The Toledo Telephone Co., Inc. And Subsidiaries

Consolidated Financial Statements with Supplemental Information

Years Ended December 31, 2014 and 2013

AKT
CPAs AND BUSINESS CONSULTANTS

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

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Years Ended December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Toledo Telephone Co., Inc. and Subsidiaries
Toledo, Washington

We have audited the accompanying consolidated financial statements of The Toledo Telephone Co., Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

OPINION
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Toledo Telephone Co., Inc. and Subsidiaries, as of December 31, 2014 and 2013, 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.

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REPORT ON CONSOLIDATING INFORMATION

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I-III is presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued a report dated April 10, 2015, on our consideration of Toledo Telephone Co., Inc. and Subsidiaries' 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 read in conjunction with this report in considering the results of our audit.

AKT LLP

Salem, Oregon
April 10, 2015

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2014 and 2013

ASSETS	2014	2013
Current Assets:		
Cash and cash equivalents	$ 1,382,772	$ 7,927,736
Accounts receivable, less allowance for doubtful accounts of $0 in 2014 and 2013	523,855	720,349
Marketable securities	2,922,737	2,235,703
Materials and supplies	535,232	331,681
Prepaid expenses	99,777	129,351
Income tax receivable	23,420	-
Total Current Assets	5,487,793	11,344,820
Other Assets and Investments:		
Non-regulated equipment, net	65,877	119,727
Other investments	438,869	461,417
Total Other Assets and Investments	504,746	581,144
Property, Plant, and Equipment:		
In service	21,576,491	21,496,249
Under construction	6,689,601	2,339,721
	28,266,092	23,835,970
Less accumulated depreciation	15,138,103	14,823,216
Property, Plant, and Equipment, net	13,127,989	9,012,754
	$ 19,120,528	$ 20,938,718

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	2014	2013
Current Liabilities:		
Current portion of long-term debt	$ 939,876	$ 1,275,692
Accounts payable	439,138	902,603
Income tax payable	-	155,573
Accrued expenses	66,724	211,990
Deferred income taxes	31,060	88,003
Current portion of deferred grant revenue	23,075	198,938
Total Current Liabilities	1,499,873	2,832,799
Noncurrent Liabilities:		
Deferred grant revenue	-	38,185
Deferred income taxes	755,100	662,400
Long-term debt	10,217,038	11,156,762
Total Noncurrent Liabilities:	10,972,138	11,857,347
Stockholders' Equity:		
Common stock, $10 par value, 5,000 shares authorized, 1,067 shares issued and outstanding	10,670	10,670
Retained earnings	6,493,105	6,039,910
Accumulated other comprehensive income	144,742	197,992
Total Stockholders' Equity	6,648,517	6,248,572
	$ 19,120,528	$ 20,938,718

See accompanying notes to consolidated financial statements.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenues:		
Local network	$ 429,238	$ 425,670
Network access	3,555,904	3,516,845
Long-distance	50,399	57,139
Miscellaneous	(58,264)	42,969
Total Operating Revenues	3,977,277	4,042,623
Operating Expenses:		
Plant specific	893,341	973,006
Plant nonspecific	380,341	312,486
Customer	305,013	327,734
Corporate	814,800	783,262
Depreciation	966,580	965,638
Income tax expense	58,547	108,335
Other operating taxes	272,783	119,702
Total Operating Expenses	3,691,405	3,590,163
Operating Income	285,872	452,460
Other Income (Expense):		
Interest and dividends	232,946	126,751
Allowance for funds used during construction	59,349	18,245
Non-regulated operations, net	348,471	240,299
Toledo/Cowlitz Broadband Initiative, net	-	16,319
Other income (expense)	13,000	(15,706)
Nonoperating income tax	(108,575)	(142,616)
Total Other Income, net	545,191	243,292
Income Before Interest Expense	831,063	695,752
Interest Expense	377,868	296,143
Net Income	$ 453,195	$ 399,609

See accompanying notes to consolidated financial statements.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2014 and 2013

	2014	2013
Net Income	$ 453,195	$ 399,609
Other Comprehensive Income:		
Unrealized holding gain (losses) arising during the year	(58,429)	270,344
Less: Reclassification adjustment for gains included in net income	(23,129)	(13,223)
Deferred income taxes related to other comprehensive income	28,308	(85,150)
Total Other Comprehensive Income	(53,250)	171,971
Total Comprehensive Income	$ 399,945	$ 571,580

See accompanying notes to consolidated financial statements.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2014 and 2013

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2012	$ 10,670	$ 5,640,301	$ 26,021	$ 5,676,992
2013 net income	-	399,609	-	399,609
Net change in unrealized holding gains, net of deferred income taxes	-	-	171,971	171,971
Balance, December 31, 2013	10,670	6,039,910	197,992	6,248,572
2014 net income	-	453,195	-	453,195
Net change in unrealized holding gains, net of deferred income taxes	-	-	(53,250)	(53,250)
Balance, December 31, 2014	$ 10,670	$ 6,493,105	$ 144,742	$ 6,648,517

See accompanying notes to consolidated financial statements.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Net income	$ 453,195	$ 399,609
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	966,580	965,638
Non-regulated depreciation	55,503	114,434
Change in deferred taxes	64,065	11,735
Gains on sales of marketable securities	(23,129)	(13,223)
Patronage allocations received	(7,076)	(25,318)
Impairment loss	-	18,219
Loss on sale of other investments	3,254	-
Changes in operating assets and liabilities:		
Accounts receivable	196,494	(402,827)
Materials and supplies	(203,551)	(18,092)
Prepaid expenses	29,574	(42,911)
Income tax receivable	-	50,007
Accounts payable	(463,466)	811,705
Accrued expenses	(145,266)	207,614
Income tax payable	(132,153)	135,207
Deferred grant revenue	(214,048)	(78,708)
Net Cash Provided by Operating Activities	579,976	2,133,089
Cash Flows from Investing Activities:		
Capital expenditures	(5,081,815)	(2,063,421)
Change in other investments	(10,615)	(11,422)
Purchases of marketable securities	(1,452,634)	(475,435)
Proceeds from sales of marketable securities	707,172	698,415
Proceeds from sale of other investments	36,985	-
Purchases of non-regulated equipment	(1,653)	(78,157)
Net Cash Used by Investing Activities	$ (5,802,560)	$ (1,930,020)

See accompanying notes to consolidated financial statements.

		2014		2013
Cash Flows from Financing Activities:				
Proceeds from long-term debt	$	-	$	7,989,300
Payments on long-term debt		(1,275,540)		(1,072,468)
Net Cash Provided (Used) by Financing Activities		(1,275,540)		6,916,832
Net Increase (Decrease) in Cash and Cash Equivalents		(6,498,124)		7,119,901
Cash and Cash Equivalents, beginning		7,927,736		807,835
Cash and Cash Equivalents, ending	$	1,429,612	$	7,927,736
Cash Paid During the Year for:				
Interest, net of amount capitalized	$	318,519	$	289,328
Income taxes	$	289,015	$	32,200

See accompanying notes to consolidated financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

Organization
The Toledo Telephone Co., Inc. (the Company) provides telecommunication services to customers within and around the city of Toledo, Washington.

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Toledo Telenet Long Distance Company and Toledo Cellular, Inc. All intercompany transactions and balances have been eliminated in the consolidation.

Basis of Accounting
The Company's financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America applicable to regulated enterprises.

Revenue Recognition
The Company recognizes revenues when earned regardless of the period in which they are billed.

Monthly service fees derived from local telephone service and internet are billed in advance. Accounts receivable are reduced by advanced billings and subsequently transferred to income in the period earned. Access charges (see Note 1, Network Access Revenue), long distance, and other revenues based on usage are billed in arrears.

Regulation
The Company is subject to limited regulation by the Washington Utilities and Transportation Commission (WUTC), and by the Federal Communications Commission (FCC). The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission, and adopted by the WUTC. As a result, the application of accounting principles generally accepted in the United States of America by the Company differs in certain respects from the application by non-regulated entities. Such differences primarily concern the time at which certain items enter into the determination of net margin.

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

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. These estimates involve judgments with respect to numerous factors that are beyond management's control. Actual results could differ from those estimates.

Fair Value of Financial Instruments
The Company's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, marketable securities, receivables, accounts payable, and notes payable. The Company estimates that the fair value of all of these non-derivative financial instruments at December 31, 2014 and 2013 does not differ materially from the aggregate carrying value of its financial instruments (other than marketable securities, see Note 2) recorded in the accompanying consolidated balance sheets.

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

Cash and Cash Equivalents
Cash and cash equivalents are defined as short-term, highly liquid investments that were purchased with an original maturity of 3 months or less and are readily convertible into cash. The Company maintains its cash and equivalents in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000 per depositor per bank. At December 31, 2014 the Company had uninsured cash of $1,264,525 ($7,717,995 at December 31, 2013).

All funds advanced to the Company from the Rural Utilities Service (RUS) and related lenders, are required to be deposited in a special construction account, held in trust for RUS, with a federally insured institution.

The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and cash equivalents as of December 31 consist of the following:

		2014		2013
Cash, checking and in sweep account	$	376,237	$	199,794
Cash, money market funds		2,492		5,994
Cash, RUS construction account		1,004,043		7,721,948
	$	1,382,772	$	7,927,736

Marketable Securities
Marketable securities are stated at fair value based on a framework that provides a fair value hierarchy prioritizing the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The Company's marketable securities are measured and reported at fair value on a recurring basis based on quoted prices available in active markets for identical investments as of the reporting date (Classification Level 1).

Accounts Receivable
The Company provides an allowance for doubtful accounts that is based on a review of outstanding receivables, historical collection information, and existing economic conditions. Receivables from subscribers are due 30 days after the issuance of the invoice. Receivables from other exchange carriers are typically outstanding from 30 to 60 days before payment is received. Delinquent accounts are charged to uncollectible expense when it is determined that the account will not be collected. Receivables past due more than 90 days are considered delinquent. Delinquent receivables are assessed monthly and accounts are written off and turned over to a collection agency at management's discretion.

Materials and Supplies
Materials and supplies are stated at the lower of cost or market. Cost is determined principally by the average cost method.

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

Property, Plant, and Equipment
Property, plant, and equipment in service and under construction is recorded at cost, including appropriate direct and indirect costs associated with construction. Depreciation is calculated on a straight-line basis over the estimated life of the classes of property and equipment in accordance with rates consistent with industry standards. Depreciation rates range from 4% to 25%. In accordance with composite group depreciation methodology and with the Uniform System of Accounts, as prescribed by the FCC, when a portion of the Company's regulated property, plant, and equipment is retired in the ordinary course of business, the gross book value is eliminated from telecommunications plant accounts and such costs plus removal expenses, less salvage, are charged to accumulated depreciation, and no gain or loss is recognized.

Non-regulated equipment represents the book value of Internet and other equipment utilized in providing non-regulated services. Non-regulated equipment is stated at cost, less accumulated depreciation. Upon retirement, sale, or other disposition of non-regulated property, plant, and equipment, the cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses are included in operations. Depreciation rates for non-regulated assets range from 4.55% to 25%.

The Company follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. In 2014, total interest incurred was $377,868 of which $59,349 was capitalized to property, plant, and equipment ($296,143 and $18,245 in 2013).

Comprehensive Income
The purpose of reporting comprehensive income is to report all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners.

Network Access Revenues
Network access revenue 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 has elected to file access tariffs through the Washington Exchange Carriers Association (WECA) and the National Exchange Carriers Association (NECA) for these charges. These access tariffs are subject to approval by the WUTC for intrastate charges and the FCC for interstate charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are 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 NECA. They also participated in pooling arrangements with WECA through July 2014, at which time the WECA Originating CCL pool was closed.

Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months (NECA pool only) after the close of the related calendar year, are recorded in the year in which such adjustments become determinable, based upon studies prepared by outside consultants.

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

Network Access Revenues, continued
In addition to recoveries from the pools, the Company also receives revenues from the Universal Service High Cost Loop Fund (HCL) and other support mechanisms administered by the Universal Service Administrative Company (USAC). These universal service support revenues are intended to compensate the Company for the high cost of providing service in rural areas. The amount of support received from USAC is based on the number of customers served and the cost of providing service in that area being in excess of the national average cost per loop, as determined by the FCC. The Company also receives funding from state universal funds. These support revenues are included in the network access revenues in the accompanying consolidated financial statements.

In 2014, the Company received $676,089 ($901,176 in 2013) from the USAC High Cost Loop Fund and $1,618,479 in interstate revenues in 2014 ($1,527,376 in 2013) administered through the NECA pools. In 2014, the Company received $115,181 from the Washington Universal Service Fund (zero in 2013). The Company must petition for continued support annually by August 1 of each year. Unless extended, the Washington Universal Service Fund will sunset on July 1, 2020. The amount of the annual distribution is unknown, but it cannot exceed the sum of the amount the Company cumulatively received in 2012 under the Washington State's former "traditional USF" and the Company's cumulative reduction, up through the program year, of support from the federal Connect America Fund.

National Broadband Plan and FCC Order
In 2010 the FCC issued the National Broadband Plan which outlined a long-term plan to increase broadband penetrations and services throughout the United States of America. The plan further outlined a proposed long-term phase-out of access charges (referred to as Intercarrier Compensation) and moved to support mechanisms based on broadband services rather than the current Universal Service High Cost Loop Fund administered by USAC.

In response to the plan, the FCC on October 27, 2011, approved Report and Order 11-161 (the Order), that begins the process of reforming the universal service and intercarrier compensation (ICC) systems and adopts support for broadband-capable networks as an express universal service principle. The Order further creates the Connect America Fund (CAF) which will ultimately replace all existing high-cost support mechanisms as well as help facilitate ICC reforms.

The key provisions of the order include:

- Capping the federal universal service fund at current levels.
- Placing limitations on capital and operating spending.
- Establishing local rate benchmarks.
- Capping the per-line support amount for the universal service high cost loop fund at $250 per month.
- Phase out of local switching support and the establishment of the CAF for recovery of investment and expenses related to the provision of switching services.
- Reforming the ICC system by adopting a plan to transition from access charges to a bill and keep framework. The transition period for rate-of-return carriers such as the Cooperative is approximately 9 years from the date of the order.
- Adoption of a monthly Access Recovery Charge as a transitional recovery mechanism to mitigate the impact of reduced intercarrier revenues.

The Order was effective December 29, 2011 and implementation began on July 1, 2012. As of the implementation date CAF recovery is calculated based on the frozen fiscal year 2011 interstate switched access revenue requirement, plus certain 2011 intrastate access revenues, and will decline annually by 5% during the transition period.

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

National Broadband Plan and FCC Order, continued
As of December 31, 2014 the Company is transitioning its local rates and meets the local rate benchmark requirements. The Company is not subject to the $250 per line support cap. Furthermore, for the period ended December 31, 2014 the impacts to the Company related to the 5% annual decline in switched access revenues have not been significant.

The overall reform process will take place in phases and will take several years to implement. Furthermore, the Order includes a Further Notice of Proposed Rulemaking. The FCC has issued numerous Orders on Reconsideration and continues to seek comments on various items. As a result, the ultimate outcome of these proceedings and their impact is uncertain at this time.

Income Taxes
The Company is a taxable corporation and files a consolidated income tax return with its taxable subsidiaries, Toledo Telenet Long Distance Company, and Toledo Cellular, Inc.

The Company follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provisions, when applicable. There are no amounts accrued in the consolidated financial statements related to uncertain tax positions. The Company files income tax returns in the United States, state and local jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal, state or local tax examination by tax authorities for years before 2011.

Deferred income taxes are provided on a liability method whereby deferred tax assets and liabilities are recognized for temporary differences. Temporary differences are the differences between the tax basis of assets and liabilities and their financial reporting amounts. Deferred tax assets, if any, are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Subsequent Events
The Company has evaluated subsequent events through April 10, 2015, which is the date the consolidated financial statements were available to be issued.

Note 2 - Marketable Securities

All marketable securities of the Company have been categorized as available for sale. These investments are stated at fair value in the consolidated financial statements with unrealized gains and losses reported as accumulated other comprehensive income as a separate component of stockholders' equity. The Company's marketable securities are measured and reported at fair value on a recurring basis based on quoted prices available in active markets for identical investments as of the reporting date (Classification Level 1).

Note 2 - Marketable Securities, continued

Marketable securities at December 31 consisted of the following:

	2014	2013
Fair value:		
Mutual Funds - Balanced and Value Funds	$ 827,513	$ 500,957
Mutual Funds - International Funds	183,538	160,507
Mutual Funds - Bond Funds	1,145,075	785,179
Mutual Funds - Blended Funds	85,108	125,428
Mutual Funds - Growth Funds	681,503	663,632
	$ 2,922,737	$ 2,235,703
Cost:		
Mutual Funds - Balanced and Value Funds	$ 763,526	$ 414,528
Mutual Funds - International Funds	174,388	150,013
Mutual Funds - Bond Funds	1,141,913	784,441
Mutual Funds - Blended Funds	68,114	95,734
Mutual Funds - Growth Funds	563,394	498,027
	$ 2,711,335	$ 1,942,743
Gross unrealized holding gains:		
Mutual funds	$ 211,402	$ 292,960
Less deferred income taxes	66,660	94,968
	$ 144,742	$ 197,992

Realized gains or losses are determined on the basis of specific identification. The Company had $707,172 in proceeds from the sales of marketable securities in 2014 ($698,415 in 2013). There were gross realized gains of $23,332 and gross realized losses of $203 in 2014 (gross realized gains of $27,978 and gross realized losses of $14,755 in 2013).

Note 3 - Other Investments

Other investments are recorded at cost and consist of the following:

	2014	2013
Cash surrender value of life insurance policies	$ 257,853	$ 247,238
Western Independent Networks, Inc., 444 shares common stock	16,987	16,987
Property and building, available for sale	-	40,239
NRTC patronage certificates	114,029	106,953
NECA Services, Inc., 5,000 shares common stock	50,000	50,000
	$ 438,869	$ 461,417

On October, 10, 2014 the Company sold the property and building in Winlock, Washington. The Company received proceeds of $36,985 and had a net loss of $3,254. During 2013, because the real estate market in the area was depressed, it was established that the property's net realizable value was less than its carrying amount of $58,458. Accordingly, the Company recognized an impairment loss of $18,219, which is included in other expenses on the Company's consolidated statement of operations.

Note 3 - Other Investments, continued

The Company maintains a life insurance policy on the life of the owner and officer of the Company, with total death benefits of approximately $400,000 at December 31, 2014.

Note 4 - Property, Plant, and Equipment

Major classes of the Company's property, plant, and equipment in service are as follows:

	2014	2013
Land	$ 135,858	$ 135,858
Buildings and improvements	2,551,084	2,335,971
Central office equipment	3,979,366	3,789,463
Cable and wire facilities	12,591,385	12,916,174
Furniture and office equipment	1,323,573	1,323,558
Vehicles and work equipment	995,225	995,225
	$ 21,576,491	$ 21,496,249

Note 5 - Long-Term Debt

Long-term debt consists of the following:

	2014	2013
5.84% to 7.0% notes payable to the Rural Utilities Service, in monthly installments of $17,514, including interest, collateralized by substantially all real and personal property, due September 2014	$ -	$ 192,050
5.65% to 6.67% notes payable to the Rural Utilities Service, in monthly installments of $20,759, including interest, collateralized by substantially all real and personal property, due August 2016	409,955	627,866
1.59% to 4.79% notes payable to the Rural Utilities Service, in monthly installments of $19,589 including interest, collateralized by substantially all real and personal property, due in 2020	1,124,935	1,306,155
5.54% to 6.54% mortgage note payable to the Rural Telephone Bank, in monthly installments of $15,206, including interest, collateralized by substantially all real and personal property, due October 2014	-	179,505
Carried forward	$ 1,534,890	$ 2,305,576

Note 5 - Long-Term Debt, continued

	2014	2013
Brought forward	$ 1,534,890	$ 2,305,576
5.17% mortgage note payable to the Rural Utilities Service, in monthly installments of $4,332, including interest, collateralized by substantially all real and personal property, due September 2016	85,817	131,976
1.18% to 3.05% note payable to the Federal Financing Bank, in quarterly installments of $31,339, including interest, collateralized by substantially all real and personal property, due December 2020	709,577	818,949
2.11% to 2.83% note payable to the Federal Financing Bank, in quarterly installments of $149,526, including interest, collateralized by substantially all real and personal property, due December 2020	8,826,630	9,175,953
	11,156,914	12,432,454
Less current portion	939,876	1,275,692
	$ 10,217,038	$ 11,156,762

Future maturities of long-term debt are as follows:

2015	$ 939,876
2016	804,149
2017	687,708
2018	821,003
2019	747,535
Thereafter	7,156,643
Total	$ 11,156,914

Substantially all assets of the Company are pledged as security for the long-term debt under the first mortgages executed to RUS, RTB, and FFB. The terms of the mortgage agreements contain restrictions on the payment of dividends and the maintenance of defined amounts of stockholders' equity and working capital after payment of dividends, as well as limitations on additional debt. The mortgage agreements also contain requirements regarding financial ratios. Management believes they are in compliance with these ratios as of December 31, 2014.

The Company had unadvanced funds of $8,829,730 at December 31, 2014 and 2013.

Note 6 - Income Taxes and Deferred Income Taxes

Income tax expense for the years ended December 31 are as follows:

	2014	2013
Operating:		
Current federal tax	$ (8,447)	$ (93,435)
Deferred taxes	(50,100)	(14,900)
Total Operating Income Taxes	$ (58,547)	$ (108,335)
Non-Operating:		
Current federal tax	$ (101,575)	$ (138,816)
Deferred taxes	(7,000)	(3,800)
Total Non-Operating Income Taxes	$ (108,575)	$ (142,616)
	$ (167,122)	(250,951)

The provision for income taxes differs from the amount computed by applying the current statutory federal income tax rate to earnings before income taxes due to the effects of nondeductible items, prior year over or under accruals, and the use of accelerated depreciation for income tax purposes.

Deferred income tax assets (liabilities) are as follows:

	2014	2013
Current Deferred Tax Liability:		
Unrealized gains on marketable securities	$ (66,660)	$ (88,003)
Reserve for uncollectible accounts receivable	35,600	-
Total Current Deferred Income Tax Liability	$ (31,060)	(88,003)
Non-Current Deferred Tax Liability:		
Accelerated Depreciation	$ (755,100)	$ (662,400)

Note 7 - Retirement Plans

The Company has established a defined contribution retirement plan that covers substantially all employees. Eligible participants may defer a portion of their wages to their employee deferral accounts, and the Company contributes a discretionary amount, as determined by the Company. In 2014, the Company made contributions of $141,772 ($153,517 in 2013).

Note 8 - Toledo/Cowlitz Broadband Initiative

In 2010 the Company received a federal grant award of approximately $2,870,000 through the Broadband Technologies Opportunities Program (BTOP) under the Sustainable Broadband Adoption program of the American Recovery and Reinvestment Act of 2009. Of this award, $2,100,000 was the federal share, and approximately $770,000 was the Company’s share, to be contributed as matching funds of either cash or in-kind contributions.

Note 8 - Toledo/Cowlitz Broadband Initiative, continued

The grant funds were to be used to support the Company's Toledo/Cowlitz Broadband Initiative (TCBI), which proposed to increase broadband adoption and economic opportunities in the tri-county area (Lewis, Cowlitz and Thurston Counties) by partnering with the Cowlitz Tribe to provide equipment, service, and education relevant to the surrounding community and tribal members. Participants in the program completed a training curriculum to qualify for a subsidized computer that would be provided "on loan" until the end of a two-year training period. The Company also offered discounted broadband services for a two year period to enable participants to become home subscribers. TCBI planned to train approximately 750 residents, offering up to 30,000 hours of teacher-led training focused on basic computer literacy and job searching skills. The program ended on September 30, 2013. After this date all revenues and expenses resulting from the project were included in the operations section on the statement of operations, versus the other income section.

For the year ended December 31, 2014 the Company did not receive any grant funds ($544,255 in 2013). The Company did not incur any expenses related to TCBI in 2014 ($538,856 for 2013), and did not recognize any grant revenues ($555,175 in 2013).

At December 31, 2014, the Company has $23,075 of deferred grant revenue that will be recognized into revenue over the two year service contract of each participant in the program ($237,123 at December 31, 2013).

Supplemental Information

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidating Balance Sheets

December 31, 2014

ASSETS	The Toledo Telephone Company, Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	Consolidated
Current Assets:					
Cash and cash equivalents	$ 1,250,456	$ 2,624	$ 129,692	$ -	$ 1,382,772
Accounts receivable, less allowance for doubtful accounts of zero	523,855	-	-	-	523,855
Accounts receivable, affiliate	(3,470)	-	3,470	-	-
Marketable securities	2,382,504	540,233	-	-	2,922,737
Materials and supplies	535,232	-	-	-	535,232
Prepaid expenses	93,477	-	6,300	-	99,777
Income tax receivable	52,508	(18,503)	(10,585)	-	23,420
Total Current Assets	4,834,562	524,354	128,877	-	5,487,793
Other Assets and Investments:					
Non-regulated equipment, net	65,877	-	-	-	65,877
Other investments	438,869	-	-	-	438,869
Investment in subsidiaries	643,079	-	-	(643,079)	-
Total Other Assets and Investments	1,147,825	-	-	(643,079)	504,746
Property, Plant, and Equipment:					
In service	21,576,491	-	-	-	21,576,491
Under construction	6,689,601	-	-	-	6,689,601
	28,266,092	-	-	-	28,266,092
Less accumulated depreciation	15,138,103	-	-	-	15,138,103
Property, Plant, and Equipment, net	13,127,989	-	-	-	13,127,989
	$ 19,110,376	$ 524,354	$ 128,877	$ (643,079)	$ 19,120,528

LIABILITIES AND STOCKHOLDERS' EQUITY	The Toledo Telephone Company, Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	Consolidated
Current Liabilities:					
Current portion of long-term debt	$ 939,876	$ -	$ -	$ -	$ 939,876
Accounts payable	439,102	-	36	-	439,138
Accrued expenses	66,724	-	-	-	66,724
Accounts payable, affiliate	(10,116)	10,116	-	-	-
Deferred income taxes	31,060	-	-	-	31,060
Current portion of deferred grant revenue	23,075	-	-	-	23,075
Total Current Liabilities	1,489,721	10,116	36	-	1,499,873
Noncurrent Liabilities:					
Deferred Income Taxes	755,100	-	-	-	755,100
Long-Term Debt	10,217,038	-	-	-	10,217,038
Total Noncurrent Liabilities	10,972,138	-	-	-	10,972,138
Stockholders' Equity:					
Common stock	10,670	100	100	(200)	10,670
Paid-in capital	-	196,825	48,523	(245,348)	-
Retained earnings	6,493,105	301,969	80,218	(382,187)	6,493,105
Accumulated other comprehensive income	144,742	15,344	-	(15,344)	144,742
Total Stockholders' Equity	6,648,517	514,238	128,841	(643,079)	6,648,517
	$ 19,110,376	$ 524,354	$ 128,877	$ (643,079)	$ 19,120,528

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Year Ended December 31, 2014 Schedule II

	The Toledo Telephone Company, Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	Consolidated
Operating Revenues:					
Local network	$ 429,238	$ -	$ -	$ -	$ 429,238
Network access	3,555,904	-	-	-	3,555,904
Long-distance	-	-	50,399	-	50,399
Miscellaneous	(50,517)	-	-	(7,747)	(58,264)
Total Operating Revenues	3,934,625	-	50,399	(7,747)	3,977,277
Operating Expenses:					
Plant specific	893,341	-	-	-	893,341
Plant nonspecific	380,341	-	-	-	380,341
Customer	269,753	-	43,007	(7,747)	305,013
Corporate	811,944	2,675	181	-	814,800
Depreciation	966,580	-	-	-	966,580
Income tax expense	57,546	-	1,001	-	58,547
Other operating taxes	272,246	-	537	-	272,783
Total Operating Expenses	3,651,751	2,675	44,726	(7,747)	3,691,405
Operating Income (Loss)	282,874	(2,675)	5,673	-	285,872
Other Income (Expense):					
Interest and dividends	201,994	30,890	62	-	232,946
Allowance for funds used during construction	59,349	-	-	-	59,349
Non-regulated operations, net	348,471	-	-	-	348,471
Other income (expense)	42,738	(203)	-	(29,535)	13,000
Nonoperating income tax expense	(104,363)	(4,203)	(9)	-	(108,575)
Total Other Income (Expense), net	548,189	26,484	53	(29,535)	545,191
Income Before Interest Expense	831,063	23,809	5,726	(29,535)	831,063
Interest Expense	377,868	-	-	-	377,868
Net Income	$ 453,195	$ 23,809	$ 5,726	$ (29,535)	$ 453,195

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidating Statements of Cash Flows

Year Ended December 31, 2014

	The Toledo Telephone Company, Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net income	$ 453,195	$ 23,809	$ 5,726	$ (29,535)	$ 453,195
Adjustments to reconcile net income to net cash provided (used) by operating activities:					
Depreciation	966,580	-	-	-	966,580
Non-regulated depreciation	55,503	-	-	-	55,503
Change in deferred taxes	64,065	-	-	-	64,065
Income from subsidiaries	(29,535)	-	-	29,535	-
(Gain) Loss on sales of marketable securities	(23,332)	203	-	-	(23,129)
Patronage allocations received	(7,076)	-	-	-	(7,076)
Loss on sale of other investments	3,254	-	-	-	3,254
Changes in operating assets and liabilities:					
Accounts receivable	210,080	-	342	(13,928)	196,494
Materials and supplies	(203,551)	-	-	-	(203,551)
Prepaid expenses	29,574	-	-	-	29,574
Accounts payable	(477,392)	-	(2)	13,928	(463,466)
Accrued expenses	(145,266)	-	-	-	(145,266)
Income tax payable	(79,190)	(32,804)	(20,159)	-	(132,153)
Deferred grant revenues	(214,048)	-	-	-	(214,048)
Net Cash Provided (Used) by Operating Activities	602,861	(8,792)	(14,093)	-	579,976
Cash Flows from Investing Activities:					
Capital expenditures	(5,081,815)	-	-	-	(5,081,815)
Change in other investments	(10,615)	-	-	-	(10,615)
Purchases of marketable securities	(1,421,745)	(30,889)	-	-	(1,452,634)
Proceeds from sales of of marketable securities	702,172	5,000	-	-	707,172
Proceeds from sale of other investments	36,985	-	-	-	36,985
Purchases of non-regulated equipment	(1,653)	-	-	-	(1,653)
Net Cash Used by Investing Activities	$ (5,776,671)	$ (25,889)	$ -	$ -	$ (5,802,560)

	The Toledo Telephone Company, Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	Consolidated
Cash Flows from Financing Activities:					
Payments on long-term debt	$ (1,275,540)	$ -	$ -	$ -	$ (1,275,540)
Net Decrease in Cash and Cash Equivalents	(6,449,350)	(34,681)	(14,093)	-	(6,498,124)
Cash and Cash Equivalents, beginning	7,804,822	299	122,615	-	7,927,736
Cash and Cash Equivalents, ending	$ 1,355,472	$ (34,382)	$ 108,522	$ -	$ 1,429,612
Cash Paid During the Year for:					
Interest, net of amount capitalized	$ 318,519	$ -	$ -	$ -	$ 318,519
Income taxes	$ 289,015	$ -	$ -	$ -	$ 289,015