Report of Independent Registered Public Accounting Firm

The Board of Directors
Chugach Electric Association, Inc.

We have audited the accompanying balance sheets of Chugach Electric Association, Inc. as of December 31, 2009 and 2008, and the related statements of operations, changes in equities and margins, and cash flows for each of the years in the three-year period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chugach Electric Association, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 4, 2010
Anchorage, Alaska

Balance Sheets
December 31, 2009 and 2008

Assets	2009	2008
Utility Plant (notes 1d, 3, 11 and 12):		
Electric plant in service	$834,467,734	$821,462,475
Construction work in progress	48,383,610	25,151,072
Total utility plant	882,851,344	846,613,547
Less accumulated depreciation	(420,464,808)	(389,002,139)
Net utility plant	462,386,536	457,611,408
Other property and investments, at cost:		
Nonutility property	24,461	24,461
Special Funds	345,792	264,427
Investments in associated organizations (note 4)	12,333,936	12,177,769
Total other property and investments	12,704,189	12,466,657
Current assets:		
Cash and cash equivalents, including repurchase agreements of $4,593,703 in 2009 and $9,639,446 in 2008	3,503,765	7,491,302
Special deposits	125,037	114,930
Fuel cost under-recovery (note 1n)	278,164	11,788,078
Accounts receivable, less provision for doubtful accounts of $397,815 in 2009 and $408,632 in 2008	32,764,733	33,019,372
Materials and supplies	29,990,618	28,806,641
Prepayments	1,261,897	1,544,025
Other current assets	246,380	272,357
Total current assets	68,170,594	83,036,705
Deferred charges, net (notes 5 and 13)	22,037,407	23,577,199
Total assets	$565,298,726	$576,691,969

Liabilities, Equities and Margins	2009	2008
Equities and margins (notes 6 and 7):		
Memberships	$1,432,054	$1,390,413
Patronage capital	144,228,221	142,009,998
Other	10,660,322	10,366,588
Total equities and margins	156,320,597	153,766,999
Long-term obligations, excluding current installments (notes 8 and 9):		
Bonds payable	270,000,000	270,000,000
National Bank for Cooperatives promissory notes payable	37,301,819	41,419,847
National Rural Utilities Cooperative Finance Corporation promissory notes payable	0	42,963,659
Total long-term obligations	307,301,819	354,383,506
Current liabilities:		
Current installments of long-term obligations (notes 8 and 9)	4,118,028	4,403,653
Commercial Paper	51,500,000	0
Promissory notes payable	0	2,860,000
Short-term obligations	0	7,500,000
Accounts payable	10,212,105	6,999,140
Consumer deposits	2,447,140	2,410,980
Fuel cost over-recovery (note 1n)	3,511,422	0
Accrued interest	6,067,630	6,158,927
Salaries, wages and benefits	5,956,320	5,481,621
Fuel	14,658,058	28,494,211
Other current liabilities	1,234,371	1,666,521
Total current liabilities	99,705,074	65,975,053
Deferred compensation	345,792	264,427
Deferred credits (note 5)	1,625,444	2,301,984
Total liabilities, equities and margins	$565,298,726	$576,691,969

See accompanying notes to financial statements.

Statements of Operations
Years Ended December 31, 2009, 2008 and 2007

	2009	2008	2007
Operating revenues (notes 1m, 2 and 13)	$290,247,308	$288,292,112	$257,443,919
Operating expenses:			
Fuel (note 13)	136,416,761	137,894,553	106,023,734
Power production	16,406,911	16,718,777	16,171,717
Purchased power	35,690,476	31,486,621	33,947,828
Transmission	5,709,578	5,841,405	6,781,166
Distribution	12,740,381	12,398,832	13,716,105
Consumer accounts	5,259,348	5,396,662	4,899,878
Administrative, general and other charges	20,518,688	20,014,239	21,776,968
Depreciation	32,130,434	30,829,276	29,049,627
Total operating expenses	264,872,577	260,580,365	232,367,023
Interest expense:			
On long-term obligations	20,159,196	21,309,900	24,239,343
On short-term obligations	1,048,404	1,669,376	90,648
Charged to construction-credit	(601,251)	(446,479)	(617,194)
Net interest expense	20,606,349	22,532,797	23,712,797
Net operating margins	4,768,382	5,178,950	1,364,099
Nonoperating margins:			
Interest income	250,958	553,362	710,480
Capital credits, patronage dividends and other	641,008	679,438	810,677
Total nonoperating margins	891,966	1,232,800	1,521,157
Assignable margins	$5,660,348	$6,411,750	$2,885,256

Statements of Changes in Equities and Margins
Years Ended December 31, 2009, 2008 and 2007

	Memberships	Other Equities and Margins	Patronage Capital	Total
Balance, January 1, 2007	$1,297,633	$8,300,847	$141,117,620	$150,716,100
Assignable margins	0	0	2,885,256	2,885,256
Retirement of capital credits	0	0	(5,289,538)	(5,289,538)
Unclaimed capital credit retirements	0	681,254	0	681,254
Memberships and donations received	47,380	269,984	0	317,364
Balance, December 31, 2007	1,345,013	9,252,085	138,713,338	149,310,436
Assignable margins	0	0	6,411,750	6,411,750
Retirement of capital credits	0	0	(3,115,090)	(3,115,090)
Unclaimed capital credit retirements	0	963,133	0	963,133
Memberships and donations received	45,400	151,370	0	196,770
Balance, December 31, 2008	1,390,413	10,366,588	142,009,998	153,766,999
Assignable margins	0	0	5,660,348	5,660,348
Retirement of capital credits	0	0	(3,442,125)	(3,442,125)
Unclaimed capital credit retirements	0	213,527	0	213,527
Memberships and donations received	41,641	80,207	0	121,848
Balance, December 31, 2009	$1,432,054	$10,660,322	$144,228,221	$156,320,597

See accompanying notes to financial statements.

Statements of Cash Flows
Years Ended December 31, 2009, 2008 and 2007

	2009	2008	2007
Cash flows from operating activities:			
Assignable margins	$5,660,348	$6,411,750	$2,885,256
Adjustments to reconcile assignable margins to net cash provided by operating activities:			
Depreciation	32,130,434	30,829,276	29,049,627
Amortization and depreciation cleared to operating expenses	4,755,265	5,029,029	3,376,708
Capitalized interest	(746,532)	(559,090)	(891,443)
Property losses, net	35,289	2,231	16,748
Write-off of inventory and projects	1,461,349	18,000	4,439
Investments in associated organizations	(156,706)	(184,390)	(105,872)
Changes in assets and liabilities:			
(Increase) decrease in assets:			
Accounts receivable	584,825	(1,663,891)	1,544,090
Fuel cost under-recovery	11,509,914	(11,788,078)	0
Materials and supplies	(1,407,931)	(384,553)	(2,997,595)
Prepayments/Other assets	298,537	(183,715)	228,145
Deferred charges	(2,522,027)	(6,640,741)	(2,773,198)
Increase (decrease) in liabilities:			
Accounts payable	169,466	(1,673,495)	(124,362)
Consumer deposits/Other liabilities	(33,945)	(4,555)	(1,340,345)
Fuel cost over-recovery	3,511,422	(1,596,010)	1,295,443
Accrued interest	(91,297)	(145,682)	(59,491)
Salaries, wages and benefits	474,699	(472,252)	(67,600)
Fuel	(13,836,153)	6,156,558	6,178,870
Deferred credits	11,219	55,070	16,646
Net cash provided by operating activities	41,808,176	23,205,462	36,236,066
Investing activities:			
Extension and replacement of plant	(37,499,061)	(29,830,126)	(28,483,067)
Net cash used in investing activities	(37,499,061)	(29,830,126)	(28,483,067)
Financing activities:			
Payments of notes payable	(2,860,000)	0	0
Proceeds from short-term obligations	66,998,000	7,500,000	0
Proceeds from long-term obligations	0	38,560,006	0
Repayments of short-term obligations	(22,998,000)	0	0
Repayments of long-term obligations	(47,367,312)	(35,303,151)	(9,001,795)
Memberships and donations received	21,624	70,761	76,969
Retirement of patronage capital and estate payments	(3,022,246)	(4,027,156)	(3,273,914)
Net receipts of consumer advances for construction	931,282	1,105,570	810,763
Net cash (used in) provided by financing activities	(8,296,652)	7,906,030	(11,387,977)
Net changes in cash and cash equivalents	(3,987,537)	1,281,366	(3,634,978)
Cash and cash equivalents at beginning of period	$7,491,302	$6,209,936	$9,844,914
Cash and cash equivalents at end of period	$3,503,765	$7,491,302	$6,209,936
Supplemental disclosure of non-cash investing and financing activities			
Retirement of plant (net of salvage)	$991,011	$9,027,644	$9,473,461
Notes payable on land	$0	$2,860,000	$0
Extension and replacement of plant included in accounts payable	$5,712,404	$2,656,989	$2,084,120
Non-cash capital credit retirements	$331,987	$1,089,142	$921,649
Patronage capital retired and estate payments included in other current liabilities	$503,237	$415,345	$2,416,552
Supplemental disclosure of cash flow information – interest expense paid, excluding amounts capitalized	$19,710,442	$21,536,503	$23,772,288

See accompanying notes to financial statements.

(1) Description of Business and Significant Accounting Policies

a. Description of Business

Chugach Electric Association, Inc. (Chugach) is the largest electric utility in Alaska. Chugach is engaged in the generation, transmission and distribution of electricity to directly serve retail customers in the Anchorage and upper Kenai Peninsula areas. Through an interconnected regional electrical system, Chugach's power flows throughout Alaska's Railbelt, a 400-mile-long area stretching from the coastline of the southern Kenai Peninsula to the interior of the state, including Alaska's largest cities, Anchorage and Fairbanks.

Chugach also supplies much of the power requirements of three wholesale customers, Matanuska Electric Association, Inc. (MEA), Homer Electric Association, Inc. (HEA) and the City of Seward (Seward). Chugach's retail and wholesale members are the consumers of the electricity sold.

Chugach operates on a not-for-profit basis and, accordingly, seeks only to generate revenues sufficient to pay operating and maintenance costs, the cost of purchased power, capital expenditures, depreciation, and principal and interest on all indebtedness and to provide for reserves. Chugach is subject to the regulatory authority of the Regulatory Commission of Alaska (RCA).

b. Management Estimates

In preparing the financial statements, management of Chugach is required to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the reporting period. Estimates include allowance for doubtful accounts, deferred charges and credits, unbilled revenue and the estimated useful life of utility plant. Actual results could differ from those estimates.

c. Regulation

The accounting records of Chugach conform to the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC). Chugach meets the criteria, and accordingly, follows the accounting and reporting requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, "Topic 980 - Regulated Operations."

FASB ASC 980 provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then reduced as the cost or credit is reflected in rates.

d. Utility Plant and Depreciation

Additions to electric plant in service are recorded at original cost of contracted services, direct labor and materials, indirect overhead charges and capitalized interest. For property replaced or retired, the book value of the property, plus removal cost, less salvage, is charged to accumulated provision for depreciation. Renewals and betterments are capitalized, while maintenance and repairs are charged to expense as incurred.

In accordance with FASB ASC 360, "Topic 360 – Property, Plant, and Equipment," certain utility plant is reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable in rates. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Depreciation and amortization rates have been applied on a straight-line basis and at December 31 are as follows:

Annual Depreciation Rate Ranges

	01/01/2005-05/31/2008			06/01/2008-12/31/2009		
Steam production plant	2.55%	-	3.24%	4.45%	-	5.85%
Hydraulic production plant	1.63%	-	3.00%	1.22%	-	3.00%
Other production plant	3.32%	-	9.81%	3.77%	-	10.56%
Transmission plant	1.72%	-	5.26%	1.61%	-	6.67%
Distribution plant	2.10%	-	9.98%	1.95%	-	9.77%
General plant	2.23%	-	27.25%	1.25%	-	26.11%
Other	2.75%	-	2.75%	2.75%	-	2.75%

On April 1, 2008, the RCA issued Order 21, which allowed Chugach to revise its depreciation rates effective June 1, 2008. See Note (2) – "*Regulatory Matters – 2005 Test Year General Rate Case (Docket U-06-134).*"

The most significant change resulting from the 2005 Depreciation Study update approved by the RCA in Order 21 was a reduction of the useful life of the steam plant from forty years to thirty years, which caused an increase in the rates for steam production plant. The useful life of the hydraulic production plant at Cooper Lake was extended to 2057 to coincide with the expiration of the fifty year FERC license for the Cooper Lake facility. This resulted in a decrease in the depreciation rates for most hydraulic production plant. Other factors that drove modifications to the depreciation rates included changes in surviving original cost, survivor curves and net salvage percentages.

e. Capitalized Interest

Allowance for funds used during construction (AFUDC) and interest charged to construction - credit (IDC) are the estimated costs during the period of construction of equity and borrowed funds. AFUDC and IDC are non-cash credits, which represent the estimated cost of funds used to finance the construction of utility plant. AFUDC and IDC are applied to applicable projects during construction. AFUDC and IDC include the net cost of borrowed funds and a rate of return on other funds when used and is recovered through rates as utility plant is depreciated. Chugach capitalized such funds at the weighted average rate (adjusted monthly) of 4.9 percent during 2009, 5.1 percent during 2008 and 6.3 percent during 2007. Chugach capitalized actual interest expense and related fees associated with the construction of the Southcentral Power Project (SPP).

f. Investments in Associated Organizations

The loan agreements with CoBank, ACB (CoBank) and National Rural Utilities Cooperative Finance Corporation (NRUCFC) require as a condition of the extension of credit, that an equity ownership position be established by all borrowers. Chugach's equity ownership in these organizations is less than 1 percent. These investments are non-marketable and accounted for at cost. Management evaluates these investments annually for impairment. No impairment was recorded during 2009, 2008 and 2007.

g. Fair Value of Financial Instruments

FASB ASC 825, "Topic 825 – Financial Instruments," requires disclosure of the fair value of certain on and off balance sheet financial instruments for which it is practicable to estimate that value. The following methods are used to estimate the fair value of financial instruments:

Cash and cash equivalents - the carrying amount approximates fair value because of the short maturity of those instruments.
Consumer deposits - the carrying amount approximates fair value because of the short refunding term.
Long-term obligations - the fair value is estimated based on the quoted market price for same or similar issues (notes 8 and 9).

h. Cash and Cash Equivalents

For purposes of the statement of cash flows, Chugach considers all highly liquid debt instruments with a maturity of three months or less upon acquisition by Chugach to be cash equivalents. Chugach has an Overnight Repurchase Agreement with First National Bank Alaska (FNBA). Each day the balance is invested by FNBA and Chugach receives varying interest rates for our investment pursuant to our Overnight Purchase Agreement. The Overnight Repurchase Agreement account had an average balance in 2009 and 2008 of $4,103,891 and $3,725,224, at an average interest rate of 0.17 percent and 1.43 percent, respectively.

i. Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts is management's best estimate of the amount of probable credit losses in existing accounts receivable. Chugach determines the allowance based on its historical write-off experience and current economic conditions. Chugach reviews its allowance for doubtful accounts monthly. Past due balances over 90 days in a specified amount are reviewed individually for collectability. All other balances are reviewed in aggregate. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Chugach does not have any off–balance-sheet credit exposure related to its customers.

j. Materials and Supplies

Materials and supplies are stated at average cost.

k. Deferred Charges and Credits

In accordance with FASB ASC 980, Chugach's financial statements reflect regulatory assets and liabilities. Continued accounting under FASB ASC 980, requires that certain criteria be met. We capitalize all or part of costs that would otherwise be charged to expense if it is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate making purposes and future revenue will be provided to permit recovery of the previously incurred cost. Management believes Chugach's operations currently satisfy these criteria. However, if events or circumstances should change so the criteria are not met, the write off of regulatory assets and liabilities could have a material effect on the financial position and results of operations. Deferred charges, primarily representing regulatory assets, are amortized to operating expense over the period allowed for rate making purposes. Deferred credits, primarily representing regulatory liabilities, are amortized to operating expense over the period allowed for rate making purposes. It also includes nonrefundable contributions in aid of construction, which are credited to the associated cost of construction of property units. Refundable contributions in aid of construction are held in deferred credits pending their return or other disposition.

l. Patronage Capital

Revenues in excess of current period costs (net operating margins and nonoperating margins) in any year are designated on Chugach's statement of revenues and expenses as assignable margins. These excess amounts (i.e. assignable margins) are considered capital furnished by the members, and are credited to their accounts and held by Chugach until such future time as they are retired and returned without interest at the discretion of the Board of Directors. Retained assignable margins are designated on Chugach's balance sheet as patronage capital. This patronage capital constitutes the principal equity of Chugach. The Board of Directors may also approve the return of capital to former members and estates who request early retirements at discounted rates under a discounted capital credits retirement plan authorized by the Board in September 2002.

m. Operating Revenues

Revenues are recognized upon delivery of electricity. Operating revenues are based on billing rates authorized by the RCA, which are applied to customers' usage of electricity. Chugach's rates are established, in part, on test period sales levels that reflect actual operating results. Chugach calculates unbilled revenue at the end of each month to ensure the recognition of a calendar year's revenue. Chugach accrued $9,417,906 and $10,024,312 of unbilled retail revenue at December 31, 2009 and 2008, respectively. Wholesale revenue is recorded from metered locations on a calendar month basis, so no accrual is made. Chugach's tariffs include provisions for the flow through of gas costs according to existing gas supply contracts, as well as purchased power costs.

n. Fuel and Purchased Power Costs Recovery

Expenses associated with electric services include fuel used to generate electricity and power purchased from others. Chugach is authorized by the RCA to recover fuel and purchased power costs through the fuel surcharge process, which is adjusted quarterly to reflect increases and decreases of such costs. We recognize differences between projected recoverable fuel costs and amounts actually recovered through rates. The fuel cost under/over recovery on our Balance Sheet represents the net accumulation of any under or over collection of fuel and purchase power costs. Fuel cost under-recovery will appear as an asset on our Balance Sheet and will be collected from our members in subsequent periods. Conversely, fuel cost over-recovery will appear as a liability on our Balance Sheet and will be refunded to our members in subsequent periods. Fuel costs were over-recovered by $3,233,258 in 2009 and under-recovered by $11,788,078 in 2008. Total fuel and purchased power costs in 2009, 2008, and 2007 were $172,107,237, $169,381,174, and $139,971,562, respectively.

o. Environmental Remediation Costs

Chugach accrues for losses and establishes a liability associated with environmental remediation obligations when such losses are probable and can be reasonably estimated. Such accruals are adjusted as further information develops or circumstances change. Estimates of future costs for environmental remediation obligations are not discounted to their present value. However, various remediation costs may be recoverable through rates and accounted for as a regulatory asset.

p. Income Taxes

Chugach is exempt from federal income taxes under the provisions of Section 501(c)(12) of the Internal Revenue Code and for the years ended December 31, 2009, 2008 and 2007 was in compliance with that provision. In addition, as described in *"Note (13) - Commitments, Contingencies and Concentrations,"* Chugach collects sales tax and is assessed gross receipts and excise taxes which are presented on a net basis in accordance with FASB ASC 605-45-50, "Topic 605 - Revenue Recognition – Subtopic 45 - Principal Agent Considerations – Section 50 - Disclosure."

Chugach applies a more-likely-than-not recognition threshold for all tax uncertainties. FASB ASC 740 only allows the recognition of those tax benefits that have a greater than fifty percent likelihood of being sustained upon examination by the taxing authorities. Chugach's management reviewed Chugach's tax positions and determined there were no outstanding, or retroactive tax positions, with less than a fifty percent likelihood of being sustained upon examination by the taxing authorities.

Management has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements for all periods presented. Chugach's evaluation was performed for the tax periods ended December 31, 2006 through December 31, 2009 for U.S. Federal Income Tax, the tax years which remain subject to examination by major tax jurisdictions as of December 31, 2009.

q. Recently Issued Accounting Pronouncements

ASC Update 2009-01 *"Topic 105 – Generally Accepted Accounting Principles – amendments based on – Statement No. 168 – The* FASB Accounting Standards Codification™ *and the Hierarchy of Generally Accepted Accounting Principles"*

In June 2009, the FASB issued ASC Update 2009-01, "Topic 105 – Generally Accepted Accounting Principles – amendments based on Statement No. 168 – The *FASB Accounting Standards Codification*™ and the Hierarchy of Generally Accepted Accounting Principles." This update applies to all financial statements of nongovernmental entities that are presented in conformity with U.S. Generally Accepted Accounting Principles (GAAP). ASC Update 2009-01 does not change GAAP, it establishes the *FASB Accounting Standards Codification*™ (Codification) as the source of authoritative GAAP to be applied by nongovernmental entities, while also acknowledging the rules and interpretive releases of the SEC under authority of federal securities laws as sources of authoritative GAAP for SEC registrants. Additionally, the Codification creates a new format for tracking, identifying, and citing GAAP, by numbered topics, subtopics, sections and paragraphs. As of the effective date of this update, all then-existing non-SEC standards will be superseded by the Codification and any non-SEC accounting literature not grandfathered will become non-authoritative. ASC Update 2009-01 is effective for financial statements issued for periods ending after September 15, 2009. Chugach began application of ASC Update 2009-01 to the financial statements for the period ended September 30, 2009, which did not have a material effect on our results of operations, financial position, and cash flows.

ASC Update 2010-06 *"Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements"*

In January 2010, the FASB issued ASC Update 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements." ASC Update 2010-06 applies to all entities that are required to make disclosures about recurring or nonrecurring fair value measurements and expands the disclosures required based on the measurement Level. This update is effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for certain Level 3 transactions. Those transaction disclosure requirements are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Chugach will begin application of ASC Update 2010-06 to the financial statements for the period ended March 31, 2010, which we do not expect to have a material effect on our results of operations, financial position, and cash flows.

ASC Update 2009-05 *"Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value"*

In August 2009, the FASB issued ASC Update 2009-05, "Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value." ASC Update 2009-05 applies to all entities that measure liabilities at fair value within the scope of Topic 820 and clarifies the measurement techniques to be used. This update is effective for the first reporting period (including interim periods) beginning after issuance. Chugach began application of ASC Update 2009-05 to the financial statements for the period ended December 31, 2009, which did not have a material effect on our results of operations, financial position, and cash flows.

SFAS 167 "*Amendments to FASB Interpretation No. 46(R)*"

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 167, "Amendments to FASB Interpretation No. 46(R)." SFAS No. 167 applies to all entities except for those identified in FIN 46(R), "Consolidation of Variable Interest Entities," as well as entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated by SFAS No. 166, "Accounting for Transfers of Financial Assets." SFAS No. 167 amends FIN 46(R) to require additional disclosures regarding an entity's involvement in variable interest entities. SFAS No. 167 is effective for interim and annual reporting periods beginning after November 15, 2009. Chugach will begin application of SFAS No. 167 on January 1, 2010, which is not expected to have a material effect on our results of operations, financial position, and cash flows.

In December 2009, the FASB issued ASC Update 2009-17, *"Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities,"* an adaptation of SFAS No. 167 into the Codification. To view the adapted content, see FASB ASC 810-10-30, for the Initial Measurement Section of Subtopic 10, and FASB ASC 810-10-65, for the Transition and Open Effective Date Information Section of Subtopic 810-10.

SFAS 166 "*Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140*"

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140." SFAS No. 166 applies to all entities and amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 140 was amended to enhance the disclosure requirements as well as to define some of the terms and measurements to be used, by removing the concept of a qualifying special-purpose entity and the exception from applying FIN 46, "Consolidation of Variable Interest Entities," to qualifying special-purpose entities. SFAS No. 166 is effective for interim and annual reporting periods beginning after November 15, 2009. Chugach will begin application of SFAS No. 166 on January 1, 2010, which is not expected to have a material effect on our results of operations, financial position, and cash flows.

In December 2009, the FASB issued ASC Update 2009-16, *"Accounting for Transfers of Financial Assets,"* an adaptation of SFAS No. 166 into the Codification. To view the adapted content, see FASB ASC 860-10-40, for the Derecognition Section of Subtopic 10, and FASB ASC 860-10-65, for the Transition and Open Effective Date Information of Subtopic 860-10.

FAS 165 "*Subsequent Events*"

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events." SFAS No. 165 applies to the accounting for and disclosure of subsequent events, in both interim and annual financial statements. However, it does not apply to those subsequent events or transactions within the scope of other GAAP that provides different guidance of subsequent events and transactions. SFAS No. 165 is effective for interim and annual reporting periods ending after June 15, 2009. Chugach began application of SFAS No. 165 with the financial statements ending June 30, 2009, which did not have a material effect on our results of operations, financial position, and cash flows.

Effective July 2009, the FASB adapted SFAS No. 165 into the Codification. To view the adapted content, see FASB ASC 855-10 for the Overall Subtopic of Topic 855.

FAS 164 "*Not-for-Profit Entities: Mergers and Acquisitions – Including an amendment of FASB Statement No. 142*"

In April 2009, the FASB issued SFAS No. 164, "Not-for-Profit Entities: Mergers and Acquisitions – Including an amendment of FASB Statement No. 142." SFAS No. 164 applies to the combination of not-for-profit entities meeting the definition of a merger or acquisition, with specific exceptions. SFAS No. 164 provides guidance on the accounting and disclosure of these combinations. SFAS No. 164 is effective for annual reporting periods beginning after December 15, 2009. Chugach will begin application of SFAS No. 164 on January 1, 2010, which is not expected to have a material effect on our results of operations, financial position, and cash flows.

In January 2010, the FASB issued ASC Update 2010-07, *"Not-for-Profit Entities (Topic 958): Not-for-Profit Entities: Mergers and Acquisitions,"* an adaptation of SFAS No. 164 into the Codification. To view the adapted content, see FASB ASC 954-805 for the Business Combinations Subtopic of Topic 954, FASB ASC 958-805 for the Business Combinations Subtopic of 958, FASB ASC 805-10-15 for the Scope and Scope Exceptions Section of Subtopic 805-10, FASB ASC 805-50-15 for the Scope and Scope Exceptions Section of Subtopic 805-50, and FASB ASC 350-10-65 for the Transition and Open Effective Date Information Section of Subtopic 350-10.

FSP FAS 107-1 and APB 25-1 *"Interim Disclosures about Fair Value of Financial Instruments"*

In April 2009, the FASB issued FASB Staff Position (FSP) FAS 107-1 and APB 25-1, *"Interim Disclosures about Fair Value of Financial Instruments."* This FSP applies to all financial instruments within the scope of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," held by publicly traded companies, as defined by APB Opinion No. 28, "Interim Financial Reporting." This FSP expands the reporting of fair value disclosures required by SFAS No. 107 to include interim reporting. This FSP also amends APB Opinion No. 28 to require those disclosures in summarized financial information of interim reports. FSP FAS 107-1 and APB 25-1 is effective for interim periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Chugach began application of FSP FAS 107-1 and APB 25-1 to fair value disclosures on January 1, 2009, which did not have a material effect on our results of operations, financial position, and cash flows.

Effective July 2009, the FASB adapted FSP FAS 107-1 and APB 25-1 into the Codification. To view the adapted content, see FASB ASC 825-10-65-1 for paragraph 1 of Section 825-10-65.

FSP FAS 115-2 and FAS 124-2 *"Recognition and Presentation of Other-Than-Temporary Impairments"*

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments." FSP FAS 115-2 and FAS 124-2 applies to debt securities classified as available-for-sale and held-to-maturity that are subject to other-than-temporary impairment guidance within specific parameters. This FSP amends current GAAP guidance on other-than-temporary impairment of debt securities to make the guidance more operational and to improve the presentation and disclosure of those impairments in the financial statements. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual reporting periods ending after June 15, 2009. Chugach began application of FSP FAS 115-2 and FAS 124-2 on April 1, 2009, which did not have a material effect on our results of operations, financial position, and cash flows.

Effective July 2009, the FASB adapted FSP FAS 115-2 and FAS 124-2 into the Codification. To view the adapted content, see FASB ASC 320-10-65-1 for paragraph 1 of Section 320-10-65.

FSP FAS 157-4 *"Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly"*

In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions." FSP FAS 157-4 applies to all assets and liabilities within the scope of accounting pronouncements that require or permit fair value measurement. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. Chugach began application of FSP FAS 157-4 on April 1, 2009, which did not have a material effect on our results of operations, financial position, and cash flows.

Effective July 2009, the FASB adapted FSP FAS 157-4 into the Codification. To view the adapted content, see FASB ASC 820-10-65-4 for paragraph 4 of Section 820-10-65.

r. Fair Values of Assets and Liabilities

Fair Value Hierarchy

In accordance with FASB ASC 820, Chugach groups its financial assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect Chugach's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The table below presents the balance of Chugach's non-qualified deferred compensation plan measured at fair value on a recurring basis.

	Total	Level 1	Level 2	Level 3
2009	$345,792	$345,792	$0	$0
2008	$264,427	$264,427	$0	$0

Chugach had no Level 2 or Level 3 assets or liabilities measured at fair value on a recurring basis.

s. Presentation of Financial Information

For the year ended December 31, 2009, the company recorded an immaterial adjustment to correctly present cash used in investing activities and cash used in financing activities for the years ended December 31, 2008 and 2007. The adjustment represents the amount of non-refundable consumer advances previously included as a reduction of cash used in investing activities and now included as a reduction of cash used in financing activities. The impact of the adjustment was to increase cash used in investing activities by $765,019 in 2008 and $1,229,771 and reduce cash used in financing activities by the same amount.

(2) Regulatory Matters

2008 Test Year General Rate Case (Docket U-09-080)

On June 23, 2009, Chugach filed a general rate case with the RCA to increase base rate revenue by $4.2 million, with increases of $2.7 million to Chugach retail customers and $1.5 million to wholesale customers. Base rates charged to retail customers increased 3.3 percent and base rates charged to wholesale customers HEA, MEA and Seward increased 7.8 percent, 2.0 percent and 9.7 percent, respectively. The estimated increase to Chugach's retail end-users is approximately 1.7 percent, while the increase to retail end-users of Chugach's wholesale customers is approximately 0.9 percent. Chugach requested that the proposed rates become effective on an interim and refundable basis beginning August 7, 2009.

On August 7, 2009, the RCA suspended Chugach's filing into Docket U-09-080 and issued Order No. 1. The RCA indicated that it would issue a final order in this case no later than September 16, 2010. The RCA did not issue a decision on Chugach's interim rate request. The RCA named the Attorney General and Chugach's wholesale customers HEA, MEA and Seward parties to the docket.

On October 9, 2009, the RCA issued Order No. 2 granting Chugach's original request that the proposed rates go into effect on an interim and refundable basis.

On October 15, 2009, the RCA consolidated Docket U-09-080 (General Rate Case) and Docket U-09-97 (Depreciation Study Update, explained below) and will hold combined hearings in June 2010. The Commission has indicated that it will issue a final order in the consolidated case by September 16, 2010.

Revision to Current Depreciation Rates (Docket U-09-097)

In accordance with a stipulation with its wholesale customers, HEA and MEA, Chugach filed on August 31, 2009, an updated depreciation study based on plant balances as of December 31, 2008. The RCA opened Docket U-09-097 to consider Chugach's updated depreciation study and issued Order No. 1 on September 14, 2009. The RCA named Chugach's wholesale customers HEA, MEA and Seward parties to the docket. As indicated in the discussion under the General Rate Case above, the RCA has consolidated the depreciation study update with the general rate case.

Amortization of Cooper Lake Unit No. 2 Overhaul Costs (Docket U-09-093)

On August 10, 2009, Chugach filed a request with the RCA to amortize approximately $1.07 million of expenditures associated with its 2008-2009 overhaul of Cooper Lake generating Unit 2 over a ten year period. The unit's planned overhaul was accelerated due to extensive wear that caused a forced outage in August of 2008. With this request Chugach seeks to amortize the overhaul costs and record the unamortized balance as a "regulatory asset".

On September 2, 2009, the RCA opened Docket U-09-093 to consider Chugach's request and issued Order No. 1.

Amortization of Cooper Lake Unit No. 2 Overhaul Costs (Docket U-09-093) (continued)

On October 1, 2009, the RCA issued Order No. 2, naming Chugach's wholesale customers, HEA and MEA, parties to the docket and scheduled a pre-hearing scheduling conference. Subsequent to this order, HEA has withdrawn from the docket and is therefore no longer participating in this adjudicatory process. The Commission accepted a stipulation between Chugach and MEA that no evidentiary hearing would be needed. Chugach and MEA submitted testimony and legal briefs.

Chugach received payments totaling $593,854 from its insurance carrier, FM Global, for proceeds related to the overhaul of Cooper Lake Unit 2. The payment amount will offset the costs that will be amortized and subsequently recovered in electric rates.

On February 5, 2010, the RCA issued Order No. 7, approving Chugach's request to record the balance of expenditures associated with its overhaul of Cooper Lake Unit 2 as a regulatory asset and to amortize and recover those costs over a ten year period beginning May of 2009.

Request for Participation in the Simplified Rate Filing Process

On December 15, 2009, Chugach submitted a request to the RCA for approval to implement the Simplified Rate Filing (SRF) process for the adjustment of base energy and demand rates in accordance with Alaska Statute 42.05.381(e).

Utilization of SRF will allow Chugach to more efficiently adjust base rates in response to lower sales resulting from both energy conservation and technological improvements. Chugach is also interested in SRF as a means to expedite the rate adjustment process with the goal of timely cost recovery and lower adjudicatory costs.

Chugach requested that base rate adjustments under SRF be completed on a semi-annual basis, utilizing the twelve months ended June and December as the test periods in each year. Chugach requested that its initial SRF be submitted on the June 2010 test year for rate adjustments, if necessary, during fourth quarter, 2010.

Under SRF, base rate increases are limited to 8 percent over a 12-month period and 20 percent over a 36-month period. Chugach is still permitted to submit general rate case filings while participating in the SRF process. However, during these periods, rate adjustments under SRF would temporarily cease.

The Commission has not yet issued an order on Chugach's request.

2005 Test Year General Rate Case (Docket U-06-134)

On September 29, 2006, Chugach filed a general rate case based on a 2005 test year with the RCA. Overall revenues were proposed to increase $2.8 million in the initial filing.

A settlement agreement reached in July 2007 between several of the intervenors and Chugach was accepted by the RCA in Order No. 15. On April 1, 2008, the RCA issued Order No. 21 in Docket U-06-134, approving the rates from the Settlement Agreement among Chugach, HEA and Seward. MEA did not join the Settlement Agreement. The effect of Order 21 was that overall revenues decreased by 0.8 percent, or $0.9 million, with retail base rate revenue decreasing by 4.8 percent, or $4.2 million and wholesale base rate revenue increasing by 11.0 percent, or $3.3 million. Order No. 21 was effective June 1, 2008.

After reconsiderations concerning a long-term debt allocator, the computation of depreciation expense and re-affirming filing requirements, the RCA issued Order No. 25 on November 7, 2008, accepting Chugach's filings and closed docket U-06-134. In this rate case, we modified the rate design so that all fuel and purchased power costs would be recovered through the fuel and purchased power process, which was approved by the RCA.

(3) Utility Plant

Major classes of utility plant as of December 31 are as follows:

	2009	2008
Electric plant in service:		
Steam production plant	$60,462,671	$60,462,671
Hydraulic production plant	20,315,628	19,597,661
Other production plant	132,645,379	137,480,817
Transmission plant	247,810,006	247,685,063
Distribution plant	242,798,640	242,489,152
General plant	47,756,148	46,634,280
Unclassified electric plant in service[1]	71,053,056	60,348,939
Other	11,626,206	6,763,892
Total electric plant in service	834,467,734	821,462,475
Construction work in progress[2]	48,383,610	25,151,072
Total electric plant in service and construction work in progress	$882,851,344	$846,613,547

[1]Unclassified electric plant in service consists of complete unclassified general plant, generation plant, transmission plant and distribution plant. Depreciation of unclassified electric plant in service has been included in functional plant depreciation accounts in accordance with the anticipated eventual classification of the plant investment.

[2]The amount associated with the construction of the SPP included in construction work in progress was $26.5 and $5.8 million at December 31, 2009 and 2008, respectively.

(4) Investments in Associated Organizations

Investments in associated organizations include the following at December 31:

	2009	2008
National Rural Utilities Cooperative Finance Corporation	$6,095,980	$6,095,980
CoBank, ACB	6,174,680	6,022,743
NRUCFC capital term certificates	46,655	42,196
Other	16,621	16,850
Total Investments in Associated Organizations	$12,333,936	$12,177,769

The Farm Credit Administration, CoBank's federal regulators, requires minimum capital adequacy standards for all Farm Credit System institutions. CoBank's loan agreements require, as a condition of the extension of credit, that an equity ownership position be established by all borrowers. Chugach's investment in NRUCFC similarly was required by Chugach's financing arrangements with NRUCFC.

(5) Deferred Charges and Credits

Deferred Charges

Deferred charges, or regulatory assets, net of amortization, consisted of the following at December 31:

	2009	2008
Debt issuance and reacquisition costs	$3,439,420	$5,254,072
Refurbishment of transmission equipment	169,754	179,013
Studies	111,121	15,194
Beluga Gas Compression	3,772,461	4,918,909
Cooper Lake Relicensing / projects	6,119,493	5,857,388
Fuel supply negotiations	1,587,238	1,257,993
Major overhaul of steam generating unit	3,775,114	4,530,550
Other regulatory deferred charges	1,721,180	177,103
Environmental matters and other	1,341,626	1,386,977
Total deferred charges	$22,037,407	$23,577,199

	2009	2008
Fuel supply negotiations	$1,444,789	$1,092,828
Studies/Other	111,122	72,077
Cooper Lake Unit 1 Major Overhaul	1,053,269	0
Cooper Lake Relicensing	438,380	5,800,506
Labor Contract Negotiations	14,315	177,103
Debt issuance costs	0	626,628
Total deferred charges	$3,061,875	$7,769,142

We believe all the regulatory assets that are not currently being recovered are probable of recovery in the future based upon prior recovery of similar costs allowed by our regulator. Deferred charges are amortized over the life of the underlying asset.

Deferred Credits

Deferred credits, or regulatory liabilities, at December 31 consisted of the following:

	2009	2008
Refundable consumer advances for construction	$857,322	$1,545,081
Estimated initial installation costs for meters	120,185	141,712
Post retirement benefit obligation	593,600	593,600
Other	54,337	21,591
Total deferred credits	$1,625,444	$2,301,984

(6) Patronage Capital

Chugach has a Board approved capital credit retirement policy, which is contained in Chugach's Financial Management Plan. This establishes, in general, a plan to return the capital credits of wholesale and retail customers based on the members' proportionate contribution to Chugach's assignable margins. At December 31, 2009, Chugach had $144,228,221 of patronage capital (net of capital credits retired in 2009), which included $138,567,873 of patronage capital that had been assigned and $5,660,348 of patronage capital to be assigned to its members. Approval of actual capital credit retirements is at the discretion of Chugach's Board of Directors. Chugach records a liability when the retirements are approved by the Board of Directors. The Amended and Restated Indenture and the CoBank Master Loan Agreement prohibits Chugach from making any distribution of patronage capital to Chugach's customers if an event of default under the Amended and Restated Indenture or CoBank Master Loan Agreement exists. Otherwise, Chugach may make distributions to Chugach's members in each year equal to the lesser of 5 percent of Chugach's patronage capital or 50 percent of assignable margins for the prior fiscal year. This restriction does not apply if, after the distribution, Chugach's aggregate equities and margins as of the end of the immediately preceding fiscal quarter are equal to at least 30 percent of Chugach's total liabilities and equities and margins.

Capital credits retired were $3,442,125, $3,115,090, and $5,289,538 for the years ended December 31, 2009, 2008, and 2007, respectively. The outstanding liability for capital credits authorized but not paid was $503,237 and $415,345 at December 31, 2009 and 2008, respectively.

During 2008, the Board of Directors approved the deferral of capital credit retirements after 2009 due to the construction of new generation and the anticipated loss of wholesale load in 2014.

(7) Other Equities

A summary of other equities at December 31 follows:

	2009	2008
Nonoperating margins, prior to 1967	$23,625	$23,625
Donated capital	1,380,484	1,300,277
Unclaimed capital credit retirement[1]	9,256,213	9,042,686
Total other equities	$10,660,322	$10,366,588

[1]Represents unclaimed capital credits that have met all requirements of section 34.45.200 of Alaska's unclaimed property law and has therefore reverted to Chugach.

(8) Debt

Long-term obligations at December 31 are as follows:	2009	2008
CoBank 2, 5.50% fixed rate note maturing in 2010, with interest and principal payable monthly; unsecured	$1,500,000	$3,500,000
CoBank 3 and 4, 2.24% variable rate notes maturing in 2022, with interest payable monthly and principal due annually beginning in 2003; unsecured	36,999,447	38,462,805
CoBank 5, 2.24% variable rate note maturing in 2012, with interest and principal payable monthly; unsecured	2,920,400	3,860,695
2001 Series A Bond of 6.55%, maturing in 2011, with interest payable semi-annually March 15 and September 15; unsecured	150,000,000	150,000,000
2002 Series A Bond of 6.20%, maturing in 2012, with interest payable semi-annually February 1 and August 1; unsecured	120,000,000	120,000,000
NRUCFC line of credit, $29.7 million at 2.75% and $13.3 million at 5.00%, with interest payable monthly and principal due 2010; unsecured	0	42,963,659
Total long-term obligations	$311,419,847	$358,787,159
Less current installments	4,118,028	4,403,653
Long-term obligations, excluding current installments	$307,301,819	$354,383,506

Covenants

Chugach is required to comply with all covenants set forth in the Amended and Restated Indenture, dated April 1, 2001, which became effective January 22, 2003. The indenture initially governing the outstanding CoBank, 2001 Series A, 2002 Series A and 2002 Series B bonds, provided that the bonds were secured by a mortgage on substantially all of Chugach's assets so long as any amounts were outstanding to CoBank on bonds issued under the indenture. Upon the retirement of the then outstanding bonds on January 22, 2003, the 2001 Series A, 2002 Series A and 2002 Series B bonds (collectively, the Bonds) became subject to the Amended and Restated Indenture pursuant to which the Bonds became unsecured obligations of Chugach.

Chugach is also required to comply with the Master Loan Agreement, which covers the CoBank 2, 3, 4 and 5 promissory notes, between Chugach and CoBank dated December 27, 2002, pursuant to which CoBank and Chugach replaced the CoBank 2, 3, 4 and 5 bonds issued to CoBank with the above stated unsecured promissory notes not governed by the indenture. CoBank returned the old CoBank bonds to Chugach on January 22, 2003.

Chugach is also required to comply with the Credit Agreement, between Chugach and NRUCFC dated October 10, 2008, which covers loans and extended credit associated with Chugach's commercial paper program, in an aggregate principal or face amount not exceeding $300 million at any one time outstanding.

Chugach is also required to comply with other covenants set forth in the Reimbursement and Indemnity Agreement with MBIA Insurance Corporation, which insures the outstanding 2001 Series A and 2002 Series A bonds and the Revolving Line of Credit Agreement with NRUCFC.

Security

On January 22, 2003, the Bonds became general unsecured and unsubordinated obligations. Under the Amended and Restated Indenture, Chugach is prohibited from creating or permitting to exist any mortgage, lien, pledge, security interest or encumbrance on Chugach's properties and assets (other than those arising by operation of law) to secure the repayment of borrowed money or the obligation to pay the deferred purchase price of property unless Chugach equally and ratably secures the Bonds subject to the Amended and Restated Indenture, except that Chugach may incur secured indebtedness in an amount not to exceed $5 million or enter into sale and leaseback or similar agreements.

Rates

The Amended and Restated Indenture requires Chugach, subject to any necessary regulatory approval, to establish and collect rates reasonably expected to yield margins for interest equal to at least 1.10 times total interest expense. If there occurs any material change in the circumstances contemplated at the time rates were most recently reviewed, the Amended and Restated Indenture requires Chugach to seek appropriate adjustment to those rates so that they would generate revenues reasonably expected to yield margins for interest equal to at least 1.10 times interest charges. The CoBank Master Loan Agreement also requires Chugach to establish and collect rates reasonably expected to yield margins for interest equal to at least 1.10 times interest expense. The NRUCFC Revolving Line of Credit Agreement requires Chugach to maintain an average Times Interest Earned Ratio (TIER) of not less than 1.10. The NRUCFC Credit Agreement requires Chugach to maintain a minimum margins for interest of at least 1.10 times interest charges for each fiscal year, calculated using the average margins for interest of the two best years out of the three fiscal years most recently ended. Margins for interest generally consist of Chugach's assignable margins plus total interest expense.

Distributions to Members

The Amended and Restated Indenture and the CoBank Master Loan Agreement prohibits Chugach from making any distribution of patronage capital to Chugach's customers if an event of default under the Amended and Restated Indenture or CoBank Master Loan Agreement exists. Otherwise, Chugach may make distributions to Chugach's members in each year equal to the lesser of 5 percent of Chugach's patronage capital or 50 percent of assignable margins for the prior fiscal year. This restriction does not apply if, after the distribution, Chugach's aggregate equities and margins as of the end of the immediately preceding fiscal quarter are equal to at least 30 percent of Chugach's total liabilities and equities and margins.

Maturities of Long-term Obligations

Long-term obligations at December 31, 2009, mature as follows:

Year ending December 31	Sinking Fund Requirements 2001 Series A Bonds	Sinking Fund Requirements 2002 Series A Bonds	Principal Maturities CoBank Promissory Notes NRUCFC Line of Credit	Total
2010	0	0	4,118,028	4,118,028
2011	150,000,000	0	2,851,501	152,851,501
2012	0	120,000,000	2,693,543	122,693,543
2013	0	0	2,076,355	2,076,355
2014	0	0	2,266,145	2,266,145
Thereafter	0	0	27,414,275	27,414,275
	$150,000,000	$120,000,000	$41,419,847	$311,419,847

Lines of credit

Chugach maintained a $7.5 million line of credit with CoBank, ACB (CoBank). The line of credit expired on October 31, 2009, and was subject to annual renewal at the discretion of the parties. Chugach did not renew this line of credit upon its expiration date due to unused carrying costs, its lack of use and the existence of the NRUCFC line of credit and Commercial Paper borrowing capacity. Chugach had activity on this line of credit in the first half of 2009, however, this line of credit wasn't utilized in the third or fourth quarters of 2009 and had no outstanding balance upon its expiration on October 31, 2009. At December 31, 2008, the outstanding balance on this line of credit was $7.5 million.

The CoBank Master Loan Agreement requires Chugach to establish and collect electric rates reasonably expected to yield margins for interest equal to at least 1.10 times interest expense, to achieve a funded debt to operating cash flow ratio not greater than 8 to 1 and achieve an equity to total capitalization ratio greater than 22 percent. The borrowing rate is calculated using the CoBank Base Rate on the first business day of the week plus 3 percent. The average borrowing rate for 2009 and 2008 was 2.25 percent and 3.82 percent, respectively.

In addition, Chugach had an annual line of credit of $50 million available with NRUCFC until October 9, 2008, when Chugach reduced this line of credit to $45 million. The reduction to the borrowing limit was temporary in order that a full $300 million commitment on an unsecured credit agreement backstopping Chugach's Commercial Paper program, could be met. On December 22, 2008, this line of credit was increased to $75 million, however, pursuant to the terms of the Amendment To Revolving Line of Credit Agreement with NRUCFC, this line of credit was permanently reduced to $50 million on January 30, 2009. Chugach utilized this line of credit in the first quarter of 2009 and had a balance of $38 million on January 30, 2009, when we repaid $30.0 million by issuing commercial paper under our Commercial Paper program. In February of 2009, Chugach repaid the balance on this line of credit by issuing additional commercial paper.

In March of 2008 Chugach borrowed $29.7 million on this line of credit to redeem the outstanding principal amount and pay accrued interest on the 2002 Series B Bonds. Chugach also utilized this line of credit for general working capital in 2008 and had a balance of $43.0 million at December 31, 2008. The borrowing rate on the transaction to redeem the 2002 Series B Bonds was 2.75 percent at December 31, 2008. The borrowing rate on all other transactions at December 31, 2009 and 2008 was 4.95 percent and 5.00 percent, respectively and is calculated using the total rate per annum as may be fixed by NRUCFC and will not exceed the Prevailing Prime Rate, plus one percent per annum. The NRUCFC Revolving Line Of Credit Agreement requires that Chugach, for each 12-month period, for a period of at least five consecutive days, pay down the entire outstanding principal balance. The NRUCFC line of credit expires October 14, 2012.

The CoBank and NRUCFC lines of credit are immediately available for unconditional borrowing.

Notes payable

In December of 2008, Chugach acquired property near its Anchorage headquarters for, among other purposes, construction of an additional electrical generation facility. The total purchase price of the property was $4,860,000 which included a $75,000 non refundable earnest money payment, a $1,925,000 down payment and a $2,860,000 promissory note bearing interest at six percent per annum payable in two installments. A payment of $1,000,000 was made in March of 2009 and the final payment of $1,860,000 plus accrued interest was made on June 12, 2009. Chugach had the right to prepay any amount of the note in full at any time without penalty. The promissory note was secured by a deed of trust on the property.

Financing / Commercial Paper

Over the next five years, Chugach anticipates financing increased capital expenditures due to the construction of a natural gas fired generation unit, on-going capital needs and plans to refinance $150 million of 2001 Series A Bonds due March 15, 2011, and $120 million of 2002 Series A Bonds due February 1, 2012. Commercial paper is being issued and will act as a bridge until Chugach converts Commercial Paper balances to long term debt and to refinance the 2011 and 2012 Series A bonds. On October 10, 2008, Chugach entered into a $300 million Unsecured Credit Agreement between NRUCFC, KeyBank, CoBank and US Bank intended to back the commercial paper program. The Credit Agreement was priced with an all-in drawn spread of London Interbank Offered Rate (LIBOR) plus 60 basis points, along with a 17.5 basis points facility fee. The credit agreement expires on October 10, 2011. At this time, management intends to renew this agreement although the terms may be different. On January 30 and February 5, 2009, Chugach issued $36.0 and $10.0 million, respectively, of commercial paper to repay the balance of its NRUCFC line of credit. Chugach had additional commercial paper activity in 2009 and at December 31, 2009, had $51.5 million of commercial paper outstanding. Our commercial paper can be repriced between one day and two hundred and seventy days. The following table provides information regarding average commercial paper balances outstanding (dollars in millions), as well as corresponding weighted average interest rates:

Month	Average Balance	Weighted Average Interest Rate
January 2009	36.0	1.17
February 2009	44.6	1.48
March 2009	46.6	1.19
April 2009	47.0	0.60
May 2009	43.0	0.53
June 2009	41.7	0.49
July 2009	41.5	0.44
August 2009	48.6	0.36
September 2009	53.1	0.32
October 2009	54.2	0.28
November 2009	52.9	0.26
December 2009	53.5	0.26

(9) Fair Value of Financial Instruments

The estimated fair values (in thousands) of the long-term obligations included in the financial statements at December 31 are as follows:

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term obligations (including current installments)	$311,420	$330,358	$358,787	$371,213

Fair value estimates are dependent upon subjective assumptions and involve significant uncertainties resulting in variability in estimates with changes in assumptions. The fair value of long-term debt has been determined using discounted future cash flows at borrowing rates currently available to Chugach. The fair value of cash and cash equivalents, accounts receivable and payable, and other short-term monetary assets and liabilities approximate carrying value due to their short-term nature.

(10) Employee Benefit Plans

Pension Plans

Pension benefits for substantially all union employees are provided through the Alaska Electrical Pension Trust Fund and the Alaska Hotel, Restaurant and Camp Employees Health and Welfare and Pension Trust Fund, multi-employer plans. Chugach pays an hourly amount per eligible union employee pursuant to the collective bargaining unit agreements. In these master, multi-employer plans, the accumulated benefits and plan assets are not determined or allocated separately to the individual employer.

The costs for the union plans were approximately $3.0 million, $2.9 million, and $2.9 million in 2009, 2008, and 2007, respectively. Chugach has no responsibility for any unfunded benefit obligation of the Plan at this time.

Pension benefits for non-union employees are provided by the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program, a multi-employer plan. Chugach makes annual contributions to the pension plan equal to the amounts accrued for pension expense. Chugach contributed $2.1 million, $1.8 million, and $1.9 million in 2009, 2008, and 2007, respectively, to the NRECA plan. Chugach has no responsibility for any unfunded benefit obligation of the Plan at this time.

Health and Welfare Plans

Health and welfare benefits for union employees are provided through the Alaska Electrical Health and Welfare Trust and the Alaska Hotel, Restaurant and Camp Employees Health and Welfare and Pension Trust Fund. Chugach participates in multi-employer plans that provide substantially all union workers with health care and other welfare benefits during their employment with Chugach. Chugach pays a defined amount per union employee pursuant to collective bargaining unit agreements. Amounts charged to benefit costs and contributed to the health and welfare plans for these benefits for the years ending December 31, 2009, 2008, and 2007 were $3.4 million, $3.5 million, and $3.3 million respectively.

Chugach participates in a multi-employer plan through the Group Benefits Program of NRECA for non-union employees. Amounts charged to benefit cost and contributed to this Plan for those benefits for the years ended December 31, 2009, 2008, and 2007 totaled $2.1 million, $1.9 million, and $1.9 million respectively.

Money Purchase Pension Plan

Chugach participates in a multi-employer defined contribution money purchase pension plan covering some employees who are covered by a collective bargaining agreement. Contributions to the Plan are made based on a percentage of each employee's compensation. Contributions to the money purchase pension plan for the years ending December 31, 2009, 2008, and 2007 were $99.7 thousand, $91.8 thousand, and $142.1 thousand, respectively.

401(k) Plan

Chugach has a defined contribution 401(k) retirement plan which covers substantially all employees who, effective January 1, 2008, can participate immediately.

Employees who elect to participate may contribute up to the Internal Revenue Service's maximum of $16,500, $15,500, and $15,500 in 2009, 2008, and 2007 respectively. Chugach does not make contributions to the plan.

Deferred Compensation

Chugach adopted NRECA's unfunded Deferred Compensation Program (the Program) to allow highly compensated employees who elect to participate in the Program to defer a portion of their current compensation and avoid paying tax on the deferrals until received. The program is a non-qualified plan under Internal Revenue Code 457(b).

Deferred compensation accounts are established for the individual employees, however, they are considered to be owned by Chugach until a distribution is made. The amounts credited to the deferred compensation account, including gains or losses, are retained by Chugach until the entire amount credited to the account has been distributed to the participant or to the participant's beneficiary. The balance of the Program for the years ending December 31, 2009, 2008 and 2007 was $345,792, $264,427 and $768,041, respectively.

Potential Termination Payments

Pursuant to a Chugach Operating Policy, non-represented employees, including the executive officers except the Chief Executive Officer, who are terminated by Chugach for reasons unrelated to employee performance are entitled to severance pay for each year or partial year of service as follows: two weeks for each year of service to a maximum of twenty-six (26) weeks for thirteen (13) years or more of service.

(11) Bradley Lake Hydroelectric Project

Chugach is a participant in the Bradley Lake Hydroelectric Project (Bradley Lake). Bradley Lake was built and financed by the Alaska Energy Authority (AEA) through State of Alaska grants and $166,000,000 of revenue bonds. Chugach and other participating utilities have entered into take-or-pay power sales agreements under which shares of the project capacity have been purchased and the participants have agreed to pay a like percentage of annual costs of the project (including ownership, operation and maintenance costs, debt service costs and amounts required to maintain established reserves). Under these take-or-pay power sales agreements, the participants have agreed to pay all project costs from the date of commercial operation even if no energy is produced. Chugach has a 30.4 percent share of the project's capacity. The share of debt service exclusive of interest, for which Chugach has guaranteed, is approximately $34 million. Upon the default of a Bradley Lake participant, and subject to certain other conditions, AEA, through Alaska Industrial Development and Export Authority, is entitled to increase each participant's share of costs pro rata, to the extent necessary to compensate for the failure of another participant to pay its share, provided that no participant's percentage share is increased by more than 25 percent. Upon default, Chugach could be faced with annual expenditures of approximately $5.4 million as a result of Chugach's Bradley Lake take-or-pay obligations. Management believes that such expenditures, if any, would be recoverable through the fuel surcharge rate making process.

The following represents information with respect to Bradley Lake at June 30, 2009 (the most recent date for which information is available). Chugach's share of expenses was $5,152,716 in 2009, $4,746,965 in 2008, and $4,816,790 in 2007 and is included in purchased power in the accompanying financial statements.

(In thousands)	Total	Proportionate Share
Plant in service	$ 196,824	$ 59,834
Long-term debt	107,301	32,620
Interest expense	7,116	2,163

Other electric plant represents Chugach's share of a Bradley Lake transmission line financed internally and Electric Plant Held for Future Use.

(12) Eklutna Hydroelectric Project

During October 1997, the ownership of the Eklutna Hydroelectric Project formally transferred from the Alaska Power Administration to the participating utilities. This group, including their corresponding interest in the project, consists of Chugach (30 percent), MEA (16.7 percent) and Anchorage Municipal Light & Power (AML&P) (53.3 percent).

Plant in service in 2009 includes $2,397,677, net of accumulated depreciation of $898,649, which represents Chugach's share of the Eklutna Hydroelectric Plant. In 2008 plant in service included $2,476,755, net of accumulated depreciation of $816,606. Chugach and AML&P jointly operate the facility. Each participant contributes their proportionate share for operation, maintenance and capital improvement costs to the plant, as well as to the transmission line between Anchorage and the plant. Under net billing arrangements, Chugach then reimburses MEA for their share of the costs. Chugach's share of expenses was $615,060, $886,261, and $712,552 in 2009, 2008, and 2007, respectively and is included in power production and depreciation expense in the accompanying financial statements. AML&P performs major maintenance at the plant. Chugach provides personnel for the daily operation and maintenance of the power plant, who perform daily plant inspections, meter reading, monthly report preparation, and other activities as required.

(13) Commitments, Contingencies and Concentrations

Contingencies

Chugach is a participant in various legal actions, rate disputes, personnel matters and claims both for and against Chugach's interests. Management believes the outcome of any such matters will not materially impact Chugach's financial condition, results of operations or liquidity.

Fuel Supply Contracts

Chugach has long-term fuel supply contracts from various producers at market terms. These contracts will expire at the end of the currently committed volumes or the contract expiration dates of 2015 and 2025. The committed 215 billion cubic feet (BCF) for the 2015 contract is expected to run out in 2010. The 180 BCF commitment for the 2025 contracts is expected to run out in early 2011. The RCA approved a gas supply contract between Chugach and ConocoPhillips Alaska, Inc. and ConocoPhillips, Inc. (collectively "COP"), effective August 21, 2009. The new contract will provide gas beginning in 2010 and will terminate December 31, 2016. The total amount of gas under the contract is now estimated to be 62 BCF. The new contract is now designed to fill 100 percent of Chugach's unmet needs until April 2011, approximately 50 percent of Chugach's unmet needs from May 2011 through December 2014, approximately 60 percent in 2015 and approximately 29 percent in 2016. Chugach has a tentative agreement on a contract that would fill Chugach's remaining unmet needs through the near future and expects to file that contract with the RCA for approval by the end of the first quarter of 2010. In 2009, 90 percent of our power was generated from gas, compared to 91 percent and 93 percent in 2008 and 2007 respectively. 83 percent of the gas-fired power was generated at Chugach's Beluga Power Plant in 2009 compared with 76 percent in 2008 and 85 percent in 2007.

In 2009, fuel was purchased directly from Marathon Oil Company, Chevron/Unocal, AML&P and COP. The following represents the cost of fuel purchased from these vendors as a percentage of total fuel costs for the years ended December 31:

	2009	2008	2007
Marathon Oil Company	44.6%	49.7%	46.4%
Chevron/Unocal	20.9%	19.1%	20.4%
AML&P	16.7%	15.4%	16.1%
COP	17.8%	15.8%	16.9%

Concentrations

Approximately 70 percent of Chugach's employees are represented by the International Brotherhood of Electrical Workers (IBEW). Chugach has three Collective Bargaining Unit Agreements (CBA) with the IBEW which expire on June 30, 2010. On February 24, 2010, the Board of Directors approved an extension of the IBEW Collective Bargaining Unit Agreements. The three extensions provide no wage increase in the first year and are attached to the Consumer Price Index (CPI) in the second and third years, with a floor on the minimum increase and a cap on the maximum increase. The wage increases also have an indirect connection to Chugach's financial performance. The contract extensions expire on June 30, 2013.

Chugach is the principal supplier of power under long-term wholesale power contracts with MEA and HEA. These contracts represented $112.6 million or 39 percent of sales revenue in 2009, $104.6 million or 37 percent in 2008, and $93.4 million or 37 percent in 2007. The HEA contract expires January 1, 2014, and the MEA contract expires December 31, 2014. Non-renewal of these contracts could have a negative impact on the rates charged to other Chugach customers. Notification was made by MEA and HEA that neither organization intends to renew these contracts, however, MEA has recently advised Chugach that it desires to open discussions regarding power sales possibilities beyond 2014. All rates are established by the RCA.

Regulatory Cost Charge

In 1992, the State of Alaska Legislature passed legislation authorizing the Department of Revenue to collect a Regulatory Cost Charge from utilities to fund the governing regulatory commission, which is currently the RCA. The tax is assessed on all retail consumers and is based on kilowatt-hour (kWh) consumption. The tax is collected monthly and remitted to the State of Alaska quarterly. The Regulatory Cost Charge has changed since its inception (November 1992) from an initial rate of $0.000626 per kWh to the current rate of $0.000432, effective July 1, 2009. The tax is reported on a net basis and the tax is not included in revenue or expense.

Sales Tax

Chugach collects sales tax on retail electricity sold to Kenai and Whittier consumers. The tax is collected monthly and remitted to the Kenai Peninsula Borough quarterly. Sales tax is reported on a net basis and the tax is not included in revenue or expense.

Gross Receipts Tax

Chugach pays to the State of Alaska a gross receipts tax in lieu of state and local ad valorem, income and excise taxes on electricity sold in the retail market. The tax is accrued monthly and remitted annually. The tax is reported on a net basis and the tax is not included in revenue.

Excise taxes

Excise taxes on Chugach fuel purchases are paid directly to our gas producers and are recorded under "Fuel" in Chugach's financial statements and are not directly passed through to consumers.

Underground Compliance Charge

In 2005 the Anchorage Municipal Assembly adopted an ordinance to require utilities to convert overhead distribution lines to underground. To comply with the ordinance, Chugach must invest two percent of gross retail revenue in the Municipality of Anchorage annually in moving existing distribution overhead lines underground. Consistent with State of Alaska undergrounding requirement, Chugach is permitted to amend its rates by adding a 2 percent surcharge to its retail members' bills to recover the actual costs of the program. The rate amendments are not subject to RCA review or approval. Chugach implemented the surcharge in June 2005. Chugach's liability was $0 and $468,173 for this surcharge at December 31, 2009 and December 31, 2008, respectively and will use the funds to offset the costs of the projects.

Environmental Matters

The Clean Air Act and Environmental Protection Agency (EPA) regulations under the act (the "Clean Air Act") establish ambient air quality standards and limit the emission of many air pollutants. Some Clean Air Act programs that regulate electric utilities, notably the Title IV "acid rain" requirements, do not apply to facilities located in Alaska. In 2008 the EPA vacated regulations to limit mercury emissions from fossil-fired steam-electric generating facilities.

New Clean Air Act regulations impacting electric utilities may result from future events or may result from new regulatory programs. On October 30, 2009, EPA published new federal regulations requiring the mandatory reporting of greenhouse gases from all sectors of the economy. Chugach is subject to this new regulation which is not expected to have a material effect on our results of operations, financial position, and cash flows. While we cannot predict whether any additional new regulation would occur or its limitation, it is possible that new laws or regulations could increase our capital and operating costs. We have obtained or applied for all Clean Air Act permits currently required for the operation of our generating facilities.

In March 2007, Chugach conducted emissions testing at the Bernice Lake Power Plant which indicated that two of the gas turbines at the facility were exceeding the New Source Performance Standards (NSPS) emission limit for nitrogen oxides (NOx). Chugach voluntarily limited the power output of these turbines to ensure interim compliance with the NSPS regulations until a water injection system to control NOx emissions from the turbines was installed and operational. With the water injection system, Chugach is able to fully utilize the power output from these turbines while complying with the NSPS regulations.

The Alaska Department of Environmental Conservation (ADEC) issued a Notice of Violation (NOV) on March 26, 2008, regarding the NSPS NOx emission limit exceedances. Chugach entered into a settlement with ADEC regarding the NOV for the past NSPS non-compliance. Chugach and the ADEC signed the settlement agreement on February 18, 2009. As part of the settlement, Chugach paid a civil penalty of $112,161 to ADEC on April 3, 2009, bringing the issue to a close.

Chugach is subject to numerous other environmental statutes including the Clean Water Act, the Resource Conservation and Recovery Act, the Toxic Substances Control Act, the Endangered Species Act, and the Comprehensive Environmental Response, Compensation and Liability Act and to the regulations implementing these statutes. We do not believe that compliance with these statutes and regulations to date has had a material impact on our financial condition or results of operation. However, new laws or regulations, implementation of final regulations or changes in or new interpretations of these laws or regulations could result in significant additional capital or operating expenses.

Generation Commitments

Chugach is in the process of developing a natural gas fired generation plant on land currently owned by Chugach near its Anchorage headquarters. The SPP will be developed and owned jointly with AML&P. Chugach will own and take 70 percent of the new plant's output and AML&P will own and take the remaining 30 percent. Chugach will account for its ownership in the SPP proportionately. Chugach and AML&P signed Participation, Operation and Maintenance (O&M) and Lease Agreements (Agreements) for this project on August 28, 2008. On November 17, 2008, Chugach executed a gas turbine purchase agreement for the purchase of three gas turbines with an option for a fourth turbine with General Electric Packaged Power (GEPP). The option to purchase a fourth turbine expired on January 31, 2009. During 2009 Chugach executed several change orders associated with its purchase agreement with GEPP totaling $7.2 million, which included the purchase of a spare engine for maintenance purposes. Chugach made progress and milestone payments of $5.1 and $24.3 million in 2008 and 2009, respectively, and is expected to make payments of $29.2 million in 2010, pursuant to its purchase agreement and subsequent change orders with GEPP. In December of 2008, Chugach purchased land adjacent to its Anchorage headquarters for SPP use. Chugach executed an Owner's Engineer Services Contract on May 12, 2009. This contract expired on December 31, 2009, but was later renewed effective January 1, 2010. Chugach made payments of $0.7 million in 2009, pursuant to its Owner's Engineer Services Contract. On January 5, 2010, Chugach executed a Services Contract for the shipment of the combustion turbine generators and related accessories. Chugach is expected to make payments of $1.1 million in 2010 pursuant to this contract. On February 25, 2010, Chugach purchased additional land adjacent to its Anchorage headquarters for the laydown of equipment displaced by the new power plant. Chugach is currently proceeding with a Request for Proposal (RFP) for engineering, procurement and construction services as well as a steam turbine generator purchase agreement to be awarded in 2010.

(14) Quarterly Results of Operations (unaudited)

	2009 Quarter Ended			
	Dec. 31	Sept. 30	June 30	March 31
Operating Revenue	$74,025,693	$63,565,392	$69,239,153	$83,417,070
Operating Expense	64,737,009	60,092,648	65,798,407	74,244,513
Net Interest	5,013,421	5,122,410	5,164,488	5,306,030
Net Operating Margins	4,275,263	(1,649,666)	(1,723,742)	3,866,527
Non-Operating Margins	577,889	140,868	61,508	111,701
Assignable Margins	$ 4,853,152	$(1,508,798)	$(1,662,234)	$3,978,228

	2008 Quarter Ended			
	Dec. 31	Sept. 30	June 30	March 31
Operating Revenue	$83,640,633	$70,297,168	$62,483,023	$71,871,288
Operating Expense	74,389,389	66,066,452	58,789,189	61,335,335
Net Interest	5,911,966	5,605,569	5,384,524	5,630,738
Net Operating Margins	3,339,278	(1,374,853)	(1,690,690)	4,905,215
Non-Operating Margins	807,390	152,127	121,691	151,592
Assignable Margins	$ 4,146,668	$(1,222,726)	$(1,568,999)	$5,056,807