

**REDACTED - FOR PUBLIC INSPECTION**

June 27, 2014

Received & Inspected

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street SW  
Washington, D.C. 20554

JUN 30 2014

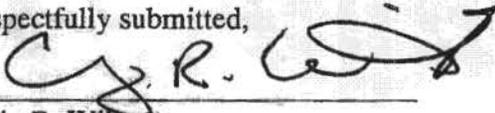
FCC Mail Room

**Re: CONFIDENTIAL FINANCIAL INFORMATION - SUBJECT TO PROTECTION**  
**DOCKET NOS. 10-90, 07-135, 05-337, 03-109, CC DOCKET NOS. 01-92, 96-45, GN DOCKET NO. 09-51,**  
**WT DOCKET NO. 10-208, BEFORE THE FEDERAL COMMUNICATIONS COMMISSION**

Dear Ms. Dortch:

Enclosed herein is one copy of the 2013 financial statements — Stamped Confidential — of  
Craw-Kan Telephone Cooperative, Inc., Study Area Code 411818, in accordance with 47 C.F.R.  
§ 54.313(f)(2) of the Commission's rules. The 2013 financial statements of Craw-Kan  
Telephone Cooperative, Inc. is submitting the enclosed confidential financial information  
pursuant to the Protective Order in the above-referenced dockets (DA 12-1857, released  
November 16, 2012). It is Craw-Kan Telephone Cooperative, Inc.'s understanding that the  
enclosed confidential financial information will be deemed material not to be made routinely  
available for public inspection under the Commission's rules, 47 C.F.R. §§ 0.459(a) and  
0.459(a)(3).

Respectfully submitted,



Craig R. Wilbert  
General Manager

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## **FCC Form 481 Certifications**

FCC Form 481 Line 3026  
Craw-Kan Telephone Cooperative  
SAC 411818

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**CRAW-KAN TELEPHONE  
COOPERATIVE, INC.**

**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS**

October 1, 2012 to September 30, 2013

## CRAW-KAN TELEPHONE COOPERATIVE, INC.

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## CRAW-KAN TELEPHONE COOPERATIVE, INC.

### BOARD OF DIRECTORS AND GENERAL MANAGER

Mary Smith	President	Pittsburg, Kansas
Sharon Starr	Vice President	Girard, Kansas
Frank Dunnick	Secretary/Treasurer	Girard, Kansas
Barry Bedene	Director	Arma, Kansas
Roger Doue	Director	Arma, Kansas
John Kovacic	Director	Girard, Kansas
Terry Kunstel	Director	Arcadia, Kansas
Jim O'Toole	Director	Girard, Kansas
Wilda Pentola	Director	Farlington, Kansas
Craig R. Wilbert	General Manager	Pittsburg, Kansas

# SCHMIDT & COMPANY LLC

*Devoted to Audits of Rural Utility Industries  
50 Years of Utility Accounting Experience*

Board of Directors  
Craw-Kan Telephone Cooperative, Inc.  
Girard, Kansas

## INDEPENDENT AUDITOR'S REPORT

### *Report on the Financial Statements*

We have audited the accompanying balance sheets of Craw-Kan Telephone Cooperative, Inc. as of September 30, 2013 and 2012, and the related statements of revenue and patronage capital 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 conformity 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 of material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion 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 opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Craw-Kan Telephone Cooperative, Inc. as of September 30, 2013 and 2012, and the results of operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2014, on our consideration of Craw-Kan Telephone Cooperative, Inc.'s internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting 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.

*Schmidt & Company, LLC*

SCHMIDT & COMPANY, LLC

January 10, 2014

**CRAW-KAN TELEPHONE COOPERATIVE, INC.**

**COMPARATIVE BALANCE SHEETS - SEPTEMBER 30**

**ASSETS (Notes 1 & 2)**

	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS</b>		
Short-term investments (cost which approximates market)	\$ 3,076,000	\$ 2,287,000
Cash and cash equivalents	3,458,623	3,355,677
Receivables (Less provision for uncollectible accounts of \$1,010,282 in current period and \$1,084,292 in prior period)	441,276	236,965
Interest receivable	19,979	18,736
Materials	1,015,518	1,384,658
Prepaid and other current items	445,882	445,852
<b>Total</b>	<u>8,457,278</u>	<u>7,728,888</u>
 <b>INVESTMENTS &amp; OTHER PROPERTY (Note 3)</b>	 <u>15,577,070</u>	 <u>12,883,918</u>
 <b>PROPERTY, PLANT &amp; EQUIPMENT (Note 4)</b>		
Telephone plant (cost)	141,731,181	136,503,201
Depreciation	97,935,840	90,542,922
Depreciated Value	<u>43,795,341</u>	<u>45,960,279</u>
 <b>TOTAL ASSETS</b>	 <u>\$ 67,829,689</u>	 <u>\$ 66,573,085</u>

**CRAW-KAN TELEPHONE COOPERATIVE, INC.**

**COMPARATIVE BALANCE SHEETS - SEPTEMBER 30**

**LIABILITIES AND CAPITAL**

	<u>2013</u>	<u>2012</u>
<b>CURRENT &amp; ACCRUED LIABILITIES (Note 5)</b>		
Current portion of long-term debt	\$ -	\$ 57,022
Accounts payable	874,021	1,002,971
Accrued expenses	282,579	290,946
Accrued taxes	630,000	675,000
Advance payments	200	-
Customers' deposits	123,825	130,515
Total	<u>1,910,625</u>	<u>2,156,454</u>
 <b>LONG-TERM LIABILITIES (Note 6)</b>		
Liabilities to RUS	-	57,022
Less: Current portion	-	57,022
Total	<u>-</u>	<u>-</u>
 <b>OTHER LONG-TERM OBLIGATIONS (Note 7)</b>		
	<u>4,130,904</u>	<u>4,433,427</u>
 <b>DEFERRED CREDITS (Note 8)</b>		
	<u>3,500</u>	<u>3,500</u>
 <b>CAPITAL EQUITIES (Note 9)</b>		
Other capital	5,722,497	5,539,486
Other comprehensive income	(471,762)	(1,181,262)
Patrons' capital credits	53,775,179	53,334,837
Patrons' capital unallocated	2,758,746	2,286,643
Total	<u>61,784,660</u>	<u>59,979,704</u>
 <b>TOTAL LIABILITIES AND CAPITAL</b>		
	<u>\$ 67,829,689</u>	<u>\$ 66,573,085</u>

The accompanying notes are an integral part of these statements.

**CRAW-KAN TELEPHONE COOPERATIVE, INC.**

**STATEMENTS OF REVENUE AND PATRONAGE CAPITAL  
FOR THE YEARS ENDED SEPTEMBER 30**

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUE</b>		
Local service revenue	\$ 3,031,290	\$ 3,067,082
Toll and access revenue	12,618,595	11,964,985
Miscellaneous revenue	7,792,990	7,479,516
Net Operating Revenue	<u>23,442,875</u>	<u>22,511,583</u>
<b>OPERATING EXPENSE</b>		
Depreciation and amortization	7,799,078	7,346,329
Customer operations	1,183,924	1,211,640
Other operations	11,572,306	11,575,023
Taxes	757,849	952,709
Total Operating Expense	<u>21,313,157</u>	<u>21,085,701</u>
<b>OTHER CHARGES</b>		
Interest on long-term debt	190	3,682
Other interest and debt expense	(1,564)	2,969
Total Other Charges	<u>(1,374)</u>	<u>6,651</u>
<b>OPERATING MARGINS</b>	<u>2,131,092</u>	<u>1,419,231</u>
<b>NONOPERATING INCOME</b>		
Interest and dividend income	196,369	236,828
Miscellaneous income	1,300,366	1,434,228
Total Nonoperating Income	<u>1,496,735</u>	<u>1,671,056</u>
<b>NET INCOME</b>	3,627,827	3,090,287
Patronage capital - Beginning of Year	61,035,572	61,070,563
Less: Capital refunds	2,548,321	3,125,278
Patronage capital - End of Year	<u>\$ 62,115,078</u>	<u>\$ 61,035,572</u>
<b>COMPREHENSIVE INCOME (LOSS)</b>		
<b>NET MARGIN</b>	\$ 3,627,827	\$ 3,090,287
Other comprehensive income (loss)		
Change in postretirement benefit obligation	709,500	342,000
<b>COMPREHENSIVE INCOME (LOSS)</b>	<u>\$ 4,337,327</u>	<u>\$ 3,432,287</u>

The accompanying notes are an integral part of these statements.

**CRAW-KAN TELEPHONE COOPERATIVE, INC.**

**STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED SEPTEMBER 30**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 3,627,829	\$ 3,090,287
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,799,078	7,346,329
Change in postretirement benefits	(302,522)	65,234
Patronage capital credits	(40,928)	(648)
Decrease (Increase) In:		
Short-term investments	(789,000)	1,289,970
Accounts receivable	(204,312)	(102,229)
Interest receivable	(1,242)	2,821
Prepaid expenses	(31)	(8,592)
Increase (Decrease) In:		
Accounts payable	(128,951)	(421,438)
Accrued liabilities	(53,367)	73,766
Advance payments	200	(1,735)
Customer deposits	(6,690)	(7,925)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>9,900,064</u>	<u>11,325,840</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in plant (net)	(5,634,140)	(10,697,738)
Decrease (Increase) in materials inventory	369,140	(697,100)
Decrease (Increase) in other investments	(2,649,322)	2,748,189
Investment in key man life insurance	(18,782)	(1,562)
Amortization of LMDS licenses	-	115,846
Payments received from associated organizations	15,880	3,516
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<u>\$ (7,917,224)</u>	<u>\$ (8,528,849)</u>

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

**CRAW-KAN TELEPHONE COOPERATIVE, INC.**

**STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED SEPTEMBER 30**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowing of long-term debt	\$ -	\$ -
Principal payments on long-term debt	(57,021)	(238,122)
Capital refunds to members	(2,548,321)	(3,125,278)
Increase in other capital	725,448	355,668
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<u>(1,879,894)</u>	<u>(3,007,732)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	102,946	(210,741)
<b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>	<u>3,355,677</u>	<u>3,566,418</u>
<b>END OF YEAR</b>	<u>\$ 3,458,623</u>	<u>\$ 3,355,677</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash paid during the year for interest	\$ 284	\$ 4,030
Cash paid during the year for income taxes	\$ -	\$ -
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH FLOWS INFORMATION</b>		
Change in other comprehensive income	\$ 709,500	\$ 342,000

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

## **CRAW-KAN TELEPHONE COOPERATIVE, INC.**

### **NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2013 AND 2012**

#### **(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

##### **NATURE OF OPERATIONS**

Craw-Kan Telephone Cooperative, Inc. is a member-owned, non-profit telephone cooperative that provides services for members in Kansas and Missouri. The Cooperative's headquarters is located in Girard, Kansas.

##### **SYSTEM OF ACCOUNTS**

The Cooperative employs the Uniform System of Accounts for Class A telephone companies prescribed by the Federal Communication Commission with supplementary accounts provided by the Rural Utilities Service (RUS). On January 1, 1988 the Cooperative adopted the revised Uniform System of Accounts of telephone companies as prescribed by the Federal Communication Commission, published under 47 CFR Part 32 in the federal register.

##### **ACCOUNTS RECEIVABLE**

Provision is made for accounts deemed uncollectible.

##### **CONCENTRATION OF CREDIT RISK**

Craw-Kan Telephone Cooperative, Inc. is a telephone cooperative. The Cooperative grants credit to customers substantially all are local residents.

##### **ACCOUNTING ESTIMATES**

The presentation of financial statements in conformity with accounting principles generally accepted in the United States 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.

##### **MATERIALS AND SUPPLIES**

Materials and supplies are included in the financial statements at average cost. Usable material from plant retirements is returned to inventory at current average cost. A physical inventory is taken at least once each year.

##### **INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amounts of cash, receivables, and short-term obligations approximate their fair value because of the near-term maturity of those instruments. Investments are generally included in the financial statements at cost. Equities in other organizations are included at face value of related certificates.

## CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Cooperative considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

## INCOME TAX STATUS

The Cooperative has been granted exemption from federal income tax under Section 501(c)-12 of the Internal Revenue Code. Net margins are allocated to patrons.

The Cooperative evaluates the components of the annual test for maintenance of its tax-exempt status under section 501(c) (12) of the Internal Revenue Code of 1986, as amended. This process includes an analysis of whether the position the Cooperative takes with regard to a particular item of income would meet the definition of an uncertain tax position under Financial Accounting Standards Board Interpretation No. 48 (FSP FIN 48), Accounting for Uncertainty in Income Taxes, which is codified at FASB ASC 740, Income Taxes.

## (2) ASSETS PLEDGED:

The Cooperative has fulfilled their loan requirements through payment of all outstanding loans with RUS as of September 30, 2013.

## (3) INVESTMENTS & OTHER PROPERTY:

At September 30, investments and other physical property included:

	<u>2013</u>	<u>2012</u>
Equities in other organizations	\$ 805,362	\$ 779,926
Life insurance	173,226	153,375
Other investments	14,597,677	11,949,812
Other physical property	805	805
Total	<u>\$ 15,577,070</u>	<u>\$ 12,883,918</u>

At September 30, equities in other organizations are as follows:

	<u>2013</u>	<u>2012</u>
Kansas Fiber Network		
Investment	565,174	565,174
National Telecom Corporation		
Capital stock	100,000	100,000
Crawford County Assisted Living Community		
Common stock	100,000	100,000
Other organizations	40,188	14,752
Total	<u>\$ 805,362</u>	<u>\$ 779,926</u>

At September 30, other investments included the following:

	<u>2013</u>	<u>2012</u>
Portfolio (approximates market value)	<u>\$ 14,597,677</u>	<u>\$ 11,949,812</u>

Other physical property as of September 30 consisted of:

	<u>2013</u>	<u>2012</u>
Asbury:		
Building	\$ 1,385	\$ 1,385
Less: Depreciation	580	580
Depreciated value	<u>\$ 805</u>	<u>\$ 805</u>

**(4) PROPERTY, PLANT & EQUIPMENT:**

At September 30, telephone plant consisted of the following:

	<u>2013</u>	<u>2012</u>
Cost	\$ 141,731,181	\$ 136,503,201
Depreciation	97,935,840	90,542,922
Depreciated Value	<u>\$ 43,795,341</u>	<u>\$ 45,960,279</u>

Telephone plant is stated at cost. Listed below is the composition of the telephone plant as of September 30:

	<u>2013</u>	<u>2012</u>
Organization	\$ 7,354	\$ 7,354
Land	268,933	209,991
Building	4,307,164	4,130,654
Central office equipment	34,420,795	33,071,860
Station apparatus	905,689	905,689
Station connections	86,400	86,400
Pole lines	33,105	33,105
Aerial cable	88,240	88,240
Underground cable	652,627	652,627
Buried cable	79,491,171	73,026,870
Aerial wire	862	862
Underground conduit	2,277,768	1,588,401
Office furniture and equipment	3,225,425	2,905,257
Vehicles	1,629,811	1,605,707
Tools and work equipment	1,298,587	1,280,256
Cable TV	7,899,774	7,477,693
Work in progress	5,137,476	9,432,235
Total	<u>\$ 141,731,181</u>	<u>\$ 136,503,201</u>

Depreciation is provided for, on a straight line basis, at annual rates which will amortize the depreciable property over its estimated useful life. Individual plant depreciation rates are as follows.

	<u>Kansas</u>	<u>Missouri</u>	<u>Oklahoma</u>
Building	5.02%	2.50%	3.50%
Central office equipment	11.58% & 16.00%	3.30%	
Station apparatus	22.18%		
Station connections	14.07%	5.00%	
Pole lines		4.50%	
Aerial cable	17.58%		
Underground cable	5.38%	4.50%	
Buried cable	5.68%	4.50%	4.00%
Underground conduit	6.48%	4.50%	
Office furniture and equipment	15.57% & 18.10%		
Computers	18.57%		
Vehicles	26.27%		
Tools and work equipment	23.98%		
Radio equipment	14.28%		
Cable TV	10.00%, 14.29% & 33.33%		

**(5) CURRENT & ACCRUED LIABILITIES:**

Current liabilities as of September 30 consisted of the following:

	<u>2013</u>	<u>2012</u>
Current portion of long-term debt	\$ -	\$ 57,022
Accounts payable	808,443	932,981
Accrued taxes	695,577	744,991
Customer deposits	123,825	130,515
Accrued employees vacation pay	280,666	286,248
Accrued interest payable and miscellaneous	1,914	4,697
Advance billing and payments	200	-
<b>Total</b>	<u>\$ 1,910,625</u>	<u>\$ 2,156,454</u>

**(6) LONG-TERM LIABILITIES:**

At September 30, long-term liabilities consisted of the following:

	<u>2013</u>	<u>2012</u>
Mortgage notes payable to the RUS:		
2% notes maturing in varying amounts through 2013	\$ -	\$ 57,022
Ally, 3.99% due May 8, 2012	-	-
Less: Current portion of long-term debt	-	(57,022)
<b>Total</b>	<u>\$ -</u>	<u>\$ -</u>

There were no unadvanced loan funds available to the Cooperative as of the audit date.

**(7) OTHER LONG-TERM OBLIGATIONS:**

Other long-term obligations at September 30 included:

	<u>2013</u>	<u>2012</u>
Accrued postretirement benefit cost:		
Craw-Kan Telephone Cooperative	\$ 1,210,812	\$ 1,071,836
Key management benefit plan	<u>61,691</u>	<u>61,691</u>
Total	<u>\$ 4,130,904</u>	<u>\$ 4,433,427</u>

The Craw-Kan Telephone Cooperative has a postretirement defined benefit plan for all employees that will provide health insurance coverage after retirement with the following provisions:

For employees – All employees must be employed for a period of ten consecutive years up to retirement age before eligible for 50% payment of a group health and dental insurance upon retirement. Retirement age is as defined in the NTCA Retirement and Security program.

For directors – All directors must serve four, three-year consecutive terms to be eligible for 50% payment of group health and dental insurance upon leaving the Board of Directors. Directors which leave the Board for any reason, prior to serving four terms may continue group health coverage, at their expense, as defined in the NTCA Group Health program.

Upon death of the covered employee or director no further benefits are paid for the spouse.

The Cooperative is recognizing the transition obligation on the delayed basis over twenty-two years. Recognition of pension cost and accumulated postretirement benefit obligation for the years ended September 30, includes the following components:

	<u>2013</u>	<u>2012</u>
Balance beginning of year	\$ 4,371,736	\$ 4,316,344
Service cost of the current period	148,412	126,439
Interest cost of the current period	249,548	237,094
Amortization of change in assumption-net	<u>(28,475)</u>	<u>174,067</u>
Postretirement cost for period	369,485	537,600
Benefits paid	(136,507)	(140,208)
Other comprehensive loss (gain)	<u>(535,500)</u>	<u>(342,000)</u>
Balance end of year	<u>\$ 4,069,214</u>	<u>\$ 4,371,736</u>

The Cooperative has elected to pay as you go and not fund this benefit. The actuarial present value of the obligation for fully eligible plan participants' expected postretirement benefits and the portion of the expected postretirement benefit obligation for other active plan participants attributed to service to September 30 is as follows:

	<u>2013</u>	<u>2012</u>
Total accumulated postretirement benefit obligation	\$ 4,069,214	\$ 4,371,736
Fair value of assets held in the plan	-	-
Accumulated postretirement benefits obligation in excess of plan assets	<u>4,069,214</u>	<u>4,371,736</u>
Less: Unrealized transition obligation	-	-
Unrecognized loss (gain)	-	-
Unamortized change in assumption	-	-
Accumulated postretirement benefit liability	<u>\$ 4,069,214</u>	<u>\$ 4,371,736</u>

The key actuarial assumptions are the discount rate, the medical inflation rate and the salary increase rate. While it is true that the absolute level of these assumptions will change the valuation results, the relationship between them is more important. The medical inflation rate assumption used is a series of annual inflation rates. The initial inflation rate of 8.0% is anticipated to decline over the next 4 years as other sectors of the U.S. economy compete for the resources currently being consumed by health care. The medical inflation rate is assumed to decline gradually until it reaches a level of 5.0% per year.

The weighted-average discount used in determining the accumulated postretirement benefit obligation was 4.5%.

Craw-Kan Communication Systems, Inc. has a postretirement defined benefit plan for employees that will provide health insurance coverage after normal retirement at age 65. Company policy is to pay 50% of the cost of medical and dental coverage for retired employees and spouses. Two employees are covered under this plan and these costs are included with the total obligation reported by Craw-Kan Telephone Cooperative, Inc.

The Company adopted a key management benefit plan to provide funds for retirement or death for key personnel effective July 1, 2005. The liability represents the present value of future payments to the plan.

**(8) DEFERRED CREDITS:**

Deferred credits at September 30, included:

	<u>2013</u>	<u>2012</u>
Capital Stock	<u>\$ 3,500</u>	<u>\$ 3,500</u>

**(9) CAPITAL EQUITIES:**

Other capital at September 30 was as follows:

	<u>2013</u>	<u>2012</u>
Donated capital	\$ 97,304	\$ 94,750
Capital credits - gain	<u>5,625,193</u>	<u>5,444,736</u>
Total	<u>\$ 5,722,497</u>	<u>\$ 5,539,486</u>

At September 30, patronage capital consisted of:

	<u>2013</u>	<u>2012</u>
Assignable	\$ 2,758,746	\$ 2,286,643
Assigned to date	133,669,558	130,627,535
Patronage capital	<u>136,428,304</u>	<u>132,914,178</u>
Less: Retirements to date	74,208,412	71,787,188
	<u>62,219,892</u>	<u>61,126,990</u>
Less: Capital reallocated	(60,774)	(60,774)
	<u>62,159,118</u>	<u>61,066,216</u>
Less: Capital credits gain	(5,625,193)	(5,444,736)
Total	<u>56,533,925</u>	<u>55,621,480</u>
Less: Assignable	(2,758,746)	(2,286,643)
Total	<u>\$ 53,775,179</u>	<u>\$ 53,334,837</u>

**(10) PENSION PLAN:**

The Cooperative and subsidiary have a contributory defined benefit pension plan for their employees. The plan is administered by the National Telephone Cooperative Association (NTCA) through a trustee, whereby annuities will be available to participants in the plan effective upon retirement. In this master multi-employer plan, which is available to all members of NTCA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. It is a funded plan and pension costs for the years ended September 30, 2013 and 2012, amounted to approximately \$581,200 and \$622,000, respectively.

The Cooperative has a 401(k) savings plan for its employees. The Cooperative's 401(k) contributions amounted to approximately \$37,800 and \$38,300 for the years ended September 30, 2013 and 2012, respectively.

**(11) SUBSEQUENT EVENTS:**

Management has evaluated potential subsequent event disclosures for the period September 30, 2013 through the date of the audit report and determined that there were no subsequent events identified that require disclosure in the financial statements under SFAS No. 165, Subsequent Events, as codified at FASB ASC 855-10.

# SCHMIDT & COMPANY LLC

*Devoted to Audits of Rural Utility Industries  
50 Years of Utility Accounting Experience*

Board of Directors  
Craw-Kan Telephone Cooperative, Inc.  
Girard, Kansas

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of Craw-Kan Telephone Cooperative, Inc. as of and for the years ended September 30, 2013 and 2012, and have issued our report thereon dated January 10, 2014. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of Craw-Kan Telephone Cooperative, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Craw-Kan Telephone Cooperative, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Craw-Kan Telephone Cooperative, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Craw-Kan Telephone Cooperative, Inc.'s internal control over financial reporting.

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 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 entity's financial statements will not be prevented, or detected and corrected 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## COMPLIANCE

As part of obtaining reasonable assurance about whether Craw-Kan Telephone Cooperative, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

## OTHER MATTERS

We have issued a separate letter dated January 10, 2014, as required by the RUS.

## PURPOSE OF THIS REPORT

The purpose of this report 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 on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Board of Directors, management, others within the Cooperative, and the RUS and is not intended to be and should not be used by anyone other than these specified parties.

*Schmidt & Company, LLC*

SCHMIDT & COMPANY, LLC

January 10, 2014

# SCHMIDT & COMPANY LLC

*Devoted to Audits of Rural Utility Industries  
50 Years of Utility Accounting Experience*

Board of Directors  
Craw-Kan Telephone Cooperative, Inc.  
Girard, Kansas

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS

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 Craw-Kan Telephone Cooperative, Inc., which comprise the balance sheet as of September 30, 2013, and the related statements of revenue and patronage capital, changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 10, 2014. In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2014, on our consideration of Craw-Kan Telephone Cooperative, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the report dated above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Craw-Kan Telephone Cooperative, Inc. failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Craw-Kan Telephone Cooperative, Inc.'s noncompliance with the referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Craw-Kan Telephone Cooperative, Inc.'s accounting and records to indicate that Craw-Kan Telephone Cooperative, Inc. did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the Board of Directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Schmidt & Company, LLC*

SCHMIDT & COMPANY, LLC

January 10, 2014