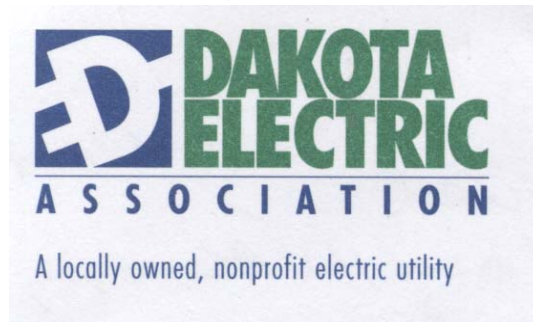




Consolidated Financial Statements  
December 31, 2010 and 2009



## **DAKOTA ELECTRIC ASSOCIATION**

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## Independent Auditor's Report

The Board of Directors  
Dakota Electric Association  
Farmington, Minnesota

We have audited the accompanying consolidated balance sheets of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express such an opinion. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dakota Electric Association as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Eide Bailly LLP*

Fargo, North Dakota  
March 15, 2011

**DAKOTA ELECTRIC ASSOCIATION**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2010 AND 2009**  
**(Dollars in Thousands)**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,533	\$ 2,148
Accounts receivable, less allowance for uncollectible accounts (2010 - \$873; 2009 - \$909)	32,951	30,312
Lease receivable, short-term	85	80
Inventories, materials and supplies	9,298	5,200
Prepayments and interest receivable	1,452	1,354
Deferred charges	945	1,312
	<u>46,264</u>	<u>40,406</u>
Investments in associated companies and other investments	<u>67,392</u>	<u>62,133</u>
Lease receivable	<u>420</u>	<u>504</u>
<b>UTILITY PLANT</b>		
Distribution system and general plant	267,919	259,336
Less accumulated depreciation	<u>(96,025)</u>	<u>(90,568)</u>
Net utility plant and work in progress	<u>171,894</u>	<u>168,768</u>
Deferred charges and other assets	<u>177</u>	<u>179</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 286,147</u></u>	<u><u>\$ 271,990</u></u>

See Consolidated Notes to Financial Statements

	<u>2010</u>	<u>2009</u>
<b>LIABILITIES AND EQUITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 25,638	\$ 23,868
Notes payable	11,175	10,000
Current portion of long-term debt	5,492	4,875
Conservation cost over-recovery	1,961	1,544
Customer security deposits	475	408
Accrued property and other taxes	4,644	4,408
Other current liabilities	7,568	7,692
	<u>56,953</u>	<u>52,795</u>
Long-term debt	110,752	110,512
Deferred gain on RUS buyout	1,779	2,123
Deferred credits and other liabilities	7,418	5,931
	<u>176,902</u>	<u>171,361</u>
	<u>109,245</u>	<u>100,629</u>
<b>MEMBERS' EQUITY</b>		
	<u>286,147</u>	<u>271,990</u>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>		

**DAKOTA ELECTRIC ASSOCIATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**  
**Dollars in Thousands)**

	<u>2010</u>	<u>2009</u>
<b>NET SALES</b>	<b>\$ 199,960</b>	<b>\$ 178,819</b>
<b>COST OF SALES</b>	<b>144,269</b>	<b>128,523</b>
Gross margin	<u>55,691</u>	<u>50,296</u>
<b>OPERATING EXPENSES</b>		
Labor and related benefits	23,795	23,127
Professional fees and services	3,426	3,129
Marketing	263	522
Office expense	2,126	2,199
Operations and maintenance	1,443	1,357
Depreciation and amortization	9,134	8,685
Property and real estate taxes	3,529	3,143
Net interest expense	6,451	6,691
Other expenses	276	356
Total operating expenses	<u>50,443</u>	<u>49,209</u>
Net operating margin	<u>5,248</u>	<u>1,087</u>
<b>OTHER INCOME (EXPENSE)</b>		
Interest income	57	33
Capital credits from GRE, CFC, & others	5,610	6,398
Other expense	(246)	(111)
Total other income	<u>5,421</u>	<u>6,320</u>
Net operating margin and other income	<b>10,669</b>	<b>7,407</b>
Income tax on nonregulated operations	<u>507</u>	<u>377</u>
<b>NET INCOME</b>	<b><u>\$ 10,162</u></b>	<b><u>\$ 7,030</u></b>

**DAKOTA ELECTRIC ASSOCIATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**  
**(Dollars in Thousands)**

	<u>Patronage Capital and Other Equity</u>
<b>BALANCE, DECEMBER 31, 2008</b>	\$ 94,901
Net income 2009	7,030
Capital credits retired - net	<u>(1,302)</u>
<b>BALANCE, DECEMBER 31, 2009</b>	100,629
Net income 2010	10,162
Capital credits retired - net	<u>(1,546)</u>
<b>BALANCE, DECEMBER 31, 2010</b>	<u><u>\$ 109,245</u></u>

**DAKOTA ELECTRIC ASSOCIATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**  
**(Dollars in Thousands)**

	<u>2010</u>	<u>2009</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 10,162	\$ 7,030
Adjustments:		
Depreciation and amortization	9,134	8,685
GRE and CFC capital credits allocation	(5,610)	(6,398)
(Increase) decrease in current assets	(6,468)	2,303
Decrease in other assets	2	10
Increase in current liabilities	2,366	3,317
Increase in other liabilities	1,143	907
Net cash from operating activities	<u>10,729</u>	<u>15,854</u>
<b>INVESTING ACTIVITIES</b>		
Plant additions	(12,260)	(14,640)
CFC capital credits refunded	409	371
(Increase) decrease in energy conservation and other loans, net	79	(322)
Increase in equity investments	(58)	(1,125)
Net cash used for investing activities	<u>(11,830)</u>	<u>(15,716)</u>
<b>FINANCING ACTIVITIES</b>		
Loan advances received	5,758	11,890
Principal payments on long term debt	(4,901)	(4,901)
Increase (decrease) in note payable	1,175	(5,705)
Patronage capital retirements paid	(1,546)	(1,302)
Net cash from (used for) financing activities	<u>486</u>	<u>(18)</u>
Net change in cash and cash equivalents	(615)	120
Cash and cash equivalents, beginning of year	<u>2,148</u>	<u>2,028</u>
Cash and cash equivalents, end of year	<u>\$ 1,533</u>	<u>\$ 2,148</u>
Supplemental disclosure of cash flow information		
Cash paid for		
Interest	\$ 6,853	\$ 7,019
Income taxes	38	13

**DAKOTA ELECTRIC ASSOCIATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General*

Dakota Electric Association (Dakota Electric) is a 101,000 member not-for-profit, member-owned electric distribution cooperative serving homes and businesses primarily in Dakota County, Minnesota. Dakota Electric also has a for-profit wholly-owned subsidiary, Midwest Energy Services (MES), which owns two wholly-owned companies. Consulting Engineers Group, Inc. (CEG) provides engineering consulting services. Energy Alternatives, Inc. (EAI) provides and installs standby power generators for large commercial and industrial customers, and wholly-owns Energy Alternatives Solar L.L.C. (EAS). EAS leases and sells customer-sited solar photovoltaic generation.

As a rate-regulated cooperative, Dakota Electric applies Accounting Standards Codification (ASC) 980 *Regulated Operations*. The application of generally accepted accounting principles by Dakota Electric differs in certain respects from the application by nonregulated businesses as a result of applying ASC 980. Such differences generally relate to the time at which certain items enter into the determination of net margins in order to follow the principle of matching costs and revenues.

*Consolidation Policy and Preparation of Financial Statements*

The accompanying consolidated financial statements include the accounts of Dakota Electric and its wholly-owned subsidiary. All significant intercompany transactions and balances have been eliminated.

*Regulation*

Dakota Electric is subject to regulation by the Minnesota Public Utilities Commission (MPUC). Dakota Electric's accounting policies and the accompanying consolidated financial statements conform to generally accepted accounting principles applicable to rate-regulated enterprises and reflect the effects of the ratemaking process.

*Revenue Recognition*

Rates charged to members are established by the board of directors and are subject to approval by the MPUC before becoming effective. Billings are rendered on a cycle basis and revenue is accrued for service provided but not yet billed. Electric rates include adjustment clauses, which bill or credit members for purchased power, conservation, and property tax costs above or below the base levels in rate schedules.

MES revenue is recognized on projects of short duration in the period services are rendered. Revenue is recognized on fixed price contracts on the percentage of completion method based on the ratio of costs incurred to total estimated costs at completion. Contract price and cost estimates are reviewed periodically as work progresses and adjustments are reflected in the period in which such estimates are revised.

*Receivables and Credit Policies*

Trade receivables are uncollateralized member obligations due under normal trade terms requiring payment within 25 days from the billing date. Unpaid trade receivables with dates over 30 days old are assessed a \$1 late fee or interest at 1.5% of the unpaid balance, whichever is greater.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Payments on trade and notes receivable are allocated to the earliest unpaid billings. The carrying amounts of trade and notes receivable are reduced by a valuation allowance that reflects management's best estimate of the amount that will not be collected. Management reviews all trade and notes receivable balances periodically and adjusts the allowance accounts based on current economic conditions and past experience.

### *Property and Depreciation*

Plant is recorded at original cost. The cost of additions to utility plant and replacement of retirement units of property are capitalized. Maintenance costs and replacements of minor items of property are charged to expense as incurred. Costs of depreciable units of utility plant retired are eliminated from the plant accounts. Such costs plus removal expenses less salvage are charged to accumulated depreciation.

Depreciation of DEA utility plant is computed using rates approved by the MPUC based on estimated useful lives of the various classes of property. In 2010 and 2009, provisions for depreciation approximated 3.5% of the average original cost of depreciable property.

### *Cash and Cash Equivalents*

Dakota Electric considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

### *Materials and Supplies*

Materials and supplies are stated at average cost.

### *Investments in Associated Companies*

Investments principally represent undistributed allocated margins of other cooperatives and investment certificates in the Cooperative Finance Corporation (CFC). These investments are recorded at cost.

### *Patronage Capital*

Dakota Electric operates on a nonprofit basis. Amounts received from the furnishing of electric energy in excess of operating costs and expenses are assigned to members on a patronage basis. Other amounts received by Dakota Electric from its operations in excess of costs and expenses are either allocated to members on a patronage basis or included in other equities in accordance with the bylaws.

### *Advertising Cost*

Advertising cost for December 31, 2010 and 2009 is \$165,000 and \$249,000, respectively, and is expensed as incurred.

### *Sales Taxes*

Dakota Electric has members in municipalities in which those governmental units impose a sales tax on certain sales. Dakota Electric collects those sales taxes from its members and remits the entire amount to the various governmental units. Dakota Electric's accounting policy is to exclude the tax collected and remitted from revenue and cost of sales.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### *Income Taxes*

Dakota Electric is exempt from income taxes under Section 501 (c) (12) of the Internal Revenue Code and the State of Minnesota. MES provides for deferred taxes on temporary differences arising from assets and liabilities whose basis is different for financial reporting and income tax purposes.

Dakota Electric has adopted the provisions of Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*), on January 1, 2009. The implementation of this standard had no impact on the financial statements. The unrecognized tax benefit accrual was zero as of December 31, 2010 and December 31, 2009, respectively.

Dakota Electric will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if such penalties and interest are incurred. Under normal circumstances, Dakota Electric is no longer subject to federal or state tax examinations by tax authorities for years before 2007. MES and its subsidiaries are no longer subject to federal or state tax examinations by tax authorities for years before 2008.

Dakota Electric and subsidiaries undergo an annual analysis of various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities, as defined by ASC 740-10.

### *Deferred Gain on RUS Buyout*

In 1994 and 1995, Dakota Electric refinanced long-term debt payable to the Rural Utilities Service (RUS) with CFC. The early extinguishments resulted in gains of \$11.3 million, which are being amortized over the lives of the related CFC debt (24 and 32 years, respectively) using the sum of the year's digits method. Interest expense is net of amortization of \$344,000 and \$378,000 in 2010 and 2009, respectively.

### *Accounting 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Concentrations of Credit Risk*

Financial instruments, which potentially subject Dakota Electric to concentrations of credit risk, consist primarily of temporary cash investments and trade receivables. Dakota Electric invests excess cash with various high-quality financial institutions and, by policy, generally limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to Dakota Electric's large number of members and their dispersion across many industries. Dakota Electric does not obtain collateral to support trade receivables, but monitors the credit standing of major members. Dakota Electric has not incurred and does not expect to incur significant credit losses.

Dakota Electric maintains its cash accounts in several area financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various times during the year, Dakota Electric's cash balances exceed insurance.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### *Concentration of Sources of Labor*

At December 31, 2010, Dakota Electric has collective bargaining agreements covering 115 employees which represent 58% of total full-time employees. The collective bargaining agreements will expire on February 28, 2012.

### *Fair Value Measurements*

Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, which provides a framework for measuring fair value under generally accepted accounting principles, became effective to Dakota Electric as of January 1, 2008. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

Dakota Electric does not have any assets or liabilities subject to the level 1 or 2 valuation as of December 31, 2010 and 2009, and does not anticipate participating in transactions of this type in the future.

### *Subsequent Events*

Dakota Electric has evaluated subsequent events through March 15, 2011, the date which the financial statements were available to be issued.

## **NOTE 2 - LEASE RECEIVABLE**

The lease receivable consists primarily of sales-type leases for standby power generators. The leases are collateralized by the equipment and payments on the leases are due in monthly installments. The leases generally mature 10 years from the date of issuance and are due at various dates ranging from 2012 to 2019. The interest rates charged range from 5.5% to 8.0%. All amounts due on the leases are current.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 3 - SUBSIDIARY OPERATING RESULTS

MES' operating results for the years ended December 31, 2010 and 2009 are summarized below.

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Revenues	\$ 17,715	\$ 14,185
Cost of sales	<u>12,912</u>	<u>9,184</u>
Gross profit	4,803	5,001
Operating expenses	<u>3,905</u>	<u>3,747</u>
Income before taxes	898	1,254
Income tax expense	<u>507</u>	<u>377</u>
Net income	<u>\$ 391</u>	<u>\$ 877</u>

At December 31, 2010 and 2009, MES' deferred tax liability totaled \$2,982,000 and \$2,064,000, respectively. MES' significant temporary differences result from differences in depreciation for financial reporting and income tax reporting. Net current deferred tax assets relate to the difference in timing of deductibility of vacation and sick pay, and the tax benefits related to the carryover of tax net operating losses. The deferred tax asset balance was \$911,000 and \$1,299,000 in 2010 and 2009, respectively.

### NOTE 4 - INVESTMENTS IN ASSOCIATED COMPANIES

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Great River Energy		
Patronage capital credits	<u>\$ 58,386</u>	<u>\$ 53,586</u>
Cooperative Finance Corporation		
Capital term certificates -		
maturities 2070 - 2080, interest rate 5.0%	1,419	1,419
Loan term certificates -		
maturities 2020 - 2030, interest rate 3.0%	532	532
Loan term certificates -		
maturities 2010 - 2043, interest rate 0.0%	2,262	2,223
Member Capital Securities -		
maturity 2044, interest rate 7.5%	1,000	1,000
Patronage capital	<u>2,770</u>	<u>2,424</u>
	7,983	7,598
Other investments	<u>1,023</u>	<u>949</u>
Total investments in associated companies	<u>\$ 67,392</u>	<u>\$ 62,133</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Investment in Great River Energy (GRE) represents undistributed allocated margins. Dakota Electric's share of annual GRE margins is generally based on the percentage of GRE's total power generation purchased by Dakota Electric. Under its wholesale power purchase agreement, Dakota Electric is committed to purchase at least 85% of its electric power requirements from GRE until December 31, 2045. The rates paid are subject to change annually.

Investments in CFC represent undistributed patronage capital credits allocated to Dakota Electric as well as loan and capital term certificates, and member capital securities. The certificates represent investments made pursuant to CFC borrowing requirements.

### NOTE 5 - PATRONAGE CAPITAL AND OTHER EQUITY

The mortgage provisions restrict the retirement of patronage capital unless, after retirement, the capital of Dakota Electric equals at least 20% of the total assets of Dakota Electric. However, retirements of up to 30% of the preceding year's margins can be made. No distribution other than estate, age 65 retirements and members moving off-line can be made if there is unpaid, when due, any installments of principal or interest on the notes, or if after giving effect to any distribution, the total current assets would be less than the total current liabilities.

Capital credit retirements for estates, members reaching age 65, and members moving off-line after July 1, 1998 are made upon request. Patronage capital credits arising from prior years' margins are retired as determined annually by the board of directors. As of December 31, 2010, capital credits through 1982 have substantially been retired.

### NOTE 6 - LONG-TERM DEBT

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Cooperative Finance Corporation (CFC) mortgage notes 4.0% to 7.40% in 2010 and 2009, due in quarterly installments through 2043	\$ 110,020	\$ 114,661
CoBank unsecured notes payable 4.35% in 2010, due in monthly installments through 2020	5,000	-
Merchants Capital Resources 4.0% notes payable, due in monthly installments of \$7,500 with a balloon payment of the remaining balance due in January 2012	525	-
Capital lease provision	699	726
	<u>116,244</u>	<u>115,387</u>
Less current portion	<u>(5,492)</u>	<u>(4,875)</u>
Total long-term debt	<u>\$ 110,752</u>	<u>\$ 110,512</u>

(continued on next page)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Substantially all assets are pledged as security on the mortgage notes. The notes generally mature 24 to 40 years from the date of issuance and are due at various dates ranging from 2011 to 2043. The notes contain provisions for changing interest rates at specified future dates.

It is estimated that principal repayments on the above debt for the next five years, and thereafter, will be as follows:

<u>Years ending December 31,</u>	<u>Total</u> (in thousands)
2011	\$ 5,492
2012	6,040
2013	5,677
2014	5,700
2015	5,526
Thereafter	87,809
	<u>\$ 116,244</u>

### NOTE 7 - NOTES PAYABLE (LINES OF CREDIT)

Dakota Electric has executed a perpetual line of credit agreement providing Dakota Electric with short term loans of \$20 million on a revolving basis with CFC. Interest on unpaid principal is payable quarterly at rates established by CFC; this rate was 4.95% at December 31, 2010. The maximum interest rate on the CFC line of credit will not exceed the lowest prime rate plus 1% per annum. This prime rate is published in the "Money Rates" column of "The Wall Street Journal". There were no outstanding balances on this line of credit at December 31, 2010 and 2009.

Dakota Electric has an additional line of credit agreement with CFC, which expires September 8, 2011 and provides Dakota Electric with short term loans of \$10 million on a revolving basis with CFC. Interest on unpaid principal is payable monthly at 200 basis points above the one week Libor rate CFC has in effect at the time of the advance and is subject to change on a weekly basis (2.25% at December 31, 2010). There was no outstanding balance on this line of credit at December 31, 2010 and the outstanding balance at December 31, 2009 was \$10,000,000.

Dakota Electric has a \$25 million line of credit agreement with CoBank, which expires July 31, 2011 and will subsequently be renewed. This agreement imposes a maximum of \$25 million outstanding unsecured debt at any one time to all lenders. Interest on unpaid principal is payable monthly at rates established by CoBank on a weekly basis (1.87% at December 31, 2010). There was an outstanding balance of \$11,175,000 on this line of credit at December 31, 2010 and there was no outstanding balance at December 31, 2009.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 8 - OTHER CURRENT LIABILITIES

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Accrued interest	\$ 1,070	\$ 1,134
Accrued payroll	660	711
Accrued sick leave	1,142	1,245
Accrued vacation	1,404	1,390
Receipts in excess of billings	1,182	605
Unclaimed capital credits	1,949	1,734
Other	161	873
	<u>\$ 7,568</u>	<u>\$ 7,692</u>

### NOTE 9 - PENSION PLAN

The majority of employees of Dakota Electric participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. Dakota Electric makes contributions to the plan equal to the amounts accrued for pension expense except for the periods when a moratorium on contributions has been in effect due to the plan reaching full funding limitations. In this multiemployer plan, which is available to all member associations of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. Contributions to the plan for the years ended December 31, 2010 and 2009, were approximately \$3,216,000 and \$2,347,000, respectively.

Dakota Electric has defined contribution savings plans for employees who meet certain age and service requirements. Dakota Electric contributed between 4.0% and 10.0% in 2010 and 2009 of eligible employees' compensation. Savings plan expense for the years ended December 31, 2010 and 2009, was approximately \$1,072,000 and \$1,090,000, respectively.

### NOTE 10 - POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

Dakota Electric provides certain health care benefits for salaried and hourly retired employees. Employees may become eligible for these health care benefits after attaining specified age and service requirements prior to retiring from Dakota Electric.

Dakota Electric is required to disclose the following information according to Accounting Standards Codification (ASC) 715 Compensation-Retirement Benefits in the notes to the financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table sets forth the plan's funded status reconciled with the obligation recognized in the accompanying balance sheet at December 31:

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Change in post-retirement benefit obligation		
Accumulated post-retirement benefit obligation at beginning of year	\$ 3,867	\$ 3,328
Service cost	114	380
Interest cost	220	216
Benefits paid	<u>(50)</u>	<u>(57)</u>
Accumulated post-retirement benefit obligation at end of year	<u>4,151</u>	<u>3,867</u>
Change in plan assets		
Plan assets at beginning of year	-	-
Employer contributions	50	57
Benefits paid	<u>(50)</u>	<u>(57)</u>
Plan assets at end of year	<u>-</u>	<u>-</u>
Funded status	<u>(4,151)</u>	<u>(3,867)</u>
Net post-retirement benefit obligation recognized	<u>\$ (4,151)</u>	<u>\$ (3,867)</u>

Weighted average assumptions at December 31:

Discount rate	5.7%	6.5%
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For measurement purposes, a 10.0% and 11.2% annual rate of increase in per capita cost of health care benefits was assumed for 2010 and 2009, respectively. Accelerating the rate of assumed health care costs by 1% each year would increase the benefit obligation as of December 31, 2010 and 2009 by \$453,000 and \$454,000, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 11 - OPERATING LEASES

EAI leases certain equipment under long-term noncancelable operating lease agreements. Minimum lease payments for operating leases in future years are as follows:

<u>Years ending December 31,</u>	<u>Total</u> <u>(in thousands)</u>
2011	1,030
2012	1,242
2013	782
2014	782
2015	1,008
Thereafter	3,532
	<u>\$ 8,376</u>

Rental expense was approximately \$625,000 and \$513,000, for the years ended December 31, 2010 and 2009, respectively.

### NOTE 12 - RELATED PARTY TRANSACTIONS

Dakota Electric is a member of and purchases its wholesale power from Great River Energy. The following is a summary of material transactions with Great River Energy for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Purchase of wholesale power	<u>\$ 130,704,861</u>	<u>\$ 118,516,938</u>
Accounts payable for purchased power	<u>\$ 20,596,290</u>	<u>\$ 18,719,653</u>
Capital credit allocation	<u>\$ 4,799,168</u>	<u>\$ 5,672,536</u>
Accumulated investment in patronage capital credits	<u>\$ 58,385,542</u>	<u>\$ 53,586,374</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of a class of financial instruments at December 31, 2010 and 2009 for which it is practicable to estimate that value:

#### *Cash and Cash Equivalents*

The carrying amount approximates fair value because of the short term maturity of these instruments.

#### *Investment in Associated Companies*

The investments are not actively traded and fair value is not readily estimable.

#### *Notes Payable and Long-Term Debt*

The carrying amount approximates fair value based on current rates available to Dakota Electric for debt of similar maturities.