BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
SUMTER, SOUTH CAROLINA

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016 AND 2015 AND INDEPENDENT AUDITOR'S REPORT

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY

CONTENTS

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March 14, 2017

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Black River Electric Cooperative, Inc.

We have audited the accompanying consolidated financial statements of **Black River Electric Cooperative, Inc. and Subsidiary** (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2016 and 2015 and the related consolidated statements of operations, changes in members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Black River Electric Cooperative, Inc. and Subsidiary as of December 31, 2016 and 2015 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McNair, McLemore, Middlebrooks & Co., LLC
McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31

ASSETS

	2016	2015
Utility Plant		
Electric Plant in Service - At Cost	**$ 126,690,687**	$ 123,222,008
Construction Work in Progress	**22,820**	159,912
	126,713,507	123,381,920
Accumulated Depreciation	**(56,134,499)**	(52,984,635)
	70,579,008	70,397,285
Other Property and Investments		
Investments in Associated Organizations	**4,995,844**	4,729,907
Nonutility Property	**2,483,957**	2,483,957
Other Investments	**1,480,585**	1,475,418
	8,960,386	8,689,282
Current Assets		
Cash and Cash Equivalents	**7,428,047**	7,585,361
Accounts Receivable (Net of Accumulated Provision for Uncollectible Accounts of $322,232 in 2016 and $253,702 in 2015)	**5,228,439**	4,185,319
Materials and Supplies	**506,421**	419,635
Other	**5,101,362**	5,130,850
	18,264,269	17,321,165
Total Assets	**$ 97,803,663**	$ 96,407,732

See accompanying notes which are an integral part of these financial statements.

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31

MEMBERS' EQUITY AND LIABILITIES

	2016	2015
Members' Equity		
Membership Fees	**$ 131,335**	$ 130,675
Patronage Capital	**67,800,377**	65,817,537
Other Equities	**5,176,888**	4,732,148
	73,108,600	70,680,360
Long-Term Debt	**7,750,000**	9,550,000
Other Long-Term Liabilities - Deferred Compensation	**698,116**	739,823
Current Liabilities		
Long-Term Debt - Current Portion	**1,800,000**	1,800,000
Other Long-Term Liabilities		
Deferred Compensation - Current Portion	**146,224**	139,812
Accounts Payable	**5,303,085**	4,303,364
Consumer Deposits	**2,896,362**	2,855,981
Accrued and Withheld Taxes	**654,729**	611,146
Other	**154,332**	303,317
	10,954,732	10,013,620
Deferred Credits	**5,292,215**	5,423,929
Total Members' Equity and Liabilities	**$ 97,803,663**	$ 96,407,732

See accompanying notes which are an integral part of these financial statements.

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31

		2016		2015
Operating Revenues	$	77,322,144	$	74,998,861
Operating Expenses				
Cost of Power		54,862,381		54,480,289
Distribution Operations		3,571,480		3,173,212
Distribution Maintenance		2,730,323		2,746,824
Consumer Accounts		1,639,694		1,794,391
Consumer Service and Information		332,263		126,279
Administrative and General		3,643,275		3,052,199
Depreciation		4,155,379		4,002,239
Taxes		549,805		557,832
		71,484,600		69,933,265
Operating Margins Before Interest Expense		5,837,544		5,065,596
Interest Expense		300,673		596,104
Operating Margins After Interest Expense		5,536,871		4,469,492
Nonoperating Margins		131,426		243,996
Generation and Transmission Cooperative Capital Credits		147,764		123,051
Other Capital Credits and Patronage Capital Allocations		230,593		219,613
Net Margins	$	6,046,654	$	5,056,152

See accompanying notes which are an integral part of these financial statements.

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Total Members' Equity	Membership Fees	Patronage Capital	Other Equities
Balance, December 31, 2014	$ 69,246,123	$ 129,745	$ 64,607,445	$ 4,508,933
Net Margins	5,056,152	-	4,981,073	75,079
Retirement of Patronage Capital	(3,658,995)	-	(3,658,995)	-
Membership Fees	930	930	-	-
Other	36,150	-	(111,986)	148,136
Balance, December 31, 2015	70,680,360	130,675	65,817,537	4,732,148
Net Margins	6,046,654	-	5,926,140	120,514
Retirement of Patronage Capital	(3,784,734)	-	(3,784,734)	-
Membership Fees	660	660	-	-
Other	165,660	-	(158,566)	324,226
Balance, December 31, 2016	**$ 73,108,600**	**$ 131,335**	**$ 67,800,377**	**$ 5,176,888**

See accompanying notes which are an integral part of these financial statements.

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2016	2015
Cash Flows from Operating Activities		
Net Margins	**$ 6,046,654**	$ 5,056,152
Adjustments to Reconcile Net Margins		
to Net Cash Provided from Operating Activities		
Depreciation	**4,472,408**	4,307,318
Patronage Capital from Associated Organizations	**(437,661)**	(379,949)
Deferred Revenue	**-**	4,000,000
Change In		
Accounts Receivable	**(1,043,120)**	1,476,231
Other Current Assets	**29,488**	(15,478)
Deferred Debits	**-**	112,520
Other Long-Term Liabilities-Deferred Compensation	**(35,295)**	(199,451)
Accounts Payable	**999,721**	(1,108,108)
Consumer Deposits	**40,381**	59,561
Other Current Liabilities	**(105,402)**	21,764
Deferred Credit	**(131,714)**	(2,998)
	9,835,460	13,327,562
Cash Flows from Investing Activities		
Extension and Replacement of Plant	**(4,654,132)**	(5,232,170)
Return of Equity from Associated Organizations	**171,723**	181,650
Materials and Supplies	**(86,786)**	(11,696)
Other Investments	**(5,165)**	(53,258)
	(4,574,360)	(5,115,474)
Cash Flows from Financing Activities		
Advances from Long-Term Debt	**-**	3,000,000
Principal Repayment of Long-Term Debt	**(1,800,000)**	(7,800,000)
Membership Fees	**660**	930
Retirement of Patronage Capital	**(3,784,734)**	(3,658,995)
Other Equities	**165,660**	36,150
	(5,418,414)	(8,421,915)
Net Decrease in Cash and Cash Equivalents	**(157,314)**	(209,827)
Cash and Cash Equivalents - Beginning	**7,585,361**	7,795,188
Cash and Cash Equivalents - Ending	**$ 7,428,047**	$ 7,585,361

See accompanying notes which are an integral part of these financial statements.

(1) Summary of Significant Accounting Policies

Accounting policies of Black River Electric Cooperative, Inc. (BRECI) reflect practices appropriate to the electric utility industry. The records of the Cooperative are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. Accounting policies of the subsidiary reflect practices appropriate to the industrial real estate development industry. The accounting policies conform to generally accepted accounting principles of the United States of America (U.S. GAAP). The following describes the more significant of those policies.

Consolidation

The consolidated financial statements include the accounts and results of operations of BRECI and its wholly-owned subsidiary, Black River Economic Development Corporation (BREDC), collectively referred to as the Cooperative. Intercompany transactions have been eliminated in consolidation.

Nature of Operations

The Cooperative is a member-owned, not-for-profit corporation whose purpose is to provide electric service to its members. As a cooperative, all monies in excess of cost of providing electric service are capital, at the moment of receipt, and are credited to each member's capital account.

Regulated Operations

The Cooperative, in its rate-making capacity, has the ability to account for certain revenue and expense deferrals in accordance with *Accounting Standards Codification (ASC) 980.*

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Long-Lived Assets

The Cooperative evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is reevaluated when circumstances or events change.

(1) Summary of Significant Accounting Policies (Continued)

Long-Lived Assets (Continued)

U.S. GAAP requires the present value of the ultimate cost for an asset's future retirement be recorded in the period in which the liability is incurred. The cost should be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. The Cooperative has no legal retirement obligations related to its distribution facilities; therefore, a liability for the removal of these assets will not be recorded. Management believes the actual cost of removal, even though not a legal obligation, will be recovered through rates over the life of the distribution assets.

Utility Plant

Utility plant is capitalized at cost less related contributions in aid of construction. In general, utility plant is capitalized at the time it becomes part of an operating unit and has been energized. However, certain items of plant referred to as special equipment items (meters, transformers, oil circuit reclosers, etc.) are capitalized at the time of purchase along with related estimated cost of installation.

Depreciation and Maintenance

Depreciation of the capitalized cost is provided using composite straight-line rates. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its capitalized cost and its cost of removal less salvage are charged to accumulated depreciation.

Provision has been made for depreciation of distribution plant at a straight-line composite rate of 3.4 percent per annum with the exception of automated meters. Automated meters are depreciated based on the manufacturer's useful life which equates to 6.67 percent per annum.

Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 2.5 to 20.0 percent per annum.

Investments in Associated Organizations

Investments in associated organizations primarily include investments in other cooperative organizations. Investments in other cooperative organizations represent capital investments made primarily to obtain an economical source of supply, financing, product or service. Investments in other cooperative organizations are carried at cost plus allocated equities in accordance with guidance issued in *ASC 905-325-30*. Capital credit allocations from associated organizations are included on the consolidated statements of operations as "generation and transmission cooperative capital credits" and "other capital credits and patronage capital allocations."

Accounts Receivable and Credit Policies

Accounts receivable are stated at the amount billed to the consumer. Once an electric consumer's service is shut off and the account is approximately 60 days past due, the Cooperative writes off the associated accounts receivable. An allowance is made for doubtful accounts based on experience and other circumstances which may affect the ability of consumers to meet their obligations. Accounts considered uncollectible are charged against the allowance. Receivables are reported on the consolidated balance sheets net of such accumulated allowance.

(1) Summary of Significant Accounting Policies (Continued)

Cash Equivalents

Cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Materials and Supplies

Materials and supplies are generally used for construction and for operation and maintenance work, and are not for resale. Cost is determined by the moving average method of inventory valuation. Materials and supplies are charged to construction or operations at moving average cost when used.

Equities and Margins

The Cooperative is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons on the basis of individual consumption of electric energy. Under provisions of the long-term debt agreement, until the total equities and margins equal or exceed 40 percent of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited. The Cooperative's equities were 74.75 and 73.31 percent of total assets as of December 31, 2016 and 2015, respectively.

Patronage Capital

Patronage capital represents the Cooperative's accumulated retained excess of revenues over expenses that has been allocated annually to its members. Distributions to members are made at the discretion of the board of trustees in accordance with the bylaws and rotation cycle established by the board of trustees and are subject to the restrictions contained in the Cooperative's long-term debt agreement. Patronage capital returned to members prior to the established rotation cycle is adjusted for present value. The present value adjustment is included in patronage capital and will remain assigned to members until dissolution or liquidation of the Cooperative. In the event of dissolution or liquidation, the amounts will be returned on a pro rata basis along with any remaining patronage capital. The present value adjustment included in assigned patronage capital totaled $15,905,777 and $14,091,576 for the years ended December 31, 2016 and 2015, respectively.

Operating Revenues

Electric revenues include patronage capital and are billed monthly to consumers on a cycle basis. Electric rates for the Cooperative include provisions to permit the board of trustees to adjust billings for fluctuations in fuel costs, purchased power costs and certain other costs. Electricity which had been used by the members of the Cooperative but had not been billed to the members was not recorded. The components of this unbilled revenue can fluctuate based on factors including rate structure, weather, period of use, cost of purchased power and other factors. As a result, the overall estimate of unbilled revenues could be significantly affected, which could have a material impact on the Cooperative's results of operations if recorded in the consolidated financial statements. Unbilled electric revenue totaled approximately $3,321,420 and $2,906,000 as of December 31, 2016 and 2015, respectively.

(1) Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

The Cooperative has opted to early adopt certain provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. To simplify reporting, fair value disclosures for financial instruments reported at amortized cost are no longer provided in the notes to these consolidated financial statements.

In May 2014, FASB released ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 is designed to create greater comparability for financial statement users across industries and jurisdictions through a more principles-based approach than companies in the United States are used to following. The standard would require companies to recognize revenue through a five-step process: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction type, (4) allocate the transaction price to the separate performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The standard, as deferred one year by ASU 2015-14, will be effective for annual reporting periods beginning after December 15, 2018 and interim reporting periods within annual reporting periods beginning after December 15, 2019. The standard will require the Cooperative to accrue unbilled electric revenue using either a full retrospective or retrospective with cumulative effect transition method and will require a change in accounting principle in the period adopted. The Cooperative has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 on the consolidated financial statements.

Presentation of Sales Tax

Certain portions of the Cooperative’s sales are subject to sales tax imposed by jurisdictions. When required, the Cooperative collects sales tax from customers and remits it to the applicable jurisdiction. The Cooperative’s accounting policy is to exclude the tax collected and remitted from revenues and cost of sales.

Cost of Purchased Power

Cost of power is expensed as consumed.

Generation and Transmission Cooperative Capital Credits

Generation and transmission cooperative capital credits represent the annual capital furnished to Central Electric Power Cooperative, Inc. through the payment of power bills. The capital is recorded in the year provided, even though notification of the capital allocation is not received until later.

Income Taxes

The Cooperative is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code which provides, in part, that the Cooperative derive at least 85 percent of its annual gross income from members to retain the exemption. The Cooperative expects to meet the requirement for the tax year ended December 31, 2016. Accordingly, no provision for income taxes has been made in the consolidated financial statements. The Cooperative’s federal information returns for calendar year 2013 and after are subject to examination by the Internal Revenue Service (IRS).

(1) Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

The wholly-owned subsidiary, BREDC, is a taxable entity, and any taxes resulting from operations are not considered to be significant. BREDC's federal and state tax returns for calendar year 2013 and after are subject to examination by the IRS and the state of South Carolina. In addition, all net operating losses that may be used in future years are still subject to adjustment.

The calculation of tax assets involves various management estimates and assumptions as to the future taxable earnings. A valuation allowance is provided against deferred tax assets to the extent that is more likely than not, based on management's estimate, that they will not be realized. Management does not believe it is more likely than not that the NOL carryforward will be utilized; as a result, a valuation allowance has been recorded.

(2) Utility Plant

Listed below are the major classes of the electric plant as of December 31:

	2016	2015
Electric Plant		
Intangible	**$ 360**	$ 360
Distribution	**114,188,942**	111,637,098
General	**12,501,385**	11,584,550
Electric Plant in Service	**126,690,687**	123,222,008
Construction Work in Progress	**22,820**	159,912
	$ 126,713,507	$ 123,381,920

(3) Investments in Associated Organizations

Investments in associated organizations consist of the following as of December 31:

		2016		2015
National Rural Utilities Cooperative Finance Corporation				
Membership Fee	**$**	**1,000**	$	1,000
Capital Term Certificates		**1,136,725**		1,136,725
Capital Credits		**91,520**		91,520
Central Electric Power Cooperative, Inc.				
Capital Credits		**2,392,353**		2,244,589
Cooperative Electric Energy Utility Supply, Inc.				
Membership Fee		**2,500**		2,500
Capital Credits		**973,722**		932,886
Federated Rural Electric Insurance Exchange				
Capital Credits		**277,470**		244,804
CoBank				
Membership Fee		**1,000**		1,000
Capital Credits		**106,090**		63,349
National Cooperative Services Corporation				
Membership Fee		**100**		100
Cooperative Response Center, Inc.				
Contributed Capital		**10,000**		10,000
Capital Credits		**3,364**		1,434
	$	**4,995,844**	$	4,729,907

(4) Nonutility Property

Nonutility property, totaling $2,483,957 as of December 31, 2016 and 2015, consists of land and improvements for the development of industrial sites to attract new industry into the Cooperative's service area. The nonutility property is accounted for on the cost basis.

(5) Other Investments

Other investments consist of the following as of December 31:

		2016		2015
Notes Receivable	**$**	**313,375**	$	272,914
Investment in Industrial Park		**322,869**		322,869
Deferred Compensation Investments (See Note 9)		**844,341**		879,635
	$	**1,480,585**	$	1,475,418

(5) Other Investments (Continued)

Notes receivable consist of the Cooperative funding energy efficiency loans to the Cooperative's consumers. The consumer loans carry a 5.00 percent interest rate, are payable monthly in no more than 120 installments and cannot exceed $10,000. The current portion is recorded as a component of accounts receivable.

The investment in industrial park is the Cooperative's investment in a joint venture with a government entity to develop an industrial park to foster economic development in the area. The investment is accounted for on the cost basis.

(6) Other Current Assets

Other current assets are primarily composed of a prepayment to Central Electric Power Cooperative, Inc. for electric energy in the amount of $4,733,041 and $4,741,990 as of December 31, 2016 and 2015, respectively.

(7) Other Equities

	2016	2015
Operating Margins	$ 11,967	$ 11,967
Nonoperating Margins	70,695	70,695
Undistributed Loss in Subsidiary	(1,179,060)	(1,151,810)
Capital Credits Earned - Central Electric Power Cooperative, Inc.	2,554,962	2,407,198
Retired Capital Credits - Gain	1,408,894	1,243,235
Donated Capital	2,309,430	2,150,863
	$ 5,176,888	$ 4,732,148

(8) Debt

Long-term debt consists of a master loan agreement between the Cooperative and CoBank. The loan is secured by a statutory first lien on all equity allocated to the Cooperative by CoBank. In addition, the loan shall be secured by a first priority lien on all real and personal property of the Cooperative. The loan has 10-year and 7-year maturity periods and is payable on an installment basis. The loan contains certain affirmative and negative covenants, including maintenance of certain financial ratios as defined in the agreement. At December 31, 2016 and 2015, the Cooperative was in compliance with the covenants.

Holder of Note	Interest Rate	2016	2015
CoBank	2.67% to 2.87%	$ 9,550,000	$ 11,350,000
Maturities Due Within One Year		(1,800,000)	(1,800,000)
		$ 7,750,000	$ 9,550,000

(8) Debt (Continued)

The Cooperative has $5,000,000 in unadvanced loan funds on commitment from National Rural Utilities Cooperative Finance Corporation (NRUCFC). The availability of the funds is contingent on the Cooperative's compliance with one or more preconditions set forth in the mortgage agreement. In addition, the Cooperative has a $3,000,000 line-of-credit available with NRUCFC with no balance outstanding as of December 31, 2016 and 2015.

The Cooperative had $13,000,000 in unadvanced loan funds on commitment from CoBank at December 31, 2016. The availability of the remaining funds is contingent on the Cooperative's compliance with one or more preconditions set forth in the mortgage agreement.

On December 30, 2015, the Cooperative made an early principal payment to CoBank in the amount of $5,250,000 that extinguished a portion of the Cooperative's outstanding loan with CoBank.

Interest payments, including a prepayment penalty, totaled $305,029 and $610,452 for the years ended December 31, 2016 and 2015, respectively.

Approximate principal maturities of long-term debt for each of the next five years are as follows:

Year	Amount
2017	$ 1,800,000
2018	1,800,000
2019	1,800,000
2020	1,450,000
2021	1,200,000

(9) Retiree Benefits

Pension Plan (Defined Benefit)

Pension benefits for substantially all employees of the Cooperative are provided through participation in the NRECA Retirement Security Plan (RS Plan), a defined benefit plan qualified under Section 401 and tax-exempt under 501(a) of the Internal Revenue Code. 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 annual contributions to the program represented less than 5 percent of total contributions made to the plan by all participating employers and are equal to the amounts recorded for pension cost. Contributions were $1,176,374 and $1,197,498 for the years ended December 31, 2016 and 2015, respectively.

(9) Retiree Benefits (Continued)

Pension Plan (Defined Benefit) (Continued)

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 greater than 80 percent funded at 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.

Pension Plan (Defined Contribution Plan)

The Cooperative also provides additional employee benefits to substantially all employees through the NRECA sponsored defined contribution Savings Plan (401-k). In this defined contribution plan, the Cooperative's contributory portion of costs of this plan totaled $46,372 and $44,202 for the years ended December 31, 2016 and 2015, respectively.

Deferred Compensation Plans

The Cooperative sponsors a deferred compensation plan. Eligible employees are defined as highly compensated individuals within the definition of IRC Section 414(q). The annual deferral to the deferred compensation plan is calculated in accordance with IRC Section 457, subject to changes under IRC Section 457(b). The obligations, totaling $844,341 and $879,635 as of December 31, 2016 and 2015, respectively, are recorded as other long-term liabilities-deferred compensation and the related assets are reflected as a component of other investments. Plan assets are measured at fair value (See Note 13).

(10) Deferred Credits

Deferred credits consist of the following as of December 31:

	2016	2015
Unearned Rental Income	**$ 12,960**	$ 12,960
Nonutility Property Escrow Payable	**1,026,198**	1,026,198
Unclaimed Capital Credits Settlement	**84,056**	86,678
Regulatory Liability - Deferred Revenue	**4,000,000**	4,000,000
Other	**169,001**	298,093
	$ 5,292,215	$ 5,423,929

The board of trustees, in its rate-making capacity, elected to defer revenues to offset future power cost increases. The deferred revenue will be recognized from January 1, 2017 through December 31, 2020.

(10) Deferred Credits (Continued)

The revenue deferral plan detailed as follows has been applied in accordance with U.S. GAAP for regulated entities.

		2016		2015
Beginning Balance	**$**	**4,000,000**	$	-
Current Year Deferral		**-**		4,000,000
Current Year Recognition		**-**		-
Ending Balance	**$**	**4,000,000**	$	4,000,000

Other deferred credits consist primarily of monies collected by the Cooperative from consumers for construction of new lines built solely for the consumers' benefit. As more people connect with the new lines, the consumer who paid the original construction costs is reimbursed. These amounts were $169,001 and $298,093 as of December 31, 2016 and 2015, respectively.

(11) Commitments

The Cooperative is committed to purchase all electric energy requirements from Central Electric Power Cooperative, Inc., in accordance with the wholesale power contract expiring in 2058. Under the contract, rates paid for electric power are subject to periodic review and adjustment.

Under current law, the Cooperative has the ability to recover these costs from its members; however, any change to existing laws could adversely affect the ability to recover these costs.

(12) Contingencies

The Cooperative has been named as a defendant in a class action lawsuit regarding the retirement of capital credits. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible losses or recovery, the Cooperative believes these unresolved legal actions will not have a material effect on its financial position or results of operations and intends to vigorously defend its position related to the unresolved issues. However, any resolution that differs from management's position could adversely impact the consolidated financial statements.

(13) Fair Value of Financial Instruments

Financial Instruments Carried at Fair Value

Fair Value Hierarchy

The Cooperative records certain financial and nonfinancial assets using fair value measurements. The Cooperative uses a hierarchical disclosure framework that prioritizes the level of market price observability to measure investments at fair value.

The guidance establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

> **Level 1 -** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Cooperative has the ability to access.
>
> **Level 2 -** Valuations based on quoted market prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
>
> **Level 3 -** Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair values of the Cooperative's deferred compensation investments at December 31 by asset category are as follows:

Description	**Level**	**2016**	2015
Deferred Compensation Investments			
Short-Term Bond Funds	(1)	**$ 463,501**	$ 567,560
Stock Funds	(1)	**380,840**	312,075
		$ 844,341	$ 879,635

(14) Concentrations of Credit Risk

Financial instruments that potentially subject the Cooperative to concentrations of credit risk consist principally of cash and cash equivalents and consumer accounts receivable. The Cooperative maintains its cash balances in several financial institutions; cash balances throughout the year periodically exceed federally insured limits of $250,000.

At December 31, 2016, the carrying amount of the Cooperative's cash and cash equivalents was $7,428,047. Of this balance, $7,677,000 was covered under a repurchase agreement, maturing January 2, 2017. The repurchase agreement was collateralized by interests that include Government National Mortgage Association securities.

The Cooperative serves consumers in the state of South Carolina. The geographic concentration of the Cooperative's consumers results in a concentration of credit risk with respect to the collection of accounts receivable. Credit evaluations are performed on most potential customers before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required.

(15) Subsequent Events

In preparing these consolidated financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through March 14, 2017, the date the consolidated financial statements were available to be issued.

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March 14, 2017

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Trustees
Black River Electric Cooperative, Inc.

We have audited the consolidated financial statements of **Black River Electric Cooperative, Inc. and Subsidiary** as of and for the years ended December 31, 2016 and 2015, and our report thereon dated March 14, 2017, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying information on pages 20 through 23 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

McNair, McLemore, Middlebrooks & Co., LLC
McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2016

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries Debit	Elimination Entries Credit	Consolidated Balances
ASSETS						
Utility Plant						
Electric Plant in Service - At Cost	$ 126,690,687	$ -	$ 126,690,687	$ -	$ -	**$ 126,690,687**
Construction Work in Progress	22,820	-	22,820	-	-	**22,820**
	126,713,507	-	126,713,507	-	-	**126,713,507**
Accumulated Depreciation	(56,134,499)	-	(56,134,499)	-	-	**(56,134,499)**
	70,579,008	-	70,579,008	-	-	**70,579,008**
Other Property and Investments						
Investments in Associated Organizations	4,995,844	-	4,995,844	-	-	**4,995,844**
Investment in Subsidiary	565,646	-	565,646	-	565,646	**-**
Nonutility Property	2,950	2,481,007	2,483,957	-	-	**2,483,957**
Other Investments	1,157,716	322,869	1,480,585	-	-	**1,480,585**
	6,722,156	2,803,876	9,526,032	-	565,646	**8,960,386**
Current Assets						
Cash and Cash Equivalents	7,428,047	-	7,428,047	-	-	**7,428,047**
Accounts Receivable (Net)	5,228,439	-	5,228,439	-	-	**5,228,439**
Accounts Receivable - Intercompany	1,199,071	-	1,199,071	-	1,199,071	**-**
Materials and Supplies	506,421	-	506,421	-	-	**506,421**
Other	5,101,362	-	5,101,362	-	-	**5,101,362**
	19,463,340	-	19,463,340	-	1,199,071	**18,264,269**
Total Assets	$ 96,764,504	$ 2,803,876	$ 99,568,380	$ -	$ 1,764,717	**$ 97,803,663**
MEMBERS' EQUITY AND LIABILITIES						
Members' Equity						
Membership Fees	$ 131,335	$ -	$ 131,335	$ -	$ -	**$ 131,335**
Patronage Capital	67,800,377	-	67,800,377	-	-	**67,800,377**
Other Equities	5,176,888	(1,179,060)	3,997,828	-	1,179,060	**5,176,888**
	73,108,600	(1,179,060)	71,929,540	-	1,179,060	**73,108,600**
Long-Term Debt	7,750,000	-	7,750,000	-	-	**7,750,000**
Other Long-Term Liabilities						
Deferred Compensation	698,116	-	698,116	-	-	**698,116**
Current Liabilities						
Long-Term Debt - Current Portion	1,800,000	-	1,800,000	-	-	**1,800,000**
Other Long-Term Liabilities						
Deferred Compensation - Current Portion	146,224	-	146,224	-	-	**146,224**
Accounts Payable	5,303,085	-	5,303,085	-	-	**5,303,085**
Accounts Payable - Intercompany	-	1,199,071	1,199,071	1,199,071	-	**-**
Demand Note Payable to Parent Company	-	1,496,883	1,496,883	1,496,883	-	-
Consumer Deposits	2,896,362	-	2,896,362	-	-	**2,896,362**
Accrued and Withheld Taxes	654,729	-	654,729	-	-	**654,729**
Other	154,332	-	154,332	-	-	**154,332**
	10,954,732	2,695,954	13,650,686	2,695,954	-	**10,954,732**
Deferred Credits	4,253,056	1,286,982	5,540,038	247,823	-	**5,292,215**
Total Members' Equity and Liabilities	$ 96,764,504	$ 2,803,876	$ 99,568,380	$ 2,943,777	$ 1,179,060	**$ 97,803,663**

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries Debit	Elimination Entries Credit	Consolidated Balances
Operating Revenues	$ 77,322,144	$ 17,280	$ 77,339,424	$ 17,280	$ -	**$ 77,322,144**
Operating Expenses						
Cost of Power	54,862,381	-	54,862,381	-	-	**54,862,381**
Distribution Operations	3,571,480	-	3,571,480	-	-	**3,571,480**
Distribution Maintenance	2,730,323	14,529	2,744,852	-	14,529	**2,730,323**
Consumer Accounts	1,639,694	-	1,639,694	-	-	**1,639,694**
Consumer Service and Information	332,263	-	332,263	-	-	**332,263**
Administrative and General	3,643,275	27,858	3,671,133	-	27,858	**3,643,275**
Depreciation	4,155,379	-	4,155,379	-	-	**4,155,379**
Taxes	549,805	2,143	551,948	-	2,143	**549,805**
	71,484,600	44,530	71,529,130	-	44,530	**71,484,600**
Operating Margins Before Interest Expense	5,837,544	(27,250)	5,810,294	17,280	44,530	**5,837,544**
Interest Expense	300,673	-	300,673	-	-	**300,673**
Operating Margins After Interest Expense	5,536,871	(27,250)	5,509,621	17,280	44,530	**5,536,871**
Nonoperating Margins	158,676	-	158,676	27,250	-	**131,426**
Generation and Transmission Cooperative Capital Credits	147,764	-	147,764	-	-	**147,764**
Other Capital Credits and Patronage Capital Allocations	230,593	-	230,593	-	-	**230,593**
Net Margins	$ 6,073,904	$ (27,250)	$ 6,046,654	$ 44,530	$ 44,530	**$ 6,046,654**

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2015

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries Debit	Elimination Entries Credit	Consolidated Balances
ASSETS						
Utility Plant						
Electric Plant in Service - At Cost	$ 123,222,008	$ -	$ 123,222,008	$ -	$ -	$ 123,222,008
Construction Work in Progress	159,912	-	159,912	-	-	159,912
	123,381,920	-	123,381,920	-	-	123,381,920
Accumulated Depreciation	(52,984,635)	-	(52,984,635)	-	-	(52,984,635)
	70,397,285	-	70,397,285	-	-	70,397,285
Other Property and Investments						
Investments in Associated Organizations	4,729,907	-	4,729,907	-	-	4,729,907
Investment in Subsidiary	592,896	-	592,896	-	592,896	-
Nonutility Property	2,950	2,481,007	2,483,957	-	-	2,483,957
Other Investments	1,152,549	322,869	1,475,418	-	-	1,475,418
	6,478,302	2,803,876	9,282,178	-	592,896	8,689,282
Current Assets						
Cash and Cash Equivalents	7,585,361	-	7,585,361	-	-	7,585,361
Accounts Receivable (Net)	4,185,319	-	4,185,319	-	-	4,185,319
Accounts Receivable - Intercompany	1,171,821	-	1,171,821	-	1,171,821	-
Materials and Supplies	419,635	-	419,635	-	-	419,635
Other	5,130,850	-	5,130,850	-	-	5,130,850
	18,492,986	-	18,492,986	-	1,171,821	17,321,165
Total Assets	$ 95,368,573	$ 2,803,876	$ 98,172,449	$ -	$ 1,764,717	$ 96,407,732
MEMBERS' EQUITY AND LIABILITIES						
Members' Equity						
Membership Fees	$ 130,675	$ -	$ 130,675	$ -	$ -	$ 130,675
Patronage Capital	65,817,537	-	65,817,537	-	-	65,817,537
Other Equities	4,732,148	(1,151,811)	3,580,337	-	1,151,811	4,732,148
	70,680,360	(1,151,811)	69,528,549	-	1,151,811	70,680,360
Long-Term Debt	9,550,000	-	9,550,000	-	-	9,550,000
Other Long-Term Liabilities						
Deferred Compensation	739,823	-	739,823	-	-	739,823
Current Liabilities						
Long-Term Debt - Current Portion	1,800,000	-	1,800,000	-	-	1,800,000
Other Long-Term Liabilities						
Deferred Compensation - Current Portion	139,812	-	139,812	-	-	139,812
Accounts Payable	4,303,364	-	4,303,364	-	-	4,303,364
Accounts Payable - Intercompany	-	1,171,821	1,171,821	1,171,821	-	-
Demand Note Payable to Parent Company	-	1,496,883	1,496,883	1,496,883	-	-
Consumer Deposits	2,855,981	-	2,855,981	-	-	2,855,981
Accrued and Withheld Taxes	611,146	-	611,146	-	-	611,146
Other	303,317	-	303,317	-	-	303,317
	10,013,620	2,668,704	12,682,324	2,668,704	-	10,013,620
Deferred Credits	4,384,770	1,286,983	5,671,753	247,824	-	5,423,929
Total Members' Equity and Liabilities	$ 95,368,573	$ 2,803,876	$ 98,172,449	$ 2,916,528	$ 1,151,811	$ 96,407,732

BLACK RIVER ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Black River Electric Cooperative, Inc.	Black River Economic Development Corporation	Totals	Elimination Entries Debit	Elimination Entries Credit	Consolidated Balances
Operating Revenues	$ 74,998,861	$ 23,670	$ 75,022,531	$ 23,670	$ -	$ 74,998,861
Operating Expenses						
Cost of Power	54,480,289	-	54,480,289	-	-	54,480,289
Distribution Operations	3,173,212	-	3,173,212	-	-	3,173,212
Distribution Maintenance	2,746,824	12,013	2,758,837	-	12,013	2,746,824
Consumer Accounts	1,794,391	-	1,794,391	-	-	1,794,391
Consumer Service and Information	126,279	-	126,279	-	-	126,279
Administrative and General	3,052,199	57,533	3,109,732	-	57,533	3,052,199
Depreciation	4,002,239	-	4,002,239	-	-	4,002,239
Taxes	557,832	2,097	559,929	-	2,097	557,832
	69,933,265	71,643	70,004,908	-	71,643	69,933,265
Operating Margins Before Interest Expense	5,065,596	(47,973)	5,017,623	23,670	71,643	5,065,596
Interest Expense	596,104	-	596,104	-	-	596,104
Operating Margins After Interest Expense	4,469,492	(47,973)	4,421,519	23,670	71,643	4,469,492
Nonoperating Margins	291,969	-	291,969	47,973	-	243,996
Generation and Transmission Cooperative Capital Credits	123,051	-	123,051	-	-	123,051
Other Capital Credits and Patronage Capital Allocations	219,613	-	219,613	-	-	219,613
Net Margins	$ 5,104,125	$ (47,973)	$ 5,056,152	$ 71,643	$ 71,643	$ 5,056,152

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March 14, 2017

MANAGEMENT LETTER

The Board of Trustees
Black River Electric Cooperative, Inc.

We have audited financial statements of **Black River Electric Cooperative, Inc. and Subsidiary** (the Cooperative) as of and for the year ended December 31, 2016 and have issued our report thereon dated March 14, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Black River Electric Cooperative, Inc. as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Cooperative’s internal control over financial reporting (internal control) as a basis for designing 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 the Cooperative’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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Cooperative’s financial statements will not be prevented, or detected and corrected on a timely basis.

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.

This communication is intended solely for the information and use of management and board of trustees, and is not intended to be, and should not be, used by anyone other than these specified parties.

McNair, McLemore, Middlebrooks & Co., LLC
McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

Auditor's Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter, the auditor is responsible for forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP). The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Planned Scope and Timing of the Audit

The audit was performed according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection of appropriate accounting policies. The significant accounting policies used by Black River Electric Cooperative, Inc. are outlined in Note 1 to the financial statements. As described in Note 1, the Cooperative changed accounting policies related to fair value disclosures for financial instruments reported at amortized cost by adopting a portion of FASB ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,* in 2016. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. We noted no transaction entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a period other than when the transaction occurred.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Allocations for construction work in progress
- Useful lives of utility plant
- Reserve for uncollectible accounts
- Expense accruals

We evaluated the key factors and assumptions used to develop management's estimates in determining that they are reasonable in relation to the financial statements as a whole.

Significant Audit Adjustments and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no audit adjustments for the year ended December 31, 2016. There were no significant uncorrected misstatements, material or immaterial.

Disagreements with Management

Professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 14, 2017.

Consultation with Other Accountants

To our knowledge, management did not consult with other accountants relating to auditing or accounting matters.

Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cooperative's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

There were no difficulties encountered in dealing with management related to the performance of the audit.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with U.S. GAAP, the method of preparing it has not changed from the prior period and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction of Use

This report is intended solely for the information and use of the board of trustees and management and is not intended to be and should not be used by anyone other than these specified parties.