DAIRYLAND POWER COOPERATIVE · 3200 EAST AVE. SO. · P.O. BOX 817 · LA CROSSE, WISCONSIN 54602-0817
(608) 788-4000
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July 3, 1997

In reply, please
refer to LAC 13599

DOCKET NO. 50-409

U.S. Nuclear Regulatory Commission
Attn: Document Control Desk
Washington, D.C. 20555

SUBJECT: Dairyland Power Cooperative
La Crosse Boiling Water Reactor (LACBWR)
Possession-Only License No. 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 annual financial report and certified financial statements for Dairyland Power Cooperative for the years 1996 and 1995. We will forward our 1995 Annual Report to you as soon as it is completed. If you have any questions, please contact Peggy Schlifer at (608) 787-1204.

Sincerely,

DAIRYLAND POWER COOPERATIVE

Robert C. Mueller
Assistant General Manager
Finance and Administration

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Enclosures

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ARTHUR ANDERSEN

ARTHUR ANDERSEN LLP

Dairyland Power Cooperative and Subsidiaries

Consolidated Financial Statements as of
December 31, 1996 and 1995
Together With Report of
Independent Public Accountants

ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Members and Board of Directors of Dairyland Power Cooperative:

We have audited the accompanying consolidated balance sheets of Dairyland Power Cooperative (a Wisconsin cooperative) and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of revenues, expenses and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dairyland Power Cooperative and Subsidiaries as of December 31, 1996 and 1995, and the results of their revenues, expenses and patronage capital and their cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Cooperative's internal control structure and a report on its compliance with laws and regulations, both dated February 28, 1997.

ARTHUR ANDERSEN LLP

Minneapolis, Minnesota,
February 28, 1997

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

Consolidated Balance Sheets

December 31

(In Thousands)

ASSETS	1996	1995
ELECTRIC PLANT:		
Plant and equipment, at original cost	$602,146	$582,500
Less- Accumulated depreciation	(332,029)	(315,139)
Nuclear decommissioning trust (Notes 1, 2 and 9)	44,591	36,925
	314,708	304,286
Construction work in progress	10,711	16,889
Total electric plant	325,419	321,175
OTHER ASSETS:		
Marketable securities (Notes 1 and 2)	52,435	61,294
Economic development loans and other investments	9,822	4,664
Investments in capital term certificates of National Rural Utilities Cooperative Finance Corporation	9,856	9,856
Pollution Control Bond proceeds on deposit with trustee	2,291	2,140
Deferred charges	14,223	24,239
Total other assets	88,627	102,193
CURRENT ASSETS:		
Cash and cash equivalents	1,115	2,093
Accounts receivable-		
Energy sales	16,336	15,821
Other	2,894	906
Inventories, at average cost-		
Fossil fuels	29,629	24,755
Materials and supplies	9,220	9,925
Prepaid expenses	835	1,062
Total current assets	60,029	54,562
	$474,075	$477,930

CAPITALIZATION AND LIABILITIES	1996	1995
CAPITALIZATION:		
Member and patron equities-		
Membership fees	$ 11	$ 11
Patronage capital	87,184	90,262
Net unrealized gain on marketable securities (Notes 1 and 2)	148	1,402
Total member and patron equities	87,343	91,675
Long-term obligations	334,188	316,899
Total capitalization	421,531	408,574
DEFERRED CREDITS	4,622	21,765
COMMITMENTS AND CONTINGENCIES (Note 7)		
CURRENT LIABILITIES:		
Current maturities of long-term obligations	12,178	12,083
Short-term borrowings	16,000	10,500
Advances from member cooperatives	1,656	2,723
Accounts payable	7,934	9,492
Accrued expenses-		
Payroll and vacation pay	5,264	4,565
Taxes	2,202	1,963
Interest	767	4,235
Other	1,921	2,030
Total current liabilities	47,922	47,591
	$474,075	$477,930

The accompanying notes are an integral part of these consolidated balance sheets.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

Consolidated Statements of Revenues, Expenses and Patronage Capital

For the Years Ended December 31

(In Thousands)

	1996	1995
OPERATING REVENUES:		
Sales of electric energy	$182,282	$162,385
Other	3,807	2,958
Total operating revenues	186,089	165,343
OPERATING EXPENSES:		
Fuel	47,235	54,762
Purchased and interchanged power	45,295	17,922
Other operating expenses	34,608	36,235
Maintenance	13,281	10,922
Depreciation and amortization	21,970	22,068
Taxes, other than income	7,856	7,669
Total operating expenses	170,245	149,578
Operating margin before interest and other deductions	15,844	15,765
INTEREST AND OTHER DEDUCTIONS (INCOME):		
Interest	20,844	20,363
Other, net	(245)	12
Total interest and other deductions	20,599	20,375
Operating deficit	(4,755)	(4,610)
NONOPERATING MARGIN, principally investment income	6,774	7,720
Net margin	2,019	3,110
PATRONAGE CAPITAL, beginning of year	90,262	87,474
Retirement of capital credits	(5,097)	(322)
PATRONAGE CAPITAL, end of year, including margins assignable of $2,019 and $3,110	$ 87,184	$ 90,262

The accompanying notes are an integral part of these consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended December 31

(In Thousands)

	1996	1995
OPERATING ACTIVITIES:		
Net margin	$ 2,019	$ 3,110
Adjustments to reconcile net margin to net cash provided by operating activities-		
Depreciation and amortization	21,970	22,068
Other	1,727	762
Changes in current operating elements:		
Accounts receivable	(2,503)	1,324
Inventories	(4,169)	(6,123)
Prepaid expenses	227	(73)
Accounts payable	(1,558)	4,152
Accrued expenses	(2,639)	(733)
Net cash provided by operating activities	15,074	24,487
INVESTING ACTIVITIES:		
Electric plant additions	(18,266)	(15,957)
Purchase of investments	(17,429)	(11,690)
Sale of investments	22,202	16,880
Advances to nuclear decommissioning trust	(5,578)	(6,077)
Proceeds from sale of plant	3,670	-
Additions to deferred charges	(17,371)	-
Net cash used in investing activities	(32,772)	(16,844)
FINANCING ACTIVITIES:		
Short-term borrowings, net	5,500	6,650
Borrowings under long-term obligations	34,372	5,000
Repayments of long-term obligations	(16,988)	(16,908)
Retirement of capital credits	(5,097)	(322)
Funds refunded under cost sharing agreement, net	-	(1,900)
Advances to member cooperatives	(1,067)	(381)
Net cash provided by (used in) financing activities	16,720	(7,861)
Net decrease in cash and cash equivalents	(978)	(218)
CASH AND CASH EQUIVALENTS:		
Beginning of year	2,093	2,311
End of year	$ 1,115	$ 2,093
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest, net of amounts capitalized	$24,312	$20,583

The accompanying notes are an integral part of these consolidated financial statements.

DAIRYLAND POWER COOPERATIVE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 1996 and 1995

1. Nature of Business and Summary of Significant Accounting Policies:

Organization and Business

Dairyland Power Cooperative (the Cooperative) is an electric generation and transmission cooperative association organized under the laws 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, Illinois and Michigan and provides electric and other services to Class C, D and E members.

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.

Effective January 1, 1996, the Cooperative entered into an integrated generation alliance agreement with Cooperative Power (CP). This agreement integrates the power generation capabilities of the Cooperative and CP, leading to increased efficiency of both entities' power generation systems and reduced operational costs.

During 1995, the Cooperative, along with 12 other utilities, invested in the Mescalero Project (the Project) for the purpose of establishing a site to store spent nuclear fuel. During 1996, the Cooperative abandoned the Project, wrote off its investment of $365,000, and invested, along with the same 12 other utilities, $407,000 in Private Fuel Storage LLC for the same purpose.

Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative and its wholly owned subsidiaries, Curtis Telecommunications, Inc. and Genoa FuelTech, Inc. All intercompany balances and transactions have been eliminated in consolidation.

Income Taxes

The Cooperative is generally exe[illegible] from federal and state income taxes and, accordingly, no provision for such taxes is recorded in the consolidated financial statements.

Property Additions

The cost of renewals and betterments of units of property (as distinguished from minor items of property) is charged to electric plant accounts. The cost of units of property retired, sold or otherwise disposed of, plus removal costs, less salvage, is charged to accumulated depreciation. No profit or loss is recognized in connection with ordinary retirements of property units. Maintenance and repair costs and replacement and renewal of minor items of property are charged to operating expenses.

Depreciation

Depreciation is provided based on the straight-line method at rates which are designed to amortize the original cost of properties over their estimated useful lives and includes a provision for the cost of removing and decommissioning the properties. The provision for depreciation averaged 3.9% of depreciable plant balances in 1996 and 1995.

Allowance for Funds Used During Construction

Allowance for funds used during construction represents the cost of external and internal funds used for construction purposes and is capitalized as a component of electric plant. The amount of such allowance is included in interest and other deductions; approximated $674,000 in 1996 and $299,000 in 1995; and is determined by applying a rate (6.5% in 1996 and 5% in 1995) to certain electric plant additions under construction.

Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with original maturities of three months or less. Cash and cash equivalents consist primarily of commercial paper, stated at market, which approximates cost. The Cooperative classifies certain cash and cash equivalents as investments when they relate to trust funds held for long-term purposes (see Note 2).

Investments

Investments in marketable debt and equity securities are classified as held-to-maturity—securities purchased with positive intent and ability to hold to maturity; trading—securities bought with the intention of selling in the near term to generate a profit; or available-for-sale—securities not classified as trading or held-to-maturity. Securities classified as held-to-maturity are reported at amortized cost; securities classified as trading are reported at fair value, with unrealized gains and losses included in nonoperating margin; and securities classified as available-for-sale are reported at fair value, with unrealized gains and losses excluded from margins and reported as a separate component of member and patron equities.

At December 31, 1996 and 1995, all marketable equity and debt securities have been categorized as available-for-sale and, as a result, are stated at fair value. Unrealized holding gains and losses are included as a component of member and patron equities until realized.

Regulatory Assets

The Cooperative's accounting policies and the accompanying consolidated financial statements conform to generally accepted accounting principles applicable to electric cooperatives in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for Certain Types of Regulation." In the event that a portion of the Cooperative's operations is no longer subject to the provisions of SFAS No. 71 as a result of the effects of competition, the Cooperative could be required to determine any impairment to assets and write down the assets to their fair value.

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which became effective for 1996, establishes accounting standards for the recognition of impairment of long-lived assets. SFAS No. 121 also requires that regulatory assets which are no longer probable of recovery through future revenues be charged

to earnings. Initial adoption of the provisions of SFAS No. 121 did not have a material effect on the Cooperative's financial position or results of operations.

During 1996, the Cooperative entered into a settlement agreement with one of its coal suppliers to buy out the remainder of its contract by making a lump-sum payment in December 1996 to fulfill this obligation. In May 1996, the Cooperative also sold a nonoperating coal-fired electric generating plant to an unrelated third party. The gain recognized from the sale of the plant and the amount of the coal contract settlements have been deferred and are being recovered in service rates over three years.

In 1996, the Cooperative's board of directors authorized a plan whereby all regulatory assets or liabilities reflected as deferred charges or credits would be accumulated and recovered in service rates over a period no longer than three years. Accordingly, previously deferred charges consisting primarily of coal contract settlements, debt repricing penalties and early retirement costs totaling $24,764 were recognized as extraordinary expense. Deferred credits consisting primarily of advanced transmission payments and the gain from the sale of plant totaling $24,764 were recognized as extraordinary income. Remaining deferred charges of $7,879 are being amortized to expense with appropriate recognition in service revenues over the next three years. The net impact of the extraordinary items had no impact on the statement of revenues, expenses and patronage capital and, therefore, are not shown on this statement.

Revenue Recognition

Revenue from electric energy deliveries is recognized when such electric energy is delivered.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncement

Effective January 1, 1997, the Cooperative will adopt the provisions of Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities." This statement provides authoritative guidance for the recognition, measurement, display and disclosure of environmental remediation liabilities in financial statements. Adoption of these provisions is not expected to have a material impact on the Cooperative's financial position or results of operations.

2. Marketable Securities:

Investments classified as available-for-sale, including the nuclear decommissioning trust, at December 31 include the following (in thousands):

	1996		1995	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	$ 6,082	$ 5,686	$ 4,173	$ 3,690
U.S. government securities	48,222	48,327	72,924	71,808
Corporate bonds	24,983	25,148	9,341	9,236
Common stock	17,739	13,096	11,781	9,549
	$97,026	$92,257	$98,219	$94,283

Since the Cooperative intends to adjust rates in the future to reflect changes in the market value of investments held in its nuclear decommissioning trust, unrealized gains of $4,622,000 and $2,534,000 at December 31, 1996 and 1995, respectively, on these investments are included in deferred credits.

The contractual maturities of marketable debt securities, which include U.S. government securities and corporate bonds, at December 31, 1996, were as follows (in thousands):

	Fair Value	Cost
Due within one year	$12,823	$12,845
Due after one year through five years	34,071	34,132
Due after five years through ten years	15,829	16,037
Due after ten years	10,482	10,461
	$73,205	$73,475

Gross unrealized gains and losses at December 31 (excluding investments in the nuclear decommissioning trust) were as follows (in thousands):

	1996	1995
Unrealized gains	$485	$1,480
Unrealized losses	(337)	(78)
Net	$148	$1,402

Unrealized gains and losses during 1996 and 1995 were as follows (in thousands):

	1996	1995
Net unrealized gain (loss) at beginning of year	$1,402	$(1,913)
Net unrealized gain (loss) during year	(1,254)	3,315
Net unrealized gain at end of year	$ 148	$ 1,402

Information regarding the sale of marketable securities classified as available-for-sale for the years ended December 31 is as follows (in thousands):

	1996	1995
Proceeds from sale of securities (substantially all of which have been reinvested)	$22,202	$16,880
Realized gains	489	442
Realized losses	345	78

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

3. Lines of Credit:

To provide interim financing, the Cooperative has arranged lines of credit aggregating $35 million, principally through the National Rural Utilities Cooperative Finance Corporation (NRUCFC) at a rate no greater than prime plus 1%. Borrowings outstanding were $16 million at December 31, 1996 and $10.5 million at December 31, 1995. Average borrowings outstanding were $12 million in 1996 and $6.0 million in 1995. Compensating balance requirements and fees relating to the lines of credit were not significant in 1996 or 1995.

The Cooperative also allows member cooperatives to prepay their power bills and pays interest on these prepayments based on current short-term borrowing rates. Interest expense on member cooperative advances ($385,000 in 1996 and $459,000 in 1995) has been included in interest expense.

4. Long-Term Obligations:

Long-term obligations at December 31 consisted of the following (in thousands):

	1996	1995
Federal Financing Bank obligations, 6.0% to 9.9%	$207,858	$205,692
RUS obligations, 2%	31,720	36,753
RUS obligations, 5%	26,657	27,624
NRUCFC obligations, 6.4%	2,046	2,694
NRUCFC intermediate loan, 6.4%	33,304	10,704
City of Alma, Wisconsin, Pollution Control Bonds:		
Fixed rate, 5.9%	8,145	8,620
Adjustable rate, 4.0% at December 31, 1996	13,900	13,900
City of La Crosse, Wisconsin, Industrial Development Revenue Bonds, adjustable rate, 4.0% at December 31, 1996	4,160	4,160
Other, rates ranging from 4% to 8%, due in installments through 2025	18,576	18,835
	346,366	328,982
Less- Current maturities	(12,178)	(12,083)
Total long-term obligations	$334,188	$316,899

Quarterly principal and interest payments on the long-term obligations to the Federal Financing Bank (FFB) extend through 2021. Long-term obligations to the RUS are payable in equal quarterly principal and interest installments through 2016. Principal and interest payments on the NRUCFC obligations are payable quarterly through 2001. The fixed rate Pollution Control Bonds are payable in increasing annual amounts through 2008.

The adjustable-rate Pollution Control Bonds and Industrial Development Revenue Bonds mature in 2015 unless previously called for redemption. Bank letters of credit aggregating $20 million, which expire in February 1997, have been issued on behalf of the Cooperative to the trustee to provide funds for payment of principal of any such bonds redeemed or repurchased prior to that date.

Substantially all of the Cooperative's assets are pledged as collateral for these obligations. The Cooperative is required to and has maintained certain financial ratios related to earnings and liquidity in accordance with the covenants of its loan agreements.

Scheduled maturities of the Cooperative's long-term obligations at December 31, 1996 were as follows (in thousands):

Year	Amount
1997	$ 12,178
1998	12,813
1999	23,781
2000	13,122
2001	13,648
Thereafter	270,824
	$346,366

5. Fair Value of Other Financial Instruments:

The fair value of the Cooperative's financial instruments other than marketable securities and short-term borrowings, based on the similar rates for similar securities, is estimated to be as follows at December 31 (in thousands):

	1996		1995	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Economic development loans and other investments	$ 9,822	$ 8,413	$ 4,664	$ 3,776
Investments in capital term certificates of NRUCFC	9,856	7,500	9,856	8,061
Pollution Control Bond proceeds on deposit with trustee	2,291	2,291	2,140	2,140
Liabilities:				
Long-term obligations	346,366	340,349	328,982	332,027

6. 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 so that at no time will the Cooperative retain as patronage capital any capital contributed or deposited more than 20 years prior to the current year. Accordingly, 1976 and 1975 capital credits were retired in 1996 and 1995. Implementation of 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.

7. Commitments and Contingencies:

The Cooperative's estimated 1997 construction program is $28.6 million. Financing of construction is expected to be provided by borrowings from the FFB and internally generated funds.

The Cooperative has been named a defendant in several lawsuits and claims, primarily related to construction and operation of its electric plant. 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 financial position or results of operations of the Cooperative.

8. Pension Plan and Postretirement Benefits:

Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program. Contributions are determined in accordance with the provisions of the program and are based on the salaries, as defined, of each participant. A moratorium on plan contributions was in effect from July 1, 1987 through October 1994 and was reinstated May 1, 1995. Accordingly, normal pension expense was substantially reduced in 1996 and 1995. Pension costs for this pension plan were $732,000 and $1,182,000 in 1996 and 1995, respectively. As of January 1, 1996, the date of the last available actuarial valuation, net assets of the plan exceeded the actuarial present value of accumulated plan benefits.

Effective January 1, 1995, the Cooperative offered a special early retirement plan (the 1995 Plan) to employees meeting certain predetermined criteria. The incremental cost of benefits under the 1995 Plan of $8.9 million was deferred and is being amortized to expense over three years beginning in 1995, with appropriate recognition in rates charged to members for electric service. The cost of these benefits will be funded through the NRECA Retirement and Security Program, and the unpaid portion is included in long-term obligations in the accompanying consolidated balance sheets.

9. 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. The facility is in a "safe storage" status and is expected to remain so until at least the year 2019, at which time decommissioning is expected to commence, although the manner of decommissioning has not been determined. All LACBWR-related assets, totaling $18.4 million, were transferred to a deferred charge in 1987 and are being amortized to operating expense over a ten-year period ending in 1997, with appropriate recognition in rates charged to members for electric service.

The provision for depreciation to provide for the estimated costs of decommissioning the nuclear generating facility is equal to the amounts contributed to the nuclear decommissioning trust as well as the related earnings of the trust. The provision for the cost of decommissioning was $5.8 million in 1996 and $6.0 million in 1995. The Cooperative has adopted a policy of funding decommissioning costs currently, and the related investments of $44.6 million are included as a component of total electric plant, while the decommissioning reserve of $40.1 million is included in accumulated depreciation.