



Report of Independent Auditors and
Consolidated Financial Statements
with Supplementary Consolidating Schedules for
**Logan Telephone Cooperative, Inc.
and Subsidiary**

December 31, 2016 and 2015

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Logan Telephone Cooperative, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Logan Telephone Cooperative, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Kentucky RSA 3 Cellular General Partnership, Cumberland Cellular Partnership, Bluegrass Telecom, LLC and Bluegrass Networks, LLC (the partnerships and limited liability companies). The investments in the partnerships and limited liability companies were \$41,415,728 and \$34,404,741 as of December 31, 2016 and 2015, respectively, and the equity in their net income was \$11,508,608 and \$6,152,411, respectively, for the years then ended. The financial statements of the partnerships and limited liability companies were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the partnerships and limited liability companies, is based solely on the report 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

The Board of Directors
Logan Telephone Cooperative, Inc.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Logan Telephone Cooperative, Inc. and its subsidiary as of December 31, 2016 and 2015, 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.

Moss Adams LLP

Overland Park, Kansas

March 24, 2017

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LOGAN TELEPHONE COOPERATIVE, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31,	
	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,251,096	\$ 4,148,390
Investments	677,496	981,997
Accounts receivable		
Customers	39,469	39,652
Interexchange carriers and NECA	490,589	414,174
Related party	16,335	15,840
Material and supplies	724,408	537,224
Other current assets	135,135	129,438
	<u>4,334,528</u>	<u>6,266,715</u>
NONCURRENT ASSETS		
Investments in affiliates	41,415,728	34,404,741
Other noncurrent investments	2,820,694	2,688,724
	<u>44,236,422</u>	<u>37,093,465</u>
PROPERTY, PLANT, AND EQUIPMENT		
Regulated plant in service	64,114,590	61,761,075
Regulated plant under construction	1,698,387	3,782,322
Nonregulated plant in service	267,581	267,581
	<u>66,080,558</u>	<u>65,810,978</u>
Less accumulated depreciation	34,540,250	36,031,334
	<u>31,540,308</u>	<u>29,779,644</u>
	<u>31,540,308</u>	<u>29,779,644</u>
Net property, plant, and equipment		
	<u>31,540,308</u>	<u>29,779,644</u>
Total assets	<u>\$ 80,111,258</u>	<u>\$ 73,139,824</u>

LOGAN TELEPHONE COOPERATIVE, INC.
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND MEMBERS' EQUITY

	December 31,	
	2016	2015
CURRENT LIABILITIES		
Accounts payable	\$ 772,716	\$ 829,108
Advance billing and customer deposits	131,295	123,634
Accrued income taxes	381,736	168,456
Other current liabilities	187,255	430,494
Total current liabilities	<u>1,473,002</u>	<u>1,551,692</u>
NONCURRENT LIABILITIES		
Deferred income taxes	1,914,169	2,520,958
Postretirement benefit obligation	974,528	816,342
Total noncurrent liabilities	<u>2,888,697</u>	<u>3,337,300</u>
MEMBERS' EQUITY		
Memberships issued	5,083	4,992
Patronage capital	20,446,889	19,399,654
Retained margins	57,040,907	50,356,122
Accumulated other comprehensive loss	(1,743,320)	(1,509,936)
Total members' equity	<u>75,749,559</u>	<u>68,250,832</u>
Total liabilities and members' equity	<u>\$ 80,111,258</u>	<u>\$ 73,139,824</u>

LOGAN TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2016	2015
OPERATING REVENUES		
Wireline	\$ 7,792,818	\$ 6,955,572
Internet	2,089,806	1,944,719
Miscellaneous	421,869	350,835
Net operating revenues	<u>10,304,493</u>	<u>9,251,126</u>
OPERATING EXPENSES		
Plant specific operations	1,461,322	1,494,506
Plant nonspecific operations	704,718	594,041
Depreciation and amortization	2,928,289	2,382,166
Customer operations	591,868	527,919
Corporate operations	1,182,503	1,127,700
Other operating taxes	634,971	533,704
Nonregulated	1,904,763	1,843,729
Total operating expenses	<u>9,408,434</u>	<u>8,503,765</u>
Net operating margins	<u>896,059</u>	<u>747,361</u>
NONOPERATING INCOME (EXPENSE)		
Income from affiliates	11,508,608	6,152,411
Other nonoperating expenses	(738)	(437)
Interest and dividend income	87,599	86,527
Nonoperating income	<u>11,595,469</u>	<u>6,238,501</u>
NET MARGINS BEFORE INCOME TAXES	<u>12,491,528</u>	<u>6,985,862</u>
Income tax expense	<u>4,220,490</u>	<u>1,430,049</u>
NET MARGINS	<u>\$ 8,271,038</u>	<u>\$ 5,555,813</u>

LOGAN TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	<u>2016</u>	<u>2015</u>
Net margins	<u>\$ 8,271,038</u>	<u>\$ 5,555,813</u>
Other comprehensive (loss)		
Unrealized holding gains on available for sale securities arising during the year	11,122	-
Postretirement healthcare benefits		
Net loss arising during the period	(40,141)	(1,624,416)
Amortization of prior service obligation and net (gain) loss	<u>(204,365)</u>	<u>292,092</u>
Other comprehensive loss	<u>(233,384)</u>	<u>(1,332,324)</u>
Comprehensive income	<u><u>\$ 8,037,654</u></u>	<u><u>\$ 4,223,489</u></u>

LOGAN TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

	Memberships Issued	Patronage Capital	Retained Margins	Accumulated Other Comprehensive Loss	Total Members' Equity
December 31, 2014	\$ 4,936	\$ 18,232,845	\$ 46,517,968	\$ (177,612)	\$ 64,578,137
Memberships issued	499	-	-	-	499
Patronage capital refunds and Retirements	(443)	(550,850)	-	-	(551,293)
Allocation of 2014 Patronage margin	-	1,717,659	(1,717,659)	-	-
Net margins	-	-	5,555,813	-	5,555,813
Other comprehensive loss	-	-	-	(1,332,324)	(1,332,324)
December 31, 2015	4,992	19,399,654	50,356,122	(1,509,936)	68,250,832
Memberships issued	542	-	-	-	542
Patronage capital refunds and Retirements	(451)	(539,018)	-	-	(539,469)
Allocation of 2015 Patronage margin	-	1,586,253	(1,586,253)	-	-
Net margins	-	-	8,271,038	-	8,271,038
Other comprehensive loss	-	-	-	(233,384)	(233,384)
December 31, 2016	<u>\$ 5,083</u>	<u>\$ 20,446,889</u>	<u>\$ 57,040,907</u>	<u>\$ (1,743,320)</u>	<u>\$ 75,749,559</u>

LOGAN TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	\$ 8,271,038	\$ 5,555,813
Adjustments to reconcile net margin to cash from operating activities		
Depreciation and amortization	2,928,289	2,382,166
Nonregulated depreciation	45,004	51,385
Amortization of bond premium/discount	10,581	26,877
Change in cash surrender value of life insurance	1,039	16,214
Income from affiliates	(11,508,608)	(6,152,411)
Deferred income taxes	(606,789)	(739,074)
Changes in operating assets and liabilities		
Accounts receivable	(76,727)	10,559
Materials and supplies	(187,184)	(197,824)
Prepaid income taxes	-	505,068
Other current assets	(5,697)	6,343
Accounts payable	(56,392)	(276,032)
Advance billing and customer deposits	7,661	16,720
Accrued income taxes	213,280	168,456
Other current liabilities	(243,239)	113,847
Postretirement benefits	(86,320)	(222,249)
Net cash from operating activities	<u>(1,294,064)</u>	<u>1,265,858</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant, and equipment	(4,733,415)	(9,962,952)
Purchase of investments	(1,939,378)	(2,309,314)
Proceeds from sales of investments	2,110,869	2,936,000
Distributions from investments in affiliates	4,497,621	3,798,139
Net cash from investing activities	<u>(64,303)</u>	<u>(5,538,127)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital credit retirements	(539,018)	(550,850)
Payment of members' subscriptions	(451)	(443)
Proceeds from members' contributions	542	499
Net cash from financing activities	<u>(538,927)</u>	<u>(550,794)</u>

LOGAN TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	<u>2016</u>	<u>2015</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,897,294)	(4,823,063)
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,148,390</u>	<u>8,971,453</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,251,096</u>	<u>\$ 4,148,390</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for		
Income taxes	<u>\$ 4,614,000</u>	<u>\$ 1,495,600</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Postretirement benefit obligation adjustment	<u>\$ 244,506</u>	<u>\$ 1,332,324</u>
Unrealized gains on investments	<u>\$ (11,122)</u>	<u>\$ -</u>

LOGAN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Organization – Logan Telephone Cooperative, Inc. (the Cooperative), a cooperative organized in the state of Kentucky, is a regulated local exchange telephone company providing telephone and internet service to approximately 5,100 members.

The Cellular Division of Logan Telephone Cooperative, Inc. (the Cellular Division), a corporation organized in the state of Kentucky, 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 the Cooperative.

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Cooperative and the Cellular Division, the consolidated group herein referred to as the “Cooperative”. All significant intercompany balances and transactions have been eliminated.

Accounting policies – The financial statements of the Cooperative have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to regulated public utilities. Such accounting principles are consistent, in all material respects, with accounting prescribed by the Federal Communications Commission (FCC).

Accounting estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include depreciation expense, deferred income tax expense, postretirement benefit plan obligations, and interstate access revenue settlements.

Cash and cash equivalents – For purposes of the consolidated statements of cash flows, the Cooperative considers all highly liquid investments with an original maturity of six months or less when purchased to be cash equivalents.

Concentration of risk – At various times throughout the year, the cash balances deposited in local institutions exceed federally insured limits. A possible loss exists for those amounts in excess of \$250,000.

The Cooperative invests excess funds in repurchase agreements which are collateralized primarily by bonds of financial institutions. Such investment in repurchase agreements amounted to \$1,000,000 and \$3,400,000 as of December 31, 2016 and 2015, respectively. Collateral pledged on these investments in repurchase agreements amounted to \$1,978,975 and \$3,649,412 as of December 31, 2016 and 2015, respectively. Repurchase agreements have been included in cash and cash equivalents at both December 31, 2016 and 2015.

LOGAN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Valuation of accounts receivable – Accounts receivable are stated at the amount management expects to collect on outstanding balances. The Cooperative reviews the collectability of accounts receivable annually based upon an analysis of outstanding receivables, historical collection information, and existing economic conditions. Receivables from subscribers are due 10 days after issuance of the bill and receivables from other exchange carriers are due 30 days after issuance of the bill. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance 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 valuation allowance and a credit to accounts receivable. Company management believes it has established adequate reserves for any risk associated with these receivables. The allowance for doubtful accounts was \$500 at December 31, 2016 and 2015.

Material and supplies – Material and supplies consist of construction materials, handsets and accessories held for resale, and other equipment, which are valued at the lower of average cost or net realizable value.

Investments in affiliates – The Cooperative accounts for its investments in limited liability companies and other entities by the equity method of accounting under which the Cooperative's share of the net income of the affiliates is recognized as income in the Cooperative's income statement and added to the respective investment account. Under the equity method of accounting, dividends or returns of capital reduce the investment balance.

Other investments – The Cooperative's policy for investment securities is as follows:

Trading securities – Trading securities consist of debt and equity securities that are bought and held principally for the purpose of selling in the near term and are reported at fair value, with unrealized gains and losses included in earnings. The Cooperative did not hold any trading securities during 2016 and 2015.

Securities, held to maturity – Debt securities to which the Cooperative has the positive intent and ability to hold to maturity are classified as held to maturity. Held to maturity securities are stated at amortized cost.

Securities, available for sale – Securities not classified as held to maturity or trading are classified as available for sale. Available for sale securities are stated at fair value, with unrealized gains and losses reported as a separate component of members' equity. Realized gains and losses are included in interest and dividend income on the consolidated statements of operations and the cost of securities sold is determined using the specific identification method.

LOGAN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Property, plant, and equipment – Property, plant, and equipment are stated at original cost. Regulated plant includes assets that are jointly used for regulated and nonregulated activities. The cost of additions and substantial betterments of property, plant, and equipment is capitalized. The cost of maintenance and repairs is charged to operating expenses.

In accordance with composite group depreciation methodology, when a portion of the Cooperative's regulated depreciable property, plant, and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation.

Depreciation of the Cooperative's nonregulated plant is provided by the straight-line method over the estimated useful lives of the assets. Upon retirement, sale, or other disposition of nonregulated investments, the cost and related accumulated depreciation are removed from the related accounts and the resulting gains or losses are included in operations.

Long-lived assets – Long-lived assets are reviewed whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. When such events occur, the Cooperative determines potential impairment by comparing the carrying value of its assets with the sum of the undiscounted cash flows expected to be provided by operating and eventually disposing of the asset. Should the sum of the expected future net cash flows be less than carrying values, the Cooperative would determine whether an impairment loss should be recognized. No impairment losses on long-lived assets have been identified in the consolidated financial statements.

Members' equity – Patronage margins are assigned to members on a patronage basis in accordance with the Cooperative's bylaws. Nonpatronage margins, in addition to the net margins of the Cellular Division, are retained by the Cooperative and are not assignable to patrons until the Board of Directors determine otherwise. If authorized by the Board, a portion of total assigned patronage is distributed to members as a general retirement. The total amount retired is determined by Board resolution each year.

Comprehensive income – Comprehensive income is defined as the change in equity of a business during a period as a result of net margins and other gains and losses affecting equity that, under accounting principles generally accepted in the United States of America, are excluded from net margins. Unrecognized actuarial adjustments in postretirement benefit plan obligations and unrealized gains and losses on available for sale securities are included in other comprehensive income.

Income taxes – In 2016 and 2015, the Cooperative was taxable for federal purposes. As a taxable cooperative, taxable income consists of margins earned from nonpatronage and nonoperating sources. Margins earned from patronage sources are not taxable to the extent margins are allocated to patrons in the form of capital credits. The Cellular Division is a taxable entity for federal and state income tax purposes.

LOGAN TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred taxes are provided on a liability method whereby deferred tax liabilities are recognized for taxable temporary differences, and deferred tax assets are recognized for deductible temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. The differences relate primarily to differences in book basis and tax basis of partnership interests. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

The Cooperative records uncertain tax positions if the likelihood the position will be sustained upon examination is less than 50 percent. As of December 31, 2016 and 2015, the Cooperative had no accrued amounts related to uncertain tax positions. Interest and penalties, if any, are recorded as interest expense and other expense, respectively.

Revenue recognition – Monthly service fees derived from local wireline and Internet services are billed one month in advance, but recognized in the month that service is provided.

Usage sensitive revenues such as access (revenues earned for originating/terminating long distance calls), long distance, and wireless roaming are generally billed as a per-minute charge. Although these revenues are billed in arrears, an estimate of unbilled revenues is accrued in the month service is provided.

Interstate access revenues also include settlements based on the Cooperative's participation in the revenue pools administered by the National Exchange Carrier Association (NECA). Settlement revenues are determined by annually prepared separations and interstate access cost studies. These studies are prepared subsequent to year end and therefore, the related revenues are recorded on the books based on an estimate of the Company's costs, NECA pool earnings and on other assumptions related to information utilized in the preparation of the Cooperative's cost study. The studies are subject to a 24-month pool earnings adjustment period and a review of the study by NECA. There was an insignificant revenue impact in 2016 and 2015 for adjustments related to prior year differences between the recorded estimates and actual revenues. Management does not anticipate that 2016 and 2015 recorded revenues will require significant adjustments in future years.

Internet revenues are derived from providing end user customers connection to the public Internet. Additionally, interstate access revenues include settlements from NECA that compensate the Cooperative for the DSL transport related to Internet traffic.

Universal Service support revenue is intended to compensate the Cooperative for the high cost of providing rural telephone service. Universal Service support revenue includes funds received for high cost loop support (HCLS), interstate common line support (ICLS), Connect America Fund (CAF), and other miscellaneous programs. High cost loop support and interstate common line support are based on the Cooperative's relative level of operating expense and plant investment. Support from the CAF is based on a historical frozen amount related to 2011 investment and expenses associated with the switching function and certain 2011 intrastate access revenues, which together make up the CAF base. The CAF base will be reduced by five percent each year in determining CAF support.

LOGAN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Regulation – The Cooperative's services are subject to rate regulation as follows:

- Local telephone and intrastate access revenues are regulated by the Kentucky Public Service Commission. The FCC also has assumed preemptive authority to regulate intrastate telecommunications services, including intrastate terminating access rates.
- Interstate access revenues are regulated by the FCC through its regulation of rates and settlements procedures as administered by NECA.
- Universal Service support revenues are administered by Universal Service Administrative Company (USAC), based on rules established by the FCC.

Other sources of revenues are not rate regulated and include Internet, equipment sales, directory, rents, and other incidental services. Nonregulated expenses and nonregulated plant are directly attributable to nonregulated services and miscellaneous revenues. All other operating expenses and telecommunications plant are related primarily to wireline revenues. However, some of these costs jointly relate to regulated and nonregulated services. For interstate access settlement, Universal Service support, rate case, and other regulatory purposes, the portion of these common costs related to nonregulated activities are removed in accordance with Part 64 of the FCC rules in order to ensure regulated revenues are based on costs of providing regulated services.

The FCC released an Order and Further Notice of Proposed Rulemaking (FNPRM) in 2016 that reforms the High Cost Program supporting rate-of-return carriers. The FCC has also created a mechanism to ensure the \$2 billion budget for Universal Service Support is not exceeded. The following changes have been implemented to modernize the program:

- Provides support for stand-alone broadband;
- Requires broadband deployment based on the number of locations lacking service and the cost of providing service;
- Requires allowances for capital investments and limits on operational expenses; and
- Phases out support for areas served by a qualifying competitor.

The FNPRM also created two paths to a Connect America Fund for rate of return carriers. The model based option is voluntary and is a fixed amount of support for ten years. The legacy mechanism reforms the existing ICLS mechanism to support stand-alone broadband and will now be known as the Connect America Fund Broadband Loop Support (CAF BLS). The Company is expected to receive support under the legacy mechanism in future years.

Concentration of market risk – The Cooperative receives a significant portion of its annual operating revenues from Universal Service support. For the years ended December 31, 2016 and 2015, revenues from Universal Service support represent approximately 40 percent and 36 percent, respectively, of operating revenues.

Advertising expenses – The Cooperative expenses advertising costs as incurred. Advertising expenses during the years ended December 31, 2016 and 2015 were \$95,109 and \$89,309, respectively.

LOGAN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Fair value measurements – Fair value represents the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The Cooperative follows the following fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value:

- | | |
|----------------|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities. |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets. |
| Level 3 | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. |

The fair value measurement guidance is applicable to the Cooperative related to the postretirement benefit plan assets in Note 5.

Taxes imposed by governmental authorities – The Cooperative's customers are subject to taxes assessed by various governmental authorities on many different types of revenue transactions with the Cooperative. These specific taxes are charged to and collected from the Cooperative's customers and subsequently remitted to the appropriate taxing authority. The taxes are accounted for on a net basis and excluded from revenues.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Cooperative recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheets, including the estimates inherent in the process of preparing the consolidated financial statements. The Cooperative's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheets but arose after the consolidated balance sheet's date and before the consolidated financial statements are available to be issued.

The Cooperative has evaluated subsequent events through March 24, 2017, which is the date the consolidated financial statements are available to be issued.

Reclassifications – For comparability, certain amounts reported in 2015 have been reclassified in order to conform to the 2016 presentation. These reclassifications had no effect on net margins or members' equity as previously reported.

LOGAN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Investments

Investments consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Investments in affiliates	\$ 41,415,728	\$ 34,404,741
Investments, held to maturity	3,199,332	3,648,611
Investments, available for sale	275,664	-
Cash surrender value of life insurance	<u>23,194</u>	<u>22,110</u>
Total	<u>\$ 44,913,918</u>	<u>\$ 38,075,462</u>

Investments in affiliates – Investments in affiliates include investments in two partnerships which operate cellular telephone systems and two limited liability companies (LLCs) which provide network services and long distance services.

Investment balances and the Company’s respective ownership percentages in the entities are as follows:

	<u>Ownership</u>	<u>2016</u>	<u>2015</u>
Kentucky RSA #3 Cellular General Partnership	25.00%	\$ 26,367,219	\$ 21,305,761
Bluegrass Networks, LLC	20.00%	5,659,071	5,359,948
Bluegrass Telecom, LLC	20.00%	342,022	342,022
Cumberland Cellular Partnership	12.50%	<u>9,047,416</u>	<u>7,397,010</u>
Total		<u>\$ 41,415,728</u>	<u>\$ 34,404,741</u>

The assets, liabilities, equity, and the operations of the Cooperative’s significant investments in affiliates as of and for the years ended December 31 are as follows:

	Bluegrass Networks, LLC		Cumberland Cellular Partnership		Kentucky RSA #3	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Assets	\$ 28,916,552	\$ 27,611,899	\$ 79,538,622	\$ 66,277,674	\$ 116,304,910	\$ 93,736,044
Liabilities	<u>(621,197)</u>	<u>(812,155)</u>	<u>(7,159,292)</u>	<u>(7,101,578)</u>	<u>(10,836,034)</u>	<u>(8,513,004)</u>
Equity	<u>\$ 28,295,355</u>	<u>\$ 26,799,744</u>	<u>\$ 72,379,330</u>	<u>\$ 59,176,096</u>	<u>\$ 105,468,876</u>	<u>\$ 85,223,040</u>
Revenue	\$ 8,814,128	\$ 9,762,572	\$ 75,072,202	\$ 68,450,456	\$ 92,802,430	\$ 78,174,641
Expenses	<u>(6,318,507)</u>	<u>(5,813,711)</u>	<u>(53,892,968)</u>	<u>(56,558,472)</u>	<u>(59,550,596)</u>	<u>(62,862,781)</u>
Net margins	<u>\$ 2,495,621</u>	<u>\$ 3,948,861</u>	<u>\$ 21,179,234</u>	<u>\$ 11,891,984</u>	<u>\$ 33,251,834</u>	<u>\$ 15,311,860</u>

Investments, held to maturity – Investments classified as held to maturity are carried at amortized cost. Those investments include certificates of deposit, corporate bonds, and government bonds. Unrealized losses on investment classified as held to maturity amounted to \$22,323 and \$6,800 at December 31, 2016 and 2015, respectively.

LOGAN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Investments (continued)

Investments, held to maturity, consist of the following at December 31:

	2016		2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Current investments:				
Corporate bonds	\$ 177,496	\$ 177,599	\$ 51,142	\$ 50,998
Government bond	-	-	187,855	187,814
Certificates of deposit	500,000	500,035	743,000	742,568
Total current investments	<u>677,496</u>	<u>677,634</u>	<u>981,997</u>	<u>981,380</u>
Long-term investments:				
Certificates of deposit	-	-	250,000	250,007
Corporate bonds	1,439,079	1,430,475	1,618,587	1,554,171
Government bonds	1,082,757	1,068,900	798,027	856,253
Total long-term investments	<u>2,521,836</u>	<u>2,499,375</u>	<u>2,666,614</u>	<u>2,660,431</u>
Total investments	<u>\$ 3,199,332</u>	<u>\$ 3,177,009</u>	<u>\$ 3,648,611</u>	<u>\$ 3,641,811</u>

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

2017	\$ 677,496
2018	530,998
2019	379,976
2020	354,003
2021 and thereafter	<u>1,256,859</u>
	<u>\$ 3,199,332</u>

Investments, available for sale - Investments classified as available for sale at December 31, 2016 have a cost basis of \$264,542 and fair value of \$275,664. Shares of common stock are valued using the quoted net asset value of shares held by the Cooperative and are classified within Level 1 of the valuation hierarchy.

Net unrealized holding gains on available for sale securities in the amount of \$11,122 for the year ended December 31, 2016 have been included in accumulated other comprehensive income.

LOGAN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Property, Plant, and Equipment

Major classes of property, plant, and equipment consist of the following at December 31:

	Depreciable Life	Plant Account	Accumulated Depreciation	2016 Net Balance	2015 Net Balance
Regulated plant					
General support assets	6-37 years	\$ 6,167,674	\$ 2,829,725	\$ 3,337,949	\$ 3,071,866
Central office assets	8-13 years	10,662,770	8,432,530	2,230,240	1,782,825
Cable and wire facilities	10-45 years	47,284,146	23,026,058	24,258,088	21,120,959
Plant under construction	n/a	1,698,387	-	1,698,387	3,782,322
		<u>65,812,977</u>	<u>34,288,313</u>	<u>31,524,664</u>	<u>29,757,972</u>
Nonregulated plant					
Internet equipment	5 years	267,581	251,937	15,644	21,672
		<u>267,581</u>	<u>251,937</u>	<u>15,644</u>	<u>21,672</u>
		<u>\$ 66,080,558</u>	<u>\$ 34,540,250</u>	<u>\$ 31,540,308</u>	<u>\$ 29,779,644</u>

Note 4 – Income Taxes and Deferred Income Tax

Income tax expense consists of the following for the years ended December 31:

	2016	2015
Current		
Federal	\$ 4,060,220	\$ 1,872,939
State	767,059	296,184
Deferred		
Federal & state	(606,789)	(303,115)
Deferred tax liability adjustment	-	(435,959)
Total income tax expense	<u>\$ 4,220,490</u>	<u>\$ 1,430,049</u>

For the years ended December 31, 2016 and 2015, the consolidated income tax return computed at the statutory rate differs from the amount of the expense recorded in the financial statements. The difference relates primarily to the Cooperative patronage exclusion, permanent differences, prior year over and under accruals, and state income taxes.

In 2015, it was determined that Logan Telephone's investment in Bluegrass Network is patronage in nature and will not be subject to tax due to the patronage exclusion. Therefore, the corresponding deferred tax liability of \$435,959 has been written off in 2015. Also, due to the patronage exclusion, no deferred tax provision is recognized for the postretirement benefit plan.

LOGAN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Income Taxes and Deferred Income Tax (continued)

The components of the Cooperative’s net deferred tax liability consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Deferred tax liabilities, noncurrent		
Partnership basis difference	<u>\$ (1,914,169)</u>	<u>\$ (2,520,958)</u>

Note 5 – Pension Plans

Defined benefit plans – The Cooperative participates in a multi-employer pension plan with the National Telephone Cooperative Association (NTCA) that cover substantially all of its employees and are described below.

The risks of participating in multi-employer plans are different from single employer plans as follows:

(1) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (2) if a participating employer stops contributing to the Plan, the unfunded obligations of the Plan may be borne by the remaining participating employers, and (3) if the Cooperative chooses to stop participating in a plan, the Cooperative may be required to pay a penalty.

The Cooperative’s participation in the multi-employer plan is outlined in the table below. The information below is from the Plan’s most recent Form 5500 filing which covers the Plan years 2015 and 2014. At the date the consolidated financial statements were issued, Form 5500 was not available for the year ending 2016.

Plan Name	Employer Identification Number/Plan Number	Pension Protection Act Zone Status		Employer Contributions		Company Contributions Greater than 5% of Total Plan Contributions	Funding Improvement/ Rehabilitation Plan in Place	Surcharges Imposed	Expiration Date of Collective-Bargaining Agreements	Minimum Contributions Required in the Future
		2014	2013	2016	2015					
Retirement & Security program for employees of the National Telecommunications Cooperative Association and its member systems	52-0741336/333	At least 80% funded	At least 80% funded	\$ 185,788	\$ 192,599	No	No	Yes	N/A	No

Employees are eligible to receive an annuity or lump-sum payment at retirement based on an average of prior years’ compensation. The Cooperative makes monthly contributions to the plan based on each employee’s compensation and recognizes as an expense the required contribution for the period.

LOGAN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Pension Plans (continued)

Defined contribution plans – The Cooperative contributes one percent of gross wages to a defined contribution 401(k) 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 the Plan during 2016 and 2015 were \$19,171 and \$17,207, respectively.

Other postretirement plan benefits – The Cooperative also sponsors a postretirement benefit plan (the Plan) for employees, directors, and their spouses that provides medical, dental and vision care. Directors shall be defined as Board Retirees after having served on the Board of Directors at least three years if leaving the Board before December 31, 2006, and after having served 20 years if leaving the Board after December 31, 2006. Cooperative funding for this plan ranges between 100 percent and zero percent of related costs based on hire and retirement eligibility dates.

Obligation and funded status – The amount of benefit to be paid depends on a number of future events incorporated into a formula, including estimates of the average life of employees and average years of service rendered, and future interest rates. The benefit obligation is the accumulated benefit obligation, which represents the present value of all future benefits attributed to employee service rendered through the measurement date and does not include changes in future compensation. The measurement date for the accumulated benefit obligation is December 31.

The following table summarizes the benefit obligations and the funded status of the defined postretirement health care plan over the two-year period ending December 31:

	<u>2016</u>	<u>2015</u>
Accumulated postretirement benefit plan obligation	\$ (6,608,634)	\$ (5,983,471)
Plan assets at fair value	<u>5,634,106</u>	<u>5,167,129</u>
Funded status	<u>\$ (974,528)</u>	<u>\$ (816,342)</u>

Amounts included in other comprehensive loss that have not yet been recognized in net periodic benefit cost at December 31 are listed below:

	<u>2016</u>	<u>2015</u>
Unrecognized net loss	<u>\$ (1,754,442)</u>	<u>\$ (1,509,936)</u>
Net amount reported as a reduction to equity	<u>\$ (1,754,442)</u>	<u>\$ (1,509,936)</u>

LOGAN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Pension Plans (continued)

The accumulated loss is a result of the accumulated difference between the actuary’s estimates based on actuarial principles and the Cooperative’s actual experience with factors such as the length of employment, the discount rate for the Plan obligations, and expected rate of return on plan assets. The increase in net loss was driven primarily by a decrease in the discount rate.

Other Plan information – Other Plan information is as follows at December 31:

	<u>2016</u>	<u>2015</u>
Net periodic benefit Plan cost	<u>\$ 99,468</u>	<u>\$ (29,660)</u>

The net periodic benefit cost is the amount recognized in the consolidated financial statements as the cost of the Plan for the year. Components of the net periodic benefit cost are service cost, interest cost, and amortization of unrecognized gains/losses and initial obligations.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

2017	232,144
2018	237,811
2019	274,599
2020	227,723
2021	215,818
2022 through 2027	1,139,404

The weighted average assumptions used in the measurement of the Cooperative’s benefit obligation are shown in the following table at December 31:

<u>Weighted-average assumptions as of December 31</u>	<u>Percent</u>	
	<u>2016</u>	<u>2015</u>
Expected return on Plan assets	7.00	7.00
Discount rate	4.25	4.25

LOGAN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Pension Plans (continued)

For measurement purposes, a seven percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2016. The rate was assumed to decrease gradually each year to a rate of five percent for 2020 and remain at that level thereafter.

Plan assets – Plan assets are managed by NTCA. Equity securities primarily include investments in large-cap companies located in the United States and internationally. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. treasuries. Other types of investments include real estate investment trusts and private equity funds that follow several different strategies.

NTCA makes all the investment decisions for the program with the help of an investment management and consulting firm, Wilshire Associates. The trust committee makes investment decisions, which begin with a review of the assets and liabilities of potential investments and then make their final decision based upon obtaining the rate of return consistent with program needs.

The fair values of the Cooperative’s pension Plan assets at December 31, 2016, by asset category, are as follows:

Asset Type	Percentage of Plan Assets	Amount	Hierarchy Level
Fixed income	22%	\$ 1,256,417	1
International equities	18%	1,010,609	1
Domestic equities	17%	976,013	1
Low volatility equity	14%	808,305	1
Real estate	10%	585,446	2
Private equity	10%	557,557	2
Cash	3%	158,534	1
ETFs	3%	154,220	1
Bonds	2%	127,005	2
Total		<u>\$ 5,634,106</u>	

LOGAN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 – Operating Revenue

Wireline and miscellaneous revenues consist of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Wireline		
Customer	\$ 2,347,051	\$ 2,254,430
Intercarrier		
Interstate	1,199,398	1,190,899
Intrastate	121,336	146,135
Universal Service Support, federal	<u>4,125,033</u>	<u>3,364,108</u>
Total wireline revenues	<u>\$ 7,792,818</u>	<u>\$ 6,955,572</u>

Wireline revenues are classified above as follows:

- Customer revenues include end user charges, such as the subscriber line charge and the federal universal service charge, and access recovery charge.
- Universal Service Support includes the HCLS, ICLS, and CAF.
- All access charge and settlement revenue, except as described above, are classified as intercarrier revenue.

Miscellaneous revenues consist of the following:

	<u>2016</u>	<u>2015</u>
Miscellaneous		
Rent	\$ 32,501	\$ 32,501
Directory	35,223	45,357
Billing and collection	39,679	42,310
Maintenance and calling features	36,793	37,599
Cellular sales and commissions	57,052	67,364
Other	239,611	126,972
Uncollectible	<u>(18,990)</u>	<u>(1,268)</u>
Total miscellaneous revenues	<u>\$ 421,869</u>	<u>\$ 350,835</u>

LOGAN TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Related-Party Transactions

Services are performed for the Cooperative by associated companies, which are related through common ownership. The services received include long distance and broadband transport. During 2016 and 2015, the Cooperative received services from associated companies totaling \$696,531 and \$685,360, respectively.

The receivable from and advances to associated companies due to the Cooperative amount to \$16,334 and \$15,840 at December 31, 2016 and 2015, respectively. Balances due to associated companies by the Cooperative totaled \$53,019 and \$54,997 at December 31, 2016 and 2015, respectively.

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

Board of Directors
Logan Telephone Cooperative, Inc.

We have audited the consolidated financial statements of Logan Telephone Cooperative, Inc. and subsidiary as of and for the year ended December 31, 2016, and our report thereon dated March 24, 2017, which contained an unmodified opinion on those consolidated financial statements appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet detail and consolidating statement of income detail are presented for purposes of additional analysis rather than to present financial position, results of operations and cash flows of the individual companies, and 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 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 taken as a whole.

Moss Adams LLP

Overland Park, Kansas
March 24, 2017

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LOGAN TELEPHONE COOPERATIVE, INC.
CONSOLIDATING BALANCE SHEET DETAIL
DECEMBER 31, 2016

	Logan Telephone Cooperative, Inc.	Cellular Division of Logan Telephone Cooperative, Inc.	Eliminations	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,172,010	\$ 79,086	\$ -	\$ 2,251,096
Investments	677,496	-	-	677,496
Accounts receivable				
Customers	39,469	-	-	39,469
Interexchange carriers and NECA	490,589	-	-	490,589
Related party	832,174	11,300	(827,139)	16,335
Material and supplies	724,408	-	-	724,408
Other current assets	135,135	-	-	135,135
Total current assets	<u>5,071,281</u>	<u>90,386</u>	<u>(827,139)</u>	<u>4,334,528</u>
NONCURRENT ASSETS				
Investment in affiliates	38,661,213	35,756,657	(33,002,142)	41,415,728
Other noncurrent investments	2,820,694	-	-	2,820,694
Total noncurrent assets	<u>41,481,907</u>	<u>35,756,657</u>	<u>(33,002,142)</u>	<u>44,236,422</u>
PROPERTY, PLANT, AND EQUIPMENT				
Regulate plant in service	64,114,590	-	-	64,114,590
Regulated plant under construction	1,698,387	-	-	1,698,387
Nonregulated plant in service	267,581	-	-	267,581
	66,080,558	-	-	66,080,558
Less accumulated depreciation and amortization	34,540,250	-	-	34,540,250
Net property, plant, and equipment	<u>31,540,308</u>	<u>-</u>	<u>-</u>	<u>31,540,308</u>
Total assets	<u>\$ 78,093,496</u>	<u>\$ 35,847,043</u>	<u>\$ (33,829,281)</u>	<u>\$ 80,111,258</u>

LOGAN TELEPHONE COOPERATIVE, INC.
CONSOLIDATING BALANCE SHEET DETAIL
DECEMBER 31, 2016

	Logan Telephone Cooperative, Inc.	Cellular Division of Logan Telephone Cooperative, Inc.	Eliminations	Consolidated
CURRENT LIABILITIES				
Accounts payable	\$ 772,716	\$ -	\$ -	\$ 772,716
Accounts payable - related party	-	827,139	(827,139)	-
Advance billing and customer deposits	131,295	-	-	131,295
Other accrued taxes	278,143	103,593	-	381,736
Other current liabilities	187,255	-	-	187,255
Total current liabilities	1,369,409	930,732	(827,139)	1,473,002
NONCURRENT LIABILITIES				
Deferred income taxes	-	1,914,169	-	1,914,169
Postretirement benefit obligation	974,528	-	-	974,528
Total noncurrent liabilities	974,528	1,914,169	-	2,888,697
MEMBERS' EQUITY				
Memberships issued	5,083	-	-	5,083
Common stock	-	1,100,000	(1,100,000)	-
Patronage capital	20,446,889	-	-	20,446,889
Retained margins	57,040,907	31,902,142	(31,902,142)	57,040,907
Accumulated other comprehensive loss	(1,743,320)	-	-	(1,743,320)
Total members' equity	75,749,559	33,002,142	(33,002,142)	75,749,559
Total liabilities and members' equity	\$ 78,093,496	\$ 35,847,043	\$ (33,829,281)	\$ 80,111,258

LOGAN TELEPHONE COOPERATIVE, INC.
CONSOLIDATING STATEMENT OF INCOME DETAIL
YEAR ENDED DECEMBER 31, 2016

	Logan Telephone Cooperative, Inc.	Cellular Division of Logan Telephone Cooperative, Inc.	Eliminations	Consolidated
OPERATING REVENUES				
Wireline	\$ 7,792,818	\$ -	\$ -	\$ 7,792,818
Internet	2,089,806	-	-	2,089,806
Miscellaneous	421,869	-	-	421,869
Net operating revenues	10,304,493	-	-	10,304,493
OPERATING EXPENSES				
Plant specific operations	1,461,322	-	-	1,461,322
Plant nonspecific operations	704,718	-	-	704,718
Depreciation and amortization	2,928,289	-	-	2,928,289
Customer operations	591,868	-	-	591,868
Corporate operations	1,182,503	-	-	1,182,503
Operating Income Tax	634,971	-	-	634,971
Nonregulated	1,897,480	7,283	-	1,904,763
Total operating expenses	9,401,151	7,283	-	9,408,434
Net operating margins	903,342	(7,283)	-	896,059
NONOPERATING INCOME (EXPENSE)				
Income from affiliates	7,299,475	11,009,484	(6,800,351)	11,508,608
Other nonoperating expenses	(738)	-	-	(738)
Interest and dividend income	87,302	297	-	87,599
Nonoperating income	7,386,039	11,009,781	(6,800,351)	11,595,469
NET MARGINS BEFORE INCOME TAXES	8,289,381	11,002,498	(6,800,351)	12,491,528
Income tax expense	18,343	4,202,147	-	4,220,490
NET MARGINS	<u>\$ 8,271,038</u>	<u>\$ 6,800,351</u>	<u>\$ (6,800,351)</u>	<u>\$ 8,271,038</u>