

REDACTED - FOR PUBLIC INSPECTION

# Hershey Cooperative Telephone Company



P. O. Box 235  
HERSHEY, NEBRASKA 69143  
(308) 368-5561

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**COPY**  
Mailed 2/26/13

February 1, 2013

Erickson & Brooks  
2195 North Broad  
Fremont, NE 68025

This representation letter is provided in connection with your audit of the financial statements of Hershey Cooperative Telephone Co., which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of January 31, 2013 the following representations made to you during your audit.

## Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 15, 2012.
- The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.
- We acknowledge our responsibility for 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. The disclosures related to accounting estimates are complete and appropriate and no subsequent event has occurred that would require adjustment to the accounting estimates or disclosures included in the financial statements.
- We have evaluated indefinite lived assets for impairment and have reported such assets at fair value.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

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- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. In addition, you have proposed adjusting journal entries that have been posted to the company's accounts. We are in agreement with those adjustments.
- The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- Material concentrations have been properly disclosed in accordance with U.S. GAAP.
- Guarantees, whether written or oral, under which the company is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.

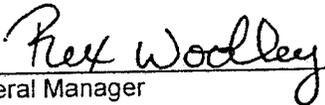
**Information Provided**

- We have provided you with:
  - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - Additional information that you have requested from us for the purpose of the audit.
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management,
  - Employees who have significant roles in internal control, or
  - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.
- We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- The company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- We acknowledge our responsibility for presenting the consolidating information in accordance with U.S. GAAP, and we believe the consolidating information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the consolidating information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

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## Other Services Provided

- In regards to the drafting of the financial statements and the preparation of federal and state income tax returns by you, we have:
  - Made all management decisions and performed all management functions.
  - Designated an individual with suitable skill, knowledge, or experience to oversee the service.
  - Evaluated the adequacy and results of the services performed.
  - Accepted responsibility for the results of the services.

  
\_\_\_\_\_  
General Manager

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**HERSHEY COOPERATIVE TELEPHONE COMPANY  
AND WHOLLY-OWNED SUBSIDIARY**

HERSHEY, NEBRASKA

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**CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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**ERICKSON & BROOKS**

Certified Public Accountants

FREMONT, NEBRASKA

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
HERSHEY, NEBRASKA  
DECEMBER 31, 2012 AND 2011

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*Erickson & Brooks*

CERTIFIED PUBLIC ACCOUNTANTS

2195 NORTH BROAD STREET  
P.O. BOX 1270  
FREMONT, NEBRASKA 68026-1270

TEVEN E. PRIBNOW  
JANIEL J. WIESEN  
KENT P. SPEICHER

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Hershey Cooperative Telephone Company  
Hershey, Nebraska

We have audited the accompanying consolidated financial statements of Hershey Cooperative Telephone Company (a Nebraska corporation) and subsidiary, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' 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 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 of 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.

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**Opinion**

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

ERICKSON & BROOKS

*Erickson & Brooks*

Fremont, Nebraska  
February 1, 2013

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
HERSHEY, NEBRASKA  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2012 AND 2011

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## ASSETS

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash	\$ [REDACTED]	\$ [REDACTED]
Temporary investments (Note 2)	[REDACTED]	[REDACTED]
Accounts receivable, net	[REDACTED]	[REDACTED]
Other accounts receivable	[REDACTED]	[REDACTED]
Interest and dividends receivable	[REDACTED]	[REDACTED]
Materials and supplies	[REDACTED]	[REDACTED]
Prepaid expenses (Note 5)	[REDACTED]	[REDACTED]
Prepaid income taxes	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
Noncurrent assets:		
Investments:		
Long-term cash investments	[REDACTED]	[REDACTED]
Nonregulated equipment - net (Note 4)	[REDACTED]	[REDACTED]
Other noncurrent assets	[REDACTED]	[REDACTED]
Intangible assets	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
Property, plant and equipment: (Note 3)		
Telecommunications plant in service	[REDACTED]	[REDACTED]
Accumulated provision for depreciation	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	\$ [REDACTED]	\$ [REDACTED]

## LIABILITIES AND EQUITIES

	<u>2012</u>	<u>2011</u>
Current liabilities:		
Accounts payable	\$ [REDACTED]	\$ [REDACTED]
Customer deposits	[REDACTED]	[REDACTED]
Advance billings and payments	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]
Patronage dividends payable	[REDACTED]	[REDACTED]
Other current liabilities	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
Other liabilities and deferred credits:		
Deferred income taxes (Note 6)	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
Stockholders' equity:		
Membership certificates, \$ [REDACTED] per certificate	[REDACTED]	[REDACTED]
Patronage capital assigned	[REDACTED]	[REDACTED]
Retained earnings	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
	\$ [REDACTED]	\$ [REDACTED]

The accompanying notes are an integral part of these financial statements.

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
HERSHEY, NEBRASKA  
 CONSOLIDATED STATEMENTS OF INCOME  
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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	<u>2012</u>	<u>2011</u>
Operating revenues:		
Basic local network services	\$ [REDACTED]	\$ [REDACTED]
Network access services		
Billing and collection services		
Miscellaneous		
	-----	-----
Less: uncollectible revenues	[REDACTED]	[REDACTED]
Total operating revenues	-----	-----
Operating expenses:		
Plant specific operations	[REDACTED]	[REDACTED]
Plant nonspecific operations		
Depreciation and amortization		
Customer operations		
Corporate operations		
Other taxes		
	-----	-----
Operating income	-----	-----
Other income (expense):		
Interest and dividend income	[REDACTED]	[REDACTED]
Miscellaneous expense		
Nonregulated income (loss) (Note 4)		
	-----	-----
Income before income taxes	[REDACTED]	[REDACTED]
Income taxes (Note 6)	-----	-----
Net income	\$ [REDACTED]	\$ [REDACTED]

The accompanying notes are an integral part of these financial statements.

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
 HERSHEY, NEBRASKA  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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	<u>Membership Certificates</u>	<u>Patronage Capital Assigned</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance December 31, 2010	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Net income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Decrease in memberships	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Dividends	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Balance December 31, 2011	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Decrease in memberships	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Dividends	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Balance December 31, 2012	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

The accompanying notes are an integral part of these financial statements.

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
HERSHEY, NEBRASKA  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from consumers	\$ [REDACTED]	\$ [REDACTED]
Cash paid to suppliers and employees	[REDACTED]	[REDACTED]
Interest and dividends received	[REDACTED]	[REDACTED]
Income taxes paid	[REDACTED]	[REDACTED]
Net cash provided by operating activities	[REDACTED]	[REDACTED]
Cash flows from investing activities:		
Construction and acquisition of plant	[REDACTED]	[REDACTED]
Purchases of cash investments	[REDACTED]	[REDACTED]
Proceeds from cash investments	[REDACTED]	[REDACTED]
Net cash provided (used) by investing activities	[REDACTED]	[REDACTED]
Cash flows from financing activities:		
Dividends paid	[REDACTED]	[REDACTED]
Increase (decrease) in:		
Patronage membership	[REDACTED]	[REDACTED]
Customer deposits and advanced payments	[REDACTED]	[REDACTED]
Net cash used by financing activities	[REDACTED]	[REDACTED]
Net increase (decrease) in cash	[REDACTED]	[REDACTED]
Cash – beginning of year	[REDACTED]	[REDACTED]
Cash – end of year	\$ [REDACTED]	\$ [REDACTED]

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
HERSHEY, NEBRASKA  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
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	<u>2012</u>	<u>2011</u>
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ [REDACTED]	\$ [REDACTED]
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	[REDACTED]	[REDACTED]
Loss on sale of equipment	[REDACTED]	[REDACTED]
Reinvested investment income	[REDACTED]	[REDACTED]
Patronage dividends	[REDACTED]	[REDACTED]
Deferred income taxes	[REDACTED]	[REDACTED]
(Increase) decrease in:		
Accounts receivable	[REDACTED]	[REDACTED]
Interest and dividends receivable	[REDACTED]	[REDACTED]
Prepaid expenses	[REDACTED]	[REDACTED]
Prepaid income taxes	[REDACTED]	[REDACTED]
Increase (decrease) in:		
Accounts payable	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]
Net cash provided by operating activities	\$ [REDACTED]	\$ [REDACTED]

The accompanying notes are an integral part of these financial statements.

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
HERSHEY, NEBRASKA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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## Note 1 – Summary of Significant Accounting Policies

### Nature of Operations

Hershey Cooperative Telephone Company and subsidiary provide telephone, cable television, internet and satellite internet services to subscribers in Hershey, Nebraska, and surrounding areas. Approximate operating revenues by activity are as follows: telephone service [REDACTED]; internet services [REDACTED]; cable television service [REDACTED]; nonregulated activities [REDACTED].

### Principles of Consolidation

The consolidated financial statements include the accounts of Hershey Cooperative Telephone Company and its wholly-owned subsidiary, Access Direct Communications LLC. All material intercompany accounts and transactions have been eliminated.

### System of Accounts

The accounting policies of the Company conform to generally accepted accounting principles and reflect practices appropriate to the telephone industry. The accounting records of the Company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Utilities as prescribed by the Federal Communications Commission (FCC).

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and Temporary Cash Investments

Cash consists primarily of checking and money market accounts, which may be liquidated in a period of less than 90 days. Certificates of deposits and other securities with original maturities over 90 days are classified as temporary cash investments. Certificates of deposits with maturities exceeding one year are classified as long-term. Cash and temporary cash investments are stated at cost, which approximates market value.

### Telecommunications Accounts Receivable

Doubtful accounts are written off as deemed uncollectible. It is management's opinion that all accounts represented on the balance sheet at December 31, 2012 and 2011 are collectible. The Company grants credit to residents, substantially all of whom are local residents.

The Company's policy is to charge a \$ [REDACTED] service fee in lieu of finance charges on accounts not paid in 15 days. The Company terminates service on accounts over [REDACTED] days past due and considers accounts over [REDACTED] days past due as delinquent, which are then turned over for collection. There were no accounts over [REDACTED] days past due at December 31, 2012 and 2011.

### Materials and Supplies

Inventories are stated at the lower of cost or market. Cost is determined principally by the average cost method.

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
HERSHEY, NEBRASKA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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## Property and Equipment

Telephone plant is capitalized at original cost, including the capitalized cost of salaries and wages, materials, certain payroll taxes and employee benefits.

Renewals and betterments of units of property are charged to telephone plant in service. When telephone plant is retired, its cost is removed from the asset account and charged against accumulated depreciation, together with removal costs less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable telephone property. Substantial early retirements of assets are charged to deferred charges and amortized in accordance with the rules and regulations of 47 CFR part 32. Repairs and renewals of minor items are expensed as incurred.

## Depreciation

The Company provides for depreciation for financial reporting purposes and income tax purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property.

## Patronage Capital

The Company is a cooperative of which subscribers are members. Each subscriber becomes a member and receives a membership certificate which will allow the subscriber to vote at the annual meeting.

## Revenue Recognition

Toll, access, local service and miscellaneous revenues are recognized when earned regardless of the period in which they are billed.

Network access revenue related to interlata and intralata toll service is received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long distance carrier for access and interconnection to local facilities. The Company follows an access tariff filed with the Nebraska Public Service Commission for intrastate charges and the Federal Communications Commission (FCC) for interstate charges.

When network access service 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 Company. 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 Company participates in pooling arrangements with the National Exchange Carrier Association (NECA).

Interstate 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 [REDACTED] months after the close of the related calendar year, are recorded in the year in which such adjustments become determinable. Retroactive interstate adjustments increased net income by \$ [REDACTED] in 2012 and \$ [REDACTED] in 2011.

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY

HERSHEY, NEBRASKA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

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Intrastate access revenues are based on a filed tariff and are not subject to change unless a new tariff is filed.

In addition to recoveries from NECA, the Company also receives revenue from the Universal Service High Cost Loop Fund administered by the Universal Service Administrative Company (USAC). The amount of support received from USAC is based on the number of customers served and the cost of providing services in that area being in excess of the national average, as determined by the FCC. The Company received \$ [REDACTED] and \$ [REDACTED] respectively, for the years ended December 31, 2012 and 2011.

The ability of NECA and USAC to provide these revenues to organizations similar to the Company is contingent upon regulatory and legislative rules which provide for the continuance of rate of return regulation and universal service support as currently enacted. Any regulatory or legislative changes that reduce the rate of return or universal support mechanism and the amount of revenues may have a material impact on the Company.

## Income Taxes

In accordance with the Financial Accounting Standards Board's Accounting Standard's Codification (ASC) No. 740, the Company is required to inventory, evaluate, and measure all uncertain tax positions taken or to be taken on tax returns, and to record liabilities for the amount of such positions that may not be sustained, or may only partially be sustained, upon examination by relevant taxing authorities. The Company's income tax returns are subject to examination by taxing authorities for periods after December 31, 2009. It is managements' opinion that there are no significant unsustainable tax positions taken by the Company for the periods subject to examination.

## Intangible Assets

The Company tests its spectrum license annually for impairment. The Company considers relevant cash flow and profitability information, including estimated future operating results, trends and other available information, in assessing whether the carrying value of intangible assets can be recovered. As of December 31, 2012, the estimated fair market value of the spectrum license was considered equal to or greater than the unamortized carrying cost of \$ [REDACTED]

## Sales Tax

The Company excludes from its sales all sales taxes assessed to its customers. Sales taxes assessed are recorded as accrued liabilities on the balance sheet until remitted to the state agencies.

## Note 2 – Temporary Investments

Temporary investments consist of certificates of deposits maturing within one year and investment in a Repurchase and Sale Agreement account with a local bank, stated at cost which approximates market value, and is currently yielding [REDACTED]. This investment is not insured by the Federal Deposit Insurance Corporation but is collateralized by a [REDACTED] and a [REDACTED].

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HERSHEY, NEBRASKA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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(continued)

Note 3 – Investment in Property, Plant and Equipment

Telephone plant in service and under construction is stated at cost. Listed below are the major classes of telephone plant, composite depreciation rates and the associated depreciation reserves as of December 31, 2012 and 2011.

	<u>Rates</u>	<u>2012</u>		<u>2011</u>	
		<u>Plant</u>	<u>Reserve</u>	<u>Plant</u>	<u>Reserve</u>
Land		\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Motor vehicles and other work equipment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Furniture	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Office support equipment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Company communications equipment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Central office equipment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Customer premises wiring	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Buried plant	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Organization	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
		\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

The Company provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of telephone plant in service was [REDACTED] percent in 2012 and [REDACTED] percent in 2011.

Note 4 – Nonregulated Equipment

Nonregulated property consists of:

	<u>2012</u>	<u>2011</u>
Customer premise equipment	\$ [REDACTED]	\$ [REDACTED]
Public telephone equipment	[REDACTED]	[REDACTED]
Cable television equipment	[REDACTED]	[REDACTED]
Distance learning equipment	[REDACTED]	[REDACTED]
Internet equipment	[REDACTED]	[REDACTED]
Less accumulated depreciation	[REDACTED]	[REDACTED]
Inventory for resale	[REDACTED]	[REDACTED]
Plant under construction	[REDACTED]	[REDACTED]
	\$ [REDACTED]	\$ [REDACTED]

Nonregulated equipment is stated at cost. The Company provides for depreciation for nonregulated equipment on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life.

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
 HERSHEY, NEBRASKA  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2012 AND 2011  
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Following is a summary of net income (loss) from nonregulated activities for the years ended December 31, 2012 and 2011:

	<u>Income</u>	<u>Expense</u>	<u>Depreciation</u>	<u>2012</u> <u>Net</u>	<u>2011</u> <u>Net</u>
Customer premise leasing	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Cable television service	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Internet service	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

Note 5 – Prepaid Expenses

The following is a summary of the amounts recorded as prepaid items as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Prepaid insurance	\$ [REDACTED]	\$ [REDACTED]
Other prepaid expenses	[REDACTED]	[REDACTED]
	\$ [REDACTED]	\$ [REDACTED]

Note 6 – Federal Income Taxes

The Company files under Section 501(c)12 of the Internal Revenue Code as a nonexempt cooperative, permitting the cooperative to exclude from taxable income, income generated from providing communication services to patrons. However, income from nonmember sources exceeded percentages of total income set by the Service thus requiring the Company to pay income tax on certain nonmember-sourced income.

The components of income tax expense for the years ended 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Current income tax expense:		
Federal	\$ [REDACTED]	\$ [REDACTED]
State	[REDACTED]	[REDACTED]
	\$ [REDACTED]	\$ [REDACTED]
Deferred income tax expense:		
Federal	[REDACTED]	[REDACTED]
State	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
Total provision for income taxes	\$ [REDACTED]	\$ [REDACTED]

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
HERSHEY, NEBRASKA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Net deferred tax liability consists of the following:

Federal  
State

\$	██████████	\$	██████████
\$	██████████	\$	██████████

The deferred tax liability results from the difference between book and tax basis of depreciable property and the use of accelerated depreciation methods for tax purposes.

The expected income tax provision that would result from applying statutory tax rates to income before income taxes differs from current expense for the following reasons:

1. Temporary differences created by using different depreciation and accounting methods for financial reporting than used for income tax purposes.
2. Permanent differences for expenses and patronage income which are not deductible or taxable for income tax purposes. Non-taxable patronage income for the years ended December 31, 2012 and 2011 were \$██████████ and \$██████████ respectively.

Note 7 – Concentration of Credit Risk

The Company maintains its cash balances at several financial institutions located in western Nebraska. At times, these balances may exceed the limits secured by the Federal Deposit Insurance Corporation. There were no deposits in excess of insured limits as of December 31, 2012.

Note 8 – Defined Benefit Plan

The Company participates in the Retirement & Security Program for Employees of the National Telecommunications Cooperative Association and its Member Systems (NTCA Fund). The Program is a defined benefit pension plan covering many of the full-time employees of NTCA, its affiliates and its members that have adopted the Program. Pursuant to IRC sections 413(c)(4), the Plan is considered Multiple Employer (other) Master Plan. The Program is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

The Company makes contributions quarterly to the Program for all eligible employees. These contributions are calculated as a ██████████ contribution of each participant's compensation. Participants make a ██████████ contribution to the Program to receive the employer's contribution. The participant may voluntarily contribute an amount ██████████ of compensation each year under this program.

Participants who retire at age 65 (the Program's normal retirement age) or age 55 (the Program's early retirement age) or at an age between those two, are entitled to a monthly annuity or lump-sum payment. There is no minimum service requirement to qualify for this benefit; the benefit payable generally is reduced by the Program's early commencement factors if the participant retires before normal retirement age. However, the Company may pay an additional amount to provide employees an unreduced benefit as early as age 55. If a participant's age is at least 55 and age and service years added together equal at least 85 at retirement, the participant can receive an unreduced benefit when retiring before age 65. This benefit provision is called the "Rule-of-85."

The Company has fewer than ██████████ participants and therefore, does not pay annual contributions that represent more than ██████████ of the total annual contributions to the Program.

The Program does not have a certified zone status as currently defined by the Pension Protection Act of 2006 ("PPA") because the Program is considered a multiple employer plan pursuant to the Internal Revenue Code and ERISA, as noted above.

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
 HERSHEY, NEBRASKA  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The Program meets ERISA minimum funding requirements. The Funding Target Attainment Percentage valued as of January 1, 2011 is [REDACTED] Section 104 of PPA delays the effective date of funding rules for certain multiple employer rural cooperative plans. As such, the Program will not be subject to the PPA funding rules until after December 31, 2016.

The Company may be subject to a withdrawal liability if the Company ceases participation in the Program.

The assets and liabilities of the Plan are commingled resulting in the Program being considered a multiemployer plan under ASC No. 715. The company is required to recognize as the Net Pension Cost, the "required contributions" for the Program. "Required contributions" include annual contributions as indicated in the member's adoption agreement, plus retro costs payable, if any, for the period under audit.

<u>Pension Fund</u>	<u>EIN/Pension Plan Number</u>	<u>Pension Protection Act Zone Status</u>		<u>FIP/RP Status Pending Implemented</u>	<u>Contributions by Hershey Cooperative Telephone Co.</u>		<u>Surcharge Imposed</u>
		<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>	
[REDACTED]	[REDACTED]	N/A	N/A	N/A	\$ [REDACTED]	\$ [REDACTED]	[REDACTED]

- (a) Plan information for the NTCA Pension Fund is not publicly available. Based on the latest data available, the Program's plan assets were \$ [REDACTED] and \$ [REDACTED] for the plan years beginning January 1, 2011 and 2010, respectively. The actuarial present value of accumulated plan benefits was \$ [REDACTED] and \$ [REDACTED] for the plan years beginning January 1, 2011 and 2010, respectively; assuming a rate of return of [REDACTED]. The \$ [REDACTED] actuarial present value of accumulated plan benefits is the sum of the following:
- Present value of accrued benefits on January 1, 2010 of \$ [REDACTED] and
  - Net increase during 2010 of \$ [REDACTED]

Note 9 – Subsequent Events

The Company has evaluated all subsequent events through February 1, 2013, the date the financial statements were available to be issued. There were no events that require disclosure.

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*Erickson & Brooks*  
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

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Board of Directors  
Hershey Cooperative Telephone Company  
Hershey, Nebraska

We have audited the consolidated financial statements of Hershey Cooperative Telephone Company and subsidiary as of and for the years ended December 31, 2012 and 2011, and our report thereon dated February 1, 2013, which expressed an unmodified opinion on those financial statements, appears on page one and two. 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, II, and III is presented for 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 information has been subjected to the auditing procedures applied in the audit of consolidated financial statements and certain additional procedures, including comparing and reconciling such 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.

ERICKSON & BROOKS

*Erickson & Brooks*

Fremont, Nebraska  
February 1, 2013

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
 HERSHEY, NEBRASKA  
 SCHEDULE I - CONSOLIDATING BALANCE SHEET  
 DECEMBER 31, 2012

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	Hershey Cooperative Telephone Company	Access Direct Communications LLC	Eliminations	Consolidated Total
<u>ASSETS</u>				
Current assets:	\$	\$	\$	\$
Cash				
Temporary investments				
Accounts receivable, net				
Other accounts receivable				
Interest and dividends receivable				
Materials and supplies				
Prepaid expenses				
Prepaid income taxes				
Noncurrent assets:				
Investments:				
Inter-company receivables				
Investment in affiliates				
Long-term cash investments				
Nonregulated equipment - net				
Other noncurrent assets				
Intangible assets				
Property, plant and equipment:				
Telecommunications plant in service				
Accumulated provision for depreciation				
	\$	\$	\$	\$
<u>LIABILITIES AND EQUITIES</u>				
Current liabilities:	\$	\$	\$	\$
Accounts payable				
Customer deposits				
Advance billings and payments				
Accrued expenses				
Patronage dividends payable				
Other liabilities and deferred credits:				
Liabilities and credits due affiliates				
Deferred income taxes				
Stockholders' equity:				
Membership certificates, ■■■ per certificate				
Patronage capital assigned				
Retained earnings				
	\$	\$	\$	\$

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
HERSHEY, NEBRASKA

SCHEDULE II - CONSOLIDATING STATEMENT OF INCOME, PATRONAGE AND OTHER EQUITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012

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	Hershey Cooperative Telephone Company	Access Direct Communications LLC	Eliminations	Consolidated Total
Operating revenues:	\$	\$	\$	\$
Basic local network services				
Network access services				
Billing and collection services				
Internet and ISP services				
Miscellaneous				
Less: uncollectible revenues				
Operating expenses:				
Plant specific operations				
Plant nonspecific operations				
Depreciation and amortization				
Customer operations				
Corporate operations				
Other taxes				
Operating income				
Other income (expense):				
Interest and dividend income				
Miscellaneous income/(expense)				
Nonregulated loss				
Income from affiliates				
Income before income taxes				
Income taxes				
Net income				
Beginning balance:				
Patronage and other equities				
Retained earnings				
Less: Patronage distribution				
Ending balance	\$	\$	\$	\$

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
HERSHEY, NEBRASKA  
SCHEDULE III - CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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	Hershey Cooperative Telephone Company	Access Direct Communications LLC	Elimination	Consolidated Total
Cash flows from operating activities:				
Cash received from consumers	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Cash paid to suppliers and employees	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Interest and dividends received	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Income taxes refunded/(paid)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net cash provided by operating activities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Cash flows from investing activities:				
Construction and acquisition of plant	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Purchases of cash investments	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Proceeds from cash investments	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net cash used by investing activities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Cash flows from financing activities:				
Dividends paid	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Increase (decrease) in:				
Patronage membership	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Transfers with affiliate	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Customer deposits and advanced payments	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net cash provided (used) by financing activities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net decrease in cash	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Cash – beginning of year	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Cash – end of year	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

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HERSHEY COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY  
HERSHEY, NEBRASKA

SCHEDULE III - CONSOLIDATING STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2012

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	Hershey Cooperative Telephone Company	Access Direct Communications LLC	Elimination	Consolidated Total
Reconciliation of net income to net cash provided by operating activities:				
Net income	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Adjustments to reconcile net income to net cash provided by operating activities:				
Income from affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Depreciation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Reinvested investment income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Patronage dividends	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deferred income taxes	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
(Increase) decrease in:				
Accounts receivable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Interest and dividends receivable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Prepaid expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Prepaid income taxes	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Increase (decrease) in:				
Accounts payable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net cash provided by operating activities	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]