

Consolidated Financial Statements  
and Supplementary Information

2013

**Logan Telephone Cooperative, Inc.  
and Subsidiary**

December 31, 2013 and 2012



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and Supplementary Information

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## **Independent Auditors' Report**

Board of Directors  
Logan Telephone Cooperative, Inc.  
Auburn, Kentucky

We have audited the accompanying consolidated financial statements of Logan Telephone Cooperative, Inc. and Subsidiary (the "Cooperative"), which are comprised of the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in members' equity and cash flows for the years then ended, and the related notes to consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

The Cooperative's 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the partnerships and limited liability companies, which, as discussed in Note E to the consolidated financial statements, are accounted for using the equity method of accounting. The investment in these partnerships and limited liability companies represented 48% and 53% of total assets as of December 31, 2013 and 2012, and the equity in their net income was 74% and 86% of net margin for the years then ended. The financial statements of these partnerships and limited liability companies were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these partnerships and limited liability companies, is based solely on the reports of the other auditors. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the Cooperative'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 Cooperative'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 reasonable basis for our opinion.

### **Opinion**

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Logan Telephone Cooperative, Inc. and Subsidiary as of December 31, 2013 and 2012 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 21 through 25 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. The schedules of property, plant and equipment in-service and related accumulated depreciation on pages 26 and 27 are presented for purposes of additional analysis and are not required parts 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 information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Stettin and Company PSC*

Louisville, Kentucky  
March 24, 2014

Consolidated Balance Sheets

**Logan Telephone Cooperative, Inc. and Subsidiary**

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 10,509,244	\$ 10,374,067
Accounts receivable, net	719,985	899,484
Short-term investments	2,267,873	34,861
Inventories	247,212	237,288
Prepaid expenses and other current assets	177,606	128,456
Refundable income taxes	342,400	
	<hr/>	<hr/>
<b>Total Current Assets</b>	14,264,320	11,674,156
<b>Other Assets</b>		
Equity in unconsolidated entities	31,701,654	33,024,987
Long-term investments	2,253,345	755,716
Other assets	35,706	33,693
	<hr/>	<hr/>
<b>Total Other Assets</b>	33,990,705	33,814,396
<b>Property, Plant and Equipment,</b> less accumulated depreciation	<hr/>	<hr/>
	17,904,862	16,521,047
	<hr/>	<hr/>
	<b>\$ 66,159,887</b>	<b>\$ 62,009,599</b>
	<hr/>	<hr/>
<b>Liabilities and Members' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 530,548	\$ 243,393
Customer deposits	40,250	39,379
Accrued expenses	350,739	151,861
Accrued income taxes		793,088
	<hr/>	<hr/>
<b>Total Current Liabilities</b>	921,537	1,227,721
<b>Deferred Income Taxes</b>	3,941,200	3,984,600
<b>Liability for Postretirement Benefits</b>	189,296	45,633
<b>Members' Equity</b>		
Memberships subscribed and issued	5,079	5,199
Patronage capital		
Patronage capital credits	16,807,493	15,192,024
Unallocated margins	45,096,130	42,007,956
Accumulated other comprehensive loss	(800,848)	(453,534)
	<hr/>	<hr/>
<b>Total Members' Equity</b>	61,107,854	56,751,645
	<hr/>	<hr/>
	<b>\$ 66,159,887</b>	<b>\$ 62,009,599</b>
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See Notes to Consolidated Financial Statements

Consolidated Statements of Income and Comprehensive Income

Logan Telephone Cooperative, Inc. and Subsidiary

	<b>Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating Revenues</b>		
Local network services	\$ 1,638,036	\$ 1,692,324
Network access services	5,714,926	6,104,611
Miscellaneous	2,146,236	2,126,692
<b>Total Operating Revenues</b>	9,499,198	9,923,627
<b>Operating Expenses</b>		
Plant specific operations	2,641,234	2,396,982
Plant nonspecific operations	3,243,747	3,397,753
Customer operations	648,903	633,992
Corporate operations	1,333,599	1,358,118
Operating taxes	447,293	385,167
<b>Total Operating Expenses</b>	8,314,776	8,172,012
	<b>Operating Margin Available for Fixed Charges</b>	1,184,422
		1,751,615
<b>Fixed Charges</b>	11,915	21,462
	<b>Operating Margin</b>	1,172,507
		1,730,153
<b>Nonoperating Income (Expenses)</b>		
Equity in earnings of unconsolidated entities	6,063,289	9,119,421
Interest income	59,922	62,075
Nonoperating expenses	(13,882)	(13,461)
<b>Total Nonoperating Income</b>	6,109,329	9,168,035
	<b>Margin Before Income Taxes</b>	7,281,836
		10,898,188
<b>Income Taxes</b>	1,904,614	3,859,270
	<b>Net Margin</b>	5,377,222
		7,038,918
<b>Other Comprehensive Income (Loss)</b>		
Postretirement benefit plan		
Prior service cost arising during period	42,879	42,879
Net loss arising during period	(390,193)	(131,112)
<b>Total Other Comprehensive Income (Loss)</b>	(347,314)	(88,233)
	<b>Comprehensive Income</b>	\$ 5,029,908
		\$ 6,950,685

See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Members' Equity

**Logan Telephone Cooperative, Inc. and Subsidiary**

Years Ended December 31, 2013 and 2012

	<u>Memberships Subscribed and Issued</u>	<u>Patronage Capital Credits</u>	<u>Unallocated Margins</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Members' Equity</u>
<b>Balance January 1, 2012</b>	\$ 5,328	\$ 15,521,989	\$ 35,520,646	\$ (365,301)	\$ 50,682,662
Net margin for the year			7,038,918		7,038,918
Membership subscribed and issued	405				405
Refunds of memberships and capital credit distributions	(534)	(853,035)			(853,569)
Previously issued capital credits to be reallocated to members		(28,538)			(28,538)
Capital credit allocation of patronage margin for 2011		551,608	(551,608)		
Other comprehensive loss Postretirement benefit plan				(88,233)	(88,233)
<b>Balance December 31, 2012</b>	5,199	15,192,024	42,007,956	(453,534)	56,751,645
Net margin for the year			5,377,222		5,377,222
Membership subscribed and issued	404				404
Refunds of memberships and capital credit distributions	(524)	(640,912)			(641,436)
Previously issued capital credits to be reallocated to members		(32,667)			(32,667)
Capital credit allocation of patronage margin for 2012		2,289,048	(2,289,048)		
Other comprehensive loss Postretirement benefit plan				(347,314)	(347,314)
<b>Balance December 31, 2013</b>	<u>\$ 5,079</u>	<u>\$ 16,807,493</u>	<u>\$ 45,096,130</u>	<u>\$ (800,848)</u>	<u>\$ 61,107,854</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

**Logan Telephone Cooperative, Inc. and Subsidiary**

	<b>Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Net margin	\$ 5,377,222	\$ 7,038,918
Adjustments		
Depreciation	2,778,493	2,920,521
Amortization of bond premium/discount	36,189	3,202
Equity in earnings of unconsolidated entities	(6,063,289)	(9,119,421)
Increase in allowance for doubtful accounts		86,653
Deferred income taxes	(43,400)	(6,000)
Liability for postretirement benefits	(203,651)	(43,629)
Changes in operating assets and liabilities		
Accounts receivable	179,498	(364,888)
Inventories	(9,924)	50,847
Prepaid expenses and other current assets	(49,150)	(31,630)
Accounts payable	287,155	(105,589)
Customer deposits	871	(1,005)
Accrued expenses	198,878	(173,087)
Income taxes	(1,135,488)	753,348
<b>Net Cash Provided By Operating Activities</b>	<b>1,353,404</b>	<b>1,008,240</b>
<b>Investing Activities</b>		
Additions to property, plant and equipment	(4,132,357)	(1,315,991)
Telephone plant removal expenses	(29,950)	(63,902)
Sales of property, plant and equipment		7,751
Purchase of investments	(3,766,830)	(793,777)
Distributions from unconsolidated entities	7,386,622	4,862,593
Decrease (increase) in other assets	(2,013)	7,279
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>(544,528)</b>	<b>2,703,953</b>
<b>Financing Activities</b>		
Payments on long-term debt		(2,228,299)
Payments of members' patronage capital credits	(673,579)	(881,573)
Payments of members' subscriptions	(524)	(534)
Proceeds from members' subscriptions	404	405
<b>Net Cash Used In Financing Activities</b>	<b>(673,699)</b>	<b>(3,110,001)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>135,177</b>	<b>602,192</b>

Continued



Consolidated Statements of Cash Flows--Continued

**Logan Telephone Cooperative, Inc. and Subsidiary**

	<b>Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash and Cash Equivalents</b>		
<b>Beginning of Year</b>	<u>10,374,067</u>	<u>9,771,875</u>
<b>Cash and Cash Equivalents</b>		
<b>End of Year</b>	<u>\$ 10,509,244</u>	<u>\$ 10,374,067</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during year for		
Interest	<u>\$ 942</u>	<u>\$ 34,024</u>
Income taxes	<u>\$ 3,083,502</u>	<u>\$ 3,095,064</u>

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013 and 2012

**Note A--Description of Business**

Logan Telephone Cooperative, Inc. ("Logan") is a rural telephone cooperative owned by approximately 5,000 member-patrons in parts of Logan and adjacent counties in southwestern Kentucky. Member-patrons consist of residential and business customers for whom the Cooperative provides local telephone service and access to long distance telephone service through various providers. Logan has invested in Bluegrass Network, LLC, a limited liability company which provides network services.

The Cellular Division of Logan Telephone Cooperative, Inc. (the "Cellular Division"), a wholly-owned subsidiary of Logan, owns non-controlling interests in two partnerships and a limited liability company which provide cellular telephone service and long distance service to members as well as nonmembers of Logan. These partnerships and limited liability companies identified below are operated by an independent management company.

- Kentucky RSA 3 Cellular General Partnership
- Cumberland Cellular Partnership
- Bluegrass Telecom, LLC

**Note B--Summary of Significant Accounting Policies**

Logan and Cellular Division follow generally accepted accounting principles as outlined in the Financial Accounting Standards Board's Accounting Standards Codification ("ASC"). Significant accounting policies are as follows:

Principles of Consolidation--The accompanying consolidated financial statements include the accounts of Logan and Cellular Division, the consolidated group herein referred to as the "Cooperative". All significant intercompany balances and transactions have been eliminated.

Accounting Policies--The consolidated financial statements of the Cooperative have been prepared in conformity with generally accepted accounting principles applicable to rate-regulated public utilities. Such accounting principles are consistent in all material respects with accounting principles prescribed by the Federal Communications Commission.

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

Cash and Cash Equivalents--The Cooperative considers investments purchased with a maturity of six months or less to be cash equivalents.

Continued

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013 and 2012

**Note B--Summary of Significant Accounting Policies--Continued**

Accounts Receivable--The Cooperative bills customers for local service in advance and access service in arrears. Customers are obligated to pay the Cooperative within 10 days. The Cooperative also receives revenue for services provided to other carriers which is billed monthly for services provided during that month. Collections on these accounts receivable are considered past due if not paid in accordance with the terms and conditions of their respective invoices or contracts. The Cooperative has experienced very few collection problems. The only major account receivable that is outstanding arises from a continuing dispute with AT&T. A portion of the account receivable may be deemed unrecoverable, which has caused management to increase the allowance for doubtful accounts. The allowance for doubtful accounts was \$208,318 for the years ended December 31, 2013 and 2012, respectively.

Inventories--Inventories consist of materials and supplies held for use by the Cooperative and items for resale to customers, and are stated at the lower of cost (determined on the first-in, first-out method) or market.

Investments--Investments in debt securities are intended to be held to maturity, thus the Cooperative records the investments at amortized cost in the consolidated balance sheets. Premiums paid on bond purchases are being amortized over the maturities of the bonds using the straight-line method.

Property, Plant and Equipment--Property, plant and equipment is recorded at cost. Accumulated depreciation is the excess of the annual depreciation expense and salvage value of assets retired over the original cost of such assets and their related removal costs. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets.

Impairment of Long-Lived Assets--Management of the Cooperative reviews for the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the estimated future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. There were no charges for impairment of long-lived assets during either 2013 or 2012.

Income Taxes--Deferred income taxes are recognized for temporary differences between income for financial reporting purposes and income for tax purposes. The difference between the financial statement and tax bases of assets and liabilities is determined annually. Deferred income tax assets and liabilities are computed for those differences that have future tax consequences using the currently enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. Valuation allowances are established, if necessary, to reduce the deferred tax assets to the amounts that will more likely than not be realized. Income tax expense is the current tax payable or refundable for the period, plus or minus the net change in the deferred tax assets and liabilities.

Accounting for Uncertain Tax Position--The Cooperative recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Continued

Notes to Consolidated Financial Statements--Continued

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013 and 2012

**Note B--Summary of Significant Accounting Policies--Continued**

It is the Cooperative's policy to expense any interest and penalties associated with uncertain income tax positions in the year that the tax position is taken on the tax return. Interest is reported as interest expense and penalties are reported as other expenses.

The Cooperative's open audit periods are 2010 through 2012. In evaluating the Cooperative's tax provisions and accruals, future taxable income, the reversal of temporary differences, interpretations and tax planning strategies are considered. The Cooperative believes their estimates are appropriate based on current facts and circumstances.

For the years ended December 31, 2013 and 2012, the Cooperative determined it did not have any uncertain tax positions and the Cooperative did not incur or accrue any associated interest or penalties related to those positions.

Fair Value of Financial Instruments--The carrying amounts for current assets and liabilities approximate their fair values due to their short maturity. The carrying amounts of long-term liabilities approximate their fair values based upon current interest rates available for similar types of instruments.

Allocation of Capital Credits--The Cooperative allocates only its annual patronage margin to members, leaving its nonpatronage margin unallocated.

Subsequent Events--In preparing these consolidated financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through March 24, 2014, the date the consolidated financial statements were available to be issued.

**Note C--Concentration of Credit Risk**

Cash--The Cooperative maintains cash accounts in two local area banks and twelve certificates of deposit and a cash account at Wells Fargo Advisors. At December 31, 2013, all cash accounts and certificates of deposit were insured by the FDIC up to \$250,000 per financial institution. The cash accounts at one financial institution exceeded the FDIC insurance by approximately \$1,627,500 and \$599,000, as of December 31, 2013 and 2012, respectively.

Cash Equivalents--The Cooperative invests excess funds in repurchase agreements which are collateralized primarily by bonds of the Federal Home Loan Bank, Federal Farm Credit Bank, Federal National Mortgage Association and Federal Home Loan Mortgage Company. Such investments in repurchase agreements amounted to \$9,100,000 as of December 31, 2013 and 2012. Collateral pledged by the financial institutions on these investments in repurchase agreements amounted to \$9,670,000 and \$9,590,000 as of December 31, 2013 and 2012, respectively.

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013 and 2012

**Note D--Investments**

The Cooperative has purchased approximately \$2,500,000 of corporate and government bonds which are held through Wells Fargo Advisors. It is the Cooperative's intention to hold these investments until maturity and the Cooperative is recording these investments at amortized cost in accordance with generally accepted accounting principles. Bonds maturing in 2014 are classified as current assets and the remaining bonds are classified as non-current assets in the accompanying consolidated balance sheets.

The Cooperative has also purchased approximately \$2,000,000 of certificates of deposits bearing interest at rates ranging from .10% to 4.850%, and maturing on various dates through December 2014.

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: *Level 1* inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and *Level 3* inputs have the lowest priority. The Cooperative uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Cooperative measures fair value using *Level 1* inputs because they generally provide the most reliable evidence of fair value. *Level 3* inputs were only used when *Level 1* or *Level 2* inputs were not available.

The Cooperative's investments consist of the following:

	<b>December 31, 2013</b>	
	<b>Amortized Cost</b>	<b>Fair Market Value (Level 1)</b>
Current investments:		
Corporate Bonds	\$ 239,814	\$ 240,380
Certificates of Deposit	2,028,059	2,026,700
	<b>Total Current Investments</b>	<b>2,267,080</b>
Long-term investments:		
Corporate Bonds	1,301,944	1,271,905
Government Bonds	951,401	914,653
	<b>Total Long-Term Investments</b>	<b>2,186,558</b>
	<b>Total Investments</b>	<b>\$ 4,453,638</b>

Continued

Notes to Consolidated Financial Statements--Continued

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013 and 2012

**Note D--Investments--Continued**

	<u>December 31, 2012</u>	
	<u>Amortized Cost</u>	<u>Fair Market Value (Level 1)</u>
Current investments:		
Corporate Bonds	\$ 34,861	\$ 34,749
Long-term investments:		
Corporate Bonds	600,933	631,305
Government Bonds	<u>154,783</u>	<u>122,692</u>
<b>Total Long-Term Investments</b>	<u>755,716</u>	<u>753,997</u>
<b>Total Investments</b>	<u>\$ 790,577</u>	<u>\$ 788,746</u>

The following is a schedule of the held to maturity securities by maturity date:

During the Year Ending December 31

2014	\$ 2,267,873
2015	182,635
2016	397,631
2017	217,528
2018 and thereafter	<u>1,455,551</u>
	<u>\$ 4,521,218</u>

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013 and 2012

**Note E--Equity in Unconsolidated Entities**

The Cooperative has invested in two partnerships which are operating cellular telephone systems and two limited liability companies ("LLC") which provide network services and long distance services to customers and members in central Kentucky. These investments are recorded on the equity method of accounting.

A summary of these investments is as follows:

	<b>Kentucky RSA 3 Cellular General Partnership (1)</b>	<b>Cumberland Cellular Partnership (1)</b>	<b>Bluegrass Telecom LLC (1)</b>	<b>Bluegrass Network LLC (2)</b>
<b>Percentage Ownership</b>	<u>25%</u>	<u>12.5%</u>	<u>20%</u>	<u>20%</u>
<b>Balance</b>				
<b>January 1, 2012</b>	\$ 18,025,666	\$ 7,205,394	\$ 341,982	\$ 3,195,117
Distributions received	(2,399,750)	(2,191,000)	(71,842)	(200,000)
Equity in earnings	<u>5,804,037</u>	<u>2,589,176</u>	<u>71,842</u>	<u>654,365</u>
<b>Balance</b>				
<b>December 31, 2012</b>	21,429,953	7,603,570	341,982	3,649,482
Distributions received	(2,000,000)	(5,125,000)	(61,622)	(200,000)
Equity in earnings	<u>3,583,867</u>	<u>1,786,365</u>	<u>61,622</u>	<u>631,435</u>
<b>Balance</b>				
<b>December 31, 2013</b>	<u>\$ 23,013,820</u>	<u>\$ 4,264,935</u>	<u>\$ 341,982</u>	<u>\$ 4,080,917</u>

(1) Owned by Cellular Division.

(2) Owned by Logan.

Continued

Notes to Consolidated Financial Statements--Continued

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013 and 2012

**Note E--Equity in Unconsolidated Entities--Continued**

The following is a summary of the combined audited financial information of these partnerships and LLCs:

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
Current Assets	\$ 56,475,014	\$ 61,982,434
Property, Plant and Equipment, Net	71,222,249	71,742,509
Investment in Bluegrass Cellular, Inc.	6,782,831	6,782,831
Investment in Bluegrass Wireless LLC	<u>39,683,619</u>	<u>38,338,259</u>
<b>Total Assets</b>	<b><u>\$ 174,163,713</u></b>	<b><u>\$ 178,846,033</u></b>
Current Liabilities	\$ 15,424,751	\$ 14,390,653
Partners'/Members' Equity	<u>158,738,962</u>	<u>164,455,380</u>
<b>Total Liabilities and Partners'/Members' Equity</b>	<b><u>\$ 174,163,713</u></b>	<b><u>\$ 178,846,033</u></b>
	<b>Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Revenues	\$ 142,109,319	\$ 137,780,204
Operating Expenses	110,952,116	96,452,026
Interest Income	15,072	28,446
Equity in loss of Bluegrass Wireless LLC	(6,428,639)	(3,820,334)
Other Income, Net	<u>7,438,270</u>	<u>10,254,898</u>
<b>Net Income</b>	<b>32,181,906</b>	<b>47,791,188</b>
Other Comprehensive Income		<u>7,164</u>
<b>Total Comprehensive Income</b>	<b><u>\$ 32,181,906</u></b>	<b><u>\$ 47,798,352</u></b>

Continued



Notes to Consolidated Financial Statements--Continued

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013 and 2012

**Note E--Equity in Unconsolidated Entities--Continued**

The investment in cellular partnerships exceeded their underlying assets by \$351,901 which represents unamortized goodwill arising from the purchase of additional investments in these cellular partnerships. This asset must be periodically tested for impairment. During 2013 and 2012, there was no impairment of this asset.

**Note F--Property, Plant and Equipment**

Property, plant and equipment consist of the following:

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
In Service		
General support assets	\$ 5,664,609	\$ 5,742,235
Central office equipment	8,239,224	7,897,877
Cable and wire facilities	33,381,102	32,614,101
Internet equipment	315,760	399,462
	<u>47,600,695</u>	<u>46,653,675</u>
Less accumulated depreciation	<u>32,657,915</u>	<u>30,260,082</u>
	14,942,780	16,393,593
Construction in progress	<u>2,962,082</u>	<u>127,454</u>
	<u>\$ 17,904,862</u>	<u>\$ 16,521,047</u>

**Note G--Multi-Employer Defined Contribution Savings Plan**

The Cooperative contributes 1% of gross wages to a multi-employer defined contribution savings plan covering substantially all employees. Participating employees can contribute up to the maximum percentage of compensation and dollar amount permissible under the Internal Revenue Code. Contributions for this Plan during 2013 and 2012 were \$16,206 and \$15,234, respectively.

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013 and 2012

**Note H--Postretirement Benefits**

Multi-Employer Defined Benefit Pension Plan

The Cooperative participates in a multiemployer defined benefit pension plan provides for retirement benefit payments to all full-time employees. The risks of participating in a multiemployer plan are different from single-employer plans in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the employer chooses to stop participating in this multiemployer plan, the Cooperative may be required to pay this plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Cooperative's participation in this plan for the annual period ended December 31, 2013, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employee Identification Number ("EIN") and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act ("PPA") zone status available in 2013 and 2012 is for the plan's year-end at December 31, 2012 and 2011, respectively. The zone status is based on information that the Cooperative received from the plan and is certified by the plan's actuary. Among others factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. There have been no significant changes that affect the comparability of 2012 to 2013 contributions.

<u>Pension Fund</u>	<u>EIN/Pension Plan Number</u>	<u>Pension Protection Act Zone Status</u>		<u>Contributions of Cooperative</u>		<u>Surcharge Imposed</u>
		<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	
Retirement & Security Program for Employees of the National Telecommunications Cooperative Association and Its Member Systems	52-0741336 / 333	Green	Green	\$ 182,058	\$ 176,484	Yes

At the date these consolidated financial statements were issued, Form 5500 was not available for the plan year ending in 2013.

Continued

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013 and 2012

**Note H--Postretirement Benefits--Continued**Sponsored Postretirement Medical, Dental and Vision Plan

The Cooperative also sponsors a funded postretirement benefit plan (the "Plan") that covers employees and directors. This Plan provides medical, dental and vision care to retirees and their spouses for a period of time equal to the retiree's years of service. Directors shall be defined as Board Retirees after having served on the Board of Directors at least three (3) years if leaving the Board before December 31, 2006, and after having served twenty (20) years if leaving the Board after December 31, 2006. The Cooperative funds 100% of the costs for these postretirement benefits for all retirees and their spouses who were employees on November 20, 1995. For directors and employees hired after November 20, 1995 and through December 31, 2006, the Cooperative funds 60% of these costs. Retirees will be responsible for 100% of these costs if hired after December 31, 2006.

The following table sets forth the benefit obligation, fair value of Plan assets, and unfunded status of the Plan:

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
Accumulated Postretirement Benefit Obligation	\$ 4,920,851	\$ 4,143,398
Plan assets at fair value	<u>(4,731,555)</u>	<u>(4,097,765)</u>
Unfunded status	<u>\$ 189,296</u>	<u>\$ 45,633</u>

Postretirement benefit cost includes the following components:

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
Service cost	\$ 84,564	\$ 71,375
Interest costs on accumulated postretirement benefit obligation	220,381	206,928
Amortization of transition obligation over 20 years	60,944	42,860
Expected return on assets	<u>(327,170)</u>	<u>(287,668)</u>
<b>Postretirement Benefit Expense</b>	<u>\$ 38,719</u>	<u>\$ 33,495</u>

The Cooperative paid premiums into the Plan on behalf of the retirees during 2013 and 2012 of \$151,126 and \$152,429, respectively.

Continued

Notes to Consolidated Financial Statements--Continued

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013 and 2012

**Note H--Postretirement Benefits--Continued**

The fair value of total Plan assets held as of December 31, 2013 and 2012, by asset category, are as follows:

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
Cash	\$ 137,753	\$ 150,530
Bonds	1,170,070	1,048,802
International Equities	1,335,159	1,263,820
Domestic Equities	1,194,373	897,282
Private Equities	405,387	313,297
Real Estate funds	488,813	424,034
	<u>\$ 4,731,555</u>	<u>\$ 4,097,765</u>

Generally accepted accounting principles establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: *Level 1* inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and *Level 3* inputs have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were only used when Level 1 or Level 2 inputs were not available. All of the Plan's investments were valued using Level 1 inputs at December 31, 2013 and 2012.

The Plan's investment goals are to invest approximately 23% in domestic equities, 32% in international equities, 15% in fixed income, 10% in high yield fixed income, 10% in private equities and 10% in real estate. The Plan attempts to mitigate investment risk by rebalancing between these investment categories as the Cooperative's contributions are made and as benefits are paid. Although changes in market conditions and interest rates may affect the fair value of the investment portfolio and cause unrealized gains or losses, such gains or losses would not be realized unless the investments are sold.

For measurement purposes, a 8.0% annual rate of inflation in healthcare benefit costs was assumed for 2013; the rate was assumed to decrease gradually to 5.0% and remain at that level thereafter. The healthcare benefit cost trend rate has a significant effect on the amounts reported. Increasing the assumed healthcare benefit cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2013 by approximately \$940,000 and would increase the aggregate of the service and interest cost components of postretirement benefit expense for the year then ended by approximately \$131,000.

Continued

Notes to Consolidated Financial Statements--Continued

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013 and 2012

**Note H--Postretirement Benefits--Continued**

In determining the accumulated postretirement benefit obligation, the weighted average discount rate used was 4.5%, salary increases were projected at 3% per year, and the expected rate of return on Plan assets was 7.26%.

To determine the expected long-term rate of return on assets, the Cooperative considers the current and expected asset allocations, as well as historical and expected returns on various categories of Plan assets over a 30 year period.

The following table provides the amounts recognized in the consolidated balance sheets:

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
Noncurrent liabilities	<u>\$ 189,296</u>	<u>\$ 45,633</u>

The following table provides the amounts recognized in accumulated other comprehensive income (loss):

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
Net loss	\$ (390,193)	\$ (131,112)
Prior service cost	<u>42,879</u>	<u>42,879</u>
<b>Accumulated Other Comprehensive Loss</b>	<u><b>\$ (347,314)</b></u>	<u><b>\$ (88,233)</b></u>

Notes to Consolidated Financial Statements--Continued

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013 and 2012

**Note I--Income Tax Expense**

The income tax expense consists of the following:

	<b>Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Currently payable:		
Federal	\$ 1,632,714	\$ 3,361,570
State	315,300	503,700
	<hr/>	<hr/>
	1,948,014	3,865,270
Deferred	(43,400)	(6,000)
	<hr/>	<hr/>
	<u>\$ 1,904,614</u>	<u>\$ 3,859,270</u>

The current provision for income tax expense is less than statutory rates due primarily to favorable tax treatment applicable to capital credit allocation of patronage margins.

A deferred tax liability has been recognized for the taxable temporary differences related to the Cooperative's equity in the earnings of unconsolidated entities for income tax reporting purposes.

## Supplementary Information

Consolidating Balance Sheet

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013

	<b>Logan Telephone Cooperative, Inc.</b>	<b>Cellular Division of Logan Telephone Cooperative, Inc.</b>	<b>Eliminations</b>	<b>Consolidated Totals</b>
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 10,030,761	\$ 478,483		\$ 10,509,244
Accounts receivable, net	707,392	12,593		719,985
Short-term investments	2,267,873			2,267,873
Inventories	247,212			247,212
Prepaid expenses and other current assets	177,606			177,606
Refundable (accrued) income taxes	(164,600)	507,000		342,400
<b>Total Current Assets</b>	<b>13,266,244</b>	<b>998,076</b>		<b>14,264,320</b>
<b>Other Assets</b>				
Equity in unconsolidated entities	4,080,917	27,620,737		31,701,654
Long-term investments	2,253,345			2,253,345
Other assets	35,706			35,706
Investment in and advances to subsidiary	24,990,813		\$ 24,990,813	
<b>Total Other Assets</b>	<b>31,360,781</b>	<b>27,620,737</b>	<b>24,990,813</b>	<b>33,990,705</b>
<b>Property, Plant and Equipment, less accumulated depreciation</b>	<b>17,904,862</b>			<b>17,904,862</b>
	<b>\$ 62,531,887</b>	<b>\$ 28,618,813</b>	<b>\$ 24,990,813</b>	<b>\$ 66,159,887</b>

Continued



Consolidating Balance Sheet--Continued

**Logan Telephone Cooperative, Inc. and Subsidiary**

December 31, 2013

	<b>Logan Telephone Cooperative, Inc.</b>	<b>Cellular Division of Logan Telephone Cooperative, Inc.</b>	<b>Eliminations</b>	<b>Consolidated Totals</b>
<b>Liabilities and Members' Equity</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 530,548			\$ 530,548
Customer deposits	40,250			40,250
Accrued expenses	<u>350,739</u>			<u>350,739</u>
<b>Total Current Liabilities</b>	921,537			921,537
<b>Deferred Income Taxes</b>	313,200	\$ 3,628,000		3,941,200
<b>Liability for Post Retirement Benefits</b>	189,296			189,296
<b>Members' Equity</b>				
Memberships subscribed and issued	5,079			5,079
Patronage capital				
Patronage capital credits	16,807,493			16,807,493
Unallocated margin	45,096,130			45,096,130
Common Stock		1,100,000	\$ 1,100,000	
Retained earnings		23,890,813	23,890,813	
Accumulated other comprehensive loss	<u>(800,848)</u>			<u>(800,848)</u>
<b>Total Members' Equity</b>	<u>61,107,854</u>	<u>24,990,813</u>	<u>24,990,813</u>	<u>61,107,854</u>
	<u>\$ 62,531,887</u>	<u>\$ 28,618,813</u>	<u>\$ 24,990,813</u>	<u>\$ 66,159,887</u>

See Independent Auditors' Report

Consolidating Statement of Income and Comprehensive Income

**Logan Telephone Cooperative, Inc. and Subsidiary**

Year Ended December 31, 2013

	<b>Logan Telephone Cooperative, Inc.</b>	<b>Cellular Division of Logan Telephone Cooperative, Inc.</b>	<b>Eliminations</b>	<b>Consolidated Totals</b>
<b>Operating Revenues</b>				
Local network services	\$ 1,638,036			\$ 1,638,036
Network access services	5,714,926			5,714,926
Miscellaneous	2,146,236			2,146,236
<b>Total Operating Revenues</b>	<b>9,499,198</b>			<b>9,499,198</b>
<b>Operating Expenses</b>				
Plant specific operations	2,641,234			2,641,234
Plant nonspecific operations	3,243,747			3,243,747
Customer operations	648,903			648,903
Corporate operations	1,333,599			1,333,599
Operating taxes	447,293			447,293
<b>Total Operating Expenses</b>	<b>8,314,776</b>			<b>8,314,776</b>
<b>Operating Margin Available for Fixed Charges</b>	<b>1,184,422</b>			<b>1,184,422</b>
<b>Fixed Charges</b>	<b>942</b>	<b>\$ 10,973</b>		<b>11,915</b>
<b>Operating Margin</b>	<b>1,183,480</b>	<b>(10,973)</b>		<b>1,172,507</b>
<b>Nonoperating Income (Expenses)</b>				
Equity in earnings of wholly-owned subsidiary	3,699,665		\$ 3,699,665	
Equity in earnings of unconsolidated entities	631,435	5,431,854		6,063,289
Interest income	58,754	1,168		59,922
Nonoperating expenses		(13,882)		(13,882)
<b>Total Nonoperating Income</b>	<b>4,389,854</b>	<b>5,419,140</b>	<b>3,699,665</b>	<b>6,109,329</b>
<b>Margin Before Income Taxes</b>	<b>5,573,334</b>	<b>5,408,167</b>	<b>(3,699,665)</b>	<b>7,281,836</b>
<b>Income Taxes</b>	<b>196,112</b>	<b>1,708,502</b>		<b>1,904,614</b>
<b>Net Margin</b>	<b>5,377,222</b>	<b>3,699,665</b>	<b>(3,699,665)</b>	<b>5,377,222</b>
<b>Other Comprehensive Income (Loss)</b>				
Postretirement benefit plan				
Prior service cost arising during period	42,879			42,879
Net loss arising during period	(390,193)			(390,193)
<b>Total Other Comprehensive Income (Loss)</b>	<b>(347,314)</b>			<b>(347,314)</b>
<b>Comprehensive Income</b>	<b>\$ 5,029,908</b>	<b>\$ 3,699,665</b>	<b>\$ (3,699,665)</b>	<b>\$ 5,029,908</b>

See Independent Auditors' Report

Consolidating Statement of Cash Flows

**Logan Telephone Cooperative, Inc. and Subsidiary**

Year Ended December 31, 2013

	<b>Logan Telephone Cooperative, Inc.</b>	<b>Cellular Division of Logan Telephone Cooperative, Inc.</b>	<b>Eliminations</b>	<b>Consolidated Totals</b>
<b>Operating Activities</b>				
Net margin	\$ 5,377,222	\$ 3,699,665	\$ (3,699,665)	\$ 5,377,222
Adjustments				
Depreciation	2,778,493			2,778,493
Amortization of bond premium/discount	36,189			36,189
Equity in earnings of wholly-owned subsidiary	(3,699,665)		3,699,665	
Equity in earnings of unconsolidated entities	(631,435)	(5,431,854)		(6,063,289)
Increase in allowance for doubtful accounts				
Deferred income taxes	(33,400)	(10,000)		(43,400)
Liability for post retirement benefits	(203,651)			(203,651)
Changes in operating assets and liabilities				
Accounts receivable	175,089	4,409		179,498
Inventories	(9,924)			(9,924)
Prepaid expenses and other current assets	(49,150)			(49,150)
Accounts payable	287,155			287,155
Customer deposits	871			871
Accrued expenses	198,878			198,878
Income taxes	131,512	(1,267,000)		(1,135,488)
	<b>4,358,184</b>	<b>(3,004,780)</b>		<b>1,353,404</b>
<b>Investing Activities</b>				
Additions to property, plant and equipment	(4,132,357)			(4,132,357)
Telephone plant removal expenses	(29,950)			(29,950)
Sales of property, plant and equipment				
Distributions to parent	3,706,000	(3,706,000)		
Purchase of investments	(3,766,830)			(3,766,830)
Distributions from unconsolidated entities	200,000	7,186,622		7,386,622
Increase in other assets	(2,013)			(2,013)
	<b>(4,025,150)</b>	<b>3,480,622</b>		<b>(544,528)</b>

Continued

Consolidating Statement of Cash Flows--Continued

**Logan Telephone Cooperative, Inc. and Subsidiary**

Year Ended December 31, 2013

	<b>Logan Telephone Cooperative, Inc.</b>	<b>Cellular Division of Logan Telephone Cooperative, Inc.</b>	<b>Eliminations</b>	<b>Consolidated Totals</b>
<b>Financing Activities</b>				
Payments of members' patronage capital credits	(673,579)			(673,579)
Payments of members' subscriptions	(524)			(524)
Proceeds from members' subscriptions	404			404
<b>Net Cash Used In             Financing Activities</b>	<b>(673,699)</b>			<b>(673,699)</b>
<b>Net Increase (Decrease) in             Cash and Cash Equivalents</b>	<b>(340,665)</b>	<b>475,842</b>		<b>135,177</b>
<b>Cash and Cash Equivalents     Beginning of Year</b>	<b>10,371,426</b>	<b>2,641</b>		<b>10,374,067</b>
<b>Cash and Cash Equivalents             End of Year</b>	<b>\$ 10,030,761</b>	<b>\$ 478,483</b>	<b>\$</b>	<b>\$ 10,509,244</b>

See Independent Auditors' Report

Property, Plant and Equipment In-Service

**Logan Telephone Cooperative, Inc. and Subsidiary**

Year Ended December 31, 2013

	<b>Balance January 1, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance December 31, 2013</b>
Land	\$ 288,311			\$ 288,311
Motor vehicles	552,902			552,902
Other work equipment	516,182	\$ 29,258	\$ 105,975	439,465
Buildings	3,691,094	31,274	32,702	3,689,666
Furniture	85,486			85,486
Office equipment	125,193	14,589		139,782
General purpose computers	483,067	9,857	23,928	468,996
Digital switching equipment	1,399,440			1,399,440
Circuit equipment	6,498,437	341,347		6,839,784
Poles	349,641		4,151	345,490
Aerial cable	1,180,154	96,906	8,567	1,268,493
Underground cable	164,319			164,319
Buried cable	30,449,882	469,163	13,372	30,905,673
Internet equipment	399,462	78,312	162,014	315,760
Aerial wire	13,237			13,237
Conduit systems	456,868	227,023		683,891
	<u>46,653,675</u>	<u>1,297,729</u>	<u>350,709</u>	<u>47,600,695</u>
<b>Total Property, Plant and Equipment In-Service</b>	<b>\$ 46,653,675</b>	<b>\$ 1,297,729</b>	<b>\$ 350,709</b>	<b>\$ 47,600,695</b>

See Independent Auditors' Report

Accumulated Depreciation

**Logan Telephone Cooperative, Inc. and Subsidiary**

Year Ended December 31, 2013

	Depreciation Rate (Percent)	Balance January 1, 2013	Credits to Reserve		Charges to Reserve		Balance December 31, 2013
			Depreciation	Salvage	Retirements	Expense	
Motor vehicles	12.1	\$ 404,297	\$ 41,285				\$ 445,582
Other work equipment	7.5	393,717	15,754		\$ 105,975		303,496
Buildings	2.7	1,270,187	99,597		32,702		1,337,082
Furniture	8.7	85,485					85,485
Office equipment	7.5 - 15.0	106,874	2,082				108,956
General purpose computers	15.8	340,041	35,308		23,929		351,420
Digital switching equipment	7.5	1,142,327	104,958				1,247,285
Circuit equipment	11.9	5,818,691	704,122				6,522,813
Poles	5.6	187,335	19,523		4,151	\$ 2,335	200,372
Aerial cable	5.1 - 6.6	601,263	78,680		8,567	5,624	665,752
Underground cable	5	96,118	8,215				104,333
Buried cable	5.1-5.5	19,274,838	1,657,678		13,370	21,991	20,897,155
Internet equipment	20	399,462			162,016		237,446
Aerial wire	9.4	(178)	1,244				1,066
Conduit systems	2.2	139,625	10,047				149,672
<b>Total Accumulated Depreciation</b>		<b>\$ 30,260,082</b>	<b>\$ 2,778,493</b>	<b>\$ 0</b>	<b>\$ 350,710</b>	<b>\$ 29,950</b>	<b>\$ 32,657,915</b>

See Independent Auditors' Report