

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2014 and 2013



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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 Subsidiaries which comprise the balance sheets as of December 31, 2014 and 2013, 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 Subsidiaries as of December 31, 2014 and 2013, 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 13, 2015 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.

*Sotherow, Haile, & Welch, PLLC*

Certified Public Accountants  
McMinnville, Tennessee  
March 13, 2015

CONSOLIDATED BALANCE SHEETS

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

	2014	2013
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 12,411,068	\$ 7,858,852
Telecommunications accounts receivable, less allowances of \$197,320 in 2014 and \$97,126 in 2013	1,081,395	1,071,958
Other accounts receivable	324,773	507,769
Grants receivable	418,421	2,410,736
Materials and supplies	1,466,687	1,512,788
Prepaid expenses	1,973,216	1,392,407
Prepaid pension	34,994	0
Refundable tax deposit	281,364	300,000
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TOTAL CURRENT ASSETS	\$ 17,991,918	\$ 15,054,510
<u>NONCURRENT ASSETS</u>		
Securities available for sale	\$ 40,189,487	\$ 40,972,624
Investments	3,820,326	6,079,965
Nonregulated investments	486,188	312,618
Goodwill	2,799,587	0
Other intangible assets	3,300,000	0
Deferred tax asset	277,647	281,365
	<hr/>	<hr/>
TOTAL NONCURRENT ASSETS	\$ 50,873,235	\$ 47,646,572
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service	\$ 186,798,681	\$ 108,441,751
Telecommunications plant under construction	20,522,120	46,871,616
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	\$ 207,320,801	\$ 155,313,367
Less accumulated depreciation	121,646,882	81,765,775
	<hr/>	<hr/>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 85,673,919	\$ 73,547,592
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	\$ 154,539,072	\$ 136,248,674
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See the accompanying independent auditors' report and notes to financial statements.

CONSOLIDATED BALANCE SHEETS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

	2014	2013
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 1,178,297	\$ 1,686,923
Advance billings and payments	533,576	350,374
Customer deposits	194,928	159,903
Current maturities on long-term debt	6,210,067	4,927,249
Accrued taxes	423,560	271,885
Accrued federal and state income taxes	37,752	421,193
Accrued interest	1,565	3,441
Accrued rents	334,114	212,017
Accrued salaries and wages	544,034	203,746
Accrued compensated absences	902,006	508,673
Other current liabilities	<u>1,176,400</u>	<u>1,315,697</u>
TOTAL CURRENT LIABILITIES	\$ 11,536,299	\$ 10,061,101
<u>LONG-TERM DEBT</u>	70,093,529	60,121,788
<u>OTHER LIABILITIES</u>		
Deferred compensation	938,661	100,417
Postretirement benefits	66,475	221,796
Deferred taxes	<u>5,159,392</u>	<u>1,616,985</u>
TOTAL LIABILITIES	\$ 87,794,356	\$ 72,122,087
<u>MEMBERS' EQUITY</u>		
Patronage capital	\$ 64,413,768	\$ 61,918,992
Accumulated other comprehensive income	<u>2,330,948</u>	<u>2,207,595</u>
TOTAL MEMBERS' EQUITY	\$ 66,744,716	\$ 64,126,587
	<u>\$ 154,539,072</u>	<u>\$ 136,248,674</u>

CONSOLIDATED STATEMENTS OF INCOME

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

Years ended December 31, 2014 and 2013

	2014	2013
Operating revenues:		
Local network services revenue	\$ 3,766,403	\$ 3,436,911
Network access services revenue	13,790,439	12,033,286
Long distance network services revenue	821,894	979,841
Miscellaneous revenues	1,910,157	1,322,732
Less: Uncollectible revenue	<u>(275,527)</u>	<u>(134,317)</u>
TOTAL OPERATING REVENUES	\$ 20,013,366	\$ 17,638,453
Operating expenses:		
Plant specific operations expense	\$ 4,814,159	\$ 4,408,763
Plant nonspecific operations expense	1,714,301	1,616,888
Provision for depreciation and amortization	6,848,008	6,241,487
Customer operations expense	3,883,728	2,269,119
Corporate operations expense	2,365,918	2,308,149
Operating taxes	<u>1,253,591</u>	<u>1,031,899</u>
TOTAL OPERATING EXPENSES	<u>\$ 20,879,705</u>	<u>\$ 17,876,305</u>
OPERATING LOSS	\$ (866,339)	\$ (237,852)
Other income:		
Interest and dividend income	\$ 1,785,413	\$ 1,211,760
Nonregulated income	2,749,073	1,685,580
Realized gain from sale of securities	544,108	464,060
Gain from liquidation of investment	0	147,388
Gain from disposal of asset	9,257	0
Bargain purchase gain	712,085	0
Income (Loss) from investments	<u>(33,739)</u>	<u>55,083</u>
TOTAL OTHER INCOME	\$ 5,766,197	\$ 3,563,871

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 SUBSIDIARIES

Years ended December 31, 2014 and 2013

	2014	2013
Fixed charges:		
Interest on long-term debt	\$ 2,617,426	\$ 2,218,164
Interest charged to construction - credit	<u>(1,131,064)</u>	<u>(1,043,136)</u>
TOTAL FIXED CHARGES	<u>\$ 1,486,362</u>	<u>\$ 1,175,028</u>
INCOME BEFORE TAXES ON INCOME	\$ 3,413,496	\$ 2,150,991
Taxes on income	<u>836,642</u>	<u>1,413,967</u>
NET INCOME	<u>\$ 2,576,854</u>	<u>\$ 737,024</u>



CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

Years ended December 31, 2014 and 2013

	2014	2013
Net income	\$ 2,576,854	\$ 737,024
Other comprehensive income:		
Unrealized gain (loss) from securities available for sale	(77,769)	3,678,774
Postretirement benefits other than pension:		
Amortization of transition obligation	(9,900)	(47,400)
Unrecognized gain (loss)	<u>294,901</u>	<u>(504,409)</u>
OTHER COMPREHENSIVE INCOME BEFORE TAX	\$ 207,232	\$ 3,126,965
Income tax (expense) benefit related to items of other comprehensive income	<u>26,441</u>	<u>(1,250,781)</u>
OTHER COMPREHENSIVE INCOME NET OF TAX	<u>\$ 233,673</u>	<u>\$ 1,876,184</u>
COMPREHENSIVE INCOME	<u><u>\$ 2,810,527</u></u>	<u><u>\$ 2,613,208</u></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 SUBSIDIARIES

Years ended December 31, 2014 and 2013

	Memberships	Patronage Capital	Accumulated Other Comprehensive Income	Total Members' Equity
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	<u>0</u>	<u>0</u>	<u>(551,809)</u>	<u>(551,809)</u>
Balance at December 31, 2013	\$ 54,689	\$61,864,303	\$ 2,207,595	\$64,126,587
Net income for 2014	0	2,576,854	0	2,576,854
Capital credits paid and applied	0	(82,078)	0	(82,078)
Comprehensive income:				
Acquired subsidiary's beginning accumulated other comprehensive loss	0	0	(110,320)	(110,320)
Unrealized loss from securities available for sale (net of tax)	0	0	(56,236)	(56,236)
Postretirement benefits other than pension:				
Unrecognized loss (net of tax)	<u>0</u>	<u>0</u>	<u>289,909</u>	<u>289,909</u>
Balance at December 31, 2014	<u>\$ 54,689</u>	<u>\$64,359,079</u>	<u>\$ 2,330,948</u>	<u>\$66,744,716</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 SUBSIDIARIES

Years ended December 31, 2014 and 2013

	2014	2013
<hr/>		
Cash flows from operating activities:		
Cash received from customers	\$ 20,370,127	\$ 17,392,347
Cash paid to suppliers and employees	(11,587,103)	(9,912,551)
Interest and dividends received	1,785,413	1,211,760
Interest paid	(1,488,238)	(1,174,882)
Taxes paid	1,242,762	(136,286)
	<hr/>	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 10,322,961	\$ 7,380,388
Cash flows from investing activities:		
Construction and acquisition of plant	\$ (19,435,102)	\$ (17,022,398)
Decrease (Increase) in grant receivable	1,992,315	(1,992,315)
Proceeds from disposal of asset	9,257	0
Purchase of securities available for sale	(5,619,734)	(11,093,437)
Proceeds from sales of securities available for sale	4,522,941	5,151,410
Decrease (Increase) in investments	1,862,436	(355,013)
Purchase of subsidiaries	(2,900,000)	0
Increase in nonregulated investments	(173,570)	(225,033)
Cash received on gain from investment	0	147,388
Decrease (Increase) in:		
Materials and supplies	46,101	(189,030)
Temporary investments	0	1,502,775
Nonregulated income	2,749,073	1,685,580
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NET CASH USED BY INVESTING ACTIVITIES	\$ (16,946,283)	\$ (22,390,073)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from financing activities:		
Payments on long-term borrowings	\$ (5,481,283)	\$ (4,573,952)
Proceeds received from long-term debt	16,735,842	16,730,822
Retirement of capital credits	(82,078)	(30,892)
Postretirement benefits other than pension	(31,968)	(134,737)
Increase (Decrease) in:		
Customer deposits	<u>35,025</u>	<u>2,225</u>
 NET CASH PROVIDED BY FINANCING ACTIVITIES	 <u>\$ 11,175,538</u>	 <u>\$ 11,993,466</u>
 NET INCREASE (DECREASE) IN CASH	 \$ 4,552,216	 \$ (3,016,219)
 CASH AT BEGINNING OF YEAR	 <u>7,858,852</u>	 <u>10,875,071</u>
 CASH AT END OF YEAR	 <u><u>\$ 12,411,068</u></u>	 <u><u>\$ 7,858,852</u></u>



CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

Years ended December 31, 2014 and 2013

	2014	2013
Net income	\$ 2,576,854	\$ 737,024
Nonregulated income	(2,749,073)	(1,685,580)
Realized gain from sales of securities	(544,108)	(464,060)
Gain from liquidation of investment	0	(147,388)
Gain from disposal of asset	(9,257)	0
Bargain purchase gain	(712,085)	0
(Income) Loss from investments	<u>33,739</u>	<u>(55,083)</u>
Net loss from regulated operations	\$ (1,403,930)	\$ (1,615,087)
Adjustments to reconcile net loss from regulated operations to net cash provided by operating activities:		
Depreciation and amortization	\$ 7,608,775	\$ 6,947,401
Decrease (Increase) in:		
Customer and other accounts receivable	173,559	(300,100)
Prepaid expenses	(580,809)	164,316
Prepaid pension	(34,994)	0
Refundable tax deposit	18,636	0
Deferred tax asset	3,718	143,357
Increase (Decrease) in:		
Accounts payable	(508,626)	(571,711)
Advance billings and payments	183,202	53,994
Accrued taxes	151,675	160,443
Accrued federal and state income taxes	(383,441)	401,217
Accrued interest	(1,876)	146
Accrued rents	122,097	(37,489)
Accrued salaries and employee benefits	733,621	(4,497)
Other current liabilities	(139,297)	408,487
Deferred compensation	838,244	25,348
Deferred tax liability	<u>3,542,407</u>	<u>1,604,563</u>
TOTAL ADJUSTMENTS	<u>\$ 11,726,891</u>	<u>\$ 8,995,475</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 10,322,961</u>	<u>\$ 7,380,388</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 SUBSIDIARIES

December 31, 2014 and 2013

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Note A – West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries 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 Subsidiaries has adopted the following accounting policies:

(1) Principles of Consolidation:

During 2014, West Kentucky Rural Telephone Cooperative Corporation, Inc. (Cooperation) acquired 50% of the outstanding common stock of Synergy Technology Partners, Inc. and Telecom Management Services, Inc. (Subsidiaries). Prior to these acquisitions, the Cooperative owned 50% of each of the mentioned companies' common stock. These investments had been accounted for under the equity method. With the additional investment, the Cooperative now owns 100% of the outstanding common stock of Synergy Technology Partners, Inc. and Telecom Management Services, Inc. Synergy Technology Partners, Inc. provides telecommunication, broadband, long distance, as well as other telecommunications services. Telecom Management Services, Inc. provides management and support services to the Cooperative, as well as other telecommunication companies. The consolidated financial statements include the accounts of the Subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

At the end of 2013, Management evaluated WK.Net'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 resulted 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

Note A – (Cont'd):

- (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 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 \$82,046 at December 31, 2014.

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 \$195,620 in 2014 and \$180,119 in 2013.
- (10) Various amounts have been reclassified for comparative purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

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Note B – Concentrations of Credit Risk:

Deposits:

The Cooperative and its Subsidiaries 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. Approximately \$8,690,213 was uninsured at December 31, 2014.

The Cooperative has cash and temporary investments maintained by investment firms totaling \$4,497,872 and \$1,545,609 as of December 31, 2014 and 2013, respectively. Telecom Management Services has investments maintained by an investment firm totaling \$138,550 at December 31, 2014. 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.

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, 2014, the Cooperative has received \$51,139,250 in loan proceeds and \$51,139,249 of the grant portion.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

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;

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	<u>\$40,189,487</u>	<u>\$40,189,487</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total	<u>\$40,189,487</u>	<u>\$40,189,487</u>	<u>\$ 0</u>	<u>\$ 0</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

Note D – (Cont'd):

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, 2014:			
U.S. Government agencies	\$ 2,587,759	\$ 20,627	\$ 2,608,386
Stocks	2,417,718	640,619	3,058,337
Mutual funds	26,024,374	3,405,719	29,403,092
Corporate bonds	<u>4,533,669</u>	<u>586,003</u>	<u>5,119,672</u>
Available for Sale	<u>\$35,563,520</u>	<u>\$4,652,968</u>	<u>\$40,189,487</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>

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

	<u>2014</u>	<u>2013</u>
Gross realized gains:		
Stocks	\$ 52,519	\$ 150,557
Mutual funds	664,934	563,288
Corporate bonds	<u>0</u>	<u>220,523</u>
Total Gains	\$717,453	\$ 934,368
Gross realized losses:		
Stocks	\$ (92,040)	\$ (19,510)
Mutual funds	0	(330,482)
Corporate bonds	<u>(80,765)</u>	<u>(120,316)</u>
Total Losses	<u>\$(172,805)</u>	<u>\$(470,308)</u>
Net Realized Gains (Losses)	<u>\$ 544,648</u>	<u>\$ 464,060</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

Note D – (Cont'd):

The following is a summary of maturities of securities available for sale as of December 31, 2014:

	<u>Amortized cost</u>	<u>Fair value</u>
Amounts maturing in:		
Due in one year or less	\$ 952,500	\$ 1,062,548
Due from one to five years	4,811,884	5,276,193
Due from six to ten years	280,571	293,343
Due beyond ten years	1,076,473	1,095,974
Stocks	2,417,718	3,058,337
Mutual funds	<u>26,024,374</u>	<u>29,403,092</u>
Total	<u>\$35,563,520</u>	<u>\$40,189,487</u>

Note E – Investments\*:

	<u>2014</u>	<u>2013</u>
Synergy Wireless, LLC	\$ 10,000	\$ 10,000
Tennessee Independent Telecommunications Group, LLC (Iris Networks) (10.556%)	867,385	1,013,280
Synergy Technology Partners, Inc.	0	3,508,615
Telcom Management Service, Inc.	0	579,721
National Telecom Corporation	179,933	179,933
Associated Network Partners, Inc (ANPI)	1,780,634	780,601
Rural Trust Insurance Company	856,000	0
Cobank	118,559	0
Other	<u>7,815</u>	<u>7,815</u>
TOTAL	<u>\$3,820,326</u>	<u>\$6,079,965</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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

Note E – (Cont'd):

The following is a summary as of December 31, 2014 of selected financial information from the financial statements of the investments in which the Cooperative owns a significant percentage:

	<u>Iris Networks</u>
Total assets	\$17,531,356
Total liabilities	\$ 9,370,658
Total equity	\$ 8,160,698
Net loss	\$ 1,382,176

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

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>2014</u>	<u>2013</u>
Land	\$ 961,866	\$ 961,866
Buildings	4,828,022	4,820,155
Central office equipment	27,275,176	24,361,476
Poles, cable and wire	103,406,429	71,372,991
Furniture and office equipment	2,132,332	2,035,923
Vehicles and other work equipment	3,848,978	3,809,180
Other communications equipment	<u>209,224</u>	<u>209,224</u>
Telecommunications plant in service as contained on the Cooperative's records	\$142,662,027	\$107,570,815
Franchises	\$ 8,276	\$ 0
Land	172,307	0
Buildings	2,196,716	0
Central office equipment	14,497,291	0
Poles, cable and wire	25,733,037	39,295
Furniture and office equipment	806,280	0
Vehicles and other work equipment	<u>722,747</u>	<u>831,641</u>
Telecommunications plant in service as contained on the Subsidiary's records	\$ 44,136,654	\$ 870,936
Total telecommunications plant in service	<u>\$186,798,681</u>	<u>\$108,441,751</u>

The Subsidiaries 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

Note F – (Cont'd)

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 5.38 percent in 2014 and 6.74 percent in 2013. Individual depreciation rates are as follows:

	<u>2014</u>	<u>2013</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:

Synergy Technology Partners, Inc. has entered into a line of credit with CoBank, which permits the Company to borrow up to \$500,000. Outstanding principle balance and any accrued interest are due on January 1, 2015. Long-term debt is represented by mortgage notes payable to the United States of America and CoBank. Substantially all assets are pledged as security for the long-term debt. Following is a summary of the outstanding long-term debt.

	<u>2014</u>
2.00% - 7.00% Rural Development Utilities note Program	\$70,578,596
4.18% CoBank (\$175,000 quarterly plus interest)	<u>5,725,000</u>
	\$76,303,596
Less current maturities	<u>6,210,067</u>
TOTAL	<u>\$70,093,529</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

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>
2015	\$ 6,210,067
2016	6,442,584
2017	6,489,176
2018	6,738,868
2019	5,508,853
Beyond five years	<u>44,914,048</u>
TOTAL	<u>\$76,303,596</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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

Note H – (Cont'd)

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, 2014:

	<u>West Kentucky Rural Telephone Cooperative Corporation, Inc.</u>	<u>Telecom Management Services, Inc.</u>	<u>Total</u>
Accumulated postretirement obligation attributable to:			
Retirees	\$ 1,439,800	\$115,400	\$ 1,555,200
Other active plan participants	<u>1,345,600</u>	<u>144,675</u>	<u>1,490,275</u>
Total accumulated postretirement benefit obligation	\$ 2,785,400	\$260,075	\$ 3,045,475
Fair value of plan assets	<u>(2,979,000)</u>	<u>0</u>	<u>(2,979,000)</u>
Net unfunded (funded) status	<u>\$ (193,600)</u>	<u>\$260,075</u>	<u>\$ 66,475</u>
Amounts recognized in other comprehensive income:			
Unrecognized net loss	\$ 621,400	\$ 78,900	\$ 700,300
Unrecognized net transition obligation	0	113,300	113,300
Deferred taxes due to comprehensive loss	<u>0</u>	<u>(73,590)</u>	<u>(73,590)</u>
Total included in other comprehensive income	<u>\$ 621,400</u>	<u>\$118,610</u>	<u>\$ 740,010</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

Note H – (Cont'd)

Postretirement benefit cost is composed of the following for the year ended December 31, 2014:

	<u>West Kentucky Rural Telephone Cooperative Corporation, Inc.</u>	<u>Telecom Management Services, Inc.</u>	<u>Total</u>
Benefits earned during the year	\$ 64,400	\$ 7,100	\$ 71,500
Interest on accumulated postretirement benefit obligation	138,400	13,000	151,400
Amortization of transition obligation	0	9,900	9,900
Amortization of net losses	61,300	4,300	65,600
Actual return on plan assets	<u>(186,100)</u>	<u>0</u>	<u>(186,100)</u>
Postretirement benefit cost	<u>\$ 78,000</u>	<u>\$34,300</u>	<u>\$ 112,300</u>

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

Accumulated postretirement obligation attributable to:	
Retirees	\$ 1,584,000
Other active plan participants	<u>1,148,196</u>
Total accumulated postretirement benefit obligation	\$ 2,732,196
Fair value of plan assets	<u>(2,510,400)</u>
Net unfunded (funded) status	<u>\$ 221,796</u>
Amounts recognized in other comprehensive income:	
Unrecognized net loss	\$ (551,809)
Amortization of prior service cost	<u>0</u>
Total included in other comprehensive income	<u>\$ (551,809)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

Note H – (Cont'd)

Postretirement benefit cost is composed of the following for the year ended December 31, 2013:

	<u>West Kentucky Rural Telephone Cooperative Corporation, Inc.</u>
Benefits earned during the year	\$ 72,700
Interest on accumulated postretirement benefit obligation	128,900
Past service costs	
Cumulative (gains) losses	47,400
Actual return on plan assets	<u>(175,100)</u>
 Postretirement benefit cost	 <u>\$ 73,900</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 2014 and 2013, 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, 2014:

	<u>West Kentucky Rural Telephone Cooperative Corporation, Inc.</u>	<u>Telecom Management Services, Inc.</u>
Discount rate	5.25%	5.25%
Expected return on plan assets	7.50%	0.00%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

Note H – (Cont'd)

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

	West Kentucky Rural Telephone Cooperative <u>Corporation, Inc.</u>
Discount rate	5.00%
Expected return on plan assets	7.50%

Both Companies' 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.

The medical cost trend rate in 2014 was approximately 8.0% grading down to an ultimate rate in 2019 of 5.0%. A one percentage point increase in the assumed medical cost trend rates for each future year would have increased the aggregate of the service and interest components of the 2014 net periodic postretirement benefit cost by \$21,400 and would have increased the accumulated postretirement benefit obligation \$267,300 as of December 31, 2014.

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 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

Note H – (Cont'd)

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>
2015	\$ 144,228
2016	147,113
2017	150,055
2018	153,056
2019	156,117
Years 2020 – 2024	<u>828,688</u>
TOTAL	<u>\$1,579,257</u>

The Companies generally does not make an annual contribution to the plan and a contribution is not anticipated in 2014.

Note I – The Cooperative and Telecom Management Service, Inc. have 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 benefits are based on length of service and employee compensation. The Companies' funding policy is to contribute, monthly, the amounts that are within the guidelines of the Internal Revenue Service. The Cooperative's cost was \$445,397 for 2014 and \$478,824 for 2013. Telecom Management Services, Inc.'s cost was \$144,847 for 2014.

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>2014</u>	<u>2013</u>
Current income tax expense:		
Federal	\$642,241	\$1,083,902
State	20,544	193,124
Deferred income tax expense (benefit):		
Federal	178,095	137,516
State	<u>(4,238)</u>	<u>(575)</u>
	<u>\$836,642</u>	<u>\$1,413,967</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

Note J – (Cont'd)

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>2014</u>	<u>2013</u>
Deferred tax liability at beginning of year	\$1,616,985	\$ 12,422
Acquired liabilities through purchases of subsidiaries	3,595,125	0
Plus current year provision for deferred taxes on income	<u>(52,718)</u>	<u>1,604,563</u>
Deferred tax liability at end of year	<u>\$5,159,392</u>	<u>\$1,616,985</u>
Deferred tax asset at beginning of year	\$ 281,365	\$ 424,722
Acquired assets through purchase of subsidiaries	222,857	0
Plus current year provision for deferred taxes on income	<u>(226,575)</u>	<u>(143,357)</u>
Deferred tax asset at end of year	<u>\$ 277,647</u>	<u>\$ 281,365</u>

Included in the change in deferred tax for the year is \$27,693 of expense related to recording comprehensive income net of tax.

The individual companies included in the consolidated financial statements are responsible for their share of tax liabilities. All companies are 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, 2014 and 2013.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

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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 and Telecom Management Services, Inc. have 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 respective Company. Included in securities available for sale of the Consolidated Balance Sheets is \$244,785 at December 31, 2014, that is a part of the deferred compensation agreements.

Note N – Bargain Purchase Gain:

The Cooperative recorded a bargain purchase gain on the acquisition of all the outstanding stock of Synergy Technology Partners, Inc. and Telecom Management Services, Inc. in separate transactions. A bargain purchase is recorded on the parent company's records when the consideration given in the acquisition of a company is less than the fair value of the acquired company's assets less its liabilities. This difference is recognized directly into profit as a bargain purchase. The combined bargain purchase recorded for the acquisition of Synergy Technology Partners, Inc. and Telecom Management Services, Inc. was \$712,085.

Consideration given for the stock of Synergy Technology Partners, Inc. was \$2,900,000 in cash.

Consideration given for the stock of Telecom Management Services, Inc. was the assumption of \$592,390 of liabilities owed by the selling company to Telecom Management Services, Inc.

A benchmark date of June 30, 2014 was used for the purchase of these subsidiaries. Therefore, the consolidated financial statements include the income statement amounts from July 1 through December 31, 2014 of these two subsidiaries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014 and 2013

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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, 2014 and before the date these financial statements were available to be issued, March 13, 2015, 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 Subsidiaries as of and for the years ended December 31, 2014 and 2013, and our report thereon dated March 13, 2015, 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 is presented for purposes of additional analysis 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 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.

*Totherow, Haile, & Welch, PLLC*

Certified Public Accountants  
McMinnville, Tennessee  
March 13, 2015

CONSOLIDATING BALANCE SHEETS

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014

		West Kentucky Rural Telephone Cooperative, Inc.
		<u>ASSETS</u>
<u>CURRENT ASSETS</u>		
Cash - general		\$ 10,106,735
Telecommunications accounts receivable		1,018,213
Other accounts receivable		1,247,489
Grants receivable		418,421
Materials and supplies		1,242,364
Prepaid pension		0
Prepaid postretirement benefits		193,600
Prepaid expenses		1,718,522
Refundable tax deposit		0
	TOTAL CURRENT ASSETS	\$ 15,945,344
<u>NONCURRENT ASSETS</u>		
Securities available for sale		\$ 40,066,388
Investment in subsidiary		8,582,986
Investments		2,845,767
Goodwill		0
Other intangible assets		0
Nonregulated assets		446,429
Deferred tax asset		71,570
	TOTAL NONCURRENT ASSETS	\$ 52,013,140
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service		\$ 142,662,027
Telecommunications plant under construction		20,332,522
		\$ 162,994,549
Less accumulated depreciation		86,119,900
	TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 76,874,649
		\$ 144,833,133

CONSOLIDATING BALANCE SHEETS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014

Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Reclassifications / Eliminations	Total
\$ 1,894,437	\$ 409,896	\$ 0	\$ 12,411,068
63,182	0	0	1,081,395
17,010	2,440,011	(3,379,737)	324,773
0	0	0	418,421
224,323	0	0	1,466,687
0	34,994	0	34,994
0	0	(193,600)	0
98,050	156,644	0	1,973,216
281,364	0	0	281,364
<hr/>	<hr/>	<hr/>	<hr/>
\$ 2,578,366	\$ 3,041,545	\$ (3,573,337)	\$ 17,991,918
\$ 0	\$ 123,099	\$ 0	\$ 40,189,487
0	0	(8,582,986)	0
118,559	856,000	0	3,820,326
2,799,587	0	0	2,799,587
3,300,000	0	0	3,300,000
39,759	0	0	486,188
120,727	85,350	0	277,647
<hr/>	<hr/>	<hr/>	<hr/>
\$ 6,378,632	\$ 1,064,449	\$ (8,582,986)	\$ 50,873,235
\$ 43,929,895	\$ 206,759	\$ 0	\$ 186,798,681
189,598	0	0	20,522,120
<hr/>	<hr/>	<hr/>	<hr/>
\$ 44,119,493	\$ 206,759	\$ 0	\$ 207,320,801
35,400,334	126,648	0	121,646,882
<hr/>	<hr/>	<hr/>	<hr/>
\$ 8,719,159	\$ 80,111	\$ 0	\$ 85,673,919
<hr/>	<hr/>	<hr/>	<hr/>
\$ 17,676,157	\$ 4,186,105	\$ (12,156,323)	\$ 154,539,072
<hr/>	<hr/>	<hr/>	<hr/>

CONSOLIDATING BALANCE SHEETS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014

	West Kentucky Rural Telephone Cooperative, Inc.
	<u>LIABILITIES AND MEMBERS'</u>
<u>CURRENT LIABILITIES</u>	
Accounts payable	\$ 588,294
Advance billings and payments	533,576
Customer deposits	161,828
Current maturities on long-term debt	5,510,067
Accrued taxes	343,169
Accrued federal and state income taxes	25,922
Accrued interest	1,565
Accrued rents	211,713
Accrued salaries and wages	285,127
Accrued compensated absences	652,747
Other current liabilities	<u>711,176</u>
TOTAL CURRENT LIABILITIES	\$ 9,025,184
<u>LONG-TERM DEBT</u>	65,068,529
<u>OTHER LIABILITIES</u>	
Advance from related company	2,142,773
Deferred compensation	122,241
Postretirement benefits other than pension	0
Deferred taxes	<u>1,611,080</u>
TOTAL LIABILITIES	\$ 77,969,807
<u>MEMBERS' EQUITY</u>	
Memberships	54,689
Capital stock	0
Paid in capital	0
Retained earnings	0
Accumulated comprehensive income	2,449,560
Patronage capital	<u>64,359,077</u>
	<u>\$ 144,833,133</u>

CONSOLIDATING BALANCE SHEETS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2014

Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Reclassifications / Eliminations	Total
<u>EQUITY</u>			
\$ 462,813	\$ 1,364,154	\$ (1,236,964)	\$ 1,178,297
0	0	0	533,576
33,100	0	0	194,928
700,000	0	0	6,210,067
80,391	0	0	423,560
0	11,830	0	37,752
0	0	0	1,565
122,401	0	0	334,114
27,998	230,909	0	544,034
0	249,259	0	902,006
314,540	150,684	0	1,176,400
<hr/>	<hr/>	<hr/>	<hr/>
\$ 1,741,243	\$ 2,006,836	\$ (1,236,964)	\$ 11,536,299
5,025,000	0	0	70,093,529
0	0	(2,142,773)	0
0	816,420	0	938,661
0	260,075	(193,600)	66,475
3,548,312	0	0	5,159,392
<hr/>	<hr/>	<hr/>	<hr/>
\$ 10,314,555	\$ 3,083,331	\$ (3,573,337)	\$ 87,794,356
0	0	0	54,689
4,600,000	200,000	(4,800,000)	0
3,490,755	770,761	(4,261,516)	0
(729,153)	250,623	478,530	0
0	(118,610)	0	2,330,950
0	0	0	64,359,077
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\$ 17,676,157	\$ 4,186,105	\$ (12,156,323)	\$ 154,539,072
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CONSOLIDATING STATEMENTS OF INCOME

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

Year ended December 31, 2014

	West Kentucky Rural Telephone Cooperative, Inc.
Operating revenues:	
Local network services revenue	\$ 3,187,571
Network access service revenue	11,913,633
Long distance network services revenue	673,947
Broadband and wireless revenue	5,727,715
Retail sales	283,188
Video revenue	3,617,661
Security revenue	222,834
Management fee revenue	0
Professional service revenue	0
Miscellaneous revenue	1,509,351
Less: Uncollectible revenue	<u>(182,401)</u>
TOTAL OPERATING REVENUES	\$ 26,953,499
Operating expenses:	
Plant specific operations expense	\$ 4,183,259
Plant nonspecific operations expense	1,556,148
Provision for depreciation and amortization	6,038,623
Broadband and wireless expense	2,386,685
Cost of goods sold - retail	433,451
Video expenses	4,019,447
Security expenses	128,589
Customer operations expense	2,809,573
Corporate operations expense	2,580,901
Operating taxes	<u>1,157,765</u>
TOTAL OPERATING EXPENSES	\$ 25,294,441
OPERATING INCOME (LOSS)	\$ 1,659,058

CONSOLIDATING STATEMENTS OF INCOME (CON'T'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

Year ended December 31, 2014

Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Reclassifications / Eliminations	Total
\$ 578,832	\$ 0	\$ 0	\$ 3,766,403
1,876,806	0	0	13,790,439
147,947	0	0	821,894
915,250	0	(6,642,965)	0
0	0	(283,188)	0
0	0	(3,617,661)	0
15,031	0	(237,865)	0
0	864,378	(864,378)	0
0	200,448	(200,448)	0
30,076	370,730	0	1,910,157
(93,126)	0	0	(275,527)
<u>\$ 3,470,816</u>	<u>\$ 1,435,556</u>	<u>\$ (11,846,505)</u>	<u>\$ 20,013,366</u>
\$ 618,430	\$ 12,470	\$ 0	\$ 4,814,159
158,153	0	0	1,714,301
857,072	20,372	0	6,848,008
372,555	0	(2,759,240)	0
0	0	(433,451)	0
8,295	0	(4,027,742)	0
0	0	(128,589)	0
545,909	755,117	(294,930)	3,883,728
487,758	545,953	(1,248,694)	2,365,918
60,337	35,489	0	1,253,591
<u>\$ 3,108,509</u>	<u>\$ 1,369,401</u>	<u>\$ (8,892,646)</u>	<u>\$ 20,879,705</u>
\$ 362,307	\$ 66,155	\$ (2,953,859)	\$ (866,339)

CONSOLIDATING STATEMENTS OF INCOME (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

Year ended December 31, 2014

	West Kentucky Rural Telephone Cooperative, Inc.
Other income (expense):	
Interest and dividend income	\$ 1,780,356
Nonregulated income (loss)	(161,956)
Gain from disposal of asset	0
Realized gain from sale of securities available for sale	539,697
Bargain purchase gain	712,085
Income from subsidiaries	177,997
Loss from investments	<u>(33,739)</u>
TOTAL OTHER INCOME	\$ 3,014,440
Fixed charges:	
Interest on long-term debt	\$ 2,487,505
Interest charged to construction - credit	<u>(1,131,064)</u>
TOTAL FIXED CHARGES	<u>\$ 1,356,441</u>
INCOME BEFORE TAXES ON INCOME	\$ 3,317,057
Taxes on income	<u>740,203</u>
NET INCOME	<u><u>\$ 2,576,854</u></u>

CONSOLIDATING STATEMENTS OF INCOME (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

Year ended December 31, 2014

Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Reclassifications / Eliminations	Total
\$ 2,710	\$ 2,347	\$ 0	\$ 1,785,413
(42,830)	0	2,953,859	2,749,073
9,257	0	0	9,257
0	4,411	0	544,108
0	0	0	712,085
0	0	(177,997)	0
0	0	0	(33,739)
\$ (30,863)	\$ 6,758	\$ 2,775,862	\$ 5,766,197
\$ 129,921	\$ 0	\$ 0	\$ 2,617,426
0	0	0	(1,131,064)
\$ 129,921	\$ 0	\$ 0	\$ 1,486,362
\$ 201,523	\$ 72,913	\$ (177,997)	\$ 3,413,496
58,498	37,941	0	836,642
\$ 143,025	\$ 34,972	\$ (177,997)	\$ 2,576,854

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

Year ended December 31, 2014

	West Kentucky Rural Telephone Cooperative, Inc.
Net income	\$ 2,576,854
Other comprehensive income:	
Unrealized gain (loss) from securities available for sale	(77,769)
Postretirement benefits other than pension:	
Amortization of transition obligation	0
Unrecognized gain	<u>299,201</u>
	OTHER COMPREHENSIVE INCOME BEFORE TAX
	\$ 2,798,286
Income tax benefit related to items of other comprehensive income	<u>21,613</u>
	COMPREHENSIVE INCOME
	<u>\$ 2,819,899</u>

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC. AND SUBSIDIARIES

Year ended December 31, 2014

<u>Synergy Technology Partners, Inc. and Subsidiary</u>	<u>Telecom Management Services, Inc.</u>	<u>Reclassifications / Eliminations</u>	<u>Total</u>
\$ 143,025	\$ 34,972	\$ (177,997)	\$ 2,576,854
0	0	0	(77,769)
0	(9,900)	0	(9,900)
<u>0</u>	<u>(4,300)</u>	<u>0</u>	<u>294,901</u>
\$ 143,025	\$ 20,772	\$ (177,997)	\$ 2,784,086
<u>0</u>	<u>4,828</u>	<u>0</u>	<u>26,441</u>
<u>\$ 143,025</u>	<u>\$ 25,600</u>	<u>\$ (177,997)</u>	<u>\$ 2,810,527</u>

