Homer Electric Association, Inc. and Subsidiary
(Alaska 5 and Alaska 33 Kenai)

Consolidated Financial Statements and Supplementary Information
Years Ended December 31, 2014 and 2013

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Contents

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Independent Auditor's Report

Board of Directors
Homer Electric Association, Inc. and Subsidiary
Homer, Alaska

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Homer Electric Association, Inc. and Subsidiary (the Association), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and patronage capital, 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 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 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 entity'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 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 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 Homer Electric Association, Inc. and Subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidating statements of operations and patronage capital are presented for purposes of additional analysis and are 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 audit 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2015, on our consideration of Homer Electric Association, Inc. and Subsidiary'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. 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 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 Homer Electric Association, Inc. and Subsidiary's internal control over financial reporting and compliance.

BDO USA, LLP

Anchorage, Alaska
March 24, 2015

Consolidated Financial Statements

Homer Electric Association, Inc. and Subsidiary

Consolidated Balance Sheets

December 31,	2014	2013
Assets		
Utility plant, at cost:		
Electric plant in service	$ 566,514,237	$ 471,015,472
Electric plant held for future use	1,162,802	3,447,637
Construction work in progress	11,333,638	93,276,084
Total utility plant, at cost	579,010,677	567,739,193
Less accumulated depreciation and amortization	(161,903,809)	(158,256,729)
Net utility plant	417,106,868	409,482,464
Other assets and investments:		
Investments in associated organizations	22,660,049	20,740,154
Notes receivable, net of current portion	400,019	567,262
Non-utility property, net of accumulated depreciation of $442,243 ($406,547 in 2013)	302,869	338,565
Total other assets and investments	23,362,937	21,645,981
Current Assets		
Cash and cash equivalents	10,791,429	6,748,714
Accounts receivable, less allowance for doubtful accounts of $94,691 ($112,660 in 2013)	7,636,287	9,400,153
Unbilled revenue	5,776,145	4,823,966
Materials, fuel and supplies inventory	5,894,047	6,629,038
Notes receivable, current portion	524,751	524,592
Other current and accrued assets	448,617	371,871
Total Current Assets	31,071,276	28,498,334
Deferred charges	4,939,409	5,794,608
Total Assets	$ 476,480,490	$ 465,421,387

See accompanying notes to consolidated financial statements.

Homer Electric Association, Inc. and Subsidiary

Consolidated Balance Sheets, continued

December 31,	2014	2013
Equities and Liabilities		
Equities		
Memberships	$ 55,835	$ 58,630
Patronage capital	79,518,903	76,712,436
Other equities - donated capital	2,733,058	2,665,429
Total Equities	82,307,796	79,436,495
Long-term debt - mortgage notes payable	363,353,654	362,357,918
Current Liabilities		
Current portion of long-term debt	17,257,018	8,683,749
Accounts payable	7,804,078	9,524,543
Consumer deposits	1,193,441	1,125,062
Accrued payroll and benefits	2,687,007	2,630,792
Accrued taxes and other current liabilities	1,332,645	1,123,217
Total Current Liabilities	30,274,189	23,087,363
Deferred credits	544,851	539,611
Total Equities and Liabilities	$ 476,480,490	$ 465,421,387

See accompanying notes to consolidated financial statements.

Homer Electric Association, Inc. and Subsidiary

Consolidated Statements of Operations and Patronage Capital

Years Ended December 31,	2014	2013
Operating Revenues	$ 91,893,737	$ 91,940,785
Operating Expenses		
Purchased power costs	37,949,847	45,465,861
Transmission expense	1,085,668	967,979
Distribution operations	2,091,840	2,290,067
Distribution maintenance	4,492,616	5,643,658
Production maintenance	3,470,109	2,243,190
Consumer accounts	3,552,880	3,664,410
Customer service and information	574,307	540,338
Sales expense	118,098	111,389
Administrative and general	8,526,867	8,482,243
Depreciation and amortization	15,175,690	10,688,475
Taxes	231,230	238,595
Miscellaneous	429,551	171,722
Total Operating Expenses	77,698,703	80,507,927
Operating margins before fixed charges	14,195,034	11,432,858
Fixed Charges		
Interest on debt, net of capitalized interest	13,987,768	8,930,363
Allowance for funds used during construction	(153,443)	(671,472)
Net Fixed Charges	13,834,325	8,258,891
Operating margins after fixed charges	360,709	3,173,967
Patronage Capital Allocation	2,421,045	1,695,468
Net operating margins	2,781,754	4,869,435
Nonoperating Margins		
Interest income	182,663	204,649
Other income (expense)	(24,580)	(35,106)
Total Nonoperating Margins	158,083	169,543
Net margins	2,939,837	5,038,978
Patronage capital, beginning of year	76,712,436	71,785,269
Less retirement of patronage capital credits	(133,370)	(111,811)
Patronage Capital, end of year	$ 79,518,903	$ 76,712,436

See accompanying notes to consolidated financial statements.

Homer Electric Association, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31,	2014	2013
Cash Flows from Operating Activities		
Cash received from customers	$ 94,052,024	$ 89,705,326
Cash paid to suppliers and employees	(60,233,903)	(67,751,989)
Interest and dividends received	182,663	204,649
Interest paid	(13,834,325)	(8,258,891)
Taxes paid	(21,802)	(255,703)
Other	(24,580)	(35,106)
Net cash from operating activities	20,120,077	13,608,286
Cash Flows for Investing Activities		
Plant additions	(34,271,160)	(72,048,708)
Contributions in aid of construction, including grant reimbursements	11,853,397	6,878,574
Salvage on plant retirements	(264,321)	849,938
Cost of removal	(743,793)	(387,934)
Patronage refunds from associated organizations	1,570,938	789,504
Investments in associated organizations	(1,066,417)	(736,137)
Changes in assets and liabilities that provided (used) cash:		
Accounts payable, construction	(3,140,768)	(6,940,692)
Materials, fuel and supplies inventories	734,991	(1,314,241)
Deferred charges	(324,317)	4,184,835
Deferred credits	5,240	(6,460,703)
Net cash for investing activities	(25,646,210)	(75,185,564)
Cash Flows from Financing Activities		
Proceeds from long-term debt	194,300,000	70,250,000
Principal payments on long-term debt	(184,730,995)	(8,217,483)
Retirement of capital credits	(65,741)	(62,188)
Changes in assets and liabilities that provided (used) cash:		
Consumer deposits	68,379	56,761
Memberships	(2,795)	(2,705)
Net cash from financing activities	9,568,848	62,024,385
Net increase in cash and cash equivalents	4,042,715	447,107
Cash and Cash Equivalents, beginning of year	6,748,714	6,301,607
Cash and Cash Equivalents, end of year	$ 10,791,429	$ 6,748,714

See accompanying notes to consolidated financial statements.

Homer Electric Association, Inc. and Subsidiary

Consolidated Statements of Cash Flows, continued

Years Ended December 31,	2014	2013
Reconciliation of Net Margins to Net Cash From Operating Activities		
Net margins	$ 2,939,837	$ 5,038,978
Adjustments to reconcile net margins to net cash from (for) operating activities:		
Depreciation and amortization	15,837,169	11,337,663
Patronage capital from associated organizations (non-cash)	(2,424,416)	(1,715,367)
(Increase) decrease in assets:		
Accounts receivable	1,763,866	(1,114,698)
Notes receivable	167,084	324,511
Unbilled revenue	(952,179)	(888,552)
Cost of power adjustment (COPA)	1,179,516	(556,720)
Other current assets	(76,746)	(1,848)
Increase (decrease) in liabilities:		
Accounts payable, trade	1,420,303	1,012,046
Accrued payroll and benefits	56,215	189,381
Accrued taxes and other current liabilities	209,428	(17,108)
Total adjustments	17,180,240	8,569,308
Net Cash From Operating Activities	$ 20,120,077	$ 13,608,286
Supplementary Disclosure of Cash Flow Information:		
Allowance for funds used during construction	$ 153,443	$ 671,472
Interest capitalized to construction	387,280	3,460,789
	$ 540,723	$ 4,132,261

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

The accounting records of Homer Electric Association, Inc. (HEA) conform to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission as modified for electric borrowers of the Rural Utilities Service (RUS). HEA's accounting policies conform to generally accepted accounting principles as applied in the case of regulated public utilities and are in accordance with the accounting requirements and rate-making practices of the regulatory authorities having jurisdiction. A description of HEA's principle accounting policies follows:

Principles of Consolidation

The consolidated financial statements include a 100% owned subsidiary, Alaska Electric and Energy Cooperative, Inc. (AEEC). AEEC is a single-member cooperative with sales exclusively to HEA and provides all power requirements to HEA. All significant inter-company accounts and transactions have been eliminated in consolidation.

Plant Additions and Retirements

Additions and replacements of electric plant in service are at original cost of contracted services, direct labor and materials, and indirect overhead charges. Except for certain specifically identifiable units of equipment, replacements and retirements of plant are charged to the accumulated provision for depreciation at the average unit cost of the property unit plus removal cost less salvage. The cost of replacement is added to electric plant.

Depreciation

HEA completed a Depreciation Study of utility plant that was approved by the Regulatory Commission of Alaska (RCA) with an effective date of January 1, 2010. The annual depreciation accrual rates were developed using the straight line method, vintage group procedure and remaining life technique. Depreciation accrual rates vary by specific asset type according to these ranges:

HEA production plant	3.29% to 10.39%
HEA distribution plant	1.82% to 4.28%
HEA general plant	0.81% to 8.19%
HEA vehicles & equipment	15.00% to 19.36%
AEEC steam production plant	3.30%
AEEC other production plant	2.45% to 6.67%
AEEC transmission plant	1.42% to 7.57%
AEEC general plant	1.99% to 10.00%
Plant leased to others	2.75% to 5.00%

Overhauls and hot gas path inspections on generation plant are capitalized and depreciated over the projected life of the repairs (two to six years).

Amortization

Deferred charges are amortized on a straight-line basis over periods ranging from 12 months to 180 months.

Materials and Supplies

Materials and supplies are primarily held for HEA's use in construction and maintenance projects and are stated at a moving weighted-average cost.

Revenues

Revenues are based on cycle billings rendered to customers monthly as well as the estimated amount accrued for services rendered but not billed at the end of the year.

Contributions in Aid of Construction

Contributions in aid of construction are credited to the associated cost of the property unit constructed.

Allowance for Funds Used During Construction

HEA capitalizes, as an additional cost of property, an allowance for funds used during construction that represents the allowed cost of borrowings and equity used to finance a portion of construction work in progress. The allowance for funds used during construction is recorded as revenue and allocated to special projects over $10,000.

Interest Capitalized During Construction

Actual interest incurred on major generation projects is capitalized as a direct cost of the project.

Income Taxes

HEA and AEEC are exempt from federal income taxes under provisions of Section 501(c)(12) of the Internal Revenue Code.

HEA applies the provisions of Topic 740 of the Financial Accounting Standards Board (FASB) Accounting Standards Codification relating to accounting for uncertainty in income taxes. HEA annually reviews its tax positions taken in accordance with the recognition standards. It is HEA management's opinion that it has no uncertain tax positions which would require disclosure or adjustment in these financial statements.

Cost of Power Adjustment

Effective April 1, 1988, HEA adopted, with regulatory approval, a wholesale cost of power adjustment clause which provides for current collection of estimated amounts of purchased power costs with a subsequent settlement of amounts collected.

Based on the 2010 rate study which, after regulatory approval, became effective January 1, 2012, the Wholesale Power Cost Rate Adjustment (WPCRA) was changed to separate all fuel and purchased energy costs into a new single-item cost element on customer bills called a Cost of Power Adjustment (COPA). This rate includes the cost of fuel and Bradley Lake purchased power. In 2013, fuel costs from Chugach Electric Association, Inc. (CEA) were recovered through the COPA, along with incremental demand and energy increases of CEA's interim rate effective February 6, 2013. The wholesale power contract with CEA expired at the end of 2013 and AEEC began generating power for HEA. Therefore, in 2014, fuel costs from AEEC were recovered through the COPA.

Statement of Cash Flows

For purposes of the statements of cash flows, HEA considers all cash and short-term investments that are readily convertible to known amounts of cash and that present an insignificant risk of change in value due to changes in interest rates or other factors to be cash equivalents.

Reclassification

Certain amounts included in the comparative financial statements have been reclassified to achieve comparability.

Credit Risk

Financial instruments which potentially subject HEA to concentrations of credit risk consist principally of temporary cash investments. HEA places its temporary cash investments with high credit quality financial institutions. Concentrations of credit risk with respect to trade receivables are limited to HEA's large number of customers.

Accounting Estimates

The presentation of the consolidated 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

HEA measures certain items in these financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, that is, other than in a forced liquidation or distress sale.

HEA's financial assets and liabilities carried at fair value have been classified based on a hierarchy as defined in generally accepted accounting principles and are generally measured using the market approach or the income approach.

Subsequent Events

HEA has evaluated subsequent events through March 24, 2015, the date on which the financial statements were issued.

2. Utility Plant and Depreciation Summary

Major classes of HEA's utility plant at December 31, 2014 and 2013 are as follows:

	2014	2013
Production plant	$ 243,660,399	$ 169,061,927
Distribution plant	216,764,440	207,007,112
Transmission plant	67,052,341	50,370,055
General plant	33,680,019	32,739,203
Plant in service, unclassified	3,596,611	-
Plant leased to others	1,760,427	11,837,175
Total electric plant in service	566,514,237	471,015,472
Electric plant held for future use	1,162,802	3,447,637
Construction work in progress	11,333,638	93,276,084
Total Utility Plant, At Cost	$ 579,010,677	$ 567,739,193

Total depreciation and amortization for the years ended December 31, 2014 and 2013 is summarized below:

	2014	2013
Depreciation and amortization expense	$ 15,175,690	$ 10,688,475
Depreciation on leased plant	88,092	362,158
Total Depreciation and Amortization	$ 15,263,782	$ 11,050,633
Depreciation Charged to Clearing Accounts	$ 625,165	$ 675,119

In 2013 HEA leased transmission lines to Chugach Electric Association for transmitting power over portions of the HEA system. That lease expired at the end of 2013. Current leased plant consists of fiber optic lines. Depreciation of plant leased to others is reflected as a reduction of operating revenues in the consolidated statements of operations and patronage capital.

The Bernice Lake Power Plant purchased from Chugach Electric Association on December 31, 2012, included an acquisition adjustment of approximately $7.4 million. HEA received regulatory approval to recover the amortization of the acquisition adjustment through rates over a period of 15 years. The asset is recorded as part of production plant.

Electric plant held for future use includes $1.2 million in vacant land owned by HEA. In 2013 it also included $2.2 million in generation equipment owned by AEEC which was either retired or placed in service during 2014.

Construction work in progress at December 31, 2014, includes approximately $9.6 million for distribution construction projects and $1.7 million in generation and transmission projects. The Independent Light Program, completed in 2014, was developed to build production assets sufficient to generate all of HEA's power requirements by December 31, 2013, which coincided with the conclusion of HEA's purchased power agreement with Chugach Electric Association. The Nikiski generation site was converted into a combined cycle facility with the addition of a steam turbine generator to the existing gas turbine, increasing the electrical production to a total of eighty (80) Megawatts. A commercial acceptance certificate for the Nikiski plant was issued to settle the general construction contract on July 28, 2013. The Soldotna production facility was repowered with an aero derivative simple cycle unit nominally capable of producing forty-eight (48) Megawatts of electrical generation. AEEC received a commissioning completion letter from GE Packaged Power, Inc. for commercial operation effective March 31, 2014.

3. Investments in Associated Organizations

Investments in associated organizations at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation	$ 2,628,308	$ 2,628,308
Capital term non-interest bearing certificates of the National Rural Utilities Cooperative Finance Corporation	2,801,737	3,210,531
Investment in Kenai Hydro LLC	2,593,031	1,526,614
Patronage capital credits issued by:		
Southeastern Data Cooperative	188,012	174,077
Chugach Electric Association	8,005,375	6,962,885
National Rural Utilities Cooperative Finance Corporation	4,388,411	4,031,501
National Rural Telecommunications Cooperative, Inc.	575,462	588,550
Other	61,266	70,701
Equity contribution to the Alaska Rural Electric Cooperative Association Reciprocal Insurance Exchange	40,702	40,702
Allocation of margins from Alaska Rural Electric Cooperative Association Reciprocal Insurance Exchange	1,377,745	1,506,285
Total Investments in Associated Organizations	$ 22,660,049	$ 20,740,154

4. Cash and Cash Equivalents

HEA maintains its cash with Wells Fargo Bank, N.A. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per financial institution. Deposits held in noninterest-bearing transaction accounts are now aggregated with any interest-bearing deposits in the same ownership category, and the combined total is insured up to the $250,000 limit. At December 31, 2014 and 2013, the uninsured cash balance with Wells Fargo was $7,427,008 and $5,744,981, respectively.

HEA also makes temporary cash investments with National Rural Utilities Cooperative Finance Corporation (NRUCFC). The balance of the short-term cash investments was $2,500,000 at December 31, 2014.

5. Accounts Receivable

Accounts receivable at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Consumer accounts (energy bills)	$ 6,252,067	$ 5,983,454
Off system power sales	-	722,294
Contract services	744,357	1,295,992
Grants receivable	622,673	1,455,509
Other	111,881	55,564
Total accounts receivable	7,730,978	9,512,813
Allowance for doubtful accounts	(94,691)	(112,660)
Total Accounts Receivable, Net	$ 7,636,287	$ 9,400,153

6. Deferred Charges

At December 31, 2014 and 2013, deferred charges consisted of the following:

	2014	2013
Unused steam rights, to be amortized over 15 years	$ 3,813,328	$ 4,159,996
Storm damage costs	-	14,157
Facilities in progress	81,025	19,605
Deferred charges (credits) on cost of power adjustment	(183,704)	995,812
HEA rate case	403,358	605,038
Costs of pending contract, tariff and rate cases	825,402	-
Total Deferred Charges	$ 4,939,409	$ 5,794,608

7. Equities

At December 31, 2014 and 2013, equities consisted of the following:

	2014	2013
Memberships	$ 55,835	$ 58,630
Patronage capital:		
Assignable	2,939,837	5,038,978
Assigned	76,712,436	71,785,269
Total patronage capital	79,652,273	76,824,247
Less capital credits retired:		
Estates of deceased	(62,797)	(49,582)
Discounted portion	(71,142)	(61,339)
Applied to customer accounts	569	(890)
Total capital credits retired	(133,370)	(111,811)
Net patronage capital	79,518,903	76,712,436
Other equities – donated capital at beginning of year	2,665,429	2,615,806
Net transfers from patronage capital for unlocated customers and other adjustments	67,629	49,623
Other equities – donated capital at end of year	2,733,058	2,665,429
Total Equities	$ 82,307,796	$ 79,436,495

Patronage capital credits are paid to the estates of deceased members and applied to customer accounts in accordance with the by-law requirements.

Provisions in the long-term debt agreements with NRUCFC allow return of patrons' capital if after the distribution, equity of HEA will be at least twenty percent (20%) of its total assets. If, after giving effect to the distribution, total equity of HEA will be less than twenty percent (20%) of its total assets, then HEA may nevertheless make distributions up to thirty percent (30%) of its patronage capital or operating margins for the preceding calendar year.

8. Long-Term Debt

Long-term debt consists of notes payable to National Rural Utilities Cooperative Finance Corporation (NRUCFC), National Cooperative Services Corporation (NCSC), Farmer Mac (FMAC) and Rural Utilities Service (RUS). The interest rates may be fixed or variable under conversion options provided in the loan agreements. The loans are collateralized by all of HEA's and AEEC's assets except for vehicles. The loans require HEA to maintain a modified debt service coverage ratio of not less than 1.35. AEEC's loans require a modified debt service coverage ratio of not less than 1.05 and a minimum average equity ratio of 10% through 2014. The RUS loan requires a 1.05 minimum average TIER. HEA and AEEC were in compliance with these debt covenants.

Mortgage notes payable at December 31, 2014 and 2013 were as follows:

	2014	2013
NRUCFC:		
HEA mortgage notes payable at varying interest rates from 2.85% to 6.00%; interest only due quarterly until 2015; thereafter, principal and interest due quarterly until maturity in 2034.	$ 28,787,879	$ 28,787,879
HEA mortgage notes payable at varying interest rates from 4.60% to 5.75%; interest only due quarterly until 2015; thereafter, principal and interest due quarterly until maturity in 2040.	15,500,000	15,500,000
HEA mortgage notes payable at varying interest rates from 2.90% to 4.95%; principal and interest due quarterly until maturity in 2043.	59,719,862	60,262,687
AEEC mortgage notes payable at varying interest rates from 2.90% to 4.95%; principal and interest due quarterly until maturity in 2043.	36,679,344	37,634,157
AEEC mortgage notes payable at varying interest rates from 2.50% to 3.15%; interest due quarterly; principal due annually until maturity in 2017.	8,000,000	11,000,000
AEEC mortgage notes payable at interest rate of 6.15%; interest due quarterly; principal payments due quarterly beginning 2015 until maturity in 2043.	15,000,000	15,000,000
Total NRUCFC	163,687,085	168,184,723
NCSC:		
AEEC mortgage notes payable at varying interest rates from 3.50% to 4.70%; principal and interest due quarterly until maturity in 2044.	40,697,280	-
AEEC construction line of credit payable at varying interest rates until maturity in 2014 when it was refinanced into long-term debt.	-	173,000,000
Total NCSC	40,697,280	173,000,000

RUS:		
AEEC mortgage notes payable at varying interest rates from 2.910% to 3.188%; principal and interest due quarterly until maturity in 2040.	$ 147,169,811	-
FMAC:		
HEA mortgage notes payable at varying interest rates from 1.255% to 4.960%; principal and interest due semi-annually until maturity in 2042.	29,056,496	29,856,944
Total long-term debt	380,610,672	371,041,667
Less current portion	(17,257,018)	(8,683,749)
Total Long-Term Debt, Excluding Current Portion	$ 363,353,654	$ 362,357,918

Receipt of NRUCFC loans requires commitments to purchase non-interest bearing capital term certificates of the NRUCFC in the amount of $2,801,737 and $3,210,531 for 2014 and 2013, respectively (See Note 3).

The annual requirements for reduction of long-term debt outstanding as of December 31, 2014, are estimated to be as follows:

Year Ending December 31,	
2015	$ 17,257,018
2016	17,097,328
2017	16,263,164
2018	14,428,778
2019	14,568,272
Thereafter	300,996,112
	$ 380,610,672

At December 31, 2014, HEA and AEEC had long-term unadvanced loan funds available from NRUCFC of $28,500,000 and $25,000,000, respectively. At December 31, 2013, HEA and AEEC had long-term unadvanced loan funds available from NRUCFC of $31,500,000 and $25,000,000, respectively.

Permanent financing from RUS and NCSC replaced the construction line of credit in 2014. Between February and June 2014, AEEC drew $150,000,000 in new debt from RUS and $41,300,000 from NCSC to pay down the NCSC construction line of credit and convert to long-term financing for the generation construction projects. Interest capitalized directly to the Independent Light Program totaled $387,280 and $3,460,789 for the years ended December 31, 2014 and 2013, respectively.

9. Lines of Credit

HEA and AEEC each established a revolving line of credit loan with NRUCFC in amounts not to exceed $5,000,000 and $10,000,000, respectively. HEA and AEEC may borrow, repay, and reborrow funds for a period up to twelve months of the first advance at which time the balance of the loan must be reduced to zero for at least five consecutive days. Loan payments are due yearly with interest until final maturity, which for HEA is 2049, and for AEEC is 2019. There were no outstanding balances at December 31, 2014 and 2013 on the lines of credit. On January 29, 2015, HEA drew $2,500,00 on its line of credit with NRUCFC.

10. Accounts Payable

At December 31, 2014 and 2013, accounts payable consisted of the following:

	2014	2013
Trade accounts payable	$ 7,746,634	$ 6,326,331
Construction accounts payable	57,444	3,198,212
Total Accounts Payable	$ 7,804,078	$ 9,524,543

The amount recorded in accounts payable at year end includes both normal trade accounts payable and current liabilities related to the Independent Light Program construction projects.

11. Deferred Credits

At December 31, 2014 and 2013, deferred credits consisted of the following:

	2014	2013
Consumer prepayments	$ 75,006	$ 124,079
Standard labor on transformers and meters	469,845	415,532
Total Deferred Credits	$ 544,851	$ 539,611

12. Employee Benefits

Defined Benefit Pension Plans

Pension benefits for substantially all employees are provided through participation in the National Rural Electric Cooperative Association (NRECA) and Alaska Electrical Trust Fund retirement programs. Both plans are master multi-employer defined benefit plans qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. A unique characteristic of a multi-employer 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.

NRECA Retirement Security Plan Information

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is considered a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333. HEA contributions to the RS Plan in 2014 and in 2013 represented less than five percent of the total contributions made to the RS Plan by all participating employers. HEA made contributions to the RS Plan of $2,731,655 in 2014 and $2,550,276 in 2013. There have been no significant changes that affect the comparability of 2014 and 2013 contributions.

For 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, 2014 and over 80 percent funded on January 1, 2013 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 RS Plan and may change as a result of plan experience.

Alaska Electrical Pension Plan Information

The Alaska Electrical Pension Plan sponsor's Employer Identification Number is 92-6005171 and the Plan Number is 001. HEA contributions to the Plan in 2014 and in 2013 represented less than five percent of the total contributions made to the Plan by all participating employers. HEA made contributions to the Plan of $1,656,686 in 2014 and $1,557,170 in 2013. There have been no significant changes that affect the comparability of 2014 and 2013 contributions. In total, the Alaska Electrical Pension Plan was more than 80 percent funded at December 31, 2014 and 2013 as certified by the Plan actuary. The Plan is not subject to funding improvement plans or rehabilitation plans and as a result, HEA is not subject to contribution surcharges. There are no minimum funding commitments as negotiated contributions currently satisfy HEA's commitment towards meeting the annual minimum funding requirement for the Alaska Electrical Pension Plan. 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.

The expiration dates for HEA's collective bargaining agreements range from April 30, 2015 to April 30, 2016.

401(k) Plan

Effective January 1, 1988, HEA adopted a 401(k) plan covering substantially all employees who elect to participate. Employees are allowed to contribute up to the maximum dollar amounts permitted by the IRS each year. HEA contributes 1.0% of the straight time compensation for nonunion employees and an additional 2.0% on a matching basis. HEA contributes 6.0% of the straight time compensation on inside union employees. The employer contribution made for generation unit and outside union employees was $1.75 per hour. The total contributions to the Plan for the years ended December 31, 2014 and 2013 were $566,152 and $539,814, respectively.

13. Deferred Compensation Plan

HEA participates in the deferred compensation plan offered to similar cooperatives by NRECA. This program provides a deferral of current earnings by select or qualifying employees to a future period and is entirely funded by the employee.

14. Purchased Power

Effective September 27, 1986, HEA entered into an agreement for sale of electric power energy with Chugach Electric Association, Inc. (Chugach) and Alaska Electric Generation and Transmission Cooperative, Inc. (AEG&T). Effective June 30, 2003 this agreement was transferred to Alaska Electric and Energy Cooperative (AEEC) from AEG&T. Through the end of 2013, HEA and AEEC were members of Chugach. Terms of the agreement provided for Chugach to sell to AEEC power to supply a portion of HEA's requirements in an initial contract capacity of 73,000 kilowatts and associated energy at an initial minimum amount of not less than 350,000 megawatt hours per year. The rate charged by Chugach, which included a TIER component, was established by tariffs approved by the Regulatory Commission of Alaska. The only variable to the rate was the fuel adjustment factor developed by combining all fuel costs incurred during the month and dividing by the total kilowatt hours generated. Such factor was then applied to purchase kilowatt hours as a separate component of cost and passed through to the customers. Additionally, HEA guaranteed payment to Chugach of all charges incurred by AEEC under the agreement. The wholesale power contract with Chugach expired December 31, 2013 and AEEC began generating and supplying wholesale electric power for HEA.

AEEC paid Chugach approximately $35,817,129 for purchased power in 2013.

The all-requirements contract between HEA and AEEC (reassigned from AEG&T effective June 30, 2003) shall remain in effect until December 31, 2050 and thereafter until terminated by either party. The amount charged by AEEC to HEA for wholesale power covers all fixed and variable costs for operation of the generation and transmission assets. Additionally, the amount charged must provide a minimum modified debt service coverage ratio of 1.05 as defined in the NRUCFC mortgage.

15. Bradley Lake Hydroelectric Project

The Bradley Lake Hydroelectric Project Power Sales Agreement between the owner, the Alaska Energy Authority, and the utility participants was approved by RUS on June 29, 1989. In exchange for HEA's payment of its proportionate share of the debt service on the project bonds and actual operation and maintenance costs, HEA is entitled to 12% (14 megawatts) of the project's 120 megawatt capacity, although under normal conditions the output of the plant is kept below 90 MW (11 MW HEA share), and 12% of the plant's energy production, of which HEA's share averages 42,000 megawatt hours annually. HEA entered into a scheduling agreement during 1992 that gave Chugach Electric Association the right to schedule usage of HEA's portion of Bradley Lake Power. That scheduling agreement expired at the end of 2013. Effective June 30, 2003 HEA has assigned its share of Bradley Lake power to AEEC pursuant to its requirements contract with AEEC.

AEEC paid $2,164,104 and $1,738,932 for Bradley Lake power during 2014 and 2013, respectively. Minimum future payments, which started January 1, 2000 and will continue until 2027, are approximately $1,400,000 per year.

16. Regulatory Matters

HEA was granted approval by the Regulatory Commission of Alaska to use the Simplified Rate Filing Procedures for Electric Cooperatives on June 10, 1991. During 2014 there were no base rate increases. In 2013, HEA received approval for an 8.00% rate increase effective July 1st.

On December 9, 2011, HEA was granted Commission approval through U-10-97 (12) for its general rate case filing for test year 2010. The rate case included a rate redesign, most notably consolidating customer classes and adding a system delivery charge to residential and general service classes. Additionally the Commission authorized new returns for HEA's Times Interest Earned Ratio (TIER), increasing it from 1.64 to 2.00; and increasing AEEC's Modified Debt Service Coverage Ratio (MDSC) from 1.05 to 1.25. Overall the rate case resulted in a 0.7% rate increase effective January 1, 2012.

On November 14, 2013, HEA filed a request with the Commission for approval of transmission and related ancillary service tariffs. On June 30, 2014, HEA was granted interim and refundable inception rates. As of December 31, 2014, this case is still pending final Commission approval.

17. Affiliated Organizations

Kenai Hydro, a limited liability company, was formed for the purpose of evaluating, investigating and planning low impact hydroelectric facilities on the Kenai Peninsula. Grants from the State of Alaska awarded to Kenai Hydro LLC have been used to pursue a FERC license for hydroelectric facilities. Currently HEA is the sole member of the LLC.

18. Major Customer

Power sales to two commercial customers totaled $10,115,686 and $8,584,895, or 11.2% and 10.7% of total power sales revenue in 2014 and 2013, respectively.

19. Contingencies and Commitments

HEA is subject to extensive federal, state and local environmental laws and regulations. These laws and regulations, which are constantly changing, regulate the discharge of materials into the environment and may require HEA to remove or mitigate the environmental effects of the disposals or release of substances at various sites. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no economic benefits are either expensed in the current period or amortized over an approved period of time. Liabilities for expenditures of a noncapital nature are recorded when environmental assessments and/or remediation is probable, and the costs can be reasonably estimated.

Although the level of future expenditures for environmental matters is impossible to determine, it is management's opinion that such costs when finally determined will not have a material effect on the financial position of HEA.

In the normal course of business, HEA is involved in various claims and litigation. In the opinion of management and HEA's legal counsel, the disposition of these matters is not expected to have a material adverse effect on HEA's financial statements.

20. Grant Revenues

HEA has received grant funding from various federal and State of Alaska agencies to assist with the costs of several different projects, including the following: removal of trees killed by spruce bark beetles which are a hazard to the power lines; hydroelectric facility feasibility studies; repair and construction of transmission lines and structures; significant upgrades to substations; and replacement of facilities damaged by floods and wind. In accordance with industry standards, HEA has chosen to account for grant revenues either as a reduction of expenses or as a reduction in the costs of capital improvements. HEA incurred grant reimbursable expenses of $9,340,543 and $7,902,087 in 2014 and 2013, respectively.

Due to a series of wind events in November 2011, HEA incurred substantial damage to the electric system. In 2012, HEA submitted requests for $1.7 million in Public Assistance Grants from the Federal Emergency Management Agency (FEMA) and the State of Alaska Division of Homeland Security and Emergency Management (DHSEM). HEA received $474,937 and $186,689 from DHSEM in 2014 and 2013, plus $527,209 and $437,862 from FEMA in 2014 and 2013, respectively.

Supplementary Information

Homer Electric Association, Inc. and Subsidiary

Consolidating Balance Sheet

December 31, 2014	Homer Electric Association	Alaska Electric and Energy Cooperative	Eliminations	Consolidated Totals
Assets				
Utility plant at cost:				
Electric plant in service	$ 252,610,937	$ 313,903,300	$ -	$ 566,514,237
Electric plant held for future use	1,162,802	-	-	1,162,802
Construction work in progress	9,643,039	1,690,599	-	11,333,638
Total utility plant, at cost	263,416,778	315,593,899	-	579,010,677
Less accumulated depreciation and amortization	(100,948,411)	(60,955,398)	-	(161,903,809)
Net utility plant	162,468,367	254,638,501	-	417,106,868
Other assets and investments:				
Investments in associated organizations	41,195,090	11,349,173	(29,884,214)	22,660,049
Notes receivable, net of current portion	400,019	-	-	400,019
Non-utility property, net of accumulated depreciation of $442,243	302,869	-	-	302,869
Total other assets and investments	41,897,978	11,349,173	(29,884,214)	23,362,937
Current Assets				
Cash and cash equivalents	4,626,917	6,164,512	-	10,791,429
Accounts receivable, less allowance for doubtful accounts of $94,691	9,074,202	7,209,308	(8,647,223)	7,636,287
Unbilled revenue	5,776,145	-	-	5,776,145
Materials, fuel and supplies inventory	3,892,400	2,001,647	-	5,894,047
Notes receivable, current portion	524,751	-	-	524,751
Other current and accrued assets	448,487	130	-	448,617
Total Current Assets	24,342,902	15,375,597	(8,647,223)	31,071,276
Deferred charges	1,126,081	3,813,328	-	4,939,409
Total Assets	$ 229,835,328	$ 285,176,599	$ (38,531,437)	$ 476,480,490

Homer Electric Association, Inc. and Subsidiary

Consolidating Balance Sheet, continued

December 31, 2014	Homer Electric Association	Alaska Electric and Energy Cooperative	Eliminations	Consolidated Totals
Equities and Liabilities				
Equities				
Memberships	$ 55,835	$ -	$ -	$ 55,835
Patronage capital	79,518,903	23,884,214	(23,884,214)	79,518,903
Other equities - donated capital	2,733,058	6,000,000	(6,000,000)	2,733,058
Total Equities	82,307,796	29,884,214	(29,884,214)	82,307,796
Long-term debt - mortgage notes payable	126,877,724	236,475,930	-	363,353,654
Current Liabilities				
Current portion of long-term debt	6,186,513	11,070,505	-	17,257,018
Accounts payable	8,705,351	7,745,950	(8,647,223)	7,804,078
Consumer deposits	1,193,441	-	-	1,193,441
Accrued payroll and benefits	2,687,007	-	-	2,687,007
Accrued taxes and other current liabilities	1,332,645	-	-	1,332,645
Total Current Liabilities	20,104,957	18,816,455	(8,647,223)	30,274,189
Deferred credits	544,851	-	-	544,851
Total Equities and Liabilities	$ 229,835,328	$ 285,176,599	$ (38,531,437)	$ 476,480,490

Homer Electric Association, Inc. and Subsidiary

Consolidating Statement of Operations and Patronage Capital

Year Ended December 31, 2014	Homer Electric Association	Alaska Electric and Energy Cooperative	Eliminations	Consolidated Totals
Operating Revenues	$ 91,422,540	$ 59,457,413	$ (58,986,216)	$ 91,893,737
Operating Expenses				
Purchased power costs	59,281,661	37,654,402	(58,986,216)	37,949,847
Transmission expense	-	1,085,668	-	1,085,668
Distribution operations	2,091,840	-	-	2,091,840
Distribution maintenance	4,492,616	-	-	4,492,616
Production maintenance	-	3,470,109	-	3,470,109
Consumer accounts	3,552,880	-	-	3,552,880
Customer service and information	574,307	-	-	574,307
Sales expense	118,098	-	-	118,098
Administrative and general	8,139,245	387,622	-	8,526,867
Depreciation and amortization	6,306,270	8,869,420	-	15,175,690
Taxes	231,230	-	-	231,230
Miscellaneous	218,143	211,408	-	429,551
Total Operating Expenses	85,006,290	51,678,629	(58,986,216)	77,698,703
Operating margins before fixed charges	6,416,250	7,778,784	-	14,195,034
Fixed Charges				
Interest on debt, net of capitalized interest	5,882,011	8,105,757	-	13,987,768
Allowance for funds used during construction	(153,443)	-	-	(153,443)
Net Fixed Charges	5,728,568	8,105,757	-	13,834,325
Operating margins after fixed charges	687,682	(326,973)	-	360,709
Patronage Capital Allocation	2,125,996	1,308,122	(1,013,073)	2,421,045
Net operating margins	2,813,678	981,149	(1,013,073)	2,781,754
Nonoperating Margins				
Interest income	149,893	32,770	-	182,663
Other income (expense)	(23,734)	(846)	-	(24,580)
Total Nonoperating Margins	126,159	31,924	-	158,083
Net margins	2,939,837	1,013,073	(1,013,073)	2,939,837
Patronage capital at beginning of year	76,712,436	22,871,141	(22,871,141)	76,712,436
Less retirement of patronage capital credits	(133,370)	-	-	(133,370)
Patronage Capital at End of Year	$ 79,518,903	$ 23,884,214	$ (23,884,214)	$ 79,518,903