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| NATIONAL RURAL UTILITIES COOPERATIVE FINANCE CORPORATION FINANCIAL AND STATISTICAL REPORT | BORROWER NAME | Tri-County Electric Cooperative dba Hc |
| | BORROWER DESIGNATION | M1026 |
| | ENDING DATE | 12/31/2015 |

Submit one electronic copy and one signed hard copy to CFC. Round all numbers to the nearest dollar.

| CERTIFICATION | BALANCE CHECK RESULTS | AUTHORIZATION CHOICES |
|---|-----------------------|--|
| We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief. | | A. NRECA uses rural electric system data for legislative, regulatory and other purposes. May we provide this report from your system to NRECA? <input checked="" type="radio"/> YES <input type="radio"/> NO |
| <i>Patricia Sumner</i> 3/30/16 Signature of Office Manager or Accountant Date | | B. Will you authorize CFC to share your data with other cooperatives? <input checked="" type="radio"/> YES <input type="radio"/> NO |
| <i>Mark Boyd</i> 3/31/16 Signature of Manager Date | | |

PART A. STATEMENT OF OPERATIONS

| ITEM | YEAR-TO-DATE | | | THIS MONTH |
|---|-------------------|-------------------|-------------------|------------------|
| | LAST YEAR (a) | THIS YEAR (b) | BUDGET (c) | |
| 1. Operating Revenue and Patronage Capital | 45,420,401 | 44,700,505 | 46,023,255 | 4,279,365 |
| 2. Power Production Expense | 0 | 0 | 0 | 0 |
| 3. Cost of Purchased Power | 29,675,754 | 29,113,834 | 30,192,093 | 2,777,846 |
| 4. Transmission Expense | 0 | 0 | 0 | 0 |
| 5. Regional Market Operations Expense | 0 | 0 | 0 | 0 |
| 6. Distribution Expense - Operation | 1,266,453 | 1,561,196 | 1,434,167 | 179,736 |
| 7. Distribution Expense - Maintenance | 3,251,513 | 3,106,730 | 3,448,158 | 30,505 |
| 8. Consumer Accounts Expense | 755,651 | 758,237 | 876,104 | 20,641 |
| 9. Customer Service and Informational Expense | 1,438,886 | 1,565,456 | 1,504,565 | 163,158 |
| 10. Sales Expense | 74,346 | 89,044 | 83,747 | 11,299 |
| 11. Administrative and General Expense | 2,254,230 | 2,270,560 | 2,370,227 | 217,390 |
| 12. Total Operation & Maintenance Expense (2 thru 11) | 38,716,833 | 38,465,057 | 39,909,061 | 3,400,574 |
| 13. Depreciation & Amortization Expense | 2,858,262 | 2,831,277 | 2,944,200 | 273,010 |
| 14. Tax Expense - Property & Gross Receipts | 1,032,873 | 1,060,305 | 1,072,000 | 78,105 |
| 15. Tax Expense - Other | 0 | 0 | 0 | 0 |
| 16. Interest on Long-Term Debt | 1,771,613 | 1,808,294 | 1,833,850 | 159,971 |
| 17. Interest Charged to Construction (Credit) | 0 | 0 | 0 | 0 |
| 18. Interest Expense - Other | 45,497 | 38,532 | 73,300 | 23 |
| 19. Other Deductions | 41,154 | (84,708) | (96,245) | (7,059) |
| 20. Total Cost of Electric Service (12 thru 19) | 44,466,232 | 44,118,757 | 45,736,166 | 3,904,624 |
| 21. Patronage Capital & Operating Margins (1 minus 20) | 954,169 | 581,748 | 287,089 | 374,741 |
| 22. Non Operating Margins - Interest | 93,192 | 87,272 | 85,800 | 7,180 |
| 23. Allowance for Funds Used During Construction | 0 | 0 | 0 | 0 |
| 24. Income (Loss) from Equity Investments | 215,576 | 452,476 | 147,127 | 452,476 |
| 25. Non Operating Margins - Other | 14,005 | 58,469 | 0 | 6,825 |
| 26. Generation & Transmission Capital Credits | 2,040,075 | 2,693,700 | 2,500,000 | 2,693,700 |
| 27. Other Capital Credits & Patronage Dividends | 161,536 | 155,855 | 114,500 | 16,692 |
| 28. Extraordinary Items | 0 | 0 | 0 | 0 |
| 29. Patronage Capital or Margins (21 thru 28) | 3,478,553 | 4,029,521 | 3,134,516 | 3,551,615 |

PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

| ITEM | YEAR-TO-DATE | | ITEM | YEAR-TO-DATE | |
|-------------------------------------|------------------|------------------|---|------------------|------------------|
| | LAST YEAR (a) | THIS YEAR (b) | | LAST YEAR (a) | THIS YEAR (b) |
| 1. New Services Connected | 195 | 152 | 5. Miles Transmission | 0 | 0 |
| 2. Services Retired | 73 | 266 | 6. Miles Distribution Overhead | 2,919 | 2,914 |
| 3. Total Services In Place | 27,153 | 27,039 | 7. Miles Distribution Underground | 441 | 448 |
| 4. Idle Services (Exclude Seasonal) | 1,530 | 1,347 | 8. Total Miles Energized (5+6+7) | 3,360 | 3,361 |

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| | ENDING DATE | 12/31/2015 |

PART E. CHANGES IN UTILITY PLANT

| | PLANT ITEM | BALANCE BEGINNING OF YEAR (a) | ADDITIONS (b) | RETIREMENTS (c) | ADJUSTMENTS AND TRANSFER (d) | BALANCE END OF YEAR (e) |
|----|--|----------------------------------|------------------|--------------------|------------------------------------|----------------------------|
| 1 | Distribution Plant Subtotal | 87,753,719 | 3,718,665 | 907,219 | 0 | 90,565,166 |
| 2 | General Plant Subtotal | 4,420,737 | 350,285 | 625,503 | 0 | 4,145,519 |
| 3 | Headquarters Plant | 3,787,508 | 5,367 | 0 | 0 | 3,792,875 |
| 4 | Intangibles | 411,985 | 30,595 | 0 | 0 | 442,580 |
| 5 | Transmission Plant Subtotal | 0 | 0 | 0 | 0 | 0 |
| 6 | Regional Transmission and Market Operation Plant | 0 | 0 | 0 | 0 | 0 |
| 7 | Production Plant - Steam | 0 | 0 | 0 | 0 | 0 |
| 8 | Production Plant - Nuclear | 0 | 0 | 0 | 0 | 0 |
| 9 | Production Plant - Hydro | 0 | 0 | 0 | 0 | 0 |
| 10 | Production Plant - Other | 0 | 0 | 0 | 0 | 0 |
| 11 | All Other Utility Plant | 0 | 0 | 0 | 0 | 0 |
| 12 | SUBTOTAL: (1 thru 11) | 96,373,949 | 4,104,912 | 1,532,721 | 0 | 98,946,140 |
| 13 | Construction Work in Progress | 189,505 | 61,858 | | | 251,363 |
| 14 | TOTAL UTILITY PLANT (12+13) | 96,563,454 | 4,166,770 | 1,532,721 | 0 | 99,197,503 |

CFC NO LONGER REQUIRES SECTIONS "F", "G", AND "N" DATA
Those sections refer to data on "Analysis of Accumulated Provision for Depreciation" (F),
"Materials and Supplies" (G), "Annual Meeting and Board Data" (N), and "Conservation Data" (P).

PART H. SERVICE INTERRUPTIONS

| | ITEM | Avg. Minutes per Consumer by Cause | Avg. Minutes per Consumer by Cause | Avg. Minutes per Consumer by Cause | Avg. Minutes per Consumer by Cause | TOTAL (e) |
|----|-------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|--------------|
| | | Power Supplier (a) | Major Event (b) | Planned (c) | All Other (d) | |
| 1. | Present Year | 36.00 | 101.40 | 8.40 | 135.00 | 280.80 |
| 2. | Five-Year Average | 67.40 | 330.01 | 5.39 | 157.32 | 560.12 |

PART I. EMPLOYEE - HOUR AND PAYROLL STATISTICS

| | | | | |
|----|--|---------|--------------------------|-----------|
| 1. | Number of Full Time Employees | 59 | 4. Payroll - Expensed | 3,585,701 |
| 2. | Employee - Hours Worked - Regular Time | 132,594 | 5. Payroll - Capitalized | 961,987 |
| 3. | Employee - Hours Worked - Overtime | 6,268 | 6. Payroll - Other | 574,988 |

PART J. PATRONAGE CAPITAL

| ITEM | THIS YEAR (a) | CUMULATIVE (b) | PART K. DUE FROM CONSUMERS FOR ELECTRIC SERVICE | |
|---|------------------|-------------------|---|------------------------------------|
| | | | 1. Amount Due Over 60 Days: | 2. Amount Written Off During Year: |
| 1. General Retirement | 2,415,999 | 13,042,281 | 175,970 | |
| 2. Special Retirements | 190,951 | 1,526,935 | 89,055 | |
| 3. Total Retirements (1+2) | 2,606,951 | 14,569,216 | | |
| 4. Cash Received from Retirement of Patronage Capital by Suppliers of Electric Power | 419,063 | | | |
| 5. Cash Received from Retirement of Patronage Capital by Lenders for Credit Extended to the Electric System | 45,845 | | | |
| 6. Total Cash Received (4+5) | 464,907 | | | |

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PART L. KWH PURCHASED AND TOTAL COST

| | NAME OF SUPPLIER (a) | CFC USE ONLY SUPPLIER CODE (b) | RENEWABLE ENERGY PROGRAM NAME (c) | RENEWABLE FUEL TYPE (d) | KWH PURCHASED (e) | TOTAL COST (f) | AVERAGE COST PER KWH (cents) (g) | INCLUDED IN TOTAL COST | | |
|----|-----------------------------|---|---|-------------------------------|-------------------------|-------------------|---|--------------------------------|---|-----------------|
| | | | | | | | | FUEL COST ADJUSTMENT (h) | WHEELING & OTHER CHARGES (or Credits) (i) | COMMENTS (j) |
| 1 | Wolverine Power Cooperative | | | 0 None | 327,976,140 | 26,930,296 | 8.21 | 331,811 | 1,431,947 | Comments |
| 2 | Wolverine Power Cooperative | | | 1 Wind | 19,855,853 | 1,630,375 | 8.21 | 20,088 | 86,691 | Comments |
| 3 | Wolverine Power Cooperative | | | 2 Sun | 354,569 | 29,114 | 8.21 | 359 | 1,548 | Comments |
| 4 | Wolverine Power Cooperative | | | 4 Wood | 6,382,238 | 524,049 | 8.21 | 6,457 | 27,865 | Comments |
| 5 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 6 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 7 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 8 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 9 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 10 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 11 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 12 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 13 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 14 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 15 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 16 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 17 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 18 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 19 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 20 | | | | 0 None | 0 | 0 | 0.00 | 0 | 0 | Comments |
| 21 | TOTALS | | | | 354,568,800 | 29,113,834 | 8.21 | 358,715 | 1,548,051 | |

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PART L. KWH PURCHASED AND TOTAL COST (Continued)

| COMMENTS | |
|----------|--|
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| 5 | |
| 6 | |
| 7 | |
| 8 | |
| 9 | |
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PART M. LONG-TERM LEASES (If additional space is needed, use separate sheet)

LIST BELOW ALL "RESTRICTED PROPERTY" ** HELD UNDER "LONG TERM" LEASE. (If none, State "NONE")

| | NAME OF LESSOR | TYPE OF PROPERTY | RENTAL THIS YEAR |
|----|----------------|------------------|------------------|
| 1. | None | | \$0 |
| 2. | | | \$0 |
| 3. | | | \$0 |
| | | TOTAL | \$0 |

** "RESTRICTED PROPERTY" means all properties other than automobiles, trucks, tractors, other vehicles (including without limitation aircraft and ships), office and warehouse space and office equipment (including without limitation computers). "LONG TERM" means leases having unexpired terms in excess of 3 years and covering property having an initial cost in excess of \$250,000).

PART O. LONG-TERM DEBT SERVICE REQUIREMENTS

| | NAME OF LENDER | BALANCE END OF YEAR | BILLED THIS YEAR | | | CFC USE ONLY (d) |
|----|--|---------------------|--------------------|--------------------|--------------------|------------------|
| | | | INTEREST (a) | PRINCIPAL (b) | TOTAL (c) | |
| 1 | National Rural Utilities Cooperative Finance Corporation | 27,021,174 | 1,058,760 | 1,427,893 | 2,486,652 | |
| 2 | NCSC | 0 | 0 | 0 | 0 | |
| 3 | Farmer Mac | 20,276,457 | 805,572 | 495,980 | 1,301,552 | |
| 4 | | 0 | 0 | 0 | 0 | |
| 5 | | 0 | 0 | 0 | 0 | |
| 6 | | 0 | 0 | 0 | 0 | |
| 7 | | 0 | 0 | 0 | 0 | |
| 8 | | 0 | 0 | 0 | 0 | |
| 9 | | 0 | 0 | 0 | 0 | |
| 10 | Principal Payments Received from Ultimate Recipients of IRP Loans | | | 0 | | |
| 11 | Principal Payments Received from Ultimate Recipients of REDL Loans | | | 0 | | |
| 12 | TOTAL (Sum of 1 thru 9) | \$47,297,631 | \$1,864,332 | \$1,923,872 | \$3,788,204 | |

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PART R. POWER REQUIREMENTS DATA BASE

| CLASSIFICATION | CONSUMER, SALES, AND REVENUE DATA | JANUARY CONSUMERS | DECEMBER CONSUMERS | AVERAGE CONSUMERS | TOTAL KWH SALES AND REVENUE (d) |
|---|-----------------------------------|---|--------------------|-------------------|---------------------------------|
| | | (a) | (b) | (c) | |
| 1. Residential Sales (excluding seasonal) | a. No. Consumers Served | 22,247 | 22,260 | 22,254 | |
| | b. KWH Sold | | | | 216,763,632 |
| | c. Revenue | | | | 30,201,085 |
| 2. Residential Sales - Seasonal | a. No. Consumers Served | 0 | 0 | 0 | |
| | b. KWH Sold | | | | 0 |
| | c. Revenue | | | | 0 |
| 3. Irrigation Sales | a. No. Consumers Served | 369 | 381 | 375 | |
| | b. KWH Sold | | | | 6,765,698 |
| | c. Revenue | | | | 1,153,988 |
| 4. Comm. and Ind. 1000 KVA or Less | a. No. Consumers Served | 2,853 | 2,905 | 2,879 | |
| | b. KWH Sold | | | | 63,797,680 |
| | c. Revenue | | | | 8,222,517 |
| 5. Comm. and Ind. Over 1000 KVA | a. No. Consumers Served | 3 | 3 | 3 | |
| | b. KWH Sold | | | | 42,800,200 |
| | c. Revenue | | | | 3,494,472 |
| 6. Public Street & Highway Lighting | a. No. Consumers Served | 36 | 36 | 36 | |
| | b. KWH Sold | | | | 151,291 |
| | c. Revenue | | | | 30,958 |
| 7. Other Sales to Public Authority | a. No. Consumers Served | 121 | 117 | 119 | |
| | b. KWH Sold | | | | 4,762,054 |
| | c. Revenue | | | | 600,842 |
| 8. Sales for Resales-RUS Borrowers | a. No. Consumers Served | 0 | 0 | 0 | |
| | b. KWH Sold | | | | 0 |
| | c. Revenue | | | | 0 |
| 9. Sales for Resales-Other | a. No. Consumers Served | 0 | 0 | 0 | |
| | b. KWH Sold | | | | 0 |
| | c. Revenue | | | | 0 |
| 10. TOTAL No. of Consumers (lines 1a thru 9a) | | 25,629 | 25,702 | 25,666 | 0 |
| 11. TOTAL KWH Sold (lines 1b thru 9b) | | | | | 335,040,555 |
| 12. TOTAL Revenue Received From Sales of Electric Energy (line 1c thru 9c) | | | | | 43,703,862 |
| 13. Transmission Revenue | | | | | 0 |
| 14. Other Electric Revenue | | | | | 996,643 |
| 15. KWH - Own Use | | | | | 0 |
| 16. TOTAL KWH Purchased | | | | | 354,568,800 |
| 17. TOTAL KWH Generated | | | | | 0 |
| 18. Cost of Purchases and Generation | | | | | 29,113,834 |
| 19. Interchange - KWH - Net | | | | | 0 |
| 20. Peak - Sum All KW Input (Metered) | | | | | 81,948 |
| | | <input type="radio"/> None <input checked="" type="radio"/> Non-coincident <input type="radio"/> Coincident | | | |

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PART 5. ENERGY EFFICIENCY PROGRAMS

| Line # | Classification | Added This Year | | | Total To Date | | |
|--------|--|----------------------------|------------------------|--------------------------------|----------------------------|------------------------|--------------------------------|
| | | Number of Consumers (a) | Amount Invested (b) | ESTIMATED MMBTU Savings (c) | Number of Consumers (d) | Amount Invested (e) | ESTIMATED MMBTU Savings (f) |
| 1. | Residential Sales (excluding seasonal) | 19 | 353,462 | 5,719 | 25,133 | 1,877,788 | 35,950 |
| 2. | Residential Sales - Seasonal | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. | Irrigation Sales | 0 | 0 | 0 | 0 | 0 | 0 |
| 4. | Comm. and Ind. 1000 KVA or Less | 15 | 147,612 | 3,709 | 533 | 761,913 | 22,107 |
| 5. | Comm. and Ind. Over 1000 KVA | 0 | 0 | 0 | 0 | 0 | 0 |
| 6. | Public Street and Highway Lighting | 0 | 0 | 0 | 0 | 0 | 0 |
| 7. | Other Sales to Public Authorities | 0 | 0 | 0 | 0 | 0 | 0 |
| 8. | Sales for Resales - RUS Borrowers | 0 | 0 | 0 | 0 | 0 | 0 |
| 9. | Sales for Resales - Other | 0 | 0 | 0 | 0 | 0 | 0 |
| 10. | TOTAL | 34 | 501,074 | 9,428 | 25,666 | 2,639,701 | 58,057 |

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|---|--|--|----------------------|--|
| (All investments refer to your most recent CFC Loan Agreement) | | | | |
| 7a - PART 1 - INVESTMENTS | | | | |
| DESCRIPTION (a) | | INCLUDED (\$) (b) | EXCLUDED (\$) (c) | INCOME OR LOSS (d) |
| 2. INVESTMENTS IN ASSOCIATED ORGANIZATIONS | | | | |
| 5 | See Attached Notes | 7,204,246 | 31,511,308 | 452,476 |
| 6 | | | | |
| 7 | | | | |
| 8 | | | | |
| Subtotal (Line 5 thru 8) | | 7,204,246 | 31,511,308 | 452,476 |
| 3. INVESTMENTS IN ECONOMIC DEVELOPMENT PROJECTS | | | | |
| 9 | | | | |
| 10 | | | | |
| 11 | | | | |
| 12 | | | | |
| Subtotal (Line 9 thru 12) | | 0 | 0 | 0 |
| 4. OTHER INVESTMENTS | | | | |
| 13 | | | | |
| 14 | | | | |
| 15 | | | | |
| 16 | | | | |
| Subtotal (Line 13 thru 16) | | 0 | 0 | 0 |
| 5. SPECIAL FUNDS | | | | |
| 17 | | | | |
| 18 | | | | |
| 19 | | | | |
| 20 | | | | |
| Subtotal (Line 17 thru 20) | | 0 | 0 | 0 |
| 6. CASH - GENERAL | | | | |
| 21 | Portland Federal Credit Union | 1,310,194 | 250,000 | 0 |
| 22 | | | | |
| 23 | | | | |
| 24 | | | | |
| Subtotal (Line 21 thru 24) | | 1,310,194 | 250,000 | 0 |
| 7. SPECIAL DEPOSITS | | | | |
| 25 | | | | |
| 26 | | | | |
| 27 | | | | |
| 28 | | | | |
| Subtotal (Line 25 thru 28) | | 0 | 0 | 0 |
| 8. TEMPORARY INVESTMENTS | | | | |
| 29 | Cash-Money Market Account | 90,927 | 0 | 0 |
| 30 | | | | |
| 31 | | | | |
| 32 | | | | |
| Subtotal (Line 29 thru 32) | | 90,927 | 0 | 0 |
| 9. ACCOUNT & NOTES RECEIVABLE - NET | | | | |
| 33 | NRUCFC Interest Receivables - CTC's | 0 | 8,196 | 0 |
| 34 | NRUCFC Interest Receivables - Capital Securities | 0 | 11,250 | 0 |
| 35 | Other Receivables | 245,680 | 0 | 0 |
| 36 | Notes Receivables - Water Heaters | 122,022 | 0 | 0 |
| Subtotal (Line 33 thru 36) | | 367,702 | 19,446 | 0 |
| 10. COMMITMENTS TO INVEST WITHIN 12 MONTHS BUT NOT ACTUALLY PURCHASED | | | | |
| 37 | | | | |
| 38 | | | | |
| 39 | | | | |
| 40 | | | | |
| Subtotal (Line 37 thru 40) | | 0 | 0 | 0 |
| Total | | 8,973,069 | 31,780,754 | 452,476 |

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(All investments refer to your most recent CFC Loan Agreement)

7a - PART II. LOAN GUARANTEES

| Line No. | Organization & Guarantee Beneficiary (a) | Maturity Date of Guarantee Obligation (b) | Original Amount (\$) (c) | Performance Guarantee Exposure or Loan Balance (\$) (d) | Available Loans (Covered by Guarantees) (e) |
|-------------------------------|---|--|-----------------------------|--|--|
| 1 | | | 0 | 0 | 0 |
| 2 | | | 0 | 0 | 0 |
| 3 | | | 0 | 0 | 0 |
| 4 | | | 0 | 0 | 0 |
| 5 | | | 0 | 0 | 0 |
| TOTALS (Line 1 thru 5) | | | 0 | 0 | 0 |

7a - PART III. LOANS

| Line No. | Name of Organization (a) | Maturity Date (b) | Original Amount (\$) (c) | Loan Balance (\$) (d) | Available Loans (e) |
|-------------------------------|-----------------------------|----------------------|-----------------------------|--------------------------|------------------------|
| 1 | | | 0 | 0 | 0 |
| 2 | | | 0 | 0 | 0 |
| 3 | | | 0 | 0 | 0 |
| 4 | | | 0 | 0 | 0 |
| 5 | | | 0 | 0 | 0 |
| TOTALS (Line 1 thru 5) | | | 0 | 0 | 0 |

7a - PART IV. TOTAL INVESTMENTS AND LOANS GUARANTEES

| | | |
|---|---|-------------------|
| 1 | TOTAL (Part I, Total - Column b + Part II, Totals - Column d + Column e + Part III, Totals - Column d + Column e) | 8,973,069 |
| 2 | LARGER OF (a) OR (b) | 30,146,027 |
| | a. 15 percent of Total Utility Plant (CFC Form 7, Part C, Line 3) | 14,879,625 |
| | b. 50 percent of Total Equity (CFC Form 7, Part C, Line 35) | 30,146,027 |

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| NOTES | | |

7a-Part 1-Investments

2. Investments in Associated Organizations

| | Description | Included | Excluded | Income |
|-------|---|--------------|---------------|------------|
| 1 | CFC Patronage | | 872,407 | |
| 2 | Tri-Co Services-50,000 shrs common stock | 50,000 | | |
| 3 | Tri-Co Services Subsidiary Equity | 6,788,755 | | 452,476 |
| 4 | NRUCFC Capital Term Certificates | | 1,875,754 | |
| 5 | NRUCFC Membership | | 1,000 | |
| 6 | Cooperative Response Center-Membership | 17,437 | 12,500 | |
| 7 | Michigan Electric Coop Assoc, Membership | | 1,000 | |
| 8 | National Rural Telecom Coop-Patronage | 20,535 | | |
| 9 | Wolverine Power Supply Coop-Patronage | | 28,695,230 | |
| 10 | National Information Solutions Coop-Patronage | 130,986 | | |
| 11 | Rural Electric Supply Coop-Patronage | 66,029 | 5,100 | |
| 12 | Co-Bank-Investment | | 1,000 | |
| 13 | Co-Bank Patronage | | 47,318 | |
| 14 | Federated Rural Insurance Coop-Stock | 10,000 | | |
| 15 | Federated Rural Insurance Coop-Patronage | 120,505 | | |
| Total | | 7,204,246.20 | 31,511,307.97 | 452,476.45 |

Part L

Water heater adjustment/note this is for billing credit to our members for purchase of a water heater and participation in our load management program.

MICHIGAN PUBLIC SERVICE COMMISSION

ADDITIONAL SCHEDULES FOR AN ELECTRIC UTILITY COOPERATIVE

This form is authorized by Case No. U-12134, the Code of Conduct. Filing of this form is mandatory pursuant to PA 3 of 1939. Failure to provide this information will put you in violation of this act and the commission shall order such remedies and penalties as necessary.

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|---|
| Report submitted for year ending: December 31, 2015 |
| Present name of respondent: HomeWorks Tri-County Electric Cooperative |
| Address of principal place of business: 7973 E Grand River Ave; Portland MI 48875 |
| Utility representative to whom inquires regarding this report may be directed: Name: Patrick Simmer Title: CFO Address: 7973 E Grand River Ave City: Portland State: MI 48875 Direct Telephone, Include Area Code: 517-647-1287 |
| If the utility name has been changed during the past year: Prior Name: Date of Change: |
| Two copies of the published annual report to stockholders: <input type="checkbox"/> were forwarded to the Commission <input checked="" type="checkbox"/> will be forwarded to the Commission on or about April 30, 2016 |
| Annual reports to stockholders: <input checked="" type="checkbox"/> are published <input type="checkbox"/> are not published |

FOR ASSISTANCE IN COMPLETION OF THIS FORM:

Contact the Michigan Public Service Commission (Heather Cantin) at (517) 284-8266 or cantinh@michigan.gov OR forward correspondence to:

Michigan Public Service Commission
Financial Analysis & Audit Division
Attn: Heather Cantin
7109 W. Saginaw Hwy
PO Box 30221
Lansing, MI 48909

| | | | |
|---|---|--|------------------------------|
| Name of Respondent HomeWorks Tri-County Electric Coope | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 4/1/2016 | Year of Report 12/31/2015 |
|---|---|--|------------------------------|

IMPORTANT CHANGES DURING THE YEAR

Give particulars (details) concerning the matters indicated below. Make the statements explicit and precise, and number them in accordance with the inquiries. Each inquiry should be answered. Enter "none", "not acceptable" or "NA" where applicable. If information which answers an inquiry is given elsewhere in the report, make a reference to the schedule in which it appears.

1. Changes in and important additions to franchise rights: Describe the actual consideration given therefor and state from whom the franchise rights were acquired. If acquired without the payment of consideration, state that fact.
2. Acquisition of ownership in other companies by reorganization, merger, or consolidation with other companies: Give names of companies involved, particulars concerning the transactions, name of the Commission authorizing the transaction, and reference to Commission authorization.
3. Purchase or sale of an operating unit or system: Give a brief description of the property, and of the transactions relating thereto, and reference to Commission authorization, if any was required. Give date journal entries called for by the Uniform System of Accounts were submitted to the Commission.
4. Important leaseholds (other than leaseholds for natural gas lands) that have been acquired or given, assigned or surrendered: Give effective dates, lengths of terms, names of parties, rents and other conditions. State name of Commission authorizing lease and give reference to such authorization.
5. Important extension or reduction of transmission or distribution system: State territory added or relinquished and date operations began or ceased and give reference to Commission authorization, if any was required. State also the approximate number of customers added or lost and approximate annual revenues of each class of service. Each natural gas company must also state major new continuing sources of gas made available to it from purchases, development, purchase contract or otherwise, giving location and approximate total gas volumes available, period of contracts, and other parties to any such arrangements etc.
6. Obligations incurred as a result of issuance of securities or assumption of liabilities or guarantees including issuance of short-term debt and commercial paper having a maturity of one year or less. Give reference to FERC or State Commission authorization, as appropriate, and the amount of obligation or guarantee.
7. Changes in articles of incorporation or amendments to charter: Explain the nature and purpose of such changes or amendments.
8. State the estimated annual effect and nature of any important wage scale changes during the year.
9. State briefly the status of any materially important legal proceedings pending at the end of the year, and the results of any such proceedings culminated during the year.
10. Describe briefly and materially important transactions of the respondent not disclosed elsewhere in this report in which an officer, director, security holder reported on page 106, voting trustee, associated company or known associate of any of these persons was a party or in which any such person had a material interest.
11. (Reserved.)
12. If the important changes during the year relating to the respondent company appearing in the annual report to stockholders are applicable in every respect and furnish the data required by instruction 1 to 11 above, such notes may be attached to this page.

| | | | |
|---|--|--------------------------|----------------|
| Name of Respondent | This Report Is: | Date of Report | Year of Report |
| HomeWorks Tri-County Electric Cooperative | (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | (Mo, Da, Yr) 4/1/2016 | 12/31/2015 |

STATEMENT OF CASH FLOWS

1. If the notes to the cash flow statement in the respondent's annual stockholders report are applicable to this statement, such notes should be included on pages 122-123. Information about noncash investing and financing activities should be provided on pages 122-123. "Cash and Cash Equivalents at End of Year" with related amounts on the balance sheet.
2. Under "Other" specify significant amounts and group others.
3. Operating Activities-Other: Include gains and losses pertaining to operating activities only. Gains and losses pertaining to investing and financing activities should be reported in those activities. Show on pages 122-123 the amounts of interest paid (net of amounts capitalized) and income taxes paid.

| Line No. | Description (See instructions for Explanation of Codes) SEE ATTACHED STATEMENT OF CASH FLOWS | Amounts (b) |
|----------|--|----------------|
| 1 | Net Cash Flow from Operating Activities: (enter outflows from company as negative #s) | |
| 2 | Net Income (Line 72 (c) on page 117) | |
| 3 | Noncash Charges (Credits) to Income: | |
| 4 | Depreciation and Depletion | |
| 5 | Amortization of (Specify) | |
| 6 | Intangible Plant | |
| 7 | | |
| 8 | Deferred Income Taxes (Net) | |
| 9 | Investment Tax Credit Adjustment (Net) | |
| 10 | Net (Increase) Decrease in Receivables | |
| 11 | Net (Increase) Decrease in Inventory | |
| 12 | Net (Increase) Decrease in Allowances Inventory | |
| 13 | Net (Increase) Decrease in Payables and Accrued Expenses | |
| 14 | Net (Increase) Decrease in Other Regulatory Assets | |
| 15 | Net (Increase) Decrease in Other Regulatory Liabilities | |
| 16 | (Less) Allowance for Other Funds Used During Construction | |
| 17 | (Less) Undistributed Earnings from Subsidiary Companies | |
| 18 | Other: | |
| 19 | | |
| 20 | | |
| 21 | | |
| 22 | Net Cash Provided by (Used in) Operating Activities (Total of lines 2 thru 21) | |
| 23 | | |
| 24 | Cash Flows from Investment Activities: | |
| 25 | Construction and Acquisition of Plant (including land): | |
| 26 | Gross Additions to Utility Plant (less nuclear fuel) | |
| 27 | Gross Additions to Nuclear Fuel | |
| 28 | Gross Additions to Common Utility Plant | |
| 29 | Gross Additions to Nonutility Plant | |
| 30 | (Less) Allowance to Other Funds Used During Construction | |
| 31 | Other: | |
| 32 | | |
| 33 | | |
| 34 | Cash Outflows for Plant (Total of lines 26 thru 33) | |
| 35 | | |
| 36 | Acquisition of Other Noncurrent Assets (d) | |
| 37 | Proceeds from Disposal of Noncurrent Assets (d) | |
| 38 | | |
| 39 | Investments in and Advances to Assoc. and Subsidiary Companies | |
| 40 | Contributions and Advances from Assoc. and Subsidiary Companies | |
| 41 | Disposition of Investments in (and Advances to) | |
| 42 | Associated and Subsidiary Companies | |
| 43 | | |
| 44 | Purchase of Investment Securities (a) | |
| 45 | Proceeds from Sales of Investment Securities (a) | |

| | | | |
|--|---|--|------------------------------|
| Name of Respondent HomeWorks Tri-County Electric Cooperativ | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 4/1/2016 | Year of Report 12/31/2015 |
|--|---|--|------------------------------|

STATEMENT OF CASH FLOWS (Continued)

- | | |
|--|--|
| <p>4. Investing Activities</p> <p>(a) Include at Other (line 31) net cash outflow to acquire other companies. Provide a reconciliation of asset acquired with liabilities assumed on pages 122-123.</p> <p>(b) Don not include on this statement the dollar amount of leases capitalized per USofA General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost on pages 122-123.</p> | <p>5. Codes used:</p> <p>(a) Net proceeds or payments.</p> <p>(b) Bonds, debentures and other long-term debt.</p> <p>(c) Include commercial paper.</p> <p>(d) Identify separately such items as investments, fixed assets, intangibles, etc.</p> <p>6. Enter on pages 122-123 clarifications and explanations.</p> |
|--|--|

| Line No. | Description (See instructions for Explanation of Codes) (a) | Amount (b) |
|----------|--|---------------|
| 46 | Loans Made or Purchased | |
| 47 | Collections on Loans | |
| 48 | | |
| 49 | Net (Increase) Decrease in Receivables | |
| 50 | Net (Increase) Decrease in Inventory | |
| 51 | Net (Increase) Decrease in Allowances Held for Speculation | |
| 52 | Net Increase (Decrease) in Payables and Accrued Expenses | |
| 53 | Other: | |
| 54 | | |
| 55 | | |
| 56 | Net Cash Provided by (Used in) Investing Activities | |
| 57 | (Total of lines 34 thru 55) | |
| 58 | | |
| 59 | Cash Flows from Financing Activities: | |
| 60 | Proceeds from Issuance of: | |
| 61 | Long Term Debt (b) | |
| 62 | Preferred Stock | |
| 63 | Common Stock | |
| 64 | Other: | |
| 65 | | |
| 66 | Net Increase in Short-Term Debt (c) | |
| 67 | Other: | |
| 68 | | |
| 69 | | |
| 70 | Cash Provided by Outside Sources (Total of lines 61 thru 69) | |
| 71 | | |
| 72 | Payments for Retirement of: | |
| 73 | Long Term Debt (b) | |
| 74 | Preferred Stock | |
| 75 | Common Stock | |
| 76 | Other: | |
| 77 | | |
| 78 | Net Decrease in Short-Term Debt (c) | |
| 79 | | |
| 80 | Dividends on Preferred Stock | |
| 81 | Dividends on Common Stock | |
| 82 | Net Cash Provided by (Used in) Financing Activities | |
| 83 | (Total of lines 70 thru 81) | |
| 84 | | |
| 85 | Net Increase (Decrease) in Cash and Cash Equivalents | |
| 86 | (Total of lines 22, 57 and 83) | |
| 87 | | |
| 88 | Cash and Cash Equivalents at Beginning of Year | |
| 89 | | |
| 90 | Cash and Cash Equivalents at End of Year | |

Tri-County Electric Cooperative, Inc.
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|--------------------|--------------------|
| Operating Activities | | |
| Net margins | \$ 4,029,524 | \$ 3,478,546 |
| Adjustments to reconcile net margins to net cash from operating activities | | |
| Depreciation | 3,066,092 | 3,125,438 |
| Amortization of retirement security prepayment | 143,662 | 143,662 |
| Loss (gain) on disposition of plant, net | (53,438) | 12,812 |
| Income from subsidiary | (452,479) | (215,573) |
| Noncash patronage capital allocations | (2,849,555) | (2,201,611) |
| Deferred gain from insurance proceeds | (3,503) | (24,353) |
| Post-retirement and pension benefits | 33,495 | 120,231 |
| Changes in assets and liabilities | | |
| Accounts receivable | 293,487 | (118,470) |
| Refunds payable to customers | 734,587 | (293,146) |
| Notes receivable | 10,278 | 15,075 |
| Prepaid expenses | 189,164 | (13,411) |
| Interest receivable | - | 5,625 |
| Deferred debits | 20,888 | (214,289) |
| Accounts payable | (200,145) | 410,326 |
| Customer deposits | 9,231 | (5,813) |
| Accrued expenses and taxes | 135,054 | (11,112) |
| Deferred credits | 259,495 | 97,130 |
| Net Cash from Operating Activities | 5,365,837 | 4,311,067 |
| Investing Activities | | |
| Additions to, and costs of retirements of, utility plant | (4,614,615) | (4,220,085) |
| Proceeds from sale of general plant and scrap | 104,285 | 90,324 |
| Cash received from other property and investments | 512,169 | 1,275,325 |
| Dividend received from subsidiary | 200,000 | 200,000 |
| Change in inventories | 23,069 | (60,486) |
| Net Cash used for Investing Activities | (3,775,092) | (2,714,922) |
| Financing Activities | | |
| Principle payments on long-term debt | (1,923,872) | (1,848,904) |
| Issuance of long-term debt | 4,500,000 | 3,000,000 |
| Payments on line of credit | (1,200,000) | (1,550,000) |
| Post-retirement benefits paid | (82,603) | (86,277) |
| Other equities | 111,096 | 91,468 |
| Patronage capital retired | (2,606,951) | (1,481,102) |
| Net Cash used for Financing Activities | (1,202,330) | (1,874,815) |

Tri-County Electric Cooperative, Inc.
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| Net Change in Cash and Cash Equivalents | 388,415 | (278,670) |
| Cash and Cash Equivalents at Beginning of Year | <u>1,262,705</u> | <u>1,541,375</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 1,651,120</u> | <u>\$ 1,262,705</u> |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid for interest | <u>\$ 1,902,864</u> | <u>\$ 1,899,139</u> |

| | | | |
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|---|---|--|------------------------------|

NONUTILITY PROPERTY (Account 121)

- | | |
|---|---|
| <p>1. Give a brief description and state the location of nonutility property included in Account 121.</p> <p>2. Designate with a double asterisk any property which is leased to another company. State name of lessee and whether lessee is an associated company.</p> <p>3. Furnish particulars (details) concerning sales, purchases, or transfers of Nonutility Property during the year.</p> | <p>4. List separately all property previously devoted to public service and give date of transfer to Account 121, Nonutility Property.</p> <p>5. Minor items (5% of the Balance at the End of the Year for Account 121 or \$100,000, whichever is less) may be grouped by (1) previously devoted to public service, or (2) other nonutility property.</p> |
|---|---|

| Line No. | Description and Location (a) | Balance at Beginning of Year (b) | Purchases, Sales Transfers, etc. (c) | Balance at End of Year (d) |
|----------|---------------------------------|-------------------------------------|---|-------------------------------|
| 1 | Vacant Lot at Canadian Lakes | 3,300 | 0 | 3,300 |
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| 17 | | | | |
| TOTAL | | 3,300 | 0 | 3,300 |

ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF NONUTILITY PROPERTY (Account 122)

Report below the information called for concerning depreciation and amortization of nonutility property.

| Line No. | Item (a) | Amount (b) |
|----------|--|---------------|
| 1 | Balance, Beginning of Year | |
| 2 | Accruals for Year, Charged to | |
| 3 | (417) Income from Nonutility Operations | |
| 4 | (418) Nonoperating Rental Income | |
| 5 | Other Accounts (Specify): | |
| 6 | | |
| 7 | TOTAL Accruals for Year (Enter Total of lines 3 thru 6) | |
| 8 | Net Charges for Plant Retired: | |
| 9 | Book Cost of Plant Retired | |
| 10 | Cost of Removal | |
| 11 | Salvage (Credit) | |
| 12 | TOTAL Net Charges (Enter Total of lines 9 thru 11) | |
| 13 | Other Debit or Credit Items (Describe): | |
| 14 | | |
| 15 | Balance, End of Year (Enter Total of lines 1, 7, 12, and 14) | |

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|---|--------------------------------------|--|------------|---|--|------------------------------|--|
| INVESTMENTS (Accounts 123, 124, 136) | | | | | | | |
| <p>1. Report below the investments in Accounts 123, <i>Investments in Associated Companies</i>, 124, <i>Other Investment</i>, and 136, <i>Temporary Cash Investments</i>.</p> <p>2. Provide a subheading for each account and list thereunder the information called for:</p> <p>(a) Investment in securities - List and describe each security owned, giving name of user, date acquired and date of maturity. For bonds, also give principal amount, date of issue, maturity, and interest rate. For capital stock (including capital stock of respondent reacquired under a definite plan for resale pursuant to authorization by the Board of Directors, and included</p> | | | | <p>in Account 124, <i>Other Investments</i>), state number of shares, class, and series of stock. Minor investments may be grouped by classes. Investments included in Account 136, <i>Temporary Cash Investments</i>, also may be grouped by classes.</p> <p>(b) Investment Advances-Report separately for each person or company the amounts of loans or investment advances which are properly includable in Account 123. Advances subject to current repayment should be included in Accounts 145 and 146. With respect to each advance, show whether the advance is a note or an open account. Each note should be</p> | | | |
| Line No. | Description of Investment (a) | Book Cost at Beginning of Year (If book cost is different from cost to respondent, give cost to respondent in a footnote and explain difference) (b) | | Purchases or Additions During Year (c) | | | |
| | | Original Cost | Book Value | | | | |
| 1 | See Attached Schedule | | | | | | |
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| Name of Respondent HomeWorks Tri-County Electric Cooperative | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 | | | |
|--|---|--|------------------------------|------------------------------|--|----------|
| INVESTMENTS (Accounts 123, 124, 136) (Cont'd) | | | | | | |
| <p>listed giving date of issuance, maturity date, and specifying whether note is a renewal. Designate any advances due from officers, directors, stockholders, or employees. Exclude amounts reported on page 229.</p> <p>3. For any securities, notes or accounts that were pledged designate with an asterisk such securities, notes, or accounts and in a footnote state the name of pledgee and purpose of the pledge.</p> <p>4. If Commission approval was required for any advance made or security acquired, designate such fact in a footnote and give name of Commission, date of</p> | | <p>authorization, and case or docket number.</p> <p>5. Report in column (g) interest and dividend revenues from investments including such revenues from securities disposed of during the year.</p> <p>6. In column (h) report for each investment disposed of during the year the gain or loss represented by the difference between cost of the investment (or the other amount at which carried in the books of account if different from cost) and the selling price thereof, not including any dividend or interest adjustment includible in column (g).</p> | | | | |
| Sales or Other Dispositions During Year (d) | Principal Amount or No. of Shares at End of Year (e) | Book Cost at End of Year <i>(If book cost is different from cost to respondent, give cost to respondent in a footnote and explain difference)</i> (f) | | Revenues for Year (g) | Gain of Loss from Improvement Disposed of (h) | Line No. |
| | | Original Cost | Book Value | | | |
| Part of Page 222 (See Attached) | | | | | | 1 |
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2015 Tri County Electric Cooperative
1.1.123. to 1.3.123.22

| Account | Description | See Below | Balance @ 12/31/14 | Form 7 Line 23 | Form 7 Line 25 | Form 7 Line 26 | Form 7 Line 26 | Revenue Acct Chgd | CC Allocation Adjustment | Cash Received | Balance @ 12/31/2015 |
|---|---|-----------|----------------------|------------------------|----------------|---------------------|-------------------|-------------------|--------------------------|-------------------|----------------------|
| | | | | Income/Loss Equity Inv | Investment | G&T Cap Credits | Other Cap Credits | | | | |
| Investments - Associated Organizations | | | | | | | | | | | |
| 1.1.123. | CFC Memberships | C | 1,000.00 | | | | | | | | 1,000.00 |
| 1.1.123. | MECA Memberships | C | 1,000.00 | | | | | | | | 1,000.00 |
| 1.1.123. | Co-Bank Membership | C | 1,000.00 | | | | | | | | 1,000.00 |
| 1.1.123. | CRC Membership (was in 1.3.123.22 in 2014) | C | 12,500.00 | | | | | | | | 12,500.00 |
| 1.1.123. | RESCO Membership (Was in 1.1.123.4 in 2014) | | 5,100.00 | | | | | | | | 5,100.00 |
| 1.1.123. | Federated Stock (Was in 1.1.123.6 in 2015) | | 0.00 | | | | | | 10,000.00 | | 10,000.00 |
| 1.1.123. | Total Investments - Associated Organizations | | 20,600.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 10,000.00 | 0.00 | 30,600.00 |
| 1.1.123.10 | CFC Patronage | A | 826,562.45 | | | | 91,689.08 | 1.1.424. | | 45,844.54 | 872,406.99 |
| 1.1.123.11 | Tri-Co Services | | 7,038,754.52 | 452,476.45 | | | | | | 200,000.00 | 7,291,230.97 |
| 1.1.123.22 | CFC Subordinate Certificates | A | 1,894,624.77 | | | | | | | 18,870.95 | 1,875,753.82 |
| 1.1.123.24 | NRTC Patronage | C | 20,534.56 | | | | | 1.1.424. | | | 20,534.56 |
| 1.1.123.30 | Wolverine Capital Credits | B | 26,420,592.37 | | | 2,693,700.00 | | 1.1.423. | | 419,062.73 | 28,695,229.64 |
| 1.1.123.31 | NISC - National Information Solutions Cooperative | C | 120,250.01 | | | | 16,691.96 | 1.1.424. | | 5,955.64 | 130,986.33 |
| 1.1.123.40 | RESCO Capital Credits | C | 60,737.00 | | | | 9,965.00 | 1.1.424. | | 4,673.00 | 66,029.00 |
| 1.1.123.51 | Co-Bank Patronage | C | 47,317.52 | | | | | 1.1.424. | | | 47,317.52 |
| 1.1.123.60 | Federated Rural Electric | C | 113,565.01 | | | | 34,000.00 | 1.1.424. | (10,000.00) | 17,060.00 | 120,505.01 |
| 1.1.123.8 | CRC Patronage (Was in 1.3.123.22 in 2013) | | 14,629.78 | | | | 3,509.00 | 1.1.424 | | 702.00 | 17,436.78 |
| Total Investments/Patronage Capital | | | 36,578,167.99 | 452,476.45 | 0.00 | 2,693,700.00 | 155,855.04 | 0.00 | 0.00 | 712,168.86 | 39,168,030.62 |
| | | | | | | | | | Total Other CC | 155,855.04 | |

A - Confirmation available on line

B- -Confirmation Letter Enclosed

C-Under \$250,000 - No Confirmation Requested

**Note-Portland Federal Credit Union was closed on 10/29 & 10/30 for computer upgrades so CFC Capital Credit allocation on 9/09 CFC audit confirmation, but cash actually in our bank on 10/1/09

| | | | |
|---|---|--|------------------------------|
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|---|---|--|------------------------------|

RECEIVABLES FROM ASSOCIATED COMPANIES (Accounts 145, 146)

- | | |
|---|--|
| <p>1. Report particulars of notes and accounts receivable from associated companies* at end of year.</p> <p>2. Provide separate headings and totals for Accounts 145, Notes Receivable from Associated Companies, and 146, Accounts Receivable from Associated Companies, in addition to a total for the combined accounts.</p> <p>3. For notes receivable, list each note separately and state purpose for which received. Show also in column (a) date of note, date of maturity and interest rate.</p> | <p>4. If any note was received in satisfaction of an open account, state the period covered by such open account.</p> <p>5. Include in column (f) interest recorded as income during the year including interest on accounts and notes held any time during the year.</p> <p>6. Give particulars of any notes pledged or discounted, also of any collateral held as guarantee of payment of any note or account.</p> |
|---|--|

* NOTE: "Associated companies" means companies or persons that, directly or indirectly, through one or more intermediaries, control, or are controlled by, or are under common control with, the account company. This includes related parties.

"Control" (including the terms "controlling," "controlled by," and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement, and whether such power is established through a majority or minority ownership or voting of securities, common directors, officers or stockholders, voting trusts, holding trusts, associated companies, contract or any other direct or indirect means.

| Line No. | Particulars (a) | Balance Beginning of Year (b) | Totals for Year | | Balance End of Year (e) | Interest for Year (f) |
|----------|-----------------|-------------------------------|-----------------|-------------|-------------------------|-----------------------|
| | | | Debits (c) | Credits (d) | | |
| 1 | N/A | | | | | |
| 2 | | | | | | |
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| 24 | | | | | | |
| 25 | TOTAL | | | | | |

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|--|---|--|------------------------------|
| Name of Respondent HomeWorks Tri-County Electric Co | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 |
|--|---|--|------------------------------|

ALLOWANCES

- | | |
|--|--|
| <p>1. Report below the details called for concerning allowances. 2. Report all acquisitions of allowances at cost. 3. Report allowances in accordance with a weighted average cost allocation method and other accounting as prescribed by General Instruction No. 21 in the Uniform System of Accounts. 4. Report the allowances transactions by the period they are first</p> | <p>eligible for use; the current year;s allowances in columns (b)-(c), allowances for the three succeeding years in column(d)-(i), starting with the following year, and allowances for the remaining succeeding years in columns (j)-(k). 5. Report on line 4 the Environmental Protection Agency (EPA) issued allowances. Report withheld portions on lines 36-40.</p> |
|--|--|

| Line No. | Allowance Inventory N/A | Current Year | | 20__ | |
|----------|--|--------------|----------|---------|----------|
| | | No. (b) | Amt. (c) | No. (d) | Amt. (e) |
| 1 | Balance - Beginning of Year | | | | |
| 2-4 | Acquired During Year: Issued (Less Withheld Allow.) | | | | |
| 5 | Returned by EPA | | | | |
| 6-8 | Purchases/Transfers: | | | | |
| 9 | | | | | |
| 10 | | | | | |
| 11 | | | | | |
| 12 | | | | | |
| 13 | | | | | |
| 14 | | | | | |
| 15 | Total | | | | |
| 16-18 | Relinquished During Year: Charges to Acct. 509 | | | | |
| 19 | Other: | | | | |
| 20 | | | | | |
| 21-22 | Cost of Sales/Transfers: | | | | |
| 23 | | | | | |
| 24 | | | | | |
| 25 | | | | | |
| 26 | | | | | |
| 27 | | | | | |
| 28 | Total | | | | |
| 29 | Balance - End of Year | | | | |
| 30-32 | Sales: | | | | |
| | Net Sales Proceeds (Assoc Co.) | | | | |
| 33 | Net Sales Proceeds (Other) | | | | |
| 34 | Gains | | | | |
| 35 | Losses | | | | |
| | Allowances Withheld | | | | |
| 36 | Balance - Beginning of Year | | | | |
| 37 | Add: Withheld by EPA | | | | |
| 38 | Deduct: Returned by EPA | | | | |
| 39 | Cost of Sales | | | | |
| 40 | Balance - End of Year | | | | |
| 41-43 | Sales: | | | | |
| | Net Sales Proceeds (Assoc. Co.) | | | | |
| 44 | Net Sales Proceeds (Other) | | | | |
| 45 | Gains | | | | |
| 46 | Losses | | | | |

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|---|---|--|------------------------------|
| Name of Respondent HomeWorks Tri-County Electric Coope | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 |
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ALLOWANCES (Continued)

6. Report on line 5 allowances returned by the EPA. Report on line 39 the EPA's sales of the withheld allowances. Report on lines 43-46 the net sales or auction of the withheld allowances.

7. Report on lines 8-14 the names of vendors/transfers of allowances acquired and identify associated companies (See "associated co." under "Definitions" in Uniform System of Accounts).

8. Report on lines 22-27 the names of purchasers/transfers of allowances disposed of and identify associated companies.

9. Report the net costs and benefits of hedging transactions on a separate line under purchases/transfers and sales/transfers.

10. Report on lines 32-35 & 43-46 the net sales proceeds and gains or losses from allowance sales.

| 20__ | | 20__ | | Future Years | | Totals | | Line No. |
|------------|----------|---------|----------|--------------|----------|---------|----------|----------|
| No. (f) | Amt. (g) | No. (h) | Amt. (i) | No. (j) | Amt. (k) | No. (l) | Amt. (m) | |
| | | | | | | | | 1 |
| N/A | | | | | | | | 2-4 |
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| Name of Respondent HomeWorks Tri-County Electric Cooperative | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 |
|--|--|--|---|
| LONG-TERM DEBT (Accounts 221, 222, 223 and 224) | | | |
| <p>1. Report by balance sheet account the particulars (details) concerning long-term debt included in Accounts 221, Bonds, 222, Reacquired Bonds, 223, Advances from Associated Companies, and 224, Other Long-Term Debt.</p> <p>2. In column (a), for new issues, give Commission authorization numbers and dates.</p> <p>3. For bonds assumed by the respondent, include in column (a) the name of the issuing company as well as a description of the bonds.</p> <p>4. For advances from Associated Companies, report separately advances on notes and advances on open accounts. Designate demand notes as such. Include in column (a) names of associated companies from which advances were received.</p> <p>5. For receivers' certificates, show in column (a) the name of the court and date of court order under which such certificates were issued.</p> <p>6. In column (b) show the principal amount of bonds or other long-term debt originally issued.</p> <p>7. In column (c) show the expense, premium or discount with respect to the amount of bonds or other long-term debt originally issued.</p> <p>8. For column (c) the total expenses should be listed first for each issuance, then the amount of premium (in parentheses) or discount. Indicate the premium or discount with a notation, such as (P) or (D). The expenses, premium or discount should not be netted.</p> <p>9. Furnish in a footnote particulars (details) regarding the treatment of unamortized debt expense, premium or discount associated with issues redeemed during the year. Also, give in a footnote the date of the Commission's authorization of treatment other than as specified by the Uniform System of Accounts.</p> | | | |
| Line No. | Class and Series of Obligation, Coupon Rate <i>(For new issue, give Commission Authorization numbers and dates)</i> (a) | Principal Amount of Debt Issued (b) | Total Expense, Premium or Discount (c) |
| 1 | HomeWorks Tri-County Electric has no advances of long term debt from Associated Companies. Attached is the Part O of the Form 7a which shows the long term balances for HomeWorks Tri-County Electric which are not related to Associated Companies. | | |
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| 25 | TOTAL | | |

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|---|---|--|------------------------------|
| Name of Respondent HomeWorks Tri-County Electric Cooperati | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 |
|---|---|--|------------------------------|

LONG-TERM DEBT (Accounts 221, 222, 223 and 224) (Continued)

10. Identify separate undisposed amounts applicable to issues which were redeemed in prior years.
11. Explain any debits and credits other than amortizaiton debited to Account 428, Amortization of Debt-Discout and Expense, or credited to Account 429, *Amortization of Premium on Debt-Credit*.
12. In a footnote, give explanatory particulars (details) for Accounts 223 and 224 of net changes during the year. With respect to long-term advances, show for each company: (a) principal advanced during year, (b) interest added to principal amount, and (c) principal repaid during year. Give Commission authorization numbers and dates.
13. If the respondent has pledged any of its long-term debt securities give particulars (details) in a footnote including name of pledgee and purpose of the pledge.
14. If the respondent has any long-term debt securities which have been nominally issued and are nominally outstanding at end of year, describe such securities in a footnote.
15. If interest expense was incurred during the year on any obligations retired or reacquired before end of year, include such interest expense in column (i). Explain in a footnote any difference between the total of column (i) and the total of Account 427, *Interest on Long-Term Debt*, and Account 430, *Interest on Debt to Associated Companies*.
16. Give particulars (details) concerning any long-term debt authorized by a regulatory commission but not yet issued.

| Nominal Date of Issue (d) | Date of Maturity (e) | AMORTIZATION PERIOD | | Outstanding (Total amount outstanding without reduction for amounts held by respondent) (h) | Interest for Year Amount (i) | Line No. |
|------------------------------|-------------------------|---------------------|----------------|---|---------------------------------|----------|
| | | Date From (f) | Date To (g) | | | |
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|---|---|--|------------------------------|
| Name of Respondent HomeWorks Tri-County Electric Coopera | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 |
|---|---|--|------------------------------|

PAYABLES TO ASSOCIATED COMPANIES* (Accounts 233, 234)

1. Report particulars of notes and accounts payable to associated companies at end of year.
2. Provide separate totals for Accounts 233, Notes Payable to Associated Companies, and 234, Accounts Payable to Associated Companies, in addition to total for the combined accounts.
3. List each note separately and state the purpose for which issued. Show also in column (a) date of note, maturity and interest rate.
4. Include in column (f) the amount of any interest expense during the eyar on notes or accounts that were paid before the end of the year.
5. If collateral has been pledged as security to the payment of any note or account, describe such collateral.

***See definition on page 226B**

| Line No. | Particulars (a) | Balance Beginning of Year (b) | Totals for Year | | Balance End of Year (e) | Interest for Year (f) |
|----------|---|----------------------------------|-----------------|----------------|----------------------------|--------------------------|
| | | | Debits (c) | Credits (d) | | |
| 1 | Accounts PayableTri-Co Services | (37,125) | 5,380,244 | 5,405,705 | (62,587) | |
| 2 | | | | | | |
| 3 | Line of Credit Tri-Co Services | (1,200,000) | 4,075,000 | 2,875,000 | 0 | 18,211 |
| 4 | Date of Note: 9/1/2015 | | | | | |
| 5 | Maturity: 9/1/2016 - Automatically Renews Each Year | | | | | |
| 6 | Interest Rate: Variable - Rate on 12/31/15 was 1.7285%. At no time shall this interest rate fall below the Applicable | | | | | |
| 7 | Federal Rate (AFR). | | | | | |
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| 23 | | | | | | |
| | TOTAL | (1,237,125) | 9,455,244 | 8,280,705 | (62,587) | 18,211 |

| | | | |
|---|---|--|------------------------------|
| Name of Respondent HomeWorks Tri-County Electric Cooperative | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 |
|---|---|--|------------------------------|

RECONCILIATION OF REPORTED NET INCOME WITH TAXABLE INCOME FOR FEDERAL INCOME TAXES

1. Report the reconciliation of reported net income for the year with taxable income used in computing Federal income tax accruals and show computation of such tax accruals. Include in the reconciliation, as far as practicable, the same detail as furnished on Schedule M-1 of the tax return for the year. Submit a reconciliation even though there is no taxable income for the year. Indicate clearly the nature of each reconciling amount.

2. If the utility is a member of a group which files a consolidated Federal tax return, reconcile reported net income with taxable net income as if a separate return were to be filed, indicating, however, intercompany amounts to be eliminated in such a consolidated return. State names of group members, tax assigned to each group member, and basis of allocation, assignment, or sharing of the consolidated tax among the group members.

| Line No. | N/A | TOTAL AMOUNT |
|----------|---|--------------|
| 1 | Utility net operating income (page 114 line 20) | |
| 2 | Allocations: Allowance for funds used during construction | |
| 3 | Interest expense | |
| 4 | Other (specify) | |
| 5 | Net income for the year (page 117 line 68) | |
| 6 | Allocation of Net income for the year | |
| 7 | Add: Federal income tax expenses | |
| 8 | | |
| 9 | Total pre-tax income | |
| 10 | | |
| 11 | Add: Taxable income not reported on books: | |
| 12 | | |
| 13 | | |
| 14 | | |
| 15 | Add: Deductions recorded on books not deducted from return | |
| 16 | | |
| 17 | | |
| 18 | | |
| 19 | Subtract: Income recorded on books not included in return: | |
| 20 | | |
| 21 | | |
| 22 | | |
| 23 | Subtract: Deductions on return not charged against book income: | |
| 24 | | |
| 25 | | |
| 26 | Federal taxable income for the year | |

| | | | |
|---|---|--|------------------------------|
| Name of Respondent HomeWorks Tri-County Electric Cooperative | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A resubmission | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 |
|---|---|--|------------------------------|

RECONCILIATION OF REPORTED NET INCOME WITH TAXABLE INCOME FOR FEDERAL INCOME TAXES (Continued)

3. Allocate taxable income between utility and other income as required to allocate tax expense between 409.1 and 409.2
4. A substitute page, designed to meet a particular need of a company, may be used as long as data is consistent and meets the requirements of the above instructions.

| Utility | Other | Line No. |
|---------|-------|----------|
| N/A | | 1 |
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|---|---|--|------------------------------|
| Name of Respondent HomeWorks Tri-County Electric Cooperative | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 |
|---|---|--|------------------------------|

GAIN OR LOSS ON DISPOSITION OF PROPERTY (Account 421.1 and 421. 2)

1. Give a brief description of property creating the gain or loss. Include name of party acquiring the property (when acquired by another utility or associated company) and the date transaction was completed. Identify property by type: Leased, Held for Future Use, or Nonutility.
2. Individual gains or losses relating to property with an original cost of less than \$100,000 may be grouped with the number of such transactions disclosed in column (a).
3. Give the date of Commission approval of journal entries in column (b), when approval is required. Where approval is required but has not been received, give explanation following the item in column (a). (See account 102, Utility Plant Purchased or Sold.)

| Line No. | Description of Property (a) | Original Cost of Related Property (b) | Date Journal Entry Approved (When Required) (c) | Account 421.1 (d) | Account 421.2 (e) |
|----------|----------------------------------|--|--|----------------------|----------------------|
| 1 | Gain on disposition of property: | | | | |
| 2 | | | | | |
| 3 | Various Equipment: 20 Items | 302,271 | | 43,898 | |
| 4 | | | | | |
| 5 | 2009 GMC C5500 Truck | 105,763 | | 3,272 | |
| 6 | 2001 Interernational Truck | 145,712 | | 7,600 | |
| 7 | | | | | |
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| 17 | Total Gain | 553,745 | | 54,770 | |

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| Name of Respondent HomeWorks Tri-County Electric Cooperative | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 |
|---|---|--|------------------------------|

GAIN OR LOSS ON DISPOSITION OF PROPERTY (Account 421.1 and 421.2) (Continued)

| Line No. | Description of Property (a) | Original Cost of Related Property (b) | Date Journal Entry Approved (When Required) (c) | Account 421.1 (d) | Account 421.2 (e) |
|----------|----------------------------------|--|--|----------------------|----------------------|
| 18 | Loss on disposition of property: | | | | |
| 19 | | | | | |
| 20 | Various Equipment: 3 Items | 10,572 | | | 1,333 |
| 21 | | | | | |
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| 23 | | | | | |
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| 34 | Total Loss | 10,572 | | | 1,333 |

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| Name of Respondent HomeWorks Tri-County Electric Coop | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 |
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CHARGES FOR OUTSIDE PROFESSIONAL AND OTHER CONSULTATIVE SERVICES

1. Report the information specified below for all charges made during the year included in any account (including plant accounts) for outside consultative and other professional services. (These services include rate, management, construction, engineering research, financial, valuation, legal, accounting, purchasing, advertising, labor relations, and public relations, rendered the respondent under written or oral arrangement, for which aggregate payments were made during the year to any corporation, partnership, organization of any kind, or individual (other than for services as an employee or for payments made for medical and related services) amounting to more than \$25,000, including payments for legislative services, except those which should be reported in Account

426.4, Expenditures for Certain civic, Political and Related Activities.)
(a) Name and address of person or organization rendering services,
(b) description of services received during year and project or case to which services relate,
(c) basis of charges,
(d) total charges for the year, detailing utility department and account charged.

2. For any services which are of a continuing nature, give the date and term of contract and date of Commission authorization, if contract received Commission approval.

3. Designate with an asterisk associated companies.

| Line No. | Name / Address | Service | Basis of Charges | Acct # | Amount |
|----------|-------------------------------|-----------------------|------------------|--------|---------|
| 1 | Michigan Electric Cooperative | Legal, Advertising, | Various | 923 | 659,138 |
| 2 | Association | Energy Optimization, | | 921 | |
| 3 | 201 Townsend Suite 900 | Legislative Services, | | 580 | |
| 4 | Lansing MI 48933 | Training | | 583 | |
| 5 | | | | 908's | |
| 6 | | | | | |
| 7 | Eide Bailly | Auditors | Contract | 923 | 41,300 |
| 8 | 4310 17th Ave S | | | | |
| 9 | PO Box 2545 | | | | |
| 10 | Fargo NI 58108-2545 | | | | |
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| Name of Respondent HomeWorks Tri-County Electric Coope | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 |
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SUMMARY OF COSTS BILLED TO ASSOCIATED COMPANIES

1. In column (a) report the name of the associated company.
 2. In column (b) describe the affiliation (percentage ownership, etc.).
 3. In column (c) describe the nature of the goods and services provided (administrative and general expenses, dividends declared, etc.).
 4. In columns (d) and (e) report the amount classified to operating income and the account(s) in which reported.

| Line No. | Company (a) | Affiliation (b) | Description: Nature of Goods and Services (c) | Account Number (d) | Amount Classified to Operating Income (e) |
|--------------|-----------------|--------------------|---|-----------------------|--|
| 1 | Tri-Co Services | 100% | Administrative, | 1.20.454. | 80,574 |
| 2 | | | Expense Reimbursement, | | |
| 3 | | | Contract Employees, | | |
| 4 | | | Office/Facilities Rent | | |
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| TOTAL | | | | | |

| Name of Respondent HomeWorks Tri-County Electric Coope | | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 | |
|--|--|---|---|---|------------------------------|----------|
| SUMMARY OF COSTS BILLED TO ASSOCIATED COMPANIES (Continued) | | | | | | |
| 5. In columns (f) and (g) report the amount classified to non-operating income and the account(s) in which reported. | | | | reported. | | |
| 6. In columns (h) and (i) report the amount classified to the balance sheet and the account(s) in which | | | | 7. In column (j) report the total. | | |
| | | | | 8. In column (k) indicate the pricing method (cost, per contract terms, etc.) | | |
| Account Number (f) | Amount Classified to Non-Operating Income (g) | Account Number (h) | Amount Classified to Balance Sheet (i) | Total (j) | Pricing Method (k) | Line No. |
| | | | | 80,574 | Cost/Mkt | 1 |
| | | | | | | 2 |
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|---|---|--|------------------------------|
| Name of Respondent HomeWorks Tri-County Electric Coope | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 |
|---|---|--|------------------------------|

SUMMARY OF COSTS BILLED FROM ASSOCIATED COMPANIES

- | | |
|---|---|
| <p>1. In column (a) report the name of the associated company.</p> <p>2. In column (b) describe the affiliation (percentage ownership, etc.).</p> <p>3. In column (c) describe the nature of the goods and</p> | <p>services provided (administrative and general expenses, dividends declared, etc.).</p> <p>4. In columns (d) and (e) report the amount classified to operating income and the account(s) in which reported.</p> |
|---|---|

| Line No. | Company (a) | Affiliation (b) | Description: Nature of Goods and Services (c) | Account Number (d) | Amount Classified to Operating Income (e) |
|--------------|----------------|--------------------|---|-----------------------|--|
| 1 | N/A | | | | |
| 2 | | | | | |
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| TOTAL | | | | | |

| | | | |
|--|---|--|------------------------------|
| Name of Respondent HomeWorks Tri-County Electric Coop | This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission | Date of Report (Mo, Da, Yr) 04/01/16 | Year of Report 12/31/2015 |
|--|---|--|------------------------------|

SUMMARY OF COSTS BILLED TO ASSOCIATED COMPANIES (Continued)

5. In columns (f) and (g) report the amount classified to non-operating income and the account(s) in which reported.
6. In columns (h) and (i) report the amount classified to the balance sheet and the account(s) in which reported.

7. In column (j) report the total.
8. In column (k) indicate the pricing method (cost, per contract terms, etc.)

| Account Number (f) | Amount Classified to Non-Operating Income (g) | Account Number (h) | Amount Classified to Balance Sheet (i) | Total (j) | Pricing Method (k) | Line No. |
|-----------------------|--|-----------------------|---|--------------|-----------------------|----------|
| N/A | | | | | | 1 |
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Financial Statements
December 31, 2015 and 2014

Tri-County Electric Cooperative, Inc.

Tri-County Electric Cooperative, Inc.

Table of Contents

December 31, 2015 and 2014

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Independent Auditor's Report

The Board of Directors
Tri-County Electric Cooperative, Inc.
Portland, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Tri-County Electric Cooperative, Inc., which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

As more fully described in Note 6 to the financial statements, the Cooperative reports its investment in Tri-Co Services, Inc., a wholly owned subsidiary, on the equity method of accounting. In our opinion, accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be accounted for as consolidated subsidiaries. If the financial statements of Tri-Co Services, Inc. had been consolidated with those of Tri-County Electric Cooperative, Inc., total assets and total liabilities and equities would be increased by \$1,452,504 and \$106,879 as of December 31, 2015 and 2014, and revenues and expenses would be increased by \$4,110,855 and \$5,275,135 for the years then ended.

Qualified Opinion

In our opinion, except for the effects of not consolidating Tri-Co Services, Inc., as discussed in the above paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Tri-County Electric Cooperative, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
March 25, 2016

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| | 2015 | 2014 |
|--|-----------------------|-----------------------|
| Assets | | |
| Electric Plant | | |
| In service | \$ 98,946,139 | \$ 96,373,947 |
| Under construction | 251,363 | 189,505 |
| | <u>99,197,502</u> | <u>96,563,452</u> |
| Total electric plant | | |
| Less accumulated depreciation | 30,807,744 | 29,674,872 |
| | <u>68,389,758</u> | <u>66,888,580</u> |
| | | |
| Other Property and Investments | | |
| Non utility property | 3,300 | 3,300 |
| Investments in associated organizations | 31,876,801 | 29,539,414 |
| Investment in subsidiary | 7,291,231 | 7,038,752 |
| | <u>39,171,332</u> | <u>36,581,466</u> |
| | | |
| Current Assets | | |
| Cash and cash equivalents | 1,651,120 | 1,262,705 |
| Accounts receivable, less allowance for doubtful accounts of \$227,900 and \$242,000 in 2015 and 2014, respectively | 3,272,454 | 3,393,625 |
| Unbilled revenue | 2,586,996 | 2,759,312 |
| Notes receivable | 122,022 | 132,300 |
| PSCR undercollection | - | 188,901 |
| Inventories | 697,008 | 720,077 |
| Prepaid expenses | 121,162 | 310,326 |
| Interest receivable | 19,446 | 19,446 |
| | <u>8,470,208</u> | <u>8,786,692</u> |
| | | |
| Deferred Debits | <u>2,157,737</u> | <u>2,322,287</u> |
| | <u>\$ 118,189,035</u> | <u>\$ 114,579,025</u> |

See Notes to Financial Statements

Tri-County Electric Cooperative, Inc.
Balance Sheets
December 31, 2015 and 2014

| | 2015 | 2014 |
|---|----------------|----------------|
| Equities and Liabilities | | |
| Equities | | |
| Patronage capital | \$ 49,584,596 | \$ 48,414,502 |
| Other equities | 10,707,456 | 10,343,881 |
| Total equities | 60,292,052 | 58,758,383 |
| Long-Term Debt, Less Current Portion | 45,262,826 | 42,810,454 |
| Other Noncurrent Liabilities | | |
| Accrued post-retirement benefits | 836,629 | 885,737 |
| Current Liabilities | | |
| Line of credit | - | 1,200,000 |
| Current portion of long-term debt | 2,034,805 | 1,911,049 |
| Current portion of post-retirement benefits | 85,000 | 85,000 |
| Accounts payable - purchased power | 2,777,846 | 2,520,168 |
| Accounts payable - other | 927,836 | 1,385,659 |
| Patronage capital credits payable | 253,825 | 215,261 |
| PSCR overcollection | 545,686 | - |
| Customer deposits | 538,512 | 529,281 |
| Accrued payroll and related items | 910,542 | 828,597 |
| Accrued taxes | 667,218 | 657,211 |
| Accrued interest | 417,452 | 417,910 |
| Other accrued liabilities | 30,392 | 25,396 |
| Total current liabilities | 9,189,114 | 9,775,532 |
| Deferred Credits | 2,608,414 | 2,348,919 |
| | \$ 118,189,035 | \$ 114,579,025 |

Tri-County Electric Cooperative, Inc.
 Statements of Operations
 Years Ended December 31, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| Operating Revenues | \$ 44,700,506 | \$ 45,420,402 |
| Operating Expenses | | |
| Cost of power | 29,113,834 | 29,675,754 |
| Distribution - operation | 1,561,195 | 1,266,453 |
| Distribution - maintenance | 3,106,731 | 3,251,513 |
| Customer accounts | 758,237 | 755,649 |
| Customer service | 1,654,498 | 1,513,235 |
| Administrative and general | 2,270,562 | 2,254,233 |
| Depreciation and amortization | 2,831,276 | 2,858,262 |
| Interest expense | 1,762,118 | 1,858,264 |
| Taxes - property | 1,060,305 | 1,032,873 |
| | <u>44,118,756</u> | <u>44,466,236</u> |
| Operating Income Before Capital Credits | 581,750 | 954,166 |
| Generation and Transmission and Other Cooperative Capital Credits | <u>2,849,555</u> | <u>2,201,611</u> |
| Net Operating Margins | <u>3,431,305</u> | <u>3,155,777</u> |
| Nonoperating Margins | | |
| Interest income | 87,272 | 93,192 |
| Income from subsidiary | 452,479 | 215,573 |
| Other income, net | 58,468 | 14,004 |
| | <u>598,219</u> | <u>322,769</u> |
| Net Margins | <u>\$ 4,029,524</u> | <u>\$ 3,478,546</u> |

Tri-County Electric Cooperative, Inc.
 Statements of Members' Equity
 Years Ended December 31, 2015 and 2014

| | Patronage Capital | Other | Tri-Co Services | Total |
|----------------------------|----------------------|---------------------|---------------------|----------------------|
| Balance, December 31, 2013 | \$ 46,432,631 | \$ 3,063,661 | \$ 7,173,179 | \$ 56,669,471 |
| Net margin | 3,262,973 | - | 215,573 | 3,478,546 |
| Capital credits retired | (1,481,102) | - | - | (1,481,102) |
| Donated capital credits | - | 91,468 | - | 91,468 |
| Dividends allocated | 200,000 | - | (200,000) | - |
| Balance, December 31, 2014 | 48,414,502 | 3,155,129 | 7,188,752 | 58,758,383 |
| Net margin | 3,577,045 | - | 452,479 | 4,029,524 |
| Capital credits retired | (2,606,951) | - | - | (2,606,951) |
| Donated capital credits | - | 111,096 | - | 111,096 |
| Dividends allocated | 200,000 | - | (200,000) | - |
| Balance, December 31, 2015 | <u>\$ 49,584,596</u> | <u>\$ 3,266,225</u> | <u>\$ 7,441,231</u> | <u>\$ 60,292,052</u> |

Tri-County Electric Cooperative, Inc.
 Statements of Cash Flows
 Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|--------------|--------------|
| Operating Activities | | |
| Net margins | \$ 4,029,524 | \$ 3,478,546 |
| Adjustments to reconcile net margins to net cash from operating activities | | |
| Depreciation | 3,066,092 | 3,125,438 |
| Amortization of retirement security prepayment | 143,662 | 143,662 |
| Loss (gain) on disposition of plant, net | (53,438) | 12,812 |
| Income from subsidiary | (452,479) | (215,573) |
| Noncash patronage capital allocations | (2,849,555) | (2,201,611) |
| Deferred gain from insurance proceeds | (3,503) | (24,353) |
| Post-retirement and pension benefits | 33,495 | 120,231 |
| Changes in assets and liabilities | | |
| Accounts receivable | 293,487 | (118,470) |
| Refunds payable to customers | 734,587 | (293,146) |
| Notes receivable | 10,278 | 15,075 |
| Prepaid expenses | 189,164 | (13,411) |
| Interest receivable | - | 5,625 |
| Deferred debits | 20,888 | (214,289) |
| Accounts payable | (200,145) | 410,326 |
| Customer deposits | 9,231 | (5,813) |
| Accrued expenses and taxes | 135,054 | (11,112) |
| Deferred credits | 259,495 | 97,130 |
| Net Cash from Operating Activities | 5,365,837 | 4,311,067 |
| Investing Activities | | |
| Additions to, and costs of retirements of, utility plant | (4,614,615) | (4,220,085) |
| Proceeds from sale of general plant and scrap | 104,285 | 90,324 |
| Cash received from other property and investments | 512,169 | 1,275,325 |
| Dividend received from subsidiary | 200,000 | 200,000 |
| Change in inventories | 23,069 | (60,486) |
| Net Cash used for Investing Activities | (3,775,092) | (2,714,922) |
| Financing Activities | | |
| Principle payments on long-term debt | (1,923,872) | (1,848,904) |
| Issuance of long-term debt | 4,500,000 | 3,000,000 |
| Payments on line of credit | (1,200,000) | (1,550,000) |
| Post-retirement benefits paid | (82,603) | (86,277) |
| Other equities | 111,096 | 91,468 |
| Patronage capital retired | (2,606,951) | (1,481,102) |
| Net Cash used for Financing Activities | (1,202,330) | (1,874,815) |

Tri-County Electric Cooperative, Inc.
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| Net Change in Cash and Cash Equivalents | 388,415 | (278,670) |
| Cash and Cash Equivalents at Beginning of Year | <u>1,262,705</u> | <u>1,541,375</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 1,651,120</u> | <u>\$ 1,262,705</u> |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid for interest | <u>\$ 1,902,864</u> | <u>\$ 1,899,139</u> |

Note 1 - Summary of Significant Accounting Policies

Principal Business Activity

Tri-County Electric Cooperative, Inc. dba HomeWorks (the Cooperative), a Michigan corporation, provides for the electric energy needs of its members, the rural residents of the central Michigan area.

Consolidation Policy and Preparation of Financial Statements

The financial statements of the Cooperative have been prepared on the accrual basis of accounting. The Cooperative reports its investment in its wholly owned subsidiary, Tri-Co Services, Inc., using the equity method. Accounting principles generally accepted in the United States of America require wholly owned subsidiaries to be consolidated. In arriving at the decision not to consolidate its subsidiary, management concluded that since the primary users of the statements are the Board of Directors, management and members, consolidation of the subsidiary's statements would tend to obscure the financial position and activities of the Cooperative.

Regulation

As of April 6, 2010, the Cooperative is self-regulated for rates, billing practices, and accounting standards. All other aspects of electric service continue to be regulated by the Michigan Public Service Commission. The Cooperative's accounting policies and the accompanying financial statements, except as noted above, conform to generally accepted accounting principles applicable to rate-regulated enterprises and reflect the effects of the ratemaking process.

As a result of the ratemaking process, the Cooperative applies Accounting Standards Codification (ASC) 980, *Regulated Operations*. The application of generally accepted accounting principles by the Cooperative differs in certain respects from the application by non-regulated businesses as a result of applying ASC 980. Such differences generally relate to the time at which certain items enter into the determination of net margins in order to follow the principle of matching costs and revenues.

Electric Plant and Retirements

Electric plant is stated at cost less contributions in aid of construction. The cost of additions to electric plant includes contracted work, direct labor and materials and allocable overheads. When units of property that are specifically identifiable are retired, sold or otherwise disposed of in the ordinary course of business, their book cost less net salvage is recognized as a gain or loss. All other units of property that 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. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance expense.

Depreciation

Depreciation is computed using the straight-line method based upon the estimated useful lives of the various classes of property.

Cash and Cash Equivalents

Short-term highly liquid investments that are readily converted to known amounts of cash and present insignificant risks of changes in value are considered cash equivalents. Investments in commercial paper are considered cash equivalents and valued at cost which approximates market.

Investments

Investments in other cooperatives and associated organizations are recorded at initial cost including allocated equities. Other investments representing less than a 20% ownership interest are recorded at cost. The Cooperative's investment in its wholly owned subsidiary, Tri-Co Services, Inc., is recorded using the equity method. Under this method, the investment is adjusted for the subsidiary's underlying earnings and losses.

Receivables and Credit Policies

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 21 days from the billing date. Unpaid trade receivables with dates over 30 days old are assessed a late fee of 2% (residential) or 5% (large power and general service) of the unpaid balance or the amount of the bill less tax, whichever is less. Non-interest bearing notes receivable are stated at principal balance and are collateralized by equipment.

Payments on trade and notes receivables are allocated to the earliest unpaid billings. The carrying amounts of trade receivables are reduced by a valuation allowance that reflects management's best estimate of the amount that will not be collected. Management reviews all trade receivable balances periodically and adjusts the allowance accounts based on current economic conditions and past experience.

Materials and Supplies

Material and supplies are stated at average moving cost.

Deferred Debits

Deferred debits consist primarily of a retirement security prepayment made to ensure proper funding of the Retirement Security Plan which is being amortized over the remaining service life of the employees, generally 15 and 20 years. Deferred debits also include loan conversion fees resulting from the conversion of some long term CFC loans to lower interest rates. Conversion fees are being amortized over the average remaining life of the loans that were converted which was approximately 22 years.

Patronage Capital

The Cooperative operates on a nonprofit basis. Amounts received from the furnishing of electric energy in excess of operating costs and expenses are assigned to patrons on a patronage basis. All other amounts received by the Cooperative from its operations in excess of costs and expenses are also allocated to its patrons on a patronage basis to the extent they are not needed to offset current or prior losses, at the discretion and determination of the board of directors.

Revenue Recognition and Unbilled Revenues

The Cooperative recognizes revenue on members' unbilled accounts based upon estimated usage in the current billing cycle.

Power Costs

Power costs include all power delivered to the Cooperative, regardless of whether the power supplier has billed the Cooperative for power delivered.

Deferred Credits

Deferred credits consist primarily of deferred gains on early extinguishment of debt, deferred gains related to insurance proceeds, customer advances on construction, advance payments made by consumers in connection with electric service, unclaimed capital credit checks and over collection of costs related to the energy optimization program. Deferred gains on early extinguishment of debt are amortized over the remaining term of the original debt. Deferred gains from insurance proceeds are amortized over the useful lives of the assets replaced.

Post-Retirement Benefits

The Cooperative sponsors an unfunded defined benefit post-retirement health plan that covers certain employees who retire after obtaining age 62 and 15 years of service. Spouses of beneficiaries are also included, with coverage continuing to the spouse after the beneficiaries' death. The Cooperative's share of the estimated costs of benefits that will be paid after retirement is being accrued by charges to expense accounts over the employees' active service periods to dates they are fully eligible for benefits.

Business and Credit Risk

Financial instruments which potentially subject the Cooperative to concentrations of credit risk consist primarily of temporary cash instruments and trade receivables. The Cooperative provides electrical service on account to its members which are located primarily in the central Michigan area. The Cooperative has established policies for extending the credit based upon factors surrounding the credit risk of specified customers, historical trends and other information. Concentrations of credit risk with respect to trade receivables are limited due to the Cooperative's large number of customers. Nonetheless, the Cooperative's ability to collect from its members is affected by the economic conditions in which it operates.

The Cooperative maintains its temporary cash investments and cash balances with high credit quality financial institutions. Although such investments and cash balances may exceed the federally insured limit of \$250,000 from time to time, they are, in the opinion of management, subject to minimal risk.

Accounting Estimates

The preparation of 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 financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Sales Taxes

The Cooperative has customers in a state which imposes a sales tax on certain sales. The Cooperative collects those sales taxes from its customers and remits the entire amount to the state of Michigan. The Cooperative's accounting policy is to exclude the tax collected and remitted from revenue and cost of revenue.

Fair Value Measurements

Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* which provides a framework for measuring fair value under generally accepted accounting principles, became effective to Cooperative as of January 1, 2008. In accordance with the provision of ASC 820-10, the Cooperative has deferred the adoption of ASC 820 for one year for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. Therefore, the Cooperative adopted ASC 820 on January 1, 2009. There was no adjustment to financial assets as a result of the adoption of ASC 820.

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 the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 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.

The Cooperative does not have any assets or liabilities subject to the level 1, 2, or 3 valuation as of December 31, 2015 and 2014 and does not anticipate participating in transactions of this type in the future.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The Cooperative is exempt from federal income tax under Section 501(c)(12) of the United States Internal Revenue Code, therefore no provision for federal income tax is recorded. However, income from unrelated business activities is subject to income tax at normal corporate rates.

The Cooperative has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10, effective January 1, 2009. Implementation resulted in no cumulative effect adjustment to retained earnings as of the date of adoption. The Cooperative had no unrecognized tax benefits as of December 31, 2015 and 2014.

The Cooperative will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if such penalties and interest are incurred. Under normal circumstances, the Cooperative is no longer subject to Federal and State tax examinations by tax authorities for years before 2012.

The Cooperative undergoes an annual analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with relevant tax authorities, as defined by ASC 740-10.

Subsequent Events

The Cooperative has evaluated subsequent events through March 25, 2016, the date which the financial statements were available to be issued.

Note 2 - Electric Plant and Depreciation

Major classes of electric plant at December 31, 2015 and 2014 consist of the following:

| | 2015 | 2014 |
|--|---------------|---------------|
| General plant | \$ 7,938,392 | \$ 8,208,244 |
| Distribution plant | 90,565,167 | 87,753,719 |
| Intangible plant | 442,580 | 411,984 |
| Electric plant in service | 98,946,139 | 96,373,947 |
| Construction in progress | 251,363 | 189,505 |
| Total electric plant | 99,197,502 | 96,563,452 |
| Less accumulated depreciation and amortization | 30,807,744 | 29,674,872 |
| Electric plant - net | \$ 68,389,758 | \$ 66,888,580 |

Electric plant depreciation rates have been applied on a straight-line basis as follows:

| | |
|-----------------------------|--------------|
| Structures and improvements | 1.9 - 20.0% |
| Office furniture equipment | 4.0 - 33.3% |
| Transportation equipment | 10.0 - 20.0% |
| Power operated equipment | 4.0 - 25.0% |
| Communication equipment | 10.0 - 33.3% |
| Other general plant | 4.0 - 10.0% |

Depreciation charges at December 31, 2015 and 2014 were as follows:

| | 2015 | 2014 |
|---|--------------|--------------|
| Charged to operations | | |
| Classified as depreciation and amortization | \$ 2,834,780 | \$ 2,882,615 |
| Classified in other operating expenses | 33,995 | 30,077 |
| | 2,868,775 | 2,912,692 |
| Charged to transportation | 197,317 | 212,746 |
| Total | \$ 3,066,092 | \$ 3,125,438 |

Note 3 - Materials and Supplies

Materials and supplies at December 31, 2015 and 2014, consist of the following:

| | 2015 | 2014 |
|--------------------|------------|------------|
| Electric materials | \$ 677,518 | \$ 692,078 |
| Water heaters | 19,490 | 27,999 |
| | \$ 697,008 | \$ 720,077 |

Note 4 - Investments in Associated Organizations

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

| | 2015 | 2014 |
|---|---------------|---------------|
| Wolverine Power Supply Coop., Inc. - capital credits | \$ 28,695,230 | \$ 26,420,592 |
| National Rural Utilities Cooperative Finance Corporation | | |
| Capital term certificates maturing at various times through October 1, 2080, at interest rates between 0% and 5.0% | 1,875,754 | 1,894,625 |
| Patronage capital credits | 1,275,217 | 1,203,597 |
| Other memberships and investments | 30,600 | 20,600 |
| | \$ 31,876,801 | \$ 29,539,414 |

Note 5 - Deferred Debits

| | 2015 | 2014 |
|---|--------------|--------------|
| Energy optimization planning and implementation | \$ - | \$ 2,987 |
| Retirement security prepayment | 1,913,533 | 2,057,195 |
| Miscellaneous | - | 6,364 |
| Unamortized loan exp - CFC conversion | 244,204 | 255,741 |
| | \$ 2,157,737 | \$ 2,322,287 |

Note 6 - Investment in Subsidiary

The Cooperative reports its investment in its wholly owned subsidiary, Tri-Co Services, Inc., using the equity method. Accounting principles generally accepted in the United States of America require wholly owned subsidiaries to be consolidated. In arriving at the decision not to consolidate its subsidiary, management concluded that since the primary users of the statements are the Board of Directors, management and members, consolidation of the subsidiary's statements would tend to obscure the financial position and activities of the Cooperative. Inclusion of the following condensed financial information of the subsidiary as of and for the years ended December 31, 2015 and 2014 permits users of these statements to be more fully informed.

Financial information related to Tri-Co Services, Inc. at December 31, 2015 and 2014 is as follows:

| | 2015 | 2014 |
|-------------------------------|--------------|--------------|
| Balance Sheet | | |
| Current assets | \$ 4,305,841 | \$ 3,935,397 |
| Investments and other assets | 4,500,481 | 4,447,359 |
| | \$ 8,806,322 | \$ 8,382,756 |
| Current liabilities | \$ 1,097,591 | \$ 990,004 |
| Long-term liabilities | 417,500 | 354,000 |
| Equity | 7,291,231 | 7,038,752 |
| | \$ 8,806,322 | \$ 8,382,756 |
| Operations | | |
| Operating revenues | \$ 4,599,189 | \$ 5,509,759 |
| Operating expenses | (3,985,227) | (5,266,035) |
| Other revenue/(expense) - net | (161,483) | (28,151) |
| Net income/(loss) | \$ 452,479 | \$ 215,573 |

During 2015 and 2014, Tri-Co Services, Inc. declared and paid cash dividends to the Cooperative of \$200,000.

As a result of not consolidating Tri-Co Services, Inc., the Cooperative's financial statements are understated as follows at December 31, 2015 and 2014:

| | 2015 | 2014 |
|------------------------|--------------|--------------|
| Assets and liabilities | \$ 1,452,504 | \$ 106,879 |
| Revenues and expenses | \$ 4,110,855 | \$ 5,275,134 |

Note 7 - Power Supply Cost Recovery

Up until April 2010 the Cooperative was required by the Michigan Public Service Commission to maintain power supply cost recovery over-collections (PSCR) and refundable customer contributions in restricted accounts to be used only for the purpose for which they are intended. As of April 6, 2010, the Cooperative became self-regulated for rates, billing practices, and accounting standards and is no longer subject to this requirement.

Wolverine Power Supply Cooperative, Inc. and the member-distribution cooperatives including Tri-County Electric Cooperative, Inc. and Subsidiary were required to obtain authority to implement and apply PSCR clauses and monthly factors. Because the Cooperative became self-regulated as noted above, the PSCR clauses and monthly factors were approved by the Board of Directors. Tri-County's average monthly factor for residential customers was .00358 and .00192 per KWH during 2015 and 2014, respectively.

Due to fluctuations in market conditions, over-collections or under-collections could result between the generation cooperative and distribution cooperative as well as between the distribution cooperative and their member-consumers. Power cost recovery over-collections must be remedied by refunds and power cost recovery under-collection must be remedied by additional collections.

Note 8 - Patronage Capital

Patronage capital balances at December 31, 2015 and 2014 consisted of the following:

| | 2015 | 2014 |
|------------------|---------------|---------------|
| Assignable | \$ 3,577,045 | \$ 3,262,973 |
| Assigned to date | 60,576,766 | 57,113,793 |
| Total | 64,153,811 | 60,376,766 |
| Retired to date | (14,569,215) | (11,962,264) |
| Balance | \$ 49,584,596 | \$ 48,414,502 |

The mortgage provisions restrict the retirement of patronage capital unless, after retirement, the capital of the Cooperative equals at least 20% of the total assets of the Cooperative; provided, however, that retirements can be made if such distributions do not exceed 30% of the preceding year's margins. No distribution can be made if there is unpaid, when due, any installments of principal or interest on the notes or, if after giving effect to any distribution, the total current and accrued assets would be less than the total current and accrued liabilities. During 2015 and 2014, the Cooperative's capital exceeded 20% of total assets.

Note 9 - Other Equities

Other Equities as of December 31, 2015 and 2014 consist of the following:

| | 2015 | 2014 |
|--------------------------------|--------------|--------------|
| Donated capital memberships | \$ 1,421,752 | \$ 1,310,656 |
| Retired capital credits - gain | 241,262 | 241,262 |
| Pre 1979 margins | 1,603,211 | 1,603,211 |
| | \$ 3,266,225 | \$ 3,155,129 |

Other equities from Tri-Co Services, Inc. consist of the following:

| | 2015 | 2014 |
|--------------------------------------|--------------|--------------|
| Tri-Co Services equity | \$ 7,241,231 | \$ 6,988,752 |
| Unallocated Tri-Co Services dividend | 200,000 | 200,000 |
| | \$ 7,441,231 | \$ 7,188,752 |

Note 10 - Long-Term Debt

Long-term debt at December 31, 2015 and 2014 is as follows:

| | 2015 | 2014 |
|--|---------------|---------------|
| National Rural Utilities Cooperative Finance Corporation (CFC) notes bearing interest at 1.27% to 5.66% per annum. The notes are payable in installments and mature at various times through February 2045. | \$ 47,297,631 | \$ 44,721,503 |
| Less current maturities | (2,034,805) | (1,911,049) |
| Total long-term debt | \$ 45,262,826 | \$ 42,810,454 |

Maturities of long-term debt are as follows:

| Year Ending December 31, | Amount |
|--------------------------|---------------|
| 2016 | 2,034,805 |
| 2017 | 1,525,419 |
| 2018 | 1,565,752 |
| 2019 | 1,607,893 |
| 2020 | 1,670,381 |
| Thereafter | 38,893,381 |
| | \$ 47,297,631 |

The loan agreements with CFC are secured by substantially all assets of the Cooperative and include certain positive and negative covenants with which the Cooperative has complied. Additionally, the Cooperative has available unadvanced loan funds from CFC of \$15,020,682.

The security agreement (mortgage) restricts the Cooperative's debt limit to \$120,000,000.

Note 11 - Lines of Credit

The Cooperative has executed a perpetual, variable rate (2.90% at December 31, 2015) line of credit with CFC, providing it with short-term loans in the total amount of \$5,000,000. There were no outstanding balances on the line at December 31, 2015 and 2014. During 2009, the Cooperative executed an additional variable rate (2.04% at December 31, 2015) line of credit with CFC, providing it with short-term loans in the total amount of \$10,000,000 maturing July 2016. There were no outstanding balances on the line at December 31, 2015 and 2014.

The Cooperative executed a line of credit with Wolverine Power Supply, providing short-term loans in the total amount of \$5,000,000 as of the years ended December 31, 2015 and 2014. The lines are payable within 30 days of demand or in full on December 31, and are renegotiated annually. Interest on each advance accrues monthly at a rate of LIBOR plus 1.25%. There were no outstanding balances on the line as of December 31, 2015 and 2014.

During 2013, the Cooperative executed a variable rate (1.53% at December 31, 2015) line of credit with Tri-Co Services, Inc., a subsidiary of the Company (Note 15) providing it with short-term loans in the total amount of \$2,500,000. This line of credit was renewed as a perpetual, variable rate line of credit in 2015, which is due upon demand. The outstanding balance is \$0 and \$1,200,000 at December 31, 2015 and 2014, respectively.

Note 12 - Retirement Plan

Pension Plan

The National Rural Electric Cooperative Association (NRECA) 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 53-0116145 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Tri-County Electric Cooperative, Inc. contributions to the RS Plan in 2015 and in 2014 represented less than five percent of the total contributions made to the plan by all participating employers. Tri-County Electric Cooperative made contributions to the plan of \$720,000 in 2015 and \$700,000 in 2014. In 2013, the Cooperative made a \$2,344,518 prepayment to the National Rural Electric Cooperative Association for the Retirement Security Plan to enhance the Plan's funded status. With this prepayment, the Cooperative will pay 25% lower premiums than cooperatives in the Retirement Security Plan that did not make a prepayment. The prepayment will be amortized based on the average remaining service life of the respective employee groups, 15 and 20 years. The amortization expense was \$144,000 and \$144,000 for the years ended December 31, 2015 and 2014, respectively.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80 percent funded on January 1, 2015 and over 80 percent funded on January 1, 2014 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Savings Plan

In addition to the above retirement plan, employees of the Cooperative are eligible to participate in the NRECA 401(k) Pension Plan. In 2015, the Cooperative made contributions equal to 4.0% of each employee's base wages. This Cooperative match was an increase from 2014 which was 3.0%. Employees are required to contribute 4.0% of base pay and may voluntarily contribute more if desired. The Cooperative made contributions of \$166,600 and \$122,600 in 2015 and 2014, respectively.

Note 13 - Post-Retirement Benefits other than Pensions

The Cooperative sponsors an unfunded defined benefit post-retirement health plan that covers certain employees who retire after reaching age 62 and 15 years of service. Spouses of beneficiaries are also included, with coverage continuing to the spouse after the beneficiaries' death.

The following table sets forth the change in the post-retirement benefit obligation reconciled with the obligation recognized in the accompanying balance sheet at December 31:

| | 2015 | 2014 |
|---|------------|------------|
| Change in post-retirement benefit obligation | | |
| Accumulated post-retirement benefit obligation at beginning of year | \$ 970,738 | \$ 936,783 |
| Service cost | 1,695 | 1,786 |
| Interest cost | 46,081 | 48,537 |
| Actuarial (gain) loss | (14,282) | 69,909 |
| Benefits paid | (82,603) | (86,277) |
| Accumulated post-retirement benefit obligation at end of year | \$ 921,629 | \$ 970,738 |

The plan is unfunded at December 31, 2015.

Weighted average assumptions as of December 31:

| | 2015 | 2014 |
|---------------|-------|-------|
| Discount rate | 4.24% | 3.81% |

For measurement purposes, a 20.0% annual rate of increase in the cost of covered health care benefits was assumed. The health care cost trend rate assumption has a significant effect on the calculated liability. The Plan does cap monthly health insurance premium costs for both individuals and families for employees that retired after a specific date. A one-percentage point change in assumed health care costs would have the following effect:

| | 1% Point Increase | 1% Point Decrease |
|--|----------------------|----------------------|
| Effect on total service and interest cost components | \$ 1,010 | \$ (970) |
| Effect on post-retirement benefit obligation | \$ 20,183 | \$ (19,410) |

Note 14 - Deferred Credits

| | 2015 | 2014 |
|---|--------------|--------------|
| Customer construction deposits | \$ 356,400 | \$ 363,176 |
| Consumer energy prepayments | 319,842 | 279,745 |
| Unamortized gain on reacquired debt | 75,740 | 171,986 |
| Regulatory liability for fire | 101,106 | 104,609 |
| Energy optimization accrual | 665,222 | 614,221 |
| Unclaimed capital credits | 1,068,341 | 799,106 |
| Prepaid community solar garden investment | 21,763 | 16,076 |
| Total deferred credits | \$ 2,608,414 | \$ 2,348,919 |

Note 15 - Related Party Transactions

The Cooperative provides Tri-Co Services, Inc. a wholly owned subsidiary, with personnel, office space, and other administrative support. Amounts reimbursed for these services during 2015 and 2014 totaled approximately \$955,701 and \$946,417, respectively. Amounts due (to) from Tri-Co Services, Inc. amounted to \$(62,587) and \$(37,125) at December 31, 2015 and 2014, respectively.

The Cooperative collects and remits voluntary contributions to the Tri-County Electric People Fund, Inc. (the Fund), a 501 (c)(3) nonprofit organization organized for charitable giving to individuals and organizations in the Cooperative's service area. The Cooperative reimburses the Fund for operating expenses which amounted to \$25,103 and \$16,120 for the years ended December 31, 2015 and 2014, respectively.

During 2015, the Cooperative renewed the line of credit with Tri-Co Services, Inc., making it a perpetual line of credit. The outstanding balance is \$0 and \$1,200,000 at December 31, 2015 and 2014, respectively.

Note 16 - Commitments

The Cooperative has a commitment to purchase its electric power and energy requirements at wholesale from Wolverine Power Supply Cooperative, Inc. (Wolverine) until December 31, 2015 and Wolverine is obligated to sell to the Cooperative all of the Cooperative's electric power needs. The rates paid by the Cooperative under the contract are subject to review by the seller at such intervals, as it deems appropriate.

Following is a summary of transactions with Wolverine for the years ended December 31, 2015 and 2014:

| | 2015 | 2014 |
|---|---------------|---------------|
| Purchase of wholesale power | \$ 29,113,834 | \$ 29,675,754 |
| Accounts payable for purchased power at December 31 | \$ 2,777,846 | \$ 2,520,168 |
| Capital credits allocated during the year | \$ 2,693,700 | \$ 2,040,075 |
| Accumulated investment in patronage capital credits | \$ 28,695,230 | \$ 26,420,592 |

Note 17 - Lease Agreements

The Cooperative leases various vehicles and office equipment under various operating lease agreements. Lease expense for years ending December 31, 2015 and 2014 was \$180,385 and \$87,770, respectively. The leases expire from October 2016 to November 2027. The minimum future lease payments for the leases are as follows:

| Years Ending December 31, | Amount |
|---------------------------|--------------|
| 2016 | \$ 222,860 |
| 2017 | 190,736 |
| 2018 | 137,085 |
| 2019 | 118,941 |
| 2020 | 94,440 |
| Thereafter | 359,882 |
| | \$ 1,123,944 |