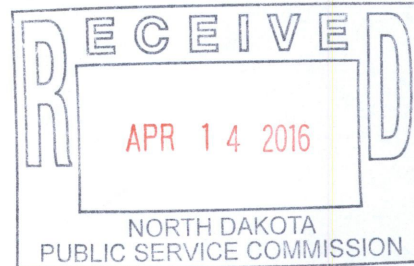




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April 13, 2016

North Dakota Public Service Commission
Darrell Nitschke
600 E Boulevard Ave, Dept. 408
Bismarck, ND 58505-0480

Enclosed is a copy of TPC, INC. and Subsidiary Audited Financial Statements for your records. Please let me know if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Shawna Senger".

Shawna Senger
Chief Financial Officer
NDTC

Enclosure



Consolidated Financial Statements
December 31, 2015 and 2014
TPC, Inc. and Subsidiary

| | |
|---|----|
| Independent Auditor's Report..... | 1 |
| Consolidated Financial Statements | |
| Consolidated Balance Sheets..... | 3 |
| Consolidated Statements of Income and Retained Earnings..... | 4 |
| Consolidated Statements of Cash Flows..... | 5 |
| Notes to Consolidated Financial Statements..... | 7 |
| Supplemental Information | |
| Consolidated Balance Sheets with Supplementary Consolidating Information..... | 18 |
| Consolidated Statements of Income with Supplementary Consolidating Information..... | 20 |
| Consolidated Statements of Cash Flows with Supplementary Consolidating Information..... | 22 |



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
TPC, Inc. and Subsidiary
Devils Lake, North Dakota

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of TPC, Inc. and Subsidiary which comprise the consolidated balance sheets as of December 31, 2015 and 2014 and the related consolidated statements of income and retained earnings, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TPC, Inc. and Subsidiary as of December 31, 2015 and 2014, and the consolidated results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary consolidating information on pages 18 through 25 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Eide Sallee LLP

Sioux Falls, South Dakota
April 8, 2016

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| | <u>2015</u> | <u>2014</u> |
|--|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 6,193,098 | \$ 4,547,379 |
| Accounts receivable | | |
| Telecommunications, net of allowances | 144,319 | 164,143 |
| Other | 1,189,023 | 916,449 |
| Prepaid income taxes | 682,305 | 1,643,918 |
| Materials and supplies | 700,864 | 641,619 |
| Prepayments | 278,824 | 342,460 |
| Total current assets | <u>9,188,433</u> | <u>8,255,968</u> |
| Noncurrent Assets | | |
| Equity investments | 4,815,735 | 4,615,653 |
| Other investments | 1,024,062 | 1,020,554 |
| Debt issuance costs, net of accumulated amortization | 100,249 | 104,271 |
| Total noncurrent assets | <u>5,940,046</u> | <u>5,740,478</u> |
| Telecommunications Plant | | |
| In service | 136,792,208 | 137,388,366 |
| Nonregulated plant in service | 5,008,527 | 5,438,109 |
| Under construction | 61,537 | - |
| | <u>141,862,272</u> | <u>142,826,475</u> |
| Less accumulated depreciation and amortization | <u>93,590,008</u> | <u>94,529,374</u> |
| Net telecommunications plant | <u>48,272,264</u> | <u>48,297,101</u> |
| Total assets | <u>\$ 63,400,743</u> | <u>\$ 62,293,547</u> |

See Notes to Consolidated Financial Statements

TPC, Inc. and Subsidiary
Consolidated Balance Sheets
December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---------------|---------------|
| Liabilities and Equities | | |
| Current Liabilities | | |
| Accounts payable | \$ 612,425 | \$ 721,593 |
| Current maturities of long-term debt | 1,100,000 | - |
| Advance billing and customer deposits | 57,912 | 60,235 |
| Accrued taxes - other | 109,977 | 110,036 |
| Accrued income taxes | - | 1,870 |
| Other current liabilities | 93,352 | 92,752 |
| Total current liabilities | 1,973,666 | 986,486 |
| Long-Term Debt, Less Current Maturities | 7,604,349 | 8,704,349 |
| Deferred Income Taxes | 10,085,063 | 9,922,491 |
| Equities | | |
| Common stock, par value \$1,000, authorized 10,000 shares; issued and outstanding 9,200 shares | 9,200,000 | 9,200,000 |
| Retained earnings | 34,537,665 | 33,480,221 |
| Total equities | 43,737,665 | 42,680,221 |
| Total liabilities and equities | \$ 63,400,743 | \$ 62,293,547 |

TPC, Inc. and Subsidiary
Consolidated Statements of Income and Retained Earnings
Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---------------|---------------|
| Operating Revenues | | |
| Local network access | \$ 4,326,037 | \$ 4,340,254 |
| Network access services | 9,075,823 | 8,482,885 |
| Miscellaneous revenue | 1,679,433 | 1,825,332 |
| Leasing, sales, and installation | 845,562 | 1,024,567 |
| Internet revenue | 3,786,115 | 3,701,969 |
| Video revenue | 2,897,639 | 2,503,425 |
| Total operating revenues | 22,610,609 | 21,878,432 |
| Operating Expenses | | |
| Plant specific operations | 4,665,496 | 4,513,089 |
| Plant nonspecific operations | 3,259,729 | 3,376,469 |
| Cable television programming | 2,091,341 | 1,842,084 |
| Depreciation | 5,526,968 | 5,528,662 |
| Customer operations | 1,571,128 | 1,571,694 |
| Corporate operations | 2,091,861 | 1,988,745 |
| Operating taxes - other | 126,400 | 124,531 |
| Cost of sales and installations | 739,015 | 825,423 |
| Total operating expenses | 20,071,938 | 19,770,697 |
| Net Operating Income | 2,538,671 | 2,107,735 |
| Nonoperating Income (Expense) | | |
| Interest and dividend income | 2,230 | 2,131 |
| Allowance for funds used during construction | 20,005 | 41,183 |
| Other nonoperating expense | (40,468) | (33,510) |
| Gain from equity investments, net | 941,308 | 1,003,279 |
| Amortization of debt issuance | (18,870) | (37,115) |
| Total nonoperating income (expense), net | 904,205 | 975,968 |
| Net Income Before Interest Expense and Income Taxes | 3,442,876 | 3,083,703 |
| Interest Expense on Long-Term Debt, Net of Patronage Allocations from Lender | 177,117 | 133,232 |
| Net Income Before Income Taxes | 3,265,759 | 2,950,471 |
| Income Tax Expense | 1,208,315 | 1,085,265 |
| Net Income | 2,057,444 | 1,865,206 |
| Retained Earnings | | |
| Beginning of year | 33,480,220 | 32,615,014 |
| Dividends paid | (1,000,000) | (1,000,000) |
| End of year | \$ 34,537,664 | \$ 33,480,220 |

TPC, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|--|--------------|--------------|
| Operating Activities | | |
| Net income | \$ 2,057,444 | \$ 1,865,206 |
| Adjustments to reconcile net income to net cash from operating activities | | |
| Depreciation | | |
| Telecommunications plant | 4,995,559 | 4,879,924 |
| Nonregulated plant | 531,409 | 648,738 |
| Amortization of other intangibles | 18,870 | 37,115 |
| Earnings from equity investments | (941,308) | (1,003,279) |
| Distributions from equity investments | 741,226 | 684,803 |
| Noncash capital credit allocations | (137,689) | (88,727) |
| Proceeds from CoBank patronage and equity retirements | 134,181 | 163,405 |
| Deferred income taxes | 162,572 | 965,898 |
| Change in current assets and liabilities | | |
| Accounts receivable | (252,750) | 386,078 |
| Prepaid income taxes | 961,613 | (1,571,567) |
| Prepayments | 63,636 | 103,475 |
| Accounts payable | (145,424) | (160,771) |
| Advance billing and deposits | (2,323) | (162) |
| Accrued taxes - other | (59) | 3,744 |
| Accrued income taxes | (1,870) | 1,870 |
| Other current liabilities | 600 | (1,538) |
| Net Cash from Operating Activities | 8,185,687 | 6,914,212 |
| Investing Activities | | |
| Telecommunications plant additions | (5,465,875) | (9,882,887) |
| Change in materials and supplies | (59,245) | 65,686 |
| Net Cash used for Investing Activities | (5,525,120) | (9,817,201) |
| Financing Activities | | |
| Principal payments on long-term debt | - | (1,400,000) |
| Advances on long-term debt | - | 4,104,349 |
| Payments of debt issuance costs | (14,848) | (109,619) |
| Dividends paid | (1,000,000) | (1,000,000) |
| Net Cash (used for) from Financing Activities | (1,014,848) | 1,594,730 |
| Net Change in Cash and Cash Equivalents | 1,645,719 | (1,308,259) |
| Cash and Cash Equivalents, Beginning of Year | 4,547,378 | 5,855,637 |
| Cash and Cash Equivalents, End of Year | \$ 6,193,097 | \$ 4,547,378 |

TPC, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Supplementary Disclosures of Cash Flow Information | | |
| Cash payments for interest | <u>\$ 176,571</u> | <u>\$ 120,135</u> |
| Cash payments for income taxes, net | <u>\$ 1,286,000</u> | <u>\$ 1,840,000</u> |
| Supplemental Disclosure of Noncash Investing and Financing Activities | | |
| Plant additions funded with accounts payable at year end | <u>\$ 64,537</u> | <u>\$ 28,281</u> |
| Long-term debt principal refinanced | <u>\$ -</u> | <u>\$ 4,600,000</u> |

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

TPC, Inc.'s (the "Company") primary line of business is to provide local telephone, internet, IPTV television, and access to long-distance telephone services throughout its local exchange network. The principal market for these telecommunications services are local, residential and business customers residing in each of the exchanges the Company serves.

The Company follows the Federal Communication Commission's (FCC) Uniform System of Accounts, Part 32 of the FCC Rules and Regulations.

The Company's local service rates are subject to rate of return regulation by the North Dakota Public Service Commission. Toll charges to customers and access fees charged to long distance carriers are subject to state and federal regulation. The Company participates in the National Exchange Carrier Association (NECA) pooling process for interstate access as a "cost company."

Principles of Consolidation

The consolidated financial statements include the accounts of TPC, Inc. (a North Dakota Corporation) and its wholly-owned subsidiary, North Dakota Telephone Company (a North Dakota Corporation) located in Devils Lake, North Dakota. The assets and liabilities of the subsidiary are consolidated with the assets and liabilities of TPC, Inc. All significant intercompany assets and liabilities have been eliminated. The operations of the subsidiary are consolidated with the operations of TPC, Inc.

Telecommunications and Other Plant

Telecommunications and other plant assets are stated at cost. The cost of additions to telephone plant are recorded at cost, which includes contracted work, direct labor and materials, and allocable overheads. When units of property are retired, sold, or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated depreciation. Maintenance and repair costs and the replacement and renewal of items determined to be less than units of property are charged to expense.

Recoverability of Long-Lived Assets

The Company reviews its long-lived assets whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. If a review indicates that the carrying value of such asset is not recoverable as determined based on projected undiscounted cash flows related to the asset over its remaining life, the Company would determine whether an impairment loss should be recognized. No impairment losses have been identified in the consolidated financial statements.

Depreciation

Depreciation is computed using the straight-line method based upon the estimated service lives of the depreciable assets.

Amortization

Intangible assets are recorded at cost. Amortization of intangible assets is computed using the straight-line method over the useful life of such assets or term of the related loans. Debt issuance costs are amortized over the term of the related loans. Accumulated amortization of debt issuance costs were approximately \$24,200 and \$5,400 as of December 31, 2015 and 2014, respectively. The estimated amortization expense over each of the next five years of the debt issuance costs is approximately \$18,000.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all cash deposits and money market savings accounts with an original maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents are stated at cost, which approximates market value.

Accounts Receivable

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. The receivables are non-interest bearing. Payments on trade receivables are applied to the applicable unpaid invoices.

The carrying amount of the trade receivables is reduced by an amount that reflects management's best estimate of the amounts that will not be collected. Allowances for uncollectible accounts amounted to approximately \$15,000 as of December 31, 2015 and 2014, respectively.

Materials and Supplies

Inventories are stated at average cost except for material held for resale which is valued by the specific identification method.

Investments

Investments in limited liability companies (LLC's) are accounted for using the equity method. Under the equity method, the Company records its invested capital and proportionate share of earnings and losses less the amount of any distributions received. Investments in cooperatives, including the Company's lender, are recorded at cost plus any allocated patronage capital.

Fair Value Measurements

The Company has determined the fair value of certain assets and liabilities in accordance with the provisions of ASC 820, *Fair Value Measurements and Disclosures*, which provides a framework for measuring fair value under generally accepted accounting principles.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The standard requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. It also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

Revenue Recognition

Revenue from local telephone network, internet and IPTV television services is recorded as revenue in the month when it is billed to customers. Toll and access revenues are accrued through the end of the year.

Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pension Costs

The policy is to fund pension costs accrued.

Estimated Self-Insurance

The Company self-insures the health care benefits of its employees. To provide for the self-insured benefits, the Company has set up an estimated liability for any claims incurred prior to the year-end. In addition, the Company has entered into a stop-loss agreement whereby their costs for these self-insurance plans are subject to a ceiling, after which the costs will be covered by an insurance contract. Any differences between the estimated liability and the actual benefits will be reflected in the subsequent year's consolidated statement of income.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

Deferred income taxes are established for all temporary differences resulting from the use of different accounting methods reported for financial accounting and income tax purposes, principally equity investments. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Sales Taxes

The Company has customers in North Dakota and its municipalities in which those governmental units impose a sales tax on certain sales. The Company collects those sales taxes from its customers and remits the entire amount to the various governmental units. The Company's accounting policy is to exclude the tax collected and remitted from operating revenues and operating expenses.

Reclassifications

Certain reclassifications have been made to the 2014 consolidated financial statements to conform to the 2015 presentation. The reclassifications had no effect on previously reported net income.

Note 2 - Concentrations of Business and Credit Risk

The Company provides telephone, internet, and IPTV television service on account to its customers located in north central North Dakota. The Company also provides access service on account to various long distance companies, which provide toll service to the Company's customers.

The Company receives a significant portion of its revenues from access services, participation in the NECA pool and from universal service funding. The mechanism and regulation of these activities is undergoing changes that may significantly impact future revenues of the Company. In 2015 and 2014, the Company received approximately 33% and 31%, respectively, of its revenues from network access and assistance provided by the Federal Universal Service Fund.

The Company maintains its cash accounts in several commercial banks located in North Dakota. The accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the years ended December 31, 2015 and 2014, the bank balances exceeded this limit.

Note 3 - Other Investments

| | 2015 | 2014 |
|--|--------------|--------------|
| CoBank | | |
| Subordinated capital stock | \$ 469,001 | \$ 537,454 |
| Patronage capital allocations | 91,855 | 48,000 |
| Other patronage capital credit allocations | 463,206 | 435,100 |
| | \$ 1,024,062 | \$ 1,020,554 |

In connection with the loans from CoBank, the Company is required to purchase subordinated capital certificates. The certificates are non-interest bearing and are refunded to the Company as the debt is paid down. The patronage allocations reflect the Company's allocable share of net margins of CoBank.

Note 4 - Equity Investments

The Company accounts for the following investments on the equity method.

| | |
|---|------------------|
| North Dakota Long Distance LLC (NDLD) | 10% Ownership |
| Dakota Carrier Network LLC (DCN) | 7.262% Ownership |
| North Plains Utility Contracting LLC (NPUC) | 25% Ownership |
| Dakota Video Network (DVN) | 33.33% Ownership |

Under the equity method, the investment is initially recorded at cost, then reduced by the dividends and increased or decreased by the investor's proportionate share of the investee's net earnings or loss.

| | 2014 | Capital Contributions (Distributions) | Current Earnings (Loss) | 2015 |
|------|---------------------|---|----------------------------|---------------------|
| NDLD | \$ 157,469 | \$ (60,000) | \$ 57,542 | \$ 155,011 |
| DCN | 3,790,068 | (681,226) | 786,775 | 3,895,617 |
| NPUC | 500,228 | - | 117,620 | 617,848 |
| DVN | 167,888 | - | (20,629) | 147,259 |
| | <u>\$ 4,615,653</u> | <u>\$ (741,226)</u> | <u>\$ 941,308</u> | <u>\$ 4,815,735</u> |

| | 2013 | Capital Contributions (Distributions) | Current Earnings (Loss) | 2014 |
|------|---------------------|---|----------------------------|---------------------|
| NDLD | \$ 88,566 | \$ - | \$ 68,903 | \$ 157,469 |
| DCN | 3,466,713 | (584,803) | 908,158 | 3,790,068 |
| NPUC | 559,571 | (100,000) | 40,657 | 500,228 |
| DVN | 182,327 | - | (14,439) | 167,888 |
| | <u>\$ 4,297,177</u> | <u>\$ (684,803)</u> | <u>\$ 1,003,279</u> | <u>\$ 4,615,653</u> |

The Company provides North Dakota Long Distance LLC certain management, customer service, billing and collection, and other services on a contractual basis. Payments under these contracts for the years ended December 31, 2015 and 2014, were approximately \$65,000 and \$74,000, respectively.

The Company agrees to lease certain bay and fiber optic cable facilities to Dakota Carrier Network. Under this agreement, the Company received revenues of approximately \$81,000 and \$78,000 for the years ended December 31, 2015 and 2014, respectively. The Company also agrees to leases circuit equipment on a short-term basis to and from Dakota Carrier Network. Under this agreement, the Company received approximately \$1,273,000 and \$1,360,000 for the years ended December 31, 2015 and 2014, respectively, and paid approximately \$262,000 and \$242,000 for the years ended December 31, 2015 and 2014, respectively.

The Company purchases licenses and television programming services from Dakota Video Network LLC. These purchases are considered to be priced at fair market value. No intercompany profits have been eliminated in recording the equity earnings of Dakota Video Network LLC. The Company made payments of approximately \$40,000 to Dakota Video Network LLC for the years ended December 31, 2015 and 2014.

The Company purchases utility construction services from North Plains Utility Contracting LLC. These services are considered to be priced at fair market value. No intercompany profits have been eliminated in recording the equity earnings of North Plains Utility Contracting LLC. The Company made payments of approximately \$913,000 and \$523,000 to North Plains Utility Contracting LLC for the years ended December 31, 2015 and 2014, respectively. The Company also rents storage space to North Plains Utility Contracting LLC. Rents received from North Plains Utility Contracting LLC amounted to \$24,000 for the years ended December 31, 2015 and 2014.

The Company has accounts receivable balances arising from the various affiliated transactions at December 31, 2015 and 2014, totaling approximately \$60,600 and \$1,500, respectively. The Company has accounts payable balances arising from the various affiliated transactions at December 31, 2015 and 2014, totaling approximately \$8,000.

Summary financial information for the Company's equity investees for the year ended December 31, 2015, is as follows:

| | <u>North Dakota Long Distance LLC</u> | <u>Dakota Carrier Network LLC</u> | <u>North Plains Utility Contracting LLC</u> | <u>Dakota Video Network LLC</u> |
|-------------|---|---|---|---|
| Revenues | \$ 5,619,856 | \$ 44,545,254 | \$ 2,976,999 | \$ 163,959 |
| Expenses | 5,044,436 | 33,533,703 | 2,506,520 | 225,845 |
| Net income | 575,420 | 11,011,551 | 470,479 | (61,886) |
| Assets | \$ 3,403,388 | \$ 55,978,724 | \$ 2,550,233 | \$ 445,776 |
| Liabilities | 1,165,852 | 1,958,262 | 46,107 | 4,000 |
| Equity | 2,237,536 | 54,020,462 | 2,504,126 | 441,776 |

Note 5 - Nonregulated Investments

| | 2015 | 2014 |
|---|--------------|--------------|
| Leased telecommunications equipment (5 - 7 year estimated life) | \$ 411,148 | \$ 408,177 |
| Internet equipment (5 year estimated life) | 923,325 | 1,012,937 |
| Video equipment (7 year estimated life) | 3,648,226 | 4,004,382 |
| Under construction | 25,828 | 12,613 |
| | 5,008,527 | 5,438,109 |
| Less accumulated depreciation | 3,471,988 | 3,902,459 |
| Nonregulated investments | \$ 1,536,539 | \$ 1,535,650 |

The revenues and expenses associated with nonregulated telecommunications equipment are as follows:

| | 2015 | 2014 |
|--|--------------|--------------|
| Revenues | | |
| Revenue - leasing, sales, and installation | \$ 845,562 | \$ 1,024,567 |
| Internet revenue | 3,786,115 | 3,701,969 |
| Video revenue | 2,897,639 | 2,503,425 |
| | 7,529,316 | 7,229,961 |
| Expenses | | |
| Cost of sales, installations, and repairs | 739,015 | 825,423 |
| Internet expenses | 4,169,316 | 4,154,584 |
| Video expenses | 2,580,352 | 2,546,811 |
| Depreciation | 531,409 | 648,738 |
| | 8,020,092 | 8,175,556 |
| Nonregulated net loss | \$ (490,776) | \$ (945,595) |

Note 6 - Telecommunications Plant

| | 2015 | | 2014 | |
|---|----------------|--------------------|----------------|--------------------|
| | Plant | Depreciation Rates | Plant | Depreciation Rates |
| Land and support assets | \$ 13,116,416 | 2.71 - 20.96% | \$ 12,949,299 | 2.71 - 20.96% |
| Central office switching equipment | 44,920,354 | 5.00 - 20.00% | 46,711,778 | 5.00 - 20.00% |
| Information origination and termination | 37,371 | 14.32% | 37,371 | 14.32% |
| Cable and wire facilities | 78,718,067 | 2.51 - 5.3% | 77,689,918 | 2.51 - 5.3% |
| Total in service | 136,792,208 | | 137,388,366 | |
| Nonregulated plant | 5,008,527 | | 5,438,109 | |
| Under construction | 61,537 | | - | |
| | \$ 141,862,272 | | \$ 142,826,475 | |

Note 7 - Long-Term Debt

| | 2015 | 2014 |
|---|--------------|--------------|
| CoBank term loan with variable interest rate, interest only until September 30, 2016, then varying quarterly installments through June 30, 2021 | | |
| Variable rate of 3.18% at December 31, 2015 | \$ 8,704,349 | \$ 8,704,349 |
| Less current maturities | (1,100,000) | - |
| | \$ 7,604,349 | \$ 8,704,349 |

The Company has an \$11 million term loan agreement which expires June 30, 2021. Repayment provisions for the term loan include planned quarterly principal payments of \$550,000. Repayment of the \$11 million term loan will begin on September 30, 2016.

Substantially all assets of the Company are pledged as collateral on the notes executed with CoBank. The mortgage covenants require the Company to meet certain financial ratios, minimum net worth levels and minimum cash flow requirements. Management believes that the Company was in compliance with all mortgage covenants at December 31, 2015 and 2014.

It is estimated that principal repayments on the above debt for the next five years will be as follows:

| <u>Years Ended December 31,</u> | | | |
|---------------------------------|--|--|--------------|
| 2016 | | | \$ 1,100,000 |
| 2017 | | | 2,200,000 |
| 2018 | | | 2,200,000 |
| 2019 | | | 2,200,000 |
| 2020 | | | 1,004,349 |

The Company has a revolving credit agreement which expires August 19, 2021. Available financing under the revolving line-of-credit was \$1,000,000 at December 31, 2015. Repayment terms for the revolving line-of-credit included planned monthly reductions to the maximum financing available under this line of credit. At December 31, 2015 and 2014, the Company had no borrowing under the revolving line-of-credit.

Note 8 - Income Tax Expense/Accumulated Deferred Taxes

The provision for income tax is reflected in the consolidated statements of income as follows:

| | 2015 | 2014 |
|-------------------------------------|--------------|--------------|
| Operating taxes - federal income | \$ 761,712 | \$ 630,581 |
| Operating taxes - state income | 105,384 | 82,469 |
| Total operating | 867,096 | 713,050 |
| Nonoperating taxes - federal income | 299,743 | 329,176 |
| Nonoperating taxes - state income | 41,476 | 43,039 |
| Total nonoperating | 341,219 | 372,215 |
| Total provision for income taxes | \$ 1,208,315 | \$ 1,085,265 |

Income tax expense consists of the following:

| | 2015 | 2014 |
|--|--------------|--------------|
| Federal income tax computed at statutory rates | \$ 928,041 | \$ 102,288 |
| State income tax computed at statutory rates | 117,702 | 17,079 |
| Deferred income tax credits (charges) - accelerated depreciation | 381,213 | 933,668 |
| Deferred income tax credits (charges) - other | (218,641) | 32,230 |
| Total provision for income taxes | \$ 1,208,315 | \$ 1,085,265 |

The effects of various timing differences are shown as net deferred income taxes. The Company also has deferred tax credits and charges from the use of different tax and book methods of depreciation, accounting for bad debts, work opportunity tax credit carryforwards, loss carryforwards, and equity investments.

Long-term deferred income tax liabilities consist of the following:

| | 2015 | 2014 |
|---|-----------------|----------------|
| Deferred income taxes | | |
| Accumulated deferred income tax credits | | |
| Accelerated depreciation and amortization | \$ (9,666,579) | \$ (9,285,366) |
| Timing differences from equity investments | (418,484) | (637,125) |
| Total deferred income tax liability - long-term | \$ (10,085,063) | \$ (9,922,491) |

Note 9 - Pension and Retirement Plans

Pension Plan

The Company has a contributory defined benefit pension plan covering substantially all employees. The National Telephone Cooperative Association (NTCA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 52-0741336 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 Company's contributions to the RS Plan in 2015 and 2014 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Company made contributions to the plan of approximately \$611,000 in 2015 and \$622,000 in 2014. There have been no significant changes that affect the comparability of 2015 and 2014 contributions.

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. The program meets ERISA minimum funding requirements. The Funding Target Attainment Percentage exceeded 80% funding for the plan years ended December 31, 2015 and 2014.

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.

Defined Contribution Plan

Employees of the Company are also eligible for a 401(k) savings plan. The plan is offered through Alerus Financial. The Company made a contribution of up to 4% of employees' base wages for the years ended December 31, 2015 and 2014. The Company made annual contributions of approximately \$197,000 and \$198,000 in 2015 and 2014, respectively.

Note 10 - Common Stock

| | 2015 | 2014 |
|---|--------------|--------------|
| Issued 3,726 shares of common stock to United Telephone Mutual Aid Corporation | \$ 3,726,000 | \$ 3,726,000 |
| Issued 3,726 shares of common stock to Polar Communications Mutual Aid Corporation | 3,726,000 | 3,726,000 |
| Issued 1,748 shares of common stock to Dakota Central Telecommunications Cooperative | 1,748,000 | 1,748,000 |
| | \$ 9,200,000 | \$ 9,200,000 |

Note 11 - Contingencies

The Company is a defendant in legal proceedings arising in the normal course of its operations. While the outcome of these matters cannot be predicted with certainty, management believes the disposition of these proceedings will not have a significant impact on the financial position of the Company.

Note 12 - Subsequent Events

Subsequent to year end, the Company entered into an agreement for construction projects to be completed during 2016. The approximate amount of the commitments related to the construction agreement were \$3,700,000.



Supplemental Information
December 31, 2015 and 2014
TPC, Inc. and Subsidiary

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| | TPC, Inc. | North Dakota Telephone Company | Eliminations | Consolidated |
|---|----------------------|--------------------------------------|------------------------|----------------------|
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 250,563 | \$ 5,942,535 | \$ - | \$ 6,193,098 |
| Accounts receivable | | | | |
| Telecommunications, net | - | 144,319 | - | 144,319 |
| Other | 3,953,576 | 1,189,226 | (3,953,779) | 1,189,023 |
| Materials and supplies | - | 700,864 | - | 700,864 |
| Prepayments | - | 278,824 | - | 278,824 |
| Prepaid income taxes | - | 682,305 | - | 682,305 |
| Total current assets | <u>4,204,139</u> | <u>8,938,073</u> | <u>(3,953,779)</u> | <u>9,188,433</u> |
| Noncurrent Assets | | | | |
| Investment in affiliate | 39,283,006 | - | (39,283,006) | - |
| Other investments | 250,723 | 773,339 | - | 1,024,062 |
| Equity investments | - | 4,815,735 | - | 4,815,735 |
| Debt issuance costs, net of amortization | - | 100,249 | - | 100,249 |
| Total noncurrent assets | <u>39,533,729</u> | <u>5,689,323</u> | <u>(39,283,006)</u> | <u>5,940,046</u> |
| Telecommunications Plant | | | | |
| In service | - | 136,792,208 | - | 136,792,208 |
| Nonregulated plant in service | - | 5,008,527 | - | 5,008,527 |
| Under construction | - | 61,537 | - | 61,537 |
| Total investment in plant | - | 141,862,272 | - | 141,862,272 |
| Less accumulated depreciation | - | 93,590,008 | - | 93,590,008 |
| Net telecommunications plant | <u>-</u> | <u>48,272,264</u> | <u>-</u> | <u>48,272,264</u> |
| Total assets | <u>\$ 43,737,868</u> | <u>\$ 62,899,660</u> | <u>\$ (43,236,785)</u> | <u>\$ 63,400,743</u> |

TPC, Inc. and Subsidiary
Consolidated Balance Sheets with Supplementary Consolidating Information
December 31, 2015

| | TPC, Inc. | North Dakota Telephone Company | Eliminations | Consolidated |
|--|----------------------|--------------------------------------|------------------------|----------------------|
| Liabilities and Equities | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 203 | \$ 4,566,001 | \$ (3,953,779) | \$ 612,425 |
| Current maturities of long-term debt | - | 1,100,000 | - | 1,100,000 |
| Advance billing and customer deposits | - | 57,912 | - | 57,912 |
| Accrued taxes - other | - | 109,977 | - | 109,977 |
| Other current liabilities | - | 93,352 | - | 93,352 |
| Total current liabilities | <u>203</u> | <u>5,927,242</u> | <u>(3,953,779)</u> | <u>1,973,666</u> |
| Long-Term Debt, Less Current Maturities | | | | |
| | <u>-</u> | <u>7,604,349</u> | <u>-</u> | <u>7,604,349</u> |
| Other Liabilities | | | | |
| Deferred income taxes | - | 10,085,063 | - | 10,085,063 |
| Total other liabilities | <u>-</u> | <u>10,085,063</u> | <u>-</u> | <u>10,085,063</u> |
| Equities | | | | |
| Common stock | 9,200,000 | 807,950 | (807,950) | 9,200,000 |
| Other equities | - | 32,587,659 | (32,587,659) | - |
| Retained earnings | 34,537,665 | 5,887,397 | (5,887,397) | 34,537,665 |
| Total equities | <u>43,737,665</u> | <u>39,283,006</u> | <u>(39,283,006)</u> | <u>43,737,665</u> |
| Total liabilities and equities | <u>\$ 43,737,868</u> | <u>\$ 62,899,660</u> | <u>\$ (43,236,785)</u> | <u>\$ 63,400,743</u> |

| | TPC, Inc. | North Dakota Telephone Company | Eliminations | Consolidated |
|---|----------------------|--------------------------------------|------------------------|----------------------|
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 169,770 | \$ 4,377,609 | \$ - | \$ 4,547,379 |
| Accounts receivable: | | | | |
| Telecommunications, net | - | 164,143 | - | 164,143 |
| Other | 3,952,404 | 916,630 | (3,952,585) | 916,449 |
| Materials and supplies | - | 641,619 | - | 641,619 |
| Prepayments | - | 342,460 | - | 342,460 |
| Prepaid income taxes | - | 1,643,918 | - | 1,643,918 |
| Total current assets | <u>4,122,174</u> | <u>8,086,379</u> | <u>(3,952,585)</u> | <u>8,255,968</u> |
| Noncurrent Assets | | | | |
| Investment in affiliate | 38,223,689 | - | (38,223,689) | - |
| Other investments | 334,539 | 686,015 | - | 1,020,554 |
| Equity investments | - | 4,615,653 | - | 4,615,653 |
| Debt issuance costs, net of amortization | - | 104,271 | - | 104,271 |
| Total noncurrent assets | <u>38,558,228</u> | <u>5,405,939</u> | <u>(38,223,689)</u> | <u>5,740,478</u> |
| Plant, Property and Equipment | | | | |
| In service | - | 137,388,366 | - | 137,388,366 |
| Nonregulated plant in service | - | 5,438,109 | - | 5,438,109 |
| Total investment in plant | - | 142,826,475 | - | 142,826,475 |
| Less accumulated depreciation | - | 94,529,374 | - | 94,529,374 |
| Net telecommunications plant | - | 48,297,101 | - | 48,297,101 |
| Total assets | <u>\$ 42,680,402</u> | <u>\$ 61,789,419</u> | <u>\$ (42,176,274)</u> | <u>\$ 62,293,547</u> |

TPC, Inc. and Subsidiary
Consolidated Balance Sheets with Supplementary Consolidating Information
December 31, 2014

| | <u>TPC, Inc.</u> | <u>North Dakota Telephone Company</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|----------------------|---|------------------------|----------------------|
| Liabilities and Equities | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 181 | \$ 4,673,997 | \$ (3,952,585) | \$ 721,593 |
| Advance billing and customer deposits | - | 60,235 | - | 60,235 |
| Accrued taxes - other | - | 110,036 | - | 110,036 |
| Accrued income taxes | - | 1,870 | - | 1,870 |
| Other current liabilities | - | 92,752 | - | 92,752 |
| Total current liabilities | <u>181</u> | <u>4,938,890</u> | <u>(3,952,585)</u> | <u>986,486</u> |
| | | | | |
| Long-Term Debt, Less Current Maturities | <u>-</u> | <u>8,704,349</u> | <u>-</u> | <u>8,704,349</u> |
| | | | | |
| Other Liabilities | | | | |
| Deferred income taxes | - | 9,922,491 | - | 9,922,491 |
| Total other liabilities | <u>-</u> | <u>9,922,491</u> | <u>-</u> | <u>9,922,491</u> |
| | | | | |
| Equities | | | | |
| Common stock | 9,200,000 | 807,950 | (807,950) | 9,200,000 |
| Other equities | - | 32,587,659 | (32,587,659) | - |
| Retained earnings | 33,480,221 | 4,828,079 | (4,828,079) | 33,480,221 |
| Total equities | <u>42,680,221</u> | <u>38,223,688</u> | <u>(38,223,688)</u> | <u>42,680,221</u> |
| | | | | |
| Total liabilities and equities | <u>\$ 42,680,402</u> | <u>\$ 61,789,418</u> | <u>\$ (42,176,273)</u> | <u>\$ 62,293,547</u> |

TPC, Inc. and Subsidiary
Consolidated Statements of Income with Supplementary Consolidating Information
Year Ended December 31, 2015

| | TPC, Inc. | North Dakota Telephone Company | Eliminations | Consolidated |
|--|---------------------|--------------------------------------|-----------------------|---------------------|
| Operating Revenues | | | | |
| Local network access | \$ - | \$ 4,326,037 | \$ - | \$ 4,326,037 |
| Network access services | - | 9,075,823 | - | 9,075,823 |
| Miscellaneous revenue | - | 1,679,433 | - | 1,679,433 |
| Leasing, sales, and installation | - | 845,562 | - | 845,562 |
| Internet revenue | - | 3,786,115 | - | 3,786,115 |
| Video revenue | - | 2,897,639 | - | 2,897,639 |
| Total operating revenues | <u>-</u> | <u>22,610,609</u> | <u>-</u> | <u>22,610,609</u> |
| Operating Expenses | | | | |
| Plant specific operations | - | 4,665,496 | - | 4,665,496 |
| Plant nonspecific operations | - | 3,259,729 | - | 3,259,729 |
| Cable television programming | - | 2,091,341 | - | 2,091,341 |
| Depreciation | - | 5,526,968 | - | 5,526,968 |
| Customer operations | - | 1,571,128 | - | 1,571,128 |
| Corporate operations | 3,045 | 2,088,816 | - | 2,091,861 |
| Operating taxes - other | - | 126,400 | - | 126,400 |
| Cost of sales and installations | - | 739,015 | - | 739,015 |
| Total operating expenses | <u>3,045</u> | <u>20,068,893</u> | <u>-</u> | <u>20,071,938</u> |
| Net Operating (Loss) Income | <u>(3,045)</u> | <u>2,541,716</u> | <u>-</u> | <u>2,538,671</u> |
| Nonoperating Income (Expense) | | | | |
| Interest and dividend income | - | 2,230 | - | 2,230 |
| Allowance for funds used during construction | - | 20,005 | - | 20,005 |
| Subsidiary earnings | 2,059,317 | - | (2,059,317) | - |
| Nonoperating expense | - | (40,468) | - | (40,468) |
| Gain from equity investments, net | - | 941,308 | - | 941,308 |
| Amortization of debt issuance | - | (18,870) | - | (18,870) |
| Net nonoperating income | <u>2,059,317</u> | <u>904,205</u> | <u>(2,059,317)</u> | <u>904,205</u> |
| Net Income Before Interest Expense and Income Taxes | 2,056,272 | 3,445,921 | (2,059,317) | 3,442,876 |
| Interest Expense on Long-Term Debt | <u>-</u> | <u>177,117</u> | <u>-</u> | <u>177,117</u> |
| Net Income Before Income Taxes | 2,056,272 | 3,268,804 | (2,059,317) | 3,265,759 |
| Income Tax (Benefit) Expense | <u>(1,172)</u> | <u>1,209,487</u> | <u>-</u> | <u>1,208,315</u> |
| Net Income | <u>\$ 2,057,444</u> | <u>\$ 2,059,317</u> | <u>\$ (2,059,317)</u> | <u>\$ 2,057,444</u> |

TPC, Inc. and Subsidiary
Consolidated Statements of Income with Supplementary Consolidating Information
Year Ended December 31, 2014

| | TPC, Inc. | North Dakota Telephone Company | Eliminations | Consolidated |
|--|---------------------|--------------------------------------|-----------------------|---------------------|
| Operating Revenues | | | | |
| Local network access | \$ - | \$ 4,340,254 | \$ - | \$ 4,340,254 |
| Network access services | - | 8,482,885 | - | 8,482,885 |
| Miscellaneous revenue | - | 1,825,332 | - | 1,825,332 |
| Leasing, sales, and installation | - | 1,024,567 | - | 1,024,567 |
| Internet revenue | - | 3,701,969 | - | 3,701,969 |
| Video revenue | - | 2,503,425 | - | 2,503,425 |
| Total operating revenues | <u>-</u> | <u>21,878,432</u> | <u>-</u> | <u>21,878,432</u> |
| Operating Expenses | | | | |
| Plant specific operations | - | 4,513,089 | - | 4,513,089 |
| Plant nonspecific operations | - | 3,376,469 | - | 3,376,469 |
| Cable television programming | - | 1,842,084 | - | 1,842,084 |
| Depreciation | - | 5,528,662 | - | 5,528,662 |
| Customer operations | - | 1,571,694 | - | 1,571,694 |
| Corporate operations | 3,324 | 1,985,421 | - | 1,988,745 |
| Operating taxes - other | - | 124,531 | - | 124,531 |
| Cost of sales and installations | - | 825,423 | - | 825,423 |
| Total operating expenses | <u>3,324</u> | <u>19,767,373</u> | <u>-</u> | <u>19,770,697</u> |
| Net Operating (Loss) Income | <u>(3,324)</u> | <u>2,111,059</u> | <u>-</u> | <u>2,107,735</u> |
| Nonoperating Income (Expense) | | | | |
| Interest and dividend income | - | 2,131 | - | 2,131 |
| Allowance for funds used during construction | - | 41,183 | - | 41,183 |
| Subsidiary earnings | 1,867,307 | - | (1,867,307) | - |
| Nonoperating expense | - | (33,510) | - | (33,510) |
| Gain from equity investments, net | - | 1,003,279 | - | 1,003,279 |
| Amortization of debt issuance | - | (37,115) | - | (37,115) |
| Net nonoperating income | <u>1,867,307</u> | <u>975,968</u> | <u>(1,867,307)</u> | <u>975,968</u> |
| Net Income Before Interest Expense and Income Taxes | 1,863,983 | 3,087,027 | (1,867,307) | 3,083,703 |
| Interest Expense on Long-Term Debt | <u>-</u> | <u>133,232</u> | <u>-</u> | <u>133,232</u> |
| Net Income Before Income Taxes | 1,863,983 | 2,953,795 | (1,867,307) | 2,950,471 |
| Income Tax (Benefit) Expense | <u>(1,224)</u> | <u>1,086,489</u> | <u>-</u> | <u>1,085,265</u> |
| Net Income | <u>\$ 1,865,207</u> | <u>\$ 1,867,306</u> | <u>\$ (1,867,307)</u> | <u>\$ 1,865,206</u> |

TPC, Inc. and Subsidiary
Consolidated Statements of Cash Flows with Supplementary Consolidating Information
Year Ended December 31, 2015

| | TPC, Inc. | North Dakota Telephone Company | Eliminations | Consolidated |
|--|-------------------|--------------------------------------|----------------|---------------------|
| Operating Activities | | | | |
| Net income | \$ 2,057,444 | \$ 2,059,317 | \$ (2,059,317) | \$ 2,057,444 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Subsidiary earnings | (2,059,317) | - | 2,059,317 | - |
| Depreciation | | | | |
| Telecommunications plant | - | 4,995,559 | - | 4,995,559 |
| Nonregulated plant | - | 531,409 | - | 531,409 |
| Amortization of other intangibles | - | 18,870 | - | 18,870 |
| Earnings from equity investments | - | (941,308) | - | (941,308) |
| Distributions from equity investees | - | 741,226 | - | 741,226 |
| Noncash capital credit allocations | - | (137,689) | - | (137,689) |
| Proceeds from CoBank equity retirements and other patronage | 83,816 | 50,365 | - | 134,181 |
| Deferred income taxes | - | 162,572 | - | 162,572 |
| | <u>81,943</u> | <u>7,480,321</u> | <u>-</u> | <u>7,562,264</u> |
| Change in current assets and liabilities | | | | |
| Accounts receivable | (1,172) | (252,772) | 1,194 | (252,750) |
| Prepaid income taxes | - | 961,613 | - | 961,613 |
| Prepayments | - | 63,636 | - | 63,636 |
| Accounts payable | 22 | (144,252) | (1,194) | (145,424) |
| Advance billing and deposits | - | (2,323) | - | (2,323) |
| Accrued taxes - other | - | (59) | - | (59) |
| Accrued income taxes | - | (1,870) | - | (1,870) |
| Other current liabilities | - | 600 | - | 600 |
| | <u>80,793</u> | <u>8,104,894</u> | <u>-</u> | <u>8,185,687</u> |
| Net Cash (used for) from Operating Activities | | | | |
| Investing Activities | | | | |
| Telecommunications plant additions | - | (5,465,875) | - | (5,465,875) |
| Materials and supplies | - | (59,245) | - | (59,245) |
| | <u>-</u> | <u>(5,525,120)</u> | <u>-</u> | <u>(5,525,120)</u> |
| Net Cash from (used for) Investing Activities | | | | |
| Financing Activities | | | | |
| Payments of debt issuance costs | - | (14,848) | - | (14,848) |
| Dividends received | 1,000,000 | - | (1,000,000) | - |
| Dividends paid | (1,000,000) | (1,000,000) | 1,000,000 | (1,000,000) |
| | <u>-</u> | <u>(1,014,848)</u> | <u>-</u> | <u>(1,014,848)</u> |
| Net Cash used for Financing Activities | | | | |
| Net Change in Cash and Cash Equivalents | <u>80,793</u> | <u>1,564,926</u> | <u>-</u> | <u>1,645,719</u> |
| Cash and Cash Equivalents | | | | |
| Beginning of year | <u>169,771</u> | <u>4,377,608</u> | <u>-</u> | <u>4,547,379</u> |
| End of year | <u>\$ 250,564</u> | <u>\$ 5,942,534</u> | <u>\$ -</u> | <u>\$ 6,193,098</u> |

TPC, Inc. and Subsidiary
 Consolidated Statements of Cash Flows with Supplementary Consolidating Information
 Year Ended December 31, 2015

| | <u>TPC, Inc.</u> | <u>Telephone Company</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|------------------|------------------------------|---------------------|---------------------|
| Supplementary Disclosures of | | | | |
| Cash Flow Information | | | | |
| Cash payments for interest | <u>\$ -</u> | <u>\$ 176,571</u> | <u>\$ -</u> | <u>\$ 176,571</u> |
| Cash payments for income taxes | <u>\$ -</u> | <u>\$ 1,286,000</u> | <u>\$ -</u> | <u>\$ 1,286,000</u> |
| Noncash Investing and Financing Activities | | | | |
| Plant additions funded with accounts payable at year end | <u>\$ -</u> | <u>\$ 64,537</u> | <u>\$ -</u> | <u>\$ 64,537</u> |

TPC, Inc. and Subsidiary

Consolidated Statements of Cash Flows with Supplementary Consolidating Information

Year Ended December 31, 2014

| | TPC, Inc. | North Dakota Telephone Company | Eliminations | Consolidated |
|--|-------------------|--------------------------------------|----------------|---------------------|
| Operating Activities | | | | |
| Net income | \$ 1,865,207 | \$ 1,867,306 | \$ (1,867,307) | \$ 1,865,206 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | | |
| Subsidiary earnings | (1,867,306) | - | 1,867,307 | 1 |
| Depreciation | | | | |
| Telecommunications plant | - | 4,879,924 | - | 4,879,924 |
| Nonregulated plant | - | 648,738 | - | 648,738 |
| Amortization of other intangibles | - | 37,115 | - | 37,115 |
| Earnings from equity investments | - | (1,003,279) | - | (1,003,279) |
| Distributions from equity investees | - | 684,803 | - | 684,803 |
| Noncash capital credit allocations | - | (88,727) | - | (88,727) |
| Proceeds from CoBank equity retirements and other patronage | 102,907 | 60,498 | - | 163,405 |
| Deferred income taxes | - | 965,898 | - | 965,898 |
| | <u>100,808</u> | <u>8,052,276</u> | <u>-</u> | <u>8,153,084</u> |
| Change in current assets and liabilities | | | | |
| Accounts receivable | (151,224) | 386,100 | 151,202 | 386,078 |
| Prepaid income taxes | - | (1,571,567) | - | (1,571,567) |
| Prepayments | - | 103,475 | - | 103,475 |
| Accounts payable | (22) | (9,547) | (151,202) | (160,771) |
| Advance billing and deposits | - | (162) | - | (162) |
| Taxes accrued - other | - | 3,744 | - | 3,744 |
| Accrued income taxes | - | 1,870 | - | 1,870 |
| Other current liabilities | - | (1,538) | - | (1,538) |
| | <u>(50,438)</u> | <u>6,964,651</u> | <u>-</u> | <u>6,914,213</u> |
| Net Cash (used for) from Operating Activities | | | | |
| | <u>(50,438)</u> | <u>6,964,651</u> | <u>-</u> | <u>6,914,213</u> |
| Investing Activities | | | | |
| Telecommunications plant additions | - | (9,882,887) | - | (9,882,887) |
| Materials and supplies | - | 65,686 | - | 65,686 |
| | <u>-</u> | <u>(9,817,201)</u> | <u>-</u> | <u>(9,817,201)</u> |
| Net Cash from (used for) Investing Activities | | | | |
| | <u>-</u> | <u>(9,817,201)</u> | <u>-</u> | <u>(9,817,201)</u> |
| Financing Activities | | | | |
| Principal payments on long-term debt | - | (1,400,000) | - | (1,400,000) |
| Advances on long-term debt | - | 4,104,349 | - | 4,104,349 |
| Payments of debt issuance costs | - | (109,619) | - | (109,619) |
| Dividends received | 1,000,000 | - | (1,000,000) | - |
| Dividends paid | (1,000,000) | (1,000,000) | 1,000,000 | (1,000,000) |
| | <u>-</u> | <u>1,594,730</u> | <u>-</u> | <u>1,594,730</u> |
| Net Cash used for Financing Activities | | | | |
| | <u>-</u> | <u>1,594,730</u> | <u>-</u> | <u>1,594,730</u> |
| Net Change in Cash and Cash Equivalents | (50,438) | (1,257,820) | - | (1,308,258) |
| Cash and Cash Equivalents | | | | |
| Beginning of year | 220,209 | 5,635,428 | - | 5,855,637 |
| End of year | <u>\$ 169,771</u> | <u>\$ 4,377,608</u> | <u>\$ -</u> | <u>\$ 4,547,379</u> |

TPC, Inc. and Subsidiary
 Consolidated Statements of Cash Flows with Supplementary Consolidating Information
 Year Ended December 31, 2014

| | <u>TPC, Inc.</u> | <u>North Dakota Telephone Company</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|------------------|---|---------------------|---------------------|
| Supplementary Disclosures of Cash Flow Information | | | | |
| Cash payments for interest | <u>\$ -</u> | <u>\$ 120,135</u> | <u>\$ -</u> | <u>\$ 120,135</u> |
| Cash payments for income taxes | <u>\$ -</u> | <u>\$ 1,840,000</u> | <u>\$ -</u> | <u>\$ 1,840,000</u> |
| Noncash Investing and Financing Activities | | | | |
| Plant additions funded with accounts payable at year end | <u>\$ -</u> | <u>\$ 28,281</u> | <u>\$ -</u> | <u>\$ 28,281</u> |
| Debt refinanced | <u>\$ -</u> | <u>\$ 4,600,000</u> | <u>\$ -</u> | <u>\$ 4,600,000</u> |