Sledge Telephone Company
A Wholly-owned Subsidiary of Sunflower Enterprises, Inc.

Auditor's Report and Financial Statements

December 31, 2012 and 2011

BKD LLP
CPAs & Advisors

Sledge Telephone Company
A Wholly-owned Subsidiary of Sunflower Enterprises, Inc.
December 31, 2012 and 2011

Contents

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Independent Auditor's Report

Board of Directors
Sledge Telephone Company
Sunflower, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of Sledge Telephone Company (the Company), a wholly-owned subsidiary of Sunflower Enterprises, Inc., which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of income and retained earnings 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2013, on our consideration of the Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BKD, LLP

Jackson, Mississippi
May 23, 2013

Sledge Telephone Company
A Wholly-owned Subsidiary of Sunflower Enterprises, Inc.
Balance Sheets
December 31, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 485,967	$ 407,099
Accounts receivable		
Telecommunications customers		
(Net of allowance of $1,000 for both 2012 and 2011)	57,014	70,900
Other, principally connecting companies	91,225	114,293
Affiliates	171,325	199,964
Materials and supplies inventories	6,917	7,779
Prepayments and other assets	64,625	27,354
Total current assets	877,073	827,389
Property, Plant and Equipment, at Cost		
Telecommunications plant in service	6,122,115	6,928,941
Less accumulated depreciation	(1,920,172)	(2,609,809)
	4,201,943	4,319,132
	$ 5,079,016	$ 5,146,521

	2012	2011
Liabilities and Stockholder's Equity		
Current Liabilities		
Current maturities of long-term debt	$ 207,000	$ 203,000
Accounts payable	38,113	43,494
Payable to affiliates	94,736	325,061
Customer deposits and advance billings	21,746	22,818
Other liabilities	10,119	303
Total current liabilities	371,714	594,676
Long-term Debt	2,985,176	2,886,584
Deferred Income Taxes	307,427	292,799
Stockholder's Equity		
Common Stock, $100 par value; authorized 1,000 shares; issued and outstanding 826 shares	82,600	82,600
Additional paid-in-capital	200,000	200,000
Retained earnings	1,132,099	1,089,862
Total stockholder's equity	1,414,699	1,372,462
Total liabilities and stockholder's equity	$ 5,079,016	$ 5,146,521

Sledge Telephone Company

A Wholly-owned Subsidiary of Sunflower Enterprises, Inc.

Statements of Income and Retained Earnings

Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Basic local services	$ 102,723	$ 121,562
Long distance and access charges	1,161,285	1,308,271
Miscellaneous	37,483	21,146
Uncollectible revenues	(15,446)	(18,409)
	1,286,045	1,432,570
Operating Expenses		
Plant specific operations	201,211	217,876
Plant nonspecific operations	83,953	123,689
Depreciation and amortization	318,692	347,634
Customer operations	63,242	64,724
Corporate operations	425,004	483,360
	1,092,102	1,237,283
Operating Taxes		
Income taxes	10,738	24,194
Other operating taxes	37,396	37,535
	48,134	61,729
Operating Income	145,809	133,558
Other Income (Expenses)		
Income (loss) from nonregulated operations, net	18,053	(4,916)
Income taxes	(3,890)	4,098
Other, net	(1,600)	(2,222)
	12,563	(3,040)
Income Available for Fixed Charges	158,372	130,518
Fixed Charges - Interest on Long-term Debt	116,135	120,611
Net Income	42,237	9,907
Retained Earnings, Beginning of Year	1,089,862	1,079,955
Retained Earnings, End of Year	$ 1,132,099	$ 1,089,862

Sledge Telephone Company

A Wholly-owned Subsidiary of Sunflower Enterprises, Inc.

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Net income	$ 42,237	$ 9,907
Items not requiring (providing) cash		
Depreciation and amortization	318,692	347,634
Deferred income taxes	14,628	20,096
Changes in		
Accounts receivable	65,593	(137,327)
Materials and supplies inventories	862	(1,640)
Prepaid expenses	(37,271)	7,291
Accounts payable and payable to affiliates	(235,706)	55,588
Customer deposits and advance billings	(1,072)	(1,063)
Other liabilities	9,816	-
Net cash provided by operating activities	177,779	300,486
Investing Activities		
Additions to plant, net of salvage	(201,503)	(213,864)
Net cash used in investing activities	(201,503)	(213,864)
Financing Activities		
Principal payments on long-term debt	(182,790)	(193,403)
Proceeds from issuance of long-term debt	285,382	166,157
Net cash provided by (used in) financing activities	102,592	(27,246)
Increase in Cash and Cash Equivalents	78,868	59,376
Cash and Cash Equivalents, Beginning of Year	407,099	347,723
Cash and Cash Equivalents, End of Year	$ 485,967	$ 407,099
Supplemental Cash Flows Information		
Interest paid	$ 106,319	$ 120,611

Note 1: Organization and Summary of Significant Accounting Policies

Reporting Entity and Nature of Operations

Sledge Telephone Company (Sledge or the Company) is a wholly-owned subsidiary of Sunflower Enterprises, Inc. The accounting policies of the Company conform to accounting principles generally accepted in the United States of America and reflect practices appropriate to the telephone industry. The Company provides local telephone exchange carrier services and internet access in portions of West Central, Mississippi. The accounting records of the Company are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Communications Commission (FCC) and the Mississippi Public Service Commission (MPSC).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2012 and 2011, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

At December 31, 2012, the Company's interest-bearing cash accounts did not exceed federally insured limits.

Pursuant to legislation enacted in 2010, the Federal Deposit Insurance Corporation (FDIC) fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the $250,000 limit on FDIC insurance per covered institution.

At December 31, 2012, the Company held approximately $532,000 in noninterest-bearing accounts.

Accounts Receivable

The Company generally grants credit to all customers. In certain cases, a deposit may be collected prior to the provision of service. Management records an allowance for estimated uncollectible accounts based on historical bad debt experience and other factors. Accounts are written off when collection is determined to be unlikely.

Materials and Supplies Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property, Plant and Equipment

Telecommunications plant in service is stated at original cost of construction, including capitalized costs such as taxes and payroll-related expenses.

Depreciation

Depreciation on telecommunications plant is provided using the composite straight-line method using rates approved by the MPSC. Renewals and betterments of units of property are charged to telecommunications plant in service. The original cost of depreciable property retired, together with removal cost, less any salvage value realized, is charged to accumulated depreciation. No gain or loss is recognized with ordinary retirements of depreciable property. Repairs and renewals of minor items of property are charged to maintenance expense.

Long-lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2012 or 2011.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (Accounting Standards Codification [ASC] 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Revenue Recognition

Revenues are recognized when earned, regardless of the period in which they are billed. Telephone toll and access services are furnished in conjunction with AT&T and various interexchange carriers.

Local service revenues include revenues derived from the provision of basic flat rate message service; enhanced services such as call waiting, call forwarding and touchtone services; certain nonrecurring charges such as central office line connection charges; and revenues derived through messages which originate or terminate in the Company's service area through the provision of elective measured extended area calling plans.

The interstate access charges are based upon tariffs filed by the National Exchange Carrier Association (NECA) with the FCC on behalf of member companies. These access charges are billed by the Company to the interstate interexchange carriers and pooled with like revenues from all NECA member companies. The portion of the pooled access charge revenues received by the Company is based upon its actual cost of providing interstate access service, plus a return on the investment dedicated to providing that service. Toll and access revenues based on these cost separation principles represent estimates pending completion and acceptance of final cost studies. Management believes that recorded amounts represent reasonable estimates of the final amounts.

Compensation for intrastate-intralata and intrastate-interlata toll and access services is based upon access charge tariffs filed with the MPSC.

Taxes collected from customers and remitted to governmental authorities are presented in the accompanying statements of income and retained earnings on a net basis.

Current Economic Environment

The current protracted economic decline continues to present the business world with difficult circumstances and challenges, which, in some cases, have resulted in large and unanticipated declines in the fair value of investments and other assets, declines in the volume of business, constraints on liquidity and difficulty obtaining financing or bonding. The financial statements have been prepared using values and information currently available to the Company.

Current economic and financial market conditions could adversely affect our results of operations in future periods. The current instability in the financial markets may make it difficult for certain of our customers to pay their bills, which could ultimately have an adverse impact on future operations.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Company's ability to meet debt covenants or maintain sufficient liquidity.

Note 2: Restricted Cash

Included in cash and cash equivalents is $124,047 and $274,584 as of December 31, 2012 and 2011, respectively, which is restricted for construction purposes under the approval of the Rural Utilities Service (RUS).

Sledge Telephone Company

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Notes to Financial Statements

December 31, 2012 and 2011

Note 3: Telecommunications Plant in Service

The major classes of telecommunications plant and their related straight-line depreciation rates are as follows:

	2012	2011	Rates
Land	$ 31,050	$ 31,050	0.0%
Buildings	372,068	372,068	2.5%
Central office equipment	1,698,117	2,562,611	8.0%
Station connections	26,627	26,627	10.0%
Pole lines, cable and wire	3,274,752	3,240,410	6.0 - 7.4%
Furniture and office equipment	105,809	105,809	10.0 - 14.5%
Vehicles	330,141	310,819	16.0%
Tools and other work equipment	258,867	254,863	16.0%
Radio equipment	24,684	24,684	16.0%
	$ 6,122,115	$ 6,928,941	

Application of these rates has resulted in composite rates as applied to average depreciable telecommunications plant investment of 4.88% and 4.94% for 2012 and 2011, respectively.

Note 4: Long-term Debt

Substantially all assets are pledged as collateral for long-term debt due to the RUS, an agency of the United States of America, and are represented by 2.0% to 4.3% mortgage notes. These notes are for 21, 17 and 35 years, and principal and interest are payable in monthly and quarterly installments totaling approximately $320,000 on an annual basis. The notes mature at various times from 2017 to 2027.

The following is a summary of long-term debt.

	2012	2011
RUS 1.8% mortgage notes	$ 168,897	$ -
RUS 1.9% mortgage notes	112,568	-
RUS 2.0% mortgage notes	5,495	9,002
RUS 2.8% mortgage notes	746,082	794,145
RUS 3.8% mortgage notes	149,897	158,981
RUS 4.0% mortgage notes	763,720	809,261
RUS 4.3% mortgage notes	1,245,517	1,318,195
	3,192,176	3,089,584
Less current maturities	(207,000)	(203,000)
	$ 2,985,176	$ 2,886,584

The estimated aggregate annual maturities of long-term debt at December 31, 2012, are:

2013	$ 207,000
2014	214,000
2015	222,000
2016	231,000
2017	239,000
Thereafter	2,079,176
	$ 3,192,176

Note 5: Dividend Restrictions

Under the terms of the RUS mortgage agreements, dividend and other capital distributions are restricted. At December 31, 2012, there was $19,000 of retained earnings available for payment of dividends.

Note 6: Income Taxes

The Company, for income tax purposes, is included in the consolidated income tax return of Sunflower Enterprises, Inc. For financial statement purposes, the Company computes its income tax by applying the statutory rate to its pretax income reported in the financial statements (separate return method).

For tax purposes, the Company uses accelerated depreciation. The income tax effects of the difference in book and tax depreciation have been recorded as deferred income taxes.

The Company files income tax returns in the U.S. federal jurisdiction and the state of Mississippi. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2009.

The provisions (credits) for income taxes include these components.

	2012	2011
Operating		
Current		
Federal	$ (2,967)	$ 3,701
State	(923)	397
	(3,890)	4,098
Deferred		
Federal	11,158	18,149
State	3,470	1,947
	14,628	20,096
Total operating	10,738	24,194
Other		
Current		
Federal	2,967	(3,701)
State	923	(397)
Total other	3,890	(4,098)
Total income tax expense	$ 14,628	$ 20,096

The components of net deferred tax assets and liabilities recognized in the accompanying balance sheets due to temporary differences are as follows:

	2012	2011
Deferred tax liabilities		
Accelerated tax depreciation	$ (875,844)	$ (854,501)
Deferred tax assets		
Net operating loss	568,417	561,702
Net deferred tax liability	$ (307,427)	$ (292,799)

At December 31, 2012, the Company had unused federal operating loss carryforwards of approximately $1,644,000 for financial statement purposes, which expire beginning in 2023.

No valuation allowance was considered necessary at December 31, 2012 or 2011.

Note 7: Pension Plan

The Company provides a simplified employee pension (SEP) plan for its employees. The Company may make, at its discretion, contributions up to 15% of all participants' gross wages on an annual basis. In 2012 and 2011, the Company contributed $50,597 and $60,801, respectively, to the plan.

Note 8: Related Party Transactions

Certain commercial office services, pole rentals and use of vehicles are provided to an affiliated company, Sledge Cable, Inc. In turn, Sledge Cable, Inc. provides certain services for the Company. No amounts were recorded for the services rendered or received in the accompanying financial statements. It is management's opinion that the costs and benefits of the expense sharing arrangement are offsetting, and the omission of recorded amounts for the expense sharing arrangement is not material to the accompanying financial statements.

The Company provides services to its parent, Sunflower Enterprises, Inc. (Sunflower), including outside plant services, general office services and use of certain telephone equipment. Billings for these services totaled $27,055 and $31,808 in 2012 and 2011, respectively.

The Company receives management related services from Sunflower. Total billings for these services were $20,032 and $17,420 in 2012 and 2011, respectively.

Through December 31, 2011, the Company's affiliate, Lakeside Telephone Company, Inc. (Lakeside), operated its central office switching equipment as remote switching equipment which receives its switching capability through the host switch at Sledge. Sledge billed Lakeside a portion of its cost to operate and maintain the host switch. Total billings for these costs for the year ended December 31, 2011 were $7,000.

Note 9: Nonregulated Operations

The Company provides internet access to customers in the general vicinity of its local exchange area. Details of the nonregulated operations are as follows:

	2012	2011
Internet access revenues	$ 111,969	$ 127,377
Internet expenses	93,916	132,293
	$ 18,053	$ (4,916)

Although the Company has identified the principal revenues and expenses of nonregulated operations, certain interdependence and overlaps between regulated and nonregulated operations exist, particularly as to sharing of commercial office and administrative expenses. Accordingly, the information provided may not be indicative of the operating results of nonregulated activities conducted as an independent unit.

Note 10: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
Sledge Telephone Company
Sunflower, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Sledge Telephone Company, Inc. (the Company), a wholly-owned subsidiary of Sunflower Enterprises, Inc., which comprise the balance sheets as of December 31, 2012, and the related statements of operations and retained earnings and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 23, 2013.

Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Company's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2012-01, 2012-02 and 2012-03 to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Company's Response to Findings

The Company's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Company's responses and, accordingly, we express no opinion on them.

Other Matters

We also noted certain additional matters that we reported to the Company's management in a separate letter dated May 23, 2013.

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
May 23, 2013

Sledge Telephone Company
A Wholly-owned Subsidiary of Sunflower Enterprises, Inc.
Schedule of Findings and Responses
Year Ended December 31, 2012

Reference Number	Finding
2012-1	***Criteria or Specific Requirement*** – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – Management relies on its outside auditors to assist in the preparation of external financial statements and related footnote disclosures.

Context – Under auditing standards generally accepted in the United States of America, outside auditors cannot be considered a part of the Company's control structure, and the design of the Company's internal control structure does not include procedures for the preparation of external financial statements.

Effect – Potentially material misstatements in the financial statements and related footnote disclosures could occur and not be prevented or detected by the Company's internal control structure.

Cause – Due to limitations of the Company's small accounting staff, the Company has not designed internal control procedures for preparing external financial statements.

Recommendation – Management should periodically evaluate the cost versus the benefits of developing internal control procedures or other compensating controls over the preparation of external financial statements and implement those changes it deems appropriate for which benefits are determined to exceed costs.

View of Responsible Officials and Planned Corrective Actions – Management acknowledges this finding and, at this point, considers the cost to correct the condition in excess of the benefits that would be derived. Management will continue to monitor the condition for future cost versus benefit.

Sledge Telephone Company

A Wholly-owned Subsidiary of Sunflower Enterprises, Inc.

Schedule of Findings and Responses (Continued)

Year Ended December 31, 2012

Reference Number	Finding
2012-2	***Criteria or Specific Requirement*** – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – Limited separation of functions exist within the accounting system.

Context – There are incompatible duties within cash receipts, cash disbursements, payroll and billing.

Effect – Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.

Cause – Due to limitations of the Company's small accounting staff, the Company has not designed internal control procedures for separation of duties in various functional accounting areas.

Recommendation – Management should periodically evaluate the cost versus the benefits of developing internal control procedures or other compensating controls over the functional accounting areas and implement those changes it deems appropriate for which benefits are determined to exceed costs.

View of Responsible Officials and Planned Corrective Actions – Management acknowledges this finding and, at this point, considers the cost to correct the condition in excess of the benefits that would be derived. Management will continue to monitor the condition for future cost versus benefit.

Reference Number	Finding
2012-3	***Criteria or Specific Requirement*** – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – The design of the Company's accounting process does not provide for appropriate review of journal entries recorded to adjust accounts in significant transaction areas.

Context – There is no process providing for the review of journal entries.

Effect – Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.

Cause – Due to limitations of the Company's small accounting staff, the Company has not designed internal control procedures for appropriate review of journal entries recorded to adjust accounts in significant transaction areas.

Recommendation – Management should periodically evaluate the cost versus the benefits of developing internal control procedures or other compensating controls over the review of journal entries and implement those changes it deems appropriate for which benefits are determined to exceed costs.

View of Responsible Officials and Planned Corrective Actions – Management acknowledges this finding and, at this point, considers the cost to correct the condition in excess of the benefits that would be derived. Management will continue to monitor the condition for future cost versus benefit.