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

Consolidated Financial Statements and Supplementary Information
Years Ended December 31, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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 23, 2016, 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 23, 2016

Consolidated Financial Statements

Homer Electric Association, Inc. and Subsidiary

Consolidated Balance Sheets

December 31,	2015	2014
Assets		
Utility plant, at cost:		
Electric plant in service	$ 571,497,008	$ 566,514,237
Electric plant held for future use	1,166,067	1,162,802
Construction work in progress	11,882,107	11,333,638
Total utility plant, at cost	584,545,182	579,010,677
Less accumulated depreciation and amortization	(170,380,130)	(161,903,809)
Net utility plant	414,165,052	417,106,868
Other assets and investments:		
Investments in associated organizations	23,730,008	22,660,049
Notes receivable, net of current portion	525,846	400,019
Non-utility property, net of accumulated depreciation of $477,939 ($442,243 in 2014)	267,173	302,869
Total other assets and investments	24,523,027	23,362,937
Current Assets		
Cash and cash equivalents	6,670,692	10,791,429
Accounts receivable, less allowance for doubtful accounts of $134,104 ($94,691 in 2014)	7,319,963	7,636,287
Unbilled revenue	6,040,812	5,776,145
Materials, fuel and supplies inventory	6,458,418	5,894,047
Notes receivable, current portion	282,917	524,751
Other current and accrued assets	421,093	448,617
Total Current Assets	27,193,895	31,071,276
Deferred charges	5,826,670	4,939,409
Total Assets	$ 471,708,644	$ 476,480,490

See accompanying notes to consolidated financial statements.

Homer Electric Association, Inc. and Subsidiary

Consolidated Balance Sheets, continued

December 31,	2015	2014
Equities and Liabilities		
Equities		
Memberships	$ 53,320	$ 55,835
Patronage capital	85,100,128	79,518,903
Other equities - donated capital	2,782,315	2,733,058
Total Equities	87,935,763	82,307,796
Liabilities		
Long-term debt - mortgage notes payable	353,729,944	363,353,654
Current Liabilities		
Current portion of long-term debt	17,672,815	17,257,018
Accounts payable	6,568,469	7,804,078
Consumer deposits	1,225,895	1,193,441
Accrued payroll and benefits	2,534,928	2,687,007
Accrued taxes and other current liabilities	1,348,122	1,332,645
Total Current Liabilities	29,350,229	30,274,189
Deferred credits	692,708	544,851
Total Equities and Liabilities	$ 471,708,644	$ 476,480,490

See accompanying notes to consolidated financial statements.

Homer Electric Association, Inc. and Subsidiary

Consolidated Statements of Operations and Patronage Capital

Years Ended December 31,	2015	2014
Operating Revenues	$ 97,161,653	$ 91,893,737
Operating Expenses		
Fuel costs	31,868,516	31,627,092
Production operations and maintenance	7,165,059	7,115,002
Purchased power costs	4,208,038	2,677,862
Transmission operations and maintenance	1,033,794	1,085,668
Distribution operations and maintenance	5,624,963	6,584,456
Consumer accounts, service and sales	3,970,572	4,245,285
Administrative, general and other	8,199,173	9,187,648
Depreciation and amortization	16,592,106	15,175,690
Total Operating Expenses	78,662,221	77,698,703
Interest Expense		
Long-term debt and other	14,439,745	14,419,513
Capitalized interest	-	(387,280)
Allowance for funds used during construction	(217,753)	(153,443)
Net Interest Expense	14,221,992	13,878,790
Net operating margins	4,277,440	316,244
Nonoperating Margins		
Interest income	161,041	182,663
Gain on sale of assets	96,537	-
Other income (expense)	(5,828)	19,885
Capital credits, patronage dividends and other	1,179,517	2,421,045
Total Nonoperating Margins	1,431,267	2,623,593
Net margins	5,708,707	2,939,837
Patronage capital, beginning of year	79,518,903	76,712,436
Less retirement of patronage capital credits	(127,482)	(133,370)
Patronage Capital, end of year	$ 85,100,128	$ 79,518,903

See accompanying notes to consolidated financial statements.

Homer Electric Association, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31,	2015	2014
Cash Flows from Operating Activities		
Cash received from customers	$ 97,911,047	$ 94,052,024
Cash paid to suppliers and employees	(62,285,281)	(60,233,903)
Interest and dividends received	161,041	182,663
Interest paid	(14,439,745)	(14,375,048)
Taxes paid	(218,251)	(21,802)
Other	90,709	(24,580)
Net cash from operating activities	21,219,520	19,579,354
Cash Flows for Investing Activities		
Plant additions	(17,178,700)	(33,730,437)
Contributions in aid of construction, including grant reimbursements	3,597,984	11,853,397
Salvage on plant retirements	(163,214)	(264,321)
Cost of removal	(542,251)	(743,793)
Patronage refunds from associated organizations	752,082	1,570,938
Investments in associated organizations	(607,010)	(1,066,417)
Changes in assets and liabilities that provided (used) cash:		
Accounts payable, construction	(57,444)	(3,140,768)
Materials, fuel and supplies inventories	(564,371)	734,991
Deferred charges	(1,468,991)	(324,317)
Deferred credits	147,857	5,240
Net cash for investing activities	(16,084,058)	(25,105,487)
Cash Flows for Financing Activities		
Proceeds from long-term debt	8,000,000	194,300,000
Principal payments on long-term debt	(17,207,913)	(184,730,995)
Retirement of capital credits	(78,225)	(65,741)
Changes in assets and liabilities that provided (used) cash:		
Consumer deposits	32,454	68,379
Memberships	(2,515)	(2,795)
Net cash from (for) financing activities	(9,256,199)	9,568,848
Net increase (decrease) in cash and cash equivalents	(4,120,737)	4,042,715
Cash and Cash Equivalents, beginning of year	10,791,429	6,748,714
Cash and Cash Equivalents, end of year	$ 6,670,692	$ 10,791,429

See accompanying notes to consolidated financial statements.

Homer Electric Association, Inc. and Subsidiary

Consolidated Statements of Cash Flows, continued

Years Ended December 31,	2015	2014
Reconciliation of Net Margins to Net Cash From Operating Activities		
Net margins	$ 5,708,707	$ 2,939,837
Adjustments to reconcile net margins to net cash from operating activities:		
Depreciation and amortization	17,481,446	15,837,169
Allowance for funds used during construction	(217,753)	(153,443)
Interest capitalized to construction	-	(387,280)
Patronage capital from associated organizations (non-cash)	(1,215,031)	(2,424,416)
(Increase) decrease in assets:		
Accounts receivable, net	316,324	1,763,866
Notes receivable	116,007	167,084
Unbilled revenue	(264,667)	(952,179)
Cost of power adjustment (COPA)	581,730	1,179,516
Other current assets	27,524	(76,746)
Increase (decrease) in liabilities:		
Accounts payable, trade	(1,178,165)	1,420,303
Accrued payroll and benefits	(152,079)	56,215
Accrued taxes and other current liabilities	15,477	209,428
Total adjustments	15,510,813	16,639,517
Net Cash From Operating Activities	$ 21,219,520	$ 19,579,354

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Homer Electric Association, Inc. (HEA) is an electric utility engaged in the generation, transmission and distribution of electricity for its members. HEA was formed in 1945 as Alaska's fifth rural electric cooperative. Today it serves nearly 23,000 members over the 3,166 square-mile service territory on the southern Kenai Peninsula, including several remote communities across Kachemak Bay. HEA operates on a not-for-profit basis and is recognized by the IRS as a 501(c)12 organization. Accordingly, it seeks only to generate revenues sufficient to pay operating and maintenance costs, the cost of purchased power, capital expenditures, depreciation, debt service, and to provide for reserves.

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 to the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 980 relating to accounting for regulated entities. 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 balances 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.

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.

Capitalized Interest

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, purchased power from other sources, and Bradley Lake purchased power.

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 and transactions for potential recognition or disclosure through March 23, 2016, the date on which the financial statements were issued.

2. Utility Plant and Depreciation Rates and Procedures

Major classes of HEA's utility plant at December 31, 2015 and 2014 are as follows:

	2015	2014
Production plant	$ 244,481,188	$ 243,660,399
Distribution plant	220,706,712	216,764,440
Transmission plant	67,825,214	67,052,341
General plant	31,186,608	33,680,019
Plant in service, unclassified	5,536,859	3,596,611
Plant leased to others	1,760,427	1,760,427
Total electric plant in service	571,497,008	566,514,237
Electric plant held for future use	1,166,067	1,162,802
Construction work in progress	11,882,107	11,333,638
Total Utility Plant, At Cost	$ 584,545,182	$ 579,010,677

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 reflects vacant land owned by HEA.

Construction work in progress at December 31, 2015, includes approximately $9.9 million for distribution construction projects and $2.0 million in generation and transmission projects. The Independent Light Program 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.

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. A subsequent Depreciation Study was approved by the RCA in 2015 with an effective date of January 1, 2016. The annual depreciation accrual rates were developed using the straight line method, vintage group procedure and remaining life technique. Depreciation accrual rates used in 2014 and 2015 vary by specific asset type according to these ranges:

	Range		
Production plant	0.91%	to	10.39%
Distribution plant	1.82%	to	4.28%
Transmission plant	1.42%	to	7.57%
General plant	0.81%	to	10.00%
Plant leased to others	2.75%	to	5.00%
Vehicles and equipment	15.00%	to	16.00%

Overhauls and hot gas path inspections on generation plant are capitalized and depreciated over the projected life of the repairs (two to six years). Depreciation on vehicles and equipment is charged to transportation clearing accounts.

Total depreciation and amortization for the years ended December 31, 2015 and 2014 is summarized below:

	2015	2014
Depreciation and amortization expense	$ 16,592,106	$ 15,175,690
Depreciation on leased plant	88,092	88,092
Total Depreciation and Amortization	$ 16,680,198	$ 15,263,782
Depreciation Charged to Clearing Accounts	$ 600,415	$ 625,165

3. Investments in Associated Organizations

Investments in associated organizations at December 31, 2015 and 2014 consisted of the following:

	2015	2014
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation	$ 2,565,808	$ 2,628,308
Capital term non-interest bearing certificates of the National Rural Utilities Cooperative Finance Corporation	2,584,691	2,801,737
Investment in Kenai Hydro LLC	3,200,041	2,593,031
Patronage capital credits issued by:		
Southeastern Data Cooperative	203,190	188,012
Chugach Electric Association	7,972,598	8,005,375
National Rural Utilities Cooperative Finance Corporation	4,713,704	4,388,411
National Rural Telecommunications Cooperative, Inc.	562,069	575,462
Other	66,391	61,266
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	1,820,814	1,377,745
Total Investments in Associated Organizations	$ 23,730,008	$ 22,660,049

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. 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, 2015 and 2014, the uninsured cash balance with Wells Fargo was $6,515,039 and $7,427,008, respectively.

HEA also makes temporary cash investments with National Rural Utilities Cooperative Finance Corporation (NRUCFC). There were no short-term cash investments at December 31, 2015. The balance of the short-term cash investments was $2,500,000 at December 31, 2014.

5. Accounts Receivable

Accounts receivable at December 31, 2015 and 2014 consisted of the following:

	2015	2014
Consumer accounts (energy bills)	$ 6,704,041	$ 6,252,067
Contract services	388,651	744,357
Grants receivable	327,108	622,673
Other	34,267	111,881
Total accounts receivable	7,454,067	7,730,978
Allowance for doubtful accounts	(134,104)	(94,691)
Total Accounts Receivable, Net	$ 7,319,963	$ 7,636,287

6. Deferred Charges

At December 31, 2015 and 2014, deferred charges consisted of the following:

	2015	2014
Unused steam rights, to be amortized over 15 years	$ 3,466,660	$ 3,813,328
Wildfire damage costs, pending reimbursement	167,469	-
Facilities and projects in progress	58,419	81,025
Deferred charges (credits) on cost of power adjustment	(765,434)	(183,704)
HEA rate case	201,679	403,358
Costs of pending contract, tariff and rate cases	2,697,877	825,402
Total Deferred Charges	$ 5,826,670	$ 4,939,409

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7. Equities

At December 31, 2015 and 2014, equities consisted of the following:

	2015	2014
Memberships	$ 53,320	$ 55,835
Patronage capital:		
Assignable	5,708,707	2,939,837
Assigned	79,518,903	76,712,436
Total patronage capital	85,227,610	79,652,273
Less capital credits retired:		
Estates of deceased	(59,070)	(62,797)
Discounted portion	(67,717)	(71,142)
Applied to customer accounts	(695)	569
Total capital credits retired	(127,482)	(133,370)
Net patronage capital	85,100,128	79,518,903
Other equities – donated capital at beginning of year	2,733,058	2,665,429
Net transfers from patronage capital for unlocated customers and other adjustments	49,257	67,629
Other equities – donated capital at end of year	2,782,315	2,733,058
Total Equities	$ 87,935,763	$ 82,307,796

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 an average modified debt service coverage ratio of not less than 1.35. AEEC's loans require an average modified debt service coverage ratio of not less than 1.05, a minimum equity ratio of 10% through 2014, and a minimum equity ratio of 12% through 2017. The RUS loan requires a 1.05 minimum TIER. HEA and AEEC were in compliance with these debt covenants.

Mortgage notes payable at December 31, 2015 and 2014 were as follows:

	2015	2014
NRUCFC:		
HEA mortgage notes payable at varying interest rates from 2.85% to 5.75%; principal and interest due quarterly until maturity in 2040.	$ 42,971,033	$ 44,287,879
HEA mortgage notes payable at varying interest rates from 3.2% to 7.15%; principal and interest due quarterly until maturity in 2045.	64,084,824	59,719,862
AEEC mortgage notes payable at varying interest rates from 2.90% to 4.95%; principal and interest due quarterly until maturity in 2043.	35,705,108	36,679,344
AEEC mortgage notes payable at varying interest rates from 2.80% to 3.15%; interest due quarterly; principal due annually until maturity in 2017.	5,000,000	8,000,000
AEEC mortgage notes payable at interest rate of 6.15%; principal and interest due quarterly until maturity in 2043.	14,798,894	15,000,000
Total NRUCFC	162,559,859	163,687,085
NCSC:		
AEEC mortgage notes payable at varying interest rates from 3.50% to 4.70%; principal and interest due quarterly until maturity in 2044.	39,451,818	40,697,280

	2015	2014
RUS:		
AEEC mortgage notes payable at varying interest rates from 2.910% to 3.188%; principal and interest due quarterly until maturity in 2040.	$ 141,509,434	$ 147,169,811
Advance payments unapplied; in RUS Cushion of Credit	(255,594)	-
Total RUS	141,253,840	$ 147,169,811
FMAC:		
HEA mortgage notes payable at varying interest rates from 1.257% to 4.960%; principal and interest due semi-annually until maturity in 2042.	28,137,242	29,056,496
Total long-term debt	371,402,759	380,610,672
Less current portion	(17,672,815)	(17,257,018)
Total Long-Term Debt, Excluding Current Portion	$ 353,729,944	$ 363,353,654

Receipt of NRUCFC loans requires commitments to purchase non-interest bearing capital term certificates. Balances of these NRUCFC certificates were $2,584,691 and $2,801,737 for 2015 and 2014, respectively (See Note 3).

The annual requirements for reduction of long-term debt outstanding as of December 31, 2015, are estimated to be as follows:

Year Ending December 31,	
2016	$ 17,672,815
2017	16,424,416
2018	14,579,436
2019	14,706,815
2020	14,457,547
Thereafter	293,561,730
	$ 371,402,759

At December 31, 2015, HEA and AEEC had long-term unadvanced loan facilities available from NRUCFC of $20,500,000 and $25,000,000, respectively. At December 31, 2014, HEA and AEEC had long-term unadvanced loan facilities available from NRUCFC of $28,500,000 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 $0 and $387,280 for the year ended December 31, 2015 and 2014, 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, 2015 and 2014 on the lines of credit. On January 29, 2016, HEA drew $1,500,000 on its line of credit with NRUCFC.

10. Deferred Credits

At December 31, 2015 and 2014, deferred credits consisted of the following:

	2015	2014
Consumer prepayments	$ 43,549	$ 75,006
Standard labor on transformers and meters	649,159	469,845
Total Deferred Credits	$ 692,708	$ 544,851

11. 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 2015 and 2014 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 $2,642,665 in 2015 and $2,731,655 in 2014. There have been no significant changes that affect the comparability of 2015 and 2014 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, 2015 and 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 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 2015 and in 2014 represented less than five percent of the total contributions made to the Plan by all participating employers. HEA made contributions to the Plan of $1,446,002 in 2015 and $1,656,686 in 2014. There have been no significant changes that affect the comparability of 2015 and 2014 contributions. In total, the Alaska Electrical Pension Plan was certified by the Plan actuary with a green zone status at December 31, 2015 and 2014. 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, 2016 to April 30, 2018.

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, 2015 and 2014 were $587,297 and $566,152, respectively.

12. 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.

13. 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. The wholesale power contract with Chugach expired December 31, 2013 and AEEC began generating and supplying wholesale electric power for HEA. The all-requirements contract between HEA and AEEC 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 an average minimum modified debt service coverage ratio of 1.05 as defined in the NRUCFC mortgage.

14. 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 a 12% share or 10.8 megawatts (MW) as currently operated, and 12% of the plant's energy production, of which HEA's share currently averages 45,600 megawatt hours annually. As of 2014, HEA schedules its own Bradley Lake Power through the project dispatcher, Chugach Electric Association. Effective June 30, 2003 HEA has assigned its share of Bradley Lake power to AEEC pursuant to its requirements contract with AEEC.

AEEC paid $2,150,169 and $2,164,104 for Bradley Lake power during 2015 and 2014, respectively. Minimum future payments, which started January 1, 2000 and will continue until 2027, are approximately $1,400,000 per year.

15. Regulatory Matters

HEA was granted approval by the Regulatory Commission of Alaska (RCA) to use the Simplified Rate Filing Procedures for Electric Cooperatives on June 10, 1991. In 2015, HEA received approval for an 8.00% base rate increase effective May 7, 2015. During 2014 there were no base rate increases.

On November 14, 2013, HEA filed a request with the RCA for approval of transmission and related ancillary service tariffs. As of December 31, 2015, this case is still pending final approval from the RCA; hence no associated revenues are recorded in 2015. This issue also has pending litigation in both the Superior and Supreme Courts.

On October 30, 2015, HEA filed a request with the RCA for approval of its general rate case filing for test year 2014. The filing also included a request for interim and refundable rates sufficient to recover approximately $2 million per year. The interim request was granted effective February 1, 2016. Permanent rates are under RCA review and pending approval.

16. Affiliated Organizations

Kenai Hydro, a limited liability company, was formed in 2008 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. In 2015 HEA transferred its membership in Kenai Hydro to AEEC. As a single-member LLC, Kenai Hydro is considered by the IRS as a disregarded entity for tax purposes.

17. Major Customer

Power sales to three commercial customers totaled $13,626,454 and $11,783,832, or 14.0% and 12.8% of total operating revenues in 2015 and 2014, respectively.

18. 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.

19. 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, wind and wildfires. 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 $1,892,168 and $9,340,543 in 2015 and 2014, 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 from DHSEM and $527,209 from FEMA in 2014.

Due to several wildfires on the Kenai Peninsula in 2015, HEA incurred additional costs and damages to the electric system. HEA submitted requests for $541,535 in State Disaster Public Assistance Grants from the State of Alaska Division of Homeland Security and Emergency Management (DHSEM). Included in the deferred charges is an estimate for the amount expected to be reimbursed. The requests are still under review by the agency and no funds were received in 2015.

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Supplementary Information

Homer Electric Association, Inc. and Subsidiary

Consolidating Balance Sheet

December 31, 2015	Homer Electric Association	Alaska Electric and Energy Cooperative	Eliminations	Consolidated Totals
Assets				
Utility plant at cost:				
Electric plant in service	$ 256,027,353	$ 315,469,655	$ -	$ 571,497,008
Electric plant held for future use	1,166,067	-	-	1,166,067
Construction work in progress	9,904,415	1,977,692	-	11,882,107
Total utility plant, at cost	267,097,835	317,447,347	-	584,545,182
Less accumulated depreciation and amortization	(100,874,380)	(69,505,750)	-	(170,380,130)
Net utility plant	166,223,455	247,941,597	-	414,165,052
Other assets and investments:				
Investments in associated organizations	43,600,675	14,433,060	(34,303,727)	23,730,008
Notes receivable, net of current portion	525,846	-	-	525,846
Non-utility property, net of accumulated depreciation of $477,939	267,173	-	-	267,173
Total other assets and investments	44,393,694	14,433,060	(34,303,727)	24,523,027
Current Assets				
Cash and cash equivalents	2,556,370	4,114,322	-	6,670,692
Accounts receivable, less allowance for doubtful accounts of $134,104	9,315,271	5,439,333	(7,434,641)	7,319,963
Unbilled revenue	6,040,812	-	-	6,040,812
Materials, fuel and supplies inventory	3,656,879	2,801,539	-	6,458,418
Notes receivable, current portion	282,917	-	-	282,917
Other current and accrued assets	417,963	3,130	-	421,093
Total Current Assets	22,270,212	12,358,324	(7,434,641)	27,193,895
Deferred charges	2,297,749	3,528,921	-	5,826,670
Total Assets	$ 235,185,110	$ 278,261,902	$ (41,738,368)	$ 471,708,644

Homer Electric Association, Inc. and Subsidiary

Consolidating Balance Sheet, continued

December 31, 2015	Homer Electric Association	Alaska Electric and Energy Cooperative	Eliminations	Consolidated Totals
Equities and Liabilities				
Equities				
Memberships	$ 53,320	$ -	$ -	$ 53,320
Patronage capital	85,100,128	25,103,686	(25,103,686)	85,100,128
Other equities - donated capital	2,782,315	9,200,041	(9,200,041)	2,782,315
Total Equities	87,935,763	34,303,727	(34,303,727)	87,935,763
Liabilities				
Long-term debt - mortgage notes payable	128,677,277	225,052,667	-	353,729,944
Current Liabilities				
Current portion of long-term debt	6,515,823	11,156,992	-	17,672,815
Accounts payable	6,254,594	7,748,516	(7,434,641)	6,568,469
Consumer deposits	1,225,895	-	-	1,225,895
Accrued payroll and benefits	2,534,928	-	-	2,534,928
Accrued taxes and other current liabilities	1,348,122	-	-	1,348,122
Total Current Liabilities	17,879,362	18,905,508	(7,434,641)	29,350,229
Deferred credits	692,708	-	-	692,708
Total Equities and Liabilities	$ 235,185,110	$ 278,261,902	$ (41,738,368)	$ 471,708,644

Homer Electric Association, Inc. and Subsidiary

Consolidating Statement of Operations and Patronage Capital

Year Ended December 31, 2015	Homer Electric Association	Alaska Electric and Energy Cooperative	Eliminations	Consolidated Totals
Operating Revenues	$ 96,956,793	$ 64,487,680	$ (64,282,820)	$ 97,161,653
Operating Expenses				
Fuel costs	-	31,868,516	-	31,868,516
Production operations and maintenance	-	7,165,059	-	7,165,059
Purchased power costs	64,430,060	4,060,798	(64,282,820)	4,208,038
Transmission operations and maintenance	-	1,033,794	-	1,033,794
Distribution operations and maintenance	5,624,963	-	-	5,624,963
Consumer accounts, service and sales	3,970,572	-	-	3,970,572
Administrative, general and other	7,594,945	604,228	-	8,199,173
Depreciation and amortization	6,536,458	10,055,648	-	16,592,106
Total Operating Expenses	88,156,998	54,788,043	(64,282,820)	78,662,221
Interest Expense				
Long-term debt and other	5,609,209	8,830,536	-	14,439,745
Allowance for funds used during construction	(217,753)	-	-	(217,753)
Net Interest Expense	5,391,456	8,830,536	-	14,221,992
Net operating margins	3,408,339	869,101	-	4,277,440
Nonoperating Margins				
Interest income	128,606	32,435	-	161,041
Gain (loss) on sale of assets	(1,054)	97,591	-	96,537
Other expense	(5,828)	-	-	(5,828)
Capital credits, patronage dividends and other	2,178,644	220,345	(1,219,472)	1,179,517
Total Nonoperating Margins	2,300,368	350,371	(1,219,472)	1,431,267
Net margins	5,708,707	1,219,472	(1,219,472)	5,708,707
Patronage capital, beginning of year	79,518,903	23,884,214	(23,884,214)	79,518,903
Less retirement of patronage capital credits	(127,482)	-	-	(127,482)
Patronage Capital, end of year	$ 85,100,128	$ 25,103,686	$ (25,103,686)	$ 85,100,128