Financial Statements
December 31, 2016 and 2015

East River Electric Power Cooperative, Inc.

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East River Electric Power Cooperative, Inc.

Directors, Officers, and Management

December 31, 2016

Name	Title	Member System
James Ryken	President	Clay Union Electric
Pat Homan	Vice-President	Traverse Electric
Ervin Fink	Secretary	Douglas Electric
Bert Rogness	Treasurer	H-D Electric
Alan Vedvei	Director	Kingsbury Electric
Gary Bachman	Director	FEM Electric
David Allen	Director	Dakota Energy
Darren Strasser	Director	Whetstone Valley Electric
Galen Grant	Director	Lyon-Lincoln Electric
Isabel Trobaugh	Director	City of Elk Point
Ken Gillaspie	Director	Oahe Electric
Kermit Pearson	Director	Lake Region Electric
Ron Jorgenson	Director	South Central Electric
Les Mehlhaff	Director	Southeastern Electric
Alan Hinderman	Director	Renville-Sibley Cooperative
Mark Rogen	Director	Sioux Valley Energy
Mark Sumption	Director	Northern Electric
Don Schurdevin	Director	Union County Electric
Richard Koupal	Director	Bon Homme Yankton Electric
Duane Wolbrink	Director	Central Electric
Verdon Lamb	Director	Codington-Clark Electric
Ron Samuelson	Director	Charles Mix Electric
Tom Boyko	General Manager	East River Electric Power

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Independent Auditor's Report

The Board of Directors
East River Electric Power Cooperative, Inc.
Madison, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of East River Electric Power Cooperative, Inc., which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, patronage capital and other equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East River Electric Power Cooperative, Inc. as of December 31, 2016 and 2015, 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.

200 E. 10th St., Ste. 500 | P.O. Box 5125 | Sioux Falls, SD 57117-5125 | T 605.339.1999 | F 605.339.1306 | EOE

Report Issued in Accordance with Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2017, on our consideration of East River Electric Power Cooperative, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East River Electric Power Cooperative, Inc. internal control over financial reporting and compliance.

Eide Bailly LLP

Sioux Falls, South Dakota
March 28, 2017

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	2016	2015
Assets		
Electric Plant		
In service	$ 356,630,545	$ 332,519,500
Under construction	41,309,244	32,093,598
Total electric plant	397,939,789	364,613,098
Less accumulated depreciation	106,498,543	100,073,933
Electric plant, net	291,441,246	264,539,165
Other Property and Investments		
Investments in associated companies	116,470,557	97,859,749
Other investments	1,241,931	1,480,772
Other special funds - margin stabilization reserve	974,888	4,466,239
Non-utility property, net	2,365	3,067
Total other property and investments	118,689,741	103,809,827
Current Assets		
Cash and cash equivalents	7,374,295	685,560
Accounts receivable	26,711,989	24,248,951
Materials and supplies	10,174,541	9,373,177
Prepayments	344,141	351,472
Total current assets	44,604,966	34,659,160
Deferred Charges	5,854,870	6,451,680
	$ 460,590,823	$ 409,459,832

See Notes to Financial Statements

	2016	2015
Equities and Liabilities		
Equities		
Memberships	$ 2,500	$ 2,500
Accumulated other comprehensive income	-	(38,291)
Appropriated margins - market rate reserve	4,450,000	4,450,000
Patronage capital	159,071,470	136,310,767
Total equities	163,523,970	140,724,976
Long-Term Debt, Less Current Maturities	217,450,881	191,823,141
Other Noncurrent Liabilities		
Postretirement benefit obligation	1,078,203	1,068,702
Lines of credit	27,000,000	38,974,148
Total other noncurrent liabilities	28,078,203	40,042,850
Current Liabilities		
Current maturities of long-term debt	10,393,000	8,521,711
Accounts payable	34,520,254	19,628,243
Accrued liabilities	4,737,481	3,388,370
Other current liabilities	888,709	840,865
Total current liabilities	50,539,444	32,379,189
Deferred Credits	998,325	4,489,676
	$ 460,590,823	$ 409,459,832

East River Electric Power Cooperative, Inc.

Statements of Operations

Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenue		
Electric	$ 231,944,884	$ 210,769,130
Other electric revenue - wheeling	2,334,525	2,755,442
Other electric revenue - regional transmission	17,650,562	4,311,523
Rent from electric property	198,294	190,466
Income from leased property	-	472,652
Total operating revenue	252,128,265	218,499,213
Operating Expense		
Cost of power	208,826,208	179,449,409
Transmission - operations	7,460,580	7,091,220
Transmission - maintenance	2,680,552	2,093,586
Distribution - operations	1,558,062	1,556,402
Distribution - maintenance	1,367,164	1,303,614
General plant maintenance	627,469	587,717
Customer service and sales	1,256,904	1,040,554
Administrative and general	7,245,956	7,170,326
Depreciation and amortization	8,081,101	7,384,154
Interest	9,062,796	8,630,818
Other deductions (income)	105,130	(429,555)
Total operating expense	248,271,922	215,878,245
Operating Margin Before Capital Credits	3,856,343	2,620,968
Generation and Transmission and Other Capital Credits	19,525,050	6,759,103
Net Operating Margin	23,381,393	9,380,071
Nonoperating Margin		
Interest income	285,170	302,792
Other	144,140	5,794
Total nonoperating margin	429,310	308,586
Net Margin	$ 23,810,703	$ 9,688,657

East River Electric Power Cooperative, Inc.

Statements of Patronage Capital and Other Equities
Years Ended December 31, 2016 and 2015

	Memberships	Accumulated Other Comprehensive Income	Appropriated Margins Market Rate Reserve	Patronage Capital	Total Equities
Balance, January 1, 2015	$ 2,500	$ (76,582)	$ 4,450,000	$ 127,627,110	$ 132,003,028
Net margin	-	-	-	9,688,657	9,688,657
Amortization of postretirement benefit transition obligation	-	38,291	-	-	38,291
Retirement of capital credits	-	-	-	(1,005,000)	(1,005,000)
Balance, December 31, 2015	2,500	(38,291)	4,450,000	136,310,767	140,724,976
Net margin	-	-	-	23,810,703	23,810,703
Amortization of postretirement benefit transition obligation	-	38,291	-	-	38,291
Retirement of capital credits	-	-	-	(1,050,000)	(1,050,000)
Balance, December 31, 2016	$ 2,500	$ -	$ 4,450,000	$ 159,071,470	$ 163,523,970

	2016	2015
Operating Activities		
Net margin	$ 23,810,703	$ 9,688,657
Adjustments to reconcile net margin to net cash from operating activities		
Depreciation and amortization of electric plant	9,447,165	8,769,309
Amortization of deferred charges	1,075,283	1,078,971
Generation and transmission and other capital credits		
Non-cash allocations	(19,525,050)	(6,759,103)
Cash received from associated companies	653,058	623,486
Change in margin stabilization reserve	(3,491,351)	1,702,529
Change in assets and liabilities (Note 15)	12,535,532	1,730,650
Net Cash from Operating Activities	24,505,340	16,834,499
Investing Activities		
Electric and other plant additions and replacements, net	(35,068,809)	(41,951,079)
Load management additions	(412,689)	(350,756)
Payments received on member loans	270,784	586,901
Advances on member loans	(9,600)	(153,805)
Decrease in other investments	238,841	1,356,472
Change in materials and supplies	(801,364)	882,348
Decrease (increase) in other special funds	3,491,351	(1,702,529)
Net Cash used for Investing Activities	(32,291,486)	(41,332,448)
Financing Activities		
Advances on long-term debt	35,107,000	14,000,000
Principal payments on long-term debt	(7,607,971)	(8,461,054)
Advances for refinancing of debt	-	17,430,228
Payments for refinancing of debt	-	(17,328,799)
Net change in lines of credit	(11,974,148)	19,724,148
Principal payments on capital leases	-	(1,136,560)
Patronage capital retirements	(1,050,000)	(1,005,000)
Net Cash from Financing Activities	14,474,881	23,222,963
Net Change in Cash and Cash Equivalents	6,688,735	(1,274,986)
Cash and Cash Equivalents, Beginning of Year	685,560	1,960,546
Cash and Cash Equivalents, End of Year	$ 7,374,295	$ 685,560
Supplementary Disclosure of Cash Flow Information		
Cash payments for interest	$ 7,777,613	$ 8,649,126
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
RUS long-term debt refinanced with CoBank	$ -	$ 4,191,362
Construction in progress purchases included in accounts payable	$ 1,279,735	$ -

Note 1 - Summary of Significant Accounting Policies

General

East River Electric Power Cooperative, Inc. (the Cooperative) is a wholesale electric power supply cooperative serving twenty-four rural electric cooperatives and one municipally-owned electric system in South Dakota and Minnesota. Power is purchased from Basin Electric Power Cooperative and Western Area Power Administration under long-term contracts.

The Cooperative is subject to the accounting and reporting rules and regulations of the Rural Utilities Service (RUS). The Cooperative follows the Federal Energy Regulatory Commission's Uniform System of Accounts prescribed for Class A and B Electric Utilities as modified by RUS.

Rates charged to members are established by the Board of Directors.

Electric Plant and Retirements

Electric plant is stated at cost. The cost of additions to electric plant includes contracted work, direct labor and materials and allocable overheads. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense.

Depreciation

Depreciation is computed using the straight-line method based upon the estimated useful lives of the various classes of property. Amortization of leased plant is included in depreciation expense.

Amortization

Amortization of deferred charges and intangible assets is computed using the straight-line method based on the following lives:

Load management receivers	10 years
Debt issuance and conversion costs	19 – 22 years (remaining life of the related debt)
Prepayment of pension costs	10 years

Cash and Cash Equivalents

For purposes of reporting cash flows, the Cooperative considers all commercial paper and money market funds with an original maturity of three months or less to be cash equivalents.

Sales Taxes

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

Accounts Receivable

Accounts receivable are un-collateralized customer obligations due under normal trade terms requiring payments within 30 days from the invoice date. The receivables are non-interest bearing. Payments on trade receivables are applied to the applicable unpaid invoices. The carrying amount of accounts receivable is reduced by an amount that reflects management's estimate of amounts that will not be collected. As December 31, 2016 and 2015, there were no accounts receivable balances estimated to be uncollectible.

Material and Supplies

Inventories of materials and supplies are stated at the lower of average cost or market.

Member and Economic Development Loans

The Cooperative invests in member and economic development loan agreements. The loans are reported at the amount the Cooperative expects to collect on balances outstanding at year end and are included in investments in associated companies. Interest on loans is recognized over the term of the note.

An allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management. Management considers past loan loss experience, known and inherent risks in the loan portfolio, adverse situations that may affect the borrower's ability to repay, and current economic conditions in arriving at an allowance for unknown and inherent losses. No loan losses were recorded, and no loans were written off during the years ended December 31, 2016 and 2015. In addition, there is no valuation allowance on the notes receivable as of December 31, 2016 and 2015.

Patronage Capital

The Cooperative operates on a nonprofit basis. At the discretion of the Cooperative's board of directors, revenue received from the furnishing of electric energy in excess of operating costs and expenses is assigned to patrons on a patronage basis. Other income, net of costs and expenses, is allocated to its patrons on a patronage basis to the extent they are not needed to offset current or prior deficits.

Revenue Recognition

Electric revenue is recognized and billings are made on a calendar month basis for energy delivered as recorded by meter readings. Revenue from the use of the Cooperative's electric transmission facilities by the regional transmission organization is recognized monthly based on an annual transmission revenue requirement.

Power Costs

Cost of power purchased is recognized on the basis of meter readings made by the power suppliers on the last day of each month.

Participation in a Regional Transmission Organization

On March 5, 2015, the Cooperative's Board of Directors approved the Cooperative's membership in Southwest Power Pool (SPP), a Regional Transmission Organization (RTO), as a transmission owner. An RTO is responsible for electric transmission grid operations, markets, short-term electric reliability and transmission services within a multi-state region. RTO's do not own the power grid, but independently operate the grid minute-by-minute to ensure that power is delivered to customers and to eliminate power shortages. Founded in 1941 and based in Little Rock, Arkansas, SPP is a not-for-profit organization in which membership is voluntary. The Cooperative became a transmission owner member effective October 1, 2015. Approximately 30% of the Cooperative's total utility plant is qualified under the SPP tariff.

Revenues from SPP are initially recorded based on projected costs associated with qualifying plant assets. An annual true-up for revenue will be recognized based on actual costs.

Pension Costs

The Cooperative's policy is to fund normal pension costs accrued.

Accounting Estimates

The preparation of 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 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.

Business Credit Risk

The Cooperative sells electric energy for resale to its member owners, which consist of distribution cooperatives and one municipality. These member owners are located in South Dakota and Minnesota.

Income Taxes

The Cooperative is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code (IRS) and is annually required to file a Return of Organization Exempt Income from Income Tax (Form 990) with the IRS.

The Cooperative believes it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Cooperative would recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if such interest and penalties are incurred.

Fair Value of Financial Instruments

The Cooperative considers the carrying amount of significant classes of financial instruments on the balance sheets, including cash, accounts receivable, inventories, other assets, accounts payable, accrued liabilities, and variable rate long-term debt to be reasonable estimates of fair value either due to their length of maturity or the existence of variable interest rates underlying such financial instruments that approximate prevailing market rates at December 31, 2016 and 2015.

The investments in associated companies are not actively traded and fair value is not readily estimable. The carrying amount of loans to members are not considered materially different from fair value as the loans outstanding include repayment terms up to seven years and collection is highly probable considering historical experience.

The Cooperative has fixed-rate long term debt financial instruments as of December 31, 2016 and 2015. Generally, the carrying value of the fixed rate long-term debt approximates its fair value, although the Cooperative has certain fixed-rate long-term debt financial instruments which have carrying values that may differ from their estimated fair values. It is not practicable for the Cooperative to estimate the fair value of these financial instruments given the nature of the debt agreements that are in place which include debt from federal agencies of the United States with interest rates that are not considered to have comparable prevailing rates as of December 31, 2016 and 2015.

Subsequent Events

The Cooperative has evaluated subsequent events through March 28, 2017, the date which the financial statements were available to be issued.

Note 2 - Electric Plant and Depreciation

	2016		2015	
	Plant Balance	Depreciation Rates	Plant Balance	Depreciation Rates
Intangible plant	$ 4,190,086	1.31 - 6.67%	$ 4,286,180	1.31 - 6.67%
Transmission plant	232,645,632	1.67 - 5.84%	215,007,336	1.67 - 5.84%
Transmission plant under capital lease	6,352,051	1.67 - 5.39%	6,317,246	1.67 - 5.39%
Distribution plant	71,981,312	1.90 - 2.70%	68,408,240	1.90 - 2.70%
Distribution plant under capital lease	430,435	2.21 - 2.70%	425,798	2.21 - 2.70%
General plant	41,031,029	2.40 - 20%	38,074,700	2.40 - 20%
Total electric plant in service	356,630,545		332,519,500	
Construction work in progress	41,309,244		32,093,598	
	$ 397,939,789		$ 364,613,098	

Note 3 - Investments in Associated Companies

	2016	2015
Patronage capital credits		
Basin Electric Power Cooperative	$ 107,087,189	$ 88,376,486
National Rural Utilities Cooperative Finance Corporation	855,333	812,642
Other	204,379	189,727
	108,146,901	89,378,855
National Rural Utilities Cooperative Finance Corporation		
Subscription capital term certificates; matures 10/1/2075-2090; interest rate 5%	1,969,542	1,969,542
Member capital certificates; matures 3/19/2044; interest rate 5%; callable 3/19/2024	2,000,000	2,000,000
Loan capital term certificates; matures 7/1/2018-7/1/2039; 0% to 4.80%	767,665	868,549
	4,737,207	4,838,091
Federated Rural Electric Insurance		
Corporate stock and patronage	642,197	578,237
CoBank, stock and patronage	1,634,607	1,484,048
Loans to members		
5% interest loans, due in monthly installments over 5 - 7 years, payment guaranteed by member systems	577,429	717,456
0% value added agricultural loans to member systems, repaid as patronage capital is retired	690,300	811,458
	1,267,729	1,528,914
Other	41,916	51,604
	$ 116,470,557	$ 97,859,749

Note 4 - Other Investments

	2016	2015
Investment in REED, Inc. (at cost)	$ 867,100	$ 867,100
Economic development notes receivable, 0% interest, mature 2017-2019	259,233	501,458
Other investments	115,598	112,214
	$ 1,241,931	$ 1,480,772

Rural Electric Economic Development, Inc. (REED) is a non-profit South Dakota corporation formed by the Cooperative and a number of its member systems to make economic development loans to governmental entities, non-profit entities and private businesses in rural areas of eastern South Dakota and western Minnesota.

REED is funded through contributions of economic development grants and other capital contributions from rural electric cooperatives. The Cooperative has invested $867,100 in REED and records its non-controlling interest under the cost method of accounting. The Cooperative has guaranteed debt of REED, Inc. in the amount of $800,000. No liability has been recorded in connection with the guarantee.

Note 5 - Cash and Cash Equivalents

	2016	2015
Cash on hand and in accounts with financial institutions	$ 8,349,183	$ 3,796,020
Member notes - Basin	-	1,355,779
	8,349,183	5,151,799
Restricted funds - margin stabilization	974,888	4,466,239
Total cash and cash equivalents	$ 7,374,295	$ 685,560

Note 6 - Deferred Charges

	2016	2015
Load management receivers, net of accumulated amortization (2016 - $12,885,286; 2015 - $12,352,517)	$ 1,870,422	$ 1,990,502
Debt issuance and conversion costs	17,149	35,659
Prepayment of pension costs (Note 11)	3,275,021	3,799,025
Work in progress - other	337,405	227,732
Transportation clearing	354,873	398,762
	$ 5,854,870	$ 6,451,680

The costs of load management receivers are capitalized and amortized over 10 years. Amortization of $532,769 and $519,580 is included in cost of power for the years ended December 31, 2016 and 2015, respectively.

The cost of converting interest rates on certain long-term debt was deferred. The deferred costs are being amortized over the remaining terms of the respective notes. Related amortization of $18,510 and $35,387 is included in interest expense for the years ended December 31, 2016 and 2015, respectively.

Expected future amortization expense over the next five years is as follows:

	Load Management Receivers	Debt Issuance Costs	NRECA Pension Prepayment	Total
2017	$ 421,394	$ 8,575	$ 524,003	$ 953,972
2018	376,585	8,574	524,003	909,162
2019	336,990	-	524,003	860,993
2020	261,797	-	524,003	785,800
2021	230,959	-	524,003	754,962

Note 7 - Patronage Capital

	2016	2015
Assignable	$ 23,810,703	$ 9,688,657
Assigned to date	191,012,777	181,324,120
Total	214,823,480	191,012,777
Retired to date	55,752,010	54,702,010
Balance	$ 159,071,470	$ 136,310,767

The Cooperative's debt agreements through the Indenture, generally limit the retirement of patronage capital unless, after retirement, the capital of the Cooperative equals at least 30% of the total long-term debt and equity of the Cooperative, and in any fiscal year, the Cooperative may make distributions up to 5% of the Cooperative's aggregate margins and equities. During 2016 and 2015, the Board of Directors authorized appropriations of $-0- to the reserve for market rates.

Note 8 - Long-Term Debt

	2016	2015
Federal Financing Bank (FFB) promissory notes		
Fixed rate notes (1.933% - 5.715%) due in quarterly installments through 2050	$ 153,390,412	$ 121,095,599
Adjustable rate note (3.148% through December 31, 2019 interest rate), due in quarterly installments through 2030	1,030,837	1,254,244
	154,421,249	122,349,843
National Rural Utilities Cooperative Finance Corporation (CFC) mortgage notes		
Fixed rate notes (3.50% - 7.15%) due in quarterly installments through 2039	6,438,728	7,888,690
Variable rate note (2.50% at December 31, 2016) due in quarterly installments through 2039	2,459,710	2,514,537
Other notes (6.05% at December 31, 2016) due in quarterly installments through 2026	590,655	635,416
	9,489,093	11,038,643

	2016	2015
CoBank mortgage notes		
Fixed rate notes (2.83% - 6.38%) due in monthly installments through 2042	63,687,267	66,467,869
RUS Economic Development notes		
Non-interest bearing notes, due in monthly installments through December 2018	246,272	488,497
Total debt	227,843,881	200,344,852
Less current maturities	10,393,000	8,521,711
Total long-term debt	$ 217,450,881	$ 191,823,141

All of the Cooperative's long-term debt is secured under an indenture dated September 13, 2013 (the "Indenture"), between East River Electric Power Cooperative, Inc. and U.S. Bank National Association, Trustee. Pursuant to the Indenture, the Cooperative created a first lien on substantially all of its electric and general plant assets, excluding excepted property described in the Cooperative's indenture in favor of the Indenture trustee to secure certain long-term debt on a pro-rata basis.

The FFB promissory notes generally mature 34 years after the end of the year in which the original advance was made. The adjustable fixed rate notes are subject to interest rate re-pricing at specified future dates.

The Cooperative's debt agreements contain various restrictive covenants including a requirement that the Cooperative maintain defined margins for interest ratio. Management asserts that the Cooperative was in compliance with all restrictive covenants as of December 31, 2016.

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

	CFC	FFB	CoBank	Other	Total
2017	$ 1,637,373	$ 5,426,152	$ 3,132,355	$ 197,209	$ 10,393,089
2018	1,719,961	4,496,504	3,234,205	49,063	9,499,732
2019	1,463,690	4,396,753	3,342,080	-	9,202,523
2020	1,543,860	3,914,627	3,453,758	-	8,912,246
2021	187,327	4,002,419	3,172,731	-	7,362,478

All loan funds advanced by FFB and CFC are deposited in a special trust bank account, the disbursements from which are restricted by the provisions of the loan agreement to purposes approved by FFB and CFC. There were unadvanced long-term loan funds of $111,159,000 available to the Cooperative from FFB at December 31, 2016. There were no unadvanced long-term loan funds available to the Cooperative from CFC or CoBank at December 31, 2016.

Note 9 - Lines of Credit

The Cooperative had a perpetual line of credit agreement with the National Rural Utilities Cooperative Finance Corporation (CFC) providing the Cooperative with loans up to $12,000,000 on a revolving basis. There were advances outstanding on this agreement of $-0- and $12,000,000 at December 31, 2016 and 2015, respectively. During 2016 the perpetual line of credit was terminated and the Cooperative executed a new line of credit agreement with CFC providing the cooperative with loans up to $20,000,000 on a revolving basis. The line of credit agreement matures on January 11, 2021. Interest on unpaid principal is payable quarterly at variable rates established by CFC. Advances outstanding on the line of credit were $20,000,000 at December 31, 2016.

The Cooperative also has a line of credit with CoBank, ACB providing the Cooperative with loans in the total amount of $27,000,000, renewable annually. Interest on unpaid principal is payable monthly at variable rates established by CoBank, ACB. There were advances outstanding on the line of credit agreements of $7,000,000 and $26,974,148 at December 31, 2016 and 2015, respectively.

The variable interest rates on the above lines of credit ranged from approximately 2.2% to 2.8% during the year ended December 31, 2016.

Note 10 - Deferred Credits

	2016	2015
Margin stabilization deferral	$ 974,888	$ 4,466,239
Other deferred credits	23,437	23,437
	$ 998,325	$ 4,489,676

Pursuant to guidelines established by RUS, the Cooperative has established a margin stabilization plan. The margin stabilization plan was established as a rate making tool designed to level out the effects of weather and other factors, which can cause net margins to fluctuate significantly from year to year. The plan specifies that rates are to be sufficient to generate a three year average modified times interest earned ratio (TIER) of at least 1.3. The plan requires any carryover to be returned through rates over a period of not more than ten years.

For the year ended December 31, 2016, electric revenue was increased by a net amount of $3,491,351 resulting in a decrease to the margin stabilization reserve of this amount. For the year ended December 31, 2015, electric revenue was decreased by a net amount of $1,702,529 resulting in an increase to the margin stabilization reserve of this amount.

The Cooperative has segregated cash and cash equivalents in a separate fund in amounts equal to the margins deferred under the above plan. These balances are reflected in the financial statements as other special funds. The cumulative amounts deferred under the margin stabilization plan are included in the financial statements with the deferred credits.

The Cooperative is subject to the provisions of Accounting Standards Codification (ASC) 980, Regulated Operations. The application of generally accepted accounting principles by the Cooperative differs in certain respects from the application by non-regulated businesses as a result of applying ASC 980. The deferred credit relating to the margin stabilization plan represents future reductions in revenue associated with billings to members through the ratemaking process.

Note 11 - Pension Plan

Pension Plan

The Cooperative participates in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan), which is a defined benefit pension plan intended to be qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. The Plan is a multiemployer plan under accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that 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's contributions to the RS Plan in 2016 and 2015 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made normal contributions to the plan of approximately $1,852,000 in 2016 and $1,725,000 in 2015.

In March 2013, the Cooperative made an accelerated funding payment of $5,240,034 under NRECA's new Retirement and Security (RS) Plan voluntary prepayment option. Participation in the RS prepayment option will reduce the cooperative's RS billing rates by approximately 25% effective April 1, 2013, lower ongoing contributions and minimize the likelihood and impact of any future Deficit Reduction Contributions. The prepayment is included in deferred charges and is amortized over a 10 year period. The payment was financed by a $5,240,000, 10 year loan with CoBank, ACB. Interest expense associated with the prepayment loan is being accounted for in accordance with the RUS Uniform System of Accounts (USOA).

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 percent funded on January 1, 2016 and January 1, 2015 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.

Defined Contribution Plan

In addition to the above retirement plan, employees of the Cooperative are eligible for a 401(k) savings plan. This plan is offered through NRECA. The Cooperative made 1.0% base contributions and matching contributions of up to 2.0% of each employee's base wages for the year ending December 31, 2016 and 2015, respectively. The Cooperative's total contributions were approximately $331,000 and $323,000 in 2016 and 2015, respectively.

Note 12 - Postretirement Benefits Other Than Pensions

Postretirement Plan

The Cooperative sponsors a defined benefit postretirement plan relating to health insurance premiums. The Cooperative is responsible for payment of all or part of medical insurance premiums of retirees. The Cooperative has recorded a liability to reflect the estimated present value of benefits to be paid in the future.

The Cooperative follows ASC 715, *Compensation – Retirement Benefits*. This standard requires the Cooperative to recognize an asset or liability in its statements of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This requirement became effective and was adopted by the Cooperative as of December 31, 2007. The result of adopting this standard was to increase the accumulated postretirement benefit obligation by $344,618 which represented the unamortized transition obligation at December 31, 2007 and to increase the accumulated other comprehensive loss by $344,618. In accordance with ASC 980, *Regulated Operations*, the Cooperative has deferred the cost of the transition obligation and will recover the costs through the rates over a twenty year period. As of December 31, 2016 the Cooperative's plan is unfunded and has no actuarial gains and losses not recognized in the financial statements.

Obligations and funded status of the postretirement benefit plan are as follows:

	2016	2015
Accumulated postretirement benefit obligation	$ 1,078,203	$ 1,068,702
Fair value of plan assets	-	-
Net liability	$ 1,078,203	$ 1,068,702

Components of the change in the accumulated postretirement benefit obligation are as follows:

Accumulated postretirement benefit obligation at beginning of year	$ 1,068,702	$ 1,041,908
Service cost	68,961	70,033
Interest cost	42,748	41,676
Benefits paid	(102,208)	(84,915)
Accumulated postretirement benefit obligation at end of year	$ 1,078,203	$ 1,068,702

Components of net postretirement benefit cost and other amounts recognized in other comprehensive income are the following:

	2016	2015
Service and interest cost recognized in margins	$ 111,709	$ 111,709
Change in net loss recognized in other comprehensive income	38,291	38,291
Net periodic benefit cost and other comprehensive margins	$ 150,000	$ 150,000

Assumptions used to determine the net postretirement benefit cost and other amount recognized in other comprehensive income:

	2016	2015
Weighted average discount rate for obligations	4.00%	4.00%
Health care cost trend rate assumed for next year	6.00%	6.00%

The Cooperative is obligated to pay a portion of health care benefits for retirees age 65 and over. Based on the expected health care cost trend rate of 6.0%, it is anticipated that payments made after 2020 will be limited to the fixed monthly payment provided under the program unless the employee chooses to retire early. For illustrative purposes, a one percent increase in the health care cost trend will result in an increase in the accumulated post-retirement benefit obligation of approximately $114,300.

The following postretirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

2017	$ 107,485
2018	82,419
2019	166,028
2020	175,596
2021	215,520
2022-2026	685,680

Deferred Compensation Plan

The Cooperative maintains a deferred compensation plan that applies to certain employees and directors. The Cooperative accrues its obligations under the plan as required by the terms of the agreements. Contributions to the plan are invested in mutual funds and subsequently distributed as provided by the plan. All contributions are funded by plan participants. Participants bear the market risk of fluctuations in the plan's investments and are responsible for investment decisions. The plan is fully funded with a deferred compensation balance of $1,084,596, and $1,216,503 as of December 31, 2016 and 2015, respectively. As the plan is fully funded, the assets and liabilities related to the deferred compensation plan are not reported in the balance sheets.

Note 13 - Commitments

Wholesale Power Agreements

The Cooperative is committed under long-term wholesale power agreements whereby it is to purchase its electric power and energy requirements from Basin Electric Power Cooperative through December 31, 2075 and the United States Department of Energy – Western Area Power Administration through December 31, 2050.

Construction Contracts

The Cooperative enters into contracts for the construction of electric infrastructure. Commitments under construction contracts as of December 31, 2016 total approximately $2,300,000.

Note 14 - Related Party Transactions

The Cooperative is a member of Basin Electric Power Cooperative from whom it purchases a portion of its electric energy requirements. The following is a summary of material transactions with Basin Electric Power Cooperative for the years ended December 31, 2016 and 2015.

	2016	2015
Purchase of wholesale power	$ 183,829,230	$ 155,718,878
Accounts payable for purchased power at December 31	$ 26,099,966	$ 15,904,609
Temporary cash investments at December 31	$ -	$ 1,355,779
Patronage capital balance at December 31	$ 107,087,189	$ 88,376,486
Patronage capital credit allocations - current year	$ 18,710,703	$ 5,988,657

Additionally the Cooperative entered into an operating lease with Basin Electric Power Cooperative on January 1, 2011, whereby, Cooperative owns and operates certain high voltage transmission equipment and leases this equipment to Basin Electric Power Cooperative. The Cooperative's lease income was $-0- and $472,652 for the years ended 2016 and 2015, respectively. The lease agreement was terminated effective October 1, 2015.

The Cooperative serves twenty-five member systems which include twenty-four rural electric distribution cooperatives and one municipally-owned electric system. The following is a summary of material transactions with the Cooperatives member systems for the years ended December 31, 2016 and 2015.

	2016	2015
Electric revenue (gross of margin stabilization activity)	$ 228,453,533	$ 212,471,659
Accounts receivable	$ 23,244,599	$ 19,763,719
Member loans (included in investments in associated companies)	$ 1,267,729	$ 1,528,914
Patronage capital allocated - current year	$ 23,810,703	$ 9,688,657
Patronage capital retirements - current year	$ 1,050,000	$ 1,005,000

Note 15 - Supplemental Cash Flow Disclosures

Following is the detail information for the changes in current and other assets and liabilities for the years ended December 31, 2016 and 2015:

	2016	2015
(Increase) decrease in current and other assets		
Accounts receivable	$ (2,463,038)	$ (623,006)
Prepayments	7,331	54,611
Other deferred charges	(65,784)	467,518
Increase (decrease) in current and other liabilities		
Accounts payable	13,612,276	1,903,235
Accrued liabilities	1,349,111	(67,998)
Other current liabilities	47,844	33,669
Deferred credits	-	(102,464)
Postretirement benefit obligation	47,792	65,085
	$ 12,535,532	$ 1,730,650

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
East River Electric Power Cooperative, Inc.
Madison, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East River Electric Power Cooperative, Inc., which comprise the balance sheet as of December 31, 2016, and the related statements of operations, patronage capital and other equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered East River Electric Power Cooperative, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East River Electric Power Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East River Electric Power Cooperative, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We have communicated other matters to management of East River Electric Power Cooperative, Inc. in a separate letter dated March 28, 2017.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Board of Directors, management, the Rural Utilities Service, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Sioux Falls, South Dakota
March 28, 2017

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Loan Fund Expenditures

Board of Directors
East River Electric Power Cooperative, Inc.
Madison, South Dakota

We have audited, in accordance with U.S. generally accepted auditing standards, the balance sheet of East River Electric Power Cooperative, Inc. as of December 31, 2016 and the related statements of operations, patronage capital and other equities, and cash flows for the year then ended, and have issued our report thereon dated March 28, 2017.

During the year ended December 31, 2016, East River Electric Power Cooperative, Inc. received no advances from the National Rural Utilities Cooperative Finance Corporation (CFC) on loans controlled by the CFC Loan Agreement and/or Mortgage or Security Agreements. In conducting our audit, nothing came to our attention that caused us to believe that the Cooperative was not in compliance with the intended purpose of the loan funds as contemplated in the Loan Agreement. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended for the information and use of the Board of Directors, management, and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Sioux Falls, South Dakota
March 28, 2017

200 E. 10th St., Ste. 500 | P.O. Box 5125 | Sioux Falls, SD 57117-5125 | T 605.339.1999 | F 605.339.1306 | EOE