Gearheart Communications, Inc. d/b/a
Coalfields Telephone Company
Harold, Kentucky

Audited Financial Statements
December 31, 2013 and 2012

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Independent Auditor's Report

To the Board of Directors
Coalfields Telephone Company

I have audited the accompanying financial statements of Coalfields Telephone Company, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenue and comprehensive income, changes in stockholder's equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

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

Alan M. Zumstein

Alan M. Zumstein, CPA
February 11, 2014

Coalfields Telephone Company
Balance Sheets, December 31, 2013 and 2012

Assets	2013	2012
Current Assets:		
Cash and cash equivalents	$ 1,924,102	$ 1,655,251
Accounts receivable, less allowance for 2013 of $64,275 and 2012 of $26,568	1,220,447	872,619
Materials and supplies, at average cost	81,745	125,073
Prepayments	145,270	-
	3,371,564	2,652,943
Investments and Other Assets:		
Associated organizations	20,615,937	19,603,650
Due from related parties	17,127,698	17,342,929
Non regulated investments	556,388	548,504
	38,300,023	37,495,083
Telecommunications Plant, at original cost:		
In service	22,835,441	22,005,119
Under construction	536,075	64,022
	23,371,516	22,069,141
Less accumulated depreciation	16,473,718	15,487,312
	6,897,798	6,581,829
Total	$ 48,569,385	$ 46,729,855

Liabilities and Stockholders' Equity	2013	2012
Current Liabilities:		
Accounts payable	$ 172,745	$ 350,196
Current portion of long-term debt	133,300	310,000
Customer's deposits	160,299	176,064
Other current and accrued liabilities	118,116	49,405
	584,460	885,665
Long-Term Debt	1,442,981	1,574,531
Deferred Income Taxes	1,242,000	1,117,000
Stockholders' Equity:		
Common stock, no par value:		
Class A voting; 100 shares authorized and issu	10,025	10,025
Class B nonvoting; 10,000 shares authorized; 9,900 shares issued and outstanding	30,075	30,075
Retained earnings	45,785,312	43,638,027
Treasury stock, 334 shares, at cost	(525,468)	(525,468)
	45,299,944	43,152,659
Total	$ 48,569,385	$ 46,729,855

The accompanying notes are an integral part of the financial statements.

Statements of Revenue and Comprehensive Income
for the years ended December 31, 2013 and 2012

	2013	2012
Operating Revenue:		
Local network service	$ 1,629,638	$ 1,440,654
Network access services	4,665,968	5,314,042
Miscellaneous	491,306	990,665
Bundle discount	(50,284)	(36,512)
Less provision for uncollectibles	(76,402)	(323)
	6,660,226	7,708,526
Operating Expenses:		
Plant specific	1,502,761	1,579,399
Plant nonspecific	200,506	368,960
Depreciation	1,143,050	1,071,128
Customer operations	1,031,589	1,014,717
Corporate operations	3,006,709	2,657,168
Other operating taxes	180,586	153,118
	7,065,201	6,844,490
Income from operations	(404,975)	864,036
Other Income and Expenses:		
Other income, principally interest	124,000	78,484
Profit (loss) in limited liability company	2,243,728	2,462,880
Deregulated items:		
Income	1,568,123	2,012,980
Expenses	(977,005)	(932,645)
	2,958,846	3,621,699
Income before interest and taxes	2,553,871	4,485,735
Interest Charges:		
Interest on long-term debt	105,437	149,646
Other interest expense	19,000	14,328
	124,437	163,974
Income Taxes	282,149	1,231,583
Net income	2,147,285	3,090,178
Items of comprehensive income:		
None	-	-
Retained earnings, end of year	$ 2,147,285	$ 3,090,178

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Stockholders' Equity
for the years ended December 31, 2012 and 2013

	Cmmon Stock	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance - Beginning of year	$ 40,100	$ 40,552,935	$ (525,468)	$ 40,067,567
Comprehensive income:				
Net income		3,090,178		3,090,178
Items of comprehensive income				
Amortization				
Adjustments				-
Total comprehensive income				3,090,178
Common stock issued				-
Dividends declared				-
Others		(5,086)		(5,086)
Balance - December 31, 2012	40,100	43,638,027	(525,468)	43,152,659
Comprehensive income:				
Net income		2,147,285		2,147,285
Items of comprehensive income				
Amortization				
Adjustments				-
Total comprehensive income				2,147,285
Common stock issued				-
Dividends declared				-
Others				-
Balance - December 31, 2013	$ 40,100	$ 45,785,312	$ (525,468)	$ 45,299,944

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows
for the years ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Net income	$ 2,147,285	$ 3,090,178
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	1,143,050	1,071,128
Limited liability company income	(2,243,728)	(2,462,880)
Deferred income taxes	125,000	(20,000)
Net change in current assets and liabilities:		
Receivables	(347,828)	136,104
Material and supplies	43,328	9,354
Prepayments	(145,270)	-
Accounts payable	(177,451)	210,775
Customer deposits	(15,765)	(2,668)
Accrued expenses	68,711	(1,287)
	597,332	2,030,704
Cash Flows from Investing Activities:		
Construction of plant	(1,481,897)	(1,200,661)
Salvage recovered from plant retirements	22,878	6,374
Capital in limited liability company	1,231,441	2,299,808
Miscellaneous physical property	(7,884)	14,419
	(235,462)	1,119,940
Cash Flows from Financing Activities:		
Payments on long term debt	(308,250)	(410,000)
Payments from related party, net of receipts	215,231	(2,268,339)
	(93,019)	(2,678,339)
Net increase in cash and cash equivalents	268,851	472,305
Cash and cash equivalents - beginning	1,655,251	1,182,946
Cash and cash equivalents - end of period	$ 1,924,102	$ 1,655,251

	2013	2012
Supplemental disclosures of cash flows information:		
Interest on long-term debt	$ 105,437	$ 151,085
Income taxes	457,149	1,251,583

The accompanying notes are an integral part of the financial statements.

Note 1. Summary of Significant Accounting Policies

Coalfields Telephone Company ("the Company") maintains its records in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS) Uniform System of Accounts, which conform to generally accepted accounting principles in all material respects. The more significant of these policies are as follows:

Telecommunications Plant Telecommunications plant is stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. There was no interest required to be capitalized during the year.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expenses. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to telecommunications plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. The major classification of telecommunications plant in service is:

	2013	2012
General support	$6,866,463	$6,645,078
Central office switching	5,005,278	4,893,359
Circuit equipment	398,715	398,715
Cable and wire facilities	10,564,068	10,067,050
Intangibles	917	917
Total	$22,835,441	$22,005,119

Depreciation Provision has been made for depreciation on the basis of estimated lives of assets, using the straight-line method. Rates are as follows:

Vehicles	12.1%
Buildings	2.7%
Furniture, office and work equipment	6.6 -15.8%
Central office switch	7.5%
Circuit equipment	10.0%
Cable and wire facilities	5.6 - 9.4%

Cash and Cash Equivalents The Company considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

Off Balance Sheet Risk The Company maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. These financial institutions have strong credit ratings and management believes that the credit risk related to the accounts is minimal.

Estimates The preparation of 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the financial statements.

Note 1. Summary of Significant Accounting Policies, continued

Fair Value Measurements The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures,* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

> Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities
>
> Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
>
> Level 3: Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The carrying amounts of the Company's cash and cash equivalents, other receivables, investments, inventories, other assets, trade accounts payable, accrued expenses and liabilities, and other liabilities approximate fair value due to their short maturity. Investments are not considered a financial instrument because they represent nontransferable interests in associated/related organizations. Other assets and liabilities are not considered financial instruments because they represent activities specifically related to the Company. Long term debt can not be traded in the market, and is specifically for telecommunications companies and, therefore, a value other than its outstanding principal cannot be determined.

The Company may, and also does, invest idle funds in local banks. The inputs used to measure idle funds are Level 1 measurements, as these funds are exchange traded funds in an active market.

Revenue Recognition The Company is a Kentucky corporation engaged in telephone communications services to residential and business customers located in portions of two eastern Kentucky counties. The Company's revenues are recognized when earned regardless of the period in which they are billed. The Company bills customers on credit with certain customers required to pay a refundable deposit. Payments are due 20 days from the date of billing, at which time a disconnect notice is sent with payment to be made within 10 days. If not paid by then, the customer is subject to disconnect. Accounts are written off when they are deemed to be uncollectible. The allowance is based on the aging of receivables and prior write-offs. There were no customers whose balance exceeded 10% of receivables at December 31, 2013 or 2012.

Compensation for interstate access services is received through tariffed access charges filed by the National Exchange Carrier Association (NECA) with the Federal Communications Commission (FCC) on behalf of the member companies as an average schedule company. Compensation for intrastate/intralata services is received through tariffed long distance rates filed with the FCC and billed to the end user. The resulting revenues are pooled with like revenues from all telephone companies in the state. The portion of the pooled long distance revenue received by the Company is based upon a contractual agreement with the long distance carrier. Compensation for intrastate/interlata service is received through tariffed access charges as filed with the FCC. These access charges are billed to the interlata long distance carrier and retained by the Company.

Note 1. Summary of Significant Accounting Policies, continued

The number of subscribers, and those with enhanced DSL service, are as follows:

	2013	%	2012	%
Number of subscribers	5,554		5,602	
DSL included in above	2,860	51%	2,916	52%

Revenue by jurisdiction is as follows:

	2013	%	2012	%
Local network service	$1,632,453	24%	$1,443,469	19%
Intrastate Intralata	440,110	6%	1,160,158	15%
Intrastate Interlata	437,312	6%	784,156	10%
Interstate	3,785,732	56%	3,366,913	43%
Miscellaneous	491,305	7%	990,665	13%
Total	$6,786,912	100%	$7,745,361	100%

Customers who select services to include Coalfields Telephone Company telephone service, long distance and any combination of cable television packages from Inter Mountain Cable, Inc. (a related party) receive a discount for selecting these "bundled services". The bundled discount is based on the level of services received by the customer.

The company is required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. The Company's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

Risk Management The Company is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Comprehensive Income Comprehensive income includes both net margin and other comprehensive income. The company does not have items that would be considered comprehensive income at December 31, 2013 or 2012.

Advertising The Company expenses advertising costs as incurred.

Subsequent Events Management has evaluated subsequent events through February 5, 2014, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 2. Investments

The amounts for East Kentucky Network, LLC represents the Company's investment in a limited liability corporation with other telephone companies in eastern Kentucky for the purpose of providing cellular telephone, paging, and other services. The investment is accounted for using the equity method since the Company is a one-fifth owner. Capital credit allocations from Rural Telephone Finance Cooperative (RTFC) are recorded in the period when notified.

Note 2. Investments, continued

Investments consisted of the following:

	2013	2012
East Kentucky Network		
Capital contributed	$3,782,600	$3,782,600
Partnership income, less disbursements	16,743,549	15,731,262
RTFC, patronage capital	89,788	89,788
Total	$20,615,937	$19,603,650

Note 3. Amounts Due From Related Parties

The Company transacts business with Inter Mountain Cable, Inc., which is a related party because of common ownership. The officers and majority shareholders of the Company also own 100% of the outstanding stock of Inter Mountain Cable. The Company also transacts business with East Kentucky Network, LLC of which the Company is a one-fifth owner. The Company also transacts business with PDNS, LLC, which is considered a related party because of common ownership. PDNS has a division that operates under the name of Mountain Telephone Service (MTS), which also conducts business with the Company. The Company also provides personnel for AJSPD, LLC, which is considered a related party because of common ownership. Lindy Wells, LLC and AJSPD, LLC are related parties because of common ownership.

The Company and Inter Mountain Cable, PDNS and MTS share common office space, office equipment and /or personnel of the Company. A fee is charged for these services.

During 2003, the Company cashed in the value of a life insurance policy, using the proceeds to purchase a note receivable from an irrevocable trust fund set up by the majority shareholders of the Company. The note is dated January 1, 2003 with the current interest rate at 1.65%. There are no scheduled repayments of the note.

During 2005, the Company advanced funds to Inter Mountain Cable for operating cash. These advances do not have a repayment schedule and bear interest at 5.0%.

Amounts due from related parties are as follows:

	2013	2012
Inter Mountain Cable, Inc.	$1,389,695	$2,846,938
Inter Mountain Cable, Inc. - CABS	3,944,341	3,857,812
PDNS, LLC	7,188,643	7,019,248
Irrevocable Trust, note receivable	424,045	424,045
Echo Trust	(3,647)	(3,372)
Mountain Telephone Service (PDNS)	1,444,525	1,492,427
AJSPD, LLC	1,822,123	1,067,638
Lindy Wells, LLC	769,758	517,864
AJSPD, LLC	148,215	120,329
Total	$17,127,698	$17,342,929

Note 4. Non Regulated Activities

Deregulated customer premises equipment is stated at cost; material held for lease or resale is stated at average cost. CPE also includes inside wire revenues and expenses. Depreciation is provided on a straight-line basis at 11.9% per year. Fiber cable outside of the service territory of the Company is considered as a non regulated investment. The depreciation rate for fiber cable is 5.1% per year.

Non regulated property includes the following:

	2013	2012
Material held for lease or resale	$62,407	$51,717
Station apparatus/modems	126,000	79,545
Fiber cable	489,499	489,499
Land and buildings	762,272	762,272
Less: accumulated depreciation	(883,790)	(834,529)
Total	$556,388	$548,504

Note 5. Note Payable

During 2013, the Company refinanced a Term Promissory Note in the amount of $1,667,030 from Fifth Third Bank. The interest rate is equal to the "LIBOR" rate (equal to the "British Bankers Association Interest Rate Settlement") plus 160 basis points, plus or minus a swap interest rate adjustment. This has the effect of making the interest rate fixed to the Company. The effective interest rate decreased from 7.02% to 5.45% and matures during 2018. Substantially all assets are pledged as collateral on the note. The note has been personally guaranteed by Paul R. and Elaine Gearheart, Paul D. and Linda Gearheart, and John and Susan Schmoldt, individually and collectively.

Principal payments are due as follows:

2014	$133,300
2015	139,800
2016	147,500
2017	155,900
2018	163,695
Thereafter	836,086
Total	$1,576,281

Note 6. Pension Plan

Effective January 1, 2008, the Company discontinued its defined benefit retirement plan and implemented a defined contribution pension plan (Gearheart Communications, Inc. 401(k) Plan (the Plan)). The assets in the defined benefit plan were frozen as of December 31, 2007 in the National Telephone Cooperative Association (NTCA) Pension Plan. The defined contribution plan is qualified as being tax exempt from federal income tax under the Internal Revenue Code.

Participants may elect to defer a percentage of compensation, not to exceed a dollar limit set by law. After participants have entered the Plan, they are eligible to share in match contributions that are made for any year they defer. Contributions are 100% vested immediately upon entry to the Plan. Contributions were $186,423 for 2013 and $175,015 for 2012.

Note 7. Income Taxes

Income taxes are provided on income as reported in the accompanying statements regardless of when such taxes are payable. Deferred taxes, which result from the recognition of certain income and expense items in different time periods for financial statement and tax return purposes, relate primarily to the use of accelerated depreciation for income tax purposes and the current deduction for tax purposes of certain costs incurred in the removal of telecommunications plant. Such removal costs are charged to accumulated depreciation for financial reporting purposes.

The Company's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes the Company has no uncertain tax positions resulting in an accrual of tax expense or benefit. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company did not recognize any interest or penalties during the years ended December 31, 2013 and 2012. The Company's income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years. Income taxes are as follows:

	2013	2012
Currently payable:		
Federal	$141,200	$985,477
State	15,949	266,106
	157,149	1,251,583
Deferred liability	125,000	(20,000)
Total	$282,149	$1,231,583

Note 8. Rents

The Company rents two lots for $100 each, a portion of rental property for $200 per month, and a billboard for $325 per month from related parties. The Company also pays $1,000 per month for radio advertising and $8,000 per month for television advertising from Inter Mountain Cable, a related party.

The Company leases fiber from East Kentucky Network, with the amount being determined by the number of fiber leased and traffic along the fiber network. The Company leases circuits from East Kentucky Network for trunk lines to carry long distance traffic.

Note 9. Commitments

The Company has various agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction, maintenance, and other work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are one to three years.

Note 10. Contingencies

The Company, on occasion, is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

* * * * * *