs consist of unobservable market data, which are typically based on an entity's own assumptions of what a market participant would use in pricing an asset or liability as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. The Cooperative's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table summarizes the Cooperative's assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 and 2014, aggregated by the level in the fair value hierarchy within which those measurements fall:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>2015</b>	<b>Fair Value</b>			
Assets—investments:				
Nuclear decommissioning funds	\$ 94,676	\$ 94,676	\$ -	\$ -
Investments under debt agreements—marketable securities	3,779	-	3,779	-
Other property and investments	10,885	1,145	-	9,740
Investments in capital term certificates of National Rural Utilities Finance Corporation	9,176	-	-	9,176
Investment for deferred compensation	<u>1,512</u>	<u>-</u>	<u>1,512</u>	<u>-</u>
	<u>\$120,028</u>	<u>\$95,821</u>	<u>\$5,291</u>	<u>\$18,916</u>
		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>2014</b>	<b>Fair Value</b>			
Assets—investments:				
Nuclear decommissioning funds	\$ 92,954	\$ 92,954	\$ -	\$ -
Investments under debt agreements—marketable securities	3,777	-	3,777	-
Other property and investments	10,197	1,157	-	9,040
Investments in capital term certificates of National Rural Utilities Finance Corporation	9,176	-	-	9,176
Investment for deferred compensation	<u>1,649</u>	<u>-</u>	<u>1,649</u>	<u>-</u>
	<u>\$117,753</u>	<u>\$94,111</u>	<u>\$5,426</u>	<u>\$18,216</u>

There were no significant transfers between Levels 1, 2, and 3 in 2015. The changes in Level 3 recurring fair value measurements using significant unobservable inputs for the years ended December 31, 2015 and 2014, are as follows:

	<b>2015</b>	<b>2014</b>
Other property and investments:		
Balance—beginning of year	\$ 9,040	\$ 8,722
New investment and loans made	675	875
Loan repayments received and current maturities	(210)	(207)
Patronage capital allocations	235	250
Refunds of deposits	<u>-</u>	<u>(600)</u>
Balance—end of year	<u>\$9,740</u>	<u>\$9,040</u>

The valuation of these assets involved management's judgment after consideration of market factors and the absence of market transparency, market liquidity, and observable inputs.

## 9. RETIREMENT OF CAPITAL CREDITS

The Cooperative's Board of Directors has adopted a policy of retiring capital credits allocated to members on a first-in, first-out basis. As part of an equity development strategy adopted in 2003, patronage capital retired will be limited to no greater than 2% of the total assigned patronage capital balance as of December 31 of the prior year. This policy is subject to annual review and approval by the Board of Directors and the RUS, and no cash retirements are to be made which would impair the financial condition of the Cooperative or violate any terms of its agreements. Since 2003, the amount of nonoperating margins assigned to members each year is at the discretion of the Board of Directors. Any unassigned nonoperating margins will become unallocated reserves and part of permanent equity. Patronage capital amounts for the years ended December 31, 2015 and 2014, are as follows:

	Assigned	Unassigned	Total
Balance—December 31, 2013	\$ 170,449	\$ 41,293	\$ 211,742
Retirement of capital credits	(3,409)	-	(3,409)
Current year margins	<u>15,783</u>	<u>7,080</u>	<u>22,863</u>
Balance—December 31, 2014	182,823	48,373	231,196
Retirement of capital credits	(3,657)	-	(3,657)
Current year margins	<u>16,359</u>	<u>10,367</u>	<u>26,726</u>
Balance—December 31, 2015	<u>\$ 195,525</u>	<u>\$ 58,740</u>	<u>\$ 254,265</u>

## 10. COMMITMENTS AND CONTINGENCIES

The Cooperative is a party to a number of generation, transmission, and distribution agreements, under which costs and/or revenues are recognized currently based upon the Cooperative's interpretations of the provisions of the related agreements. Differences between the estimates used in the consolidated financial statements and the final settlements are recorded in the year of settlement.

The Cooperative has entered into various coal purchase contracts with one- to five-year terms. The estimated commitments under these contracts as of December 31, 2015, were \$95,534 in 2016, \$88,279 in 2017, \$77,609 in 2018, \$60,857 in 2019, and \$61,197 in 2020.

A consent decree (CD) between the Cooperative, the EPA, and the Sierra Club entered by the U.S. District Court in 2012 was modified in 2014. The EPA agreed to extend by eight months the time for the Cooperative to comply with the CD's 30-day rolling average sulfur dioxide emission rate for one of the units at the Alma/J.P. Madgett plant if the Cooperative offsets additional emissions caused by the delay by reducing overall pollution from the Alma/J.P. Madgett plant beyond the levels required by the original CD. As part of the CD modification, the Cooperative ceased burning coal in the Alma#4 and #5 boilers by December 31, 2014. Approval of the CD modifications was received by the U.S. District Court on April 28, 2014. The CD requires the Cooperative to spend \$5,000 on environmental mitigation projects within five years of EPA's April 2013 approval of the projects which will include participation in major solar projects. The Cooperative reflected the obligation of this requirement in deferred credits. During 2014, the remaining \$4,416 obligation for environmental mitigation projects was reduced by \$772 spent on approved projects. During 2015, the remaining \$3,644 obligation for environmental mitigation projects was reduced by \$1,434 spent on approved solar and other projects. The estimated \$1,550 cost of 2016 solar and other projects participation is included in accrued expenses.



The Cooperative has been named as a defendant in various lawsuits and claims arising in the normal course of business. Although the outcome of these matters cannot be determined at the present time, management and legal counsel believe these actions can be successfully defended or resolved without a material effect on the consolidated financial position, results of operations, or cash flows of the Cooperative.

## **11. EMPLOYEE BENEFITS**

**Multiemployer Defined-Benefit Pension Plan**—Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (“RS Plan”). This is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. Pension benefits are funded in accordance with the provisions of the RS Plan and are based on salaries, as defined, of each participant. The Employee Retirement Income Security Act of 1974, as amended by the Multiemployer Pension Plan Amendment Act of 1980, imposes certain liabilities on employers who are contributors to multiemployer plans in the event of a plan termination or an employer’s withdrawal. These plans have not been terminated, nor has the Cooperative undertaken any plans to withdraw from participation. Since the RS Plan is a multiemployer plan for accounting purposes, all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers. The Cooperative may be contingently liable for its share of the RS Plans’ unfunded vested liabilities.

The Cooperative’s contributions to the RS Plan in 2015 and 2014 represented less than 5% of the total contributions made to the plan by all participating employers. In 2013, the Cooperative made a voluntary prepayment of \$26,899 to this plan to reduce future contribution amounts. Expense for this pension plan was \$10,402 in 2015 and \$10,553 in 2014. The 2015 expense includes contributions to the plan of \$7,712 and \$2,690 of prepayment amortization. The 2014 expense includes contributions to the plan of \$7,863 and \$2,690 of prepayment amortization.

In the RS Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on both January 1, 2015 and 2014, based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

**Postretirement Health Insurance Obligation**—Certain employees of the Cooperative retiring at or after age 55 are eligible to participate in a postretirement health care plan through age 65. Eligible dependents of the retired Cooperative employees are also eligible to participate in this plan through age 65. Retirees pay 100% of the premium amount for this coverage. The premium is based upon the combined medical claims experiences of all active employees and retirees. If premiums were determined based upon the medical claims experience of retirees only, the resulting premium for retirees would be higher. The difference between the premium paid by retirees and the potential actual premium amount is the basis for the postretirement benefit obligation. The Cooperative uses a December 31 measurement date for its plan. The postretirement health care plan is unfunded.

The accumulated postretirement benefit obligation (APBO) and the amounts recognized in the consolidated financial statements as of and for the years ended December 31, 2015 and 2014, are as follows:

	2015	2014
Amount recognized in the consolidated balance sheets:		
Total accrued qualified and nonqualified benefit obligation	\$ 4,744	\$ 4,330
Less current portion included in accrued expenses—other	<u>(262)</u>	<u>(217)</u>
Long-term portion	<u>\$ 4,482</u>	<u>\$ 4,113</u>
Change in benefit obligation:		
APBO—beginning of year	\$ 4,330	\$ 3,779
Service cost	215	177
Interest cost	146	161
Actuarial loss	44	93
Participant contributions	430	373
Benefits paid	<u>(421)</u>	<u>(253)</u>
APBO—end of year	<u>\$ 4,744</u>	<u>\$ 4,330</u>
Funded status of plan—December 31	<u>\$ (4,744)</u>	<u>\$ (4,330)</u>
Accrued postretirement health insurance obligations recorded at year-end	<u>\$ 4,744</u>	<u>\$ 4,330</u>
Change in plan assets:		
Fair value of plan assets—beginning of year	\$ -	\$ -
Employer contribution	(421)	(253)
Benefits paid	<u>421</u>	<u>253</u>
Fair value of plan assets—end of year	<u>\$ -</u>	<u>\$ -</u>
Change in accumulated other comprehensive income:		
Net income at prior measurement date	\$ 2,719	\$ 3,098
Actuarial assumption changes	(44)	(93)
Recognition in expense:		
Amortization of prior service cost	(102)	(102)
Amortization of unrecognized actuarial gain	<u>(158)</u>	<u>(184)</u>
Accumulated other comprehensive income	<u>\$ 2,415</u>	<u>\$ 2,719</u>
Components of net periodic postretirement benefit cost:		
Service cost—benefits attributed to service during the year	\$ 215	\$ 177
Interest cost on accrued postretirement health insurance obligation	146	161
Amortization of prior service cost	(102)	(102)
Amortization of unrecognized actuarial gain	<u>(158)</u>	<u>(184)</u>
Net periodic postretirement benefit expense	<u>\$ 101</u>	<u>\$ 52</u>

Employer cash contributions expected to be made to the plan during the fiscal year ending December 31, 2016, is \$262. The amount of accumulated other comprehensive income expected to be recognized during the fiscal year ending December 31, 2016, is an actuarial gain of \$130 and amortization of prior service cost of \$102.

For measurement purposes, a 3.77% and 3.45% discount rate was assumed for 2015 and 2014, respectively, to determine net periodic benefit cost. The 2015 and 2014 annual health care cost increase assumed is 7.00% and 7.20%, respectively, decreasing gradually to 4.95% for 2035 and thereafter. A one percentage point increase in the assumed health care cost trend rates would increase the total of service and interest cost components by \$57 and the end-of-year APBO by \$474. A one percentage point decrease in the assumed health care cost trend rates would decrease the total of service and interest cost components by \$47 and the end-of-year APBO by \$410.

Estimated future benefit payments from the plan as of December 31, 2015, are as follows:

**Years Ending  
December 31**

2016	\$ 262
2017	288
2018	319
2019	360
2020	374
2021–2025	1,696

**Defined-Contribution Plan**—Dairyland has a qualified tax-deferred savings plan for eligible employees. Eligible participants may make pretax contributions, as defined, with the Cooperative matching up to 2.5% of the participants' annual compensation. Contributions to this plan by the Cooperative were \$1,043 and \$1,136 for 2015 and 2014, respectively.

**Accrued Sick Leave Benefit**—Certain employees are eligible to receive amounts at the time of retirement related to a discontinued sick leave policy. Eligible employees will be paid for a fixed number of sick leave hours at the wage rate in effect at retirement. The total liability was \$1,091 and \$1,349 as of December 31, 2015 and 2014, respectively. The cost for this sick leave benefit was \$23 in 2015 and \$31 in 2014.

**Other Plans**—The Cooperative offers key employees deferred compensation plans available through NRECA. The plans permit qualifying employees to defer a portion of their salary until future years. The accumulated deferred compensation balance is not available to employees until termination, retirement, or death.

All amounts of compensation deferred under the plans and all income attributable to those amounts (until paid or made available to the employee or other beneficiary) are solely the property and rights of the Cooperative (not restricted to the payment of benefits under the plan), subject only to the claim of general creditors. Participants' rights under the plans are equal to those of general creditors of the Cooperative in an amount equal to the fair market value of the deferred account for each participant. The related assets and liabilities, totaling \$1,512 and \$1,649 as of December 31, 2015 and 2014, respectively, are reported at contract value, which approximates fair value.

The Cooperative also provides employees with medical insurance coverage, short-term and long-term disability, and life insurance, which are funded by employer and employee contributions. The Cooperative's costs related to these benefits were \$8,238 and \$8,222 for 2015 and 2014, respectively. The liability for these plans of \$738 and \$665 as of December 31, 2015 and 2014, respectively, are recorded in accrued expenses.

During 2013, the Cooperative announced a special early retirement plan through NRECA to be offered to certain age-eligible employees at specific Cooperative locations. Participation was effective July 1, 2014. Provisions of the plan include waiving the discount that is otherwise applied to pension benefits for employees electing retirement between ages 55 and 62, as well as a supplemental monthly payment to the employees for a minimum of 18 months or through age 65. The \$3,506 cost of this plan was expensed in 2014. At December 31, 2014, the obligation for the plan is included in accrued expenses in Current Liabilities as payment was made to NRECA in February 2015.

## **12. RELATED-PARTY TRANSACTIONS**

The Cooperative provides electric and other services to its class A members. The Cooperative received revenue of \$344,290 and \$347,078 in 2015 and 2014, respectively, for these services. The Cooperative has accounts receivable from its class A members of \$32,338 and \$33,500 as of December 31, 2015 and 2014, respectively.

The Cooperative has advances from class A members of \$10,758 and \$13,530 as of December 31, 2015 and 2014, respectively, related to the prepayment program. Class A members have the option of paying their electric bill in advance, and in turn, the Cooperative pays the members' interest income. The Cooperative's interest expense related to the prepayment program was \$103 in both 2015 and 2014.

The Cooperative has interest-bearing loan receivables from class A members of \$463 and \$605 as of December 31, 2015 and 2014, respectively. These loan receivables, which are recorded as part of other assets, are related to the economic development program, wherein class A members can borrow funds from the Cooperative, which the members, in turn, loan to economic development projects in their service territories. These loans are typically repaid to the Cooperative over 10 years. The Cooperative recorded interest income related to the economic development program of \$21 in both 2015 and 2014.

## **13. LONG-TERM POWER AGREEMENTS**

During 2015, the Cooperative and GRE reached settlement terms amending a power agreement which shared costs and benefits of the Cooperative owned 345-megawatt coal-fired generating unit ("Genoa Station #3") located in Genoa, Wisconsin. The settlement terms allow GRE to end its purchase of power and energy under the agreement as of June 1, 2015 upon prepayment by GRE of \$83,543 for certain obligations under the agreement. GRE is no longer entitled to any output from the unit. GRE will remain responsible for its share of eventual decommissioning costs and of any liability for disposal of coal combustion byproducts. The transaction received required approval from RUS during 2015.

The prepayment by GRE was recorded in deferred credits and is being recognized into operating revenues on a straight-line basis through 2029, the approximate time frame over which the prepayment amounts would have been billed. The amount recognized as revenue was \$3,342 during 2015. Energy charges to GRE under the original agreement were \$17,411 and \$45,281 during 2015 and 2014, respectively. Advances from GRE for required deposits under the original agreement were refunded as part of the settlement terms.

#### 14. ASSET RETIREMENT OBLIGATIONS

An asset retirement obligation (ARO) is the result of legal or contractual obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, or development and/or the normal operation of a long-lived asset. The Cooperative determines these obligations based on an estimated asset retirement cost adjusted for inflation and projected to the estimated settlement dates and discounted using a credit-adjusted risk-free interest rate. Upon initial recognition of a liability for ARO, the Cooperative capitalizes the asset retirement cost by increasing the carrying amount of the related long-lived asset by the same amount as the liability. The Cooperative allocates that asset retirement cost to expense using the straight-line method over the remaining useful life of the related long-lived asset. The accretion of the obligation is recognized over time up to the settlement date. Any future change in estimate will be recognized as an increase or a decrease in the carrying amount of the liability for an ARO and the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset.

The Cooperative determined that it has AROs related to future removal and disposal of asbestos at its power plants. The Cooperative recorded an additional liability to its discounted liability related to this obligation of \$4,730 in 2015. There are no assets legally restricted for purpose of settling the ARO related to future removal and disposal of asbestos. This ARO is recorded in other noncurrent liabilities in the consolidated balance sheets.

The Cooperative has established a decommissioning trust to accumulate the estimated amounts necessary to decommission a nuclear power plant that the Cooperative formerly operated and the related Independent Spent Fuel Storage Installation (ISFSI). The assets of this trust in the amount of \$94,676 as of December 31, 2015, and \$92,954 as of December 31, 2014, are outside the Cooperative's administrative control and are available solely to satisfy the future costs of decommissioning. The nuclear decommissioning obligation is recorded in the consolidated balance sheets in other noncurrent liabilities.

A reconciliation of the beginning and ending aggregate carrying amount of the obligations as of December 31, 2015 and 2014, is as follows:

	2015	2014
Balance—beginning of year	\$ 92,306	\$ 94,764
Accretion in ARO	16	74
Increase in ARO for retirements	4,730	-
Incurred costs on decommissioning projects	(3,591)	(6,156)
Provision recorded as decommissioning liabilities	<u>3,769</u>	<u>3,624</u>
Balance—end of year	<u>\$ 97,230</u>	<u>\$ 92,306</u>

The Cooperative did not record a conditional ARO related to the dismantlement of the dam and drainage reservoir for the hydro generation plant at Flambeau, the restoration of land to preexisting condition at Genoa Station #3 site related to the land rights permit, and the removal of transmission lines in various corridors, because the Cooperative does not have sufficient information to estimate the fair value of the ARO.

## 15. NUCLEAR REACTOR

The La Crosse Boiling Water Nuclear Reactor (LACBWR) was voluntarily removed from service by the Cooperative effective April 30, 1987. The intent was to terminate operation of the reactor, and a possession-only license was obtained from the Nuclear Regulatory Commission in August 1987.

Under the Nuclear Waste Policy Act of 1982, the United States government is responsible for the storage and disposal of spent nuclear fuel removed from nuclear reactors. LACBWR will remain in safe storage status (SAFSTOR) until the final stage of decommissioning of LACBWR, involving dismantlement and decontamination, can be completed. By statute and under contract, the United States government was to have begun accepting spent fuel in January 1998, but has not yet licensed and established a repository. The Cooperative filed an initial breach of contract damages claim against the United States government in the United States Court of Federal Claims to recover its costs generally incurred after 1998 through 2006 related to spent fuel remaining at LACBWR. In January 2013, the Cooperative received a damages award payment of \$37,659 from the government for this claim. The Cooperative filed a second contract damages claim in December 2012 to recover its costs generally incurred from 2007 through 2012. The trial for the second claim is scheduled in fall 2016. Subsequent suits will be brought to recover the continuing costs arising from the presence of the spent fuel. For 2015 and 2014, none of the second claim potential award damages are reflected in the consolidated balance sheets or consolidated statements of revenues, expenses, and comprehensive income.

The Cooperative completed the temporary dry storage facility project located on the LACBWR site and completed the move of the LACBWR spent nuclear fuel to this ISFSI facility in September 2012. Annual ISFSI costs are recorded on an as incurred basis and incorporated into the annual budget and rate making process. The current decommissioning plan calls for completion of decommissioning LACBWR, not including the ISFSI, by the end of 2025. The estimated costs of decommissioning the nuclear generating facility are based on a decommissioning cost study. Costs incurred for decommissioning projects are charged against the decommissioning liability. The Cooperative's policy is to provide additional funding of the nuclear decommissioning trust, as necessary, through rates or through transfers from supplemental funds, and with future earnings, to ensure that the trust will be sufficient to cover final decommissioning expenses. The annual decommissioning expense, SAFSTOR, and ISFSI costs are recovered from the class A members. Earnings on the nuclear decommissioning funds and the equivalent provision for nuclear decommissioning costs are recorded as nonoperating margins, since the plant is no longer in service.

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