# Canby Telephone Association and Subsidiaries

## Consolidated Financial Statements with Supplemental Information

*Years Ended December 31, 2012 and 2011*

AKT
CPAs AND BUSINESS CONSULTANTS

**CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES**

**Consolidated Financial Statements with Supplemental Information**

Years Ended December 31, 2012 and 2011

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Canby Telephone Association and Subsidiaries
Canby, Oregon

We have audited the accompanying consolidated financial statements of Canby Telephone Association and Subsidiaries (the Association), 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 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 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 Canby Telephone Association and Subsidiaries as of December 31, 2012 and 2011, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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**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 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 27, 2013

## CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

**Consolidated Balance Sheets**

December 31, 2012 and 2011

| **ASSETS** | 2012 | 2011 |
|---|---|---|
| Current Assets: | | |
| Cash and cash equivalents | $ 3,404,757 | $ 5,750,010 |
| Marketable securities | 2,645,040 | 971,790 |
| Accounts receivable | 1,922,190 | 2,308,223 |
| Inventory | 566,004 | 582,482 |
| Income taxes receivable | - | 34,783 |
| Prepaid expenses | 534,325 | 430,122 |
| Total Current Assets | 9,072,316 | 10,077,410 |
| Other Assets and Investments: | | |
| Other assets | 119,465 | 532,646 |
| Investments | 992,081 | 944,212 |
| Deferred income taxes | 1,025,000 | 1,159,000 |
| Goodwill | 3,974,375 | 3,974,375 |
| Total Other Assets and Investments | 6,110,921 | 6,610,233 |
| Property, Plant, and Equipment: | | |
| Property, plant, and equipment | 54,424,430 | 57,160,320 |
| Less accumulated depreciation | 34,978,488 | 37,987,368 |
| Property, Plant, and Equipment, net | 19,445,942 | 19,172,952 |
| | $ 34,629,179 | $ 35,860,595 |

| LIABILITIES AND MEMBERS' EQUITY | 2012 | 2011 |
|---|---|---|
| Current Liabilities: | | |
| Current portion of long-term debt | $ 304,500 | $ 304,500 |
| Line of credit | - | 500,000 |
| Accounts payable | 663,497 | 764,855 |
| Accrued expenses | 444,777 | 1,518,760 |
| Patronage capital payable | 26,134 | 201,140 |
| Income taxes payable | 64,420 | 43,458 |
| Current deferred tax liability | 51,500 | 55,300 |
| Customer deposits and advance billings | 849,610 | 653,491 |
| Total Current Liabilities | 2,404,438 | 4,041,504 |
| Long-Term Liabilities: | | |
| Long-term debt | 494,125 | 798,625 |
| Deferred compensation | 117,315 | 111,199 |
| Other long-term liabilities | 983,643 | 1,010,190 |
| Total Long-Term Liabilities | 1,595,083 | 1,920,014 |
| Members' Equity: | | |
| Memberships | 47,173 | 46,707 |
| Patronage capital | 14,647,281 | 14,734,037 |
| Accumulated earnings | 15,958,330 | 15,120,068 |
| Accumulated other comprehensive loss | (23,126) | (1,735) |
| Total Members' Equity | 30,629,658 | 29,899,077 |
| | $ 34,629,179 | $ 35,860,595 |

See accompanying notes to consolidated financial statements.

## CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

**Consolidated Statements of Operations**

Years Ended December 31, 2012 and 2011

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Operating Revenues: | | | | |
| Local network services | $ | 5,681,600 | $ | 5,857,643 |
| Network access services | | 6,862,256 | | 7,617,678 |
| Miscellaneous operating | | 708,710 | | 671,412 |
| Total Operating Revenues | | 13,252,566 | | 14,146,733 |
| Operating Expenses: | | | | |
| Plant specific | | 4,226,256 | | 5,429,788 |
| Plant nonspecific | | 1,249,328 | | 1,455,619 |
| Customer | | 1,732,878 | | 2,351,052 |
| Corporate | | 2,316,057 | | 2,618,346 |
| Selling, general, and administrative | | 15,684 | | 22,267 |
| Depreciation and amortization | | 2,759,364 | | 2,511,872 |
| Total Operating Expenses | | 12,299,567 | | 14,388,944 |
| Operating taxes: | | | | |
| Operating income taxes | | 219,200 | | 176,600 |
| Other operating taxes | | 428,180 | | 439,585 |
| Total Operating Taxes | | 647,380 | | 616,185 |
| Total Operating Expenses and Taxes | | 12,946,947 | | 15,005,129 |
| Operating Margin (Loss) | | 305,619 | | (858,396) |
| Other Income (Expense): | | | | |
| Interest and investment income | | 154,628 | | 128,342 |
| Interest expense | | (86,048) | | (84,154) |
| Miscellaneous income, net | | 290,805 | | (37,280) |
| Income tax benefit | | 19,300 | | 41,500 |
| Total Other Income, net | | 378,685 | | 48,408 |
| Net Margin (Loss) | $ | 684,304 | $ | (809,988) |

**CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**

Years Ended December 31, 2012 and 2011

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Net Margin (Loss) | $ | 684,304 | $ | (809,988) |
| Other Comprehensive Income (loss): | | | | |
| Unrealized loss on marketable securities | | (21,904) | | (8,510) |
| Reclassification for realized losses on the sale of marketable securities | | 513 | | 6,775 |
| Total Other Comprehensive Loss | | (21,391) | | (1,735) |
| Total Comprehensive Income (Loss) | $ | 662,913 | $ | (811,723) |

See accompanying notes to consolidated financial statements.

**CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES**

**Consolidated Statements of Changes in Members' Equity**

Years Ended December 31, 2012 and 2011

| | Member-ships | Patronage Capital | Accumulated Earnings | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2010 | $ 46,255 | $ 14,836,640 | $ 15,930,056 | $ - | $ 30,812,951 |
| Net loss | - | - | (809,988) | - | (809,988) |
| Paid to estates | - | (102,603) | - | - | (102,603) |
| Increase in other comprehensive loss | - | - | - | (1,735) | (1,735) |
| Net membership change | 452 | - | - | - | 452 |
| Balance, December 31, 2011 | 46,707 | 14,734,037 | 15,120,068 | (1,735) | 29,899,077 |
| Net margin | - | - | 684,304 | - | 684,304 |
| Paid to estates | - | (86,756) | - | - | (86,756) |
| Forfeitures of unclaimed equities | - | - | 153,958 | - | 153,958 |
| Increase in other comprehensive income | - | - | - | (21,391) | (21,391) |
| Net membership change | 466 | - | - | - | 466 |
| Balance, December 31, 2012 | $ 47,173 | $ 14,647,281 | $ 15,958,330 | $ (23,126) | $ 30,629,658 |

## CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

**Consolidated Statements of Cash Flows**

Years Ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Net margin (Loss) | $ 684,304 | $ (809,988) |
| Adjustments to reconcile net margin (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,759,364 | 2,511,872 |
| Nonregulated depreciation | 434,831 | 751,890 |
| Loss on sale of investments and marketable securities | 1,985 | 6,775 |
| Gain on nonregulated asset sales | (42,080) | - |
| Change in deferred taxes | 130,200 | 145,300 |
| Noncash patronage | (5,314) | (5,579) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 386,033 | (392,241) |
| Income taxes | 55,745 | (40,782) |
| Inventory | 16,478 | (6,595) |
| Prepaid expenses | (104,203) | 7,908 |
| Accounts payable | (101,358) | 107,624 |
| Accrued expenses | (1,073,983) | 1,018,265 |
| Other long-term liabilities | (26,547) | (360,112) |
| Customer deposits and advance billings | 196,119 | 4,283 |
| Deferred compensation | (6,116) | (2,307) |
| Net Cash Provided by Operating Activities | 3,305,458 | 2,936,313 |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (3,049,287) | (3,314,930) |
| Purchase of investments and marketable securities | (2,339,697) | (1,297,279) |
| Proceeds from investments and marketable securities | 642,596 | 485,371 |
| Change in other assets | 7,515 | 2,307 |
| Net Cash Used by Investing Activities | $ (4,738,873) | $ (4,124,531) |

See accompanying notes to consolidated financial statements.

| | 2012 | 2011 |
|---|---|---|
| Cash Flows from Financing Activities: | | |
| Change in line of credit | $ (500,000) | $ 500,000 |
| Principal payments on long-term debt | (304,500) | (304,500) |
| Proceeds from memberships | 466 | 452 |
| Payments to estates | (86,756) | (102,603) |
| Patronage capital paid, net | (21,048) | (1,076) |
| Net Cash Provided (Used) by Financing Activities | (911,838) | 92,273 |
| Net Decrease in Cash and Cash Equivalents | (2,345,253) | (1,095,945) |
| Cash and cash equivalents, beginning | 5,750,010 | 6,845,955 |
| Cash and cash equivalents, ending | $ 3,404,757 | $ 5,750,010 |
| Non-cash investing activity: | | |
| Contributions of fixed assets for additional equity investment | $ 22,852 | $ - |
| Cash Paid During the Year for Interest | $ 86,048 | $ 84,154 |
| Cash Paid During the Year for Taxes | $ 118,807 | $ 261,221 |

See accompanying notes to consolidated financial statements.

## Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Canby Telephone Association (the Association) is an Oregon cooperative providing internet, entertainment, and communications services within and around the city of Canby, Oregon.

DirectLink of Oregon, Inc. (DLO) is a wholly-owned subsidiary of the Association. DLO activity is limited to nonregulated activities including the lease of fiber and office space in the general vicinity of Canby, Oregon.

Mt. Angel Telephone Company (MATC) is an Oregon corporation providing telecommunications services within and around the city of Mt. Angel, Oregon. MATC was purchased by the Association effective January 1, 2008.

Basis of Consolidation

The consolidated financial statements of the Association include the accounts of the Association and its wholly-owned subsidiaries, DLO and MATC. All material intercompany transactions and balances have been eliminated in the consolidation.

Cash and Cash Equivalents

The Association considers all highly liquid investment securities purchased with a maturity of 3 months or less to be cash equivalents. The Association maintains its cash either in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to the limit of $250,000 per depositor or in certain non-interest bearing accounts that are fully insured by the FDIC. At December 31, 2012, the Association had $517,998 in uninsured cash equivalents ($2,172,951 in 2011).

Subsequent to year end the temporary liquidity guarantee program, which fully insured non-interest bearing accounts expired. Therefore, at January 1, 2013, the Association had uninsured cash of $2,277,225.

The Association has not experienced any losses in its bank deposit accounts and believes it is not exposed to any significant credit risk on cash.

Marketable Securities

The Association 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 Association generally does not require collateral or other security to support accounts receivable. Credit risk associated with receivables is periodically reviewed by management and, if required, an allowance for doubtful accounts is established. Receivables from subscribers are due 30 days after the issuance of the invoice. Receivables from other exchange carriers are typically outstanding from 30-60 days before payment is received. Delinquent accounts are written off to uncollectible expense when it is determined that the account will not be collected. Receivables past due more than 90 days are considered delinquent. No allowance for doubtful accounts was recorded at December 31, 2012 and 2011.

Inventory

Inventory held for resale and telecommunication materials and supplies are stated at the lower of average cost or market. Cost is determined principally by the average cost method.

Estimates

The Association uses estimates and assumptions in preparing 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 those estimates.

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

Goodwill
The Association records goodwill as the difference between the value of the Association's investment in MATC and MATC's related equity and was generated from the acquisition of MATC by the Association. Goodwill is evaluated for impairment and adjusted accordingly on an annual basis. No impairment was needed during 2012 and 2011.

Investments
Investments in which the Association 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 Association's share of income or loss. Investments in which the Association 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 33.3%. Costs of plant retired are eliminated from telecommunications plant accounts and such costs plus removal expenses, less salvage, are charges to accumulated depreciation in accordance with industry practice.

Video and satellite equipment in service and under construction and DLO property and equipment are stated at cost. Depreciation is calculated on a straight-line basis over the estimated life of the classes of equipment. Depreciation rates range from 2% to 33.3%. Maintenance, repairs, and replacements are charged to expense as incurred. When property or equipment is 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.

Income Tax
The Association has been granted an exemption from Federal income taxes, except for "unrelated" business income, under Section 501(c)(12) of the Internal Revenue Code. The Association 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 Association becomes a taxable cooperative. The Association was an exempt cooperative for 2012, and DLO will file a separate tax return. In 2011, the Association was taxable and filed a consolidated return with DLO. At December 31, 2012, there is an affiliate payable of $13,458 for income taxes due to CTA from DLO for their portion of the 2010 tax liability that has been eliminated in the consolidated financial statements. 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 or paid to patrons within 8 ½ months after the end of each taxable year.

MATC is a taxable corporation and files a separate tax return but will share in apportionment of the Federal tax bracket.

The Association follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Association 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 financial statements related to uncertain tax positions.

The Association files informational and income tax returns in the United States and various state and local jurisdictions. With limited exceptions, the Association is no longer subject to examinations before 2009.

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due and deferred income taxes. Deferred taxes represent the future tax return consequences of differences between the financial statement and the tax basis of assets and liabilities, which will either be taxable or deductible when the related assets or liabilities are recorded or settled.

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

Regulation

The Association's telephone operations are subject to limited regulation by the Public Utility Commission of Oregon (PUC). The Association maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission (FCC). As a result, the application of accounting principles generally accepted in the United States of America by the Association differs in certain respects from the application by non-regulated businesses. Such differences primarily concern the time at which certain items entered into the determination of net margin.

Regulatory and legislative actions, as well as future regulations could have a significant impact on the Association's future operations and financial condition. See Note 1, National Broadband Plan and FCC order.

Network Access Revenues

Network access revenue for intralata and interlata toll service is received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Association, charge the long distance carrier for access and interconnection to local facilities. The Association has elected to file access tariffs through the Oregon Exchange Carrier Association (OECA) and the National Exchange Carrier Association (NECA). These access tariffs are subject to approval by the PUC for intrastate charges and the FCC for interstate charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are divided into traffic sensitive, nontraffic sensitive, and billing and collecting portions. The revenues are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Association. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investment maintained.

The Association participates in pooling arrangements with the National Exchange Carrier Association (NECA) and the Oregon Exchange Carrier Association (OECA).

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 (NECA pool only) after the close of the related calendar years, are recorded in the year in which such adjustments become determinable, based upon studies by outside consultants.

CTA and MATC also receive funding from the Oregon Universal Service fund (OUS) which are included in network access revenues in the accompanying consolidated financial statements.

In 2012, the Association received $5,392,929 ($6,324,130 in 2011) in interstate access revenues administered through the NECA pool. In 2012 CTA and MATC received $607,763 from OUS ($468,757 in 2011).

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 Universal Service Administrative Company.

In response to the plan, the FCC on October 27, 2011, approved Report and Order 11-161 (the Order), that begins 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 which will ultimately replace all existing high-cost support mechanisms as well as help facilitate ICC reforms. The Order, among other things, caps the federal universal service fund at current levels

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

National Broadband Plan and FCC Order, continued
and reforms the current system by putting various limits on capital and operating spending, requiring minimum levels for local rates and capping the per-line support amount at $250 per month. As of December 31, 2012, the Association is transitioning local rates, and is not subject to the $250 per line support cap.

The Order also reforms 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 Association is 9 years. Recovery will be calculated initially based on the fiscal year 2011 interstate switched access revenue requirement and will decline annually by 5% during the transition period beginning July 1, 2012.

The Order includes the 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 on July 1, 2012.

As of the implementation date, July 1, 2012, the Association is subject to the 5% annual decline in interstate switched access revenues requirement during the 9 year transition period. For the period ended December 31, 2012, the impacts to the Association have not been significant.

The overall reform process will take place in phases and will take several years to implement. Furthermore, the Order includes Further Notice of Proposed Rulemaking and seeks comments on various items and the ultimate outcome of these proceedings and their impact is uncertain at this time.

Fair Value of Financial Instruments
The Association's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, receivables, accounts payable, mortgage and notes payable. The Association estimates that the fair value of all of these non-derivative financial instruments at December 31, 2012 and 2011 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheets.

Comprehensive Income
The Association reports comprehensive income. The purpose of reporting comprehensive income is to report all changes in 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.

Subsequent Events
The Association has evaluated subsequent events through March 27, 2013, which is the date the consolidated financial statements were available to be issued.

## Note 2 - Inventory

Inventory consists of the following:

| | 2012 | 2011 |
|---|---|---|
| Telecommunications materials and supplies | $ 509,020 | $ 538,905 |
| Video and wireless materials and supplies | 56,984 | 43,577 |
| | $ 566,004 | $ 582,482 |

## Note 3 - Marketable Securities

As mentioned in Note 1, at December 31, 2012 and 2011, 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.

**Note 3 - Marketable Securities, continued**

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, 2012 and 2011.

At December 31, the Association's securities consisted of the following:

| | 2012 | 2011 |
|---|---|---|
| Fair Value: | | |
| Municipal and Corporate Bonds, Government Securities | $ 886,428 | $ 971,790 |
| Mutual Funds | 1,758,612 | - |
| | 2,645,040 | 971,790 |
| Cost | 2,668,166 | 973,525 |
| Gross unrealized holding losses | $ 23,126 | $ 1,735 |

Gross unrealized holding losses of $23,126 and $1,735 are included in accumulated other comprehensive loss at December 31, 2012 and 2011, respectively. 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, 2012 were $583,498 ($482,533 in 2011) resulting in a gross realized loss of $513 for the year ended December 31, 2012 ($6,775 loss for the year ended December 31, 2011).

The following is a summary of scheduled maturities of marketable debt securities as of December 31, 2012:

| | Amortized Cost | Fair Value |
|---|---|---|
| Amounts maturing in: | | |
| One year or less | $ 613,163 | $ 602,852 |
| After one year through five years | 41,576 | 41,335 |
| After five years through ten years | 244,077 | 242,241 |

**Note 4 - Investments**

Investments consist of the following:

| | 2012 | 2011 |
|---|---|---|
| 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 | 43,215 | - |
| CoBank, equity investment and patronage allocations | 41,218 | 36,564 |
| Other investments | 31,987 | 31,987 |
| | $ 992,081 | $ 944,212 |

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.

### Note 4 - Investments, continued

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 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 2012, the Association contributed $21,176 in cash and $22,852 in furniture and equipment and recorded a net loss of $813 from this investment.

### Note 5 - Other Assets

Other assets consist of the following at December 31:

| | 2012 | 2011 |
|---|---|---|
| Deferred compensation | $ 117,315 | $ 111,199 |
| Nonregulated leased phone equipment | 2,150 | 3,549 |
| Nonregulated inventory | - | 417,898 |
| | $ 119,465 | $ 532,646 |

### Note 6 - Property, Plant, and Equipment

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

| | 2012 | 2011 |
|---|---|---|
| *Canby Telephone Association* | | |
| Cable and wire facilities | $ 23,529,483 | $ 22,487,137 |
| Central office | 11,935,758 | 16,836,536 |
| Land, buildings, and support | 7,945,571 | 7,728,044 |
| Amortizable assets | 55,890 | 55,890 |
| Video and satellite equipment | 4,589,400 | 3,993,795 |
| Under construction | - | 6,341 |
| | 48,056,102 | 51,107,743 |
| *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 | 1,065,233 | 1,069,647 |
| Central office | 2,534,862 | 2,399,066 |
| Cable and wire facilities | 2,098,522 | 1,914,153 |
| | 5,698,617 | 5,382,866 |
| Total Property, Plant, and Equipment | $ 54,424,430 | $ 57,160,320 |

### Note 7 - Long-Term Debt

Long-Term Debt consists of the following:

| | 2012 | 2011 |
|---|---|---|
| Mortgage note payable to CoBank, at 5.72% at December 31, 2012 and 2011, payable in quarterly principal only installments of $76,125, interest payable monthly, collateralized by substantially all real and personal property, due in 2015. | $ 798,625 | $ 1,103,125 |
| Less current portion | 304,500 | 304,500 |
| | $ 494,125 | $ 798,625 |

Future maturities of long-term debt are as follows:

| | |
|---|---|
| 2013 | $ 304,500 |
| 2014 | 304,500 |
| 2015 | 189,625 |
| | $ 798,625 |

The long-term debt agreement contains restrictions on the payment of dividends and redemption of capital stock by MATC. The terms of the long-term debt agreement require the maintenance of defined amounts of stockholders' equity and certain financial ratios. Management believes MATC is in compliance with these covenants at December 31, 2012 and 2011.

The Association had a line of credit with CoBank in the amount of $1,000,000 at a bank price rate plus 2.25% at December 31, 2011. The line of credit was reduced to $500,000 effective April 18, 2012. At December 31, 2011, the Association had a $500,000 draw on their line of credit that was paid back in 2012. At December 31, 2012 the Association has no advanced amounts on the line of credit.

### Note 8 - Members' Equity

Patronage capital is derived from margins retained from operations and refunds of federal excise taxes, both of which are allocated to the accounts of individual patrons and are subject to retirement at the discretion of the Board of Directors.

Nonpatronage income, net of expenses, is recorded to accumulated earnings. Amounts included in accumulated earnings are not subject to allocation to the accounts of individual members. Losses sustained by the Association may be allocated to the accounts of individual patrons or offset to accumulated earnings at the discretion of the Board of Directors in accordance with the Association's bylaws.

### Note 9 - Employee Benefit Plans

At December 31, 2011, the Association elected to terminate its participation in the noncontributory, multi-employer, defined-benefit pension plan (the Plan) administered by the Retirement and Security Program of the National Telephone Cooperative Association (NTCA), which covered all full-time eligible employees, and contributed 7.7% in 2011 of each eligible employee's annual salary to the Plan. The decision to terminate participation in the Plan constituted a settlement of benefits. The final settlement of the Plan issued by the NTCA was $2,922,365. During 2011, the Association paid $1,766,700 with the remaining balance of $1,155,665 paid in August 2012. Pension costs included current service costs that are accrued and funded on a current basis. The final termination date for the plan was March 1, 2012 resulting in total Plan costs of $84,410 in 2012 ($408,697 in 2011).

### Note 9 - Employee Benefit Plans, continued

The Association also participates in a contributory, multi-employer, defined-contribution savings plan administered by NTCA, which covers all full-time eligible employees. Employees are not required to make contributions to participate in the plan (they may contribute up to the lesser of 20% or $16,500). Effective March 1, 2012 employer contributions are 8% of eligible salaries paid plus an additional 1% minimum and 4% maximum if the employee contributes to the plan. Prior to this, employer contributions were 4% of eligible salaries paid plus an additional 2% if the employee contributes 2%. Employer contributions to the plan were $403,819 in 2012 ($225,694 in 2011).

MATC sponsors a 401(k) profit sharing plan (the Plan), which covers all eligible employees. Effective March 1, 2012 employer contributions are 8% of eligible salaries paid plus an additional 1% minimum and 4% maximum if the employee contributes to the plan. Prior to this, employer contributions were 12% of eligible salaries paid. The total contributions to the profit sharing portion of the plan, including amounts charged to construction, were $25,178 in 2012 ($36,372 in 2011).

MATC also contributes 4% of each eligible employee's wages in accordance with IRS regulations governing Safe Harbor 401(k) plans. Employer contributions to the plan were $8,407 in 2012 ($12,124 in 2011).

### Note 10 - Income Taxes

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

| | 2012 | 2011 |
|---|---|---|
| Current: | | |
| Accrual to cash adjustment | $ (52,000) | $ (56,000) |
| Marketable securities adjustment | 500 | 700 |
| Current deferred income tax liability | $ (51,500) | $ (55,300) |
| Noncurrent: | | |
| Property, plant, equipment and goodwill | $ 963,000 | $ 1,096,000 |
| Post-retirement health benefits accrual | 62,000 | 63,000 |
| Noncurrent deferred income tax asset | $ 1,025,000 | $ 1,159,000 |

Income tax expense (benefit) consists of the following:

| | 2012 | 2011 |
|---|---|---|
| Operating: | | |
| Deferred provision | $ 130,200 | $ 145,300 |
| Current payable | 95,400 | 53,300 |
| Over accrual | (6,400) | (22,000) |
| Operating income tax | $ 219,200 | $ 176,600 |
| Nonoperating: | | |
| Current payable | 18,600 | 90,700 |
| Over accrual | (37,900) | (132,200) |
| Nonoperating income tax benefit | $ (19,300) | $ (41,500) |

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 11 - Other Long-Term Liabilities

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

During 2011, the Association amended the Plan to freeze plan benefits and cover only current retirees and those who accepted an early retirement offer in early 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 of $457,536 which is recognized in the accompanying consolidated Statements of Operations for 2011. These one-time costs consist of the reduction of past service costs recognized of $713,264 and an unrecognized net actuarial loss of $255,728. Information for the Plan year beginning January 1, 2012 is not available at the time of this audit report.

The following table presents the estimated status of the Plan at December 31 based on the valuation as of December 31, 2011:

| | 2012 | 2011 |
|---|---|---|
| Accumulated post-retirement benefits | $ 819,110 | $ 827,483 |
| Less unrecognized transition obligation and losses | - | - |
| Fair value of plan assets at December 31 | - | - |
| Net unfunded status of the plan | $ 819,110 | $ 827,483 |
| | | |
| Benefit payments | $ 53,373 | $ 38,160 |

For measurement purposes, a 7% annual rate of increase in the per capita cost of covered health care benefits was assumed in 2012 (9% in 2011). The rate is assumed to decrease gradually to 6.0% in 2013, 5.5% in 2014, and 5.0% in 2015 and to remain at that level thereafter. The health care cost trend rate has a significant effect on the amounts reported. Increasing the assumed health care trend rate by one percentage point each year would increase the accumulated post-retirement benefit obligation as of December 31, 2012 by approximately $63,000 and the aggregate of the service and interest cost components of post-retirement expense for the year by approximately $3,700.

Assumptions

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

| | 2012 | 2011 |
|---|---|---|
| Weighted-average assumptions used to determine benefit obligations at December 31: | 5.50% | 5.50% |
| Weighted average assumptions used to determine net periodic benefit cost for years ended December 31: | 5.50% | 5.50% |

Cash Flows

The Association does not expect to contribute to its post-retirement benefit plan in 2013.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| Post-retirement Benefits | |
|---|---|
| 2013 | $ 53,373 |
| 2014 | 53,373 |
| 2015 | 53,373 |
| 2016 | 53,373 |
| 2017 | 53,373 |
| Years 2018 - 2022 | 266,865 |
| | $ 533,730 |

**Note 11 - Other Long-Term Liabilities, continued**

Amounts recognized in the Statement of Operations:

| | | |
|---|---|---|
| Net periodic benefit cost: | | |
| Service costs – benefits earned during the period | $ - | $ 64,701 |
| Interest cost of projected benefit obligation | 45,000 | 82,347 |
| Gain on curtailment | - | (457,536) |
| Amortization of transition obligation | - | - |
| Amortization of net (gain) loss | - | - |
| Net periodic benefit cost | $ 45,000 | $ (310,488) |

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 the retired employee's death. Benefits are based on years of service and the average employee's compensation of the five highest 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

| | 2012 | 2011 |
|---|---|---|
| Benefit obligation at December 31 | $ 179,000 | $ 176,000 |
| Fair value of plan assets at December 31 | - | - |
| Net unfunded status of the plan | $ ( 179,000) | $ ( 176,000) |
| Benefit payments | $ ( 12,620) | $ ( 10,660) |
| Noncurrent plant liabilities | $ ( 179,000) | $ ( 176,000) |
| Other post-employment obligations | 682 | 683 |
| | ( 178,318) | ( 175,317) |
| Less current portion | ( 17,115) | ( 12,675) |
| | $ ( 161,203) | $ ( 162,642) |

Assumptions

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

| | 2012 | 2011 |
|---|---|---|
| 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 2013.

### Note 11 - Other Long-Term Liabilities, continued

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| | |
|---|---|
| Post-retirement Benefits | |
| 2013 | $ 17,115 |
| 2014 | 17,115 |
| 2015 | 17,115 |
| 2016 | 17,115 |
| 2017 | 17,115 |
| Years 2018 - 2022 | 85,575 |
| | $ 171,150 |

### Note 12 - 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 and human resource services for the Association. During 2012, the employees of CBS, LLC remained on the payroll of the Association resulting in billings to CBS, LLC for labor and benefit expenses. At December 31, 2012, there was $63,666 payable to CBS, LLC (none at December 31, 2011). At December 31, 2012, there was a receivable of $22,501 due from CBS, LLC for such labor and expenses (none at December 31, 2011). Effective January 2, 2013, all CBS, LLC employees will be moved to CBS, LLC payroll from their respective companies.

On September 1, 2012, MATC entered into a rental agreement for the use of their office building with CBS, LLC. MATC received rental payments of $7,000 during 2012.

### Note 13 - Reclassification

Certain accounts in the 2011 financial statements have been reclassified to conform to the presentation in the 2012 consolidated financial statements. Such reclassifications have no effect on net income or members' equity.

# SUPPLEMENTAL INFORMATION

## CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

### Consolidating Balance Sheets

December 31, 2012

| ASSETS | Mt. Angel Telephone Company | DirectLink of Oregon, Inc. | Canby Telephone Association | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Current Assets: | | | | | |
| Cash and cash equivalents | $ 782,535 | $ 666,980 | $ 1,955,242 | $ - | $ 3,404,757 |
| Marketable securities | 96,716 | 1,758,612 | 789,712 | - | 2,645,040 |
| Accounts receivable | 145,281 | 3,817 | 1,808,081 | (34,989) | 1,922,190 |
| Inventory | 57,155 | - | 508,849 | - | 566,004 |
| Income taxes receivable | - | - | 13,458 | (13,458) | - |
| Prepaid expenses | 19,726 | 2,906 | 511,693 | - | 534,325 |
| Total Current Assets | 1,101,413 | 2,432,315 | 5,587,035 | (48,447) | 9,072,316 |
| Other Assets and Investments: | | | | | |
| Note receivable | - | 800,000 | - | (800,000) | - |
| Other assets | 2,150 | - | 117,315 | - | 119,465 |
| Investments | 39,863 | - | 952,218 | - | 992,081 |
| Investments, affiliate | - | - | 8,864,683 | (8,864,683) | - |
| Deferred income taxes | 1,025,000 | - | - | - | 1,025,000 |
| Goodwill | - | - | - | 3,974,375 | 3,974,375 |
| Total Other Assets and Investments | 1,067,013 | 800,000 | 9,934,216 | (5,690,308) | 6,110,921 |
| Property, Plant, and Equipment: | | | | | |
| Property, plant, and equipment | 5,698,617 | 669,711 | 48,056,102 | - | 54,424,430 |
| Less accumulated depreciation | 4,502,390 | 372,195 | 30,103,903 | - | 34,978,488 |
| Property, Plant, and Equipment, net | 1,196,227 | 297,516 | 17,952,199 | - | 19,445,942 |
| | $ 3,364,653 | $ 3,529,831 | $ 33,473,450 | $ (5,738,755) | $ 34,629,179 |

| 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 | $ 304,500 | $ - | $ - | $ - | $ 304,500 |
| Accounts payable | 64,727 | 806 | 632,953 | (34,989) | 663,497 |
| Accrued expenses | 49,437 | - | 395,340 | - | 444,777 |
| Patronage capital payable | - | - | 26,134 | - | 26,134 |
| Income taxes payable | 27,520 | 50,358 | - | (13,458) | 64,420 |
| Current deferred tax liability | 51,500 | - | - | - | 51,500 |
| Customer deposits and advance billings | - | - | 849,610 | - | 849,610 |
| Total Current Liabilities | 497,684 | 51,164 | 1,904,037 | (48,447) | 2,404,438 |
| Long-Term Liabilities: | | | | | |
| Long-term debt | 1,294,125 | - | - | (800,000) | 494,125 |
| Deferred compensation | - | - | 117,315 | - | 117,315 |
| Other long-term liabilities | 161,203 | - | 822,440 | - | 983,643 |
| Total Long-Term Liabilities | 1,455,328 | - | 939,755 | (800,000) | 1,595,083 |
| Members' and Stockholder's Equity: | | | | | |
| Memberships | - | - | 47,173 | - | 47,173 |
| Common stock | 36,275 | 9,887,729 | - | (9,924,004) | - |
| Patronage capital | - | - | 14,647,281 | - | 14,647,281 |
| Accumulated earnings (deficit) | 1,376,707 | (6,398,324) | 15,958,330 | 5,021,617 | 15,958,330 |
| Accumulated other comprehensive loss | (1,341) | (10,738) | (23,126) | 12,079 | (23,126) |
| Total Members' and Stockholder's Equity | 1,411,641 | 3,478,667 | 30,629,658 | (4,890,308) | 30,629,658 |
| | $ 3,364,653 | $ 3,529,831 | $ 33,473,450 | $ (5,738,755) | $ 34,629,179 |

## CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

### Consolidating Statements of Operations

Year Ended December 31, 2012 — Schedule II

| | Mt. Angel Telephone Company | DirectLink of Oregon, Inc. | Canby Telephone Association | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Operating Revenues: | | | | | |
| Local network services | $ 620,360 | $ - | $ 5,187,613 | $ (126,373) | $ 5,681,600 |
| Network access services | 1,195,241 | - | 5,667,015 | - | 6,862,256 |
| Miscellaneous operating | 178,013 | 76,591 | 469,605 | (15,499) | 708,710 |
| Total Operating Revenues | 1,993,614 | 76,591 | 11,324,233 | (141,872) | 13,252,566 |
| Operating Expenses: | | | | | |
| Plant specific | 440,177 | - | 3,927,951 | (141,872) | 4,226,256 |
| Plant nonspecific | 89,874 | - | 1,159,454 | - | 1,249,328 |
| Customer | 367,024 | - | 1,365,854 | - | 1,732,878 |
| Corporate | 234,958 | - | 2,147,265 | (66,166) | 2,316,057 |
| Selling, general, and administrative | - | 15,684 | - | - | 15,684 |
| Depreciation and amortization | 188,561 | 16,277 | 2,554,526 | - | 2,759,364 |
| Total Operating Expenses | 1,320,594 | 31,961 | 11,155,050 | (208,038) | 12,299,567 |
| Operating taxes: | | | | | |
| Operating income taxes | 204,600 | 14,600 | - | - | 219,200 |
| Other operating taxes | 61,534 | 5,747 | 360,899 | - | 428,180 |
| Total Operating Taxes | 266,134 | 20,347 | 360,899 | - | 647,380 |
| Total Operating Expense and Taxes | 1,586,728 | 52,308 | 11,515,949 | (208,038) | 12,946,947 |
| Operating Margin (Loss) | 406,886 | 24,283 | (191,716) | 66,166 | 305,619 |
| Other Income (Expense): | | | | | |
| Interest and investment income | 15,516 | 49,515 | 119,597 | (30,000) | 154,628 |
| Interest expense | (88,787) | - | (27,261) | 30,000 | (86,048) |
| Miscellaneous income, net | (4,325) | 73 | 361,223 | (66,166) | 290,805 |
| Income tax benefit (expense) | - | (14,800) | 34,100 | - | 19,300 |
| Income from subsidiaries | - | - | 388,361 | (388,361) | - |
| Total Other Income (Expense) | (77,596) | 34,788 | 876,020 | (454,527) | 378,685 |
| Net Margin | $ 329,290 | $ 59,071 | $ 684,304 | $ (388,361) | $ 684,304 |

**CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES**

**Consolidating Statements of Cash Flows**

Year Ended December 31, 2012

| | Mt. Angel Telephone Company | DirectLink of Oregon, Inc. | Canby Telephone Association | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Cash Flows from Operating Activities: | | | | | |
| Net margin | $ 329,290 | $ 59,071 | $ 684,304 | $ (388,361) | $ 684,304 |
| Adjustments to reconcile net margin to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | 188,561 | 16,277 | 2,554,526 | - | 2,759,364 |
| Nonregulated depreciation | - | - | 434,831 | - | 434,831 |
| Net income from Subsidiaries | - | - | (388,361) | 388,361 | - |
| (Gain) Loss on sale of investments and marketable securities | 1,860 | (15,450) | 15,575 | - | 1,985 |
| Gain on nonregulated asset sales | - | - | (42,080) | - | (42,080) |
| Change in deferred taxes | 130,200 | - | - | - | 130,200 |
| Noncash patronage | (3,300) | - | (2,014) | - | (5,314) |
| Changes in assets and liabilities: | | | | | |
| Accounts receivable | (11,861) | (576) | 376,627 | 21,843 | 386,033 |
| Income taxes | 62,303 | 29,360 | (35,918) | - | 55,745 |
| Inventory | (21,428) | - | 37,906 | - | 16,478 |
| Prepaid expenses | 22,712 | (65) | (126,850) | - | (104,203) |
| Accounts payable | (12,981) | (30) | (66,504) | (21,843) | (101,358) |
| Accrued expenses | (11,295) | - | (1,062,688) | - | (1,073,983) |
| Other long-term liabilities | (1,439) | - | (25,108) | | (26,547) |
| Customer deposits and advance billings | - | - | 196,119 | - | 196,119 |
| Deferred compensation | - | - | (6,116) | - | (6,116) |
| Net Cash Provided by Operating Activities | 672,622 | 88,587 | 2,544,249 | - | 3,305,458 |
| Cash Flows from Investing Activities: | | | | | |
| Capital expenditures | (341,142) | - | (2,708,145) | - | (3,049,287) |
| Purchase of investments and marketable securities | (83,526) | (1,769,350) | (486,821) | - | (2,339,697) |
| Proceeds from investments and marketable securities | 85,000 | 15,450 | 542,146 | - | 642,596 |
| Change in other assets | 1,399 | - | 6,116 | - | 7,515 |
| Net Cash Used by Investing Activities | $ (338,269) | $ (1,753,900) | $ (2,646,704) | $ - | $ (4,738,873) |

| | Mt. Angel Telephone Company | DirectLink of Oregon, Inc. | Canby Telephone Association | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Cash Flows from Financing Activities: | | | | | |
| Changes in line of credit | $ - | $ - | $ (500,000) | $ - | $ (500,000) |
| Principal payments on long-term debt | (304,500) | - | - | - | (304,500) |
| Proceeds from memberships | - | - | 466 | - | 466 |
| Payments to estates | - | - | (86,756) | - | (86,756) |
| Patronage capital paid, net | - | - | (21,048) | - | (21,048) |
| Net Cash Used by Financing Activities | (304,500) | - | (607,338) | - | (911,838) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 29,853 | (1,665,313) | (709,793) | - | (2,345,253) |
| Cash and Cash Equivalents, beginning | 752,682 | 2,332,293 | 2,665,035 | - | 5,750,010 |
| Cash and Cash Equivalents, ending | $ 782,535 | $ 666,980 | $ 1,955,242 | $ - | $ 3,404,757 |
| Non-cash investing activity: | | | | | |
| Contributions of fixed assets for additional equity investment | $ - | $ - | $ 22,852 | $ - | $ 22,852 |
| Cash Paid During the Year for Interest | $ 88,787 | $ - | $ 27,261 | $ (30,000) | $ 86,048 |
| Cash Paid During the Year for Taxes | $ 12,096 | $ - | $ 106,711 | $ - | $ 118,807 |