

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

KENTUCKY 525
WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY
MAYFIELD, KENTUCKY

December 31, 2013 and 2012

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C O N T E N T S

Consolidated Financial Statements:

Independent Auditors' Report.....	Page 5
Consolidated Balance Sheets	8
Consolidated Statements of Income.....	10
Consolidated Statements of Comprehensive Income.....	13
Consolidated Statements of Changes in Members' Equity.....	15
Consolidated Statements of Cash Flows.....	16
Notes to Consolidated Financial Statements.....	19

Consolidating Information:

Independent Auditors' Report on Consolidating Information	35
Consolidating Balance Sheets	37
Consolidating Statements of Income	39
Consolidating Statements of Comprehensive Income	41

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INDEPENDENT AUDITORS' REPORT

Board of Directors
West Kentucky Rural Telephone
Cooperative Corporation, Inc.
Mayfield, Kentucky

We have audited the accompanying consolidated financial statements of West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiary which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, 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 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 presentation of 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiary as of December 31, 2013 and 2012, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 10, 2014 on our consideration of West Kentucky Rural Telephone Cooperative Corporation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Sotheron, Paile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 10, 2014

CONSOLIDATED BALANCE SHEETS

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

	2013	2012
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 7,858,750	\$ 9,015,626
Cash - construction fund	102	1,859,445
Temporary cash investments	0	1,502,775
Telecommunications accounts receivable, less allowances of \$97,126 in 2012 and \$432,270 in 2013	1,071,958	887,566
Other accounts receivable	507,769	392,061
Grants receivable	2,410,736	418,421
Materials and supplies	1,512,788	1,323,758
Prepaid expenses	1,392,407	1,556,723
Prepaid postretirement benefits	0	195,276
Refundable tax deposit	300,000	300,000
	<u>15,054,510</u>	<u>17,451,651</u>
TOTAL CURRENT ASSETS		
	\$ 15,054,510	\$ 17,451,651
<u>NONCURRENT ASSETS</u>		
Securities available for sale	\$ 40,972,624	\$ 32,138,544
Investments	6,079,965	5,669,869
Nonregulated investments	312,618	87,585
Deferred tax asset	281,365	424,722
	<u>47,646,572</u>	<u>38,320,720</u>
TOTAL NONCURRENT ASSETS		
	\$ 47,646,572	\$ 38,320,720
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service	\$ 108,441,751	\$ 104,457,550
Telecommunications plant under construction	46,871,616	35,069,422
	<u>155,313,367</u>	<u>139,526,972</u>
Less accumulated depreciation	81,765,775	76,054,377
	<u>73,547,592</u>	<u>63,472,595</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT		
	\$ 73,547,592	\$ 63,472,595
	<u>\$ 136,248,674</u>	<u>\$ 119,244,966</u>

See the accompanying independent auditors' report and notes to financial statements.

CONSOLIDATED BALANCE SHEETS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

	2013	2012
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 1,686,923	\$ 2,258,634
Advance billings and payments	350,374	296,380
Customer deposits	159,903	157,678
Current maturities on long-term debt	4,927,249	4,391,404
Accrued taxes	271,885	111,442
Accrued federal and state income taxes	421,193	19,976
Accrued interest	3,441	3,295
Accrued rents	212,017	249,506
Accrued salaries and wages	203,746	201,233
Accrued compensated absences	508,673	515,683
Other current liabilities	<u>1,315,697</u>	<u>907,210</u>
TOTAL CURRENT LIABILITIES	\$ 10,061,101	\$ 9,112,441
<u>LONG-TERM DEBT</u>	60,121,788	48,500,763
<u>OTHER LIABILITIES</u>		
Deferred compensation	100,417	75,069
Postretirement benefits	221,796	0
Deferred taxes	<u>1,616,985</u>	<u>12,422</u>
TOTAL LIABILITIES	\$ 72,122,087	\$ 57,700,695
<u>MEMBERS' EQUITY</u>		
Patronage capital	\$ 61,918,992	\$ 61,212,860
Accumulated other comprehensive income	<u>2,207,595</u>	<u>331,411</u>
TOTAL MEMBERS' EQUITY	\$ 64,126,587	\$ 61,544,271
	<u>\$ 136,248,674</u>	<u>\$ 119,244,966</u>

CONSOLIDATED STATEMENTS OF INCOME

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

Years ended December 31, 2013 and 2012

	2013	2012
Operating revenues:		
Local network services revenue	\$ 3,436,911	\$ 3,707,353
Network access services revenue	12,033,286	13,448,394
Long distance network services revenue	979,841	1,009,583
Miscellaneous revenues	1,322,732	905,692
Less: Uncollectible revenue	<u>(134,317)</u>	<u>(238,998)</u>
TOTAL OPERATING REVENUES	\$ 17,638,453	\$ 18,832,024
Operating expenses:		
Plant specific operations expense	\$ 4,408,763	\$ 4,792,242
Plant nonspecific operations expense	1,616,888	1,197,034
Provision for depreciation and amortization	6,241,487	6,129,818
Customer operations expense	2,269,119	2,246,784
Corporate operations expense	2,308,149	2,419,631
Operating taxes	<u>1,031,899</u>	<u>887,736</u>
TOTAL OPERATING EXPENSES	<u>\$ 17,876,305</u>	<u>\$ 17,673,245</u>
OPERATING INCOME	\$ (237,852)	\$ 1,158,779
Other income:		
Interest and dividend income	\$ 1,211,760	\$ 843,786
Nonregulated income	1,685,580	392,337
Realized gain from sale of securities	464,060	591,621
Gain from liquidation of investment	147,388	571,026
Income from investments	<u>55,083</u>	<u>66,459</u>
TOTAL OTHER INCOME	\$ 3,563,871	\$ 2,465,229

See the accompanying independent auditors' report and notes to financial statements.

CONSOLIDATED STATEMENTS OF INCOME (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

Years ended December 31, 2013 and 2012

	2013	2012
Fixed charges:		
Interest on long-term debt	\$ 2,218,164	\$ 1,893,765
Interest charged to construction - credit	<u>(1,043,136)</u>	<u>(756,599)</u>
	TOTAL FIXED CHARGES	\$ 1,137,166
	<u>\$ 1,175,028</u>	<u>\$ 1,137,166</u>
	INCOME BEFORE TAXES ON INCOME	\$ 2,486,842
Taxes on income	<u>1,413,967</u>	<u>1,481,431</u>
	NET INCOME	<u><u>\$ 737,024</u></u>
		<u><u>\$ 1,005,411</u></u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

Years ended December 31, 2013 and 2012

	2013	2012
Net income	\$ 737,024	\$ 1,005,411
Other comprehensive income:		
Unrealized gain from securities available for sale	3,678,774	2,140,899
Postretirement benefits other than pension:		
Unrecognized gain (loss)	(551,809)	(444,975)
Amortization of prior service cost	<u>0</u>	<u>8,004</u>
OTHER COMPREHENSIVE INCOME (LOSS) BEFORE TAX	\$ 3,126,965	\$ 1,703,928
Income tax (expense) benefit related to items of other comprehensive income	<u>(1,250,781)</u>	<u>(557,798)</u>
OTHER COMPREHENSIVE INCOME (LOSS) NET OF TAX	<u>\$ 1,876,184</u>	<u>\$ 1,146,130</u>
COMPREHENSIVE INCOME	<u>\$ 2,613,208</u>	<u>\$ 2,151,541</u>

See the accompanying independent auditors' report and notes to financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

Years ended December 31, 2013 and 2012

	Memberships	Patronage Capital	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2011	\$ 54,689	\$60,209,800	\$ (814,719)	\$59,449,770
Net income for 2012	0	1,005,411	0	1,005,411
Capital credits paid and applied	0	(57,040)	0	(57,040)
Comprehensive income:				
Unrealized gain from securities available for sale (net of tax)	0	0	1,583,101	1,583,101
Postretirement benefits other than pension:				
Unrecognized gain	0	0	(444,975)	(444,975)
Amortization of transition obligation	0	0	8,004	8,004
Balance at December 31, 2012	\$ 54,689	\$61,158,171	\$ 331,411	\$61,544,271
Net income for 2013	0	737,024	0	737,024
Capital credits paid and applied	0	(30,892)	0	(30,892)
Comprehensive income:				
Unrealized loss from securities available for sale (net of tax)	0	0	2,427,993	2,427,993
Postretirement benefits other than pension:				
Unrecognized loss	0	0	(551,809)	(551,809)
Balance at December 31, 2013	<u>\$ 54,689</u>	<u>\$61,864,303</u>	<u>\$ 2,207,595</u>	<u>\$64,126,587</u>

See the accompanying independent auditors' report and notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from customers	\$ 17,392,347	\$ 19,180,518
Cash paid to suppliers and employees	(9,912,551)	(10,699,679)
Interest and dividends received	1,211,760	843,786
Interest paid	(1,174,882)	(1,138,449)
Taxes paid	(136,286)	(1,984,809)
	<u>\$ 7,380,388</u>	<u>\$ 6,201,367</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Cash flows from investing activities:		
Construction and acquisition of plant	\$ (17,022,398)	\$ (25,012,457)
Decrease (Increase) in grant receivable	(1,992,315)	728,828
Purchase of securities available for sale	(11,093,437)	(11,574,571)
Proceeds from sales of securities available for sale	5,151,410	11,291,777
Increase in investments	(355,013)	(1,500,000)
Increase in nonregulated investments	(225,033)	(80,875)
Cash received on gain from investment	147,388	571,026
Decrease (Increase) in:		
Materials and supplies	(189,030)	236,301
Temporary investments	1,502,775	(369,700)
Nonregulated income	1,685,580	392,337
	<u>\$ (22,390,073)</u>	<u>\$ (25,317,334)</u>
NET CASH USED BY INVESTING ACTIVITIES		
Cash flows from financing activities:		
Payments on long-term borrowings	\$ (4,573,952)	\$ (4,164,039)
Proceeds received from long-term debt	16,730,822	18,485,028
Retirement of capital credits	(30,892)	(57,040)
Postretirement benefits other than pension	(134,737)	(144,557)
Increase (Decrease) in:		
Customer deposits	2,225	(5,612)
	<u>\$ 11,993,466</u>	<u>\$ 14,113,780</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	\$ (3,016,219)	\$ (5,002,187)
CASH AT BEGINNING OF YEAR	<u>10,875,071</u>	<u>15,877,258</u>
CASH AT END OF YEAR	<u>\$ 7,858,852</u>	<u>\$ 10,875,071</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

Years ended December 31, 2013 and 2012

	2013	2012
Net income	\$ 737,024	\$ 1,005,411
Nonregulated income	(1,685,580)	(392,337)
Realized gain from sales of securities	(464,060)	(591,621)
Gain from liquidation of investment	(147,388)	(571,026)
Income from investments	<u>(55,083)</u>	<u>(66,459)</u>
Net loss from regulated operations	\$ (1,615,087)	\$ (616,032)
Adjustments to reconcile net loss from regulated operations to net cash provided by operating activities:		
Depreciation and amortization	\$ 6,947,401	\$ 7,024,977
Decrease (Increase) in:		
Customer and other accounts receivable	(300,100)	357,085
Prepaid expenses	164,316	(1,336,889)
Deferred tax asset	143,357	1,004,838
Other current assets	0	5,725
Increase (Decrease) in:		
Accounts payable	(571,711)	630,103
Advance billings and payments	53,994	(8,591)
Accrued taxes	160,443	(272,794)
Accrued federal and state income taxes	401,217	(332,381)
Accrued interest	146	(1,283)
Accrued rents	(37,489)	45,218
Accrued salaries and employee benefits	(4,497)	(70,991)
Other current liabilities	408,487	206,933
Deferred compensation	25,348	(419,246)
Deferred tax liability	<u>1,604,563</u>	<u>(15,305)</u>
TOTAL ADJUSTMENTS	<u>\$ 8,995,475</u>	<u>\$ 6,817,399</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 7,380,388</u>	<u>\$ 6,201,367</u>

See the accompanying independent auditors' report and notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

Note A – West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiary provides retail telecommunications services to Graves County, Kentucky and various areas in west Kentucky and west Tennessee. West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiary has adopted the following accounting policies:

(1) Principles of Consolidation:

West Kentucky Rural Telephone Cooperative Corporation, Inc. (Cooperative) owns 100% of the outstanding common stock of WK.Net, Inc. (Subsidiary). The Subsidiary was formed for the purpose of providing broadband services, long distance, retail electronic sales as well as other telecommunications services. The consolidated financial statements include the accounts of the Subsidiary. All significant inter-company accounts and transactions have been eliminated in consolidation..

During 2013, Management evaluated the Subsidiary's form and operation and decided that it would be more practical and economical for the Company to acquire the assets and liabilities of the Subsidiary. This decision will result in the Subsidiary being liquidated and merged into the Cooperative effective January 1, 2014.

- (2) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- (3) Cash equivalents consist primarily of treasury bills and notes and commercial paper with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as temporary investments.
- (4) Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. No interest is charged on accounts receivable balances that are past due. Past due accounts receivable are based upon contractual terms as defined on customer invoices. Accounts receivable past due 90 days amounted to \$375,325 at December 31, 2013.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

Note A – (Cont'd):

The allowance for doubtful accounts is based upon a credit review of the accounts receivable, past bad debt experience, current economic conditions and other pertinent factors which form a basis for determining the adequacy of the allowance. The allowance represents an estimate based upon these and other factors and, it is at least reasonably possible that a change in the estimate can occur, however, management does not anticipate major changes in the estimate.

- (5) Materials and supplies are valued at average cost accumulated in perpetual inventory records, which are periodically adjusted to physical counts.
- (6) Employee vacation pay and sick leave benefits are accrued as the benefits are earned according to an established policy.
- (7) Revenue is recorded upon the billing of telecommunication services net of sales tax.
- (8) Expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation.
- (9) Advertising costs are charged to expense as incurred. These costs amounted to \$180,119 in 2013 and \$227,173 in 2012.

Note B – Concentrations of Credit Risk:

Deposits:

The Cooperative and its subsidiary maintain cash accounts in several commercial banks located within their trade area. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 on interest bearing accounts and unlimited coverage on non-interest bearing accounts. Approximately \$5,655,225 was uninsured at December 31, 2013.

The Cooperative also, from time to time, has cash and temporary investments maintained by investment firms totaling \$1,545,609 and \$5,214,448 as of December 31, 2013 and 2012, respectively. The investment firms are members of Securities Investors Protection Corporation (SIPC). SIPC provides limited protection for cash and investments held directly by the firms in the event of the failure of the investment firms.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

Note B – (Cont'd):

Accounts Receivable:

Telecommunications services are provided to the customers within its trade area on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

Note C – Broadband Initiatives Program:

Grants receivable represents the amounts due from Rural Utilities Service under the Broadband Initiatives Program (the Program). During 2010, the Cooperative applied for, and was awarded, a loan and grant combination to construct an updated broadband network in its service area. The total amount awarded to the Cooperative was \$123,800,000, of which \$61,900,001 represents eligible loan proceeds and \$61,899,999 which will be awarded as a grant. Under the Program, the Cooperative will be reimbursed for eligible costs associated with the construction of the broadband facilities over a specified period of time. As of December 31, 2013, the Cooperative has received \$40,215,353 in loan proceeds and \$40,215,353 of the grant portion.

Note D – Securities available for sale consists of United States government agency bonds, stocks, mutual funds, and corporate bonds.

The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Cooperative believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Level 1 – Uses prices and other relevant information generated by active market transactions involving identical or comparable assets that the Cooperative has the ability to access at the measurement date;

Level 2 – Uses inputs other than quoted market prices included within Level 1 that are observable for valuing the asset, either directly or indirectly. This level of the hierarchy may use quoted prices for similar assets in an active or non-active market and may also include insignificant adjustments to market observable inputs;

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

Note D – (Cont'd):

Level 3 – Uses unobservable inputs used for valuing assets. Unobservable inputs are those that use valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts.

The Cooperative's available for sale securities are grouped and measured at fair value and use the aforementioned fair value hierarchy in the following manner:

	<u>Fair Value</u>	Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale	\$40,972,624	\$40,972,624	\$ 0	\$ 0
Total	<u>\$40,972,624</u>	<u>\$40,972,624</u>	<u>\$ 0</u>	<u>\$ 0</u>

The amortized cost of securities and their fair market values are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gain (Loss)</u>	<u>Estimated Market Value</u>
December 31, 2013:			
U.S. Government agencies	\$2,983,346	\$(25,639)	\$ 2,957,707
Stocks	1,485,870	557,269	2,043,139
Mutual funds	23,686,129	3,807,719	27,493,848
Corporate bonds	<u>8,086,542</u>	<u>391,388</u>	<u>8,477,930</u>
Available for Sale	<u>\$36,241,887</u>	<u>\$4,730,737</u>	<u>\$40,972,624</u>
December 31, 2012:			
U.S. Government agencies	\$ 1,683,698	\$ 34,986	\$ 1,718,684
Stocks	2,289,303	40,916	2,330,219
Mutual funds	19,337,076	529,995	19,867,071
Corporate bonds	<u>7,807,873</u>	<u>414,697</u>	<u>8,222,570</u>
Available for Sale	<u>\$31,117,950</u>	<u>\$1,020,594</u>	<u>\$32,138,544</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

Note D – (Cont'd):

Gross realized gains and gross realized losses on sales of securities available for sale:

	<u>2013</u>	<u>2012</u>
Gross realized gains:		
Stocks	\$ 150,557	\$ 49,110
Mutual funds	563,288	671,603
Corporate bonds	<u>220,523</u>	<u>10,000</u>
Total Gains	\$ 934,368	\$ 730,713
Gross realized losses:		
Stocks	\$ (19,510)	\$ (40,352)
Mutual funds	(330,482)	(78,678)
Corporate bonds	<u>(120,316)</u>	<u>(20,062)</u>
Total Losses	\$ (470,308)	\$(139,092)
Net Realized Gains (Losses)	<u>\$ 464,060</u>	<u>\$591,621</u>

The following is a summary of maturities of securities available for sale as of December 31, 2013:

	<u>Amortized cost</u>	<u>Fair value</u>
Amounts maturing in:		
Due in one year or less	\$ 2,072,635	\$ 2,374,438
Due from one to five years	7,059,613	7,124,418
Due from six to ten years	726,140	749,053
Due beyond ten years	1,211,499	1,187,729
Stocks	1,485,870	2,043,139
Mutual funds	<u>23,686,129</u>	<u>27,493,847</u>
Total	<u>\$36,241,886</u>	<u>\$40,972,624</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

Note E – Investments*:

	<u>2013</u>	<u>2012</u>
Synergy Wireless, LLC	\$ 10,000	\$ 10,000
Tennessee Independent Telecommunications Group, LLC (Iris Networks) (10.556%)	1,013,280	1,047,658
Synergy Technology Partners, Inc. (50%)	3,508,615	3,461,720
Telcom Management Service, Inc. (50%)	579,721	161,136
Bolt Data Systems, LLC	0	12,106
National Telcom Corporation	179,933	179,933
Associated Network Partners, Inc (ANPI)	780,601	780,601
Other	<u>7,815</u>	<u>16,715</u>
TOTAL	<u>\$6,079,965</u>	<u>\$5,669,869</u>

*Ownership percentages are in parentheses for investments in which the Cooperative owns a significant portion of the investment. All other investments are carried at cost.

The following is a summary as of December 31, 2013 of selected financial information from the financial statements of the investments in which the Cooperative owns a significant percentage:

	<u>Synergy Technology Partners, Inc.</u>	<u>Iris Networks</u>	<u>Telcom Management Service, Inc.</u>
Total assets	\$17,825,027	\$19,157,915	\$3,310,118
Total liabilities	\$10,807,795	\$ 9,615,041	\$2,260,997
Total equity	\$ 7,017,232	\$ 9,542,874	\$1,049,121
Net income	\$ 93,790	\$ (325,687)	\$ 87,172

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

Note E – (Cont'd):

Investments carried at cost are normally not evaluated for impairment because it is not practical to estimate the fair value due to insufficient information being available. An evaluation is performed, however, if economic or market concerns warrant such an evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent or ability of the Cooperative to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of fair value.

Management has not identified any events or circumstances that may have a significant adverse effect on the fair value of any other cost method investment.

Note F – Telephone plant in service and under construction is stated at cost. Listed below are the major classes of the telephone plant as of December 31:

	<u>2013</u>	<u>2012</u>
Land	\$ 961,866	\$ 1,061,866
Buildings	4,820,155	4,797,769
Central office equipment	24,361,476	23,771,695
Poles, cable and wire	71,372,991	68,365,444
Furniture and office equipment	2,035,923	1,920,430
Vehicles and other work equipment	3,809,180	3,618,082
Other communications equipment	<u>209,224</u>	<u>209,224</u>
Telecommunications plant in service as contained on the cooperative's records	\$107,570,815	\$103,744,510
Leasehold improvements	\$ 0	\$ 2,548
Furniture and office equipment	39,295	39,295
Equipment	<u>831,641</u>	<u>671,197</u>
Telecommunications plant in service as contained on the subsidiary's records	<u>\$ 870,936</u>	<u>\$ 713,040</u>
Total telecommunications plant in service	<u>\$108,441,751</u>	<u>\$104,457,550</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

Note F – (Cont'd):

The Subsidiary provides for depreciation on the straight-line basis at annual rates which will amortize the depreciable property over its useful life.

Telecommunications plant in service and under construction is stated at cost.

The Cooperative provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. Such provision, as a percentage of the average balance of telecommunications plant in service was percent in 2013 and 6.74 percent in 2012. Individual depreciation rates are as follows:

	<u>2013</u>	<u>2012</u>
Buildings	2.7%	2.7%
Central office equipment	7.5 – 11.9%	7.5 – 11.9%
Poles, cables and wire	5.1 – 9.4%	5.1 – 9.4%
Furniture and office equipment	7.5 – 15.8%	7.5 – 15.8%
Tools and other work equipment	7.5%	7.5%
Other communications equipment	15%	15%

Note G – A description of long term debt follows:

Long-term debt is represented by mortgage notes payable to the United States of America. Substantially all assets are pledged as security for the long-term debt. Following is a summary of the outstanding long-term debt.

	<u>2013</u>	<u>2012</u>
2% - 7% Rural Development Utilities note Program	\$65,049,037	\$52,892,167
Less current maturities	<u>4,927,249</u>	<u>4,391,404</u>
TOTAL	<u>\$60,121,788</u>	<u>\$48,500,763</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

Note G – (Cont'd):

Principal and interest installments on the above notes are due quarterly and monthly. The maturities of long-term debt for each of the five years succeeding the balance sheet date are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 4,927,249
2015	5,169,793
2016	5,391,258
2017	5,426,346
2018	5,664,211
Beyond five years	<u>38,470,180</u>
TOTAL	<u>\$65,049,037</u>

Note H – As required by the Retirement Benefit Topic of the FASB ASC, the Cooperative accrues all postretirement benefits other than pensions. Under the prescribed accrual method, the obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. The cost of medical benefits for current and future associate retirees was recognized as determined under the projected united credit cost method.

Substantially all of the Cooperative's employees are covered under postretirement medical plans. The determination of postretirement benefit cost for these postretirement medical benefit plans is based on comprehensive hospital, medical and surgical benefit provisions.

The following table sets forth the separate funded statuses of the plans and the amounts recognized in the Cooperative's Consolidated Balance Sheet as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Accumulated postretirement obligation attributable to:		
Retirees	\$ 1,584,000	\$ 1,255,680
Other active plan participants	<u>1,148,196</u>	<u>884,359</u>
Total accumulated postretirement benefit obligation	\$ 2,732,196	\$ 2,140,039
Fair value of plan assets	<u>(2,510,400)</u>	<u>(2,335,315)</u>
Net unfunded (funded) status	<u>\$ 221,796</u>	<u>\$ (\$195,276)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

Note H – (Cont'd):

	<u>2013</u>	<u>2012</u>
Amounts recognized in other comprehensive income:		
Unrecognized net gains	\$(551,809)	\$(444,975)
Amortization of prior service cost	<u>0</u>	<u>8,004</u>
Total included in other comprehensive income	<u>\$(551,809)</u>	<u>\$(436,971)</u>

Postretirement benefit cost is composed of the following for the year ended December 31:

	<u>2013</u>	<u>2012</u>
Benefits earned during the year	\$ 72,700	\$ 44,960
Interest on accumulated postretirement benefit obligation	128,900	106,188
Past service costs		0
Cumulative (gains) losses	47,400	7,286
Actual return on plan assets	<u>(175,100)</u>	<u>(164,692)</u>
Postretirement benefit cost	<u>\$ 73,900</u>	<u>\$ (6,258)</u>

The Medicare and Prescription Drug, Improvement and Modernization Act of 2003 provides for a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the benefit established by the law. Currently, for the plan, the Medicare Part D Subsidy is a reduction to premiums paid for by participants that are at least 65 years old. For 2013 and 2012, premiums for this group of participants were approximately \$50 less than it would have been without the adjustment.

Weighted average assumptions to determine benefit obligations and net period cost for the year ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Discount rate	5.00%	5.00%
Expected return on plan assets	7.50%	7.31%

The Cooperative's expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

Note H – (Cont'd)

The medical cost trend rate in 2013 was approximately 8.0% grading down to an ultimate rate in 2018 of 5.0%. A one percentage point increase in the assumed medical cost trend rates for each future year would not have increased the aggregate of the service and interest components of the 2011 net periodic postretirement benefit cost and would not have increased the accumulated postretirement benefit obligation as of December 31, 2013.

The Plan attempts to mitigate investment risks by balancing between equity and debt classes of investments. Currently, the plan is invested in mutual funds with target allocations of approximately 65% domestic and international stocks, 15% investment grade bonds, 10% high yield bonds, and 10% real estate. Although changes in interest rates may affect the fair value of a portion of the investment portfolios and cause unrealized gains and losses, such gains and losses would not be realized unless the investments are sold. In addition, no plan assets are expected to be returned to the Cooperative in 2013.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the plan for the Cooperative:

<u>Year</u>	<u>Amount</u>
2014	\$ 134,033
2015	136,713
2016	139,447
2017	142,236
2018	145,081
Years 2019 - 2021	<u>770,108</u>
TOTAL	<u>\$1,467,618</u>

The Cooperative generally does not make an annual contribution to the plan and a contribution is not anticipated in 2013.

Note I – The Cooperative has adopted the retirement and security program of the National Telephone Cooperative Association as a pension plan covering all employees meeting certain age and length of service requirements for which it pays approximately 80% of the cost. The Cooperative funds the pension plan by making monthly contributions into the program based on salaries. The Cooperative's cost was \$478,824 for 2013 and \$533,450 for 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

Note J – The Companies recognize deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the Companies' financial statements and tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Measurement is computed using applicable current tax rates.

	<u>2013</u>	<u>2012</u>
Current income tax expense:		
Federal	\$ 1,083,902	\$ 396,559
State	193,124	93,338
Deferred income tax expense (benefit):		
Federal	137,516	837,499
State	<u>(575)</u>	<u>154,035</u>
	<u>\$1,413,967</u>	<u>\$1,481,431</u>

The deferred tax balance is primarily the result of differences using accelerated depreciation methods for tax purposes and the differences in tax and book basis of various investments.

	<u>2013</u>	<u>2012</u>
Deferred tax liability at beginning of year	\$ 12,422	\$ 27,727
Plus current year provision for deferred taxes on income	<u>1,604,563</u>	<u>(15,305)</u>
Deferred tax liability at end of year	<u>\$1,616,985</u>	<u>\$ 12,422</u>
Deferred tax asset at beginning of year	\$ 424,722	\$ 1,429,560
Plus current year provision for deferred taxes on income	<u>(143,357)</u>	<u>(1,004,838)</u>
Deferred tax asset at end of year	<u>\$ 281,365</u>	<u>\$ 424,722</u>

The individual companies included in the consolidated financial statements are responsible for their share of tax liabilities. The Company is no longer subject to Internal Revenue Service or state taxing authority examinations beyond the statute of limitations for the respective taxing authorities. Penalties and interest, if any, that are assessed by income tax authorities are included in operating expenses. No interest or penalties were recognized during the years ending December 31, 2013 and 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013 and 2012

Note K – Labor Force

Approximately 80% of the Cooperative's labor force is subject to a collective bargaining agreement. A five-year agreement was negotiated and approved for the period November 1, 2013 to October 31, 2018 between the Cooperative and the International Brotherhood of Electrical Workers.

Note L – Commitments and Contingencies

The Cooperative is a guarantor for loans in the amount of approximately \$550,000 that are the obligation of TN Independent Telecommunications Group d/b/a Iris Networks, a related party.

Note M – Deferred compensation:

The Cooperative has implemented a deferred compensation agreement for certain management personnel. The plan is maintained in brokerage accounts and is held by the Cooperative. Under the terms of the plan, an amount determined by the Board of Directors of the Cooperative will be paid to an account established on behalf of the management personnel. The deferred compensation is to be paid to the individuals upon retirement or other reasons of discontinued service to the Cooperative. Included in securities available for sale of the Consolidated Balance Sheets is \$100,417 at December 31, 2013, that is a part of the deferred compensation agreement.

Note N – Related Party Transactions:

The Cooperative has contracted with Telecom Management Service, Inc. (TMS) to provide management services for the Cooperative. The cost of these services to the Cooperative amounted to \$773,440 and \$690,030 in 2013 and 2012, respectively. Accounts receivable due from TMS amounted to \$503,072 at December 31, 2013 and \$363,874 at December 31, 2012. Accounts payable to TMS amounted to \$30,149 and \$221,253 at December 31, 2013 and 2012, respectively.

Note O – Subsequent events:

Subsequent events are transactions or events that occur subsequent to the date of the financial statements and before the issuance of those financial statements. Management has evaluated transactions and events that occurred subsequent to December 31, 2013 and before the date these financial statements were available to be issued, March 10, 2014, and determined that no additional disclosures are necessary.

CONSOLIDATING INFORMATION

INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
West Kentucky Rural Telephone
Cooperative Corporation, Inc.
Mayfield, Kentucky

We have audited the consolidated financial statements of West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiary as of and for the years ended December 31, 2013 and 2012, and our report thereon dated March 10, 2014, which expresses an unmodified opinion on those financial statements, appears on page 5. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 36 through 39 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements, themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Iotherow, Haile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 10, 2014

CONSOLIDATING BALANCE SHEETS

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013

	West Kentucky Rural Telephone Cooperative, Inc.	WK.Net Inc.	Reclassifications / Eliminations	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash - general	\$ 7,830,374	\$ 28,376	\$ 0	\$ 7,858,750
Cash - construction fund	102	0	0	102
Telecommunications accounts receivable	1,019,830	52,128	0	1,071,958
Other accounts receivable	507,769	0	0	507,769
Grants receivable	2,410,736	0	0	2,410,736
Materials and supplies	1,226,084	286,704	0	1,512,788
Prepaid expenses	1,392,407	0	0	1,392,407
Refundable tax deposit	300,000	0	0	300,000
TOTAL CURRENT ASSETS	\$ 14,687,302	\$ 367,208	\$ 0	\$ 15,054,510
<u>NONCURRENT ASSETS</u>				
Securities available for sale	\$ 40,972,624	\$ 0	\$ 0	\$ 40,972,624
Investment in subsidiary	9,368,972	0	(9,368,972)	0
Investments	5,299,364	780,601	0	6,079,965
Nonregulated assets	312,618	0	0	312,618
Deferred tax asset	281,365	0	0	281,365
Advance to related company	0	8,858,586	(8,858,586)	0
TOTAL NONCURRENT ASSETS	\$ 56,234,943	\$ 9,639,187	\$ (18,227,558)	\$ 47,646,572
<u>PROPERTY, PLANT AND EQUIPMENT</u>				
Telecommunications plant in service	\$ 107,570,815	\$ 870,936	\$ 0	\$ 108,441,751
Telecommunications plant under construction	46,871,616	0	0	46,871,616
	\$ 154,442,431	\$ 870,936	\$ 0	\$ 155,313,367
Less accumulated depreciation	81,089,287	676,488	0	81,765,775
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 73,353,144	\$ 194,448	\$ 0	\$ 73,547,592
	\$ 144,275,389	\$ 10,200,843	\$ (18,227,558)	\$ 136,248,674

CONSOLIDATING BALANCE SHEETS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

December 31, 2013

	West Kentucky Rural Telephone Cooperative, Inc.	WK.Net Inc.	Reclassifications / Eliminations	Total
<u>LIABILITIES AND MEMBERS' EQUITY</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable	\$ 1,658,330	\$ 28,593	\$ 0	\$ 1,686,923
Advance billings and payments	161,709	188,665	0	350,374
Customer deposits	159,903	0	0	159,903
Current maturities on long-term debt	4,927,249	0	0	4,927,249
Accrued taxes	271,885	0	0	271,885
Accrued federal and state income taxes	0	421,193	0	421,193
Accrued interest	3,441	0	0	3,441
Accrued rents	212,017	0	0	212,017
Accrued salaries and wages	203,746	0	0	203,746
Accrued compensated absences	508,673	0	0	508,673
Other current liabilities	<u>1,128,283</u>	<u>187,414</u>	<u>0</u>	<u>1,315,697</u>
 TOTAL CURRENT LIABILITIES	 \$ 9,235,236	 \$ 825,865	 \$ 0	 \$ 10,061,101
 <u>LONG-TERM DEBT</u>	 60,121,788	 0	 0	 60,121,788
<u>OTHER LIABILITIES</u>				
Advance from related company	8,858,586	0	(8,858,586)	0
Deferred compensation	100,417	0	0	100,417
Postretirement benefits other than pension	221,796	0	0	221,796
Deferred taxes	<u>1,610,979</u>	<u>6,006</u>	<u>0</u>	<u>1,616,985</u>
 TOTAL LIABILITIES	 \$ 80,148,802	 \$ 831,871	 \$ (8,858,586)	 \$ 72,122,087
<u>MEMBERS' EQUITY</u>				
Memberships	54,689	0	0	54,689
Capital stock	0	1,000	(1,000)	0
Paid in capital	0	1,716,253	(1,716,253)	0
Retained earnings	0	7,651,719	(7,651,719)	0
Accumulated comprehensive income	2,207,595	0	0	2,207,595
Patronage capital	<u>61,864,303</u>	<u>0</u>	<u>0</u>	<u>61,864,303</u>
	<u>\$ 144,275,389</u>	<u>\$ 10,200,843</u>	<u>\$ (18,227,558)</u>	<u>\$ 136,248,674</u>

CONSOLIDATING STATEMENTS OF INCOME

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

Year ended December 31, 2013

	West Kentucky Rural Telephone Cooperative, Inc.	WK.Net Inc.	Reclassifications / Eliminations	Total
Operating revenues:				
Local network services revenue	\$ 3,436,911	\$ 0	\$ 0	\$ 3,436,911
Network access service revenue	12,347,989	0	(314,703)	12,033,286
Long distance network services revenue	25,283	954,558	0	979,841
Broadband and wireless revenue	102,559	4,474,099	(4,576,658)	0
Retail sales	0	337,202	(337,202)	0
Video revenue	2,827,291	0	(2,827,291)	0
Security revenue	226,847	0	(226,847)	0
Miscellaneous revenue	1,320,872	1,860	0	1,322,732
Less: Uncollectible revenue	<u>(127,905)</u>	<u>(6,412)</u>	<u>0</u>	<u>(134,317)</u>
 TOTAL OPERATING REVENUES	 \$ 20,159,847	 \$ 5,761,307	 \$ (8,282,701)	 \$ 17,638,453
Operating expenses:				
Plant specific operations expense	\$ 4,393,789	\$ 14,974	\$ 0	\$ 4,408,763
Plant nonspecific operations expense	1,616,888	0	0	1,616,888
Provision for depreciation and amortization	6,183,777	57,710	0	6,241,487
Broadband and wireless expense	69,103	2,081,249	(2,150,352)	0
Cost of goods sold - retail	0	336,087	(336,087)	0
Video expenses	3,361,452	0	(3,361,452)	0
Security expenses	120,567	0	(120,567)	0
Customer operations expense	2,193,502	75,617	0	2,269,119
Corporate operations expense	2,170,557	452,295	(314,703)	2,308,149
Operating taxes	<u>1,019,196</u>	<u>12,703</u>	<u>0</u>	<u>1,031,899</u>
 TOTAL OPERATING EXPENSES	 <u>\$ 21,128,831</u>	 <u>\$ 3,030,635</u>	 <u>\$ (6,283,161)</u>	 <u>\$ 17,876,305</u>
 OPERATING INCOME	 \$ (968,984)	 \$ 2,730,672	 \$ (1,999,540)	 \$ (237,852)

CONSOLIDATING STATEMENTS OF INCOME (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

Year ended December 31, 2013

	West Kentucky Rural Telephone Cooperative, Inc.	WK.Net Inc.	Reclassifications / Eliminations	Total
Other income (expense):				
Interest and dividend income	\$ 1,205,373	\$ 6,387	\$ 0	\$ 1,211,760
Nonregulated income (loss)	(195,239)	(118,721)	1,999,540	1,685,580
Gain from liquidation of investment	0	147,388	0	147,388
Realized gain from sale of securities available for sale	464,060	0	0	464,060
Income from subsidiary and investments	<u>1,690,324</u>	<u>0</u>	<u>(1,635,241)</u>	<u>55,083</u>
 TOTAL OTHER INCOME	 \$ 3,164,518	 \$ 35,054	 \$ 364,299	 \$ 3,563,871
Fixed charges:				
Interest on long-term debt	\$ 2,218,164	\$ 0	\$ 0	\$ 2,218,164
Interest charged to construction - credit	<u>(1,043,136)</u>	<u>0</u>	<u>0</u>	<u>(1,043,136)</u>
 TOTAL FIXED CHARGES	 \$ 1,175,028	 \$ 0	 \$ 0	 \$ 1,175,028
 INCOME BEFORE TAXES ON INCOME	 \$ 1,020,506	 \$ 2,765,726	 \$ (1,635,241)	 \$ 2,150,991
Taxes on income	<u>283,482</u>	<u>1,130,485</u>	<u>0</u>	<u>1,413,967</u>
 NET INCOME FOR YEAR	 <u>\$ 737,024</u>	 <u>\$ 1,635,241</u>	 <u>\$ (1,635,241)</u>	 <u>\$ 737,024</u>

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY

Year ended December 31, 2013

	West Kentucky Rural Telephone Cooperative, Inc.	WK.Net Inc.	Reclassifications / Eliminations	Total
Net income	\$ 737,024	\$ 1,635,241	\$ (1,635,241)	\$ 737,024
Other comprehensive income:				
Unrealized loss from securities available for sale (net of tax)	2,427,993	0	0	2,427,993
Postretirement benefits other than pension:				
Unrecognized loss	<u>(551,809)</u>	<u>0</u>	<u>0</u>	<u>(551,809)</u>
COMPREHENSIVE INCOME	<u>\$ 2,613,208</u>	<u>\$ 1,635,241</u>	<u>\$ (1,635,241)</u>	<u>\$ 2,613,208</u>

Independent Auditor's Report on Compliance with Aspects of Contractual
Agreements and Regulatory Requirements

Board of Directors
West Kentucky Rural Telephone
Cooperative Corporation, Inc.
Mayfield, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of West Kentucky Rural Telephone Cooperative Corporation, Inc., which comprise the balance sheet as of December 31, 2013, and the related statements of operations, comprehensive income, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 10, 2014. In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2014, on our consideration of West Kentucky Rural Telephone Cooperative Corporation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

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

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

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

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

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

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

Comply with the requirements for the detailed schedule of investments.

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

Jotherow, Faile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 10, 2014

Board of Directors
West Kentucky Rural Telephone
Cooperative Corporation, Inc.
Mayfield, Kentucky

We have audited the financial statements of West Kentucky Rural Telephone Cooperative Corporation, Inc. as of December 31, 2013 and for the year then ended and have issued our report thereon dated March 10, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered West Kentucky Rural Telephone Cooperative Corporation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of West Kentucky Rural Telephone Cooperative Corporation, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of West Kentucky Rural Telephone Cooperative Corporation, Inc.'s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Cooperative's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Cooperative's financial statements that is more than inconsequential will not be prevented or detected by the Cooperative's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Cooperative's internal control.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies that we consider to be material weaknesses, as defined above.

Board of Directors
West Kentucky Rural Telephone
Cooperative Corporation, Inc.
Mayfield, Kentucky
Page 2

Compliance

As part of obtaining reasonable assurance about whether West Kentucky Rural Telephone Cooperative Corporation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This communication is intended solely for the information and use of the Board of Directors, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Jotherow, Spate, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 10, 2014

Board of Directors of
West Kentucky Rural Telephone
Cooperative Corporation, Inc.
Mayfield, Kentucky

We have audited the consolidated financial statements of West Kentucky Rural Telephone Cooperative Corporation, Inc. for the year ended December 31, 2013, and have issued our report thereon dated March 10, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 6, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by West Kentucky Rural Telephone Cooperative Corporation, Inc. are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for doubtful accounts is based on historical sales, historical loss levels, and an analysis of the collectability of the individual accounts.

Management's estimate of the deferred tax asset and liability encompass the temporary differences in tax reporting and financial statement presentation based on future expected financial trends of the Company.

Management's estimate of the accrued postretirement benefits is based on the actuarial findings of an independent actuary for the cost of medical benefits for current and future associate retirees.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 10, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not condition to our retention.

Other information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of West Kentucky Rural Telephone Cooperative Corporation, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Tatherow, Haile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 15, 2014