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GREATWAVE
COMMUNICATIONS

June 26, 2015

Customer Operations
High Cost Program
2000 L Street NW, Suite 200
Washington, DC 20036

Re: Conneaut Telephone Company (dba GreatWave Communications), SAC-300606

Customer Operations,

Please find the Five-Year Plan for Conneaut Telephone Company (SAC-300606) and 2013 audited financial statements attached to Form 481. The Company's 2014 audited financial statements are not currently available but will be completed by July 31, 2015. Once the audited financial statements are complete, Conneaut will provide the 2014 audited financial statements and recertify the filing.

Please let me know if you have any questions.

Sincerely,

Kenneth E. Johnson
CEO
224 State Street
P.O. Box 579
Conneaut, OH 44030

Encl.

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Received & Inspected

JUN 29 2015

FCC Mail Room

THE CONNEAUT TELEPHONE COMPANY
and Wholly Owned Subsidiary

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL INFORMATION

Years Ended December 31, 2013 and 2012

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THE CONNEAUT TELEPHONE COMPANY
and Wholly Owned Subsidiary

TABLE OF CONTENTS

Demarchi & Associates
Certified Public Accountants
925 Euclid Avenue - Suite 636
Cleveland, Ohio 44115-1405
Phone (216) 241-6975
Fax (216) 241-6978

Independent Auditors' Report

Board of Directors
The Conneaut Telephone Company
Conneaut, Ohio

We have audited the accompanying consolidated balance sheets of THE CONNEAUT TELEPHONE COMPANY and its wholly owned subsidiary, [redacted] as of December 31, 2013, and 2012, and the related consolidated statements of income, retained earnings, and cash flows and accompanying schedules, for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of the [redacted] limited partnership, in which the Company owns a minority interest. The Company's investment in this partnership was sold in 2013 (see Note 8). Our opinion, in so far as it relates to amounts included from this partnership, is based on appropriate audit procedures we performed to satisfy ourselves.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2013 and 2012 consolidated financial statements, referred to above present fairly, in all material respects, the financial position of THE CONNEAUT TELEPHONE COMPANY and its wholly owned subsidiary as of December 31, 2013 and 2012, and the results of their operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as whole. The supplemental information presented on pages 24 through 33 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole.

July 22, 2014

Demarchi & Associates

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BALANCE SHEETS

THE CONNEAUT TELEPHONE COMPANY
and Wholly Owned Subsidiary

December 31, 2013 and 2012

ASSETS

	2013	2012
Current Assets:		
Cash on Hand	$ [redacted]	$ [redacted]
Cash in Bank		
Subtotal		
Accounts Receivable - Telecommunications (Less allowance of [redacted] and [redacted])	[redacted]	[redacted]
Accounts Receivable - Other		
Materials and Supplies Inventory		
Prepaid Expenses		
Prepaid Federal Income Tax (Note 7C)		
Unamortized Refinancing Cost (Note 2B)		
Total Current Assets		
Non-Current Assets:		
Deferred Tax Regulatory Assets (Notes 2A and 7A 1)	[redacted]	[redacted]
Unamortized Refinancing Cost (Note 2B)		
Total Non-Current Assets		
Other Assets:		
Investment in [redacted] (Note 3B + 8)	[redacted]	[redacted]
Investment in [redacted] (Note 13)		
Total Other Assets		
Plant, Property, and Equipment:		
Plant in Service (Note 4)	[redacted]	[redacted]
Less: Accumulated Depreciation and Amortization		
Net Plant in Service		
Add: Plant Under Construction		
Non-Operating Plant		
Net Plant, Property & Equipment	[redacted]	[redacted]
TOTAL	$ [redacted]	$ [redacted]

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	2013	2012
Current Liabilities:		
Current Portion - Long Term Debt - [redacted] (Note 13)	$ [redacted]	$ [redacted]
- Capital Equipment Leases (Note 14)		
Accounts Payable		
Advance Billings and Payments		
Accrued Taxes - Other		
Accrued Pension Contribution		
Accrued Dividends on Preferred Stock (Note 9)		
Other Accrued Expenses		
Total Current Liabilities		
Long Term Debt - [redacted] (Note 13)	[redacted]	[redacted]
- Capital Equipment Leases (Note 14)		
Total Long Term Debt		
Other Liabilities and Deferred Credits:		
Unfunded Accrued Pension Cost (Note 5)	[redacted]	[redacted]
Unfunded Accrued Other Postretirement Benefits (Note 6)		
Deferred Tax Liability (Note 7A 2a)		
Deferred Tax Regulatory Liability (Note 7A 2b)		
Deferred Tax Regulatory Adjustment Account (Note 7A 2c)		
Total Other Liabilities and Deferred Credits		
Total Liabilities	[redacted]	[redacted]
Stockholders' Equity:		
Preferred Stock-Authorized [redacted] Shares @ [redacted] Par Value; Issued and Outstanding, [redacted] shares @ [redacted] Par Value	[redacted]	[redacted]
Common Stock-Authorized [redacted] Shares @ [redacted] Par Value; Issued and Outstanding, [redacted] Shares @ [redacted] Stated Value	[redacted]	[redacted]
Less - [redacted] Shares Treasury Stock at Cost		
Common Stock Outstanding ([redacted] Shares)		
Additional Paid-In-Capital (on Common Stock)		
Retained Earnings (Page 4)		
Accumulated Other Comprehensive Income (Note 5)		
Total Stockholders' Equity	[redacted]	[redacted]
TOTAL	$ [redacted]	$ [redacted]

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STATEMENTS OF INCOME

THE CONNEAUT TELEPHONE COMPANY
and Wholly Owned Subsidiary

Years Ended December 31, 2013 and 2012

	2013	2012	Increase (Decrease)
Operating Revenues (Page 31)			
Local Network Services Revenue	$ [redacted]	$ [redacted]	$ [redacted]
Network Access Services Revenue			
Long Distance Network Services Revenue			
Miscellaneous Revenue			
Less - Uncollectible Revenues			
Total Operating Revenues - Regulated			
Operating Expenses (Pages 32 and 33)			
Plant Specific Operations	[redacted]	[redacted]	[redacted]
Plant Nonspecific Operations			
Customer Operations			
Corporate Operations			
Depreciation and Amortization			
Total Operating Expenses - Regulated			
Operating Taxes			
Federal Income Tax - Current Expense (Credit) (Note 7 B)	[redacted]	[redacted]	[redacted]
- Deferred Expense (Note 7 B)			
Other Operating Taxes (Note 17)			
Total Operating Taxes - Regulated			
Operating Loss Before Interest - Regulated	[redacted]	[redacted]	[redacted]
Less - Interest Expense on Long Term Debt	[redacted]	[redacted]	[redacted]
Operating Loss - Regulated	[redacted]	[redacted]	[redacted]
Other Income (Expense) - Net (Page 33)	[redacted]	[redacted]	[redacted]
Loss from Regulated Operations	[redacted]	[redacted]	[redacted]
Nonregulated Income (Loss)			
Net Income - [redacted] (Page 24)	[redacted]	[redacted]	[redacted]
Net Income - [redacted] (Page 25)			
Net Loss - [redacted] (Page 27)			
Other Income & (Expenses) - Deregulated (Page 28)			
Total Nonregulated Net Income			
Loss before Extaordinary Income			
Extraordinary Income (Note 8)			
Gain on Sale of Partnership Interest	[redacted]	[redacted]	[redacted]
NET INCOME (LOSS)	$ [redacted]	$ [redacted]	$ [redacted]

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF RETAINED EARNINGS

THE CONNEAUT TELEPHONE COMPANY
and Wholly Owned Subsidiary

Years Ended December 31, 2013 and 2012

	2013	2012
BALANCE AT BEGINNING OF YEAR	$ [redacted]	$ [redacted]
Add: Net Income (Loss) for the Period (Page 3)	[redacted]	[redacted]
Subtotal	[redacted]	[redacted]
Less: Dividends on Preferred Stock (Note 9)	[redacted]	[redacted]
Dividends on Common Stock	[redacted]	[redacted]
Total Dividends	[redacted]	[redacted]
BALANCE AT END OF YEAR - CONSOLIDATED	$ [redacted]	$ [redacted]

* * * * * *

	2013	2012
BOOK VALUE PER SHARE (NOTE 10)	$ [redacted]	$ [redacted]
EARNINGS (LOSS) PER SHARE (NOTE 11)		
a) Before Extraordinary Income	$ [redacted]	$ [redacted]
b) After Extraordinary Income	$	$

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF CASH FLOWS

THE CONNEAUT TELEPHONE COMPANY
and Wholly Owned Subsidiary

Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers, etc.	$ [redacted]	$ [redacted]
Interest, Dividends and Capital Gains - net		
Interest Paid		
Cash Paid to Suppliers, Employees and Relative Expenses		
Taxes Paid		
Net Cash Provided by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of Fixed Assets	[redacted]	[redacted]
Acquisition of Plant Under Construction		
Distributions from Partnerships - [redacted]		
Gross Proceeds From [redacted] Sale		
Net Increase from [redacted] Certificate		
Net Cash Provided (Used) by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Capital Lease Financing	[redacted]	[redacted]
Proceeds from [redacted] Refinanced Loan		
Payoff of former [redacted] Term Loan		
Principal Payments - [redacted] Term Loans		
- [redacted] Line of Credit		
- Capital Leases		
Payoff of Vehicles before Sale & Leaseback		
Net Cash Used by Financing Activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	[redacted]	[redacted]
Cash and Cash Equivalents at Beginning of Year	[redacted]	[redacted]
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ [redacted]	$ [redacted]

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS (Cont'd)

THE CONNEAUT TELEPHONE COMPANY
and Wholly Owned Subsidiary

Years Ended December 31, 2013 and 2012

	2013	2012
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income (Loss) (Page 3)	$ [redacted]	$ [redacted]
Adjustments to Reconcile Net Income and Net Cash Provided by Operating Activities:	[redacted]	[redacted]
Depreciation and Amortization		
Non-Cash - Partnership (Income) - [redacted]		
Extraordinary Gain on Sale of [redacted] -Before Taxes		
Net Federal Income Tax Expensed Non-Cash		
Non-Cash - Loss on Vehicle Sale/leaseback		
Decrease in Receivables		
(Increase) in Prepaid Federal Income Tax		
(Increase) Decrease in Prepaid Items		
Amortization of Refinancing Costs- [redacted] Note		
Decrease in Materials & Supplies Inventory		
Increase (Decrease) in Accounts Payable		
Increase (Decrease) in Advance Billings		
Increase in Accrued Taxes		
Increase in Accrued Dividends Payable		
Increase in Accrued Pension Contribution		
Increase (Decrease) in Other Accrued Expenses		
Pension Expense (Credit) - Non Cash		
Increase in Accrued Retirement Health Benefits-Non Cash		
Other Post Retirement Benefit Payments Made		
Increase (Decrease) Other Comprehensive Income		
Other Non-Cash Adjustments		
Total Adjustments		
TOTAL CASH PROVIDED BY OPERATING ACTIVITIES		$

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist the reader in understanding and evaluating the consolidated financial statements of the parent company, The Conneaut Telephone Company, and its wholly-owned subsidiary, [redacted]

General Policy – The Telephone Company is primarily a regulated public utility, and follows the accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulations." This accounting recognizes the economic effects of rate regulations by recording costs and a return on investment as such amounts are recovered through rates authorized by regulatory authorities.

[redacted] a wholly-owned subsidiary that began operations in July, 2001, operates [redacted] services in the same basic area of the telephone company. [redacted] was organized to maintain separate operations from the state regulated telephone utility company. All significant intercompany accounts and profit have been eliminated in these consolidated financial statements.

Revenues are recognized when earned. In telephone operations, this is generally based on usage of the Company's local exchange networks or facilities or under revenue sharing arrangements with other telecommunications carriers. For [redacted] services and other products or services, revenue is recognized when products are delivered or services are rendered to customers.

Non-regulated income includes [redacted] (page 24), [redacted] (page 25), [redacted] (page 27) and Other Income and Expenses – Deregulated, such as [redacted] (page 28). The Company carries its assets and liabilities on the historical cost basis and follows the accrual basis of accounting. The Company's policy is to hold marketable securities to maturity.

Inventories are stated at lower of cost or market. Cost is determined by the average cost method on a first-in, first-out basis.

Both the telephone and [redacted] plants are carried at cost in continuing mass asset accounts, which includes expenditures for new facilities, and major renewals and betterments. Maintenance, repairs, and minor renewals are charged to expense as incurred. When assets are retired, or otherwise disposed of, the depreciation reserve is charged with the full cost or other basis of the asset, and credited with the salvage value and/or proceeds.

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

For the Telephone Company, depreciation is based on the estimated useful lives computed for financial reporting on the straight-line method. For each mass asset account, the average of the beginning and ending monthly balances is computed and the applicable depreciation rate is applied.

Thus, depreciation is calculated on a monthly basis. For income tax purposes, the Company adheres to the normalization rule in applying straight-line and accelerated rates.

[redacted] calculates its depreciation on the accelerated method for tax purposes. For financial reporting purposes, depreciation is based on the estimated useful lives, which is longer than for tax purposes.

In line with the continuing mass asset accounts, additions to and retirements from are made as they occur. Individual assets in continuing account may be fully depreciated; yet the account will continue to be a live account against which depreciation reserve is less than the cost or other basis (adjusted for salvage) of all the assets in the account.

For the purpose of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Company provides telecommunication, [redacted] and [redacted] services. The Company commenced business in 1897 and is located at 224 State Street in Conneaut, Ohio.

2. NON-CURRENT ASSETS

A. DEFERRED TAX

Non-current assets consist of a deferred tax regulatory asset. In accordance with the adoption provisions of F.C.C. Docket #89-360, effective February 8, 1994, the Company recognized a deferred tax regulatory asset in implementing FASB ASC 740 (formerly #109): "Accounting for Income Taxes." This account acts in conjunction with liability accounts "Deferred Tax Regulatory Liability" and "Deferred Tax Regulatory Adjustment Account" to maintain the revenue neutral standard of the order. The balance as of December 31, 2013 is [redacted] and in 2012 [redacted] respectively.

B. UNAMORTIZED REFINANCING COST

The Company refinanced its long term loan with [redacted] (see Note 13) in June 2012. The fixed interest rate conversion cost amounted to [redacted] and is being amortized over the new loan's [redacted] life. At December 31, 2013, the current unamortized portion was [redacted] and the long term portion was [redacted]

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

3. OTHER ASSETS

A. INTANGIBLE [redacted] CUSTOMER LIST

In 1999 the Company purchased an [redacted] customer subscriber list from [redacted] for [redacted] This cost was fully amortized over [redacted] months at [redacted] per month.

However, for Income Tax Purposes, amortization is over [redacted] years, at [redacted] per month, per IRS Section 197.

B. INVESTMENT IN [redacted] PARTNERSHIP

The Company held a [redacted] percent ownership in the [redacted] Partnership which was formed on December 6, 1989. The remaining [redacted] percent of [redacted] was owned originally by [redacted] The Partnership was formed for the purpose of providing [redacted] service within the [redacted] geographic service area. The Partnership's [redacted] system has been operating since September 10, 1991.

[redacted] was acquired by [redacted] in January, 2009. In April 2010, [redacted] completed its sale of [redacted] ownership in [redacted] to [redacted] who then sold their [redacted] to [redacted]

[redacted] then purchased the Company's [redacted] interest in 2013. See Note 8, Extraordinary Income.

Accordingly, 2013 is the last year the Company will have income from this partnership.

The Company had accounted for the investment under the equity method, which records the original investment at cost and is adjusted periodically to recognize the Company's share of earnings and distributions after the date of acquisition. The equity balance at December 31, 2012 was [redacted]

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NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

4. TELEPHONE PLANT, PROPERTY AND EQUIPMENT

This consists of telephone (primarily regulated) plant in service, [redacted] (non-regulated), and [redacted] (non-regulated), property, plant and equipment at cost, as follows:

	2013	2012
TELEPHONE PLANT IN SERVICE		
Land	$ [redacted]	$ [redacted]
Buildings		
Digital Electronic Switching (includes Capital Lease equipment)		
Station Apparatus	[redacted]	[redacted]
Poles, Cables and Wire		
Other Equipment, etc.		
General Purpose Computers		
Furniture & Office Equipment		
Total Telephone Plant In Service		
[redacted] PLANT IN SERVICE (non regulated)		
[redacted] - Switching Equipment	[redacted]	[redacted]
- Computers		
- Furniture and Equipment		
Total [redacted] Plant In Service (non regulated)	[redacted]	[redacted]
Total Cost Basis Telephone Company	[redacted]	[redacted]
[redacted] PLANT IN SERVICE		
[redacted] & Building	[redacted]	[redacted]
Switching Equipment		
Computers		
Customer Premise Equipment		
Total [redacted] Cost Basis		
TOTAL COST BASIS	[redacted]	[redacted]
Less: Accumulated Depreciation		
Telephone Company	[redacted]	[redacted]
[redacted] Company		
Total		
NET PLANT, PROPERTY & EQUIPMENT	[redacted]	[redacted]

The Telephone Company's total depreciation expense for the current year amounted to [redacted] amounted to [redacted] and [redacted] amounted to [redacted]

The accompanying notes are an integral part of these financial statements.

5. PENSION PLAN

The Company has a defined benefit pension plan covering all of its employees. The benefits are based on years of service and the employee's final average monthly pay, which is the monthly average of an employee's earnings during the [redacted] consecutive years within the last [redacted] years of employment, which produce the highest average. The Company's funding policy is to contribute annually an amount that, based on actuarial assumptions, is greater than the minimum required contribution, to meet the minimum funding standards of ERISA, but less than the maximum amount that can be deducted for federal income tax purposes. However, the Company has temporarily frozen pension plan benefit accruals for newly hired and existing employees. The funds are invested in various (a) common stocks; (b) fixed income securities; and, (c) convertible securities.

During the year 2006, the Company began reporting its pension liability under the new FASB No. 158 rules. Under these new rules, the Funded Status is reported using only the fair value of plan assets compared to the projected benefit obligation. In prior years, the net unrecognized transition obligation from 1990 was being amortized over [redacted] years, and was also included in the funded status calculation. Under the new rules, the unrecognized transition obligation is added to the pension liability account as of December 31, 2004, with a charge to retained earnings, net of deferred tax. Furthermore, previously unrecognized actuarial gains and losses are now recognized in a new liability account in stockholders equity called Accumulated Other Comprehensive Income.

The following tables set forth the plan's funded status and amounts recognized in the Company's balance sheets at December 31, 2013 and 2012.

	2013	2012
Actuarial present value of benefit obligations		
Accumulated Benefit Obligations, including vested benefits of [redacted] and [redacted]	$ [redacted]	$ [redacted]
Projected benefit obligation for service rendered to date	$ [redacted]	$ [redacted]
Plan assets at fair value, primarily listed stocks and securities	[redacted]	[redacted]
Unfunded Accrued Pension Cost	$ [redacted]	$ [redacted]

The Segmented Interest Rates were used in determining the actuarial present value of the projected benefit obligation.

Under the Pension Protection Act of 2006, new rules for determining funding requirements were first used in Year 2008.

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

5. PENSION PLAN (Cont'd)

An alternative amortization approach was used to amortize the unrecognized net obligations, i e, a straight-line amortization over the average remaining service period of employees expected to receive benefits under the plan.

	2013	2012
Projected Benefit Obligation: Reconciliation		
Beginning Balance	[redacted]	$ [redacted]
Service Cost		
Interest Cost		
Actuarial (Gains) and Losses		
Benefits Paid and Expenses		
Ending Balance		
Fair Value Plan Assets: Reconciliation		
Beginning Balance	[redacted]	[redacted]
Actual Return on Plan Assets		
Employer Contributions		
Benefits Paid		
Actuarial Adjustment		
Ending Balance		
Unfunded Accrued Pension	[redacted]	[redacted]

	2013	2012
Net pension cost for 2013 and 2012 included the following components:		
Interest cost on projected benefit obligation	$ [redacted]	$ [redacted]
Actual return on plan assets		
Net (gain) loss		
Net Periodic Pension Cost (Credit)	$	$

ACCUMULATED OTHER COMPREHENSIVE INCOME

An analysis of Accumulated Other Comprehensive Income under FASB 158 follows:

Net Unrecognized Actuarial Gains and losses at 12/31/04	$ [redacted]
Less Deferred Income Tax [redacted]	
Reclassified as Other Comprehensive Income 1/1/05	
Net Gains and (Losses) from 2005 to 2012	
Year 2013 (Loss)	
Balance December 31, 2013	$ [redacted]

The accompanying notes are an integral part of these financial statements.

6. POSTRETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the Company provides certain health care benefits for retired employees, specifically the payment of health care insurance premiums. All of the Company's employees may become eligible for these benefits if they reach normal retirement age while working for the Company. For early retirees age [redacted] and over, the Company pays the Medicare supplement rate, with the retirees paying the balance. The plan is neither funded nor does it hold any assets. The premiums are paid from cash flows provided by operating activities. There are no non-benefit liabilities or significant matters affecting the comparability of information for the periods presented.

The Company has adopted and implemented the provisions of FASB #158 in Year 2006. Under these new rules, the Funded Status is reported using only the Accumulated Benefit Obligation compared to the fair value of plan assets.

Effective August 1, 2008 the Company was able to reduce its monthly hospitalization premium to [redacted] per participant. Since 1993 the Postretirement Health Care Benefit Obligation (OPEB) liability had been calculated using a [redacted] monthly premium, plus an assumed [redacted] annual increase. The actual rate of [redacted] is much lower than the prior assumptions and dramatically reduced the 2008 and thereafter calculations of the OPEB liability. The Current obligation calculation also assumes an annual increase of [redacted] rather than [redacted]

The following tables set forth the plan's funded status and amounts recognized in the Company's balance sheets at December 31, 2013 and 2012.

	2013	2012
Retirees	$ [redacted]	$ [redacted]
Other active plan participants		
Accumulated Benefit Obligation	$ [redacted]	[redacted]
Accumulated Benefit Obligation	$ [redacted]	[redacted]
Plan assets at fair market value		
Unfunded Accrued Other Postretirement Benefits	$ [redacted]	[redacted]

The accompanying notes are an integral part of these financial statements.

6. POSTRETIREMENT HEALTH CARE BENEFITS (Cont'd)

Net Postretirement Benefit Cost for 2013 and 2012 included the following components:

	2013	2012
Service cost-benefits earned during Year	$ [redacted]	$ [redacted]
Interest cost on accumulated benefit obligation		
Net Periodic Postretirement Benefit Cost	$	$
Accrued Benefit Cost at beginning of Year	[redacted]	[redacted]
Net Periodic Postretirement Benefit Cost	[redacted]	[redacted]
Contribution (payments made)		
Adjustment for Employee Resignations		
Unfunded Accrued Postretirement Benefit Cost. End of Year – Funded Status	[redacted]	$ [redacted]

The weighted average discount rate used in determining the present value of the accumulated benefit obligation and the health care cost trend rate (current and prospective) were [redacted] and [redacted] percent, respectively.

Increasing the weighted average health care cost trend rate [redacted] to [redacted] would increase both the accumulated postretirement benefit obligation as of December 31, 2013 and 2012 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the years then ended as follows:

If Costs Increase to [redacted]	2013	2012
Accumulated Benefit Obligation increases by	[redacted]	$ [redacted]
Postretirement Benefit Cost increases by	[redacted]	$ [redacted]

Decreasing the weighted average health care cost trend [redacted] to [redacted] would decrease both categories as follows:

If Costs Decrease to [redacted]	2013	2012
Accumulated Benefit Obligation decreases by	[redacted]	[redacted]
Postretirement Benefit Cost decreases by	$ [redacted]	$ [redacted]

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

7. INCOME TAXES AND DEFERRED TAXES

The Company uses different methods to account for Depreciation Expense, Postretirement Benefits, Pension Costs, and other items for financial reporting purposes than it does for income tax purposes. The differences between these two reporting methods result in future tax consequences which are provided for in Deferred Taxes on the Balance Sheet, in the financial statements.

In accordance with the provisions of FASB ASC 740 (formerly #109), the following are presented in their required detail:

A. Components of Deferred Tax Assets and Deferred Tax Liabilities
B. Components of Tax Expense for financial reporting purposes
C. Reconciliation of expected and actual Tax Expense

A. 1. Components of Deferred Tax Assets:

	2013	2012
Deferred tax regulatory asset FCC mandated gross up to FASB ASC 740 of -		
[redacted] Investment	$ [redacted]	$ [redacted]
Capital Lease		
Regulatory Asset		
Total Deferred Tax Regulatory Asset	$	$

2. Components of Deferred Tax Liability:

	2013	2012
a) Non-current Deferred Tax Liabilities –		
Telecommunications Plant – net diff.	$ [redacted]	[redacted]
[redacted] Investment		
Amortization of Intangible		
OPEB (FASB #158)		
Pension Costs (FASB #158)		
Unamortized Lease		
Net Operating Loss Carryover		
	$	
Tax Rate		
Consolidated Total Non-current Deferred Tax Liabilities	$ [redacted]	$ [redacted]

The accompanying notes are an integral part of these financial statements.

7. INCOME TAXES AND DEFERRED TAXES (Cont'd)

	2013	2012
A. 2. b) Deferred Tax Regulatory Liability		
FCC mandated gross up of –		
Transition Adj. to FASB ASC 740	$ [redacted]	$ [redacted]
OPEB costs (FASB #158)		
Pension cost (FASB #158)		
Amortization of Intangible		
Regulatory liability		
Total Deferred Tax Regulatory Liability	$ [redacted]	$ [redacted]

c) Deferred Tax Regulatory Adjustment Account

	2013	2012
Deferred taxes and gross up –		
Transition Adj. to FASB ASC 740	$ [redacted]	$ [redacted]
[redacted] Investment		
Amortization of Intangible		
Pension cost (FASB #158)		
OPEB (FASB #158)		
Unamortized Capital Lease		
Regulatory Asset and Liability		
Total Deferred Tax Regulatory Adjustment Account	$ [redacted]	$ [redacted]

B. Components of Tax Expense for Financial Reporting Purposes:

	2013	2012
Provision for Current Tax (Credit)	$ [redacted]	$ [redacted]
Provision for Deferred Income Tax (Credit)		
Total Income Tax Expense (Credit) for Financial Reporting	$ [redacted]	$ [redacted]

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

7. INCOME TAXES AND DEFERRED TAXES (Cont'd)

B. (Cont'd)

The foregoing Federal Income Tax Expense (Credit) is reported in these financial statements as follows –

	2013	2012
Federal Income Tax – Current -		
Regulated Operations	[redacted]	$ [redacted]
[redacted] Income		
[redacted] Operations		
Other Deregulated		
[redacted]		
Extraordinary Income		
Total Current Tax Expense (Credit)		
Deferred Taxes –		
Regulated Operations	[redacted]	[redacted]
[redacted] Operations		
[redacted] Income		
Other Deregulated		
[redacted]		
Extraordinary Income		
Total Deferred Tax Expense (Credit)		
Net Tax Expense (Credit)	$ [redacted]	$ [redacted]

C. Reconciliation of Expected and Actual Tax Expense:

Year 2013	Taxable Income	Tax	Rate
Pre-tax accounting book income and expected tax at statutory rate	$ [redacted]	$ [redacted]	[redacted]
Book vs. tax timing differences – net			
Total Taxable Income	$ [redacted]		
Income Tax Expense [redacted]		[redacted]	[redacted]
Alternative Minimum Tax			
Provision for Deferred Tax Expense			
Net Tax Expense for Financial Reporting in 2013		$ [redacted]	[redacted]

During the year the Company paid in estimated Income Taxes of [redacted] The actual tax amounted to [redacted] leaving prepaid taxes of [redacted]

The accompanying notes are an integral part of these financial statements.

7. INCOME TAXES AND DEFERRED TAXES (Cont'd)

C. (Cont'd):

The total N.O.L. carryforward is [redacted] at December 31, 2013 and the related tax benefit is [redacted] The N.O.L. carryforward begins expiring in Year 2024.

Year 2012	Taxable (Loss)	Tax	Rate
Pre-tax accounting Book income and expected tax at statutory rate	$ [redacted]	$ [redacted]	[redacted]
Book vs. tax timing differences – net			
Total Taxable Income (Loss)	$ [redacted]	[redacted]	[redacted]
Income Tax Expense			
Provision for Deferred Tax Expense			
Net Tax (Credit) for Financial Reporting in 2012		$ [redacted]	[redacted]

8. EXTRAORDINARY INCOME

The Company experienced Extraordinary Income in 2013 from the sale of a partnership interest.

The Company finalized the sale of its [redacted] interest in [redacted] Partnership on November 22, 2013 to [redacted]

[redacted] had recently acquired the other [redacted] interest from [redacted] (Note 3B) in February 2013, and wanted [redacted] ownership.

After hiring a consultant and months of negotiating, a sales price of [redacted] was agreed to and the sale finalized on November 22, 2013.

Accordingly, the Company realized Extraordinary Income in 2013 as follows:

Sales Price		[redacted]
Less Commission on Sale		
Less Cost Basis of Investment		
Gain on Sale		
Federal Income Tax Expense	[redacted]	
Deferred Tax Credit		
Less Net Tax Expense		[redacted]
NET GAIN ON SALE OF PARTNERSHIP		[redacted]

9. DIVIDENDS ON PREFERRED STOCK

The Board of Directors have declared Dividends on Preferred Stock amounting to [redacted] However, [redacted] has not approved payment of the Dividends since the Company [redacted] Accordingly, there are Accrued Dividends on Preferred Stock of [redacted] and [redacted] at December 31, 2013, and 2012 respectively.

10. BOOK VALUE

Book value per share is based upon [redacted] shares outstanding for 2013 and for 2012, and is calculated as follows:

	2013	2012
Stockholders' Equity - Preferred Stock Outstanding		
[redacted] Common Shares =		
Book Value Per Share	$ [redacted]	$ [redacted]

11. EARNINGS (LOSS) PER SHARE

Earnings per share is based upon [redacted] average shares outstanding for 2013 and for 2012, and is calculated using the following formula:

Net Income (Loss) – Preferred Dividends
Average Common Shares = EPS

	2013	2012
Net Income (Loss) before Extraordinary Income		
$ [redacted] - Preferred Dividends [redacted]		
[redacted] Average Common Shares =		
Earnings (Loss) per Share before Extraordinary Income	$ [redacted]	$ [redacted]
Net Income (Loss) after Extraordinary Income		
$ [redacted] - Preferred Dividends [redacted]		
[redacted] Average Common Shares =		
Earnings (Loss) per Share after Extraordinary Income	$ [redacted]	$ [redacted]

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

12. OPERATING LEASES

A. In March 2009, the Company originally signed a [redacted] lease with [redacted] to provide [redacted] of [redacted] for its [redacted] operation; and to provide [redacted] service for its [redacted] operation. The monthly lease rate was [redacted] and the lease was to end in March 2014. However, the Company renegotiated this lease in July, 2013 for [redacted] months at a new low monthly rate of [redacted] This new lease began on August 1, 2013 and expires in July 2018.

B. The Company also has a small operating lease for land for its [redacted]

C. In 2012 the Company converted its various capital leases and vehicle loans into one master operating lease with [redacted] In 2013, some vehicles were traded in and some were added. There are currently [redacted] under lease with [redacted] months remaining.

The following is a schedule by years of future minimum rental payments, required under operating leases that have initial or remaining non-cancelable lease terms as of December 31, 2013:

Year - 2014	[redacted]
- 2015	
-2016	
-Thereafter	
Total Minimum Future Lease Payments	

13. NOTE PAYABLE – [redacted] LONG TERM LOAN

The Company's [redacted] year long term loan agreement with the [redacted] began on July 18, 2000, and was scheduled to expire in 2015.

In June 2012, the Company refinanced this loan along with its [redacted] line of credit into [redacted] term loan with [redacted] The new loan reduced the interest rate from [redacted] and increased the principal payments into a [redacted] amortization which will substantially reduce the monthly payment and significantly reduce future interest expense.

As of December 31, 2013 the loan balance is [redacted] of which [redacted] is classified as long term debt and [redacted] is shown as current liability. The amount of loan principal paid in 2013 amounted to [redacted] (of which [redacted] was required in connection with the sale of the [redacted] partnership), and [redacted] of principal was paid in 2012.

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

The Conneaut Telephone Company

December 31, 2013

13. NOTE PAYABLE - [redacted] LONG TERM LOAN (Cont'd)

As of December 31, 2012 the loan balance was [redacted] of which [redacted] was classified as long term debt and [redacted] as current.

The total interest paid on this note was [redacted] for 2013 (of which [redacted] represented a prepayment interest penalty) and [redacted] for the year 2012, all of which was expensed.

The future principal payments of long-term debt (not including interest) as of December 31, 2012 are as follows:

Year:	2014	$ [redacted]
	2015	
	2016	
	2017	
	2018	
	2019	
	TOTAL	$

The loan also requires that [redacted] percent of the total loan be used to purchase a [redacted] which is amortized annually to maintain a [redacted] -to-outstanding loan balance. The [redacted] amortized amounts are paid in cash to the Company. The Company received [redacted] cash payments of [redacted] for the year 2013. However, for 2012 no cash payment was received because the new 2012 loan agreement required a [redacted] abatement period.

14. CAPITAL EQUIPMENT LEASES

During 2013 the Company has acquired various machinery and equipment that totaled [redacted] These purchases were financed with [redacted] capital leases having terms ranging from [redacted] months to [redacted] months. The current portion of these capital leases is [redacted] and the long term amount is [redacted]

15. LAWSUITS AND CONTINGENCIES

Management and legal counsel have informed us that they are not aware of any material litigation or contingencies.

16. ADVERTISING

The Company expenses advertising costs as incurred. Advertising expense amounted to [redacted] and [redacted] for the years 2013 and 2012, respectively.

The accompanying notes are an integral part of these financial statements.