

(7) **Employee Benefit Plans**

Defined Benefit Pension Plans

Effective April 1, 2013, the Company froze its defined benefit pension plan (the MTC Plan) and employees of MTC became participants in the Retirement Plan for Employees of E. Ritter & Company and Corporate Subsidiaries (the ERC Plan). Pension benefits under the ERC Plan are based on an employee's years of credited service and compensation. As a result of the decision to freeze the plan, a remeasurement of the plan was performed and a curtailment gain was recognized within net periodic pension benefit cost. ERC's funding policy is to satisfy the funding requirements of the Employee Retirement Income Security Act of 1974 and to pass these costs to its subsidiaries (including the Company). Employees of MTC became participants in the ERC Plan effective January 1, 2013. Expense related to the ERC Plan was [REDACTED] in 2014 and 2013, respectively.

Prior to April 1, 2013, the Company sponsored a noncontributory defined benefit pension plan (the MTC Plan) covering substantially all its employees. Pension benefits were based on an employee's years of credited service and compensation during the last five years of employment. MTC Plan assets consisted primarily of interest-bearing cash, debt securities and equity securities. MTC's funding policy was to satisfy the funding requirements of the Employee Retirement Income and Security Act of 1974. Income related to the MTC Plan was [REDACTED] 2013.

At December 31, 2013, ERC parent paid the Company the after-tax book value of the Plan, \$34,524 and assumed the assets and liabilities of the Plan in conjunction with the merger of the MTC Plan into the ERC Plan. At that time, the book value of the MTC Plan was:

Plan assets	
Projected benefit obligations	
Unrecognized net loss	
	Net book value of Plan
Tax impact	
	After-tax book value



The following table presents a summary of plan assets, projected benefit obligation, funded status, and benefit activity of the Plan as of December 31:

Change in PBO:

At beginning of year, as restated
Service cost
Interest cost
Settlements
Benefits paid
Actuarial gain
Amendments
Transfer PBO to ERC

At end of year

Change in plan assets:

Fair value at beginning of year
Actual return
Employer contributions
Benefits paid
Acquisition loss
Transfer to ERC

Fair value at end of year

Funded status:

Funded status at the end of the year

Amounts not yet reflected in net periodic benefit cost and
included in (AOCL):

Prior service credit
Accumulated loss
Transfer to ERC

AOCL

Cumulative employer contributions less than net
benefit cost

Net amount recognized in consolidated balance
sheet

Amounts not yet reflected in net periodic benefit cost and
expected to be amortized in next year's net periodic
benefit cost:

Prior service credit
Accumulated loss



Components of net periodic benefit cost:

Service cost
Interest cost
Recognition of prior service credit due to curtailment
Settlement
Expected return on plan assets
Amortization of prior service credit
Amortization of accumulated net loss
Net periodic benefit cost

\$

\$

Weighted average assumptions to determine benefit obligations:

Discount rate
Rate of compensation increase
Measurement date

Weighted average assumptions to determine net periodic pension cost:

Discount rate
Expected long-term rate of return on plan assets during year
Rate of compensation increase

Accumulated benefit obligation

\$

Information for pension plans with PBO in excess of plan assets:

PBO
Fair value of plan assets

\$

Expected cash flow for the MTC Plan:

Expected return of assets to employer in next year
Expected employer contributions for next year
Expected benefit payments for year ending in:
2014
2015
2016
2017
2018
Next 5 years

\$

The assumptions above were used to develop the benefit obligations at fiscal year-end and to develop the net periodic benefit cost for 2013. Therefore, the assumptions used to determine net periodic benefit cost for the year were established at the end of the previous year, while the assumptions used to determine benefit obligations are established at year-end.

The net periodic benefit cost and the benefit obligations were based on actuarial assumptions that were reviewed on an annual basis. These assumptions were revised based on an annual evaluation of long-term trends, as well as market conditions that may have an impact on the cost of providing retirement benefits.

The expected rates of return on plan assets represent the Company's long-term assessment of return expectations, which may change based on shifts in economic and financial market conditions.

401(k) Plan

Until November 30, 2013, MTC sponsored an employee savings plan under Section 401(k) of the Internal Revenue Code (the 401(k) Plan) covering substantially all full-time employees. Employees were allowed to elect to contribute a portion of their eligible pretax compensation up to certain limits as specified by the 401(k) Plan. MTC also made matching contributions at a rate of 100% of the first 6% of an employee's deferral. Expense related to the 401(k) plan was [REDACTED] during 2013.

Effective December 1, 2013, the Company participates with ERC and ERC's subsidiaries in an employee savings plan under Section 401(k) of the Internal Revenue Code (the 401(k) Plan) covering substantially all full-time employees. Employees may elect to contribute a portion of their eligible pretax compensation up to certain limits as specified by the 401(k) Plan. The Company also makes annual contributions to the 401(k) Plan. Expense related to this 401 (k) plan was [REDACTED] for 2014 and 2013, respectively, and is included in the allocation of employee costs from RCH.

(8) Related-Party Transactions

Significant portions of accounting and administrative services are provided to the Company by RCH and ERC. These services are primarily billed to the Company in the form of a management fee. Charges to the Company from affiliated entities are calculated based upon cost and a rate of return to provide such services as prescribed by the regulatory process. Charges for these services at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Operating expenses:		
Management fees – RCH	\$ [REDACTED]	[REDACTED]

During 2014, RCH completed its effort to expand its network and create synergies between its subsidiaries, resulting in an increase in shared equipment and resources. This change in infrastructure resulted in an increase in the amount of management fee expenses charged from RCH to the Company.



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**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

The Board of Directors and Shareholder
Millington Telephone Company, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Millington Telephone Company, Inc. and subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholder's equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 31, 2015.

Internal Control over Financial Reporting

In planning and performing our audits of the consolidated financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

March 31, 2015



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Independent Auditors' Report on Supplementary Information

The Board of Directors and Shareholder
Millington Telephone Company, Inc.:

We have audited the consolidated financial statements of Millington Telephone Company, Inc. and its subsidiary (the Company) as of and for the year ended December 31, 2014 and 2013, and have issued our report thereon dated March 31, 2015 which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary schedule is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

March 31, 2015

MILLINGTON TELEPHONE COMPANY, INC.
Supplementary Consolidating Balance Sheet Schedule
December 31, 2014

Assets	<u>Millington Telephone</u>	<u>Millington Long Distance</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets:				
Cash				
Accounts receivable, net				
Receivable from RUS				
Materials and supplies				
Deferred income taxes				
Income taxes receivable from E. Ritter & Company				
Due from affiliates				
Other				
Total current assets				
Noncurrent assets:				
Investment in Millington Long Distance				
Nonregulated assets				
Total noncurrent assets				
Telephone plant:				
In-service				
Under construction				
Total telephone plant				
Less accumulated depreciation				
Net telephone plant				
Liabilities and Stockholder's Equity				
Current liabilities:				
Accounts payable				
Current maturities of long-term debt				
Due to affiliates				
Accrued expenses and other current liabilities				
Total current liabilities				
Long-term liabilities:				
Deferred income taxes				
Other				
Total long-term liabilities				
Stockholder's equity:				
Common stock, no par value; 10,000 shares authorized, issued and outstanding				
Retained earnings				
Total stockholder's equity				

MILLINGTON TELEPHONE COMPANY, INC.
Supplementary Consolidating Statements of Operations
Year ended December 31, 2014

	<u>Millington Telephone</u>	<u>Millington Long Distance</u>	<u>Consolidated</u>
Operating revenue:			
Local service			
Network access			
Long distance			
Other			
Nonregulated sales			
Total operating revenue			
Operating expenses:			
Plant operations			
Depreciation			
Customer operations			
Corporate operations			
Nonregulated expenses			
Taxes – other than income taxes			
Total operating expenses			
Operating income (loss)			
Other income (expense):			
Interest income			
Interest expense			
Other			
Total other income (expense), net			
Income (loss) before income taxes			
Provision for income taxes (benefit)			
Net income (loss)			

MILLINGTON TELEPHONE COMPANY, INC.

Consolidated Statements of Cash Flows

Year ended December 31, 2014

	<u>Millington Telephone</u>	<u>Millington Long Distance</u>	<u>Consolidated</u>
Cash flows from operating activities:			
Net income (loss)			
Adjustments to reconcile net loss to net cash provided by operating activities:			
Noncash operating activities:			
Depreciation of telephone plant and nonregulated property and equipment			
Defined benefit pension plan			
Provision for deferred income taxes			
Uncollectible operating revenues			
Loss on sale of investments			
(Gain) loss on sale of property, plant and equipment			
Changes in operating assets and liabilities:			
Accounts receivable			
Receivable from RUS			
Materials and supplies			
Other current assets			
Due to/from affiliates			
Income taxes			
Accounts payable			
Accrued expenses and other liabilities			
Defined benefit pension plan contribution			
Net cash provided by (used in) operating activities			
Cash flows from investing activities:			
Proceeds from the sale or maturity of investments			
Proceeds from the sale of property, plant and equipment			
Purchase of property, plant and equipment			
Net cash provided by (used in) investing activities			
Cash flows from financing activities:			
Payment of dividends			
Proceeds from RUS loan			
Payments on RUS loan			
Net cash used in financing activities			
Net decrease in cash			
Cash:			
Beginning of year			
End of year			
Supplemental cash flow disclosures:			
Interest paid			
Income taxes paid (refunded)			

MILLINGTON TELEPHONE COMPANY, INC.
Supplementary Consolidating Balance Sheet Schedule
December 31, 2013

Assets	<u>Millington Telephone</u>	<u>Millington Long Distance</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current assets:	[REDACTED]			
Cash				
Accounts receivable, net				
Receivable from RUS				
Materials and supplies				
Deferred income taxes				
Income taxes receivable from E. Ritter & Company				
Due from affiliates				
Other				
Total current assets				
Noncurrent assets:				
Investment in Millington Long Distance				
Nonregulated property and equipment, net				
Total Investments				
Telephone plant:				
In-service				
Under construction				
Total telephone plant				
Less accumulated depreciation				
Net telephone plant				
Liabilities and Stockholder's Equity				
Current liabilities:	[REDACTED]			
Accounts payable				
Current maturities of long-term debt				
Due to affiliates				
Accrued expenses and other current liabilities				
Total current liabilities				
Long-term liabilities and deferred credits:				
Deferred income taxes				
Other				
Total long-term liabilities and deferred credits				
Stockholder's equity:				
Common stock, no par value; [REDACTED] shares authorized, issued and outstanding				
Retained earnings				
Total stockholder's equity				

MILLINGTON TELEPHONE COMPANY, INC.
 Supplementary Consolidating Statements of Operations
 Year ended December 31, 2013

	<u>Millington Telephone</u>	<u>Millington Long Distance</u>	<u>Consolidated</u>
Operating revenue:			
Local service			
Network access			
Long distance			
Other			
Nonregulated sales			
Total operating revenue			
Operating expenses:			
Plant operations			
Depreciation			
Customer operations			
Corporate operations			
Nonregulated expenses			
Taxes – other than income taxes			
Total operating expenses			
Operating income (loss)			
Other income (expense):			
Interest income			
Interest expense			
Other			
Total other income (expense), net			
Income (loss) before income taxes			
Provision for income taxes			
Net income (loss)			

MILLINGTON TELEPHONE COMPANY, INC.

Consolidated Statements of Cash Flows

Year ended December 31, 2013

	<u>Millington Telephone</u>	<u>Millington Long Distance</u>	<u>Consolidated</u>
Cash flows from operating activities:			
Net income (loss)			
Adjustments to reconcile net loss to net cash provided by operating activities:			
Noncash operating activities:			
Depreciation of telephone plant and nonregulated property and equipment			
Defined benefit pension plan			
Provision for deferred income taxes			
Uncollectible operating revenues			
(Gain) loss on sale of property, plant and equipment			
Changes in operating assets and liabilities:			
Accounts receivable			
Receivable from RUS			
Materials and supplies			
Other current assets			
Due to/from affiliates			
Income taxes			
Accounts payable			
Accrued expenses and other liabilities			
Defined benefit pension plan contribution			
Net cash provided by (used in) operating activities			
Cash flows from investing activities:			
Proceeds from the sale or maturity of investments			
Proceeds from the sale of property, plant and equipment			
Purchase of property, plant and equipment			
Net cash provided by (used in) investing activities			
Cash flows from financing activities:			
Payment of dividends			
Proceeds from RUS loan			
Payments on RUS loan			
Net cash used in financing activities			
Net decrease in cash			
Cash:			
Beginning of year			
End of year			
Supplemental cash flow disclosures:			
Interest paid			
Income taxes paid (refunded)			

MILLINGTON TELEPHONE COMPANY, INC.

Detail Schedule of Investments

December 31, 2014 and 2013

**Millington
Long
Distance**

Original Investment:

Accumulated undistributed Income as of December 31, 2013

Book value of investment as of December 31, 2013

Undistributed income for 2014

Book value of investment as of December 31, 2014





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Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements

The Board of Directors and Shareholder
Millington Telephone Company, Inc.:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Millington Telephone Company, Inc. and subsidiary (the Company), which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statement of operations, comprehensive income (loss), stockholder's equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 31, 2015. In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2015, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. We have also issued our report dated March 31, 2015 on consolidating supplementary information to the consolidated financial statements. No reports other than reports referred to above related to our audit have been provided to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Company failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below:

- Accounting procedures;
- Accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconciling property records to the general ledger;
- Clearing construction accounts and accruing depreciation on completed construction;
- Recording the retirement of property;
- Seeking approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintaining control over materials and supplies;
- Preparing Financial and Operating Reports;
- Obtain written approval of the RUS to enter into any contract, agreement, or lease with an affiliate as defined in §1773.33(e)(2)(i);



- Disclosing material related party transactions in the financial statements in accordance with accounting principles generally accepted in the United States of America; and
- Complying with the requirements for the detailed schedule of investments.

Our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Company's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters as enumerated above.

The purpose of this report on compliance with aspects of contractual agreements and regulatory requirements is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, as clarified in the RUS policy memorandum dated February 7, 2014. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

March 31, 2015