Stayton Cooperative Telephone Company and Subsidiaries

Consolidated Financial Statements with Supplemental Information

Years Ended December 31, 2015 and 2014

AKT
CPAs and Business Consultants

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidated Financial Statements with Supplemental Information

Years Ended December 31, 2015 and 2014

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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, 2015 and 2014, 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 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, 2015 and 2014, 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 subjected 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
February 26, 2016

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2015 and 2014

ASSETS	2015	2014
Current Assets:		
Cash and cash equivalents	$ 4,409,550	$ 5,062,391
Marketable securities	895,182	495,957
Accounts receivable, less allowance for doubtful accounts of $5,000 in 2015 ($7,000 in 2014)	1,194,301	1,596,683
Current portion of notes receivable	17,741	107,237
Materials and supplies	715,017	769,498
Prepaid expenses	374,518	408,908
Total Current Assets	7,606,309	8,440,674
Other Assets and Investments:		
Nonutility property	465,565	464,353
Notes receivable	173,550	191,656
Other investments	1,245,141	1,231,745
Deferred income taxes	451,248	396,993
Other assets	1,188,063	1,190,423
Total Other Assets and Investments	3,523,567	3,475,170
Property, Plant, and Equipment:		
Telecommunications	61,152,551	58,032,924
Under construction	2,991	1,082,671
Total Property, Plant, and Equipment	61,155,542	59,115,595
Less accumulated depreciation	32,857,958	31,103,658
Property, Plant, and Equipment, net	28,297,584	28,011,937
Total Assets	$ 39,427,460	$ 39,927,781

See notes to consolidated financial statements.

LIABILITIES AND MEMBERS' EQUITY	2015	2014
Current Liabilities:		
Current portion of long-term debt	$ 937,500	$ 937,500
Accounts payable	247,392	314,368
Patronage capital payable	362,814	124,377
Accrued expenses	301,471	508,023
Advanced billing	424,570	422,987
Income taxes payable	20,000	-
Total Current Liabilities	2,293,747	2,307,255
Long-Term Liabilities		
Other long-term liabilities	987,662	986,384
Long-term debt	1,875,000	2,812,500
Deferred Credits	1,041,780	1,136,158
Total Long-Term Liabilities	3,904,442	4,935,042
Members' Equity:		
Memberships	26,887	26,718
Patronage capital	30,513,074	30,628,070
Permanent capital	2,684,582	2,023,929
Accumulated other comprehensive income	4,728	6,767
Total Members' Equity	33,229,271	32,685,484
Total Liabilities and Members' Equity	$ 39,427,460	$ 39,927,781

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidated Statements of Operations

Years Ended December 31, 2015 and 2014

	2015	2014
Operating Revenues:		
Local network	$ 1,550,488	$ 1,624,446
Network access	9,496,525	10,056,456
Internet	108,843	433,985
Long distance	252,953	261,283
Other operating – regulated	353,733	363,870
Other operating – nonregulated	255,941	332,036
Total Operating Revenues	12,018,483	13,072,076
Operating Expenses:		
Plant specific	1,268,698	1,138,383
Plant nonspecific	845,298	698,164
Customer	738,036	731,142
General and administrative	1,816,762	2,014,635
Depreciation and amortization	3,492,866	3,255,688
Internet	962,774	1,001,505
Long distance	108,509	145,479
Other operating – nonregulated	474,014	530,192
Other taxes	403,033	414,048
Income tax provision	491,538	294,326
Total Operating Expenses	10,601,528	10,223,562
Operating Margin	1,416,955	2,848,514
Other Income and Expenses, net	54,841	(13,163)
Margin Available for Fixed Charges	1,471,796	2,835,351
Fixed Charges, Interest on Long-Term Debt	180,078	228,111
Net Margin	$ 1,291,718	$ 2,607,240

See notes to consolidated financial statements.

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2015 and 2014

	2015	2014
Net Margin	$ 1,291,718	$ 2,607,240
Other Comprehensive Income:		
Unrealized gain (loss) on marketable securities	(23,995)	27,045
Reclassification adjustment for (gains) losses realized, net of tax	12,358	(7,535)
Deferred tax asset (liability) on unrealized gain (loss)	9,598	(10,818)
Total Other Comprehensive Gain (Loss)	(2,039)	8,692
Total Comprehensive Income	$ 1,289,679	$ 2,615,932

See notes to consolidated financial statements.

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidated Statements of Changes in Members' Equity

Years Ended December 31, 2015 and 2014

	Member- ships	Patronage Capital	Permanent Capital	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2013	$ 26,568	$ 28,870,129	$ 1,291,637	$ (1,925)	$ 30,186,409
Redemption of patronage capital	-	(133,865)	8,869	-	(124,996)
Reissued 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, patronage and permanent capital	150	42,785	(42,785)	-	150
Net margin	-	1,840,631	766,609	-	2,607,240
Balance, December 31, 2014	26,718	30,628,070	2,023,929	6,767	32,685,484
Redemption of patronage capital	-	(769,689)	6,502	-	(763,187)
Decrease in other comprehensive income, net of income taxes	-	-	-	(2,039)	(2,039)
Excise tax refund	-	17,126	-	-	17,126
Other changes in memberships, patronage and permanent capital	169	42,930	(42,930)	-	169
Net margin	-	594,637	697,081	-	1,291,718
Balance, December 31, 2015	$ 26,887	$ 30,513,074	$ 2,684,582	$ 4,728	$ 33,229,271

See notes to consolidated financial statements.

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities:		
Net margin	$ 1,291,718	$ 2,607,240
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	3,492,866	3,255,688
Nonutility depreciation	83,037	52,348
Gain on investments and marketable securities	(21,330)	(64,858)
Loss on sale of assets	-	130,108
Change in other assets	2,360	(76,862)
Change in deferred credits	(94,378)	177,410
Change in deferred income taxes	(54,255)	(183,528)
Changes in assets and liabilities:		
Accounts receivable	402,382	2,447,552
Materials and supplies	54,481	(132,952)
Prepaid expenses	34,390	95,820
Accounts payable	(66,976)	19,187
Accrued expenses	(206,552)	(88,834)
Advanced billings	1,583	(14,819)
Other long-term liabilities	1,278	4,960
Income tax payable	20,000	-
Net Cash Provided by Operating Activities	4,940,604	8,228,460
Cash Flows from Investing Activities:		
Collection of note receivable	107,602	8,199
Purchase of property, plant, and equipment	(3,862,762)	(4,727,027)
Purchase of nonutility property	-	(101,012)
Proceeds from sale of nonutility property	-	10,266
Proceeds from sale of investments and marketable securities	239,634	651,445
Purchase of investments and marketable securities	(666,495)	(673,516)
Patronage dividends received	33,531	40,878
Net Cash Used by Investing Activities	$ (4,148,490)	$ (4,790,767)

See notes to consolidated financial statements.

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued

Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Financing Activities:		
Payments on long-term debt	$ (937,500)	$ (937,500)
Payments of capital credits, net	(524,750)	(141,590)
Net change in membership	169	150
Excise tax refunds	17,126	8,390
Net Cash Used by Financing Activities	(1,444,955)	(1,070,550)
Net Increase (Decrease) in Cash and Cash Equivalents	(652,841)	2,367,143
Cash and Cash Equivalents, beginning	5,062,391	2,695,248
Cash and Cash Equivalents, ending	$ 4,409,550	$ 5,062,391
Cash Paid During the Year for Interest, net of amount capitalized	$ 168,368	$ 204,437
Cash Paid for Income Taxes	$ 438,998	$ 562,840
Non-cash transactions (Note 3):		
Issuance of note receivable on sale of property	$ -	$ 213,750

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 members' 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.

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, 2015 the Company had uninsured cash of $3,914,247 ($4,506,506 at December 31, 2014).

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, at December 31, 2015 and 2014 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying consolidated 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.

Nonutility Property
Nonutility property consists of video and internet equipment in service stated at cost. The Company provides for depreciation on a straight-line basis over estimated useful lives of 5 to 30 years. Maintenance, repairs, and replacements are charged to expense as incurred. When property or equipment are sold or otherwise disposed of, the asset account and the related accumulated depreciation accounts are relieved, and any gain or loss is included in operations.

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

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.

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 2015, total interest incurred was $180,078 ($228,111 in 2014) of which $11,710 ($23,674 in 2014) was capitalized.

Patronage Allocations
The net operating margin of the Company plus Federal excise tax refunds are allocated to its members annually, in proportion to the member's annual charges for eligible services. Nonoperating margins, including subsidiary margins, are allocated or retained by the Company at the discretion of its Board of Directors.

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.

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, 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.

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

Network Access Revenues, continued
In 2015, SCTC and PTC received $2,155,087 ($2,315,483 in 2014) from the USAC High Cost Loop Fund, and $5,650,061 ($5,159,450 in 2014) in interstate access revenues administered through the NECA Pools. In 2015 SCTC and PTC received $900,612 from the Oregon Universal Service Fund ($930,353 in 2014). 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.

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 and operational spending contained in the Order), reinstate the safety-net additive on a limited basis that was eliminated as part of the Order, and continue the transition of the local rate benchmark. In 2015, SCTC and PTC received $188,869 in safety-net additive ($547,140 was received in 2014, which included catch up payments to cover the period from its elimination in 2012 through its reinstatement in 2014). An FCC Order providing the option for a voluntary election by rate-of-return carriers to receive model-based support under an Alternative Connect America Cost Model (A-CAM) rather than based on its own costs was expected to be issued by or near the end of 2015. Such an Order has not been issued at this time. It is uncertain what, if any, impact the proposed rulemaking will have on the Company.

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

National Broadband Plan and FCC Order, continued
The Company continues to monitor its local rates and as of December 31, 2015 the Company meets the local rate benchmark requirements of the Order. The Company is not subject to the $250 per line support cap. Furthermore, for the period ended December 31, 2015 the impacts to the Company related to the 5% annual decline in switched access revenues have not been significant.

The overall reform process will continue to take place in phases and will take several more years to implement. Furthermore, it is anticipated the FCC will continue to issue Further Notices of Proposed Rulemakings and/or Orders for Reconsideration and continue to seek comments on various items. As a result, the ultimate outcome of these proceedings and their impact is uncertain at this time.

Reclassification
The presentation of certain prior year information has been reclassified to conform to the presentation in the 2015 financial statements. Such reclassifications have no effect on members' equity or net margin.

Subsequent Events
The Company has evaluated subsequent events through February 26, 2016, 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, 2015 and 2014, 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, 2015 and 2014.

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

	2015	2014
Fair value		
US treasury securities	$ 105,360	$ 26,853
Corporate bonds	123,204	102,239
Asset backed securities	74,965	51,529
Mutual funds	591,653	315,336
Total fair value	895,182	495,957
Cost	887,302	484,679
Gross unrealized holding gains	$ 7,880	$ 11,278

Gross unrealized holding gains are included in other comprehensive income, net of deferred taxes of $3,152 in 2015 ($4,507 in 2014). Proceeds from the sale of marketable securities for the year ended December 31, 2015 were $239,634 ($651,445 in 2014) resulting in a gross realized loss of $20,597 for the year ended December 31, 2015 ($12,558 gain for the year ended December 31, 2014).

Note 2 - Marketable Securities, continued

The following is a summary of maturities of available for sale debt securities as of December 31, 2015:

	Fair Value	Cost
Amounts maturing in:		
After one year through five years	$ 151,493	$ 152,652
After five years through ten years	152,036	152,465

Note 3 - Notes Receivable

During 2011, the Company issued a 7% note receivable to Hunt Revocable Trust in the amount of $100,000, which was receivable in a minimum monthly installment of $775 including interest, due in March 2018. The remaining balance on the note was paid in full during 2015.

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.

	2015	2014
Total notes receivable	$ 191,291	$ 298,893
Less current portion	17,741	107,237
Notes receivable, net of current portion	$ 173,550	$ 191,656

Note 4 - Nonutility Property

Nonutility property consists of the following:

	2015	2014
Land	$ 127,292	$ 127,292
Buildings	156,998	156,998
Equipment and towers	878,221	513,560
Total nonutility property	1,162,511	797,850
Less accumulated depreciation	696,946	333,497
Nonutility, net	$ 465,565	$ 464,353

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. There was no such sale during 2015.

Note 5 - Other Investments

Other investments at cost consist of the following:

	2015	2014
PEAK Internet, LLC	$ 250,000	$ 250,000
ANPI Holdings, Inc.	281,356	281,356
CHR Solutions, Inc.	135,435	135,435
Other investments	193,685	180,464
Total, at cost	$ 860,476	$ 847,255

Other investments, equity method, consist of the following:

	2015	2014
Wilcom, LLC	$ 299,665	$ 299,490
Consolidated Business Services, LLC	85,000	85,000
Equity Investments	$ 384,665	$ 384,490
Total Other Investments	$ 1,245,141	$ 1,231,745

During the year ended December 31, 2015, the Company recorded an investment loss from Wilcom, LLC of $4,825 and contributed $5,000 in cash (loss of $4,828 recorded in 2014).

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 2015, the Company did not contribute any additional amounts and no income or loss was recorded ($28,531 was contributed in cash during 2014 and no income or loss was recorded).

Note 6 - Other Assets

Other assets consist of the following:

	2015	2014
Deferred compensation assets	$ 1,004,355	$ 988,017
Life insurance - cash surrender value	183,708	202,406
	$ 1,188,063	$ 1,190,423

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." 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:

	2015	2014
Land and support	$ 7,279,886	$ 7,209,602
Central office	13,916,490	14,598,023
Cable and wire facilities	39,956,175	36,225,299
	$ 61,152,551	$ 58,032,924

Note 8 - Income Taxes

For the years ended December 31, 2015 and 2014, 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:

	2015	2014
Long-term deferred income tax asset (liability):		
Noncurrent deferred tax asset	$ 527,100	$ 478,700
Long-term deferred income tax liability	(72,700)	(77,200)
Unrealized holding loss (Note 2)	(3,152)	(4,507)
Net long-term deferred income tax asset	$ 451,248	$ 396,993

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

Operating income tax consists of the following:

	2015	2014
Current	$ 544,438	$ 483,026
Deferred provision	(52,900)	(188,700)
Operating income tax	$ 491,538	$ 294,326

For the year ended December 31, 2015 the Company has adopted *Financial Accounting Standards Board's Accounting Codification (ASU) 2015-17 Income Taxes (Topic 740).* This update requires that deferred tax assets and liabilities be presented net as one noncurrent amount on the balance sheet. The period ending December 31, 2014 was adjusted retrospectively for this change. The update was adopted to simplify of the presentation of deferred taxes in the balance sheet.

Note 9 - Other Income and Expenses

Other income and expenses consists of the following:

	2015	2014
Interest and dividend income	$ 114,467	$ 142,427
Loss on investments and other assets (Notes 2 and 5)	(31,000)	(126,651)
Miscellaneous expense	(28,626)	(28,939)
Total other income (expense), net	$ 54,841	$ (13,163)

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, 5.5% profit sharing contribution, plus a dollar for dollar match of up to 2% 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, 2015 were $176,081 ($215,213 in 2014).

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 the earlier of age 65 or when they become eligible to receive Medicare benefits. The cost of providing these benefits is accrued over the period of active employment. At December 31, 2015, the amount accrued for post-retirement benefits is $987,662 ($986,384 at December 31, 2014) and is unfunded. For the year ended December 31, 2015, the amount of benefits paid under post-retirement health benefits was $73,593 ($84,612 in 2014).

Note 11 - Long-Term Debt

Long-term debt consists of the following:

	2015	2014
Note payable to CoBank, at 5.05%, payable in quarterly installments, principal and interest, collateralized by all real and personal property, due in 2018.	$ 2,812,500	$ 3,750,000
Less current portion	(937,500)	(937,500)
	$ 1,875,000	$ 2,812,500

Future maturities of long-term debt are as follows:

2016	$ 937,500
2017	937,500
2018	937,500
	$ 2,812,500

Note 11 - Long-Term Debt, continued

The Company has a line of credit from CoBank in the amount of $1,250,000 at a variable rate of interest, which expired in December 2015. The line of credit was not renewed upon expiration. At December 31, 2015 and 2014, 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, 2015 and 2014.

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 2015 were $382,410 ($410,422 in 2014).

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 $409,455 in 2015 ($425,617 in 2014). At December 31, 2015, there is $34,513 payable to CBS, LLC for labor and expenses ($39,366 was payable to CBS, LLC at December 31, 2014).

Supplemental Information

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidating Balance Sheets

December 31, 2015

ASSETS	SCS	PTC	SCTC	Eliminations	Consolidated
Current Assets:					
Cash and cash equivalents	$ 68,819	$ 1,158,496	$ 3,182,235	$ -	$ 4,409,550
Marketable securities	-	-	895,182	-	895,182
Accounts receivable, less allowance for doubtful accounts of $5,000	7,423	300,314	1,205,056	(318,492)	1,194,301
Current portion of notes receivable	-	-	17,741	-	17,741
Materials and supplies	-	-	715,017	-	715,017
Intercompany taxes receivable	45,500	-	529,200	(574,700)	-
Prepaid expenses	1,715	36,710	336,093	-	374,518
Total Current Assets	123,457	1,495,520	6,880,524	(893,192)	7,606,309
Other Assets and Investments:					
Nonutility property	-	120,980	344,585	-	465,565
Note receivable	-	-	173,550	-	173,550
Other investments	-	-	1,245,141	-	1,245,141
Investment in subsidiary	7,042,244	-	7,764,098	(14,806,342)	-
Deferred income taxes	350,300	104,100	(3,152)	-	451,248
Other assets	1,004,355	-	183,708	-	1,188,063
Total Other Assets and Investments	8,396,899	225,080	9,707,930	(14,806,342)	3,523,567
Property, Plant, and Equipment:					
Telecommunications	716,426	11,999,592	48,436,533	-	61,152,551
Under construction	-	-	2,991	-	2,991
	716,426	11,999,592	48,439,524	-	61,155,542
Less accumulated depreciation	403,070	5,704,109	26,750,779	-	32,857,958
Property, Plant, and Equipment, net	313,356	6,295,483	21,688,745	-	28,297,584
Total Assets	$ 8,833,712	$ 8,016,083	$ 38,277,199	$ (15,699,534)	$ 39,427,460

LIABILITIES AND MEMBERS' EQUITY	SCS	PTC	SCTC	Eliminations	Consolidated
Current Liabilities:					
Current portion of long-term debt	$ -	$ -	$ 937,500	$ -	$ 937,500
Accounts payable	18,314	309,213	238,357	(318,492)	247,392
Patronage capital payable	-	-	362,814	-	362,814
Accrued expenses	-	23,808	277,663	-	301,471
Advanced billing	9,520	66,118	348,932	-	424,570
Intercompany taxes payable	-	574,700	-	(574,700)	-
Income taxes payable	-	-	20,000	-	20,000
Total Current Liabilities	27,834	973,839	2,185,266	(893,192)	2,293,747
Long-Term Liabilities					
Other long-term liabilities	-	-	987,662	-	987,662
Long-term debt	-	-	1,875,000	-	1,875,000
Deferred credits	1,041,780	-	-	-	1,041,780
Total Long-Term Liabilities	1,041,780	-	2,862,662	-	3,904,442
Members' Equity:					
Memberships	-	-	26,887	-	26,887
Patronage capital	-	-	30,513,074	-	30,513,074
Permanent capital	-	-	2,684,582	-	2,684,582
Other equity	7,764,098	7,042,244	-	(14,806,342)	-
Accumulated other comprehensive income	-	-	4,728	-	4,728
Total Members' Equity	7,764,098	7,042,244	33,229,271	(14,806,342)	33,229,271
Total Liabilities and Members' Equity	$ 8,833,712	$ 8,016,083	$ 38,277,199	$ (15,699,534)	$ 39,427,460

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidating Statements of Operations

Year Ended December 31, 2015 — Schedule II

	SCS	PTC	SCTC	Eliminations	Consolidated
Operating Revenues:					
Local network	$ 58,166	$ 223,499	$ 1,272,039	$ (3,216)	$ 1,550,488
Network access	18,604	2,527,507	7,287,497	(337,083)	9,496,525
Internet	-	-	1,933,525	(1,824,682)	108,843
Long distance	-	-	256,228	(3,275)	252,953
Other operating – regulated	4,602	61,132	418,156	(130,157)	353,733
Other operating – nonregulated	-	-	256,973	(1,032)	255,941
Total Operating Revenues	81,372	2,812,138	11,424,418	(2,299,445)	12,018,483
Operating Expenses:					
Plant specific	24,673	253,312	1,000,600	(9,887)	1,268,698
Plant nonspecific	18,415	151,608	675,275	-	845,298
Customer	15,344	109,495	613,451	(254)	738,036
General and administrative	84,877	358,630	1,382,121	(8,866)	1,816,762
Depreciation and amortization	40,493	573,249	2,879,124	-	3,492,866
Internet	-	-	3,126,337	(2,163,563)	962,774
Long distance	-	-	223,846	(115,337)	108,509
Other operating – nonregulated	-	-	475,552	(1,538)	474,014
Other taxes	-	63,421	339,612	-	403,033
Income tax provision	(32,300)	508,600	15,238	-	491,538
Total Operating Expenses	151,502	2,018,315	10,731,156	(2,299,445)	10,601,528
Operating Margin (Loss)	(70,130)	793,823	693,262	-	1,416,955
Other Income and Expenses, net	813,376	19,553	778,534	(1,556,622)	54,841
Margin Available for Fixed Charges	743,246	813,376	1,471,796	(1,556,622)	1,471,796
Fixed Charges, interest on long-term debt	-	-	180,078	-	180,078
Net Margin	$ 743,246	$ 813,376	$ 1,291,718	$ (1,556,622)	$ 1,291,718

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidating Statements of Cash Flows

Year Ended December 31, 2015

	SCS	PTC	SCTC	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net margin	$ 743,246	$ 813,376	$ 1,291,718	$ (1,556,622)	$ 1,291,718
Adjustments to reconcile net margin to net cash provided (used) by operating activities:					
Depreciation and amortization	40,493	573,249	2,879,124	-	3,492,866
Nonutility depreciation	-	7,301	75,736	-	83,037
Income from affiliated companies	(813,376)	-	(743,246)	1,556,622	-
Gain on investments and marketable securities	-	-	(21,330)	-	(21,330)
Change in other assets	(16,338)	-	18,698	-	2,360
Change in deferred credits	(94,378)	-	-	-	(94,378)
Change in deferred income taxes	13,200	(66,100)	(1,355)	-	(54,255)
Changes in assets and liabilities:					
Accounts receivable	17,875	(23,140)	484,746	(77,099)	402,382
Materials and supplies	-	-	54,481	-	54,481
Intercompany taxes	(55,900)	(6,700)	62,600	-	-
Prepaid expenses	(82)	(3,656)	38,128	-	34,390
Accounts payable	16,268	(88,598)	(71,745)	77,099	(66,976)
Accrued expenses	-	(45,664)	(160,888)	-	(206,552)
Advanced billing	(74)	2,886	(1,229)	-	1,583
Other long term liabilities	-	-	1,278	-	1,278
Income taxes payable	-	-	20,000	-	20,000
Net Cash Provided (Used) by Operating Activities	(149,066)	1,162,954	3,926,716	-	4,940,604
Cash Flows from Investing Activities:					
Collection of notes receivable	-	-	107,602	-	107,602
Purchase of property, plant, and equipment	(3,878)	(970,386)	(2,888,498)	-	(3,862,762)
Proceeds from sale of investments and marketable securities	-	-	239,634	-	239,634
Purchase of investments and marketable securities	-	-	(666,495)	-	(666,495)
Patronage dividends received	-	-	33,531	-	33,531
Net Cash Used by Investing Activities	$ (3,878)	$ (970,386)	$ (3,174,226)	$ -	$ (4,148,490)

	SCS	PTC	SCTC	Eliminations	Consolidated
Cash Flows from Financing Activities:					
Payments on long-term debt	$ -	$ -	$ (937,500)	$ -	$ (937,500)
Payments of capital credits, net	-	-	(524,750)	-	(524,750)
Net change in membership	-	-	169	-	169
Excise tax refunds	-	-	17,126	-	17,126
Net Cash Used by Financing Activities	-	-	(1,444,955)	-	(1,444,955)
Net Increase (Decrease) in Cash and Cash Equivalents	(152,944)	192,568	(692,465)	-	(652,841)
Cash and Cash Equivalents, beginning	221,763	965,928	3,874,700	-	5,062,391
Cash and Cash Equivalents, ending	$ 68,819	$ 1,158,496	$ 3,182,235	$ -	$ 4,409,550
Cash Paid During the Year for Interest, net of amount capitalized	$ -	$ -	$ 168,368	$ -	$ 168,368
Cash Paid During the Year for Income Taxes	$ -	$ -	$ 438,998	$ -	$ 438,998