INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Stayton Cooperative Telephone Company (an Oregon Corporation) and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, 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 financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stayton Cooperative Telephone Company and Subsidiaries as of December 31, 2012 and 2011, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

REPORT ON CONSOLIDATING INFORMATION

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

AKT LLP

Salem, Oregon
March 7, 2013

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidating Balance Sheets

Year Ended December 31, 2012

ASSETS	SCS	PTC	SCTC	Eliminations	Consolidated
Current Assets:					
Cash and cash equivalents	$ 77,550	$ 354,421	$ 1,224,098	$ -	$ 1,656,069
Marketable securities	-	-	505,553	-	505,553
Accounts receivable,					
less allowance for accounts of $7,000	7,981	264,424	2,161,543	(133,610)	2,300,338
Current portion of notes receivable	-	-	2,669	-	2,669
Materials and supplies	-	-	672,493	-	672,493
Intercompany taxes receivable	18,500	-	375,300	(393,800)	-
Prepaid expenses	1,913	30,955	340,907	-	373,775
Total Current Assets	105,944	649,800	5,282,563	(527,410)	5,510,897
Other Assets and Investments:					
Nonutility property	-	29,000	505,703	-	534,703
Notes receivable	-	-	93,340	-	93,340
Other investments	-	-	1,301,171	-	1,301,171
Investment in subsidiary	5,052,522	-	5,646,295	(10,698,817)	-
Deferred income taxes	229,600	(59,800)	-	-	169,800
Other Assets	734,508	-	345,076	-	1,079,584
Total Other Assets and Investments	6,016,630	(30,800)	7,891,585	(10,698,817)	3,178,598
Property, Plant, and Equipment:					
Telecommunications	614,144	9,646,563	47,946,605	-	58,207,312
Under construction	-	-	11,636	-	11,636
	614,144	9,646,563	47,958,241	-	58,218,948
Less accumulated depreciation	286,813	4,539,766	26,234,422	-	31,061,001
Property, Plant, and Equipment, net	327,331	5,106,797	21,723,819	-	27,157,947
Total Assets	$ 6,449,905	$ 5,725,797	$ 34,897,967	$ (11,226,227)	$ 35,847,442

LIABILITIES AND MEMBERS' EQUITY	SCS	PTC	SCTC	Eliminations	Consolidated
Current Liabilities:					
Current portion of long-term debt	$ -	$ -	$ 937,500	$ -	$ 937,500
Accounts payable	5,502	160,037	303,424	(133,610)	335,353
Patronage capital payable	-	-	30,452	-	30,452
Accrued expenses	2,000	26,000	1,320,914	-	1,348,914
Advanced billing	7,061	70,900	368,076	-	446,037
Intercompany taxes payable	-	393,800	-	(393,800)	-
Income taxes payable	-	-	35,636	-	35,636
Deferred income taxes	-	-	3,987	-	3,987
Deferred revenue	-	7,117	18,837	-	25,954
Total Current Liabilities	14,563	657,854	3,018,826	(527,410)	3,163,833
Long-Term Debt	-	-	4,687,500	-	4,687,500
Other Liabilities:					
Deferred credits	789,047	-	27,009	-	816,056
Deferred revenue	-	15,421	40,814	-	56,235
Total Other Liabilities	789,047	15,421	67,823	-	872,291
Total Liabilities	803,610	673,275	7,774,149	(527,410)	8,723,624
Members' Equity:					
Memberships	-	-	26,392	-	26,392
Patronage capital	-	-	27,091,446	-	27,091,446
Other equity	5,646,295	5,052,522	-	(10,698,817)	-
Accumulated other comprehensive income	-	-	5,980	-	5,980
Total Members' Equity	5,646,295	5,052,522	27,123,818	(10,698,817)	27,123,818
Total Liabilities and Members' Equity	$ 6,449,905	$ 5,725,797	$ 34,897,967	$ (11,226,227)	$ 35,847,442

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidating Statements of Operations

Year Ended December 31, 2012 — Schedule II

	SCS	PTC	SCTC	Eliminations	Consolidated
Operating Revenues:					
Local network	$ 45,501	$ 282,761	$ 1,588,137	$ (21,089)	$ 1,895,310
Network access	26,504	1,988,281	6,245,275	(146,928)	8,113,132
Internet revenue	-	-	1,612,820	(617,390)	995,430
Long distance	-	-	307,480	(5,387)	302,093
Other operating - regulated	3,765	73,552	507,521	(132,856)	451,982
Other operating - nonregulated	-	-	311,042	(941)	310,101
Total Operating Revenues	75,770	2,344,594	10,572,275	(924,591)	12,068,048
Operating Expenses:					
Plant specific	22,227	289,138	1,382,316	(28,231)	1,665,450
Plant nonspecific	15,388	141,041	1,858,139	(750,729)	1,263,839
Customer	12,619	143,371	817,551	(123,143)	850,398
General and administrative	117,575	385,218	1,751,644	(21,682)	2,232,755
Depreciation and amortization	35,452	467,948	2,967,525	-	3,470,925
Other operating – nonregulated	-	-	313,611	(806)	312,805
Other taxes	-	56,885	370,294	-	427,179
Income tax provision	(18,500)	335,100	-	-	316,600
Total Operating Expenses	184,761	1,818,701	9,461,080	(924,591)	10,539,951
Operating Margin (Loss)	(108,991)	525,893	1,111,195	-	1,528,097
Other Income and Expenses, net	574,668	25,770	1,395,011	(1,017,340)	978,109
Margin Available for Fixed Charges	465,677	551,663	2,506,206	(1,017,340)	2,506,206
Fixed Charges, interest on long-term debt	-	20,125	356,608	(20,125)	356,608
Net Margin	$ 465,677	$ 531,538	$ 2,149,598	$ (997,215)	$ 2,149,598

STAYTON COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARIES

Consolidating Statements of Cash Flows

Year Ended December 31, 2012

	SCS	PTC	SCTC	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net margin	$ 465,677	$ 531,538	$ 2,149,598	$ (997,215)	$ 2,149,598
Adjustments to reconcile net margin to net cash provided (used) by operating activities:					
Depreciation and amortization	35,452	467,948	2,967,525	-	3,470,925
Nonregulated depreciation	-	-	720	-	720
Income from affiliated companies	(531,538)	-	(465,677)	997,215	-
Gain on investments and marketable securities	-	-	(68,631)	-	(68,631)
Gain on sale of asset	-	-	(746,375)	-	(746,375)
Change in other assets	(120,334)	-	(7,019)	-	(127,353)
Change in deferred credits	127,363	-	(33,829)	-	93,534
Change in deferred income taxes	(43,130)	(58,700)	-	-	(101,830)
Changes in assets and liabilities:					
Accounts receivable	581	(50,772)	(722,742)	(386,299)	(1,159,232)
Income taxes receivable	-	-	343,088	-	343,088
Intercompany taxes	11,800	64,200	(76,000)	-	-
Materials and supplies	-	-	115,124	-	115,124
Prepaid expenses	717	(4,739)	2,604	-	(1,418)
Accounts payable	(16,851)	(359,588)	161,582	386,299	171,442
Accrued expenses	1,000	(500)	(35,364)	-	(34,864)
Advanced billing	(189)	(693)	(29,449)	-	(30,331)
Deferred revenue	-	(7,117)	(18,836)	-	(25,953)
Net Cash Provided (Used) by Operating Activities	(69,452)	581,577	3,536,319	-	4,048,444
Cash Flows from Investing Activities:					
Payments of note receivable	-	-	2,396	-	2,396
Purchase of property, plant, and equipment	(3,160)	(335,249)	(1,673,735)	-	(2,012,144)
Purchases of nonutility property	-	-	(100,719)	-	(100,719)
Proceeds from sale of innvestments and marketable securities	-	-	1,286,099	-	1,286,099
Purchase of investments and marketable securities	-	-	(461,453)	-	(461,453)
Patronage dividends received	-	-	51,433	-	51,433
Net Cash Used by Investing Activities	(3,160)	(335,249)	(895,979)	-	(1,234,388)

	SCS	PTC	SCTC	Eliminations	Consolidated
Cash Flows from Financing Activities:					
Net change in line of credit	-	-	(500,000)	-	(500,000)
Payments on long-term debt and notes payable	-	-	(937,500)	-	(937,500)
Dividends received	100,000	-	-	(100,000)	-
Dividends paid	-	(100,000)	-	100,000	-
Payments of capital credits, net	-	-	(113,674)	-	(113,674)
Net change in membership	-	-	123	-	123
Excise tax refunds received	-	-	7,699	-	7,699
Net Cash Provided (Used) by Financing Activities	100,000	(100,000)	(1,543,352)	-	(1,543,352)
Net Increase in Cash and Cash Equivalents	27,388	146,328	1,096,988	-	1,270,704
Cash and Cash Equivalents, beginning	50,162	208,093	127,110	-	385,365
Cash and Cash Equivalents, ending	$ 77,550	$ 354,421	$ 1,224,098	$ -	$ 1,656,069
Cash Paid During the Year for Interest, net of amount capitalized	$ -	$ 16,472	$ 351,967	$ (16,472)	$ 351,967
Cash Paid During the Year for Income Taxes	$ -	$ -	$ 3,502	$ -	$ 3,502
Non-cash transactions (Note 5):					
Noncash proceeds on sale of investment	$ -	$ -	$ 146,625	$ -	$ 146,625
Contributions of fixed assets for additional equity investment	$ -	$ -	$ 3,350	$ -	$ 3,350