DAKOTA ELECTRIC ASSOCIATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

DAKOTA ELECTRIC ASSOCIATION
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YEARS ENDED DECEMBER 31, 2015 AND 2014

CliftonLarsonAllen

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Dakota Electric Association
Farmington, Minnesota

We have audited the accompanying consolidated financial statements of Dakota Electric Association, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 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 auditors' 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 Association'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 Association'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.

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Board of Directors
Dakota Electric Association

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dakota Electric Association as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
February 26, 2016

DAKOTA ELECTRIC ASSOCIATION
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014
(DOLLARS IN THOUSANDS)

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 814	$ 703
Accounts Receivable, Less Allowance for Uncollectible Accounts (2015 - $1,526; 2014 - $1,355)	17,135	24,737
Conservation Cost and Property Tax Recovery	157	69
Inventories, Materials and Supplies	5,229	5,258
Prepayments and Interest Receivable	1,045	1,057
Deferred Charges	26	37
Total Current Assets	24,406	31,861
RESTRICTED CASH	2,501	2,501
INVESTMENTS IN ASSOCIATED COMPANIES AND OTHER INVESTMENTS	102,981	100,402
UTILITY PLANT		
Distribution System and General Plant	280,462	272,009
Less Accumulated Depreciation	(113,845)	(109,013)
Net Utility Plant and Work in Progress	166,617	162,996
DEFERRED CHARGES AND OTHER ASSETS	100	104
Total Assets	$ 296,605	$ 297,864

See accompanying Notes to Consolidated Financial Statements.

	2015	2014
LIABILITIES AND EQUITIES		
CURRENT LIABILITIES		
Accounts Payable	$ 23,689	$ 24,285
Notes Payable	9,100	11,500
Current Portion of Long-Term Debt	6,528	5,903
Customer Security Deposits	545	573
Accrued Property and Other Taxes	4,572	4,510
Other Current Liabilities	6,802	6,964
Total Current Liabilities	51,236	53,735
LONG-TERM DEBT	89,557	91,689
POST-RETIREMENT BENEFIT OBLIGATION	4,016	3,915
DEFERRED CREDITS AND OTHER LIABILITIES	820	1,116
Total Liabilities	145,629	150,455
MEMBERS' EQUITY	150,976	147,409
Total Liabilities and Members' Equity	$ 296,605	$ 297,864

DAKOTA ELECTRIC ASSOCIATION
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2015 AND 2014
(DOLLARS IN THOUSANDS)

	2015	2014
NET SALES	$ 193,476	$ 196,978
COST OF SALES	141,938	146,970
GROSS MARGIN	51,538	50,008
OPERATING EXPENSES		
Labor and Related Benefits	23,304	22,584
Professional Fees and Services	3,651	3,666
Rebates and Marketing	961	558
Office Expense	2,129	1,935
Operations and Maintenance	918	1,217
Depreciation and Amortization	9,054	8,913
Property and Real Estate Taxes	3,443	3,326
Net Interest Expense	4,640	5,232
Other Expenses	543	390
Total Operating Expenses	48,643	47,821
NET OPERATING MARGIN	2,895	2,187
OTHER INCOME (EXPENSE)		
Interest Income	142	161
Capital Credits from GRE, CFC, and Others	3,141	10,743
Other Expense	(2)	(6)
Total Other Income	3,281	10,898
NET OPERATING MARGIN AND OTHER INCOME	6,176	13,085
Income Tax (Credit) on Nonregulated Operations	(53)	(50)
NET INCOME	$ 6,229	$ 13,135

See accompanying Notes to Consolidated Financial Statements.

DAKOTA ELECTRIC ASSOCIATION
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2015 AND 2014
(DOLLARS IN THOUSANDS)

	Patronage Capital and Other Equity
BALANCE, DECEMBER 31, 2013	$ 136,837
Net Income 2014	13,135
Capital Credits Retired - Net	(2,563)
BALANCE, DECEMBER 31, 2014	147,409
Net Income 2015	6,229
Capital Credits Retired - Net	(2,662)
BALANCE, DECEMBER 31, 2015	$ 150,976

See accompanying Notes to Consolidated Financial Statements.

DAKOTA ELECTRIC ASSOCIATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014
(DOLLARS IN THOUSANDS)

	2015	2014
OPERATING ACTIVITIES		
Net Income	$ 6,229	$ 13,135
Adjustments:		
Depreciation and Amortization	9,054	8,913
GRE, CFC, and Other Capital Credits Allocation	(3,141)	(10,743)
Decrease in Current Assets	7,566	975
Decrease in Other Assets	4	4
Decrease in Current Liabilities	(724)	(1,073)
Decrease in Other Liabilities	(195)	(423)
Net Cash from Operating Activities	18,793	10,788
INVESTING ACTIVITIES		
Asset Additions	(13,139)	(10,527)
Asset Disposals	464	54
CFC, CoBank and Other Capital Credits Refunded	500	431
Decrease in Equity Investments	62	90
Net Cash Used for Investing Activities	(12,113)	(9,952)
FINANCING ACTIVITIES		
Loan/Lease Advances Received	4,529	10,075
Principal Payments on Long-Term Debt	(6,036)	(6,158)
Decrease in Notes Payable	(2,400)	(2,400)
Patronage Capital Retirements Paid	(2,662)	(2,563)
Net Cash Used for Financing Activities	(6,569)	(1,046)
Net Change in Cash and Cash Equivalents	111	(210)
Cash and Cash Equivalents, Beginning of Year	703	913
Cash and Cash Equivalents, End of Year	$ 814	$ 703
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid (Refunded) for:		
Interest	$ 4,938	$ 5,622
Income Taxes	$ (2)	$ (48)

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Dakota Electric Association (Dakota Electric) is a 104,000 member not-for-profit, member-owned electric distribution cooperative serving homes and businesses primarily in Dakota County, Minnesota. Dakota Electric also has a for-profit wholly-owned subsidiary, Midwest Energy Services (MES), which wholly-owns Energy Alternatives Parent (EA). EA wholly-owns Energy Alternatives Solar L.L.C. (EAS). EAS leases non-member customer-sited solar photovoltaic generation.

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

Consolidation Policy and Preparation of Financial Statements

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

Regulation

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

Revenue Recognition

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

Receivables and Credit Policies

Trade receivables are uncollateralized member obligations due under normal trade terms requiring payment within 25 days from the billing date. Unpaid trade receivables with dates over 30 days old are assessed a $1 late fee or interest at 1.5% of the unpaid balance, whichever is greater. Payments on trade and notes receivable are allocated to the earliest unpaid billings. The carrying amounts of trade and notes receivable are reduced by a valuation allowance that reflects management’s best estimate of the amount that will not be collected. Management reviews all trade and notes receivable balances periodically and adjusts the allowance accounts based on current economic conditions and past experience.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Depreciation

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

Depreciation of Dakota Electric utility plant is computed using rates approved by the MPUC based on estimated useful lives of the various classes of property. In 2015 and 2014, provisions for depreciation approximated 3.3% and 3.4%, respectively, of the average original cost of depreciable property.

Cash and Cash Equivalents

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

Materials and Supplies

Materials and supplies are stated at average cost.

Investments in Associated Companies

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

Patronage Capital

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

Sales Taxes

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

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

Dakota Electric will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if such penalties and interest are incurred. Under normal circumstances, Dakota Electric, MES and its subsidiaries are no longer subject to federal or state tax examinations by tax authorities for years before 2013.

Dakota Electric and subsidiaries undergo an annual analysis of various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities, as defined by ASC 740-10. The unrecognized tax benefit accrual was zero as of December 31, 2015 and 2014.

Deferred Gain on RUS Buyout

In 1994 and 1995, Dakota Electric refinanced long-term debt payable to the Rural Utilities Service (RUS) with CFC. The early extinguishments resulted in gains of $11.3 million, which are being amortized over the lives of the related CFC debt (24 and 32 years, respectively) using the sum of the year's digits method. Interest expense is net of amortization of $177,000 and $210,000 in 2015 and 2014, respectively.

Accounting Estimates

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

Concentrations of Credit Risk

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Sources of Labor

At December 31, 2015, Dakota Electric had collective bargaining agreements covering 106 employees which represented 55% of total full-time employees. The collective bargaining agreements expire on December 31, 2017.

Subsequent Events

Dakota Electric has evaluated subsequent events through February 26, 2016, the date which the financial statements were available to be issued.

NOTE 2 SUBSIDIARY OPERATING RESULTS

MES' operating results for the years ended December 31, 2015 and 2014 are summarized below.

	2015	2014
	(in thousands)	
Revenues	$ 170	$ 191
Cost of Sales	-	14
Gross Profit	170	177
Operating Expenses and Other Income	342	350
Income (Loss) Before Taxes	(172)	(173)
Income Tax Credit	(53)	(50)
Net Income (Loss)	$ (119)	$ (123)

At December 31, 2015 and 2014, MES' deferred tax liability totaled $210,000 and $293,000, respectively. MES' significant temporary differences result from differences in depreciation for financial reporting and income tax reporting. Net current deferred tax assets relate to the difference in timing of deferred lease revenue and state net operating loss carryforwards. An offsetting valuation allowance is recorded as the certainty of realizing the future tax benefits of the state net operating loss carryforward is uncertain at this time. The deferred tax asset balance was $26,000 and $37,000 in 2015 and 2014, respectively.

NOTE 3 INVESTMENTS IN ASSOCIATED COMPANIES

	2015	2014
	(in thousands)	
Great River Energy		
Patronage Capital	$ 92,691	$ 90,361
Cooperative Finance Corporation		
Capital Term Certificates -		
Maturities 2070 - 2080, Interest Rate 5.0%	1,419	1,419
Loan Term Certificates -		
Maturities 2020 - 2030, Interest Rate 3.0%	532	532
Loan Term Certificates -		
Maturities 2016 - 2044, Interest Rate 0.0%	1,887	1,949
Member Capital Securities -		
Maturity 2044, Interest Rate 5.0%	1,000	1,000
Patronage Capital	3,930	3,773
	8,768	8,673
Other Investments	1,522	1,368
Total Investments in Associated Companies	$ 102,981	$ 100,402

Investment in Great River Energy (GRE) represents undistributed allocated margins. Dakota Electric's share of annual GRE margins is generally based on the percentage of GRE's total power generation purchased by Dakota Electric. Under its wholesale power purchase agreement, Dakota Electric is committed to purchase at least 95% of its electric power requirements from GRE until December 31, 2045. The rates paid are subject to change annually.

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

NOTE 4 PATRONAGE CAPITAL AND OTHER EQUITY

Dakota Electric has covenants with its lenders that restrict the retirement of patronage capital. After retirement, the capital of Dakota Electric must equal at least 30% of its total assets. No distributions can be made if there is unpaid, when due, any installments of principal or interest on the notes.

Capital credit retirements for estates or members reaching age 65 are made upon request. Capital credits are applied on a discounted basis to final bills when a member moves out of Dakota Electric's service territory unless the member requests they not be applied. Patronage capital credits arising from prior years' margins are retired as determined annually by the board of directors. As of December 31, 2015, capital credits through 1987 have substantially been retired.

NOTE 5 LONG-TERM DEBT

Description	2015	2014
	(in thousands)	
Cooperative Finance Corporation (CFC) mortgage notes 3.30% to 7.40% in 2015 and 2014, due in quarterly installments through 2043	$ 60,996	$ 71,233
CoBank mortgage notes 2.59% to 4.56% in 2015 and 2014, due in monthly installments through 2043	33,988	25,372
Capital Lease Provision	1,101	987
Total	96,085	97,592
Less: Current Portion	(6,528)	(5,903)
Total Long-Term Debt	$ 89,557	$ 91,689

Substantially all assets are pledged as security on the mortgage notes. The notes generally mature 10 to 40 years from the date of issuance and are due at various dates ranging from 2016 to 2043. The notes contain provisions for changing interest rates at specified future dates.

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

Year Ending December 31,	Total
	(in thousands)
2016	$ 6,528
2017	6,554
2018	6,382
2019	5,060
2020	4,936
Thereafter	66,625
Total	$ 96,085

NOTE 6 NOTES PAYABLE (LINES OF CREDIT)

Dakota Electric has executed a perpetual line of credit agreement providing Dakota Electric with short term loans of $20 million on a revolving basis with CFC. Interest on unpaid principal is payable quarterly at rates established by CFC; this rate was 2.90% at December 31, 2015. The maximum interest rate on the CFC line of credit will not exceed the lowest prime rate plus 1% per annum. This prime rate is published in the “Money Rates” column of “The Wall Street Journal”. There were no outstanding balances on this line of credit at December 31, 2015 and 2014.

NOTE 6 NOTES PAYABLE (LINES OF CREDIT) (CONTINUED)

Dakota Electric has a $30 million line of credit agreement with CoBank, which expires July 31, 2016 and will subsequently be renewed. This agreement imposes a maximum of $30 million outstanding unsecured debt at any one time to all lenders. Interest on unpaid principal is payable monthly at rates established by CoBank on a weekly basis (1.88% at December 31, 2015). There was an outstanding balance of $9,100,000 on this line of credit at December 31, 2015 and $11,500,000 at December 31, 2014.

NOTE 7 OTHER CURRENT LIABILITIES

	2015	2014
	(in thousands)	
Accrued Interest	$ 731	$ 856
Accrued Payroll	353	259
Accrued Sick Leave	1,208	1,170
Accrued Vacation	1,387	1,385
Unclaimed Capital Credits	2,954	2,699
Other	169	595
Total	$ 6,802	$ 6,964

NOTE 8 PENSION PLANS

The majority of employees of Dakota Electric participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Plan (RS Plan), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is considered a multiemployer plan under the 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.

NOTE 8 PENSION PLANS (CONTINUED)

Dakota Electric makes contributions to the RS Plan equal to the amounts accrued for pension expense except for the periods when a moratorium on contributions has been in effect due to the plan reaching full funding limitations. Dakota Electric's contributions to the RS Plan in 2015 and in 2014 represented less than 5 percent of the total contributions made to the plan by all participating employers. Contributions to the plan for the years ended December 31, 2015 and 2014 were approximately $3,225,000 and $3,165,000, respectively. There have been no significant changes that affect the comparability of 2015 and 2014 contributions.

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, 2015 and over 80 percent funded on January 1, 2014 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.

Dakota Electric has defined contribution savings plans for employees who meet certain age and service requirements. Dakota Electric contributed between 4.0% and 10.0% in 2015 and 2014 of eligible employees' compensation. Savings plan company contributions for the years ended December 31, 2015 and 2014 were approximately $879,000 and $840,000, respectively.

NOTE 9 POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

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

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

NOTE 9 POST-RETIREMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

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

	2015	2014
	(in thousands)	
Change in Postretirement Benefit Obligation		
Accumulated Postretirement:		
Benefit Obligation at Beginning of Year	$ 3,915	$ 4,019
Interest and Service Cost	206	-
Benefits Paid-Net of Retiree Contributions	(105)	(104)
Accumulated Postretirement Benefit Obligation at End of Year	4,016	3,915
Change in Plan Assets:		
Plan Assets at Beginning of Year	-	-
Employer Contributions	105	104
Benefits Paid-Net of Retiree Contributions	(105)	(104)
Plan Assets at End of Year	-	-
Funded Status	(4,016)	(3,915)
Net Post-retirement Benefit Obligation Recognized	$ (4,016)	$ (3,915)
Weighted Average Assumptions at December 31:		
Discount Rate	4.87%	4.13%

For measurement purposes, a 5.75% and 7.50% annual rate of increase in per capita cost of health care benefits was assumed for 2015 and 2014, respectively. Accelerating the rate of assumed health care costs by 1% each year would increase the benefit obligation as of December 31, 2015 and 2014 by $361,000 and $404,000, respectively.

Post-retirement benefit payments over the next 10 years are estimated to be as follows:

Year Ending December 31,	Estimated Payments (in thousands)
2016	$ 132
2017	140
2018	148
2019	156
2020	165
2021 - 2025	979

NOTE 10 RELATED PARTY TRANSACTIONS

Dakota Electric is a member of and purchases its wholesale power from Great River Energy. The following is a summary of material transactions with Great River Energy for the years ended December 31, 2015 and 2014:

	2015	2014
	(in thousands)	
Purchase of Wholesale Power	$ 141,565	$ 146,449
Accounts Payable for Purchased Power	$ 21,163	$ 22,077
Capital Credit Allocation	$ 2,330	$ 9,989
Accumulated Investment in Patronage Capital	$ 92,691	$ 90,361

NOTE 11 FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments have been derived, in part, by management's assumptions, the estimated amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimated fair values. Accordingly, the net realizable value could be materially different from the estimates presented below. In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Association. The following disclosures represent financial instruments in which the ending balances at December 31, 2015 and 2014 are not carried at fair value in their entirety on the consolidated balance sheets.

The following methods and assumptions were used to estimate the fair value of a class of financial instruments at December 31, 2015 and 2014 for which it is practicable to estimate that value:

Cash and Cash Equivalents

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

Investment in Associated Companies

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

Notes Payable and Long-Term Debt

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