



Solutions for the Future

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Date: June 22, 2015

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
9300 East Hampton Drive
Capitol Heights, MD 20743

**Re: WC Docket No. 14-58, 2015 Annual Report, Form 481 for High-Cost Recipient
54.313(f)(1) "Milestone Certification"**

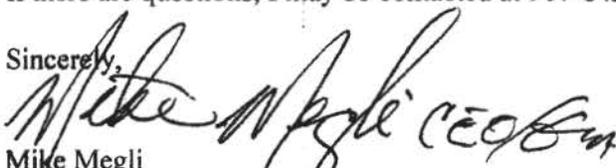
Dear Ms Dortch:

In compliance with the filing requirements associated with, and attached to Form 481, we wish to advise the Commission that Nushagak Electric and Telephone Cooperative Inc. provides High Speed Internet service to its customers which:

- Has taken reasonable steps;
- Provides latency suitable for real-time applications including VoIP and usage capacity which is reasonably comparable to those in urban areas and;
- That reasonable requests for service are met within a reasonable timeframe.

If there are questions, I may be contacted at 907-842-5251.

Sincerely,


Mike Megli
CEO/GM

**ANCHOR INSTITUTIONS WITHIN NUSHAGAK ELECTRIC AND TELEPHONE
COOPERATIVE INC (NETC) TERRITORY**

For the year 2014, no anchor institutions were newly provided access to high-speed broadband. There are no outstanding requests from broadband service for anchor institutions without access to NETC broadband. As of the end of year 2014, NETC has provided access to high speed broadband service to the following institutions (those who are connected to NETC broadband are so noted):.

Number Name

Anchor institutions include the following:	NETC Internet(Y/N)	Connect Date
1. Dillingham Grade School	N	
2. Aleknagik Grade School	N	
3. Dillingham High School	N	
4. Manokotak School	N	
5. Dillingham Library	N	
6. University of Alaska Fairbanks	N	
7. Kakanak Native Hospital	Y	12/14/2012
8. North Shore Medical Clinic	N	
9. South Shore Medical Clinic	N	
10. Clarks Point Medical Clinic	N	
11. Manokotak Medical Clinic	N	
12. Bristol Bay Native Association	Y	7/12/2013
13. Alaska State Troopers	Y	11/12/2012
14. Alaska Department of Fish and Game	Y	5/23/2014
15. USF&W Togiak Wildlife Refuge	Y	8/30/2013
16. Bristol Bay Economic Development Corporation	Y	10/12/2012
17. City of Dillingham	Y	1/12/2013
18. Dillingham Police Department	Y	1/12/2013



**NUSHAGAK ELECTRIC AND
TELEPHONE COOPERATIVE, INC.**

**Financial Statements
with Supplemental Information and RUS Letters**

Years Ended December 31, 2014 and 2013



NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.
Financial Statements with Supplemental Information and RUS Letters
Years Ended December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Nushagak Electric and Telephone Cooperative, Inc.
Dillingham, Alaska

We have audited the accompanying financial statements of Nushagak Electric and Telephone Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations and patronage capital, and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nushagak Electric and Telephone Cooperative, Inc. at December 31, 2014 and 2013, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining divisional statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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PORTLAND, OR | SALEM, OR | CARLSBAD, CA | ESCONDIDO, CA | SAN DIEGO, CA | ANCHORAGE, AK

AKT LLP

REDACTED - FOR PUBLIC INSPECTION

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 27, 2015 on our consideration of Nushagak Electric and Telephone Cooperative, Inc.'s internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

AKT LLP

Salem, Oregon
March 27, 2015

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Balance Sheets

December 31, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and cash equivalents	█ [REDACTED]	[REDACTED]
Accounts receivable net of allowance for doubtful accounts of \$0 (\$50,716 in 2013)	[REDACTED]	[REDACTED]
Materials and supplies inventory	[REDACTED]	[REDACTED]
Fuel inventory	[REDACTED]	[REDACTED]
Prepaid expenses	[REDACTED]	[REDACTED]
Total Current Assets	[REDACTED]	[REDACTED]
Other Assets:		
Investments in associated organizations	[REDACTED]	[REDACTED]
Deferred charges	[REDACTED]	[REDACTED]
Total Other Assets	[REDACTED]	[REDACTED]
Property, Plant and Equipment		
In service	[REDACTED]	[REDACTED]
Under construction	[REDACTED]	[REDACTED]
Total Property, Plant and Equipment	[REDACTED]	[REDACTED]
Less accumulated depreciation	[REDACTED]	[REDACTED]
Property, Plant and Equipment, net	[REDACTED]	[REDACTED]
Total Assets	█ [REDACTED]	[REDACTED]
LIABILITIES AND EQUITIES		
Current Liabilities:		
Current maturities of long-term debt	█ [REDACTED]	[REDACTED]
Line of credit	[REDACTED]	[REDACTED]
Accounts payable	[REDACTED]	[REDACTED]
Consumer deposits	[REDACTED]	[REDACTED]
Other accrued liabilities	[REDACTED]	[REDACTED]
Total Current Liabilities	[REDACTED]	[REDACTED]
Long-Term Debt, net of current maturities	[REDACTED]	[REDACTED]
Total Liabilities	[REDACTED]	[REDACTED]
Equities:		
Patronage capital	[REDACTED]	[REDACTED]
Other equities	[REDACTED]	[REDACTED]
Total Equities	[REDACTED]	[REDACTED]
Total Liabilities and Equities	█ [REDACTED]	[REDACTED]

See accompanying notes to financial statements.

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Statements of Operations and Patronage Capital

Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenues:		
Electric	█	█
Local network service	█	█
Network access services	█	█
Cable, net of retransmission fees of \$250,681 (\$236,955 in 2013)	█	█
Internet	█	█
Miscellaneous	█	█
Total Operating Revenues	█	█
Operating Expenses:		
Power production	█	█
Distribution	█	█
Plant specific	█	█
Plant non-specific	█	█
Depreciation	█	█
Customer	█	█
Administrative and general	█	█
Cable and internet	█	█
Operating taxes	█	█
Total Operating Expenses	█	█
Operating Margin (Loss)	█	█
Other Income:		
Patronage allocations	█	█
Interest and dividend income	█	█
Interest expense	█	█
Non-regulated net income	█	█
Net Other Income	█	█
Net Margin	█	█
Beginning Patronage Capital	█	█
Patronage Capital Retired	█	█
Other Adjustments	█	█
Ending Patronage Capital	█	█

See accompanying notes to financial statements.

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Net margin	█	█
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation	█	█
Noncash patronage allocations	█	█
Changes in assets and liabilities:		
Accounts receivable	█	█
Materials and supplies inventory	█	█
Fuel inventory	█	█
Prepaid expenses	█	█
Deferred charges	█	█
Accounts payable	█	█
Consumer deposits	█	█
Other accrued liabilities	█	█
Net Cash Provided by Operating Activities	█	█
Cash Flows from Investing Activities:		
Purchases of plant	█	█
Proceeds from grant reimbursements	█	█
Patronage dividends received	█	█
Net Cash Used by Investing Activities	█	█
Cash Flows from Financing Activities:		
Net payments on line of credit	█	█
Proceeds from long-term debt	█	█
Payments on long-term debt	█	█
Capital credit payments, net	█	█
Refunds of federal communications excise tax	█	█
Net Cash Provided (Used) by Financing Activities	█	█
Net Increase (Decrease) in Cash and Cash Equivalents	█	█
Cash and Cash Equivalents, beginning	█	█
Cash and Cash Equivalents, ending	\$ █	\$ █
Cash Paid During the Year for Interest, net of amounts capitalized	\$ █	\$ █

See accompanying notes to financial statements.

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies

Organization

Nushagak Electric and Telephone Cooperative, Inc. (the Cooperative) was created effective January 1, 2002 with the merger of Nushagak Electric Cooperative, Inc. and Nushagak Telephone Cooperative, Inc. The Cooperative is an Alaska cooperative corporation providing electric, telecommunications, cable television and internet services within and around the Dillingham, Alaska area.

Basis of Accounting

The Cooperative's financial statements are prepared on the accrual basis of accounting in conformity with the accounting principles generally accepted in the United States of America applicable to regulated enterprises.

Interdivisional Transactions

The operations of the Cooperative are segregated into the electric division, the telephone division, and the cable division, for management and external reporting purposes. Each division has transactions with the other divisions in the normal course of conducting business. For example, the electric division pays the telephone division for telephone service. Because these amounts are not considered material to the financial statements, there have been no eliminations for interdivisional revenues and expenses except for interest on interdivision loans.

Use of Estimates

The Cooperative uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Regulation

The electric division of the Cooperative maintains its accounting records in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission as modified for electric borrowers of the Rural Utilities Service (RUS). The telephone division of the Cooperative maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission (FCC). As a result, the application of accounting principles generally accepted in the United States by the Cooperative differs in certain respects from the application by non-regulated entities. Such differences primarily concern the time at which certain items enter in the determination of net margin.

The telephone division of the Cooperative is subject to limited regulation by the FCC and the Regulatory Commission of Alaska (RCA) regarding the provision of telecommunication services. The local exchange operations are exempt from rate regulation by the RCA.

The electric division of the Cooperative must comply with applicable regulatory standards related to generation and transmission.

The Cooperative is subject to normal environmental standards imposed by federal, state, and local environmental laws and regulations. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Liabilities for such expenditures are recorded when it is probable that obligations have been incurred and the cost can be reasonably estimated.

Regulatory and legislative actions, as well as future regulations, could have a significant impact on the Cooperative's future operations and financial condition. See Note 1, National Broadband Plan and FCC Order.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Cooperative 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.

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents, continued

The Cooperative maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. [REDACTED]

[REDACTED] The Cooperative has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

The Cooperative provides an allowance for doubtful accounts that is based on a review of outstanding receivables, historical collection information, and existing economic conditions. Receivables from subscribers are due 30 days after the issuance of the invoice. Receivables from other exchange carriers are typically outstanding from 30 to 60 days before payment is received. Delinquent accounts are charged to uncollectible expense when it is determined that the account will not be collected. Receivables past due more than 90 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Investments in Associated Organizations

Investments in associated organizations are stated at cost.

Fair Value of Financial Instruments

The Cooperative's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, accounts receivable, accounts payable, and notes payable. The Cooperative estimates that the fair value of all of these non-derivative financial instruments at December 31, 2014 and 2013 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheets.

Fuel, Materials and Supplies Inventory

For the electric division, inventory of fuel, antifreeze, lube oil, and materials are recorded at the lower of weighted average cost or market. For the telephone division, materials and supplies are stated at average cost.

Property, Plant and Equipment

Property, plant, and equipment in service and under construction are stated at cost, including appropriate direct and indirect costs associated with construction. Normal maintenance and repairs are charged to operations when incurred. Renewals and betterments are capitalized. For regulated and non-regulated assets, the Cooperative provides for depreciation on a straight-line basis over the estimated useful lives of the related assets, in accordance with rates consistent with industry standards. In accordance with composite group depreciation methodology, when a portion of the Cooperative's regulated property, plant, and equipment is retired in the ordinary course of business, the gross book value is eliminated from the utility plant accounts and such costs, plus removal expenses, less salvage, are charged to accumulated depreciation and no gain or loss is recognized.

Upon retirement, sale, or other disposition of non-regulated property, plant, and equipment, the cost and accumulated depreciation are removed from the accounts and the resulting gains or losses are included in operations.

Extraordinary maintenance costs incurred by the electric division of the Cooperative are initially deferred and subsequently amortized to operating expenses over periods generally ranging from 18 to 60 months. Utility rates are stabilized at levels intended to fund these maintenance costs as they are amortized.

Contributions in aid of construction for the electric division are credited to the associated cost of construction of property units.

The Cooperative follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. The Cooperative uses a weighted-average interest rate based on total long-term debt. [REDACTED]

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies, continued

Revenue Recognition

The Cooperative's billing for the usage of electricity reflects metered usage through approximately the fifteenth day of the month. The Cooperative estimates and records the revenue earned for the usage from the last billing through the end of the accounting period.

The Cooperative's monthly service fees derived from basic and local telephone service, as well as for cable and internet service, are billed in advance. Advance billings are recorded as a liability or reduction of receivables and subsequently transferred into income in the period earned. Usage sensitive revenues are billed in arrears.

Network Access Revenues

Network access revenue is received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Cooperative, charge the long-distance carrier for access and interconnection to local facilities. The Cooperative has elected to file access tariffs through the National Exchange Carriers Association (NECA) and the Alaska Exchange Carriers Association (AECA) for these charges. These access tariffs are subject to approval by the FCC for interstate charges and the Regulatory Commission of Alaska (RCA) for intrastate charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Cooperative. The redistributions are made according to formulas established by the governing boards of the pools and are generally based on expenses incurred and investments maintained.

The Cooperative participates in various pooling arrangements with NECA and AECA.

Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months (NECA pool only) after the close of the related calendar year, are recorded in the year in which such adjustments become determinable, based upon studies prepared by outside consultants.

In addition to recoveries from the pools, the Cooperative also receives revenues from the Universal Service High Cost Loop Fund (HCL) and other support mechanisms administered by the Universal Service Administrative Company (USAC). These universal service support revenues are intended to compensate the Cooperative for the high cost of providing service in rural areas. The amount of support received from HCL is based on the number of customers served and the cost of providing service in that area being in excess of the national average cost per loop, as determined by the FCC. These support revenues are included in the network access revenues in the accompanying financial statements.



National Broadband Plan and FCC Order

In 2010 the FCC issued the National Broadband Plan which outlined a long-term plan to increase broadband penetrations and services throughout the United States of America. The plan further outlined a proposed long-term phase-out of access charges (referred to as Intercarrier Compensation) and moved to support mechanisms based on broadband services rather than the current Universal Service High Cost Loop Fund administered by USAC.

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

Note 1 - Organization and Summary of Significant Accounting Policies, continued

National Broadband Plan and FCC Order, continued

In response to the plan, the FCC on October 27, 2011, approved Report and Order 11-161 (the Order), that begins the process of reforming the universal service and intercarrier compensation (ICC) systems and adopts support for broadband-capable networks as an express universal service principle. The Order further creates the Connect America Fund which will ultimately replace all existing high-cost support mechanisms as well as help facilitate ICC reforms.

The key provisions of the order include:

- Capping the federal universal service fund at current levels
- Placing limitations on capital and operating spending
- Establishing local rate benchmarks
- Capping the per-line support amount for the universal service high cost loop fund at \$250 per month
- Phase out of local switching support and the establishment of the CAF for recovery of investment and expenses related to the provision of switching services
- Reforming the ICC system by adopting a plan to transition from access charges to a bill and keep framework. The transition period for rate-of-return carriers such as the Cooperative is approximately 9 years from the date of the order.
- Adoption of a monthly Access Recovery Charge as a transitional recovery mechanism to mitigate the impact of reduced intercarrier revenues

The Order was effective December 29, 2011 and implementation began July 1, 2012. As of the implementation date CAF recovery is calculated based on the frozen fiscal year 2011 interstate switched access revenue requirement, plus certain 2011 intrastate access revenues, and will decline annually by 5% during the transition period.

In 2014, the FCC issued Orders for Reconsideration that included provisions to eliminate the quantile regression benchmarking analysis (this removes the limitations on capital spending contained in the Order), reinstate the safety-net additive that was eliminated as part of the Order and continued the transition of the local rate benchmark.

As of December 31, 2014 the Cooperative is transitioning its local rates and as of December 31, 2014, the Cooperative meets the local benchmark requirements. The Cooperative is not subject to the \$250 per line support cap. Furthermore, for the period ended December 31, 2014 the impacts to the Cooperative related to the 5% annual decline in switched access revenues have not been significant.

The overall reform process will take place in phases and will take several years to implement. Furthermore, the Order includes a Further Notice of Proposed Rulemaking and the FCC continues to issue Orders for Reconsideration and seek comments on various items. As a result, the ultimate outcome of these proceedings and their impact is uncertain at this time.

Excise Tax Refunds

Refunds of Federal communication excise taxes resulting from the Cooperative's status as a tax exempt cooperative are recorded as a direct increase to members' patronage capital accounts.

Patronage Capital

Patronage capital consists of undistributed net margins allocated to individual members and accumulated since inception, less distributions to members. Under the bylaws of the Cooperative, the distribution of such patronage capital to members of the Cooperative is at the discretion of the Board of Directors, and may be restricted under covenants of RUS mortgage notes.

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

Note 1 - Summary of Significant Accounting Policies, continued

Other Equities

Other equities consist of unclaimed distributions of patronage capital credits to members transferred to the Cooperative under the laws of the State of Alaska.

Income Taxes

The Cooperative has been granted an exemption from Federal income taxes under Section 501(c)(12) of the Internal Revenue Code, except for "unrelated" business income. However, in any year for which greater than 15% of gross revenue is derived from nonmember services, the Cooperative becomes a taxable cooperative. The Cooperative was exempt from income taxes in 2014 and 2013. The Cooperative is also exempt from state income taxes as a gross revenue tax on cooperatives overrides the filing of state income tax.

In years when the Cooperative is taxable, federal income taxes payable by taxable cooperatives are computed differently from taxes payable by other corporations, primarily because cooperatives are allowed to deduct margins allocated to patrons within 8½ months after the end of each taxable year.

The Cooperative follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Cooperative recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There were no amounts accrued in the financial statements related to uncertain tax positions in 2014 or 2013. The Cooperative files informational and income tax returns in the United States, state and local jurisdictions. With few exceptions, the Cooperative is no longer subject to U.S. Federal, state or local tax examination by tax authorities for years before 2011.

Subsequent Events

The Cooperative has evaluated subsequent events through March 27, 2015, the date on which the financial statements were available to be issued.

Note 2 - Investments in Associated Organizations

Investments in associated organizations consisted of the following at December 31:

	2014	2013
Electric Division		
National Rural Utilities Cooperative Finance Corporation (NRUCFC):		
Capital term certificates	█	█
Patronage capital credits	█	█
Membership	█	█
Alaska Rural Electric Cooperative Association (ARECA)		
Insurance Exchange, assigned equity	█	█
Nushagak Telephone Cooperative, Inc., patronage capital credits	█	█
Total Electric Division	█	█
Telephone Division		
Alaska Rural Electric Cooperative Association (ARECA)		
Insurance Exchange, assigned equity	█	█
Rural Telephone Finance Cooperative, patronage capital credits	█	█
CoBank, patronage capital credits	█	█
Nushagak Electric Cooperative, Inc., patronage capital credits	█	█
Total Telephone Division	█	█
Total Investments in Associated Organizations	█	█

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

Note 3 - Property, Plant and Equipment

Listed below are the major classes of property, plant, and equipment in service at December 31, including related composite depreciation rates:

	Depreciation Percentage	2014	2013
Electric Division			
Land and improvements	-	█	█
Production plant	3.0%	█	█
Distribution plant	3.5%	█	█
General plant	6.0-20.0%	█	█
Telephone Division			
Land and improvements	-	█	█
General plant and support	4.0-33.3%	█	█
Central office	6.0-14.3%	█	█
Cable and wire facilities	2.9-8.7%	█	█
Cable Division			
Land and improvements	-	█	█
Building and equipment	4.0 to 20.0%	█	█
Head end equipment	20.0%	█	█
Premise equipment	14.3%	█	█
Internet equipment	12.5%	█	█
Distribution facilities	8.0%	█	█
Total Property, Plant and Equipment in Service		\$ █	\$ █

In 2009, the Cooperative was awarded a █ grant from the Alaska Energy Authority (AEA), a public corporation of the State of Alaska, under the Renewable Energy Fund. The grant funds are to be used for feasibility studies, permitting, and engineering costs related to a potential hydropower project. During the year ended December 31, 2014, the Cooperative expended █ in grant funds (█ in 2013) bringing cumulative expenditures of grant funding to █. Reimbursements received for expenditures of state grant funds during the year ended December 31, 2014 were █ (█ in 2013), bringing the total reimbursements for the grant to █. No funds were requested for reimbursement subsequent to December 31, 2014 (█ at December 31, 2013).

In 2010, the Cooperative was awarded a █ grant from the AEA under the Denali Commission. The grant funds are to be used for environmental and feasibility studies, permitting, and conceptual engineering related to a potential wind generation project. Project costs totaled █ as of December 31, 2014 and 2013. No funds were reimbursed for expenditures of state grant funds for the year ended December 31, 2014 (█ at December 31, 2013). No funds were requested for reimbursement subsequent to December 31, 2014.

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

Note 3 - Property, Plant and Equipment, continued

In 2012, the Cooperative was awarded a [REDACTED] grant from the Alaska Department of Commerce, Community, and Economic Development, Division of Community and Regional Affairs. The grant funds are to be used for the purchase and construction of an 850,000 gallon fuel tank within the Cooperative's existing fuel tank farm. During the year ended December 31, 2013, the Cooperative expended [REDACTED]. All funds had been expended, and all reimbursements had been received as of December 31, 2013.

In 2014, the Cooperative was awarded a [REDACTED] grant from the Alaska Department of Commerce, Community, and Economic Development, Division of Community and Regional Affairs. The grant funds are to be used for the new substation. During the year ended December 31, 2014, the Cooperative expended [REDACTED] in grant funds. Reimbursements received for expenditures of state grant funds during the year ended December 31, 2014 were [REDACTED]. No funds were requested for reimbursement subsequent to December 31, 2014.

Note 4 - Deferred Charges

Deferred charges, net of accumulated amortization, relate to the electric division and consist of the following at December 31:

	2014	2013
Deferred Charges		
Overhaul unit no. 11	[REDACTED]	[REDACTED]
Overhaul unit no. 12	[REDACTED]	[REDACTED]
Overhaul unit no. 13	[REDACTED]	[REDACTED]
Overhaul unit no. 14	[REDACTED]	[REDACTED]
Overhaul unit no. 15	[REDACTED]	[REDACTED]
Air quality permits program	[REDACTED]	[REDACTED]
Other	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
Total Deferred Charges	[REDACTED]	[REDACTED]

Included in deferred charges are costs associated with the air quality permits program, major overhauls, studies, and inspections. Such costs are originally deferred and subsequently capitalized to resultant construction or amortized over five years if construction does not materialize.

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

Note 5 - Patronage Capital

Patronage capital consisted of the following at December 31:

	2014			
	Electric Division	Telephone Division	Cable Division	Totals
Beginning balance	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Patronage capital retired	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Assignable net margin	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Patronage Capital	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

	2013			
	Electric Division	Telephone Division	Cable Division	Totals
Beginning balance	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Patronage capital retired	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Excise tax refund	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Assignable net margin	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Patronage Capital	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Note 6 - Other Equities

Other equities consisted of the following at December 31:

	2014		
	Electric Division	Telephone Division	Totals
Patronage estate discount	[REDACTED]	[REDACTED]	[REDACTED]
Patronage capital gain	[REDACTED]	[REDACTED]	[REDACTED]
Donated capital	[REDACTED]	[REDACTED]	[REDACTED]
Total Other Equities	[REDACTED]	[REDACTED]	[REDACTED]

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

Note 6 - Other Equities, continued

Other equities consisted of the following at December 31:

	2013		
	Electric Division	Telephone Division	Totals
Patronage estate discount	[REDACTED]	[REDACTED]	[REDACTED]
Patronage capital gain	[REDACTED]	[REDACTED]	[REDACTED]
Donated capital	[REDACTED]	[REDACTED]	[REDACTED]
Total Other Equities	[REDACTED]	[REDACTED]	[REDACTED]

Note 7 - Long-Term Debt

Long-term debt consisted of the following at December 31:

	2014	2013
Electric Division		
[REDACTED]	[REDACTED]	[REDACTED]
Total Electric Division	[REDACTED]	[REDACTED]
Less Current Portion	[REDACTED]	[REDACTED]
Long-Term Debt, net of current maturities	[REDACTED]	[REDACTED]

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

Note 7 - Long-Term Debt, continued

Long-term debt consisted of the following at December 31:

	<u>2014</u>	<u>2013</u>
Telephone Division		
[REDACTED]	[REDACTED]	[REDACTED]
Total Telephone Division	[REDACTED]	[REDACTED]
Less Current Portion	[REDACTED]	[REDACTED]
Long-Term Debt, net of current maturities	[REDACTED]	[REDACTED]
Total Long-Term Debt	[REDACTED]	[REDACTED]
Less Current Portion	[REDACTED]	[REDACTED]
Total Long-Term Debt, net of current maturities	[REDACTED]	[REDACTED]

[REDACTED]

Future maturities of long-term debt are as follows:

	<u>Electric Division</u>	<u>Telephone Division</u>	<u>Totals</u>
2015	[REDACTED]	[REDACTED]	[REDACTED]
2016	[REDACTED]	[REDACTED]	[REDACTED]
2017	[REDACTED]	[REDACTED]	[REDACTED]
2018	[REDACTED]	[REDACTED]	[REDACTED]
2019	[REDACTED]	[REDACTED]	[REDACTED]
Thereafter	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Notes to Financial Statements

Years Ended December 31, 2014 and 2013

Note 7 - Long-Term Debt, continued

[REDACTED]

Note 8 - Pension and Health and Welfare Plans

[REDACTED]

In the 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 of plan assets are not determined or allocated separately by individual employer. In total, the NRECA RSP was 100 percent funded at January 1, 2013 based on the PPA funding target and PPA actuarial value of assets on that date. Information for the Plan year beginning January 1, 2014 is not available at the time of this audit report.

Because the provisions of PPA do not apply to the NRECA RSP, funding improvement plans and surcharges are not applicable and have not been applied. Future contribution requirements are determined each year as part of the actuarial valuation of the NRECA RSP and may change as a result of NRECA RSP experience. There is no collective bargaining agreement that affects future contribution requirements.

The Cooperative participates in multi-employer plans through NRECA that provide all employees with health care and other welfare benefits during the employees' working lives. Amounts charged to benefit cost and contributed to the health and welfare plan for those benefits totaled [REDACTED] and [REDACTED], respectively, for the years ended December 31, 2014 and 2013.

In addition, the Cooperative also participates in a contributory, multi-employer, defined contribution savings (401k) plan (the Savings Plan) sponsored by NRECA. This program provides a tax deferral of current employee earnings to a future period. All employees meeting the Savings Plan's eligibility requirements are eligible to participate if they have completed one month of service, and may contribute up to 25% of their salary. The employer does not contribute to this plan. All participants are immediately vested in their contributions.

SUPPLEMENTAL INFORMATION

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Combining Divisional Balance Sheets - 2014

December 31, 2014

	Electric	Telephone	Cable	Eliminations	Total
ASSETS					
Current Assets:					
Cash and cash equivalents	█	█	█		█
Accounts receivable, net of allowance for doubtful accounts of \$0	█	█	█		█
Materials and supplies inventory	█	█	█		█
Fuel inventory	█				█
Prepaid expenses	█	█	█		█
Interdivision note receivable		█		█	
Total Current Assets	█	█	█	█	█
Other Assets:					
Investments in associated organizations	█	█			█
Deferred charges	█				█
Total Other Assets	█	█			█
Property, Plant and Equipment					
In service	█	█	█		█
Under construction	█	█	█		█
Total Property, Plant and Equipment	█	█	█		█
Less accumulated depreciation	█	█	█		█
Property, Plant and Equipment, net	█	█	█		█
Total Assets	█	█	█	█	█

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Combining Divisional Balance Sheets - 2014

December 31, 2014

	Electric	Telephone	Cable	Eliminations	Total
LIABILITIES AND EQUITIES					
Current Liabilities:					
Current maturities of long-term debt	█	█	█	█	█
Line of credit	█	█	█	█	█
Accounts payable	█	█	█	█	█
Consumer deposits	█	█	█	█	█
Other accrued liabilities	█	█	█	█	█
Interdivision note payable	█	█	█	█	█
Total Current Liabilities	█	█	█	█	█
Long-Term Debt, net of current maturities	█	█	█	█	█
Total Liabilities	█	█	█	█	█
Equities:					
Patronage capital	█	█	█	█	█
Other equities	█	█	█	█	█
Total Equities	█	█	█	█	█
Total Liabilities and Equities	█	█	█	█	█

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.
Combining Divisional Statements of Operations and Patronage Capital - 2014
Year Ended December 31, 2014

	Electric	Telephone	Cable	Eliminations	Total
Operating Revenues:					
Electric	██████████	██████████	██████████	██████████	██████████
Local network service	██████████	██████████	██████████	██████████	██████████
Network access services	██████████	██████████	██████████	██████████	██████████
Cable, net of retransmission fees of \$250,681	██████████	██████████	██████████	██████████	██████████
Internet	██████████	██████████	██████████	██████████	██████████
Miscellaneous	██████████	██████████	██████████	██████████	██████████
Total Operating Revenues	██████████	██████████	██████████	██████████	██████████
Operating Expenses:					
Power production	██████████	██████████	██████████	██████████	██████████
Distribution	██████████	██████████	██████████	██████████	██████████
Plant specific	██████████	██████████	██████████	██████████	██████████
Plant non-specific	██████████	██████████	██████████	██████████	██████████
Depreciation	██████████	██████████	██████████	██████████	██████████
Customer	██████████	██████████	██████████	██████████	██████████
Administrative and general	██████████	██████████	██████████	██████████	██████████
Cable and internet	██████████	██████████	██████████	██████████	██████████
Operating taxes	██████████	██████████	██████████	██████████	██████████
Total Operating Expenses	██████████	██████████	██████████	██████████	██████████
Operating Margin (Loss)	██████████	██████████	██████████	██████████	██████████
Other Income:					
Patronage allocations	██████████	██████████	██████████	██████████	██████████
Interest and dividend income	██████████	██████████	██████████	██████████	██████████
Interest expense	██████████	██████████	██████████	██████████	██████████
Non-regulated net income	██████████	██████████	██████████	██████████	██████████
Net Other Income (Expense)	██████████	██████████	██████████	██████████	██████████
Net Margin	██████████	██████████	██████████	██████████	██████████
Beginning Patronage Capital	██████████	██████████	██████████	██████████	██████████
Patronage Capital Retired	██████████	██████████	██████████	██████████	██████████
Ending Patronage Capital	██████████	██████████	██████████	██████████	██████████

NUSHAGAK ELECTRIC AND TELEPHONE COOPERATIVE, INC.

Combining Divisional Statements of Cash Flows - 2014

Year Ended December 31, 2014

	Electric	Telephone	Cable	Eliminations	Total
Cash Flows from Operating Activities:					
Net margin					
Adjustments to reconcile net margin to net cash provided by operating activities:					
Depreciation					
Noncash patronage allocations					
Changes in assets and liabilities:					
Accounts receivable					
Materials and supplies inventory					
Fuel inventory					
Prepaid expenses					
Deferred charges					
Accounts payable					
Consumer deposits					
Other accrued liabilities					
Net Cash Provided (Used) by Operating Activities					
Cash Flows from Investing Activities:					
Purchases of plant					
Interdivision note receivable					
Interdivision note payable					
Proceeds from grant reimbursements					
Patronage dividends received					
Net Cash Provided (Used) by Investing Activities					
Cash Flows from Financing Activities:					
Net payments on lines of credit					
Proceeds from long-term debt					
Payments on long-term debt					
Capital credit payments, net					
Net Cash Provided (Used) by Financing Activities					
Net Increase in Cash and Cash Equivalents					
Cash and Cash Equivalents, beginning					
Cash and Cash Equivalents, ending					
Cash Paid During the Year for Interest, net of amounts capitalized					