SOUTH DAKOTA
DEPARTMENT
OF PUBLIC SAFETY
prevention – protection – enforcement
EMERGENCY MANAGEMENT

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East River Electric Power Cooperative
Barb Strom
211 Harth Ave. South
Madison, SD 57042

November 29, 2018

Dear Ms. Strom:

The Department of Public Safety has received a copy of your December 2017 audit reports which included an audit finding pertinent to the Public Assistance Grants administered through our department. OMB Uniform Guidance 2 CFR §200.521 requires that we must issue a management decision within 6 months of acceptance of the of the audit report by the FAC.

Finding 2017-001: The cooperative did not maintain effective internal control over disbursements for payment of expenditures that were not properly approved or at the correct amount.

Your corrective action plan indicates East River Electric is aware of this issue and will now require approval of the direct supervisor or Controller on all time entry before it can be processed for payment. You also indicate, in the future East River Electric will utilize the FEMA Grants Portal to submit costs, as oppose to relying on FEMA staff to compile the costs.

Prior to receiving your audit information, you had informed our office of the discrepancies with your grants and had submitted the appropriate information to correct the duplication of costs found in your audit. Based on our review, it appears you have corrected the audit findings and therefore we consider this issue to be resolved. If in the future, you decide to change your procedure please provide us with a copy for our review.

Sincerely,

Tyler Steen

Tyler Steen
Recovery and Mitigation Manager
South Dakota Office of Emergency Management

cc: Leah Ries, DPS

STATE OF SOUTH DAKOTA
DEPARTMENT OF LEGISLATIVE AUDIT

427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605)773-3595

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

Date: October 26, 2018

To: SD Department of Public Safety
State Board of Internal Control

Re: Audit Report on – East River Electric Power Cooperative, Inc.
As of and for the year ended December 31, 2017
By: Eide Bailly, LLP, CPAs

We have accepted the final report on the audit of the above-named entity conducted under the requirements of OMB Uniform Guidance.

OMB Uniform Guidance requires the State of South Dakota, as a direct recipient of federal assistance who provides federal awards to a subrecipient, to:

1. Ensure that subrecipients expending $750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Uniform Guidance for that fiscal year.
2. Ensure that the subrecipient takes timely and appropriate corrective action when the audit report discloses instances of noncompliance with federal laws and regulations.
3. Consider whether this subrecipient audit necessitates adjustment of your program records.

The accompanying audit report is submitted to you to help fulfill these requirements.

The report does identify an audit finding pertaining to federal award programs administered by your agency/department that is required to be reported in accordance with OMB Uniform Guidance, §200.516(a). See page 9 of the federal awards report. Accordingly, you are required to issue a management decision on the audit finding within six months after receipt of this audit report (OMB Uniform Guidance §200.331(d)(3)).

Please contact us if you have any questions.

Sincerely,

Martin L. Guindon, CPA
Auditor General

MLG:sld

Enclosure

Financial Statements
December 31, 2017 and 2016

East River Electric Power Cooperative, Inc.

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
Paul Voigt	Director	Bon Homme Yankton Electric
Duane Wolbrink	Director	Central Electric
Ron Samuelson	Director	Charles Mix Electric
Verdon Lamb	Director	Codington-Clark Electric
David Allen	Director	Dakota Energy
Gary Bachman	Director	FEM Electric
Alan Vedvei	Director	Kingsbury Electric
Kermit Pearson	Director	Lake Region Electric
Galen Grant	Director	Lyon-Lincoln Electric
Mark Sumption	Director	Northern Electric
Ken Gillaspie	Director	Oahe Electric
Alan Hinderman	Director	Renville-Sibley Cooperative
Mark Rogen	Director	Sioux Valley Energy
Les Mehlhaff	Director	Southeastern Electric
Don Schurdevin	Director	Union County Electric
Darren Strasser	Director	Whetstone Valley Electric
Ron Jorgenson	Director	South Central Electric
Isabel Trobaugh	Director	City of Elk Point
Tom Boyko	General Manager	East River Electric Power

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, 2017 and 2016, 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, 2017 and 2016, 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.

Report Issued in Accordance with Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2018, 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.

Report on Other Legal and Regulatory Requirements
In accordance with the Rural Utility Service's requirements set forth in 7 CFR Part 1773, we have also issued a report dated March 27, 2018, on our consideration of East River Electric Power Cooperative, Inc.'s compliance with aspects of contractual agreements and regulatory requirements for electric borrowers. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with Rural Utility Service's requirements in considering East River Electric Power Cooperative, Inc.'s compliance with certain regulatory requirements.

Eide Bailly LLP

Sioux Falls, South Dakota
March 27, 2018

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Assets	2017	2016
Electric Plant		
In service	$ 378,874,071	$ 356,630,545
Under construction	44,636,268	41,309,244
Total electric plant	423,510,339	397,939,789
Less accumulated depreciation	110,206,871	106,498,543
Electric plant, net	313,303,468	291,441,246
Other Property and Investments		
Investments in associated companies	122,208,796	116,470,557
Other investments	1,072,146	1,241,931
Other special funds - margin stabilization reserve	2,237,039	974,888
Non-utility property, net	1,664	2,365
Total other property and investments	125,519,645	118,689,741
Current Assets		
Cash and cash equivalents	1,697,363	7,374,295
Accounts receivable	29,565,741	26,711,989
Materials and supplies	11,367,181	10,174,541
Prepayments	382,784	344,141
Total current assets	43,013,069	44,604,966
Deferred Charges	6,619,624	5,854,870
Total assets	$ 488,455,806	$ 460,590,823

See Notes to Financial Statements

	2017	2016
Equities and Liabilities		
Equities		
Memberships	$ 2,500	$ 2,500
Appropriated margins - market rate reserve	4,450,000	4,450,000
Patronage capital	170,670,565	159,071,470
Total equities	175,123,065	163,523,970
Long-Term Debt, Less Current Maturities	240,522,659	217,450,881
Other Noncurrent Liabilities		
Postretirement benefit obligation	1,132,966	1,078,203
Lines of credit	24,000,000	27,000,000
Total other noncurrent liabilities	25,132,966	28,078,203
Current Liabilities		
Current maturities of long-term debt	11,630,000	10,393,000
Accounts payable	27,906,960	34,520,254
Accrued liabilities	4,949,235	4,737,481
Other current liabilities	930,445	888,709
Total current liabilities	45,416,640	50,539,444
Deferred Credits	2,260,476	998,325
Total equities and liabilities	$ 488,455,806	$ 460,590,823

	2017	2016
Operating Revenues		
Electric	$ 256,541,453	$ 231,944,884
Other electric revenue - wheeling	2,182,521	2,334,525
Other electric revenue - regional transmission	17,159,739	17,650,562
Rent from electric property	192,012	198,294
Total operating revenues	276,075,725	252,128,265
Operating Expenses		
Cost of power	228,880,101	208,826,208
Transmission - operations	8,402,005	7,460,580
Transmission - maintenance	2,735,197	2,680,552
Distribution - operations	1,588,636	1,558,062
Distribution - maintenance	1,493,321	1,367,164
General plant maintenance	504,386	627,469
Customer service and sales	1,381,097	1,256,904
Administrative and general	7,104,587	7,245,956
Depreciation and amortization	8,740,918	8,081,101
Interest	9,538,821	9,062,796
Other deductions	78,375	105,130
Total operating expenses	270,447,444	248,271,922
Operating Margin Before Capital Credits	5,628,281	3,856,343
Generation and Transmission and Other Capital Credits	10,452,889	19,525,050
Net Operating Margin	16,081,170	23,381,393
Nonoperating Margin		
Interest income	278,161	285,170
Other	2,709	144,140
Total nonoperating margin	280,870	429,310
Net Margin	$ 16,362,040	$ 23,810,703

See Notes to Financial Statements

	Memberships	Accumulated Other Comprehensive Income	Appropriated Margins Market Rate Reserve	Patronage Capital	Total Equities
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
Net margin	-	-	-	16,362,040	16,362,040
Retirement of capital credits	-	-	-	(4,762,945)	(4,762,945)
Balance, December 31, 2017	$ 2,500	$ -	$ 4,450,000	$ 170,670,565	$ 175,123,065

	2017	2016
Operating Activities		
Net margin	$ 16,362,040	$ 23,810,703
Adjustments to reconcile net margin to net cash from operating activities		
Depreciation and amortization of electric plant	10,345,947	9,447,165
Amortization of deferred charges	965,833	1,075,283
Generation and transmission and other capital credits		
Non-cash allocations	(10,452,889)	(19,525,050)
Cash received from associated companies	4,437,729	653,058
Change in margin stabilization reserve	1,262,151	(3,491,351)
Change in assets and liabilities (Note 15)	(10,229,610)	12,535,532
Net Cash from Operating Activities	12,691,201	24,505,340
Investing Activities		
Electric and other plant additions and replacements, net	(32,397,623)	(35,068,809)
Load management additions	(508,258)	(412,689)
Payments received on member loans	381,036	270,784
Advances on member loans	(104,115)	(9,600)
Decrease in other investments	169,785	238,841
Change in materials and supplies	(1,192,640)	(801,364)
(Increase) decrease in other special funds	(1,262,151)	3,491,351
Net Cash used for Investing Activities	(34,913,966)	(32,291,486)
Financing Activities		
Advances on long-term debt	33,800,000	35,107,000
Principal payments on long-term debt	(9,491,222)	(7,607,971)
Net change in lines of credit	(3,000,000)	(11,974,148)
Patronage capital retirements	(4,762,945)	(1,050,000)
Net Cash from Financing Activities	16,545,833	14,474,881
Net Change in Cash and Cash Equivalents	(5,676,932)	6,688,735
Cash and Cash Equivalents, Beginning of Year	7,374,295	685,560
Cash and Cash Equivalents, End of Year	$ 1,697,363	$ 7,374,295
Supplementary Disclosure of Cash Flow Information		
Cash payments for interest	$ 9,389,723	$ 7,777,613
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Construction in progress purchases included in accounts payable	$ 1,089,580	$ 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 composite depreciation methodology for each distribution and transmission plant account. The rates are determined based on management's estimate of the average useful life of the assets along with future cost of removal and salvage factor estimates based on periodic depreciation studies. General plant assets are depreciated on the unit basis based on management's best estimate of the useful life of the assets and also include estimates for salvage and cost of removal, if applicable. Amortization of leased plant is included in depreciation and amortization 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, 2017 and 2016, 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, 2017 and 2016. In addition, there is no valuation allowance on the notes receivable as of December 31, 2017 and 2016.

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, cash equivalents, accounts receivable, 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, 2017 and 2016.

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, 2017 and 2016. 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, 2017 and 2016.

Subsequent Events

The Cooperative has evaluated subsequent events through March 27, 2018, the date which the financial statements were available to be issued.

Note 2 - Electric Plant and Depreciation

	Depreciation Rates	2017	2016
Intangible plant	1.31 - 6.67%	$ 4,110,206	$ 4,190,086
Transmission plant	1.67 - 5.84%	245,239,292	232,645,632
Transmission plant under capital lease	1.67 - 5.39%	6,352,051	6,352,051
Distribution plant	1.90 - 2.70%	77,282,677	71,981,312
Distribution plant under capital lease	1.90 - 2.70%	434,615	430,435
General plant	2.40 - 20.00%	45,455,230	41,031,029
Total electric plant in service		378,874,071	356,630,545
Construction work in progress		44,636,268	41,309,244
Total electric plant		$ 423,510,339	$ 397,939,789

Note 3 - Investments in Associated Companies

	2017	2016
Patronage capital credits		
Basin Electric Power Cooperative	$ 112,962,683	$ 107,087,189
National Rural Utilities Cooperative Finance Corporation	893,664	855,333
Other	215,249	204,379
	114,071,596	108,146,901
National Rural Utilities Cooperative Finance Corporation		
Subscription capital term certificates; matures 2075-2090; interest rate 5%	1,969,542	1,969,542
Member capital certificates; matures 2044; interest rate 5%; callable 2024	2,000,000	2,000,000
Loan capital term certificates; matures 2018-2039; 0% to 4.80%	662,003	767,665
	4,631,545	4,737,207
Federated Rural Electric Insurance		
Corporate stock and patronage	673,149	642,197
CoBank, stock and patronage	1,802,240	1,634,607
Loans to members		
5% interest loans, due in monthly installments over 5 - 7 years, payment guaranteed by member systems	419,874	577,429
0% value added agricultural loans to member systems, repaid as patronage capital is retired	570,934	690,300
	990,808	1,267,729
Other	39,458	41,916
Total investments in associated companies	$ 122,208,796	$ 116,470,557

Note 4 - Other Investments

	2017	2016
Investment in REED, Inc. (at cost)	$ 867,100	$ 867,100
Economic development notes receivable, 0% interest, mature 2018-2019	82,208	259,233
Other investments	122,838	115,598
Total other investments	$ 1,072,146	$ 1,241,931

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

	2017	2016
Cash on hand and in accounts with financial institutions	$ 2,959,514	$ 8,349,183
Member notes - Basin	974,888	-
	3,934,402	8,349,183
Restricted funds - margin stabilization	2,237,039	974,888
Total cash and cash equivalents	$ 1,697,363	$ 7,374,295

Note 6 - Deferred Charges

	2017	2016
Load management receivers, net of accumulated amortization (2017 - $13,318,541; 2016 - $12,885,286)	$ 1,945,425	$ 1,870,422
Debt conversion costs	8,574	17,149
Prepayment of pension costs (Note 11)	2,751,018	3,275,021
Work in progress - job orders	1,598,269	337,405
Transportation clearing	316,338	354,873
Total deferred charges	$ 6,619,624	$ 5,854,870

The costs of load management receivers are capitalized and amortized over 10 years. Amortization of $433,255 and $532,769 is included in cost of power for the years ended December 31, 2017 and 2016, 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 $8,575 and $18,510 is included in interest expense for the years ended December 31, 2017 and 2016, respectively.

Work in progress – job orders consists of the Cooperative's accumulated costs for projects in progress that will be closed out upon the project's completion and will be billed to the customer.

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

	Load Management Receivers	Debt Conversion Costs	NRECA Pension Prepayment	Total
2018	$ 431,433	$ 8,574	$ 524,003	$ 964,010
2019	382,907	-	524,003	906,910
2020	320,151	-	524,003	844,154
2021	255,514	-	524,003	779,517
2022	245,381	-	524,003	769,384

Note 7 - Patronage Capital

	2017	2016
Assignable	$ 16,362,040	$ 23,810,703
Assigned to date	214,823,480	191,012,777
Total	231,185,520	214,823,480
Retired to date	60,514,955	55,752,010
Balance	$ 170,670,565	$ 159,071,470

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 2017 and 2016, the Board of Directors authorized appropriations of $-0- to the reserve for market rates.

Note 8 - Long-Term Debt

	2017	2016
Federal Financing Bank (FFB)		
5.715% notes due in quarterly installments through 2018	$ 260,770	$ 528,532
3.148 - 4.521% notes due in quarterly installments through 2019	1,311,462	1,859,489
4.264% notes due in quarterly installments through 2026	281,455	305,719
4.368 - 4.776% notes due in quarterly installments through 2035	8,795,896	9,118,285
3.841 - 4.484% notes due in quarterly installments through 2039	3,408,907	3,507,560
2.225 - 4.197% notes due in quarterly installments through 2042	56,845,120	58,336,353
1.864 - 2.930% notes due in quarterly installments through 2046	59,006,024	60,312,556
1.933 - 2.762% notes due in quarterly installments through 2050	53,729,977	20,452,755
	183,639,611	154,421,249
National Rural Utilities Cooperative Finance Corporation (CFC)		
7.15% note due in quarterly installments through 2018	221,627	428,091
6.00% note due in quarterly installments through 2019	161,075	245,855
5.20 - 6.00% notes due in yearly installments through 2020	3,841,317	5,037,604
5.55% note due in quarterly installments through 2024	245,098	275,605
6.05% notes due in quarterly installments through 2026	543,125	590,655
5.55% note due in quarterly installments through 2027	54,178	58,130
3.50% note due in quarterly installments through 2039	393,442	393,442
Variable rate (2.75% at December 31, 2017) note due in quarterly installments through 2039	2,401,863	2,459,711
	7,861,725	9,489,093
CoBank mortgage notes		
3.60% note due in quarterly installments through 2020	1,200,000	1,600,000
2.83% note due in quarterly installments through 2023	3,074,490	3,581,191
3.25% note due in monthly installments through 2026	3,252,870	3,662,108
3.41% note due in monthly installments through 2037	14,899,240	16,045,109
6.16 - 6.17% notes due in monthly installments through 2041	13,355,680	13,605,120
6.00 - 6.38% notes due in monthly installments through 2042	24,779,973	25,193,739
	60,562,253	63,687,267
RUS Economic Development notes		
0% notes due in monthly installments through 2019	89,070	246,272
Total debt	252,152,659	227,843,881
Less current maturities	(11,630,000)	(10,393,000)
Long-term debt, less current maturities	$ 240,522,659	$ 217,450,881

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, 2017.

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

	FFB	CFC	CoBank	RUS Economic Development	Total
2018	$ 6,611,000	$ 1,710,000	$ 3,227,000	$ 82,000	$ 11,630,000
2019	5,242,000	1,452,000	3,334,000	7,000	10,035,000
2020	4,783,000	1,533,000	3,445,000	-	9,761,000
2021	4,887,000	176,000	3,164,000	-	8,227,000
2022	5,070,000	186,000	3,287,000	-	8,543,000

All loan funds advanced by FFB 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. There were unadvanced long-term loan funds of $77,359,000 available to the Cooperative from FFB at December 31, 2017. There were no unadvanced long-term loan funds available to the Cooperative from CFC or CoBank at December 31, 2017.

Note 9 - Lines of Credit

The Cooperative has a line of credit agreement with the National Rural Utilities Cooperative Finance Corporation (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, 2017 and 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 $4,000,000 and $7,000,000 at December 31, 2017 and 2016, respectively.

The variable interest rates on the above lines of credit ranged from approximately 2.93% to 3.57% at December 31, 2017.

Note 10 - Deferred Credits

	2017	2016
Margin stabilization deferral	$ 2,237,039	$ 974,888
Other deferred credits	23,437	23,437
Total deferred credits	$ 2,260,476	$ 998,325

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, 2017, electric revenue was decreased by a net amount of $1,262,151 resulting in an increase to the margin stabilization reserve of this amount. 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.

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 2017 and 2016 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 $1,984,000 in 2017 and $1,852,000 in 2016.

In March 2013, the Cooperative made an accelerated funding payment of $5,240,034 under NRECA's 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, 2017 and 2016 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. Effective January 1, 2017, the Cooperative changed the base contribution from 1.0% to 0.5%. The Cooperative also provided matching 2.0% of each employee's base wages for the year ending December 31, 2017 and 2016, respectively. The Cooperative's total contributions were approximately $285,000 and $331,000 in 2017 and 2016, 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 deferred the cost of the transition obligation and recovered the costs through the rates over a ten year period. As of December 31, 2017 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:

	2017	2016
Accumulated postretirement benefit obligation	$ 1,132,966	$ 1,078,203
Fair value of plan assets	-	-
Net liability	$ 1,132,966	$ 1,078,203

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

	2017	2016
Balance at beginning of year	$ 1,078,203	$ 1,068,702
Service cost	106,872	68,961
Interest cost	43,128	42,748
Benefits paid	(95,237)	(102,208)
Balance at end of year	$ 1,132,966	$ 1,078,203

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

	2017	2016
Service and interest cost recognized in margins	$ 150,000	$ 111,709
Change in net loss recognized in other comprehensive income	-	38,291
Net periodic benefit cost and other comprehensive margins	$ 150,000	$ 150,000

Assumptions used to determine the net postretirement benefit cost are as follows:

	2017	2016
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. For measurement purposes, a 6.0% annual rate of increase in health care rates was assumed. For illustrative purposes, a one percent increase in the health care cost trend would result in an increase in the accumulated post-retirement benefit obligation of approximately $121,600.

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

2018	$	140,423
2019		191,097
2020		196,905
2021		242,070
2022		218,154
2023-2027		710,253

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 $1,093,204 and $1,084,596 as of December 31, 2017 and 2016, 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, 2017 total approximately $5,920,000.

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, 2017 and 2016.

	2017	2016
Purchase of wholesale power	$ 206,983,491	$ 183,829,230
Accounts payable for purchased power at December 31	$ 24,450,481	$ 26,099,966
Temporary cash investments at December 31	$ 974,888	$ -
Patronage capital balance at December 31	$ 112,962,683	$ 107,087,189
Patronage capital credit allocations - current year	$ 9,614,040	$ 18,710,703
Patronage capital retirements - current year	$ 3,738,546	$ -

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, 2017 and 2016.

	2017	2016
Electric revenue (gross of margin stabilization activity)	$ 257,803,605	$ 228,453,533
Accounts receivable	$ 25,932,328	$ 23,244,599
Member loans (included in investments in associated companies)	$ 990,808	$ 1,267,729
Patronage capital allocated - current year	$ 16,362,040	$ 23,810,703
Patronage capital retirements - current year	$ 4,762,945	$ 1,050,000

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, 2017 and 2016:

	2017	2016
(Increase) decrease in current and other assets		
Accounts receivable	$ (2,853,752)	$ (2,463,038)
Prepayments	(38,643)	7,331
Other deferred charges	(1,222,329)	(65,784)
Increase (decrease) in current and other liabilities		
Accounts payable	(6,423,139)	13,612,276
Accrued liabilities	211,754	1,349,111
Other current liabilities	41,736	47,844
Postretirement benefit obligation	54,763	47,792
	$ (10,229,610)	$ 12,535,532

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, 2017, 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 27, 2018.

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.

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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 27, 2018.

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 27, 2018

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CPAs & BUSINESS ADVISORS

Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements

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

We have audited, 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, the financial statements of East River Electric Power Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of December 31, 2017, 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 27, 2018. In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2018, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, *Depreciation Rates and Procedures*);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

Detailed Schedule Of Deferred Debits And Deferred Credits

	2017	2016
Load management receivers	$ 1,945,425	$ 1,870,422
Debt conversion costs	8,574	17,149
Prepayment of pension costs	2,751,018	3,275,021
Work in progress - job orders	1,598,269	337,405
Transportation clearing	316,338	354,873
Total deferred debits	$ 6,619,624	$ 5,854,870

	2017	2016
Margin stabilization deferral	$ 2,237,039	$ 974,888
Other deferred credits	23,437	23,437
Total deferred credits	$ 2,260,476	$ 998,325

This report is intended solely for the information and use of the board of directors, management, and the RUS 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 27, 2018

Federal Awards Reports in Accordance with the Uniform Guidance
December 31, 2017

East River Electric Power Cooperative, Inc.

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CPAs & BUSINESS ADVISORS

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 and Management of
East River Electric Power Cooperative, Inc.
Madison, South Dakota

We have audited, 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, the financial statements of East River Electric Power Cooperative, Inc., which comprise the balance sheets as of December 31, 2017, 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 27, 2018.

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 East River Electric Power Cooperative, Inc.'s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2017-A to be a material weakness.

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.

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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*.

East River Electric Power Cooperative, Inc.'s Response to Findings
East River Electric Power Cooperative, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. East River Electric Power Cooperative, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Sioux Falls, South Dakota
March 27, 2018

Independent Auditor's Report on Compliance for Its Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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

Report on Compliance for Its Major Federal Program

We have audited East River Electric Power Cooperative, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on East River Electric Power Cooperative, Inc.'s major federal program for the year ended December 31, 2017. East River Electric Power Cooperative, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on the compliance for East River Electric Power Cooperative, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about East River Electric Power Cooperative, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of East River Electric Power Cooperative, Inc.'s compliance.

Opinion on Its Major Federal Program
In our opinion, East River Electric Power Cooperative, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Other Matters
The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2017-001. Our opinion on the federal program is not modified with respect to this matter.

East River Electric Power Cooperative, Inc.'s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. East River Electric Power Cooperative, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of East River Electric Power Cooperative, Inc. is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered East River Electric Power Cooperative, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on its federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the East River Electric Power Cooperative, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance 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 and therefore, material weaknesses and significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2017-001 that we consider to be a material weakness.

East River Electric Power Cooperative, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. East River Electric Power Cooperative, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
We have audited the financial statements of East River Electric Power Cooperative, Inc. as of and for the year ended December 31, 2017, and have issued our report thereon dated March 27, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Sioux Falls, South Dakota
September 28, 2018

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
Department of Homeland Security:			
Passed through South Dakota			
Office of Emergency Management			
Disaster Grants - Public Assistance	97.036	DSR4298 000-UPMFY-00	$ 2,603,139

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of East River Electric Power Cooperative, Inc. under programs of the federal government for the year end December 31, 2017. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule is presents only a selected portion of the operations of the Cooperative, it is not intended to and does not present the financial position, changes in patronage capital or other equities, or cash flows of the Cooperative.

Note 2 - Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E – Cost Principles of the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Cooperative received federal awards indirectly through a pass-through entity. The Cooperative has no subrecipients.

The Cooperative has not elected to use the 10% de minimis cost rate.

Section I – Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516	Yes

Identification of major programs:

Name of Federal Program or Cluster	CFDA number
Disaster Grants - Public Assistance	97.036

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2017-A Preparation of Schedule of Expenditures of Federal Awards
Material Weakness

Criteria: The Cooperative is required to have effective internal controls that are designed and in place to ensure all federal awards are properly reported in the schedule of expenditures of federal awards.

Condition: The Cooperative has elected not to have an internal control system designed to provide for the preparation of the schedule being audited. As auditors, we were requested to draft the schedule and accompanying notes to the schedule.

Cause: The disaster award is not recurring in nature.

Effect: This control deficiency could result in a misstatement to the schedule that would not be prevented or detected.

Recommendation: This circumstance is not unusual in an entity of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials: Management is in agreement.

Section III – Federal Award Findings and Questioned Costs

Finding 2017-001 Department of Homeland Security and South Dakota Office of Emergency Management
CFDA # 97.036, DSR4298 000-UPMFY-00, December 2016
Disaster Grants – Public Assistance

Allowable Costs
Material Weakness in Internal Control over Compliance and Compliance

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. Further 44 CFR 13.20(b) states that the financial management systems of grantees must meet the following standards:

1) Accurate, current, and complete disclosure of the financial results
2) Maintain records which adequately identify the source and application of funds
3) Effective internal control and accountability must be maintained for all grant cash, real and personal property and other assets. Grantees must adequately safeguard all such property and assure that it is used solely for authorized purposes.

Condition: In our sample of expenditures selected for testing, we noted the following items:

a) In one instance the wrong pay rate was used.
b) In four instances, the time entry was approved, however was not approved by a direct supervisor.
c) Mileage for equipment is allocated based on time entry. In one instance the time entry was approved, however was not approved by a direct supervisor.
d) Material costs submitted for reimbursement were duplicated as they were included in materials used from stock for repairs and included in the submission again as separately listed vendor invoices.

Cause: Lack of compliance with designed internal controls over disbursements allows for payment of expenditures that were not properly approved or at the correct amount. Project costs were compiled by FEMA representative. Management of the Cooperative reviewed the project costs but did not detect the discrepancies. The payroll deviation was the result of a transposition.

Effect: Without adequate support, demonstrating that the costs comply with laws, regulations, and other compliance requirements is difficult. Inadequate controls over tracking costs could result in inaccurate financial reporting and improper reimbursement requests under the reimbursement-based subgrant.

Questioned Costs: Questioned costs were $59,562 and included: $59 of payroll at the wrong rate, $15,243 of material costs that were not properly approved and submitted in error, and an additional $44,260 of duplicated material costs that were detected in testing that was not part of the sample of expenditures.

Context: A nonstatistical sample of 10 payroll and overhead disbursements were tested, which accounted for $46,201 out of $333,430 of federal program expenditures. A nonstatistical sample of 2 equipment allocations were tested, which accounted for $7,541 out of $62,908 of federal program expenditures. A nonstatistical sample of 36 material allocations were tested, which accounted for $543,581 out of $1,301,193 of federal program expenditures.

Repeat Finding from Prior Years: No

Recommendation: We recommend the approval of amounts charged to the grant be performed by the a direct supervisor. In addition, we suggest reviewing procedures surrounding costs submitted for reimbursement for clerical accuracy.

View of Responsible Officials: Management is in agreement.

Management's Response to Auditor's Findings:

Corrective Action Plan

December 31, 2017

Prepared by Management of

East River Electric Power Cooperative, Inc.

Financial Statement Finding

Finding 2017-A

Finding Summary:	East River Electric Power Cooperative, Inc. (Cooperative) has elected not to have an internal control system designed to provide for the preparation of the schedule of expenditures.
Responsible Individuals:	Barbara Strom, Controller
Corrective Action Plan:	Due to the unique and non-recurring nature of the disaster award, the Cooperative has requested that our auditors, Eide Bailly, LLP, prepare the Schedule of Expenditure of Federal Awards.
Anticipated Completion Date:	Ongoing

Federal Financial Award Finding

Finding 2017-001

Federal Agency Name:	Department of Homeland Security and South Dakota Office of Emergency Management
Program Name:	Disaster Grants- Public Assistance
CFDA #:	97.036
Finding Summary:	The Cooperative did not maintain effective internal control over disbursements for payment of expenditures that were not properly approved or at the correct amount.
Responsible Individuals:	Barbara Strom, Controller
Corrective Action Plan:	The Cooperative has implemented new internal controls that will require the approval of the direct supervisor or Controller on all time entry before it can be processed for payment. In the future, the Cooperative will be using the new FEMA Grants Portal to submit projects costs and will not have the FEMA representative compile the costs. The use of the portal will ensure the proper submission of allowed costs. Notification of the $59,562 of questioned costs has been forwarded to the SD Office of Emergency Management and will be netted against the amount that is still owed to the Cooperative.
Anticipated Completion Date:	Ongoing