MID-CAROLINA ELECTRIC COOPERATIVE, INC.
LEXINGTON, SOUTH CAROLINA

FINANCIAL STATEMENTS AS OF
DECEMBER 31, 2014 AND 2013 AND
INDEPENDENT AUDITOR'S REPORT

MID-CAROLINA ELECTRIC COOPERATIVE, INC.

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February 12, 2015

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Mid-Carolina Electric Cooperative, Inc.

We have audited the accompanying financial statements of **Mid-Carolina Electric Cooperative, Inc**. (the Corporation), which comprise the balance sheets as of December 31, 2014 and 2013 and the related statements of revenue and comprehensive income, changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's 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. Those standards require that we plan and perform the audits 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 auditor's 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 Corporation'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 Corporation'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 Mid-Carolina Electric Cooperative, Inc. as of December 31, 2014 and 2013 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31

ASSETS

	2014	2013
Utility Plant		
Electric Plant in Service-At Cost	**$210,867,946**	$205,257,035
Construction Work in Progress	**3,185,606**	2,626,209
Gross Utility Plant	**214,053,552**	207,883,244
Accumulated Provision for Depreciation	**(59,492,515)**	(55,770,833)
	154,561,037	152,112,411
Other Property and Investments		
Investments in Associated Organizations	**7,262,803**	6,984,471
Note Receivable-Economic Development	**34,259**	116,482
Postretirement Healthcare Benefits	**8,450,930**	8,771,742
	15,747,992	15,872,695
Current Assets		
Cash and Cash Equivalents	**11,915,752**	7,455,924
Accounts Receivable (Less Accumulated Provision for Uncollectible Accounts of $321,762 in 2014 and $422,565 in 2013)	**8,700,311**	8,508,250
Interest Receivable	**16,890**	153,074
Materials and Supplies	**1,336,314**	1,375,794
Note Receivable-Current Portion	**82,222**	82,222
Prepayments	**538,054**	671,002
	22,589,543	18,246,266
Deferred Debits	**2,888,533**	65,661
Total Assets	**$195,787,105**	$186,297,033

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

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
DECEMBER 31

MEMBERS' EQUITY AND LIABILITIES

	2014	2013
Members' Equity		
Membership Fees	**$ 668,335**	$ 656,280
Patronage Capital	**51,018,992**	50,203,832
Accumulated Other Comprehensive Income	**4,554,298**	4,925,109
Other Equities	**539,857**	475,371
	56,781,482	56,260,592
Long-Term Debt	**116,865,260**	105,488,914
Current Liabilities		
Current Maturities of Long-Term Debt	**4,989,619**	4,619,537
Accounts Payable	**7,570,729**	7,867,175
Consumer Deposits	**1,159,321**	1,126,636
Accrued and Withheld Taxes	**5,607,546**	5,364,018
Other Current and Accrued Liabilities	**1,593,098**	977,396
	20,920,313	19,954,762
Deferred Credits	**1,220,050**	4,592,765
Total Members' Equity and Liabilities	**$195,787,105**	$186,297,033

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

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
STATEMENTS OF REVENUE AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31

	2014	2013
Operating Revenue and Patronage Capital	**$129,497,317**	$113,028,223
Operating Expenses		
Cost of Power	**84,770,620**	77,261,471
Distribution Operations	**2,768,575**	2,456,788
Distribution Maintenance	**9,858,763**	8,857,865
Consumer Accounts	**3,458,749**	3,325,352
Consumer Service and Information	**445,399**	405,940
Sales	**244,031**	225,510
Administrative and General	**4,518,922**	4,429,475
Depreciation	**5,998,342**	6,086,540
Long-Term Debt Premium Expense	**7,304,420**	-
Other	**999,535**	930,311
	120,367,356	103,979,252
Operating Margins Before Interest Expense	**9,129,961**	9,048,971
Interest Expense	**6,109,031**	6,088,943
Operating Margins After Interest Expense	**3,020,930**	2,960,028
Nonoperating Margins	**1,462,144**	1,500,805
Generation and Transmission Cooperative Capital Credits	**207,746**	203,721
Other Capital Credits and Patronage Capital Allocations	**196,402**	206,600
Net Margins	**4,887,222**	4,871,154
Other Comprehensive Income		
Actuarial Gain	**122,517**	96,786
Amortization of Actuarial Gain	**(122,517)**	(96,786)
Amortization of Prior Service Cost	**(370,811)**	(370,811)
Total Comprehensive Income	**$ 4,516,411**	$ 4,500,343

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

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Membership Fees	Patronage Capital	Accumulated Other Comprehensive Income	Other Equities	Total Members' Equity
Balance, December 31, 2012	$639,940	$49,500,145	$5,295,920	$402,832	$55,838,837
Net Margins		4,871,154			4,871,154
Patronage Capital Retirements		(4,167,467)		26,439	(4,141,028)
Membership Fees	16,340				16,340
Other				46,100	46,100
Postretirement Benefits			(370,811)		(370,811)
Balance, December 31, 2013	656,280	50,203,832	4,925,109	475,371	56,260,592
Net Margins		4,887,222			4,887,222
Patronage Capital Retirements		(4,072,062)		64,829	(4,007,233)
Membership Fees	12,055				12,055
Other				(343)	(343)
Postretirement Benefits			(370,811)		(370,811)
Balance, December 31, 2014	**$668,335**	**$51,018,992**	**$4,554,298**	**$539,857**	**$56,781,482**

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

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

	2014	2013
Cash Flows from Operating Activities		
Net Margins	**$4,887,222**	$ 4,871,154
Adjustments to Reconcile Net Margins to Net Cash		
Provided by Operating Activities		
Accumulated Provision for Postretirement Benefits	**(1,318,466)**	(3,343,444)
Postretirement Benefit Contributions	**(331,533)**	(298,502)
Other Benefit Redemption	**1,600,000**	-
Depreciation	**6,544,977**	6,743,668
Deferred Debits	**(2,822,872)**	39,290
Deferred Credits	**(3,372,715)**	3,000,171
Patronage Capital from Associated Organizations	**(404,148)**	(410,321)
Change In		
Accounts Receivable	**(192,061)**	31,166
Other Current Assets	**269,132**	(182,200)
Accounts Payable	**(296,446)**	433,008
Consumer Deposits	**32,685**	27,135
Other Current Liabilities	**859,230**	180,156
	5,455,005	11,091,281
Cash Flows from Investing Activities		
Extension and Replacement of Plant	**(8,993,602)**	(8,292,516)
Return of Equity from Associated Organizations	**114,904**	116,490
Materials and Supplies	**39,480**	(53,119)
	(8,839,218)	(8,229,145)
Cash Flows from Financing Activities		
Principal Repayment of Long-Term Debt	**(128,300,640)**	(4,982,255)
Advances on Long-Term Debt	**108,023,416**	8,000,000
RUS Cushion-of-Credit	**32,023,652**	(3,482,546)
Note Receivable	**82,222**	82,222
Membership Fees	**12,055**	16,340
Retirement of Patronage Capital	**(4,007,233)**	(4,141,028)
Other Equities	**(343)**	46,100
Capital Term Certificates	**10,912**	29,139
	7,844,041	(4,432,028)
Net Increase (Decrease) in Cash and Cash Equivalents	**4,459,828**	(1,569,892)
Cash and Cash Equivalents-Beginning	**7,455,924**	9,025,816
Cash and Cash Equivalents-Ending	**$ 11,915,752**	$ 7,455,924
Supplemental Disclosure of Cash Flow Information		
Cash Payments of Interest Expense	**$ 1,963,683**	$ 2,115,229

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

(1) Summary of Significant Accounting Policies

Accounting policies of Mid-Carolina Electric Cooperative, Inc. (the Corporation) reflect practices appropriate to the electric utility industry and generally accepted accounting principles of the United States (U.S. GAAP). The records of the Corporation are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission. The following describes the more significant of those policies.

Nature of Operations

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

Long-Lived Assets

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

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

Utility Plant

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

(1) Summary of Significant Accounting Policies (Continued)

Depreciation and Maintenance

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

Provision has been made for depreciation of distribution plant on a straight-line basis over the estimated useful lives of the assets. The rates range from 2.0 to 5.0 percent per annum.

Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 3.0 to 25.0 percent per annum.

The costs of maintenance, repairs and replacements of minor items of property are charged to maintenance expense accounts.

Use of Estimates

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

Accounts Receivable and Credit Policies

Accounts receivable are stated at the amount billed to the consumer. Once an electric consumer's service is shut off and the account is approximately 180 days past due, the Corporation writes off the associated accounts receivable. An allowance is made for doubtful accounts based on experience and other circumstances which may affect the ability of consumers to meet their obligations. Accounts considered uncollectible are charged against the allowance. Receivables are reported on the balance sheets net of such accumulated allowance.

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Materials and Supplies

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

Equities and Margins

The Corporation is organized and operates under the cooperative form of organization. As such, patronage capital or margins are allocated to patrons on the basis of individual consumption of electric energy. Under provisions of the long-term debt agreements, until the total equities and margins equal or exceed 20 percent of the total assets of the Corporation, the return to patrons of capital contributed by them is limited. The Corporation's equities were 29.00 and 30.20 percent of total assets as of December 31, 2014 and 2013, respectively.

(1) Summary of Significant Accounting Policies (Continued)

Operating Revenues

Electric revenues include patronage capital and are billed monthly to consumers on a cycle basis. Electric rates for the Corporation include provisions to permit the board of trustees to adjust billings for fluctuations in fuel costs, purchased power costs and certain other costs. Electricity which had been used by the members of the Corporation but had not been billed to the members is recorded as a component of accounts receivable in the balance sheets. Unbilled electric revenue totaled approximately $2,379,000 and $2,348,000 as of December 31, 2014 and 2013, respectively.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers.* ASU 2014-09 is designed to create greater comparability for financial statement users across industries and jurisdictions through a more principles-based approach than companies in the United States are used to following. The standard would require companies to recognize revenue through a five-step process: (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction type, (4) allocate the transaction price to the separate performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The standard is effective for nonpublic companies for reporting periods beginning after December 15, 2017 and interim and annual reporting periods thereafter.

Patronage Capital

Patronage capital represents the Corporation's accumulated retained excess of revenues over expenses that has been allocated annually to its members. Distributions to members are made at the discretion of the board of trustees in accordance with the bylaws, subject to the restrictions contained in the long-term debt agreements.

Cost of Purchased Power

Cost of power is expensed as consumed.

Comprehensive Income

The objective of comprehensive income is to report a measure of all changes in equity of the Corporation that result from transactions and other economic events of the period other than transactions with members. Comprehensive income consists of net margins and postretirement healthcare costs not yet recognized as a component of income related to retirement plans.

Generation and Transmission Cooperative Capital Credits

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

(1) Summary of Significant Accounting Policies (Continued)

Sales Tax

A portion of the Corporation's sales are subject to sales tax. The Corporation collects the sales tax from the customers and remits the taxes to the appropriate taxing authority. The Corporation excludes the taxes collected and remitted from revenues and cost of sales.

Income Taxes

The Corporation is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code which provides, in part, that the Corporation derive at least 85 percent of its annual gross income from members to retain the exemption. Accordingly, no provision for income taxes has been made in the financial statements. The Corporation's federal information returns for the calendar year 2012 and after are subject to examination by the Internal Revenue Service.

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through February 12, 2015, the date the financial statements were available to be issued.

(2) Utility Plant

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

	2014	2013
Intangible	**$ 270**	$ 270
Distribution Plant	**186,922,680**	182,878,527
General Plant	**23,944,996**	22,378,238
Electric Plant in Service	**210,867,946**	205,257,035
Construction Work in Progress	**3,185,606**	2,626,209
	$214,053,552	$207,883,244

(3) Investments in Associated Organizations

	2014	2013
National Rural Utilities Cooperative Finance Corporation		
Membership Fee	**$ 1,000**	$ 1,000
Capital Term Certificates	**1,703,282**	1,714,194
Capital Credits	**815,070**	768,236
Cooperative Electric Energy Utility Supply Corporation		
Membership Fee	**2,500**	2,500
Capital Credits	**1,385,573**	1,388,121
Central Electric Cooperative, Inc.		
Capital Credits	**3,137,626**	2,929,880
National Information Solutions Cooperative, Inc.		
Membership Fee	**100**	100
Capital Credits	**12,202**	9,080
Federated Rural Electric Insurance Exchange		
Capital Credits	**201,847**	168,627
Southeastern Data Cooperative		
Membership Fee	**-**	100
Cooperative Response Center		
Membership Fee	**2,500**	2,500
Capital Credits	**1,103**	133
	$7,262,803	$6,984,471

(4) Note Receivable-Economic Development

The Corporation made a $740,000 noninterest-bearing note to a business located in the Corporation's service area for the purpose of economic development. Under the terms of the note, the local business will make equal monthly payments of $6,852 through May 31, 2016. The outstanding balance of the note is $116,481 and $198,704 for the years ended December 31, 2014 and 2013, respectively.

(5) Deferred Debits

Deferred debits are comprised of the following as of December 31:

	2014	2013
Deferred Prior Service Pension Cost	**$ 33,196**	$ 65,661
Margin Stabilization Plan	**2,760,400**	-
Other	**94,937**	-
	$ 2,888,533	$ 65,661

The Corporation has recorded long-term debt for noncancelable contractual agreements to pay prior service costs of National Rural Electric Cooperative Association (NRECA) retirement plan amendments over a period of time. This debt was paid off in 2002. The expense associated with this debt has been deferred as a cost to be recovered from future revenues based on Accounting Standards Codification (ASC) 980, *Regulated Operations*. The unamortized balance included in deferred debits at December 31 is $33,196 and $65,661 for the years ended December 31, 2014 and 2013, respectively.

(6) Deferred Credits

Deferred credits are comprised of the following as of December 31:

	2014	2013
Margin Stabilization Plan	**$ -**	$3,337,059
Unclaimed Capital Credits	**1,220,050**	1,255,706
	$ 1,220,050	$4,592,765

The Corporation established a margin stabilization plan under the provisions of ASC 980, approved by the board of trustees which, in effect, requires the Corporation to adjust electrical rates to members to achieve defined margins. The targeted Times Interest Earned Ratio (TIER) established by the board required that the Corporation earn net margins resulting in a TIER of 1.8 for 2014 and 2013. Actual margins above the established TIER are deferred and recorded as deferred credits. Actual margins below the established TIER are deferred and recorded as deferred debits.

The following is a summary of the change in the margin stabilization plan during the years ended December 31:

	2014	2013
Beginning Balance	**$ 3,337,059**	$ 306,307
Revenue Recovered	**(3,337,059)**	(306,307)
TIER Adjustment	**(2,760,400)**	3,337,059
	$(2,760,400)	$3,337,059

(7) Patronage Capital

	2014	2013
Assignable	**$ 4,887,222**	$ 4,871,154
Assigned	**99,878,881**	95,007,727
	104,766,103	99,878,881
Cumulative Retirements	**(53,747,111)**	(49,675,049)
	$ 51,018,992	$ 50,203,832

(8) Long-Term Debt

Long-term debt consists of mortgage notes payable to the United States of America acting through the Rural Utility Service (RUS), the National Rural Utilities Cooperative Finance Corporation (NRUCFC) and the Federal Financing Bank (FFB). The notes are secured by a mortgage agreement among the Corporation, RUS, NRUCFC and FFB. Substantially all the assets of the Corporation are pledged as security for long-term debt of the Corporation. The notes generally have 35-year maturity periods and are payable on an installment basis.

Holder of Note	Interest Rate at December 31, 2014	2014	2013
RUS	3.63% to 5.75%	**$ -**	$ 63,636,690
NRUCFC	2.75% to 5.40%	**121,854,879**	25,752,429
FFB	3.825% to 5.593%	**-**	52,544,280
USDA Economic Development	0%	**-**	198,704
		121,854,879	142,132,103
RUS Cushion-of-Credit		**-**	(32,023,652)
Maturities Due Within One Year		**(4,989,619)**	(4,619,537)
		$116,865,260	$105,488,914

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

Year	Amount
2015	$ 4,989,619
2016	5,025,655
2017	5,061,951
2018	5,098,509
2019	5,135,331
Thereafter	96,543,814
	$121,854,879

(8) Long-Term Debt (Continued)

The Corporation elected to refinance all outstanding debt held by RUS and FFB with NRUCFC during the year ended December 31, 2014. As of the balance sheet date, all notes were satisfactorily paid and pledged assets have been released as security by RUS and FFB. The Corporation incurred a debt premium expense in the amount of $7,304,420 during the refinancing transactions and has been recorded in the statement of revenues accordingly.

The Corporation had made unapplied advance payments to the RUS Cushion-of-Credit program. Under this program the Corporation made voluntary deposits into a special cushion-of-credit account. The cushion-of-credit account balance accrued interest to the Corporation at a rate of 5 percent per annum. The use of the cushion-of-credit account was restricted to funding the future debt service payments that the Corporation was obligated to pay against its outstanding indebtedness to RUS and FFB. Interest payments totaling $3,302,062 and $3,989,501 were made through the cushion-of-credit program for the years ended December 31, 2014 and 2013, respectively. Advanced payments made through the program that remained at the time of refinancing were applied in full to outstanding indebtedness.

The Corporation had obtained a noninterest-bearing economic development loan from the United States Department of Agriculture (USDA) for the purpose of financing rural economic development projects in the Corporation's local area. The Corporation paid the loan in full during the current year.

In addition, the Corporation has an $11,000,000 line-of-credit with NRUCFC. The Corporation had no outstanding obligation on this line-of-credit as of December 31, 2014 and 2013.

(9) Retiree Benefits

Pension Plan (Defined Benefit)

Pension benefits for substantially all employees of the Corporation are provided through participation in the NRECA Retirement Security Plan (RS Plan), a defined benefit plan qualified under Section 401 and tax-exempt under 501(a) of the Internal Revenue Code. The plan sponsor's employer identification number is 53-0116145 and the plan number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Corporation's annual contributions to the program represented less than 5 percent of total contributions made to the plan by all participating employers and are equal to the amounts recorded for pension cost. Contributions were $1,814,418 and $2,221,012 for the years ended December 31, 2014 and 2013, respectively.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was between 65 percent and 80 percent funded at January 1, 2015 and 2014 based on the PPA funding target and PPA actuarial value of assets on those dates.

(9) Retiree Benefits (Continued)

Pension Plan (Defined Benefit) (Continued)

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Pension Plan (Defined Contribution Plan)

The Corporation also provides additional employee benefits to substantially all employees through the NRECA sponsored defined contribution Savings Plan (401-k). In this defined contribution plan, the Corporation's contributory portion of costs of this plan totaled $255,423 and $259,487 for the years ended December 31, 2014 and 2013, respectively.

Postretirement Healthcare Benefits

The Corporation provides healthcare benefits to qualified retirees and trustees. U.S. GAAP requires cooperatives to recognize the estimated future cost of providing healthcare and any other postretirement benefits on an accrual basis.

The Corporation implemented a cap on annual employer contributions for retiree healthcare coverage in 2013. The effect of the amendment will be recognized over the average service life of participants beginning the year ended December 31, 2014.

The status of the Corporation's postretirement healthcare plan as of December 31 is detailed as follows:

	2014	2013
Accumulated Benefit Obligation, Beginning of Year	**$ 9,764,641**	$ 9,541,406
Service Cost	**305,484**	291,752
Interest Cost	**333,816**	326,771
Participant Contributions	**49,117**	48,706
Actuarial Gain	**(122,517)**	(96,786)
Benefits Paid	**(380,650)**	(347,208)
Accumulated Benefit Obligation, End of Year	**9,949,891**	9,764,641
Fair Value of Plan Assets, Beginning of Year	**18,536,383**	15,042,013
Actual Return on Plan Assets	**1,464,438**	3,494,370
Other Benefit Plan Redemption	**(1,600,000)**	-
Employer Contributions	**331,533**	298,502
Participant Contributions	**49,117**	48,706
Benefits Paid	**(380,650)**	(347,208)
Fair Value of Plan Assets, End of Year	**18,400,821**	18,536,383
Funded Status	**$ (8,450,930)**	$ (8,771,742)

(9) Retiree Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

Net Periodic Postretirement Benefit Cost:

	2014	2013
Service Cost	**$ 305,484**	$ 291,752
Interest Cost	**333,816**	326,771
Actual Return on Plan Assets	**(1,464,438)**	(3,494,370)
Amortization of Plan Amendments	**(370,811)**	(370,811)
Amortization of Actuarial Gain	**(122,517)**	(96,786)
	$(1,318,466)	$(3,343,444)

Amounts recognized as a component of equity consisted of:

Plan Amendment Recognized as a Component of Equity Not Yet Recognized as Periodic Benefit Cost	**$4,554,298**	$ 4,925,109

The Corporation's accumulated postretirement benefit obligation (APBO) and net postretirement benefit cost are calculated using various actuarial assumptions and methodologies. The assumptions include discount rates, healthcare trend rates, mortality rates and other factors. Actuarial assumptions are reviewed on an annual basis. Weighted average assumptions for the years ended December 31 are as follows:

The following table shows key assumptions used for the measurement of obligations for the plan.

	December 31		
Description	**2014**	2013	2012
Discount Rate	**3.50%**	3.50%	5.25%
Expected Long-Term Rate of Return on Plan Assets	**5.00%**	5.00%	5.00%
Medical Trend Rate			
Initial	**8.00%**	8.50%	7.50%
Ultimate	**5.00%**	5.00%	5.00%
Fiscal Year Reached	**2019**	2019	2017

The Corporation expects to amortize $370,811 of prior service cost from accumulated other comprehensive income in the following period.

In accordance with the postretirement healthcare benefit trust provisions, the Corporation elected to make a plan asset redemption to fund current year insurance requirements.

(9) Retiree Benefits (Continued)

Postretirement Healthcare Benefits (Continued)

The following benefits are expected to be paid:

Year	Amount
2015	$ 370,000
2016	393,000
2017	424,000
2018	431,000
2019	416,000
2020-2024	1,929,000

The following table sets forth the weighted-average asset allocations of the Corporation's postretirement healthcare benefits at December 31, 2014 and 2013 by asset category.

Year	Money Market Funds	Bonds	Equities	Totals
2014	**0.01%**	**27.78%**	**72.21%**	**100.00%**
2013	0.10%	27.20%	72.70%	100.00%

The Corporation employs a total-return investment approach whereby a mix of equities and fixed income investments is used to maximize the long-term return of plan assets for a prudent level of risk. The current asset allocation adheres to the Corporation's overall investment strategy for plan assets. Plan assets are measured at fair value (See Note 13).

The Corporation expects to make $370,000 in voluntary contributions to its postretirement healthcare plan in 2015.

(10) Commitments

The Corporation is committed to purchase all electric energy requirements from Central Electric Power Cooperative, Inc. (Central), as have other members of the organization in accordance with the wholesale power contract expiring in 2030. Under the contract, the cost of wholesale power purchases through Central may increase or decrease based upon rates established by the board of trustees of Central.

Central is continuing negotiations for acquisition of additional electric generating capacity and transmission facilities for the purpose, among others, of supplying electric power and energy to members of the organization. Such benefits or detriments, if any, arising from participation in proposed joint projects with wholesale power suppliers will be passed to the members of Central.

(11) Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents and consumer accounts receivable. The Corporation maintains its cash balances in financial institutions; cash balances throughout the year periodically exceed federally insured deposit limits of $250,000. At December 31, 2014, the amount exceeding insured limits totaled $10,589,331.

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

(12) Contingencies

The Corporation has been named as a defendant in a class action lawsuit regarding the retirement of capital credits. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible losses or recovery, the Corporation believes these unresolved legal actions will not have a material effect on its financial position or results of operations. A tentative settlement has been reached by the parties which supports management's position. However, if the ultimate resolution differs from management's position, it could adversely impact the financial statements.

(13) Fair Value Measurement

Fair Value Hierarchy

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

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

- Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

- Level 2. Valuations based on quoted market prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets of liabilities.

- Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

(13) Fair Value Measurement (Continued)

Fair Value Hierarchy (Continued)

Description	Level	December 31, 2014	December 31, 2013
Postretirement Benefit Plan Assets	(1)		
Money Market - Daily Income Fund		**$ 15,444**	$ 15,443
Short-Term Bond Fund		**5,119,210**	5,032,902
Stock Index Fund		**2,459,524**	2,173,671
Value Fund		**6,722,146**	7,309,389
Small-Company Stock Fund		**2,840,416**	2,630,643
International Value Fund		**1,252,082**	1,374,335
		$ 18,408,822	$ 18,536,383

Other Fair Value Disclosures Required by U.S. GAAP

The estimated fair values of the Corporation's financial instruments are as follows:

	December 31, 2014		December 31, 2013	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Notes Receivable	**$ 116,481**	**$ 121,709**	$ 198,704	$ 211,922
Cash and Cash Equivalents	**11,915,752**	**11,915,752**	7,455,924	7,455,924
FINANCIAL LIABILITIES				
Long-Term Debt (Note 8)	**$ 121,854,879**	**$ 122,208,141**	$ 110,108,451	$ 110,427,660
Consumer Deposits	**1,159,321**	**1,159,321**	1,126,636	1,126,636

Notes receivable fair value is based on quoted market price on current rates offered for similar remaining maturities.

Cash and cash equivalents carrying amount reported in the balance sheets approximates fair value because of the short maturity of those instruments.

Long-term debt fair value is based on quoted market price for current rates offered on debt instruments with similar remaining maturities.

Consumer deposits fair value is based on current rates and policies offered by the Corporation to its members for deposits required for service.

Investments in associated organizations represent nontransferable interest in associated organizations. The right to receive cash is an inherent component of a financial instrument. The Corporation holds no right to receive cash since any payments are at the discretion of the governing body for the associated organizations. As such, patronage capital from associated organizations is not considered a financial instrument. Furthermore, the Corporation considers NRUCFC certificates and member capital securities to be directly related to borrowing and the fair value of the investments not determinable. Investments in associated organizations are carried at cost (See Note 3).

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February 12, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

The Board of Trustees
Mid-Carolina Electric Cooperative, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of **Mid-Carolina Electric Cooperative, Inc.** (the Corporation) as of December 31, 2014 and the related statements of revenue and comprehensive income, changes in members' equity and cash flows for the year then ended, and have issued our report thereon dated February 12, 2015.

In connection with our audit, nothing came to our attention that caused us to believe that the Corporation failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Corporation's noncompliance with the above-referenced terms insofar as they relate to accounting matters.

This report is intended solely for the information and use of the board of trustees and management of Mid-Carolina Electric Cooperative, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

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February 12, 2015

MANAGEMENT LETTER

The Board of Trustees
Mid-Carolina Electric Cooperative, Inc.

We have audited the financial statements of **Mid-Carolina Electric Cooperative, Inc.** (the Corporation) for the year ended December 31, 2014 and have issued our report thereon dated February 12, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Mid-Carolina Electric Cooperative, Inc. as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given those limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Auditing standards require that certain matters related to the conduct of the audit are communicated to those who have responsibility for oversight of the financial reporting process. In accordance with these requirements, refer to Exhibit A-Matters to be Communicated with the Board of Trustees.

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

McNair, McLemore, Middlebrooks & Co., LLC

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

MID-CAROLINA ELECTRIC COOPERATIVE, INC.
MATTERS TO BE COMMUNICATED WITH THE BOARD OF TRUSTEES
DECEMBER 31, 2014

Auditor's Responsibility Under Generally Accepted Auditing Standards

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

Planned Scope and Timing of the Audit

The audit was performed according to the planned scope and timing previously communicated to you in our engagement letter dated November 10, 2014.

Significant Accounting Policies

Management is responsible for the selection of appropriate accounting policies. The significant accounting policies used by Mid-Carolina Electric Cooperative, Inc. are outlined in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2014. We noted no transaction entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a period other than when the transaction occurred.

Management Judgments and Accounting Estimates

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

- Allocations for construction work in progress
- Useful lives of utility plant
- Reserve for uncollectible accounts
- Expense accruals
- Actuarial assumptions of employee benefit plans

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

Significant Audit Adjustments and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no audit adjustments for the year ended December 31, 2014. There were no significant uncorrected misstatements, material or immaterial.

Disagreements with Management

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

Management Representation

We have requested certain representations from management that are included in the management representation letter dated February 12, 2015.

Consultation with Other Accountants

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

Major Issues Discussed with Management Prior to Retention

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

Difficulties Encountered in Performing the Audit

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

Restriction of Use

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