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

National Broadband Plan and FCC Order, continued
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 operating 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, the FCC continued to work on further reforms. An FCC Order reforming universal service support and that provides 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 issued March 30, 2016. The full impact of this order to the Association cannot be reasonably determined at this time.

The Association continues to monitor its local rates and as of December 31, 2015 the Association meets the local rate benchmark requirements of the Order. The Association is not subject to the $250 per line support cap. Furthermore, for the period ended December 31, 2015 the impacts to the Association 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 consolidated financial statements. Such reclassifications have no effect on members' equity or net margin.

Subsequent Events
The Association has evaluated subsequent events through April 12, 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 accumulated other comprehensive loss as a separate component of members' equity.

The Association has adopted a hierarchical 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 Association'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 Association's securities consisted of the following:

	2015	2014
Fair Value:		
Municipal and corporate bonds, government securities	$ -	$ 45,748
Mutual funds	3,040,448	3,047,475
	3,040,448	3,093,223
Cost	3,250,008	3,187,573
Gross unrealized holding losses	$ (209,560)	$ (94,350)

Note 2 - Marketable Securities, continued

Gross unrealized holding losses of $209,560 (unrealized holding loss of $94,350 in 2014) are included in accumulated other comprehensive loss, net of deferred taxes of $59,297 in 2015 ($1,400 in 2014). Realized gains and losses are determined on the basis of specific identification. Proceeds from the sale of marketable securities for the year ended December 31, 2015 were $2,109,710 ($1,505,508 in 2014) resulting in a gross realized gain of $81,286 for the year ended December 31, 2015 ($10,590 loss for the year ended December 31, 2014).

Note 3 - Inventory

Inventory consists of the following:

	2015	2014
Telecommunications materials and supplies	$ 877,678	$ 744,455
Video materials and supplies	37,533	37,982
	$ 915,211	$ 782,437

Note 4 - Investments

Investments consist of the following:

	2015	2014
RTFC subordinated certificates and allocated capital credits	$ 324,675	$ 324,675
CHR Solutions Inc.	302,677	302,677
ANPI Holding, Inc.	248,309	248,309
Consolidated Business Services, LLC	85,000	85,000
CoBank, equity investment and patronage allocations	44,958	46,443
Other investments	31,987	31,987
	$ 1,037,606	$ 1,039,091

Shares of RTFC subordinated certificates are purchased as a condition of obtaining long-term financing from the RTFC. Holders of subordinated certificates are entitled to patronage dividends.

CoBank is a cooperative bank. Borrowers are required to invest a minimum of $1,000 or 2% of their loan, whichever is less. Patronage dividends are paid annually in cash and in stock at the discretion of the board of directors of CoBank.

Effective September 1, 2012 the Association, along with two other telecommunications 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 Association accounts for the investment using the equity method of accounting whereby the investment is recorded at cost and adjusted for the Association's share of income or loss. In 2015, the Association did not contribute any additional amounts and no income or loss was recorded ($28,531 was contributed in cash and no income or loss was recorded in 2014).

Note 5 - Other Assets

Other assets consist of the following at December 31:

	2015	2014
Deferred compensation assets	$ 79,802	$ 80,626
Nonregulated leased phone equipment	1,184	1,489
	$ 80,986	$ 82,115

Deferred compensation assets represent amounts held in Trust with NTCA to be used for payment of deferred credits.

Note 6 - Property, Plant, and Equipment

Listed below are the major classes of property, plant, and equipment in service at December 31:

	2015	2014
Canby Telephone Association		
Cable and wire facilities	$ 27,314,451	$ 25,751,079
Central office	13,969,302	13,580,474
Land, buildings, and support	8,199,582	8,119,426
Amortizable assets	55,890	55,890
Video and satellite equipment	6,122,161	5,044,998
Under construction	236,924	216,313
	$ 55,898,310	$ 52,768,180
DirectLink of Oregon, Inc.		
Buildings	$ 201,778	$ 201,778
Land and support	169,332	169,332
Cable and wire	298,601	298,601
	669,711	669,711
Mt. Angel Telephone Company		
Land and support	934,884	1,068,270
Central office	1,706,264	3,031,228
Cable and wire facilities	2,608,848	2,427,550
	5,249,996	6,527,048
	$ 61,818,017	$ 59,964,939

Note 7 - Long-Term Debt

Long-term debt consists of the following:

	2015	2014
Mortgage note payable to CoBank, at 5.72% at December 31, 2015 and 2014, payable in quarterly principal only installments of $76,125, interest payable monthly, collateralized by substantially all real and personal property, paid in full in 2015.	$ -	$ 189,625
Less current portion	-	189,625
	$ -	$ -

Note 7 - Long-Term Debt, continued

The long-term debt agreement contained restrictions on the payment of dividends and redemption of capital stock by MATC. The terms of the long-term debt agreement also required the maintenance of defined amounts of stockholder's equity and certain financial ratios. The loan was paid in full in 2015.

Note 8 - Employee Benefit Plans

The Association participates in a contributory, multi-employer, defined-contribution saving plan administered by NTCA, which covers all full-time eligible employees. Employees are not required to make contributions to participate in the plan. Effective May 1, 2013 the plan was amended to allow employer contribution of 4% plus a dollar for dollar match of up to 4%. Additionally, it includes a 4% supplemental employer contribution for employees hired prior to May 1, 2013. The employer also reimburses the participant for any plan fees. Employer contributions to the plan were $452,663 in 2015 ($439,548 in 2014).

Effective January 1, 2013, all employees of MATC were transferred to the Association. As a result, all employee and employer contributions into MATC's 401(k) profit sharing plan (the Plan) ceased as of that date. Effective January 15, 2015 the plan was terminated.

Note 9 - Income Taxes

The following is a summary of the significant components of the deferred tax assets and liabilities as of December 31:

	2015	2014
Long-term deferred income tax asset (liability):		
Accrual to cash adjustment	$ (31,000)	$ (30,000)
State net operating losses	-	2,700
Unrealized loss on marketable securities	59,297	1,400
Property, plant, equipment and goodwill	548,000	673,000
Post-retirement health benefits accrual	33,000	39,000
Noncurrent deferred income tax asset	$ 609,297	$ 686,100

Income tax expense (benefit) consists of the following:

	2015	2014
Operating:		
Deferred provision	$ 134,700	$ 151,300
Current payable	59,440	256
Over accrual	(8,204)	(4,983)
Operating income tax	$ 185,936	$ 146,573
Nonoperating:		
Current payable	$ 40,760	$ 59,544
Over accrual	(13,659)	(9,793)
Nonoperating income tax	$ 27,101	$ 49,751

The provision for income taxes differs from the amount computed by applying the current statutory federal and state income tax rates to earnings before income taxes due to the effects of state taxes (net of federal benefit), nondeductible items, net operating loss deductions, prior year over or under accruals, the use of accelerated depreciation for income tax purposes and the patronage deduction allowed for margins allocated to patrons.

Note 10 - Other Long-Term Liabilities

The Association sponsors a post-retirement benefit plan (the Plan) that provides medical and dental benefits for eligible retired employees and their spouses. The liability for such benefits is unfunded.

At December 31, 2011, the Association amended the Plan to freeze plan benefits and cover only current retirees and those who had accepted an early retirement offer in 2012. The decision to freeze the Plan constituted a curtailment of benefits and resulted in one-time gain from the reduction of the projected benefit obligation and the amortization of remaining unrecognized past service cost over a 3 year period. This amortization was completed in 2014.

The following table presents the estimated status of the Plan at December 31 based on the valuation as of December 31:

Obligations and Funded Status:	2015	2014
Accumulated postretirement benefit obligation:		
Retired plan participants	$ 897,665	$ 922,842
Accumulated postretirement benefit obligation	897,665	922,842
Fair value of plan assets	-	-
Net unfunded status of the Plan	897,665	922,842
Amounts Recognized in Accumulated Other Comprehensive Income:		
Net actuarial loss	(303,000)	(307,191)
Unrecognized prior service cost and unrealized losses	(303,000)	(307,191)
Accrued Postretirement Benefit Expense	$ 594,665	$ 615,651
Postretirement Expenses Includes the Following Components:		
Interest on accumulated postretirement benefit obligation	$ 39,174	$ 40,183
Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive Income:		
Net actuarial gain (loss)	(8,778)	81,731
(Recognition) amortization of prior service cost	-	(210,966)
Amortization of loss	12,969	14,263
	4,191	(114,972)
Total recognized in net periodic benefit cost and other comprehensive income	$ 43,365	$ (74,789)
Benefit Payments	$ 50,690	$ 69,210

Assumptions

For measurement purposes, an 7% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2015 (8% in 2014). The rate was assumed to decrease gradually to 5% at 2017 and remain at that level thereafter. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 4.5% in 2015 and 2014.

Note 10 - Other Long-Term Liabilities, continued

Cash Flows
The Association does not expect to contribute to its post-retirement benefit plan in 2016.

Expected Post-retirement Benefit Payments

2016	$ 54,879
2017	57,897
2018	60,792
2019	63,832
2020	67,023
Years 2021 - 2025	388,864

MATC sponsors a non-qualified defined benefit, post-retirement benefit plan which provides certain health care benefits for retired employees and their respective spouses until the date of the retired employee's death. Benefits are based on years of service and the employee's average compensation for the five highest compensated years of employment.

The annual measurement date is December 31 for the post-retirement benefit plan. The following tables provide information about changes in the benefit obligation and plan assets and the funded status of MATC's post-retirement benefit plan:

Obligations and Funded Status

	2015	2014
Benefit obligation at December 31	$ 94,000	$ 114,000
Fair value of plan assets at December 31	-	-
Net unfunded status of the plan	$ (94,000)	$ (114,000)
Benefit payments	$ (12,620)	$ (12,620)
Long-term benefit obligation	$ (94,000)	$ (114,000)
Other post-employment obligations	-	-
	(94,000)	(114,000)
Less current portion	9,085	12,620
	$ (84,915)	$ (101,380)

Assumptions
Weighted average assumptions used in the accounting for MATC's postretirement benefit plan were:

	2015	2014
Weighted-average assumptions used to determine benefit obligations at December 31:	5.75%	5.75%
Weighted average assumptions used to determine net periodic benefit cost for years ended December 31:	5.75%	5.75%

Cash Flows
MATC does not expect to contribute to its post-retirement benefit plan in 2016.

Note 10 - Other Long-Term Liabilities, continued

Post-retirement Benefits	
2016	$ 9,085
2017	9,085
2018	9,085
2019	9,085
2020	9,085
Years 2021 - 2025	45,420

In 2015 the Company approved providing post-retirement medical benefits to employees who began their employment prior to December 31, 1990 and who have worked for the Company for an uninterrupted period of not less than 30 years and subsequently retire prior to reaching age 65. The Company will pay the health 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 this post-retirement benefit is $117,700 (none at December 31, 2014) and is unfunded. Adoption of the plan resulted in $113,900 being recognized in accumulated other comprehensive income at that time related to the past service of employees covered by the benefit. This past service cost will be amortized out of accumulated other comprehensive over the average remaining service life of covered employees. Amortization of $18,983 was recognized in 2015 (none in 2014).

Note 11 - Related Party

The Association entered into an agreement with Consolidated Business Services, LLC (CBS, LLC) in 2012 (Note 4) whereby CBS, LLC will provide accounting, regulatory reporting, management services, and human resource services for the Association. CBS, LLC provided services to the Association in the amount of $668,827 in 2015 ($848,382 in 2014). At December 31, 2015, there is $63,694 payable to CBS, LLC for labor and expenses ($78,887 was payable to CBS, LLC at December 31, 2014).

On September 1, 2012, MATC entered into a rental agreement for the use of their office building with CBS, LLC. During 2014, CBS moved out of the building, therefore MATC received zero rental payments in 2015 ($7,000 during 2014).

SUPPLEMENTAL INFORMATION

CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

Consolidating Balance Sheets

December 31, 2015

ASSETS	Mt. Angel Telephone Company	DirectLink of Oregon, Inc.	Canby Telephone Association	Eliminations	Consolidated
Current Assets:					
Cash and cash equivalents	$ 771,901	$ 470,174	$ 2,661,820	$ -	$ 3,903,895
Marketable securities	98,679	2,064,158	877,611	-	3,040,448
Accounts receivable	226,029	7,000	1,509,341	(87,684)	1,654,686
Inventory	32,828	-	882,383	-	915,211
Income taxes receivable	42,000	-	-	-	42,000
Prepaid expenses	36,819	3,152	507,766	-	547,737
Total Current Assets	1,208,256	2,544,484	6,438,921	(87,684)	10,103,977
Other Assets and Investments:					
Note receivable	-	800,000	-	(800,000)	-
Other assets	1,184	-	79,802	-	80,986
Investments	44,958	-	992,648	-	1,037,606
Investments, affiliate	-	-	9,951,688	(9,951,688)	-
Deferred income taxes	552,947	56,350	-	-	609,297
Goodwill	-	-	-	3,974,375	3,974,375
Total Other Assets and Investments	599,089	856,350	11,024,138	(6,777,313)	5,702,264
Property, Plant, and Equipment:					
Property, plant, and equipment	5,249,996	669,711	55,898,310	-	61,818,017
Less accumulated depreciation	3,628,553	416,144	37,967,629	-	42,012,326
Property, Plant, and Equipment, net	1,621,443	253,567	17,930,681	-	19,805,691
	$ 3,428,788	$ 3,654,401	$ 35,393,740	$ (6,864,997)	$ 35,611,932

LIABILITIES AND MEMBERS' and STOCKHOLDER'S EQUITY	Mt. Angel Telephone Company	DirectLink of Oregon, Inc.	Canby Telephone Association	Eliminations	Consolidated
Current Liabilities:					
Current portion of long-term debt	$ -	$ -	$ -	$ -	$ -
Accounts payable	108,171	24	601,955	(87,684)	622,466
Accrued expenses	22,553	-	815,450	-	838,003
Patronage capital payable	-	-	29,577	-	29,577
Income taxes payable	-	320	3,241	-	3,561
Customer deposits and advance billings	89,043	850	871,725	-	961,618
Total Current Liabilities	219,767	1,194	2,321,948	(87,684)	2,455,225
Long-Term Liabilities:					
Long-term debt	800,000	-	-	(800,000)	-
Deferred compensation	-	-	79,802	-	79,802
Other long-term liabilities	84,915	-	1,015,365	-	1,100,280
Total Long-Term Liabilities	884,915	-	1,095,167	(800,000)	1,180,082
Members' and Stockholder's Equity:					
Memberships	-	-	47,401	-	47,401
Common stock	36,275	9,887,729	-	(9,924,004)	-
Patronage capital	-	-	14,529,110	-	14,529,110
Accumulated earnings (deficit)	2,292,251	(6,149,990)	17,948,296	3,857,739	17,948,296
Accumulated other comprehensive loss	(4,420)	(84,532)	(548,182)	88,952	(548,182)
Total Members' and Stockholder's Equity	2,324,106	3,653,207	31,976,625	(5,977,313)	31,976,625
	$ 3,428,788	$ 3,654,401	$ 35,393,740	$ (6,864,997)	$ 35,611,932

CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

Consolidating Statements of Operations

Year Ended December 31, 2015

Schedule II

	Mt. Angel Telephone Company	DirectLink of Oregon, Inc.	Canby Telephone Association	Eliminations	Consolidated
Operating Revenues:					
Local network services	$ 325,725	$ -	$ 2,211,260	$ -	$ 2,536,985
Network access services	1,298,517	-	6,028,633	-	7,327,150
Internet	437,575	-	2,710,262	-	3,147,837
Long distance	30,853	-	386,591	-	417,444
Video	5,028	-	1,853,022	-	1,858,050
Other non-regulated revenues	41,482	-	604,209	(73,895)	571,796
Miscellaneous operating	199,906	73,903	253,444	(15,499)	511,754
Total Operating Revenues	2,339,086	73,903	14,047,421	(89,394)	16,371,016
Operating Expenses:					
Plant specific	387,847	-	2,158,108	(15,499)	2,530,456
Plant nonspecific	96,552	-	1,038,638	-	1,135,190
Customer	307,794	-	1,298,850	-	1,606,644
Corporate	234,414	63,306	1,771,498	-	2,069,218
Depreciation and amortization	218,416	17,343	2,484,187	-	2,719,946
Operating income taxes	179,802	(3,337)	9,471	-	185,936
Other operating taxes	48,991	6,236	380,457	-	435,684
Internet	302,686	-	1,735,152	(73,895)	1,963,943
Long distance	145,419	-	325,981	-	471,400
Video	3,691	-	2,285,522	-	2,289,213
Other non-regulated expenses	93,907	-	715,390	-	809,297
Total Operating Expenses	2,019,519	83,548	14,203,254	(89,394)	16,216,927
Operating Margin (Loss)	319,567	(9,645)	(155,833)	-	154,089
Other Income (Expense):					
Interest and investment income	10,272	109,769	63,586	(30,000)	153,627
Interest expense	(34,872)	-	(251)	30,000	(5,123)
Miscellaneous income (expense), net	(8,069)	162	(30,909)	-	(38,816)
Income tax expense	-	(27,101)	-	-	(27,101)
Income from subsidiaries	-	-	360,083	(360,083)	-
Total Other Income (Expense), net	(32,669)	82,830	392,509	(360,083)	82,587
Net Margin	$ 286,898	$ 73,185	$ 236,676	$ (360,083)	$ 236,676

CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

Consolidating Statements of Cash Flows

Year Ended December 31, 2015

	Mt. Angel Telephone Company	DirectLink of Oregon, Inc.	Canby Telephone Association	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net margin	$ 286,898	$ 73,185	$ 236,676	$ (360,083)	$ 236,676
Adjustments to reconcile net margin to net cash provided by operating activities:					
Depreciation and amortization	218,416	17,343	2,484,187	-	2,719,946
Nonregulated depreciation	-	-	499,667	-	499,667
Net income from subsidiaries	-	-	(360,083)	360,083	-
Loss (Gain) on sale of investments and marketable securities	(1,820)	43,853	38,314	-	80,347
Change in deferred taxes	137,828	(162)	-	-	137,666
Changes in assets and liabilities:					
Accounts receivable	7,656	(3,998)	71,391	(6,240)	68,809
Inventory	6,230	-	(139,004)	-	(132,774)
Income taxes	87,570	(39,529)	(3,259)	-	44,782
Prepaid expenses	(3,841)	(68)	(24,058)	-	(27,967)
Accounts payable	1,952	(1,782)	(133,327)	6,240	(126,917)
Accrued expenses	(2,785)	-	304,192	-	301,407
Other long-term liabilities	(16,465)	-	1,797	-	(14,668)
Customer deposits and advance billings	6,144	-	10,363	-	16,507
Deferred compensation	-	-	(824)	-	(824)
Net Cash Provided by Operating Activities	727,783	88,842	2,986,032	-	3,802,657
Cash Flows from Investing Activities:					
Capital expenditures	(245,848)	-	(3,546,825)	-	(3,792,673)
Purchase of investments and marketable securities	(100,338)	(1,223,345)	(932,716)	-	(2,256,399)
Proceeds from investments and marketable securities	98,383	1,124,635	889,116	-	2,112,134
Change in other assets	305	-	824	-	1,129
Net Cash Used by Investing Activities	$ (247,498)	$ (98,710)	$ (3,589,601)	$ -	$ (3,935,809)

	Mt. Angel Telephone Company	DirectLink of Oregon, Inc.	Canby Telephone Association	Eliminations	Consolidated
Cash Flows from Financing Activities:					
Principal payments on long-term debt	$ (189,625)	$ -	$ -	$ -	$ (189,625)
Payments to estates, net	-	-	(29,239)	-	(29,239)
Patronage capital paid, net	-	-	(22)	-	(22)
Net Cash Used by Financing Activities	(189,625)	-	(29,261)	-	(218,886)
Net Increase (Decrease) in Cash and Cash Equivalents	290,660	(9,868)	(632,830)	-	(352,038)
Cash and Cash Equivalents, beginning	481,241	480,042	3,294,650	-	4,255,933
Cash and Cash Equivalents, ending	$ 771,901	$ 470,174	$ 2,661,820	$ -	$ 3,903,895
Cash Paid During the Year for Interest	$ 34,872	$ -	$ 295	$ (30,000)	$ 5,167
Cash Paid During the Year for Taxes	$ -	$ 57,362	$ 12,737	$ -	$ 70,099