

**DOCKET NO. UM 1688**

**Cover Sheet for Submission of  
2014 Annual ETC Certification Reports**

Name of Eligible Telecommunications Carrier: Canby Telecom

Filing date: 6/19/14

Is this: Original submission? X  
OR  
Revised submission? \_\_\_\_\_

Person to contact for questions:

Name Nate Brentano

Phone number 503-845-4435

E-mail address nbrentano@abcsoregon.com

Documents included in this filing (please check applicable items):

- CAF/ICC Support (47 CFR § 54.304)
- Rate Floor Data (47 CFR § 54.313(h))
- Form 481 (High-cost per 47 CFR § 54.313, Low-income per 54.422)<sup>1</sup>
- Form 690 (Mobility Fund per 47 CFR § 54.1009)
- Affidavit for High-Cost Support

**Filing deadlines:** The deadlines for filing items required by 47 CFR § 54 are the same as the deadlines for filing with the FCC. The notarized affidavit for high-cost support must be filed no later than the due date for the FCC Form 481. Based on current information, it appears that all items other than CAF/ICC support data are due by July 1, 2014. The CAF/ICC support data are due the same day as the ETC's interstate access tariff filing.

If revisions to an original submission are filed with the FCC or USAC, a copy of the revisions must be filed with the Oregon Commission no later than five business days following submission to the FCC or USAC.

<sup>1</sup> Lifeline-only ETCs must provide all information specified in 47 CFR § 54.422(b) even if the ETC does not submit this information to the FCC.

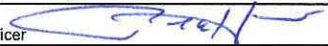
Rate Floor Template

Certification of Officer as to the Accuracy of the Data Reported for the Rate Floor Data

I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the actual rate floor data reported ; and, to the best of my knowledge, the information reported on this form is accurate.

Name of Reporting Carrier Canby Telcom

Signature of authorized officer



Date

6/11/14

Printed name of authorized officer Paul Hauer

Title or position of authorized officer President

Telephone number of authorized officer: (503) 266-8200, ext.

Study Area Code of Reporting Carrier

532362

Filing Due Date for this form  
(mm/dd/yyyy)

07/01/2014

**RATE FLOOR DATA COLLECTION - OMB Control Number 3060-0986**

**Block 1 - Contact Information**

| ROW # | DATA ELEMENT   | FORMAT OF REQUESTED DATA | RESPONSE                    |
|-------|--|--------------------------|-----------------------------|
| 1     | Carrier Study Area Code                                | 6 numeric digits         | 532362                      |
| 2     | Carrier Study Area Name                                | alpha characters         | CANBY TELEPHONE ASSOCIATION |
| 3     | Service Provider Identification Number                 | 9 numeric digits         | 143002614                   |
| 4     | <b>Residential Local Service Charge Effective Date</b> | mm/dd/yy                 | 07/01/14                    |
| 5     | Contact Name   | alpha characters         | Brentano, Nate S            |
| 6     | Contact Telephone Number (include area code)           | 9 numeric digits         | 503-845-4435                |
| 7     | Sheet Number   | numeric digit(s)         |                             |
| 8     | Total Number of Sheets                                 | numeric digit(s)         |                             |

**Block 2- Residential Local Service Rates, Fees, and Line Counts**

|   | Column 1<br>Residential Local<br>Service Charge | Column 2<br>State Subscriber<br>Line Charge | Column 3<br>State Universal<br>Service Fee | Column 4<br>Mandatory<br>Extended Area<br>Service Charge | Column 5<br>Loops |
|---|---|---|--|--|-------------------|
| 9 | 1.00  |   | 0.09                                       |  | 1,676             |

**FCC Form 481 - Carrier Annual Reporting  
Data Collection Form**

FCC Form 481  
OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

|       |  |                         |
|-------|--|-------------------------|
| <010> | Study Area Code  | 532362                  |
| <015> | Study Area Name  | CANBY TEL ASSN          |
| <020> | Program Year   | 2015                    |
| <030> | Contact Name: Person USAC should contact with questions about this data      | Nate Brentano           |
| <035> | Contact Telephone Number: Number of the person identified in data line <030> | 5038454435 ext.         |
| <039> | Contact Email Address: Email of the person identified in data line <030>     | nbrentano@cbsoregon.com |

|  |                            |                            |
|--|----------------------------|----------------------------|
| <b>ANNUAL REPORTING FOR ALL CARRIERS</b> | <b>54.313</b>              | <b>54.422</b>              |
|  | <b>Completion Required</b> | <b>Completion Required</b> |

|        |   |   | <i>(check box when complete)</i>    |                                     |
|--------|---|---|-------------------------------------|-------------------------------------|
| <100>  | Service Quality Improvement Reporting   | <i>(complete attached worksheet)</i>  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <200>  | Outage Reporting (voice)  | <i>(complete attached worksheet)</i>  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <210>  | <input checked="" type="checkbox"/> <-- check box if no outages to report   |   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <300>  | Unfulfilled Service Requests (voice)  | <input type="text" value="0"/>  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <310>  | Detail on Attempts (voice)  | <div style="border: 1px solid black; height: 40px; width: 100%;"></div><br><i>(attach descriptive document)</i> | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <320>  | Unfulfilled Service Requests (broadband)  | <input type="text" value="0"/>  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <330>  | Detail on Attempts (broadband)  | <div style="border: 1px solid black; height: 40px; width: 100%;"></div><br><i>(attach descriptive document)</i> | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <400>  | Number of Complaints per 1,000 customers (voice)  |   |                                     |                                     |
| <410>  | Fixed   | <input type="text" value="0.0"/>  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <420>  | Mobile  | <input type="text" value="0.0"/>  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <430>  | Number of Complaints per 1,000 customers (broadband)  |   | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <440>  | Fixed   | <input type="text" value="0.0"/>  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <450>  | Mobile  | <input type="text" value="0.0"/>  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <500>  | Service Quality Standards & Consumer Protection Rules Compliance  | <i>(check to indicate certification)</i>  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <510>  | <div style="border: 1px solid black; padding: 2px;">532362OR510.pdf</div><br><i>(attached descriptive document)</i> |   | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <600>  | Functionality in Emergency Situations   | <i>(check to indicate certification)</i>  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <610>  | <div style="border: 1px solid black; padding: 2px;">532362OR610.pdf</div><br><i>(attached descriptive document)</i> |   | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <700>  | Company Price Offerings (voice)   | <i>(complete attached worksheet)</i>  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <710>  | Company Price Offerings (broadband)   | <i>(complete attached worksheet)</i>  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <800>  | Operating Companies and Affiliates  | <i>(complete attached worksheet)</i>  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> |
| <900>  | Tribal Land Offerings (Y/N)? <input type="radio"/> <input checked="" type="radio"/>                                 | <i>(if yes, complete attached worksheet)</i>  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <1000> | Voice Services Rate Comparability   | <i>(check to indicate certification)</i>  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <1010> | <div style="border: 1px solid black; height: 40px; width: 100%;"></div><br><i>(attach descriptive document)</i>     |   | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <1100> | Terrestrial Backhaul (Y/N)? <input checked="" type="radio"/> <input type="radio"/>                                  | <i>(if not, check to indicate certification)</i>  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| <1110> |   | <i>(complete attached worksheet)</i>  | <input type="checkbox"/>            | <input type="checkbox"/>            |
| <1200> | Terms and Condition for Lifeline Customers  | <i>(complete attached worksheet)</i>  | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |

**Price Cap Carriers, Proceed to Price Cap Additional Documentation Worksheet**

|        |  |  |                          |                          |
|--------|--|--|--------------------------|--------------------------|
| <2000> | <i>Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers</i> | <i>(check to indicate certification)</i> | <input type="checkbox"/> | <input type="checkbox"/> |
| <2005> |  | <i>(complete attached worksheet)</i>     | <input type="checkbox"/> | <input type="checkbox"/> |

**Rate of Return Carriers, Proceed to ROR Additional Documentation Worksheet**

|        |  |  |                                     |                          |
|--------|--|--|-------------------------------------|--------------------------|
| <3000> |  | <i>(check to indicate certification)</i> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| <3005> |  | <i>(complete attached worksheet)</i>     | <input checked="" type="checkbox"/> | <input type="checkbox"/> |

|   |  |
|---|--|
| <b>(100) Service Quality Improvement Reporting<br/>Data Collection Form</b> | FCC Form 481<br>OMB Control No. 3060-0986/OMB Control No. 3060-0819<br>July 2013 |
|---|--|

|  |                         |
|--|-------------------------|
| <b>&lt;010&gt; Study Area Code</b>   | 532362                  |
| <b>&lt;015&gt; Study Area Name</b>   | CANEY TEL ASSN          |
| <b>&lt;020&gt; Program Year</b>  | 2015                    |
| <b>&lt;030&gt; Contact Name - Person USAC should contact regarding this data</b>                       | Nate Brentano           |
| <b>&lt;035&gt; Contact Telephone Number - Number of person identified in data line &lt;030&gt;</b>     | 5038454435 ext.         |
| <b>&lt;039&gt; Contact Email Address - Email Address of person identified in data line &lt;030&gt;</b> | nbrentano@cbsoregon.com |

|   |  |
|---|--|
| <b>&lt;110&gt; Has your company received its ETC certification from the FCC?</b>                          | (yes / no ) <input type="radio"/> <input checked="" type="radio"/> |
| If your answer to Line <110> is yes, do you have an existing §54.202(a) "5 year plan" filed with the FCC? | (yes / no ) <input type="radio"/> <input type="radio"/>            |

If your answer to Line <111> is yes, then you are required to file a progress report, on line <112> delineating the status of your company's existing § 54.202(a) "5 year plan" on file with the FCC, as it relates to your provision of voice telephony service.

**<112> Attach Five-Year Service Quality Improvement Plan or, in subsequent years, your annual progress report filed pursuant to 47 C.F.R. § 54.313(a)(1). If your company is a CETC which only receives frozen support, your progress report is only required to address voice telephony service.**

532362OR112.xls

Name of Attached Document

Please check these boxes below to confirm that the attached documents(s), on line 112, contains a progress report on its five-year service quality improvement plan pursuant to § 54.202(a). The information shall be submitted at the wire center level or census block as appropriate.

|  |  |                          |
|--|--|--------------------------|
| <b>&lt;113&gt; Maps detailing progress towards meeting plan targets</b>                                      |  | <input type="checkbox"/> |
| <b>&lt;114&gt; Report how much universal service (USF) support was received</b>                              |  | <input type="checkbox"/> |
| <b>&lt;115&gt; How (USF) was used to improve service quality</b>   |  | <input type="checkbox"/> |
| <b>&lt;116&gt; How (USF) was used to improve service coverage</b>  |  | <input type="checkbox"/> |
| <b>&lt;117&gt; How (USF) was used to improve service capacity</b>  |  | <input type="checkbox"/> |
| <b>&lt;118&gt; Provide an explanation of network improvement targets not met in the prior calendar year.</b> |  | <input type="checkbox"/> |











**(900) Tribal Lands Reporting  
Data Collection Form**

FCC Form 481  
OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

|   |                         |
|---|-------------------------|
| <010> Study Area Code   | 532362                  |
| <015> Study Area Name   | CANBY TEL ASSN          |
| <020> Program Year  | 2015                    |
| <030> Contact Name - Person USAC should contact regarding this data                 | Nate Brentano           |
| <035> Contact Telephone Number - Number of person identified in data line <030>     | 5038454435 ext.         |
| <039> Contact Email Address - Email Address of person identified in data line <030> | nbrentano@cbsoregon.com |

<910> Tribal Land(s) on which ETC Serves

<920> Tribal Government Engagement Obligation

Name of Attached Document

If your company serves Tribal lands, please select (Yes,No, NA) for each these boxes to confirm the status described on the attached document(s), on line 920, demonstrates coordination with the Tribal government pursuant to § 54.313(a)(9) includes:

- <921> Needs assessment and deployment planning with a focus on Tribal community anchor institutions.
- <922> Feasibility and sustainability planning;
- <923> Marketing services in a culturally sensitive manner;
- <924> Compliance with Rights of way processes
- <925> Compliance with Land Use permitting requirements
- <926> Compliance with Facilities Siting rules
- <927> Compliance with Environmental Review processes
- <928> Compliance with Cultural Preservation review processes
- <929> Compliance with Tribal Business and Licensing requirements.

|                           |
|---------------------------|
| Select<br>(Yes,No,<br>NA) |
|                           |
|                           |
|                           |
|                           |
|                           |
|                           |
|                           |
|                           |

|  |  |
|--|--|
| <b>(1100) No Terrestrial Backhaul Reporting<br/>Data Collection Form</b> | FCC Form 481<br>OMB Control No. 3060-0986/OMB Control No. 3060-0819<br>July 2013 |
|--|--|

|       |   |                         |
|-------|---|-------------------------|
| <010> | Study Area Code   | 532362                  |
| <015> | Study Area Name   | CANEY TEL ASSN          |
| <020> | Program Year  | 2015                    |
| <030> | Contact Name - Person USAC should contact regarding this data                 | Nate Brentano           |
| <035> | Contact Telephone Number - Number of person identified in data line <030>     | 5038454435 ext.         |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | nbrentano@cbsoregon.com |

<1120> Please check this box to confirm no terrestrial backhaul options exist within the supported area pursuant to § 54.313(G)

<1130> Please check this box to confirm the reporting carrier offers broadband service of at least 1 Mbps downstream and 256 kbps upstream within the supported area pursuant to § 54.313(G)

|  |  |
|--|--|
| <b>(1200) Terms and Condition for Lifeline Customers</b><br><b>Lifeline</b><br><b>Data Collection Form</b> | FCC Form 481<br>OMB Control No. 3060-0986/OMB Control No. 3060-0819<br>July 2013 |
|--|--|

|       |   |                         |
|-------|---|-------------------------|
| <010> | Study Area Code   | 532362                  |
| <015> | Study Area Name   | CANBY TEL ASSN          |
| <020> | Program Year  | 2015                    |
| <030> | Contact Name - Person USAC should contact regarding this data                 | Nate Brentano           |
| <035> | Contact Telephone Number - Number of person identified in data line <030>     | 5038454435 ext.         |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | nbrentano@cbsoregon.com |

<1210> Terms & Conditions of Voice Telephony Lifeline Plans

532362or1210.pdf

Name of Attached Document

<1220> Link to Public Website

HTTP [www.puc.state.or.us/Pages/zspf/otap.aspx](http://www.puc.state.or.us/Pages/zspf/otap.aspx)

"Please check these boxes below to confirm that the attached document(s), on line 1210, or the website listed, on line 1220, contains the required information pursuant to § 54.422(a)(2) annual reporting for ETCs receiving low-income support, carriers must annually report:

- <1221> Information describing the terms and conditions of any voice telephony service plans offered to Lifeline subscribers,
- <1222> Details on the number of minutes provided as part of the plan,
- <1223> Additional charges for toll calls, and rates for each such plan.

|   |  |
|---|--|
| <b>(2000) Price Cap Carrier Additional Documentation</b><br><b>Data Collection Form</b><br><i>Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers</i> | FCC Form 481<br>OMB Control No. 3060-0986/OMB Control No. 3060-0819<br>July 2013 |
|---|--|

|       |   |                         |
|-------|---|-------------------------|
| <010> | Study Area Code   | 532362                  |
| <015> | Study Area Name   | CANBY TEL ASSN          |
| <020> | Program Year  | 2015                    |
| <030> | Contact Name - Person USAC should contact regarding this data                 | Nate Brentano           |
| <035> | Contact Telephone Number - Number of person identified in data line <030>     | 5038454435 ext.         |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | nbrentano@cbsoregon.com |

**CHECK the boxes below to note compliance as a recipient of Incremental Connect America Phase I support, frozen High Cost support, High Cost support to offset access charge reductions, and Connect America Phase II support as set forth in 47 CFR § 54.313(b),(c),(d),(e) the information reported on this form and in the documents attached below is accurate.**

**Incremental Connect America Phase I reporting**

- <2010>
2nd Year Certification {47 CFR § 54.313(b)(1)}
- <2011>
3rd Year Certification {47 CFR § 54.313(b)(2)}

**Price Cap Carrier Receiving Frozen Support Certification {47 CFR § 54.312(a)}**

- <2012>
2013 Frozen Support Certification
- <2013>
2014 Frozen Support Certification
- <2014>
2015 Frozen Support Certification
- <2015>
2016 and future Frozen Support Certification

**Price Cap Carrier Connect America ICC Support {47 CFR § 54.313(d)}**

- <2016>
Certification Support Used to Build Broadband

**Connect America Phase II Reporting {47 CFR § 54.313(e)}**

- <2017>
3rd year Broadband Service Certification
- <2018>
5th year Broadband Service Certification
- <2019>
Interim Progress Certification
- <2020>
Please check the box to confirm that the attached document(s), on line 2021, contains the required information pursuant to § 54.313 (e)(3)(ii), as a recipient of CAF Phase II support shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year.

- <2021>
Interim Progress Community Anchor Institutions

Name of Attached Document Listing Required Information

|   |  |
|---|--|
| <b>(3000) Rate Of Return Carrier Additional Documentation</b><br>Data Collection Form | FCC Form 481<br>OMB Control No. 3060-0986/OMB Control No. 3060-0819<br>July 2013 |
|---|--|

|   |                         |
|---|-------------------------|
| <010> Study Area Code   | 532362                  |
| <015> Study Area Name   | CANBY TEL ASSN          |
| <020> Program Year  | 2015                    |
| <030> Contact Name - Person USAC should contact regarding this data                 | Nate Brentano           |
| <035> Contact Telephone Number - Number of person identified in data line <030>     | 5038454435 ext.         |
| <039> Contact Email Address - Email Address of person identified in data line <030> | nbrentano@cbsoregon.com |

CHECK the boxes below to note compliance on its five year service quality plan (pursuant to 47 CFR § 54.202(a)) and, for privately held carriers, ensuring compliance with the financial reporting requirements set forth in 47 CFR § 54.313(f)(2). I further certify that the information reported on this form and in the documents attached below is accurate.

(3010) **Progress Report on 5 Year Plan**  
Milestone Certification (47 CFR § 54.313(f)(1)(i))

Name of Attached Document Listing Required Information

(3011) Please check this box to confirm that the attached document(s), on line 3012 contains the required information pursuant to § 54.313 (f)(1)(ii), the carrier shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year.

(3012) Community Anchor Institutions (47 CFR § 54.313(f)(1)(ii))

Name of Attached Document Listing Required Information

(3013) Is your company a Privately Held ROR Carrier (47 CFR § 54.313(f)(2)) (Yes/No)  Yes  No

(3014) If yes, does your company file the RUS annual report (Yes/No)  Yes  No

Please check these boxes to confirm that the attached document(s), on line 3017, contains the required information pursuant to § 54.313(f)(2) compliance requires:

(3015) Electronic copy of their annual RUS reports (Operating Report for Telecommunications Borrowers)

(3016) Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows

(3017) If the response is yes on line 3014, attach your company's RUS annual report and all required documentation

Name of Attached Document Listing Required Information

(3018) If the response is no on line 3014, Is your company audited? (Yes/No)  Yes  No

If the response is yes on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains:

(3019) Either a copy of their audited financial statement; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications

(3020) Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows

(3021) Management letter issued by the independent certified public accountant that performed the company's financial audit.

If the response is no on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains:

(3022) Copy of their financial statement which has been subject to review by an independent certified public accountant; or 2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers,

(3023) Underlying information subjected to a review by an independent certified public accountant

(3024) Underlying information subjected to an officer certification.

(3025) Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows

5323620R3026 .pdf

Name of Attached Document Listing Required Information

(3026) Attach the worksheet listing required information

|   |  |
|---|--|
| <b>Certification - Reporting Carrier<br/>Data Collection Form</b> | FCC Form 481<br>OMB Control No. 3060-0986/OMB Control No. 3060-0819<br>July 2013 |
|---|--|

|   |                         |
|---|-------------------------|
| <010> Study Area Code   | 532362                  |
| <015> Study Area Name   | CANBY TEL ASSN          |
| <020> Program Year  | 2015                    |
| <030> Contact Name - Person USAC should contact regarding this data                 | Nate Brentano           |
| <035> Contact Telephone Number - Number of person identified in data line <030>     | 5038454435 ext.         |
| <039> Contact Email Address - Email Address of person identified in data line <030> | nbrentano@cbsoregon.com |

TO BE COMPLETED BY THE REPORTING CARRIER, IF THE REPORTING CARRIER IS FILING ANNUAL REPORTING ON ITS OWN BEHALF:

|   |   |
|---|---|
| <b>Certification of Officer as to the Accuracy of the Data Reported for the Annual Reporting for CAF or LI Recipients</b>   |   |
| I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate. |   |
| Name of Reporting Carrier: CANBY TEL ASSN   |   |
| Signature of Authorized Officer: CERTIFIED ONLINE   | Date 06/19/2014                           |
| Printed name of Authorized Officer: Paul Hauer  |   |
| Title or position of Authorized Officer: President  |   |
| Telephone number of Authorized Officer: 5032668200 ext.   |   |
| Study Area Code of Reporting Carrier: 532362  | Filing Due Date for this form: 06/30/2014 |
| Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.  |   |

|   |  |
|---|--|
| <b>Certification - Agent / Carrier<br/>Data Collection Form</b> | FCC Form 481<br>OMB Control No. 3060-0986/OMB Control No. 3060-0819<br>July 2013 |
|---|--|

|       |   |                         |
|-------|---|-------------------------|
| <010> | Study Area Code   | 532362                  |
| <015> | Study Area Name   | CANBY TEL ASSN          |
| <020> | Program Year  | 2015                    |
| <030> | Contact Name - Person USAC should contact regarding this data                 | Nate Brentano           |
| <035> | Contact Telephone Number - Number of person identified in data line <030>     | 5038454435 ext.         |
| <039> | Contact Email Address - Email Address of person identified in data line <030> | nbrentano@cbsoregon.com |

**TO BE COMPLETED BY THE REPORTING CARRIER, IF AN AGENT IS FILING ANNUAL REPORTS ON THE CARRIER'S BEHALF:**

| Certification of Officer to Authorize an Agent to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier  |                                |
|--|--------------------------------|
| I certify that (Name of Agent) _____ is authorized to submit the information reported on behalf of the reporting carrier. I also certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual data reporting requirements provided to the authorized agent; and, to the best of my knowledge, the reports and data provided to the authorized agent is accurate. |                                |
| Name of Authorized Agent:  |                                |
| Name of Reporting Carrier:   |                                |
| Signature of Authorized Officer:   | Date:                          |
| Printed name of Authorized Officer:  |                                |
| Title or position of Authorized Officer:   |                                |
| Telephone number of Authorized Officer:  |                                |
| Study Area Code of Reporting Carrier:  | Filing Due Date for this form: |
| Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.   |                                |

**TO BE COMPLETED BY THE AUTHORIZED AGENT:**

| Certification of Agent Authorized to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier   |                                |
|--|--------------------------------|
| I, as agent for the reporting carrier, certify that I am authorized to submit the annual reports for universal service support recipients on behalf of the reporting carrier; I have provided the data reported herein based on data provided by the reporting carrier; and, to the best of my knowledge, the information reported herein is accurate. |                                |
| Name of Reporting Carrier:   |                                |
| Name of Authorized Agent or Employee of Agent:   |                                |
| Signature of Authorized Agent or Employee of Agent:  | Date:                          |
| Printed name of Authorized Agent or Employee of Agent:   |                                |
| Title or position of Authorized Agent or Employee of Agent:  |                                |
| Telephone number of Authorized Agent or Employee of Agent:   |                                |
| Study Area Code of Reporting Carrier:  | Filing Due Date for this form: |
| Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.   |                                |



## Attachments







**Voice Network Upgrades : 2015**

| <b>Project Description</b>  | <b>Area Served/Wire center</b> | <b>Estimated Start Date</b> | <b>Estimated Completion Date</b> | <b>Estimated Population Served</b> | <b>Estimated Capital Costs</b> |
|---|--------------------------------|-----------------------------|----------------------------------|------------------------------------|--------------------------------|
| Soft switch hardware lifecycle replacement such as blades and servers                                     | 2210 CNBYORXADS1               | 3/1/2015                    | 12/31/2015                       | 16,466                             | \$ 80,372                      |
| Lifecycle replacement of legacy carrier systems with replacement to VoIP softswitch                       | 2230 CNBYORXADS1               | 3/1/2015                    | 12/31/2015                       | 16,466                             | \$ 51,360                      |
| BITS clock replacement  | 2230 CNBYORXADS1               | 3/1/2015                    | 12/31/2015                       | 16,466                             | \$ 23,690                      |
| Replace AC Transfer Switch for network protection & to ensure ability to function in emergency situation. | 2210 CNBYORXADS1               | 3/1/2015                    | 12/31/2015                       | 16,466                             | \$ 35,000                      |

**Voice Network Upgrades : 2016**

| <b>Project Description</b>                      | <b>Area Served/Wire center</b> | <b>Estimated Start Date</b> | <b>Estimated Completion Date</b> | <b>Estimated Population Served</b> | <b>Estimated Capital Costs</b> |
|---|--------------------------------|-----------------------------|----------------------------------|------------------------------------|--------------------------------|
| Soft switch hardware lifecycle replacement      | 2210 CNBYORXADS1               | 3/1/2016                    | 12/31/2016                       | 16,466                             | \$ 115,372                     |
| Lifecycle replacement of legacy carrier systems | 2230 CNBYORXADS1               | 3/1/2016                    | 12/31/2016                       | 16,466                             | \$ 51,360                      |

Response Line 100  
Canby Telephone Association  
Study Area 532362

**Voice Network Upgrades : 2017**

| <b>Project Description</b>                 | <b>Area Served/Wire center</b> | <b>Estimated Start Date</b> | <b>Estimated Completion Date</b> | <b>Estimated Population Served</b> | <b>Estimated Capital Costs</b> |
|--|--------------------------------|-----------------------------|----------------------------------|------------------------------------|--------------------------------|
| Soft switch hardware lifecycle replacement | 2210 CNBYORXADS1               | 3/1/2017                    | 12/31/2017                       | 16,466                             | \$ 115,372                     |

**Voice Network Upgrades : 2018**

| <b>Project Description</b>                 | <b>Area Served/Wire center</b> | <b>Estimated Start Date</b> | <b>Estimated Completion Date</b> | <b>Estimated Population Served</b> | <b>Estimated Capital Costs</b> |
|--|--------------------------------|-----------------------------|----------------------------------|------------------------------------|--------------------------------|
| Soft switch hardware lifecycle replacement | 2210 CNBYORXADS1               | 3/1/2018                    | 12/31/2018                       | 16,466                             | \$ 115,372                     |

**Voice Network Upgrades : 2019**

| <b>Project Description</b>                 | <b>Area Served/Wire center</b> | <b>Estimated Start Date</b> | <b>Estimated Completion Date</b> | <b>Estimated Population Served</b> | <b>Estimated Capital Costs</b> |
|--|--------------------------------|-----------------------------|----------------------------------|------------------------------------|--------------------------------|
| Soft switch hardware lifecycle replacement | 2210 CNBYORXADS1               | 3/1/2019                    | 12/31/2019                       | 16,466                             | \$ 115,372                     |

**Broadband Upgrades : 2015**

| <b>Project Description</b>                                      | <b>Area Served/Wire center</b> | <b>Estimated Start Date</b> | <b>Estimated Completion Date</b> | <b>Estimated Population Served</b> | <b>Estimated Capital Costs</b> |
|---|--------------------------------|-----------------------------|----------------------------------|------------------------------------|--------------------------------|
| FTTH Construction to replace defective copper plant             | 2410 CNBYORXADS1               | 3/1/2015                    | 12/31/2015                       | 558                                | \$ 370,000                     |
| FTTH Construction (new housing construction)                    | 2410 CNBYORXADS1               | 3/1/2015                    | 12/31/2015                       | 837                                | \$ 330,000                     |
| Lifecycle replacement of core router                            | 2230 CNBYORXADS1               | 3/1/2015                    | 12/31/2015                       | 16,466                             | \$ 265,000                     |
| Other Access Network Growth                                     | 2230 CNBYORXADS1               | 3/1/2015                    | 12/31/2015                       | 480                                | \$ 160,000                     |
| Fiber conversions (500 new addresses) Fiber to the Home Project | 2230 CNBYORXADS1               | 3/1/2015                    | 12/31/2015                       | 1395                               | \$ 820,000                     |
| Expansion of Redwood remote to prepare for FTTH build out       | 2230 CNBYORXADS1               | 3/1/2015                    | 12/31/2015                       | 1,200                              | \$ 166,698                     |
| DWDM expansion to increase core network bandwidth.              | 2230 CNBYORXADS1               | 3/1/2015                    | 12/31/2015                       | 16,466                             | \$ 30,327                      |

Response Line 100  
 Canby Telephone Association  
 Study Area 532362

**Broadband Upgrades : 2016**

| <b>Project Description</b>                          | <b>Area Served/Wire center</b> | <b>Estimated Start Date</b> | <b>Estimated Completion Date</b> | <b>Estimated Population Served</b> | <b>Estimated Capital Costs</b> |
|---|--------------------------------|-----------------------------|----------------------------------|------------------------------------|--------------------------------|
| FTTH Construction to replace defective copper plant | 2410 CNBYORXADS1               | 3/1/2016                    | 12/31/2016                       | 1,674                              | \$ 1,110,000                   |
| FTTH Construction (new housing construction)        | 2410 CNBYORXADS1               | 3/1/2016                    | 12/31/2016                       | 837                                | \$ 330,000                     |
| Fiber conversions (500 new addresses)               | 2230 CNBYORXADS1               | 3/1/2016                    | 12/31/2016                       | 1395                               | \$ 820,000                     |

**Broadband Upgrades : 2017**

| <b>Project Description</b>                          | <b>Area Served/Wire center</b> | <b>Estimated Start Date</b> | <b>Estimated Completion Date</b> | <b>Estimated Population Served</b> | <b>Estimated Capital Costs</b> |
|---|--------------------------------|-----------------------------|----------------------------------|------------------------------------|--------------------------------|
| FTTH Construction to replace defective copper plant | 2410 CNBYORXADS1               | 3/1/2017                    | 12/31/2017                       | 1,674                              | \$ 1,110,000                   |
| FTTH Construction (new housing construction)        | 2410 CNBYORXADS1               | 3/1/2017                    | 12/31/2017                       | 837                                | \$ 330,000                     |
| Fiber conversions (500 new addresses)               | 2230 CNBYORXADS1               | 3/1/2017                    | 12/31/2017                       | 1395                               | \$ 820,000                     |



**Broadband Upgrades : 2018**

| <b>Project Description</b>                          | <b>Area Served/Wire center</b> | <b>Estimated Start Date</b> | <b>Estimated Completion Date</b> | <b>Estimated Population Served</b> | <b>Estimated Capital Costs</b> |
|---|--------------------------------|-----------------------------|----------------------------------|------------------------------------|--------------------------------|
| FTTH Construction to replace defective copper plant | 2410 CNBYORXADS1               | 3/1/2018                    | 12/31/2018                       | 1,674                              | \$ 1,110,000                   |
| FTTH Construction (new housing construction)        | 2410 CNBYORXADS1               | 3/1/2018                    | 12/31/2018                       | 837                                | \$ 330,000                     |
| Fiber conversions (500 new addresses)               | 2230 CNBYORXADS1               | 3/1/2018                    | 12/31/2018                       | 1395                               | \$ 820,000                     |

**Broadband Upgrades : 2019**

| <b>Project Description</b>                          | <b>Area Served/Wire center</b> | <b>Estimated Start Date</b> | <b>Estimated Completion Date</b> | <b>Estimated Population Served</b> | <b>Estimated Capital Costs</b> |
|---|--------------------------------|-----------------------------|----------------------------------|------------------------------------|--------------------------------|
| FTTH Construction to replace defective copper plant | 2410 CNBYORXADS1               | 3/1/2019                    | 12/31/2019                       | 1,674                              | \$ 1,110,000                   |
| FTTH Construction (new housing construction)        | 2410 CNBYORXADS1               | 3/1/2019                    | 12/31/2019                       | 837                                | \$ 330,000                     |
| Fiber conversions (500 new addresses)               | 2230 CNBYORXADS1               | 3/1/2019                    | 12/31/2019                       | 1395                               | \$ 820,000                     |

Response Line 100  
Canby Telephone Association  
Study Area 532362

The Company project that the capital expenditures, by Part 32 accounts for 2014 through 2019 will be:

|   | FY 2014      | FY 2015      | FY 2016      | FY 2017      | FY 2018      | FY 2019      |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>2110 Land &amp; General Support</b>  | \$ 106,887   | \$ 143,175   | \$ 143,175   | \$ 143,175   | \$ 143,175   | \$ 143,175   |
| <b>2210 Central Office Switching</b>    | \$ 115,372   | \$ 80,372    | \$ 115,372   | \$ 115,372   | \$ 115,372   | \$ 115,372   |
| <b>2230 Central Office Transmission</b> | \$ 507,663   | \$ 1,517,075 | \$ 871,360   | \$ 820,000   | \$ 820,000   | \$ 820,000   |
| <b>2410 Cable &amp; Wire Facilities</b> | \$ 1,457,315 | \$ 700,000   | \$ 1,440,000 | \$ 1,440,000 | \$ 1,440,000 | \$ 1,440,000 |
| <b>Total Capital Expenditures</b>       | \$ 2,187,237 | \$ 2,440,622 | \$ 2,569,907 | \$ 2,518,547 | \$ 2,518,547 | \$ 2,518,547 |

**General Review**

Answer/Response

Please list CLLI codes for your wire centers as identified in Tariff No. 4

CNBYORXA

How many customers per wire center? (Estimate)

7,700

What is the voice take rate per wire center? (Estimate)

40%

What is the BB take rate per wire center? (Estimate)

55% of total addresses in exchange

What's the goal and/or vision for the company over the next five years regarding its network? For example: Soft switch & FTTH to 40% of customer base or soft switch and VDSL2 and deploy FTTC technology.

Continue FTTH to replace defective copper plant, add FTTH to serve new housing & business development. VDSL2 as a temporary stop gap where it meets customer needs.

If you have an RUS Loan – please provide a copy of the financial projections used for the loan.

N/A

**Voice Network**

What kind of switching technology do you have deployed in your network?

Soft switch

Do you have a plan to decommission your legacy switching equipment?

N/A

How many subscribers are on each of your switching platforms?

7,700

Estimate how much you pay for maintenance agreement for legacy switch

N/A

Estimate how much you pay for maintenance agreement for Soft switch.

\$95,000 per year

Have you collapsed any remote offices? If yes, what did you replace with?

No

Estimate costs for spare cards and replacement cards each year for switching equipment.

\$75,000 (server replacements / additions)

Have you placed media gateways into your remote offices to handle voice?

Yes

Since moving over to soft switch – have you enhanced product offerings to residential and/or business customers? If so, briefly explain.

Yes. Added new features which are not available on legacy platforms.

**Core Network**

Which technology is your core network using? SONET? DWDM? MPLS? ATM?

DWDM, ATM, SONET, MPLS

Have you made upgrades to core network to handle increased Broadband? If yes and plan to deploy FTTH, need to assume capacity and where to add more light.

Yes. We have added 10Gbps aggregation networks to handle increasing bandwidth demand. We anticipate having to upgrade our core router in 2015 to handle the higher network load.

How many rings in your network?

How often do you do scheduled maintenance?

Estimate annual cost of schedule maintenance –

Have you started to retire SONET or ATM?

Do your voice and data networks use same technology?

Have you updated any alarms or batteries?

Do you have a NOC? If yes – any plan upgrade to NOC.

Have you replaced or added more optical cards for DWDM?

Is the network folded or ringed? If folded – any plans to change?

Have you added redundancy into the core network?

**Broadband Network**

Which types of broadband do you currently have deployed in the network? ADS2+, FTTH, Ethernet? Etc.

What speeds of DSL do you currently offer per wire center/census block? 4/1 minimum?

Are you upgrading your DSL network with new technology?

What FTTH plans are in place for now and over next 5 years? Will need to work on each wire center

Have you added new BLCs?

Are your adding to schools and libraries? Any new RFPs or planned builds to support?

ETS to anchor communities? Now and planned builds

Varies depending on the equipment. On average, we perform some sort of maintenance every 2-4 weeks on some piece of equipment in our voice or broadband network.  
10,400 (labor)

No

No

Yes. We replaced 100% of our batteries in 2013-2014.

No

Yes

Some parts of the aggregation network are collapsed. Most are ringed. Our long-term objective is to ring all remotes. We completed a diverse middle mile ring this year.

Already have it

G.Lite, ADSL2+, VDSL2, FTTH / Ethernet

4x1 will is available to 99% of our customers. We offer speeds xDSL speeds of 1/0.256, 3/0.5, 10/1, 30/2. On fiber, we offer those same speeds and 30/10, 60/30, 1000/1000

Yes

We are replacing DSL with Active Ethernet. We have capped deployment of GPON. All new FTTH will be Active Ethernet.

Yes

No

We already offer 1000/1000 to all anchor institutions.

If moving to FTTH – will you use active or passive technology?

We have capped GPON and all new deployments are Active.

Do you have any wifi or wimax deployed in network? If so please discuss

We offer WiFi to the end user. WiFi is a highly congested unlicensed network that is increasingly ill-suited for use as an aggregation or backhaul technology. WiMax spectrum is currently unavailable in our area.

**Plant Facilities**

Have you done new fiber build outs to any new BLCs?

Yes

Describe any cable remediation that you have completed to support DSL – shorten loops. Moved to a FTTC platform, etc.

We have done some FTTC builds to shorten very long, rural copper loops to be able to meet the 4x1 requirement. We have done some FTTH in areas where we also have severe copper maintenance problems.

Are you replacing retired copper with fiber?

Yes

Are you replacing retired copper with new copper?

Only where the cost of fiber does not make reasonable financial sense.

Any new customer initiated fiber builds – planned communities, businesses, etc.

Yes. We have several new housing developments and business construction starting.

Response Line 100  
Canby Telephone Association  
Study Area 532362

**Initial** Five-Year Service Quality Improvement Plan – 47 C.F.R. §54.202(a)

COMPANY submits initial five-year build-out Service Quality Improvement plan pursuant to C.F.R. §54.202(a)(1)(ii) that specifies specificity proposed improvements or upgrades to the COMPANY's network throughout its service area. In addition, COMPANY is providing information that includes an estimate of the population that will be serviced as a result of these improvements. See also the General Overview tab.

The receipt of USF support, combined with other funding sources will allow COMPANY to continue to meet its broadband obligations within its service area and will allow COMPANY to continue to provide reliable, state-of-the-art, high-quality voice and broadband service to its 6,691 rural customers in the Canby exchange.

Per the Universal Service Administrative Company (USAC), during the calendar year 2013, Canby Telcom received a total of \$2,403,756 (as of 6/1/14) in USF support funds. The breakdown of the funding for the year was:

\$ 304,326 Local Switching Support  
\$ 581,436 Connect America Fund-Intercarrier Compensation Support  
\$ 1,517,994 Interstate Common Line Support  
\$ 0 Safety Net Additive

The projects listed within this plan will be used to improve or upgrade the network over the next five years:



### Consumer Protection

Canby Telcom complies with the requirements of 47 CFR Part 64 Subpart U, Customer Proprietary Network Information to prevent identity theft. A manual for this program is in place and is part of the employees' handbook. Employee training is conducted annually and new hires are instructed on the program as required by their job functions.

### Service Quality Standards

Canby Telcom complies with the service standards of the State of Oregon as promulgated in the Oregon Administrative Rules 860-034-0390, Retail Telecommunications Service Standards for Small Telecommunications Utilities.



*faster higher farther*

#### Back-up Power

**Canby Telephone Association** has the following back-up power capabilities:

Switches – stand alone and/or host

Switch 1 Canby CO- CNBYORXADS1 MetaSwitch VP3510: 230 KW Diesel generator, 200 gallons, can operate indefinitely with fuel refills during outage. – 48 volt DC battery backup is rated for > 8 hours continuous operation

#### Remote Central Offices

Remote Office Needy Remote- NEDYORXARS0: 50KW generator fueled with natural gas, can operate indefinitely with refueling. – 48 volt DC battery backup is rated for > 8 hours continuous operation.

#### Subscriber carrier (DLC, AFC, OPM, etc.)

Calix BLC Locations: Barlow, Haines, Dryland, Lilli, Macksburg, Mark, Whiskey Hill, Lone Elder, Carus, Eby, Redwood, Territorial, Sequoia. All have hookups for portable generators, which can be run continuously with refueling. All have -48 volt DC battery backup rated for > 8 hours continuous operation.

#### Network Interface Devices (NIDs)

**Canby Telephone Association** has 4,332 customers with metallic (copper) connections to the Central Office and their NIDs are powered from the Central Office.

**Canby Telephone Association** has 2,359 customers with non-metallic (fiber optic) connections to the Central Office. These customers' ONTs are battery powered in case of emergency. The batteries are rated to last >8 hours under continuous use.

#### Ability to reroute traffic around damaged facilities:

**Canby Telephone Association** has redundant facilities between its exchanges and its connecting company / toll tandem. This redundant facility is in the form of a SONET ring with alternate physical facilities between **Canby Telephone Association** and **CenturyLink**, its interconnection to the Public Switched Telephone Network.

#### Capability to manage traffic spikes resulting from emergency situations

**Canby Telephone Association** has 6,691 customers with current switching capacity of 112,000 simultaneous calls, and transport capacity for 4,704 simultaneous calls. **Canby Telephone Association** takes no responsibility for the capabilities of interconnected networks to manage traffic spikes resulting from emergency situations.





Lifeline subscribers receive the same residential service as a regular subscriber, but at a reduced monthly recurring rate. Thus, lifeline subscribers have an unlimited number of local calling minutes. As for toll, lifeline subscribers, similar to every Canby Telcom subscriber, are free to choose their own toll usage plans through IXC's that serve Canby Telcom.



**CANBY TELEPHONE ASSOCIATION  
AND SUBSIDIARIES**

**Consolidated Financial Statements  
with Supplemental Information**

*Years Ended December 31, 2013 and 2012*





CPAS AND BUSINESS CONSULTANTS

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Canby Telephone Association and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

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

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

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

### OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Canby Telephone Association and Subsidiaries as of December 31, 2013 and 2012, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### REPORT ON CONSOLIDATING INFORMATION

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I-III are presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and 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 financial information has been subject to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**AKT LLP**

Salem, Oregon  
April 3, 2014

680 HAWTHORNE AVENUE SE, #140, SALEM, OR 97301

PHONE: 503.585.7774 FAX: 503.364.8405

PORTLAND, OR | SALEM, OR | CARLSBAD, CA | ESCONDIDO, CA | SAN DIEGO, CA | ANCHORAGE, AK

AKT LLP

**CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES**  
**Consolidated Financial Statements with Supplemental Information**  
Years Ended December 31, 2013 and 2012

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**CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES****Consolidated Balance Sheets**

December 31, 2013 and 2012

| <b>ASSETS</b>                       | <u>2013</u>          | <u>2012</u>          |
|-------------------------------------|----------------------|----------------------|
| Current Assets:                     |                      |                      |
| Cash and cash equivalents           | \$ 4,943,782         | \$ 3,404,757         |
| Marketable securities               | 2,026,129            | 2,645,040            |
| Accounts receivable                 | 1,804,097            | 1,922,190            |
| Inventory                           | 537,512              | 566,004              |
| Prepaid expenses                    | <u>560,270</u>       | <u>534,325</u>       |
| Total Current Assets                | <u>9,871,790</u>     | <u>9,072,316</u>     |
| Other Assets and Investments:       |                      |                      |
| Other assets                        | 79,855               | 119,465              |
| Investments                         | 1,008,864            | 992,081              |
| Deferred income taxes               | 878,000              | 1,025,000            |
| Goodwill                            | <u>3,974,375</u>     | <u>3,974,375</u>     |
| Total Other Assets and Investments  | <u>5,941,094</u>     | <u>6,110,921</u>     |
| Property, Plant, and Equipment:     |                      |                      |
| Property, plant, and equipment      | 56,758,996           | 54,424,430           |
| Less accumulated depreciation       | <u>37,823,035</u>    | <u>34,978,488</u>    |
| Property, Plant, and Equipment, net | <u>18,935,961</u>    | <u>19,445,942</u>    |
|                                     | <u>\$ 34,748,845</u> | <u>\$ 34,629,179</u> |

See accompanying notes to consolidated financial statements.

---

**LIABILITIES AND MEMBERS' EQUITY**

|  | <u>2013</u>          | <u>2012</u>          |
|--|----------------------|----------------------|
| Current Liabilities:                   |                      |                      |
| Current portion of long-term debt      | \$ 304,500           | \$ 304,500           |
| Accounts payable                       | 231,097              | 663,497              |
| Accrued expenses                       | 535,069              | 444,777              |
| Patronage capital payable              | 29,555               | 26,134               |
| Income taxes payable                   | 41,711               | 64,420               |
| Current deferred tax liability         | 42,000               | 51,500               |
| Customer deposits and advance billings | <u>888,291</u>       | <u>849,610</u>       |
| Total Current Liabilities              | <u>2,072,223</u>     | <u>2,404,438</u>     |
| Long-Term Liabilities:                 |                      |                      |
| Long-term debt                         | 189,625              | 494,125              |
| Deferred compensation                  | 78,061               | 117,315              |
| Other long-term liabilities            | <u>1,143,949</u>     | <u>983,643</u>       |
| Total Long-Term Liabilities            | <u>1,411,635</u>     | <u>1,595,083</u>     |
| Members' Equity:                       |                      |                      |
| Memberships                            | 47,401               | 47,173               |
| Patronage capital                      | 14,642,625           | 14,647,281           |
| Accumulated earnings                   | 16,852,626           | 15,958,330           |
| Accumulated other comprehensive loss   | <u>(277,665)</u>     | <u>(23,126)</u>      |
| Total Members' Equity                  | <u>31,264,987</u>    | <u>30,629,658</u>    |
|  | <u>\$ 34,748,845</u> | <u>\$ 34,629,179</u> |

**CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES****Consolidated Statements of Operations**

Years Ended December 31, 2013 and 2012

|                                      | <u>2013</u>       | <u>2012</u>       |
|--------------------------------------|-------------------|-------------------|
| Operating Revenues:                  |                   |                   |
| Local network services               | \$ 5,351,651      | \$ 5,681,600      |
| Network access services              | 7,298,423         | 6,862,256         |
| Miscellaneous operating              | <u>633,409</u>    | <u>708,710</u>    |
| Total Operating Revenues             | <u>13,283,483</u> | <u>13,252,566</u> |
| <br>                                 |                   |                   |
| Operating Expenses:                  |                   |                   |
| Plant specific                       | 3,910,883         | 4,226,256         |
| Plant nonspecific                    | 1,397,728         | 1,249,328         |
| Customer                             | 1,673,766         | 1,732,878         |
| Corporate                            | 2,113,084         | 2,316,057         |
| Selling, general, and administrative | 23,037            | 15,684            |
| Depreciation and amortization        | <u>2,664,435</u>  | <u>2,759,364</u>  |
| Total Operating Expenses             | <u>11,782,933</u> | <u>12,299,567</u> |
| <br>                                 |                   |                   |
| Operating taxes:                     |                   |                   |
| Operating income taxes               | 260,665           | 219,200           |
| Other operating taxes                | <u>418,673</u>    | <u>428,180</u>    |
| Total Operating Taxes                | <u>679,338</u>    | <u>647,380</u>    |
| <br>                                 |                   |                   |
| Total Operating Expenses and Taxes   | <u>12,462,271</u> | <u>12,946,947</u> |
| <br>                                 |                   |                   |
| Operating Margin                     | <u>821,212</u>    | <u>305,619</u>    |
| <br>                                 |                   |                   |
| Other Income (Expense):              |                   |                   |
| Interest and investment income       | 121,696           | 154,628           |
| Interest expense                     | (43,217)          | (86,048)          |
| Miscellaneous income, net            | 104,321           | 290,805           |
| Income tax (expense) benefit         | <u>(29,472)</u>   | <u>19,300</u>     |
| Total Other Income, net              | <u>153,328</u>    | <u>378,685</u>    |
| <br>                                 |                   |                   |
| Net Margin                           | <u>\$ 974,540</u> | <u>\$ 684,304</u> |

See accompanying notes to consolidated financial statements.

**CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**  
Years Ended December 31, 2013 and 2012

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|   | <u>2013</u>       | <u>2012</u>       |
|---|-------------------|-------------------|
| Net Margin  | \$ 974,540        | \$ 684,304        |
| Other Comprehensive Loss:   |                   |                   |
| Unrealized loss on marketable securities  | (70,268)          | (21,904)          |
| Reclassification for realized losses on the sale of marketable securities                           | 7,948             | 513               |
| Change in unrecognized prior service costs and unrealized losses on<br>post-retirement benefit plan | <u>(192,219)</u>  | <u>-</u>          |
| Total Other Comprehensive Loss  | <u>(254,539)</u>  | <u>(21,391)</u>   |
| Total Comprehensive Income  | <u>\$ 720,001</u> | <u>\$ 662,913</u> |



**CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES**

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

Years Ended December 31, 2013 and 2012

|  | Member-<br>ships | Patronage<br>Capital | Accumulated<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total                |
|--|------------------|----------------------|-------------------------|---|----------------------|
| Balance, December 31, 2011   | \$ 46,707        | \$ 14,734,037        | \$ 15,120,068           | \$ (1,735)                                    | \$ 29,899,077        |
| Net margin   | -                | -                    | 684,304                 | -   | 684,304              |
| Paid to estates  | -                | (86,756)             | -                       | -   | (86,756)             |
| Forfeitures of unclaimed equities  | -                | -                    | 153,958                 | -   | 153,958              |
| Unrealized holding loss on marketable securities   | -                | -                    | -                       | (21,391)                                      | (21,391)             |
| Net membership change  | <u>466</u>       | <u>-</u>             | <u>-</u>                | <u>-</u>                                      | <u>466</u>           |
| Balance, December 31, 2012   | \$ 47,173        | \$ 14,647,281        | \$ 15,958,330           | \$ (23,126)                                   | \$ 30,629,658        |
| Net margin   | -                | 79,932               | 894,608                 | -   | 974,540              |
| Paid to estates  | -                | (84,583)             | -                       | -   | (84,583)             |
| Unrealized holding loss on marketable securities   | -                | -                    | -                       | (62,320)                                      | (62,320)             |
| Change in unrecognized transition obligation and unrealized losses on post-retirement benefit plan | -                | -                    | -                       | (192,219)                                     | (192,219)            |
| Net membership change  | 228              | -                    | -                       | -   | 228                  |
| Other adjustments  | <u>-</u>         | <u>(5)</u>           | <u>(312)</u>            | <u>-</u>                                      | <u>(317)</u>         |
| Balance, December 31, 2013   | <u>\$ 47,401</u> | <u>\$ 14,642,625</u> | <u>\$ 16,852,626</u>    | <u>\$ (277,665)</u>                           | <u>\$ 31,264,987</u> |

See accompanying notes to consolidated financial statements.

**CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES****Consolidated Statements of Cash Flows**

Years Ended December 31, 2013 and 2012

|   | <u>2013</u>        | <u>2012</u>        |
|---|--------------------|--------------------|
| Cash Flows from Operating Activities:   |                    |                    |
| Net margin  | \$ 974,540         | \$ 684,304         |
| Adjustments to reconcile net margin to net cash provided by operating activities: |                    |                    |
| Depreciation and amortization   | 2,664,435          | 2,759,364          |
| Nonregulated depreciation   | 470,313            | 434,831            |
| Loss on sale of investments and marketable securities                             | 7,882              | 1,985              |
| Gain on nonregulated asset sales  | -                  | (42,080)           |
| Change in deferred taxes  | 137,500            | 130,200            |
| Noncash patronage   | (4,276)            | (5,314)            |
| Changes in assets and liabilities:  |                    |                    |
| Accounts receivable   | 118,093            | 386,033            |
| Inventory   | 28,492             | 16,478             |
| Prepaid expenses  | (25,945)           | (104,203)          |
| Accounts payable  | (432,400)          | (101,358)          |
| Accrued expenses  | 90,292             | (1,073,983)        |
| Income taxes  | (22,709)           | 55,745             |
| Other long-term liabilities   | (31,913)           | (26,547)           |
| Customer deposits and advance billings  | 38,681             | 196,119            |
| Deferred compensation   | 39,254             | (6,116)            |
|   | <u>4,052,239</u>   | <u>3,305,458</u>   |
| Net Cash Provided by Operating Activities   |                    |                    |
| Cash Flows from Investing Activities:   |                    |                    |
| Capital expenditures  | (2,624,767)        | (3,049,287)        |
| Purchase of investments and marketable securities                                 | (357,150)          | (2,339,697)        |
| Proceeds from investments and marketable securities                               | 893,353            | 642,596            |
| Change in other assets  | (38,898)           | 7,515              |
|   | <u>(2,127,463)</u> | <u>(4,738,873)</u> |
| Net Cash Used by Investing Activities   | \$                 | \$                 |

|  | <u>2013</u>         | <u>2012</u>         |
|--|---------------------|---------------------|
| Cash Flows from Financing Activities:                          |                     |                     |
| Change in line of credit                                       | \$ -                | \$ (500,000)        |
| Principal payments on long-term debt                           | (304,500)           | (304,500)           |
| Proceeds from memberships                                      | 228                 | 466                 |
| Payments to estates  | (84,583)            | (86,756)            |
| Patronage capital paid, net                                    | <u>3,104</u>        | <u>(21,048)</u>     |
| Net Cash Used by Financing Activities                          | <u>(385,751)</u>    | <u>(911,838)</u>    |
| Net Increase (Decrease) in Cash and Cash Equivalents           | 1,539,025           | (2,345,253)         |
| Cash and cash equivalents, beginning                           | <u>3,404,757</u>    | <u>5,750,010</u>    |
| Cash and cash equivalents, ending                              | <u>\$ 4,943,782</u> | <u>\$ 3,404,757</u> |
| Non-cash investing activity:                                   |                     |                     |
| Contributions of fixed assets for additional equity investment | <u>\$ -</u>         | <u>\$ 22,852</u>    |
| Cash Paid During the Year for Interest                         | <u>\$ 43,217</u>    | <u>\$ 86,048</u>    |
| Cash Paid During the Year for Taxes                            | <u>\$ 273,681</u>   | <u>\$ 118,807</u>   |

## **CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

Years Ended December 31, 2013 and 2012

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

##### Organization

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

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

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

##### Basis of Consolidation

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

##### Basis of Accounting

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

##### Regulation

The Association is subject to limited regulation by the Public Utility Commission of Oregon (PUC) and the Federal Communications Commission (FCC). The Association maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the FCC, and adopted by the PUC. As a result, the application of accounting principles generally accepted in the United States of America by the Association differs in certain respects from the application by non-regulated 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 Association's future operations and financial condition. See Note 1, National Broadband Plan and FCC Order.

##### Estimates

The Association uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

##### Comprehensive Income

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

##### Income Tax

The Association has been granted an exemption from Federal income taxes, except for "unrelated" business income, under Section 501(c)(12) of the Internal Revenue Code. The Association is also exempt from state income taxes. However, in any year for which greater than 15% of gross revenue is derived from nonmember services, the Association becomes a taxable cooperative. The Association was exempt from income taxes in 2013 and 2012. Federal and state taxes payable by taxable cooperatives are computed differently from taxes payable by other corporations, primarily because cooperatives are allowed to deduct margins allocated or paid to patrons within 8 ½ months after the end of each taxable year. DLO is a taxable corporation and files a separate tax return.

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

## **CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

Years Ended December 31, 2013 and 2012

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

##### Income Tax, continued

The Association follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Association recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision, when applicable. There were no amounts accrued in the financial statements related to uncertain tax positions.

The Association files informational and income tax returns in the United States and various state and local jurisdictions. With limited exceptions, the Association is no longer subject to examinations before 2010.

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

##### Revenue Recognition

The Association recognizes revenues when earned regardless of the period in which they are billed.

Monthly service fees derived from local telephone, internet and video services are billed in advance. Advance billings are recorded as a liability 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.

##### Cash and Cash Equivalents

The Association considers all highly liquid investment securities purchased with a maturity of 3 months or less to be cash equivalents. The Association maintains its cash in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to the limit of \$250,000 per depositor per bank. At December 31, 2013, the Association had \$3,469,811 in uninsured cash equivalents (\$517,998 in 2012).

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

##### Marketable Securities

The Association has classified all marketable securities as available for sale. These investments are stated at fair value in the consolidated financial statements with accumulated unrealized gains and losses reported as a separate component of members' equity.

##### Accounts Receivable

The Association generally does not require collateral or other security to support accounts receivable. Credit risk associated with receivables is periodically reviewed by management and, if required, an allowance for doubtful accounts is established. Receivables from subscribers are due 30 days after the issuance of the invoice. Receivables from other exchange carriers are typically outstanding from 30-60 days before payment is received. Delinquent accounts are written off to uncollectible expense when it is determined that the account will not be collected. Receivables past due more than 90 days are considered delinquent. No allowance for doubtful accounts was recorded at December 31, 2013 and 2012.

##### Fair Value of Financial Instruments

The Association's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, marketable securities, receivables, accounts payable, mortgage and notes payable. The Association estimates that the fair value of all of these non-derivative financial instruments, other than marketable securities (see Note 2) at December 31, 2013 and 2012 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheets.

## **CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

Years Ended December 31, 2013 and 2012

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

##### Inventory

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

##### Goodwill

The Association records goodwill as the difference between the value of the Association's investment in MATC and MATC's related equity and was generated from the acquisition of MATC by the Association. Goodwill is evaluated for impairment and adjusted accordingly on an annual basis. No impairment was needed during 2013 or 2012.

##### Investments

Investments in which the Association holds a 20%-50% interest are accounted for on the equity method. Investments accounted for on the equity method are recorded at cost and adjusted for the Association's share of income or loss. Investments in which the Association holds less than a 20% interest are recorded at cost and income is recorded when dividends are received.

##### Property, Plant, and Equipment

Telecommunications plant in service and under construction is stated at cost, including estimated overhead expense. Depreciation is calculated on a straight-line basis over the estimated life of the classes of buildings and equipment in accordance with rates consistent with industry standards. Depreciation rates range from 2% to 33.3%. Costs of plant retired are eliminated from telecommunications plant accounts and such costs plus removal expenses, less salvage, are charges to accumulated depreciation in accordance with industry practice.

Video and satellite equipment in service and under construction and DLO property and equipment are stated at cost. Depreciation is calculated on a straight-line basis over the estimated life of the classes of equipment. Depreciation rates range from 2% to 33.3%. Maintenance, repairs, and replacements are charged to expense as incurred. When property or equipment is sold or otherwise disposed of, the asset account and the related accumulated depreciation accounts are relieved, and any gain or loss is included in operations.

##### 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 Association, charge the long-distance carrier for access and interconnection to local facilities. The Association has elected to file access tariffs through the National Exchange Carriers Association (NECA) and the Oregon Exchange Carriers Association (OECA). These access tariffs are subject to approval by the FCC for interstate charges and the PUC for intrastate 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 Association. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investments maintained.

The Association and MATC participate in various pooling arrangements with the NECA and OECA. The OECA Optional pool closed in July 2013 and as a result the Association and MATC are no longer members of any of the OECA pools.

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 up to 24 months (NECA pool only), are recorded in the year in which such adjustments become determinable, based upon studies prepared by outside consultants.

## **CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

Years Ended December 31, 2013 and 2012

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

##### Network Access Revenues, continued

The Association and MATC receive funding from the state universal service funds. These support revenues are included in the network access revenues in the accompanying consolidated financial statements.

In 2013, the Association and MATC received \$5,660,609 (\$5,392,929 in 2012) in interstate access revenues administered through the NECA Pools. In 2013, the Association and MATC received \$987,638 from the Oregon Universal Service Fund (\$607,763 in 2012).

##### 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 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 Association 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 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.

As of December 31, 2013 the Association is transitioning its local rates and is not subject to the \$250 per line support cap. Furthermore, for the period ended December 31, 2013 the impacts to the Association 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 for 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.

## CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

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

##### Subsequent Events

The Association has evaluated subsequent events through April 3, 2014, which is the date the consolidated financial statements were available to be issued.

#### Note 2 - Marketable Securities

As mentioned in Note 1, at December 31, 2013 and 2012, all marketable securities have been categorized as available for sale and are stated at fair value in the consolidated financial statements, with unrealized gains and losses included in accumulated other comprehensive loss as a separate component of members' equity.

The Association has adopted a hierarchical disclosure framework, which among other matters requires enhanced disclosure about investments that are measured and reported at fair value. This framework prioritizes and ranks the level of market price observability used in measuring investments at fair value. The Association's marketable securities are measured and reported at fair value on a recurring basis based on quoted prices available in active markets for identical investments as of the reporting date (Classification Level 1). There have been no changes to the methodologies used at December 31, 2013 and 2012.

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

|  | <u>2013</u>      | <u>2012</u>      |
|--|------------------|------------------|
| Fair Value:  |                  |                  |
| Municipal and Corporate Bonds, Government Securities | \$ 292,481       | \$ 886,428       |
| Mutual Funds   | <u>1,733,648</u> | <u>1,758,612</u> |
|  | 2,026,129        | 2,645,040        |
| Cost   | <u>2,111,575</u> | <u>2,668,166</u> |
| Gross unrealized holding losses                      | \$ <u>85,446</u> | \$ <u>23,126</u> |

Gross unrealized holding losses of \$85,446 and \$23,126 are included in accumulated other comprehensive loss at December 31, 2013 and 2012, respectively. Realized gains and losses are determined on the basis of specific identification. Proceeds from the sale of marketable securities for the year ended December 31, 2013 were \$893,353 (\$583,498 in 2012) resulting in a gross realized loss of \$7,948 for the year ended December 31, 2013 (\$513 loss for the year ended December 31, 2012).

The following is a summary of scheduled maturities of marketable debt securities as of December 31, 2013:

|                                   | Amortized<br><u>Cost</u> | <u>Fair Value</u> |
|-----------------------------------|--------------------------|-------------------|
| Amounts maturing in:              |                          |                   |
| One year or less                  | \$ 245,000               | \$ 245,752        |
| After one year through five years | 46,000                   | 46,729            |

#### Note 3 - Inventory

Inventory consists of the following:

|   | <u>2013</u>       | <u>2012</u>       |
|---|-------------------|-------------------|
| Telecommunications materials and supplies | \$ 512,014        | \$ 509,020        |
| Video and wireless materials and supplies | <u>25,498</u>     | <u>56,984</u>     |
|   | \$ <u>537,512</u> | \$ <u>566,004</u> |



## CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

#### Note 4 - Investments

Investments consist of the following:

|  | <u>2013</u>         | <u>2012</u>       |
|--|---------------------|-------------------|
| RTFC subordinated certificates and allocated capital credits | \$ 324,675          | \$ 324,675        |
| CHR Solutions Inc.   | 302,677             | 302,677           |
| ANPI Holding, Inc.   | 248,309             | 248,309           |
| Consolidated Business Services, LLC                          | 44,747              | 43,215            |
| CoBank, equity investment and patronage allocations          | 56,569              | 41,218            |
| Other investments  | <u>31,987</u>       | <u>31,987</u>     |
|  | <u>\$ 1,008,864</u> | <u>\$ 992,081</u> |

Shares of RTFC subordinated certificates are purchased as a condition of obtaining long-term financing from the RTFC. Holders of subordinated certificates are entitled to patronage dividends.

CoBank is a cooperative bank. Borrowers are required to invest a minimum of \$1,000 or 2% of their loan, whichever is less. Patronage dividends are paid annually in cash and in stock at the discretion of the board of directors of CoBank.

Effective September 1, 2012 the Association, along with two other telecommunications companies, formed Consolidated Business Services, LLC to consolidate various administrative functions. Services currently being provided to the companies include accounting, regulatory reporting, management services, and human resources. All three companies have a one-third ownership interest and any net income or loss will be distributed evenly to each company. The Association accounts for the investment using the equity method of accounting whereby the investment is recorded at cost and adjusted for the Association's share of income or loss. In 2013, the Association contributed \$12,441 in cash and recorded a net gain of \$813 from this investment (the Association contributed \$21,176 in cash and \$22,852 in furniture and equipment and recorded a net loss of \$813 from this investment in 2012).

#### Note 5 - Other Assets

Other assets consist of the following at December 31:

|                                     | <u>2013</u>      | <u>2012</u>       |
|-------------------------------------|------------------|-------------------|
| Deferred compensation               | \$ 78,061        | \$ 117,315        |
| Nonregulated leased phone equipment | <u>1,794</u>     | <u>2,150</u>      |
|                                     | <u>\$ 79,855</u> | <u>\$ 119,465</u> |

Deferred compensation assets represent amounts to be used for payment of deferred credits.

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

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

|                                    | <u>2013</u>          | <u>2012</u>          |
|------------------------------------|----------------------|----------------------|
| <u>Canby Telephone Association</u> |                      |                      |
| Cable and wire facilities          | \$ 24,529,928        | \$ 23,529,483        |
| Central office                     | 12,895,797           | 11,935,758           |
| Land, buildings, and support       | 8,098,518            | 7,945,571            |
| Amortizable assets                 | 55,890               | 55,890               |
| Video and satellite equipment      | <u>4,490,961</u>     | <u>4,589,400</u>     |
|                                    | <u>\$ 50,071,094</u> | <u>\$ 48,056,102</u> |

**CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Years Ended December 31, 2013 and 2012

**Note 6 - Property, Plant, and Equipment, continued**

DirectLink of Oregon, Inc.

|                  |                |                |
|------------------|----------------|----------------|
| Buildings        | \$ 201,778     | \$ 201,778     |
| Land and support | 169,332        | 169,332        |
| Cable and wire   | <u>298,601</u> | <u>298,601</u> |
|                  | <u>669,711</u> | <u>669,711</u> |

Mt. Angel Telephone Company

|                           |                  |                  |
|---------------------------|------------------|------------------|
| Land and support          | 1,058,647        | 1,065,233        |
| Central office            | 2,630,713        | 2,534,862        |
| Cable and wire facilities | 2,314,402        | 2,098,522        |
| Under construction        | <u>14,429</u>    | <u>-</u>         |
|                           | <u>6,018,191</u> | <u>5,698,617</u> |

|                                      |                      |                      |
|--------------------------------------|----------------------|----------------------|
| Total Property, Plant, and Equipment | \$ <u>56,758,996</u> | \$ <u>54,424,430</u> |
|--------------------------------------|----------------------|----------------------|

**Note 7 - Long-Term Debt**

Long-Term Debt consists of the following:

|   | <u>2013</u>       | <u>2012</u>       |
|---|-------------------|-------------------|
| Mortgage note payable to CoBank, at 5.72% at December 31, 2013 and 2012, payable in quarterly principal only installments of \$76,125, interest payable monthly, collateralized by substantially all real and personal property, due in 2015. | \$ 494,125        | \$ 798,625        |
| Less current portion  | <u>304,500</u>    | <u>304,500</u>    |
|   | \$ <u>189,625</u> | \$ <u>494,125</u> |

Future maturities of long-term debt are as follows:

|      |                   |
|------|-------------------|
| 2014 | \$ 304,500        |
| 2015 | <u>189,625</u>    |
|      | \$ <u>494,125</u> |

The long-term debt agreement contains restrictions on the payment of dividends and redemption of capital stock by MATC. The terms of the long-term debt agreement require the maintenance of defined amounts of stockholders' equity and certain financial ratios. Management believes MATC is in compliance with these covenants at December 31, 2013 and 2012.

**Note 8 - Members' Equity**

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

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

## CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

#### Note 9 - Employee Benefit Plans

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

The Association participates in a contributory, multi-employer, defined-contribution saving plan administered by NTCA, which covers all full-time eligible employees. Employees are not required to make contributions to participate in the plan. Prior to March 1, 2012 employer contributions were 4% with a 2% match for those employees that contributed 2%. Effective March 1, 2012 the plan was amended to allow for employer contributions of 8% plus a dollar for dollar match of up to 4%. Effective May 1, 2013 the plan was further amended to allow employer contribution of 4% plus a dollar for dollar match of up to 4%. Additionally, it includes a 4% supplemental employer contribution for employees hired prior to May 1, 2013. The employer also reimburses the participant for any plan fees. Employer contributions to the plan were \$448,710 in 2013 (\$403,819 in 2012).

Effective January 1, 2013, all employees of MATC were transferred to the Association. As a result, all employee and employer contributions into MATC's 401(k) profit sharing plan (the Plan) ceased as of that date. The total contributions to the profit sharing portion of the Plan were \$25,178 in 2012.

#### Note 10 - Income Taxes

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

|   | <u>2013</u>        | <u>2012</u>         |
|---|--------------------|---------------------|
| Current:  |                    |                     |
| Accrual to cash adjustment                              | \$ (42,000)        | \$ (52,000)         |
| Marketable securities adjustment                        | <u>-</u>           | <u>500</u>          |
| Current deferred income tax liability                   | \$ <u>(42,000)</u> | \$ <u>(51,500)</u>  |
| Noncurrent:   |                    |                     |
| Property, plant, equipment and goodwill                 | \$ 838,000         | \$ 963,000          |
| Post-retirement health benefits accrual                 | <u>40,000</u>      | <u>62,000</u>       |
| Noncurrent deferred income tax asset                    | \$ <u>878,000</u>  | \$ <u>1,025,000</u> |
| Income tax expense (benefit) consists of the following: |                    |                     |
|   | <u>2013</u>        | <u>2012</u>         |
| Operating:  |                    |                     |
| Deferred provision                                      | \$ 137,500         | \$ 130,200          |
| Current payable   | 125,028            | 95,400              |
| Over accrual  | <u>(1,863)</u>     | <u>(6,400)</u>      |
| Operating income tax                                    | \$ <u>260,665</u>  | \$ <u>219,200</u>   |
| Nonoperating:   |                    |                     |
| Current payable   | \$ 29,472          | \$ 18,600           |
| Over accrual  | <u>-</u>           | <u>(37,900)</u>     |
| Nonoperating income tax (benefit)                       | \$ <u>29,472</u>   | \$ <u>(19,300)</u>  |

## CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

#### Note 10 - Income Taxes, continued

The provision for income taxes differs from the amount computed by applying the current statutory federal and state income tax rates to earnings before income taxes due to the effects of state taxes (net of federal benefit), nondeductible items, net operating loss deductions, prior year over or under accruals, the use of accelerated depreciation for income tax purposes and the patronage deduction allowed for margins allocated to patrons.

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

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

At December 31, 2011, the Association amended the Plan to freeze plan benefits and cover only current retirees and those who had accepted an early retirement offer in 2012. The decision to freeze the Plan constituted a curtailment of benefits and resulted in one-time gain from the reduction of the projected benefit obligation of \$457,536 as it was anticipated there would be no additional participants in the plan and no future service period or costs. As a result of additional employees who accepted early retirement being included in the plan a new plan valuation was obtained as of December 31, 2013. This resulted in an increase in the accumulated benefit obligation and the resulting amounts being recognized in accumulated other comprehensive income as noted in the table below.

The following table presents the estimated status of the plan at December 31 based on the valuation as of December 31, 2013:

| <u>Obligations and Funded Status:</u>  | <u>2013</u>  | <u>2012</u> |
|--|--------------|-------------|
| Accumulated postretirement benefit obligation:   |              |             |
| Active plan participants   | \$ 1,040,250 | \$ 819,110  |
| Accumulated postretirement benefit obligation  | 1,040,250    | 819,110     |
| Fair value of plan assets  | -            | -           |
| Net unfunded status of the plan  | \$ 1,040,250 | \$ 819,110  |
| <u>Amounts Recognized in Accumulated Other Comprehensive Income:</u>                           |              |             |
| Unrecognized prior service cost  | \$ 210,966   | \$ -        |
| Net actuarial loss   | (403,185)    | -           |
| Unrecognized prior service cost and unrealized losses  | \$ (192,219) | \$ -        |
| Accrued Postretirement Benefit Expense   | \$ 848,031   | \$ 819,110  |
| <u>Postretirement Expenses Includes the Following Components:</u>                              |              |             |
| Interest on accumulated postretirement benefit obligation                                      | \$ 45,399    | \$ 45,000   |
| <u>Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive Income:</u> |              |             |
| Net actuarial loss   | \$ (403,185) | \$ -        |
| Amortization of prior service cost   | 210,966      | -           |
|  | \$ (192,219) | \$ -        |
| Total recognized in net periodic benefit cost and other comprehensive income                   | \$ (146,820) | \$ -        |
| Benefit Payments   | \$ 67,216    | \$ 53,373   |

## CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

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

##### Assumptions

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2013 (7% in 2012). The rate was assumed to decrease gradually to 5% at 2017 and remain at that level thereafter. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 4.5% in 2013 (5.5% in 2012).

##### Cash Flows

The Cooperative does not expect to contribute to its post-retirement benefit plan in 2014.

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

##### Post-retirement Benefits

|                   |    |        |
|-------------------|----|--------|
| 2014              | \$ | 63,479 |
| 2015              |    | 67,288 |
| 2016              |    | 70,989 |
| 2017              |    | 74,538 |
| 2018              |    | 78,265 |
| Years 2019 - 2022 |    | 82,178 |

MATC sponsors a non-qualified defined benefit, post-retirement benefit plan which provides certain health care benefits for retired employees and their respective spouses until the date of the retired employee's death. Benefits are based on years of service and the average employee's compensation of the five highest years of employment.

The annual measurement date is December 31 for the post-retirement benefit plan. The following tables provide information about changes in the benefit obligation and plan assets and the funded status of MATC's post-retirement benefit plan:

##### Obligations and Funded Status

|  | <u>2013</u>           | <u>2012</u>           |
|--|-----------------------|-----------------------|
| Benefit obligation at December 31        | \$ 117,000            | \$ 179,000            |
| Fair value of plan assets at December 31 | <u>-</u>              | <u>-</u>              |
| Net unfunded status of the plan          | \$ ( <u>117,000</u> ) | \$ ( <u>179,000</u> ) |
| Benefit payments                         | \$ ( <u>12,620</u> )  | \$ ( <u>12,620</u> )  |
| Noncurrent plan liabilities              | \$ ( 117,000)         | \$ ( 179,000)         |
| Other post-employment obligations        | 682                   | 682                   |
| Less current portion                     | <u>12,620</u>         | <u>17,115</u>         |
|  | \$ ( <u>103,698</u> ) | \$ ( <u>161,203</u> ) |

##### Assumptions

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

|   | <u>2013</u> | <u>2012</u> |
|---|-------------|-------------|
| Weighted-average assumptions used to determine benefit obligations at December 31:                    | 5.75%       | 5.75%       |
| Weighted average assumptions used to determine net periodic benefit cost for years ended December 31: | 5.75%       | 5.75%       |

## CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

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

##### Cash Flows

MATC does not expect to contribute to its post-retirement benefit plan in 2014.

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

##### Post-retirement Benefits

|                   |    |        |
|-------------------|----|--------|
| 2014              | \$ | 12,620 |
| 2015              |    | 12,620 |
| 2016              |    | 12,620 |
| 2017              |    | 12,620 |
| 2018              |    | 12,620 |
| Years 2019 - 2022 |    | 63,105 |

#### Note 12 - Related Party

The Association entered into an agreement with Consolidated Business Services, LLC (CBS, LLC) in 2012 (Note 4) whereby CBS, LLC will provide accounting, regulatory reporting, management services and human resource services for the Association. During 2012, the employees of CBS, LLC remained on the payroll of the Association resulting in billings to CBS, LLC for labor and benefit expenses. Effective January 1, 2013, all CBS, LLC employees were moved to CBS, LLC payroll from their respective companies. CBS provided accounting, regulatory, and management services to the Association and MATC in the amount of \$775,577 in 2013. At December 31, 2013, there was a receivable of \$8,165 due from CBS, LLC and \$25,539 payable to CBS, LLC for such labor and expenses (\$22,501 was receivable from and \$63,666 payable to CBS, LLC at December 31, 2012).

On September 1, 2012, MATC entered into a rental agreement for the use of their office building with CBS, LLC. MATC received rental payments of \$21,000 (\$7,000 during 2012).

## **SUPPLEMENTAL INFORMATION**

**CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES**

**Consolidating Balance Sheets**

December 31, 2013

|  | Mt. Angel<br>Telephone<br>Company | DirectLink<br>of<br>Oregon, Inc. | Canby<br>Telephone<br>Association | Eliminations          | Consolidated         |
|--|-----------------------------------|----------------------------------|-----------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                  |                                   |                                  |                                   |                       |                      |
| Current Assets:                                |                                   |                                  |                                   |                       |                      |
| Cash and cash equivalents                      | \$ 887,795                        | \$ 650,935                       | \$ 3,405,052                      | \$ -                  | \$ 4,943,782         |
| Marketable securities                          | 50,317                            | 1,733,648                        | 242,164                           | -                     | 2,026,129            |
| Accounts receivable                            | 140,586                           | 6,427                            | 1,727,301                         | (70,217)              | 1,804,097            |
| Inventory                                      | 36,493                            | -                                | 501,019                           | -                     | 537,512              |
| Prepaid expenses                               | 35,085                            | 3,061                            | 522,124                           | -                     | 560,270              |
| <b>Total Current Assets</b>                    | <u>1,150,276</u>                  | <u>2,394,071</u>                 | <u>6,397,660</u>                  | <u>(70,217)</u>       | <u>9,871,790</u>     |
| Other Assets and Investments:                  |                                   |                                  |                                   |                       |                      |
| Note receivable                                | -                                 | 800,000                          | -                                 | (800,000)             | -                    |
| Other assets                                   | 1,794                             | -                                | 78,061                            | -                     | 79,855               |
| Investments                                    | 42,323                            | -                                | 966,541                           | -                     | 1,008,864            |
| Investments, affiliate                         | -                                 | -                                | 9,250,757                         | (9,250,757)           | -                    |
| Deferred income taxes                          | 878,000                           | -                                | -                                 | -                     | 878,000              |
| Goodwill                                       | -                                 | -                                | -                                 | 3,974,375             | 3,974,375            |
| <b>Total Other Assets<br/>and Investments</b>  | <u>922,117</u>                    | <u>800,000</u>                   | <u>10,295,359</u>                 | <u>(6,076,382)</u>    | <u>5,941,094</u>     |
| Property, Plant, and Equipment:                |                                   |                                  |                                   |                       |                      |
| Property, plant, and equipment                 | 6,018,191                         | 669,711                          | 50,071,094                        | -                     | 56,758,996           |
| Less accumulated depreciation                  | 4,697,472                         | 385,497                          | 32,740,066                        | -                     | 37,823,035           |
| <b>Property, Plant, and<br/>Equipment, net</b> | <u>1,320,719</u>                  | <u>284,214</u>                   | <u>17,331,028</u>                 | <u>-</u>              | <u>18,935,961</u>    |
|  | <u>\$ 3,393,112</u>               | <u>\$ 3,478,285</u>              | <u>\$ 34,024,047</u>              | <u>\$ (6,146,599)</u> | <u>\$ 34,748,845</u> |



| <b>LIABILITIES AND MEMBERS' and<br/>STOCKHOLDER'S EQUITY</b> | Mt. Angel<br>Telephone<br>Company | DirectLink<br>of<br>Oregon, Inc. | Canby<br>Telephone<br>Association | Eliminations          | Consolidated         |
|--|-----------------------------------|----------------------------------|-----------------------------------|-----------------------|----------------------|
| Current Liabilities:   |                                   |                                  |                                   |                       |                      |
| Current portion of long-term debt                            | \$ 304,500                        | \$ -                             | \$ -                              | \$ -                  | \$ 304,500           |
| Accounts payable   | 79,048                            | 6,488                            | 215,778                           | (70,217)              | 231,097              |
| Accrued expenses   | 27,945                            | -                                | 507,124                           | -                     | 535,069              |
| Patronage capital payable                                    | -                                 | -                                | 29,555                            | -                     | 29,555               |
| Income taxes payable   | 38,710                            | 3,001                            | -                                 | -                     | 41,711               |
| Current deferred tax liability                               | 42,000                            | -                                | -                                 | -                     | 42,000               |
| Customer deposits and<br>advance billings                    | -                                 | -                                | 888,291                           | -                     | 888,291              |
| <b>Total Current Liabilities</b>                             | <b>492,203</b>                    | <b>9,489</b>                     | <b>1,640,748</b>                  | <b>(70,217)</b>       | <b>2,072,223</b>     |
| Long-Term Liabilities:                                       |                                   |                                  |                                   |                       |                      |
| Long-term debt   | 989,625                           | -                                | -                                 | (800,000)             | 189,625              |
| Deferred compensation  | -                                 | -                                | 78,061                            | -                     | 78,061               |
| Other long-term liabilities                                  | 103,698                           | -                                | 1,040,251                         | -                     | 1,143,949            |
| <b>Total Long-Term Liabilities</b>                           | <b>1,093,323</b>                  | <b>-</b>                         | <b>1,118,312</b>                  | <b>(800,000)</b>      | <b>1,411,635</b>     |
| Members' and Stockholder's Equity:                           |                                   |                                  |                                   |                       |                      |
| Memberships  | -                                 | -                                | 47,401                            | -                     | 47,401               |
| Common stock   | 36,275                            | 9,887,729                        | -                                 | (9,924,004)           | -                    |
| Patronage capital  | -                                 | -                                | 14,642,625                        | -                     | 14,642,625           |
| Accumulated earnings (deficit)                               | 1,770,994                         | (6,341,537)                      | 16,852,626                        | 4,570,543             | 16,852,626           |
| Accumulated other comprehensive<br>income (loss)             | 317                               | (77,396)                         | (277,665)                         | 77,079                | (277,665)            |
| <b>Total Members' and<br/>Stockholder's Equity</b>           | <b>1,807,586</b>                  | <b>3,468,796</b>                 | <b>31,264,987</b>                 | <b>(5,276,382)</b>    | <b>31,264,987</b>    |
|  | <b>\$ 3,393,112</b>               | <b>\$ 3,478,285</b>              | <b>\$ 34,024,047</b>              | <b>\$ (6,146,599)</b> | <b>\$ 34,748,845</b> |

## CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

### Consolidating Statements of Operations

Year Ended December 31, 2013

Schedule II

|                                       | Mt. Angel<br>Telephone<br>Company | DirectLink<br>of<br>Oregon, Inc. | Canby<br>Telephone<br>Association | Eliminations        | Consolidated      |
|---------------------------------------|-----------------------------------|----------------------------------|-----------------------------------|---------------------|-------------------|
| Operating Revenues:                   |                                   |                                  |                                   |                     |                   |
| Local network services                | \$ 588,919                        | \$ -                             | \$ 4,887,593                      | \$ (124,861)        | \$ 5,351,651      |
| Network access services               | 1,291,132                         | -                                | 6,007,291                         | -                   | 7,298,423         |
| Miscellaneous operating               | 185,516                           | 64,202                           | 399,190                           | (15,499)            | 633,409           |
| Total Operating Revenues              | <u>2,065,567</u>                  | <u>64,202</u>                    | <u>11,294,074</u>                 | <u>(140,360)</u>    | <u>13,283,483</u> |
| Operating Expenses:                   |                                   |                                  |                                   |                     |                   |
| Plant specific                        | 416,289                           | -                                | 3,634,954                         | (140,360)           | 3,910,883         |
| Plant nonspecific                     | 140,520                           | -                                | 1,257,208                         | -                   | 1,397,728         |
| Customer                              | 334,981                           | -                                | 1,338,785                         | -                   | 1,673,766         |
| Corporate                             | 181,344                           | -                                | 1,931,740                         | -                   | 2,113,084         |
| Selling, general, and administrative  | -                                 | 23,037                           | -                                 | -                   | 23,037            |
| Depreciation and amortization         | 208,638                           | 13,302                           | 2,442,495                         | -                   | 2,664,435         |
| Total Operating Expenses              | <u>1,281,772</u>                  | <u>36,339</u>                    | <u>10,605,182</u>                 | <u>(140,360)</u>    | <u>11,782,933</u> |
| Operating taxes:                      |                                   |                                  |                                   |                     |                   |
| Operating income taxes                | 248,900                           | 11,765                           | -                                 | -                   | 260,665           |
| Other operating taxes                 | 41,174                            | 5,967                            | 371,532                           | -                   | 418,673           |
| Total Operating Taxes                 | <u>290,074</u>                    | <u>17,732</u>                    | <u>371,532</u>                    | <u>-</u>            | <u>679,338</u>    |
| Total Operating Expenses<br>and Taxes | <u>1,571,846</u>                  | <u>54,071</u>                    | <u>10,976,714</u>                 | <u>(140,360)</u>    | <u>12,462,271</u> |
| Operating Margin                      | <u>493,721</u>                    | <u>10,131</u>                    | <u>317,360</u>                    | <u>-</u>            | <u>821,212</u>    |
| Other Income (Expense):               |                                   |                                  |                                   |                     |                   |
| Interest and investment income        | 14,464                            | 75,306                           | 61,926                            | (30,000)            | 121,696           |
| Interest expense                      | (72,970)                          | -                                | (247)                             | 30,000              | (43,217)          |
| Miscellaneous income, net             | (40,928)                          | 822                              | 144,427                           | 0                   | 104,321           |
| Income tax expense                    | -                                 | (29,472)                         | -                                 | -                   | (29,472)          |
| Income from subsidiaries              | -                                 | -                                | 451,074                           | (451,074)           | -                 |
| Total Other Income (Expense), net     | <u>(99,434)</u>                   | <u>46,656</u>                    | <u>657,180</u>                    | <u>(451,074)</u>    | <u>153,328</u>    |
| Net Margin                            | <u>\$ 394,287</u>                 | <u>\$ 56,787</u>                 | <u>\$ 974,540</u>                 | <u>\$ (451,074)</u> | <u>\$ 974,540</u> |

## CANBY TELEPHONE ASSOCIATION and SUBSIDIARIES

### Consolidating Statements of Cash Flows

Year Ended December 31, 2013

|   | Mt. Angel<br>Telephone<br>Company | DirectLink<br>of<br>Oregon, Inc. | Canby<br>Telephone<br>Association | Eliminations | Consolidated          |
|---|-----------------------------------|----------------------------------|-----------------------------------|--------------|-----------------------|
| <b>Cash Flows from Operating Activities:</b>  |                                   |                                  |                                   |              |                       |
| Net margin  | \$ 394,287                        | \$ 56,787                        | \$ 974,540                        | \$ (451,074) | \$ 974,540            |
| Adjustments to reconcile net<br>margin to net cash provided<br>by operating activities: |                                   |                                  |                                   |              |                       |
| Depreciation and amortization   | 208,638                           | 13,302                           | 2,442,495                         | -            | 2,664,435             |
| Nonregulated depreciation   | -                                 | -                                | 470,313                           | -            | 470,313               |
| Net income from Subsidiaries  | -                                 | -                                | (451,074)                         | 451,074      | -                     |
| (Gain) Loss on sale of investments and<br>marketable securities                         | (2,461)                           | (6,920)                          | 17,263                            | -            | 7,882                 |
| Change in deferred taxes  | 137,500                           | -                                | -                                 | -            | 137,500               |
| Noncash patronage   | -                                 | -                                | (4,276)                           | -            | (4,276)               |
| Changes in assets and liabilities:  |                                   |                                  |                                   |              |                       |
| Accounts receivable   | 4,695                             | (2,610)                          | 80,780                            | 35,228       | 118,093               |
| Inventory   | 20,662                            | -                                | 7,830                             | -            | 28,492                |
| Prepaid expenses  | (15,359)                          | (155)                            | (10,431)                          | -            | (25,945)              |
| Accounts payable  | 14,321                            | 5,682                            | (417,175)                         | (35,228)     | (432,400)             |
| Accrued expenses  | (21,492)                          | -                                | 111,784                           | -            | 90,292                |
| Income taxes  | 11,190                            | (47,357)                         | 13,458                            | -            | (22,709)              |
| Other long-term liabilities   | (57,505)                          | -                                | 25,592                            | -            | (31,913)              |
| Customer deposits and<br>advance billings   | -                                 | -                                | 38,681                            | -            | 38,681                |
| Deferred compensation   | -                                 | -                                | 39,254                            | -            | 39,254                |
| <b>Net Cash Provided<br/>by Operating Activities</b>                                    | <b>694,476</b>                    | <b>18,729</b>                    | <b>3,339,034</b>                  | <b>-</b>     | <b>4,052,239</b>      |
| <b>Cash Flows from Investing Activities:</b>  |                                   |                                  |                                   |              |                       |
| Capital expenditures  | (333,130)                         | -                                | (2,291,637)                       | -            | (2,624,767)           |
| Purchase of investments and<br>marketable securities                                    | (17,142)                          | (278,169)                        | (61,839)                          | -            | (357,150)             |
| Proceeds from investments<br>and marketable securities                                  | 65,200                            | 243,396                          | 584,757                           | -            | 893,353               |
| Change in other assets  | 356                               | -                                | (39,254)                          | -            | (38,898)              |
| <b>Net Cash Used<br/>by Investing Activities</b>  | <b>\$ (284,716)</b>               | <b>\$ (34,774)</b>               | <b>\$ (1,807,973)</b>             | <b>\$ -</b>  | <b>\$ (2,127,463)</b> |

|   | <u>Mt. Angel<br/>Telephone<br/>Company</u> | <u>DirectLink<br/>of<br/>Oregon, Inc.</u> | <u>Canby<br/>Telephone<br/>Association</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|--|---|--|---------------------|---------------------|
| Cash Flows from Financing Activities:                   |  |   |  |                     |                     |
| Principal payments on long-term debt                    | \$ (304,500)                               | \$ -                                      | \$ -                                       | \$ -                | (304,500)           |
| Proceeds from memberships                               | -  | -   | 228  | -                   | 228                 |
| Payments to estates                                     | -  | -   | (84,583)                                   | -                   | (84,583)            |
| Patronage capital paid, net                             | -  | -   | 3,104                                      | -                   | 3,104               |
| Net Cash Used<br>by Financing Activities                | <u>(304,500)</u>                           | <u>-</u>                                  | <u>(81,251)</u>                            | <u>-</u>            | <u>(385,751)</u>    |
| Net Increase (Decrease)<br>in Cash and Cash Equivalents | 105,260                                    | (16,045)                                  | 1,449,810                                  | -                   | 1,539,025           |
| Cash and Cash Equivalents, beginning                    | <u>782,535</u>                             | <u>666,980</u>                            | <u>1,955,242</u>                           | <u>-</u>            | <u>3,404,757</u>    |
| Cash and Cash Equivalents, ending                       | <u>\$ 887,795</u>                          | <u>\$ 650,935</u>                         | <u>\$ 3,405,052</u>                        | <u>\$ -</u>         | <u>\$ 4,943,782</u> |
| Cash Paid During the Year for Interest                  | <u>\$ 72,970</u>                           | <u>\$ -</u>                               | <u>\$ 247</u>                              | <u>\$ (30,000)</u>  | <u>\$ 43,217</u>    |
| Cash Paid During the Year for Taxes                     | <u>\$ 100,210</u>                          | <u>\$ 75,136</u>                          | <u>\$ 98,335</u>                           | <u>\$ -</u>         | <u>\$ 273,681</u>   |

AFFIDAVIT CERTIFYING USE OF UNIVERSAL SERVICE FUNDS

I, Paul E. Hauer, being of lawful age and duly sworn, on my oath, state that I am the President of Canby Telephone Association and that I am authorized to execute this Affidavit on behalf of the Company, and the facts set forth in this Affidavit are true to the best of my knowledge, information and belief.

Pursuant to the requirements of the Federal Communications Commission, 47 C.F.R. § 54.314, Canby Telephone Association hereby certifies to the Public Utility Commission of Oregon that it is eligible to receive federal high-cost support for the program years cited.

I attest that all federal high-cost support provided to Canby Telephone Association in Oregon was used in the preceding calendar year (2013) and will be used in the coming calendar year (2015) only for the provision, maintenance and upgrading of facilities and services for which the support is intended.

DATED this 12 day of June, 2014.

By:  (Paul E. Hauer)

Its: President (President)

SUBSCRIBED AND SWORN to before me this 12<sup>th</sup> day of June, 2014.

Irene Janine Brooks

Notary public in and for the State of Oregon

My Commission Expires: August 19, 2016

