Stayton Cooperative Telephone Company and Subsidiaries

Consolidated Financial Statements with Supplemental Information

Years Ended December 31, 2014 and 2013

AKT

CPAs AND BUSINESS CONSULTANTS

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidated Financial Statements with Supplemental Information

Years Ended December 31, 2014 and 2013

Table of Contents

Independent Auditors' Report

To the Board of Directors
Stayton Cooperative Telephone Company and Subsidiaries
Stayton, Oregon

We have audited the accompanying consolidated financial statements of Stayton Cooperative Telephone Company (an Oregon cooperative corporation) and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in members' 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 in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stayton Cooperative Telephone Company and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I - III are presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating financial information has been subject to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

AKT LLP

Salem, Oregon
March 11, 2015

680 Hawthorne Avenue SE, #140, Salem, OR 97301
Phone: 503.585.7774 Fax: 503.364.8405
PORTLAND, OR ┊ SALEM, OR ┊ CARLSBAD, CA ┊ ESCONDIDO, CA ┊ SAN DIEGO, CA ┊ ANCHORAGE, AK
AKT LLP

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2014 and 2013

ASSETS	2014	2013
Current Assets:		
Cash and cash equivalents	$ 5,062,391	$ 2,695,248
Marketable securities	495,957	480,550
Accounts receivable, less allowance for doubtful accounts of $7,000 in 2014 and 2013	1,596,683	4,044,235
Current portion of notes receivable	107,237	2,862
Materials and supplies	769,498	636,546
Deferred income taxes	-	1,283
Prepaid expenses	408,908	504,728
Total Current Assets	8,440,674	8,365,452
Other Assets and Investments:		
Nonutility property	464,353	650,051
Notes receivable	191,656	90,480
Other investments	1,231,745	1,191,791
Deferred income taxes	401,500	212,800
Other assets	1,190,423	1,253,561
Total Other Assets and Investments	3,479,677	3,398,683
Property, Plant, and Equipment:		
Telecommunications	58,032,924	55,035,219
Under construction	1,082,671	-
Total Property, Plant, and Equipment	59,115,595	55,035,219
Less accumulated depreciation	31,103,658	28,514,859
Property, Plant, and Equipment, net	28,011,937	26,520,360
Total Assets	$ 39,932,288	$ 38,284,495

See notes to consolidated financial statements.

LIABILITIES AND MEMBERS' EQUITY	2014	2013
Current Liabilities:		
Current portion of long-term debt	$ 937,500	$ 937,500
Accounts payable	314,368	295,181
Patronage capital payable	124,377	140,570
Accrued expenses	1,494,407	1,578,281
Advanced billing	422,987	437,806
Deferred income taxes	4,507	-
Total Current Liabilities	3,298,146	3,389,338
Long-Term Debt	2,812,500	3,750,000
Deferred credits	1,136,158	958,748
Total Liabilities	7,246,804	8,098,086
Members' Equity:		
Memberships	26,718	26,568
Patronage capital	32,651,999	30,161,766
Accumulated other comprehensive income (loss)	6,767	(1,925)
Total Members' Equity	32,685,484	30,186,409
Total Liabilities and Members' Equity	$ 39,932,288	$ 38,284,495

See notes to consolidated financial statements.

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidated Statements of Operations

Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenues:		
Local network	$ 1,624,446	$ 1,689,580
Network access	10,056,456	8,882,643
Internet	433,985	738,395
Long distance	261,283	280,656
Other operating – regulated	363,870	509,095
Other operating – nonregulated	332,036	292,314
Total Operating Revenues	13,072,076	12,392,683
Operating Expenses:		
Plant specific	1,620,526	1,814,737
Plant nonspecific	1,143,106	1,391,186
Customer	839,399	748,908
General and administrative	2,159,988	2,201,869
Depreciation and amortization	3,305,855	3,264,016
Other operating – nonregulated	446,320	311,403
Other taxes	414,048	442,121
Income tax provision	294,326	386,200
Total Operating Expenses	10,223,568	10,560,440
Operating Margin	2,848,508	1,832,243
Other Income and Expenses, net	(13,157)	1,954,838
Margin Available for Fixed Charges	2,835,351	3,787,081
Fixed Charges, Interest on Long-Term Debt	228,111	289,710
Net Margin	$ 2,607,240	$ 3,497,371

See notes to consolidated financial statements.

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2014 and 2013

	2014	2013
Net Margin	$ 2,607,240	$ 3,497,371
Other Comprehensive Income:		
Unrealized gain (loss) on marketable securities	27,045	(17,373)
Reclassification adjustment for (gains) losses realized, net of tax	(7,535)	2,519
Deferred tax asset (liability) on unrealized gains (loss)	(10,818)	6,949
Total Other Comprehensive Gain (Loss)	8,692	(7,905)
Total Comprehensive Income	$ 2,615,932	$ 3,489,466

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidated Statements of Changes in Members' Equity

Years Ended December 31, 2014 and 2013

	Member-ships	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2012	$ 26,392	$ 27,091,446	$ 5,980	$ 27,123,818
Redemption of patronage capital	-	(464,735)	-	(464,735)
Reclaimed checks	-	29,832	-	29,832
Decrease in other comprehensive income, net of income taxes	-	-	(7,905)	(7,905)
Excise tax refund	-	6,884	-	6,884
Other changes in memberships and patronage capital	176	968	-	1,144
Net margin	-	3,497,371	-	3,497,371
Balance, December 31, 2013	26,568	30,161,766	(1,925)	30,186,409
Redemption of patronage capital	-	(124,996)	-	(124,996)
Reclaimed checks	-	(401)	-	(401)
Increase in other comprehensive income, net of income taxes	-	-	8,692	8,692
Excise tax refund	-	8,390	-	8,390
Other changes in memberships and patronage capital	150	-	-	150
Net margin	-	2,607,240	-	2,607,240
Balance, December 31, 2014	$ 26,718	$ 32,651,999	$ 6,767	$ 32,685,484

See notes to consolidated financial statements.

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Net margin	$ 2,607,240	$ 3,497,371
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	3,305,855	3,264,016
Nonutility depreciation	2,181	720
Gain on investments and marketable securities	(64,858)	(72,273)
Loss (Gain) on sale of assets	130,108	(1,826,435)
Change in other assets	(76,862)	(191,477)
Change in deferred credits	177,410	142,692
Change in deferred income taxes	(183,528)	(43,000)
Changes in assets and liabilities:		
Accounts receivable	2,447,552	(1,743,897)
Income tax receivable/payable	-	(35,636)
Materials and supplies	(132,952)	35,947
Prepaid expenses	95,820	(130,953)
Accounts payable	19,187	(40,172)
Accrued expenses	(83,874)	229,367
Advanced billings	(14,819)	(8,231)
Deferred revenue	-	(82,189)
Net Cash Provided by Operating Activities	8,228,460	2,995,850
Cash Flows from Investing Activities:		
Collection of note receivable	8,199	2,667
Purchase of property, plant, and equipment	(4,727,027)	(2,574,791)
Purchase of nonutility property	(101,012)	(150,206)
Proceeds from sale of nonutility property	10,266	-
Proceeds from sale of investments and marketable securities	651,445	2,524,142
Purchase of investments and marketable securities	(673,516)	(558,393)
Patronage dividends received	40,878	54,167
Net Cash Used by Investing Activities	$ (4,790,767)	$ (702,414)

See notes to consolidated financial statements.

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued

Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Financing Activities:		
Payments on long-term debt and notes payable	$ (937,500)	$ (937,500)
Payments of capital credits, net	(141,590)	(323,817)
Net change in membership	150	176
Excise tax refunds	8,390	6,884
Net Cash Used by Financing Activities	(1,070,550)	(1,254,257)
Net Increase in Cash and Cash Equivalents	2,367,143	1,039,179
Cash and Cash Equivalents, beginning	2,695,248	1,656,069
Cash and Cash Equivalents, ending	$ 5,062,391	$ 2,695,248
Cash Paid During the Year for Interest, net of amount capitalized	$ 204,437	$ 266,800
Cash Paid for Income Taxes	$ 562,840	$ 537,996
Non-cash transactions (Note 3):		
Issuance of note receivable on sale of property	$ 213,750	$ -

See notes to consolidated financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

Organization
Stayton Cooperative Telephone Company (SCTC or the Company) is an Oregon cooperative corporation providing telecommunications, broadband and related services within and around the City of Stayton, Oregon. The wholly-owned subsidiary, SCS Communications & Security, Inc. (SCS) offers telecommunications and broadband services as a competitive local exchange carrier (CLEC) within and around the City of Aumsville, Oregon. People's Telephone Company (PTC), a wholly-owned subsidiary of SCS, is an Oregon corporation providing telecommunication and broadband services within and around the City of Lyons, Oregon.

Basis of Consolidation
The consolidated financial statements include the accounts of SCTC and its wholly-owned subsidiaries, SCS and PTC. Intercompany balances and transactions have been eliminated in consolidation.

Basis of Accounting
The Company's financial statements are prepared on the accrual basis of accounting in conformity with the accounting principles generally accepted in the United States of America applicable to regulated enterprises.

Regulation
The Company is subject to limited regulation by the Public Utility Commission of Oregon (PUC) and the Federal Communications Commission (FCC). The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission, and adopted by the PUC. As a result, the Company's application of accounting principles generally accepted in the United States of America differs in certain respects from the application by non-regulated entities. Such differences primarily concern the time at which certain items enter into the determination of net margin.

Regulatory and legislative actions, as well as future regulations, could have a significant impact on the Company's future operations and financial condition. See Note 1, National Broadband Plan and FCC Order.

Estimates
The Company uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Comprehensive Income
The Company reports comprehensive income. The purpose of reporting comprehensive income is to report all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with members in their capacity as members.

Income Taxes
The Company has been granted an exemption from Federal income taxes under Section 501(c)(12) of the Internal Revenue Code, except for "unrelated" business income. The Company is also exempt from state income taxes. However, in any year for which greater than 15% of gross revenue is derived from nonmember services, the Company becomes a taxable cooperative. Federal and state taxes payable by taxable cooperatives are computed differently from taxes payable by other corporations, primarily because cooperatives are allowed to deduct margins allocated to patrons within 8 1/2 months after the end of each taxable year. SCS and PTC are taxable corporations (see Note 8).

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Income Taxes, continued

The Company follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There were no amounts accrued in the consolidated financial statements related to uncertain tax positions.

The Company files federal, state and local income tax returns. With limited exceptions, the Company is no longer subject to examinations for years before 2011.

Revenue Recognition

The Company recognizes revenues when earned regardless of the period in which they are billed.

Monthly service fees derived from local telephone and broadband service are billed in advance. Advance billings are recorded as a liability and subsequently transferred to income in the period earned. Access charges (see Note 1, Network Access Revenue), long distance, and other revenues based on usage are billed in arrears.

Cash and Cash Equivalents

The Company considers all highly liquid investment securities with a maturity of 3 months or less to be cash equivalents. The Company maintains its cash and cash equivalents in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000 per depositor per bank. At December 31, 2014 the Company had uninsured cash of $4,506,506 ($2,254,967 at December 31, 2013).

The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Marketable Securities

The Company has classified all marketable securities as available for sale. These investments are stated at fair value in the consolidated financial statements with accumulated unrealized gains and losses reported as a separate component of members' equity.

Accounts Receivable

The Company extends credit to its customers. An allowance for doubtful accounts is maintained, based upon management's review of the year-end accounts receivable aging and past credit and collections history. Receivables are written off when the Company determines an account is uncollectible. Past due status is determined based on the age of the past due account.

Fair Value of Financial Instruments

The Company's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, marketable securities, receivables, accounts payable, and notes payable. The Company estimates that the fair value of all of these non-derivative financial instruments, other than marketable securities (Note 2) at December 31, 2014 and 2013 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheets.

Materials and Supplies

Materials and supplies are stated at the lower of cost or market. Cost is determined principally by the average cost method.

Investments

Investments in which the Company holds a 20%-50% interest are accounted for on the equity method. Investments accounted for on the equity method are recorded at cost and adjusted for the Company's share of income or loss. Investments in which the Company holds less than a 20% interest are recorded at cost and income is recorded when dividends are received.

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Property, Plant, and Equipment
Telecommunications plant in service and under construction is stated at cost, including estimated overhead expense. Depreciation is calculated on a straight-line basis over the estimated life of the classes of buildings and equipment in accordance with rates consistent with industry standards. Depreciation rates range from 2% to 20%. In accordance with composite group depreciation methodology and industry practice, when a portion of the Company's property, plant, and equipment is retired in the ordinary course of business, the gross book value, plus removal expenses, less salvage, is charged to accumulated depreciation and no gain or loss is recognized.

The Company follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. In 2014, total interest incurred was $228,111 ($289,710 in 2013) of which $23,674 ($20,124 in 2013) was capitalized.

Patronage Allocations
The net margin of the Company, less subsidiaries margins is allocated to its members annually, in proportion to the patron's annual charges for eligible services.

Network Access Revenues
Network access revenue is received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long-distance carrier for access and interconnection to local facilities. The Company has elected to file access tariffs through the National Exchange Carriers Association (NECA) and directly with the PUC for these charges. These access tariffs are subject to approval by the FCC for interstate charges and the PUC for intrastate charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Company. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investments maintained.

SCTC and PTC participate in various pooling arrangements with NECA. They also participated in pooling arrangements with the Oregon Exchange Carrier Association (OECA) through July 2013, at which time the OECA Optional pool closed.

Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months (NECA pool only), are recorded in the year in which such adjustments become determinable, based upon studies prepared by outside consultants.

In addition to recoveries from the pools, SCTC and PTC also receive revenues from the Universal Service High Cost Loop Fund (HCL) and other support mechanisms administered by the Universal Service Administrative Company (USAC). These universal service support revenues are intended to compensate the Company for the high cost of providing service in rural areas. The amount of support received from HCL is based on the number of customers served and the cost of providing service in that area being in excess of the national average cost per loop, as determined by the FCC. SCTC and PTC also receive funding from the state universal service funds. These support revenues are included in the network access revenues in the accompanying consolidated financial statements.

In 2014, SCTC and PTC received $2,315,483 ($2,189,061 in 2013) from the USAC High Cost Loop Fund, and $5,706,590 ($5,218,753 in 2013) in interstate access revenues administered through the NECA Pools. In 2014 SCTC and PTC received $930,353 from the Oregon Universal Service Fund ($911,315 in 2013). The current funding levels for the Oregon Universal Service Fund are determined in accordance with PUC Order 13-162 which ends on June 30, 2016. The level of funding after this date cannot be reasonably estimated at this time.

Note 1 - Organization and Summary of Significant Accounting Policies, continued

National Broadband Plan and FCC Order
In 2010 the FCC issued the National Broadband Plan which outlined a long-term plan to increase broadband penetrations and services throughout the United States of America. The plan further outlined a proposed long-term phase-out of access charges (referred to as Intercarrier Compensation) and moved to support mechanisms based on broadband services rather than the current Universal Service High Cost Loop Fund administered by USAC.

In response to the plan, the FCC approved Report and Order 11-161 (the Order) on October 27, 2011, that began the process of reforming the universal service and Intercarrier Compensation (ICC) systems and adopts support for broadband-capable networks as an express universal service principle. The Order further creates the Connect America Fund (CAF) which will ultimately replace all existing high-cost support mechanisms as well as help facilitate ICC reforms.

The key provisions of the order include:

- Capping the federal universal service fund at current levels
- Placing limitations on capital and operating spending
- Establishing local rate benchmarks
- Capping the per-line support amount for the universal service high cost loop fund at $250 per month.
- Phase out of local switching support and the establishment of the CAF for recovery of investment and expenses related to the provision of switching services
- Reforming the ICC system by adopting a plan to transition from access charges to a bill and keep framework. The transition period for rate-of-return carriers such as the Company is approximately 9 years from the date of the order.
- Adoption of a monthly Access Recovery Charge as a transitional recovery mechanism to mitigate the impact of reduced Intercarrier revenues

The Order was effective December 29, 2011 and implementation began July 1, 2012. As of the implementation date, CAF recovery is calculated based on the frozen fiscal year 2011 interstate switched access revenue requirement, plus certain 2011 intrastate access revenues, and will decline annually by 5% during the transition period.

In 2014 the FCC issued Orders for Reconsideration that included provisions to eliminate the quantile regression benchmarking analysis (this removes the limitations on capital spending contained in the Order), reinstate the safety-net additive that was eliminated as part of the Order and continued the transition of the local rate benchmark. In 2014, SCTC and PTC received $547,140 in safety-net additive, which includes catch up payments to cover the period from its elimination in 2012 through its reinstatement in 2014.

As of December 31, 2014, the Company is transitioning its local rates and meets the local rate benchmark requirements. The Company is not subject to the $250 per line support cap. Furthermore, for the period ended December 31, 2014 there has not been a significant impact to the Company related to the 5% annual decline in switched access revenues.

The overall reform process will take place in phases and will take several years to implement. Furthermore, the Order includes a Further Notice of Proposed Rulemaking and the FCC continues to issue Orders for Reconsideration and seek comments on various items. As a result, the ultimate outcome of these proceedings and their impact is uncertain at this time.

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Reclassification
The presentation of certain prior year information has been reclassified to conform to the presentation in the 2014 financial statements. Such reclassifications have no effect on members' equity or net margin.

Subsequent Events
The Company has evaluated subsequent events through March 11, 2015, which is the date the consolidated financial statements were available to be issued.

Note 2 - Marketable Securities

As mentioned in Note 1, at December 31, 2014 and 2013, all marketable securities have been categorized as available for sale and are stated at fair value in the consolidated financial statements, with unrealized gains and losses included in comprehensive income as a separate component of members' equity.

The Company has adopted a hierarchal disclosure framework, which among other matters requires enhanced disclosure about investments that are measured and reported at fair value. This framework prioritizes and ranks the level of market price observability used in measuring investments at fair value. The Company's marketable securities are measured and reported at fair value on a recurring basis based on quoted prices available in active markets for identical investments as of the reporting date (Classification Level 1). There have been no changes to the methodologies used at December 31, 2014 and 2013.

At December 31 the Company's securities are as follows:

	2014	2013
Fair value		
US treasury securities	$ 26,853	$ 65,941
Government sponsored securities	-	19,600
Corporate bonds	102,239	212,947
Asset backed securities	51,529	121,455
Mutual funds	315,336	60,607
Total fair value	495,957	480,550
Cost	484,679	483,758
Gross unrealized holding gains (losses)	$ 11,278	$ (3,208)

Gross unrealized holding gains and losses are included in other comprehensive income, net of deferred taxes of $4,507 in 2014 ($1,282 in 2013). Proceeds from sale of marketable securities for the year ended December 31, 2014 were $651,445 ($425,142 in 2013) resulting in a gross realized gain of $12,557 for the year ended December 31, 2014 ($4,198 loss for the year ended December 31, 2013). There have been no changes in the methodologies used at December 31, 2014 and 2013.

The following is a summary of maturities of available for sale debt securities as of December 31, 2014:

	Fair Value	Cost
Amounts maturing in:		
After one year through five years	$ 101,276	$ 101,260
After five years through ten years	72,799	72,282
After ten years	6,546	6,726

Note 3 - Notes Receivable

During 2011, the Company issued a 7% note receivable to Hunt Revocable Trust in the amount of $100,000, which is receivable in a minimum monthly installment of $775 including interest, due in March 2018. Subsequent to year end the remaining balance on the note was paid in full. Therefore, the remaining balance has been classified as current.

During 2014, the Company issued a 5.5% note receivable to CSI Digital, Inc. in the amount of $213,750 as part of the sale of nonutility property (see Note 4), which is receivable in a minimum monthly installment of $2,319 including interest, due in August 2024.

	2014	2013
Total notes receivable	$ 298,893	$ 93,342
Less current portion	107,237	2,862
Notes receivable, net of current portion	$ 191,656	$ 90,480

Note 4 - Nonutility Property

Nonutility property consists of the following:

	2014	2013
Land	$ 127,292	$ 277,292
Buildings	156,998	173,218
Equipment and towers	513,560	499,398
Total nonutility property	797,850	949,908
Less accumulated depreciation	333,497	299,857
Nonutility, net	$ 464,353	$ 650,051

Nonutility property is stated at cost. The Company provides for depreciation on a straight-line basis over estimated useful lives of 5 to 30 years.

After the termination of the Skitter agreement (see Note 6), the Company sold the land, building and equipment associated with it for $225,000 which includes a note receivable in the amount of $213,750 (see Note 3). This resulted in a loss on sale of assets in the amount of $316 in 2014.

Note 5 - Other Investments

Other investments at cost consist of the following:

	2014	2013
PEAK Internet, LLC	$ 250,000	$ 250,000
ANPI Holdings, Inc.	281,356	281,356
CHR Solutions, Inc.	135,435	135,435
Other investments	180,464	164,213
Total, at cost	$ 847,255	$ 831,004
Other investments, equity method:		
Wilcom, LLC	$ 299,490	$ 304,318
Consolidated Business Services, LLC	85,000	56,469
Equity Investments	$ 384,490	$ 360,787
Total Other Investments	$ 1,231,745	$ 1,191,791

Note 5 - Other Investments, continued

During the year ended December 31, 2014, the Company recorded an investment loss from Wilcom, LLC of $4,828 ($6,014 recorded in 2013, and $2,500 contributed in cash).

Effective September 1, 2012 the Company, along with two other telecommunication companies, formed Consolidated Business Services, LLC to consolidate various administrative functions. Services currently being provided to the companies include accounting, regulatory reporting, management services and human resources. All three companies have a one-third ownership interest and any net income or loss will be distributed evenly to each company. The Company accounts for the investment using the equity method of accounting whereby the investment is recorded at cost and adjusted for the Company's share of income or loss. In 2014, the Company contributed an additional $28,531 in cash and no income or loss was recorded ($12,442 was contributed in cash during 2013, and net income of $813 was recorded from the investment).

During 2013, the Company sold its 10MHz AWS license to AT&T Mobility for $2,099,000 in cash. The Company incurred commission fees of $125,940 and incurred $20,767 in selling expenses related to the sale in 2013. The sale resulted in a gain on the consolidated financial statements of $1,492,619 in 2013. Cash of $1,890,000 was received during 2014, and the remaining $209,000 is recorded as a receivable at December 31, 2014. AT&T Mobility has up to 12 months from the first installment made to pay the remaining balance.

Note 6 - Other Assets

Other assets consist of the following:

	2014	2013
Intangible asset, net	$ -	$ 140,000
Deferred compensation assets	988,017	918,829
Life insurance - cash surrender value	202,406	194,732
	$ 1,190,423	$ 1,253,561

During 2011, the Company entered into a ten year non-refundable franchise agreement with Skitter Technologies, Inc. for the use of the Skitter TV name, methods, procedures and techniques, and a network of technology devoted exclusively to the merged video platform delivery business using the name "TV as a Service." Amortization expense of the franchise agreement included in depreciation expense was $10,208 for the year ended December 31, 2014 ($17,500 in 2013). The Company terminated the franchise agreement during 2014 and wrote off the balance of the asset of $129,792.

Deferred compensation assets represent amounts to be used for payment of deferred credits.

Cash surrender value is from life insurance policies on certain key individuals of the Company of which the Company is the beneficiary.

Note 7 - Property, Plant, and Equipment

Listed below are the major classes of telecommunications property, plant, and equipment in service:

	2014	2013
Land and support	$ 7,209,602	$ 7,242,388
Central office	14,598,023	13,541,355
Cable and wire facilities	36,225,299	34,251,476
	$ 58,032,924	$ 55,035,219

Note 8 - Income Taxes

For the years ended December 31, 2014 and 2013, SCTC was taxable because it derived more than 15% of its gross revenues from nonmember services (see Note 1). SCTC files a consolidated income tax return with SCS and PTC.

Deferred income tax assets and liabilities are computed annually for differences between the consolidated financial statements and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period, plus or minus the change in deferred tax assets and liabilities during the period.

Deferred taxes consist of the following:

	2014	2013
Long-term deferred income tax asset (liability):		
Noncurrent deferred tax asset	$ 478,700	$ 367,800
Long-term deferred income tax liability	(77,200)	(155,000)
Net long-term deferred income tax asset	$ 401,500	$ 212,800
Current deferred income tax asset (liability):		
Unrealized holding gain (loss) (Note 2)	$ (4,507)	$ 1,282
Net current deferred income tax asset (liability)	$ (4,507)	$ 1,282

Noncurrent deferred tax assets results from losses on investments not deductible for income tax purposes. Long-term deferred income tax liability results from using accelerated depreciation for income tax reporting and straight-line for financial statement reporting.

Operating income tax consists of the following:

	2014	2013
Current	$ 483,026	$ 428,000
Deferred provision	(188,700)	(41,800)
Operating income tax	$ 294,326	$ 386,200
Nonoperating income tax (Note 9):		
Current benefit	$ -	$ (1,200)
Deferred tax benefit	-	(54,470)
Nonoperating income tax benefit	$ -	$ (55,670)

Note 9 - Other Income and Expenses

Other income and expenses consists of the following:

	2014	2013
Nonoperating income tax benefit (Note 8)	$ -	$ 55,670
Interest and dividend income	142,427	147,949
Gain (Loss) on investments and other assets (Notes 2 and 5)	(126,651)	1,783,220
Miscellaneous expense	(28,933)	(32,001)
Total other income (expense), net	$ (13,157)	$ 1,954,838

Note 10 - Employee Benefit Plans

Pension Plans
The Company has adopted a retirement plan in accordance with Internal Revenue Code Section 401(k). The Company makes a 3% safe harbor contribution and a 7.5% profit sharing contribution each month. Contributions are based on each eligible participant's compensation. The Company is allowed to make additional discretionary contributions. Contributions for the year ended December 31, 2014 were $215,213 ($231,231 in 2013).

Deferred Compensation Plan
The Company has entered into nonqualified deferred compensation agreements with certain key employees. The agreements provide for payment of monthly benefits upon retirement provided certain conditions are met. The estimated amounts to be paid for these agreements are being accrued over the period of active employment. The net present value of the outstanding liability for deferred compensation is included in deferred credits within the balance sheet.

Post-retirement Health Benefits
Employees age 55 or older with a hire date before October 9, 2007 who have completed 15 years of service with the Company are eligible to receive post-retirement health benefits. The Company will pay the health and dental insurance premiums for these retirees until they become eligible to receive Medicare benefits. The cost of providing these benefits is accrued over the period of active employment. At December 31, 2014, the amount accrued for post-retirement benefits is $986,384 ($991,344 at December 31, 2013) and is unfunded. For the year ended December 31, 2014, the amount of benefits paid under post-retirement health benefits was $84,612 ($71,077 in 2013).

Note 11 - Long-Term Debt

Long-term debt consists of the following:

	2014	2013
Note payable to CoBank, at 5.05%, payable in quarterly installments, principal and interest, collateralized by all real and personal property, due in 2018.	$ 3,750,000	$ 4,687,500
Less current portion	(937,500)	(937,500)
	$ 2,812,500	$ 3,750,000

Future maturities of long-term debt are as follows:

2015	$ 937,500
2016	937,500
2017	937,500
2018	937,500
	$ 3,750,000

The Company has a line of credit from CoBank in the amount of $1,250,000 at a variable rate of interest expiring in December 2015. At December 31, 2014 and 2013, the Company has no advanced amounts on the line of credit.

The Company's long-term debt agreement with CoBank contains certain restrictions and covenants. In addition, the Company must maintain certain financial ratios (debt service coverage, total debt to EBITDA, equity to total assets). Management believes the Company to be in compliance with these covenants at December 31, 2014 and 2013.

Note 12 - Related Parties

The Company has an agreement with Peak Internet, LLC which provides IT management and customer support. Amounts billed to the Company in 2014 were $410,422 ($401,338 in 2013). At December 31, 2014, $423 is payable to Peak Internet, LLC (none in 2013).

The Company entered into an agreement with Consolidated Business Services, LLC (CBS, LLC) in 2012 (Note 5) whereby CBS, LLC will provide accounting and regulatory reporting services for the Company. CBS, LLC provided services to the Company in the amount of $425,617 in 2014 ($423,383 in 2013). At December 31, 2014, there is $39,366 payable to CBS, LLC for labor and expenses ($2,481 was payable to CBS, LLC and $6,554 was receivable from CBS, LLC at December 31, 2013).

Supplemental Information

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidating Balance Sheets

December 31, 2014

ASSETS	SCS	PTC	SCTC	Eliminations	Consolidated
Current Assets:					
Cash and cash equivalents	$ 221,763	$ 965,928	$ 3,874,700	$ -	$ 5,062,391
Marketable securities	-	-	495,957	-	495,957
Accounts receivable,					
less allowance for accounts of $7,000	25,298	277,174	1,689,802	(395,591)	1,596,683
Current portion of notes receivable	-	-	107,237	-	107,237
Materials and supplies	-	-	769,498	-	769,498
Intercompany taxes receivable	-	-	591,800	(591,800)	-
Prepaid expenses	1,633	33,054	374,221	-	408,908
Total Current Assets	248,694	1,276,156	7,903,215	(987,391)	8,440,674
Other Assets and Investments:					
Nonutility property	-	128,281	336,072	-	464,353
Notes receivable	-	-	191,656	-	191,656
Other investments	-	-	1,231,745	-	1,231,745
Investment in subsidiary	6,228,868	-	7,020,852	(13,249,720)	-
Deferred income taxes	363,500	38,000	-	-	401,500
Other assets	988,017	-	202,406	-	1,190,423
Total Other Assets and Investments	7,580,385	166,281	8,982,731	(13,249,720)	3,479,677
Property, Plant, and Equipment:					
Telecommunications	712,549	9,979,331	47,341,044	-	58,032,924
Under construction	-	1,051,527	31,144	-	1,082,671
	712,549	11,030,858	47,372,188	-	59,115,595
Less accumulated depreciation	362,578	5,132,512	25,608,568	-	31,103,658
Property, Plant, and Equipment, net	349,971	5,898,346	21,763,620	-	28,011,937
Total Assets	$ 8,179,050	$ 7,340,783	$ 38,649,566	$ (14,237,111)	$ 39,932,288

LIABILITIES AND MEMBERS' EQUITY	SCS	PTC	SCTC	Eliminations	Consolidated
Current Liabilities:					
Current portion of long-term debt	$ -	$ -	$ 937,500	$ -	$ 937,500
Accounts payable	2,046	397,811	310,102	(395,591)	314,368
Patronage capital payable	-	-	124,377	-	124,377
Accrued expenses	-	69,472	1,424,935	-	1,494,407
Advanced billing	9,594	63,232	350,161	-	422,987
Intercompany taxes payable	10,400	581,400	-	(591,800)	-
Deferred income taxes	-	-	4,507	-	4,507
Total Current Liabilities	22,040	1,111,915	3,151,582	(987,391)	3,298,146
Long-Term Debt	-	-	2,812,500	-	2,812,500
Deferred credits	1,136,158	-	-	-	1,136,158
Total Liabilities	1,158,198	1,111,915	5,964,082	(987,391)	7,246,804
Members' Equity:					
Memberships	-	-	26,718	-	26,718
Patronage capital	-	-	32,651,999	-	32,651,999
Other equity	7,020,852	6,228,868	-	(13,249,720)	-
Accumulated other comprehensive gain	-	-	6,767	-	6,767
Total Members' Equity	7,020,852	6,228,868	32,685,484	(13,249,720)	32,685,484
Total Liabilities and Members' Equity	$ 8,179,050	$ 7,340,783	$ 38,649,566	$ (14,237,111)	$ 39,932,288

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidating Statements of Operations

Year Ended December 31, 2014 — Schedule II

	SCS	PTC	SCTC	Eliminations	Consolidated
Operating Revenues:					
Local network	$ 59,870	$ 240,586	$ 1,338,811	$ (14,821)	$ 1,624,446
Network access	32,156	2,481,028	7,827,036	(283,764)	10,056,456
Internet	-	-	1,784,069	(1,350,084)	433,985
Long distance	-	-	265,370	(4,087)	261,283
Other operating – regulated	4,126	54,823	438,686	(133,765)	363,870
Other operating – nonregulated	-	-	333,079	(1,043)	332,036
Total Operating Revenues	96,152	2,776,437	11,987,051	(1,787,564)	13,072,076
Operating Expenses:					
Plant specific	21,123	197,215	1,453,761	(51,573)	1,620,526
Plant nonspecific	15,170	108,891	2,603,697	(1,584,652)	1,143,106
Customer	14,823	134,701	815,197	(125,322)	839,399
General and administrative	200,010	430,889	1,551,553	(22,464)	2,159,988
Depreciation and amortization	39,185	490,524	2,776,146	-	3,305,855
Other operating – nonregulated	-	-	449,867	(3,547)	446,320
Other taxes	-	65,141	348,907	-	414,048
Income tax provision	(122,300)	525,400	(108,774)	-	294,326
Total Operating Expenses	168,011	1,952,761	9,890,354	(1,787,558)	10,223,568
Operating Margin (Loss)	(71,859)	823,676	2,096,697	(6)	2,848,508
Other Income and Expenses, net	838,468	14,792	738,654	(1,605,071)	(13,157)
Margin Available for Fixed Charges	766,609	838,468	2,835,351	(1,605,077)	2,835,351
Fixed Charges, interest on long-term debt	-	-	228,111	-	228,111
Net Margin	$ 766,609	$ 838,468	$ 2,607,240	$ (1,605,077)	$ 2,607,240

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES
Consolidating Statements of Cash Flows
Year Ended December 31, 2014

	SCS	PTC	SCTC	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net margin	$ 766,609	$ 838,468	$ 2,607,240	$ (1,605,077)	$ 2,607,240
Adjustments to reconcile net margin to net cash provided (used) by operating activities:					
Depreciation and amortization	39,185	490,524	2,776,146	-	3,305,855
Nonutility depreciation	-	1,731	450	-	2,181
Income from affiliated companies	(838,468)	-	(766,609)	1,605,077	-
Gain on investments and marketable securities	-	-	(64,858)	-	(64,858)
Loss on sale of asset	-	-	130,108	-	130,108
Change in other assets	(69,188)	-	(7,674)	-	(76,862)
Change in deferred credits	177,410	-	-	-	177,410
Change in deferred income taxes	(132,700)	(56,000)	5,172	-	(183,528)
Changes in assets and liabilities:					
Accounts receivable	(15,188)	38,710	2,394,569	29,461	2,447,552
Income taxes payable	10,400	-	-	(10,400)	-
Intercompany taxes	27,700	125,700	(163,800)	10,400	-
Materials and supplies	-	-	(132,952)	-	(132,952)
Prepaid expenses	164	1,797	93,859	-	95,820
Accounts payable	(71,327)	76,889	43,086	(29,461)	19,187
Accrued expenses	-	35,620	(119,494)	-	(83,874)
Advanced billing	893	(4,777)	(10,935)	-	(14,819)
Net Cash Provided (Used) by Operating Activities	(104,510)	1,548,662	6,784,308	-	8,228,460
Cash Flows from Investing Activities:					
Collection of note receivable	-	-	8,199	-	8,199
Purchase of property, plant, and equipment	(27,381)	(1,399,721)	(3,299,925)	-	(4,727,027)
Purchase of nonutility property	-	(101,012)	-	-	(101,012)
Proceeds from sale of nonutility property	-	-	10,266	-	10,266
Proceeds from sale of investments and marketable securities	-	-	651,445	-	651,445
Purchase of investments and marketable securities	-	-	(673,516)	-	(673,516)
Patronage dividends received	-	-	40,878	-	40,878
Dividends paid	-	(350,000)	-	350,000	-
Net Cash Used by Investing Activities	$ (27,381)	$ (1,850,733)	$ (3,262,653)	$ 350,000	$ (4,790,767)

	SCS	PTC	SCTC	Eliminations	Consolidated
Cash Flows from Financing Activities:					
Payments on long-term debt and notes payable	$ -	$ -	$ (937,500)	$ -	$ (937,500)
Dividends received	350,000	-	-	(350,000)	-
Payments of capital credits, net	-	-	(141,590)	-	(141,590)
Net change in membership	-	-	150	-	150
Excise tax refunds	-	-	8,390	-	8,390
Net Cash Provided (Used) by Financing Activities	350,000	-	(1,070,550)	(350,000)	(1,070,550)
Net Increase (Decrease) in Cash and Cash Equivalents	218,109	(302,071)	2,451,105	-	2,367,143
Cash and Cash Equivalents, beginning	3,654	1,267,999	1,423,595	-	2,695,248
Cash and Cash Equivalents, ending	$ 221,763	$ 965,928	$ 3,874,700	$ -	$ 5,062,391
Cash Paid During the Year for Interest, net of amount capitalized	$ -	$ -	$ 204,437	$ -	$ 204,437
Cash Paid During the Year for Income Taxes	$ -	$ -	$ 562,840	$ -	$ 562,840
Non-cash transaction (Note 3):					
Issuance of note receivable on sale of property	$ -	$ -	$ 213,750	$ -	$ 213,750