Report of Independent Auditors and
Consolidated Financial Statements for

Alaska Power & Telephone Company and Subsidiaries

December 31, 2015 and 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Alaska Power & Telephone Company

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Alaska Power & Telephone Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alaska Power & Telephone Company and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
April 7, 2016

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2015	December 31, 2014
PROPERTY, PLANT, AND EQUIPMENT		
Electric	$ 106,122,563	$ 104,611,930
Telecommunications	80,345,731	81,595,771
Nonutility	4,377,606	135,055
	190,845,900	186,342,756
Less accumulated depreciation and amortization	112,832,633	106,839,528
	78,013,267	79,503,228
Utility plant under construction	9,434,065	4,074,023
Total property, plant, and equipment	87,447,332	83,577,251
OTHER ASSETS		
Investments	10,909,307	10,772,212
Goodwill, net of amortization	5,681,190	7,473,922
Rate stabilization asset	5,104,894	5,078,487
Other assets	1,122,282	1,915,070
Total other assets	22,817,673	25,239,691
CURRENT ASSETS		
Cash and cash equivalents	2,189,046	5,349,026
Receivables, less allowance for doubtful accounts of $35,484 in 2015 and 2014	6,188,618	6,950,540
Securities available for sale	2,798	2,798
Inventory and other current assets	3,197,595	3,122,590
Income tax refunds receivable	-	564,972
Total current assets	11,578,057	15,989,926
Total assets	$ 121,843,062	$ 124,806,868

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2015	December 31, 2014
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, 10,000,000 shares authorized 1,300,395 and 1,307,665 shares issued and outstanding in 2015 and 2014, respectively	$ 1,300,395	$ 1,307,665
Additional paid-in capital	4,041,213	4,254,297
Retained earnings	37,978,985	35,650,926
Accumulated other comprehensive loss	(3,029,376)	(3,621,367)
Total stockholders' equity	40,291,217	37,591,521
LONG-TERM DEBT, less current portion		
Goat Lake Hydro, Inc. note payable	9,316,667	10,183,333
Other long-term debt	40,633,635	44,840,384
Total long-term debt	49,950,302	55,023,717
FINANCE LEASES	212,655	628,414
INTEREST RATE SWAP	5,015,524	5,995,641
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes	15,443,463	15,129,526
Other deferred credits	775,727	755,739
Total other liabilities and deferred credits	16,219,190	15,885,265
CURRENT LIABILITIES		
Accounts payable and other accrued liabilities	4,256,963	4,466,542
Income taxes payable	408,417	-
Current portion of finance leases	414,626	399,645
Current portion of long-term debt	5,074,168	4,816,123
Total current liabilities	10,154,174	9,682,310
Total liabilities and stockholders' equity	$ 121,843,062	$ 124,806,868

See accompanying notes.

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2015	2014
REVENUE		
Electric	$ 19,529,028	$ 19,613,847
Telecommunications	15,055,096	14,344,012
Other nonregulated	9,619,219	10,108,765
	44,203,343	44,066,624
EXPENSES		
Electric	11,403,005	12,569,941
Telecommunications	10,591,339	9,616,927
Other nonregulated	5,037,900	5,521,621
Operations and maintenance expense	27,032,244	27,708,489
Depreciation and amortization expense	6,870,453	6,867,409
	33,902,697	34,575,898
Income from operations	10,300,646	9,490,726
OTHER INCOME (EXPENSE)		
Dividend income	543,356	455,340
Amortization of goodwill	(1,792,732)	(1,792,481)
Miscellaneous	(495,876)	(24,237)
Total other income	(1,745,252)	(1,361,378)
Interest income	3,691	4,043
Interest expense	(3,739,496)	(3,959,014)
Net interest expense	(3,735,805)	(3,954,971)
Income before income taxes	4,819,589	4,174,377
Provision for income taxes	(1,524,198)	(1,393,007)
Net income	$ 3,295,391	$ 2,781,370
Basic and diluted earnings per share	$ 2.53	$ 2.10
Weighted-average basic and diluted shares outstanding	1,304,030	1,324,625

See accompanying notes.

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2015	2014
Net income	$ 3,295,391	$ 2,781,370
Other comprehensive income before tax		
Gain from fair value adjustment to interest rate swap	980,117	236,446
Income tax expense related to fair value adjustment to interest rate swap liability	(388,126)	(93,631)
Comprehensive income	$ 3,887,382	$ 2,924,185

See accompanying notes.

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2013	$ 1,341,064	$ 5,159,738	$ 33,443,955	$ (3,764,182)	$ 36,180,575
Net income	-	-	2,781,370	-	2,781,370
Sale of common stock	22,099	599,095	-	-	621,194
Repurchase of common stock	(55,498)	(1,504,536)	-	-	(1,560,034)
Fair value adjustment to interest rate swap, net of tax	-	-	-	142,815	142,815
Dividends paid to shareholders	-	-	(574,399)	-	(574,399)
Balance at December 31, 2014	1,307,665	4,254,297	35,650,926	(3,621,367)	37,591,521
Net income	-	-	3,295,391	-	3,295,391
Sale of common stock	30,889	892,687	-	-	923,576
Repurchase of common stock	(38,159)	(1,105,771)	-	-	(1,143,930)
Fair value adjustment to interest rate swap, net of tax	-	-	-	591,991	591,991
Dividends paid to shareholders	-	-	(967,332)	-	(967,332)
Balance at December 31, 2015	$ 1,300,395	$ 4,041,213	$ 37,978,985	$ (3,029,376)	$ 40,291,217

See accompanying notes.

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,295,391	$ 2,781,370
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	8,646,216	8,731,503
(Gain) loss from disposal of assets	1,055	(201)
Noncash patronage dividends	(137,095)	(129,117)
Deferred income taxes	(74,189)	663,531
Accretion (erosion) of rate stabilization asset	(26,407)	161,019
Changes in assets and liabilities		
Receivables	761,922	(824,400)
Income taxes	973,389	(495,104)
Other assets and liabilities	472,441	(237,087)
Net cash from operating activities	13,912,723	10,651,514
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant, and equipment, net	(10,668,869)	(4,903,185)
Investment in affiliate	-	(1,974)
Proceeds from sale of available for sale securities	-	210,000
Acquisition by purchase of assets	-	(2,400,177)
Net cash from investing activities	(10,668,869)	(7,095,336)

ALASKA POWER & TELEPHONE COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	$ -	$ 5,018,265
Payments on long-term debt	(4,815,370)	(4,307,728)
Payments on finance leases	(400,778)	(195,341)
Proceeds from sale of common stock	923,576	621,194
Repurchase of common stock	(1,143,930)	(1,560,034)
Dividends	(967,332)	(574,399)
Net cash from financing activities	(6,403,834)	(998,043)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,159,980)	2,558,135
CASH AND CASH EQUIVALENTS, beginning of the year	5,349,026	2,790,891
CASH AND CASH EQUIVALENTS, end of the year	$ 2,189,046	$ 5,349,026
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest expense	$ 3,876,636	$ 3,927,763
Income taxes	$ 625,000	$ 1,075,000
NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain on interest rate swap, net of tax	$ 591,991	$ 142,815
Accrued dividends payable	$ 276,014	$ 144,008
Acquisition of equipment from finance leases	$ -	$ 1,223,400
Net assets acquired	$ -	$ 2,935,632
Working capital adjustment	-	(535,455)
Net cash paid	$ -	$ 2,400,177

See accompanying notes.

Note 1 – The Company and Summary of Significant Accounting Policies

Description of entity – Alaska Power & Telephone Company and its subsidiaries (AP&T or Company) supply electric and telephone service to several communities in the state of Alaska. AP&T is subject to regulation by the Regulatory Commission of Alaska (RCA), the Federal Communications Commission (FCC), and the Federal Energy Regulatory Commission (Commissions) with respect to rates for service and maintenance of its accounting records. AP&T's accounting policies conform to accounting principles generally accepted in the United States of America as applied to regulated public utilities and are in accordance with the accounting requirements and rate-making practices of the Commissions.

Consolidation – The accompanying consolidated financial statements include the accounts of AP&T and its wholly owned energy subsidiaries, Alaska Power Company, BBL Hydro, Inc., and Goat Lake Hydro, Inc.; its wholly owned telecommunications subsidiaries, Alaska Telephone Company, AP&T Long Distance, Inc., AP&T Wireless, Inc., Bettles Telephone, Inc., and North Country Telephone, Inc. All material intercompany balances and transactions have been eliminated in consolidation.

Business combinations – The Company applies authoritative guidance on accounting for business combinations. The guidance establishes principles and requirements for determining how an enterprise recognizes and measures the fair value of acquired assets and assumed liabilities acquired in a business combination, including noncontrolling interests, contingent consideration, and certain acquired contingent liabilities. The guidance also requires acquisition-related transaction and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination.

Accounting estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include depreciation, interstate access revenue settlements, the fair value of goodwill and certain investments, the fair value of the interest rate swap, unbilled revenue, and deferred income taxes. Actual results could differ from those estimates.

Cash and cash equivalents – All highly liquid investments with original maturities of 90 days or less are carried at cost plus accrued interest, which approximates fair value, and are considered to be cash equivalents. All other investments not considered to be cash equivalents are separately categorized as investments or securities available for sale.

Concentration of risks – At various times throughout the year, the cash balances deposited in local institutions exceed federally insured limits. A possible loss exists for those amounts in excess of the federally insured limits. AP&T minimizes this risk by utilizing numerous financial institutions for deposits of cash funds.

Note 1 – The Company and Summary of Significant Accounting Policies (continued)

Comprehensive income – Accounting principles require that recognized revenues, expenses, gains, and losses be included in net income. In addition, certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and changes in the fair market value of interest rate swaps, are reported as a separate component of equity. These items, along with net income, are components of comprehensive income, which is reported in a separate consolidated statement of comprehensive income.

Valuation of accounts receivable – Accounts receivable are stated at the amount management expects to collect on outstanding balances. AP&T reviews the collectability of accounts receivable annually based upon an analysis of outstanding receivables, historical collection information, and existing economic conditions. Receivables from power and telecommunications subscribers are due 30 days after issuance of the subscriber bill. Receivables from other customers are typically outstanding 30 to 60 days before payment is received. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management believes it has established adequate reserves for any risk associated with these receivables.

Securities available for sale – Securities not classified as held to maturity or trading are classified as available for sale. Available for sale securities are stated at fair value with any material unrealized gains and losses, net of deferred taxes, reported as a separate component of stockholders' equity. Unrealized gains and losses were not material in 2015 or 2014. Quoted prices in active markets are available for all of the Company's securities available for sale.

Fuel, supplies, and other inventory – Fuel, supplies, and other inventory are valued at the lower of average cost or market. Cost is determined on a first-in, first-out basis. The supplies and other inventory are primarily held for use in construction projects including repairs and maintenance of AP&T's delivery systems.

Property, plant, equipment, and depreciation – Property, plant, and equipment are stated at cost. Regulated plant includes assets that are jointly used for regulated and nonregulated activities. The cost of additions to and replacements of property, plant, and equipment are capitalized. This cost includes direct material, labor, and similar items and charges for such indirect costs as engineering, supervision, payroll taxes, and pension benefits. AP&T capitalizes, as an additional cost of utility plant, an allowance for funds used during construction (AFUDC), which represents the allowed cost of capital used to finance a portion of construction work in progress for projects of more than one year in duration. AFUDC consists of debt and equity components that, when capitalized, are credited as noncash items to other income and interest charges. The Company recorded $140,654 and $-0- of AFUDC in 2015 and 2014, respectively.

Note 1 – The Company and Summary of Significant Accounting Policies (continued)

Property, plant, equipment, and depreciation (continued) – The cost of current repairs and maintenance is charged to expense, while the cost of betterment is capitalized. The original cost of property, plant, and equipment together with removal cost, less salvage, is charged to accumulated depreciation at such times as assets are retired and removed from service. For financial statement purposes, depreciation is computed on the straight-line method using rates based on average service lives. For income tax purposes, AP&T computes depreciation using accelerated methods where permitted.

Leased assets – Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (finance lease), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the consolidated statement of income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an operating lease), the total rentals payable under the lease are charged to the consolidated statement of income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

Goodwill – In 1999, AP&T purchased certain telecommunications properties of GTE Alaska and in 1995 through 1997 purchased the power assets of three service areas in Alaska from existing power providers. The excess of the purchase price over the assets acquired has been recorded as goodwill in the amount of $8,550,741 for the telecommunications properties and $715,662 for the power properties. AP&T adopted Accounting Standards Update (ASU) 2014-02, *Intangibles - Goodwill and Other (Topic 350) - Accounting for Goodwill,* for the year ended December 31, 2014. Under this guidance, goodwill is tested for impairment by management when a triggering event occurs that indicates the fair value of the reporting unit is less than its carrying amount. In addition, under this standard, management has elected to amortize goodwill on a straight-line basis over a period of five years for goodwill related to telecommunications properties and ten years for goodwill related to power properties. Management has reviewed events and circumstances that may be considered a triggering event, and determined no such event occurred during 2015. Total amortization expense related to goodwill for the years ended December 31, 2015 and 2014, was $1,792,732 and $1,792,481.

Goodwill is included in other assets on the consolidated balance sheets. As of December 31, 2015 and 2014, the carrying amount of goodwill was $5,681,190 and $7,473,922, which included accumulated amortization of $3,585,213 and $1,792,481, respectively.

Note 1 – The Company and Summary of Significant Accounting Policies (continued)

Preliminary survey and investigation costs – AP&T defers costs incurred for the preliminary survey and investigation of proposed construction projects in accordance with the rules of the Commissions. These deferred costs are capitalized into utility plant when the preliminary survey and investigation projects are completed or are charged to expense in the period that a proposed project is abandoned.

Income taxes – Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets relate primarily to asset impairment deductions on the books. Deferred tax liabilities relate primarily to the use of accelerated depreciation for income tax purposes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company records uncertain tax positions if the likelihood the position will be sustained upon examination is less than 50%. As of December 31, 2015 and 2014, the Company had no accrued amounts related to uncertain tax positions.

Other deferred credits – Other deferred credits consist of customer advances for construction, grant funded projects, and other deferred revenue. Customer advances for construction of additions to the electric distribution systems are recorded as a liability and are amortized through discounted service billings to the customer over a 60-month period. At the end of the amortization period, any remaining balance is recorded as a reduction of the respective utility plant accounts. Customer advances for construction were $579,779 and $492,929 at December 31, 2015 and 2014, respectively.

Revenue recognition – Electric – AP&T utilizes cycle billing and records revenue billed to its customers when the meters are read each month. In addition, AP&T recognizes unbilled revenue from electric power delivered, but not yet billed.

Revenue recognition – Telecommunications – AP&T's local wireline rates and access revenues (revenues earned for originating and terminating long distance calls) are determined by rates approved by regulators. Other sources of revenues, such as Internet, equipment sales, wireless, and long distance resale are not rate regulated. Pending and future regulatory actions may have a significant impact on AP&T's future operations and financial condition.

Monthly service fees derived from local wireline, data services, and wireless are billed one month in advance, but recognized in the month that service is provided.

Note 1 – The Company and Summary of Significant Accounting Policies (continued)

Revenue recognition – Telecommunications (continued) – Usage sensitive revenues such as long distance and other wireless services are generally billed as a per-minute charge.

AP&T also receives significant universal service support revenue based on the higher costs of providing rural telecommunications service. These revenues are included in interstate access revenues and are based on AP&T's relative level of operating expense and plant investment. The interstate program is governed by the FCC and administered by the Universal Service Administrative Company (USAC).

Telecommunications operating revenues include settlements based on AP&T's participation in the interstate revenue pools administered by the National Exchange Carrier Association (NECA) and regulated by the FCC. These revenues are determined by annually prepared separations and interstate access cost studies. Revenues for the current year are based on estimates prior to the submission of the cost study reporting actual results of operations. Additionally, the studies are subject to a 24-month pool adjustment period and final review and acceptance by the pool administrators. There was an insignificant revenue impact for 2015 and 2014 for adjustments related to prior year differences between the recorded estimates and actual revenues. Management does not anticipate significant adjustments to recorded revenues for the years ended December 31, 2015 and 2014.

Additionally, telecommunications operating revenues include revenues received from intrastate revenue pools administrated by the Alaska Exchange Carriers Association that are based on AP&T's relative cost of providing intrastate access service. These revenues are based on projections submitted periodically and intrastate access cost studies that are submitted every two years. Management does not anticipate significant adjustments to recorded revenues for the years ended December 31, 2015 or 2014.

Earnings per share – AP&T has calculated its basic earnings per share based on the weighted-average number of shares of common stock outstanding. Diluted earnings per share reflect the impact of the dilution caused by outstanding stock options using the treasury stock method. There was no dilutive effect of any outstanding stock options in 2015 or 2014. Weighted-average shares outstanding for purposes of calculating basic and diluted earnings per share were 1,304,030 in 2015 and 1,324,625 in 2014.

Taxes imposed by governmental authorities – The Company's customers are subject to taxes assessed by various governmental authorities on many different types of revenue transactions with the Company. These specific taxes are charged to and collected from the Company's customers and subsequently remitted to the appropriate taxing authority. The taxes are accounted for on a net basis and excluded from revenues.

Advertising costs – AP&T expenses advertising costs as incurred. Advertising expenses during the years ended December 31, 2015 and 2014, were $115,825 and $134,537, respectively.

Note 1 – The Company and Summary of Significant Accounting Policies (continued)

Fair value measurements – Fair value represents the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The Company follows the following fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

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

The fair value measurement guidance is applicable to the Company in the following areas:

- Goodwill impairment testing
- Securities available for sale
- Interest rate swaps

The Company's investment in securities available for sale and interest rate swaps are classified as Level 1 in the above hierarchy at December 31, 2015 and 2014.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets:

Cash and cash equivalents – The carrying amounts approximate fair value because of the short maturity of those instruments.

Long-term debt – The fair value of AP&T's long-term debt is estimated by discounting the future cash flows of the various instruments at rates currently available to AP&T for similar debt instruments of comparable maturities.

The carrying amount of long-term debt approximates the estimated fair value at December 31, 2015 and 2014, due to the low interest rate environment and the current rates for AP&T's long-term debt obligations.

Note 1 – The Company and Summary of Significant Accounting Policies (continued)

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

The Company has evaluated subsequent events through April 7, 2016, which is the date the consolidated financial statements were available to be issued.

Note 2 – Rate Stabilization Asset

The Company defers certain costs that would otherwise be charged to expense, if it is probable future rates will permit the recovery of such costs. In September 2000, the Company received approval from the Commissions to defer the billing of a portion of the allowable annual costs as defined by the power sales agreement in place between Alaska Power Company and Goat Lake Hydro, Inc. Such amounts are deferred as a regulatory asset and will be billed in future years when the Company's allowable annual costs decline below certain levels. Management projects the deferred amounts will be recovered through additional billings through 2020.

Note 3 –Lease Agreements

Operating leases – AP&T leases a portion of its office space and a portion of its utility plant under noncancellable leases. Rent expense on the noncancellable leases was $216,068 and $256,043 for 2015 and 2014, respectively. Certain leases include renewal provisions at AP&T's option. Minimum rental commitments under noncancellable operating leases are as follows:

2016	$ 226,494
2017	197,463
2018	175,816
2019	174,860
2020	97,443

Additional cancellable lease agreements have been secured for the use of the land for hydroelectric operations. The term of the agreements extend for the life of the hydroelectric license of 50 years. Total Company rent expense was $684,871 in 2015 and $717,820 in 2014.

Note 3 –Lease Agreements (continued)

Finance leases – AP&T leases certain equipment under finance leases. The lease arrangements require monthly payments through 2017.

AP&T has included these leases in property, plant, and equipment as follows:

	2015
Telecommunications central office assets	$ 1,223,400
Accumulated depreciation	(119,783)
	$ 1,103,617

The following is a schedule by year of future minimum lease payments under the finance leases, together with the present value of net minimum lease payments at year end 2015.

2016	$ 429,539
2017	214,770
Total minimum lease payments	644,309
Less amount representing interest	(17,028)
Present value of net minimum lease payments	$ 627,281

Note 4 – Property, Plant, and Equipment

Property, plant, and equipment consist of the following assets at December 31:

	2015	2014	Depreciation Rate
Electric			
Hydroelectric	$ 29,030,144	$ 28,757,632	2%
Other generation	20,172,655	19,641,679	4% to 8%
Transmission and distribution	42,248,384	40,604,362	2.5% to 4%
Other	13,435,022	14,357,872	2.5% to 20%
Land	807,041	821,068	---
Utility plant acquisition adjustment	429,317	429,317	6%
	106,122,563	104,611,930	
Telecommunications			
General support assets	8,536,237	10,926,701	2.5% to 20%
Central office assets	29,540,257	29,399,291	8% to 14%
Cable and wire facilities	21,372,428	21,006,659	3 to 6%
Nonregulated investment	20,588,653	19,926,483	10% to 20%
Land	308,156	336,637	---
	80,345,731	81,595,771	
Nonutility			
Buildings	4,301,665	101,923	4%
Land	75,941	33,132	---
	4,377,606	135,055	
Total property, plant, and equipment	$ 190,845,900	$ 186,342,756	

Utility plant under construction includes all direct and indirect costs incurred during the construction of projects that were not complete and in service at the balance sheet date. The balance also includes approximately $2.6 million in construction costs related to Soule River Hydro, LLC (SRH). SRH is a project company formed to construct a hydroelectric facility on the Soule River in Alaska that was not operational as of December 31, 2015.

Note 5 – Investments

AP&T's investments consist of the following at December 31:

	2015	2014
Investment in CoBank	$ 4,292,505	$ 4,156,876
Investment in Ketchikan Electric Company, LLC	600,000	600,000
Investment in Hydro West Holdings, Inc./Hidroelectrica Juayua, S.A.	5,346,000	5,346,000
Investment in Haida Energy, Inc.	609,836	609,336
Other	60,966	60,000
	$ 10,909,307	$ 10,772,212

CoBank – CoBank is organized similar to a cooperative and is owned by the customers it serves. As such, a portion of CoBank's earnings is returned to its customers based on their patronage with the bank. This investment is recorded on the cost method. Dividend income was reported in the amounts of $549,691 and $516,469 for 2015 and 2014, respectively, related to these earnings.

Ketchikan Electric Company LLC – AP&T owns a 50% share of Ketchikan Electric Company LLC (KEC) and accounts for the investment using the equity method. The principal purpose and business of KEC is to construct, own, operate, and manage a hydroelectric power system in the Ketchikan Gateway Borough. The investment represents capital contributions to KEC, as the Company is still in the development stage. There was no activity in 2015 or 2014.

Hydro West Holdings, Inc. – Hydro West Holdings, Inc. (Holdings) is a domestic holding company that owns interest in hydroelectric projects in Central America. Prior to January 2015, the Company's investment consisted of 7.6 million shares of nonvoting preferred stock in Holdings. The common and voting stock of Holdings was held by the individual stockholders of AP&T. The nonvoting preferred stock in Holdings entitled the Company to receive cumulative dividends at a rate of 8% per annum beginning in August 2013 and entitled the Company to distribution preference in the event of liquidation.

In 2015, AP&T entered into an agreement with Hidroelectrica Juayua, S.A, (HJ) to exchange all preferred shares owned by AP&T in Holdings for 6 million preferred shares in HJ. The preferred shares entitle the Company to receive cumulative dividends at a rate of 3% per annum, beginning in 2016 and entitle the Company to a distribution preference of $6,000,000 in the event of liquidation. This investment is accounted for using the cost method.

Note 5 – Investments (continued)

Management reviews the value of these investments by evaluating if current events, future cash flows and other circumstances indicate the fair value is less than the carrying value and has concluded that no impairment exists at December 31, 2015.

Note 6 – Long-Term Debt

The Company's long-term debt consists of the following at December 31:

	2015	2014
CoBank notes payable, secured by all assets of AP&T and its subsidiaries, due in quarterly installments and based on a 15-year amortization with a fixed interest rate of 4.47%.	$ 10,183,333	$ 11,050,000
CoBank notes payable, secured by all assets of AP&T and its subsidiaries, due in quarterly installments and based on a 10-year amortization with a variable interest rate of 3.01% at December 31, 2015. Interest rate swap agreement below reduces exposure to interest rate fluctuations.	37,618,449	41,084,708
CoBank notes payable, secured by all assets of AP&T and its subsidiaries, due in quarterly installments and based on a 15-year amortization with a fixed interest rate of 4.35%.	4,583,333	4,916,667
Notes payable to state of Alaska, secured by certain electric assets, with fixed interest rates ranging from 0.00% to 5.45%, maturing at various dates from 2019 through 2037.	2,632,049	2,777,506
Other term debt	7,306	10,959
	55,024,470	59,839,840
Less current portion	(5,074,168)	(4,816,123)
	$ 49,950,302	$ 55,023,717

Annual maturities for the five years beginning January 1, 2016, are $5,074,168, $5,390,078, $5,708,175, $6,054,915, and $6,382,282, respectively, and $26,414,852 thereafter.

Note 6 – Long-Term Debt (continued)

The Company uses variable-rate debt to finance its operations and these debt obligations expose the Company to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of a portion of its interest payments as well as the uncertainty associated with interest rates when its balloon payment with CoBank becomes due. To meet this objective, management periodically considers interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps change the variable-rate cash flow exposure on the debt obligations to fixed cash flows. The Company does not enter into derivative instruments for speculative purposes. Under the terms of the interest rate swaps, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability of cash flows associated with variable-rate debt obligations are reported in accumulated other comprehensive loss.

The Company has entered into an interest rate swap agreement on all of its variable rate long-term debt with CoBank. The interest rate swap became effective in August 2013 and amortizes over an additional ten-year term at 7.62% per annum. The fair value of the interest rate swap liability was $5,015,524 and $5,995,641 at December 31, 2015 and 2014, respectively, and is classified within Level 2 of the valuation hierarchy.

The loan agreements with CoBank contain provisions and restrictions pertaining to, among other things, limitations on additional debt, and defined amounts related to the Company's total debt to earnings before interest, taxes, depreciation, and amortization (EBITDA), equity to assets ratio, and debt service coverage ratio.

The Company has a $3 million line of credit established with CoBank and unadvanced loan funds of $5.6 million. There were no outstanding balances on the line of credit as of December 31, 2015 or 2014.

Note 7 – Income Taxes

The components of the consolidated provision for income taxes are as follows for the years ended December 31:

	2015	2014
Current	$ 1,597,236	$ 695,707
Deferred	(73,038)	697,300
	$ 1,524,198	$ 1,393,007

Note 7 – Income Taxes (continued)

Total tax expense differs from that computed at the statutory federal income tax rate due to the following:

	2015	2014
Income tax provision at federal rate of 34%	$ 1,625,767	$ 1,419,077
State income taxes, net of federal benefit	267,936	233,872
Permanent items	(262,085)	(194,752)
Other	(107,420)	(65,190)
Provision for income taxes	$ 1,524,198	$ 1,393,007

The components of the deferred tax (assets) and liabilities as of December 31 are as follows:

	2015	2014
Current deferred tax (asset) liability		
Allowance for bad debt	$ (14,052)	$ (14,052)
Accrued employee benefits	(201,409)	(224,369)
Prepaid expenses	446,798	383,576
Net current deferred tax liability	231,337	145,155
Noncurrent deferred tax (asset) liability		
Tax amortization and depreciation greater than book	17,023,232	17,222,336
Deferred revenues and expenses	1,932,920	1,894,187
Book vs. tax basis of investments	(1,757,878)	(1,757,878)
Fair value adjustment of interest rate swap liability	(1,986,148)	(2,374,274)
Net noncurrent deferred tax liability	15,212,126	14,984,371
Net deferred tax liability	$ 15,443,463	$ 15,129,526

In November 2015, the Financial Accounting Standards Board (FASB) issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (ASU 2015-17)*, which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The Company has elected to early adopt ASU 2015-17.

Note 8 – Employee Stock Ownership Plan and Other Benefits

AP&T maintains an employee stock ownership plan (Plan). All employees expected to work at least 1,000 hours per year become eligible to participate in the Plan upon attaining the age of 18 and completing three months of service. Participants may elect to contribute from 1% to 80% of their wages to the Plan, subject to Internal Revenue Service maximums, which can be invested in the common stock of AP&T or into other investment accounts.

The Company makes a defined matching contribution to each eligible participant's account of 5% of the participant's wages payable in Company stock. The Company also makes a profit sharing contribution where 1.52% of the prior year's EBITDA is paid out to the qualified Plan participants in cash.

The Plan provides that participants' interests in employer-funded contributions become fully vested after the completion of three years of service. The Plan defines a year of service as the completion of not fewer than 1,000 hours of service within the calendar year.

In 2015, employer matching contributions and profit sharing contributions were $481,228 and $255,196, respectively. In 2014, employer matching contributions and discretionary contributions were $472,014 and $104,236, respectively.

Note 9 – Business Segment Information

AP&T's electric segment provides retail and wholesale electric service including both hydro electric and diesel generation facilities in rural portions of Alaska. AP&T's telecommunications segment provides local telephone service also in rural areas of Alaska. AP&T's reportable segments are strategic business units managed separately due to their different operating and regulatory environments. The "other nonregulated" category includes the parent company and segments below the quantitative threshold for separate disclosure.

2015 (all numbers in thousands)	Regulated Electric	Regulated Telecom	Other Nonregulated	Consolidated
Operating revenue	$ 19,529	$ 15,055	$ 9,619	$ 44,203
Depreciation and amortization	3,182	2,545	1,143	6,870
Operating income	4,944	1,919	3,438	10,301
Interest expense	745	-	2,994	3,739
Interest income	-	-	4	4
Total fixed assets	106,039	59,757	25,050	190,846
Capital expenditure	2,636	1,586	6,447	10,669

Note 9 – Business Segment Information (continued)

2014 (all numbers in thousands)	Regulated Electric	Regulated Telecom	Other Nonregulated	Consolidated
Operating revenue	$ 19,614	$ 14,344	$ 10,109	$ 44,067
Depreciation and amortization	3,213	2,656	998	6,867
Operating income	3,830	2,071	3,590	9,491
Interest expense	653	-	3,306	3,959
Interest income	-	-	4	4
Total fixed assets	104,612	61,669	20,062	186,343
Capital expenditure	2,013	1,700	1,190	4,903

Note 10 – Other Assets

Other assets consist of the following at December 31:

	2015	2014
Deferred loan origination fees	$ 826,373	$ 620,643
Miscellaneous regulatory assets - power	195,512	835,902
Other	100,397	458,525
	$ 1,122,282	$ 1,915,070

The deferred loan origination fees are related to the note payable to CoBank and are being amortized on a straight-line basis over the ten-year life of the note.

Note 11 – Asset Acquisition

Effective, August 22, 2014, the Company acquired certain assets of Gustavus Electric, Inc. (GEI) through an asset purchase agreement. The purpose of the acquisition was to provide the Company with additional power production and distribution facilities and to continue to operate the Fall Creek Hydroelectric Facility, which is an electrical generational utility that provides electric services to customers in the Gustavus, Alaska, area. The total consideration transferred was $2,935,632, which consisted of the following:

	Consideration Transferred to Prior Owners
Cash paid to prior owners	$ 2,400,177
Working capital adjustment	535,455
Total consideration transferred	$ 2,935,632

The transaction was accounted for as a business combination in accordance with Accounting Standards Codification 805, *Business Combinations*, which requires the basis of the assets acquired and liabilities assumed to be recorded at their respective fair values at the acquisition date with certain exceptions. The fair value determination of assets and liabilities recorded are those of management.

The following table summarizes the estimated fair values of the net assets acquired:

Accounts receivable	$ 73,408
Fuel, supplies, and other inventory	3,943
Electric plant under construction	2,963,042
Total identifiable assets	3,040,393
Customer advances for construction	50,042
Customer deposits and advance billings	4,719
Accrued taxes and expenses	50,000
Total identifiable liabilities	104,761
Net assets acquired	$ 2,935,632