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Case Number: 16-1115-TP-COI/16-1116-TP-COI

Date of Confidential Document: 6/29/2016

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Ohio | Public Utilities Commission
Asim Z. Haque, Chairman

Commissioners

Lynn Slaby
M. Beth Trombold
Thomas W. Johnson
M. Howard Petricoff

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Confidential treatment has been requested for the following document:

Case Number: 16-1115-TP-COI & 16-1116-TP-COI

Page Count: 25

Date Filed: June 29, 2016

Filed By: W. Adams

On Behalf Of: Telephone Service Company

Summary of Document: FCC Form 481

Staff Initials: memo

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WILLIAM A. ADAMS
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June 29, 2016

Barcy F. McNeal, Secretary
Docketing Division
Public Utilities Commission of Ohio
180 East Broad Street, 11th Floor
Columbus, OH 43215-3793

Re: *In the Matter of the Annual Filing Requirements For 2016 Pertaining to the Provisioning of High Cost Universal Service,*
Case No. 16-1115-TP-COI

In the Matter of the Annual Filing Requirements For 2016 Pertaining to the Provisioning of Lifeline Universal Service
Case No. 16-1116-TP-COI

FCC Form 481 Filing of Telephone Service Company

Dear Ms. McNeal:

Enclosed are the original and two (2) **unredacted** copies of the confidential information to be filed under seal pursuant to the Motion for Protective Order filed in these matters on June 28, 2016. Please time stamp the extra copy of the confidential information being filed under seal, and return it to our courier.

Also on June 28, 2016, the **redacted** version of this information was e-filed with the Commission in these matters.

Thank you for your attention to this matter. Please contact me if you have any questions.

Very truly yours,

BAILEY CAVALIERI LLC

William A. Adams

WAA/sg
Enclosure

16-1115-TP-CO1
16-1116-TP-CO1

(3005) Rate Of Return Carrier Additional Documentation (Continued)	FCC Form 481
Data Collection Form	OMB Control No 3060-0986/OMB Control No 3060-0819
	July 2013

<010>	Study Area Code	300639
<015>	Study Area Name	TELEPHONE SERVICE
<020>	Program Year	2017
<030>	Contact Name - Person USAC should contact regarding the data	Mark Aaberg
<035>	Contact Telephone Number - Number of person identified in data line <030>	3208477109 ext
<039>	Contact Email Address - Email Address of person identified in data line <030>	maaberg@hcinet.net

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Financial Data Summary

(3027) Revenue	28738335
(3028) Operating Expenses	28811044
(3029) Net Income	387006
(3030) Telephone Plant In Service(TPIS)	98848324
(3031) Total Assets	43638831
(3032) Total Debt	18202304
(3033) Total Equity	22453951
(3034) Dividends	3355000

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Name of Attached Document Listing Required Information

SAC: 300659
State: OH
Telephone Service Company
Form 481 Line No. 112 Five Year Network Improvement Plan

PROGRESS REPORT ON SERVICE QUALITY IMPROVEMENT PLAN

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OVERVIEW

This document contains the required responses for Section (100) Service Quality Improvements Reporting within the FCC Form 481. It is in compliance with 54.313(a)(1) adopted in the FCC's USF/ICC Transformation Order (11-161) and incorporates all further clarifications in subsequent Reconsideration Orders, as applicable, that were in effect at the time the Annual Report was due by Rule, to the requisite regulatory authorities.

Per the Frequently Asked Question and Response for filing Form 481 on the USAC website No. 48 "The progress report this year will cover full year 2015 and 2016 up to the filing date. Next year's progress report, due July 1, 2017, will address calendar year 2016. The year after that, for the filing due July 1, 2018, the progress report would address calendar year 2017, etc. Though not required, carriers may note revisions to their plan for years 2017-2019 as part of the current progress report being submitted."

The Company operates in a dynamic, not static environment. As a result, certain network targets identified in its initial 5 Year Network Improvement Plan filed in 2014, may be modified in response to regulatory decisions that have been subsequently adopted, and as their implications upon the Company's financial viability in providing the required services and service level quality become known.

Targets not met or changed since the initial 5 Year Plan filing are identified and reasons provided for those changes. It has been noted where projects that require outside construction have not been started due to the winter/spring construction conditions for operating companies in the Midwest.

In order to support the reporting requirements for State Public Utilities Commissions, the Company has included a summary attachment that reflects the actual not projected capital additions, operating expenses, and universal support that includes information for 2014/2015 in a format previously provided.

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LINE 113 – MAPS DETAILING PROGRESS TOWARDS MEETING PLAN TARGETS

See Attached PDF DOCUMENT of SERVICE AREA MAP

LINE 114 thru 117 UNIVERSAL SERVICE

I. The Company Has Used and Will Use Universal Service Support Only For the Intended Purposes

Section 254(e) of the Communications Act of 1934, as amended requires ETCs to use Universal Service support ("USF") "only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."[1] Pursuant to Section 54.314 of the FCC's rules, in order for state-designated ETCs to receive USF for the coming year, states must annually file certifications by July 1 stating that all federal high-cost support provided to such carriers within the state "was used in the preceding calendar year and will be used in the coming calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended."[2] ETCs not designated by a state must file similar certifications with the FCC.[3]

In its *USF/ICC Transformation Order*, the FCC clarified that prior to making the Section 254(e) certifications, states should conduct a "rigorous examination of the factual information" contained in the annual Section 54.313 reports, of which the five year network improvement plan and annual progress reports are a part, in determining whether they can certify that carriers' support

[1] 47 U.S.C. § 254(e).
[2] 47 C.F.R. § 54.314(a).

[3] 47 C.F.R. § 54.314(b).

has been used and will be used only for the purpose for which the support was intended.[4] The FCC said that it would also use the reports to verify certifications filed by ETCs that are not state-designated.[5] In this context, the Commission stated, "[i]n light of the public interest obligations we adopt in this Order, a key component of this [Section 254(e)] certification will now be that support is being used to maintain and extend modern networks capable of providing voice and broadband service."[6]

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Accordingly, given the critical role the network improvement plan and the progress reports will have in the annual Section 254(e) certification process, the Company's plan and progress reports will demonstrate not only how the Company has used and will use USF not only for improvements and upgrades, but also for the provision and maintenance of the facilities and services to which the support was intended.

As explained under Section I above, in addition to improvements and upgrades, the Company uses USF as it was intended for the provision and maintenance of its network. Essentially, under the existing rules and processes, the federal USF received by the Company and other incumbent rural telephone companies are, in fact, an integral part of the recovery of expenditures of rural incumbent local exchange carriers incurred in the provision, maintenance and upgrading of their provision of facilities and services for which the USF is intended. The Company depends upon its receipt and utilization of federal universal service support to provide rural telephone customers with affordable and quality voice and broadband services. Accordingly, in addition to the capital expenditures listed above, the Company also has operational expenditures, which are associated with the provision, and maintenance of the facilities and services for which it uses USF as provided for in Section 254(e).

---

[4] *See USF/ICC Transformation Order* at Para. 612.

[5] *Id.*

[6] *Id.* (emphasis supplied).

Per the Universal Service Administrative Company (USAC) instructions and frequently asked questions, this report provides the USF as available for the period up to this filing. The total amount received in USF support funds and breakdown of the funding to this point is:

Wire Center	USF - 2015 January - December Received	Capital Expenses: Service	Capital Expenses: Capacity	Capital Expenses: Coverage	Operating Expenses: Service	Operating Expenses: Capacity	Operating Expenses: Coverage
		Univeral Service Support was used for:					
Wapakoneta	$ 1,079,946	$ 26,919	$ 253,349	$ 39,603	$ 266,026	$ 190,019	$ 304,030
Cridersville	$ 198,108	$ -	$ 48,257	$ 4,460	$ 50,887	$ 36,348	$ 58,156
Total	$ 1,278,054	$ 26,919	$ 301,606	$ 44,063	$ 316,913	$ 226,366	$ 362,186

Wire Center	USF - 2016 January - April Received	Capital Expenses: Service	Capital Expenses: Capacity	Capital Expenses: Coverage	Operating Expenses: Service	Operating Expenses: Capacity	Operating Expenses: Coverage
		Univeral Service Support was used for:					
Wapakoneta	$ 423,268	$ -	$ -	$ -	$ 423,268	$ -	$ -
Cridersville	$ 77,028	$ -	$ -	$ -	$ 77,028	$ -	$ -
Total	$ 500,296	$ -	$ -	$ -	$ 500,296	$ -	$ -

LINE 118 – EXPLANATION OF NETWORK IMPROVEMENT TARGETS PROGRESS REPORT

2016 PLAN YEAR PROGRESS REPORT BY WIRE CENTER

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Telephone Service Company
Wapakoneta 419-738

Description of Capital Improvement	Estimated Population Served by Improvement	Start Date	Completion Date	Estimated Capital Additions 2015	2016	2017	2018	2019	YTD - Actuals 2015	YTD - Actuals 2016
Broadband Access gear	750	6/1/2014	10/15/2018			$ 67,500	$ 67,500		$ 249,038	$ -
Optical Drops and backbone fiber	750	6/1/2014	9/30/2019			$ 375,000		$ 375,000	$ 12,872	$ -
Switching	750	6/1/2016	12/31/2018		$ 37,500		$ 37,500		$ 3,450	$ -
Broadband Access gear	1,100	6/1/2014	12/31/2018		$ 99,000		$ 99,000		$ 18,273	$ -
Optical Drops and backbone fiber	1,100	6/1/2015	10/15/2018	$ 550,000			$ 550,000		$ 12,579	$ -
Switching Cost	1,100	6/1/2015	12/31/2017	$ 55,000		$ 55,000			$ 4,311	$ -
Vehicle		12/1/2014	12/31/2019		$ 23,000		$ 23,000	$ 30,000	$ 12,890	$ -
Broadband Access gear	500	6/1/2016	12/31/2019		$ 45,000	$ 45,000		$ 45,000	$ 8,507	$ -
Optical Drops and backbone fiber	500	6/1/2016	12/20/2017		$ 250,000	$ 25,000				
Switching Cost	500	6/1/2016	9/30/2016		$ 25,000					
Broadband Access gear	1,100	6/1/2015	9/30/2015	$ 99,000						
Optical Drops and backbone fiber	1,100	6/1/2016	9/30/2016		$ 550,000					
Switching Cost	1,100	6/1/2017	9/30/2017			$ 55,000				
				$ 704,000	$ 1,029,500	$ 622,500	$ 779,000	$ 450,000	$ 319,872	$ -

2015 Update:

This reports cover the Wapakoneta exchange of Telephone Service Company (TSC). TSC central office has been located at 2 Willipie St. in Wapakoneta since 1921. Given the legacy telephone plant that is mixture of fiber and copper as well as coax cable, the age and distribution of the various outside plant infrastructures varies greatly and for the most part consist of copper. We continue to upgrade all aspects of the plant and access gear on all platforms at the most economical way possible. This report is for calendar year 2015.

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[illegible]

TASK	% DONE	DUE DATE	NOTES
Upgrade access gear	15	7/1/2019	Was able to impact more people with one upgrade
Optical Fiber to the home	12	7/1/2019	Installed 3700 feet of fiber plus drops
Upgrade access gear	10	7/1/2019	Used VDSL Technology to serve remote areas
Vehicles, Alarms, Switching	12	7/1/2019	Made necessary upgrades

[illegible]

	CATEGORY	SPENT	BUDGET	NOTES
1	Broadband Access Gear	$249,038	$0	Took advantage of great pricing to purchase CMTS
2	Optical Drops & Fiber	$12,872	$550,000	Reallocated funds to access gear and delayed project
3	Switching Cost	$1,450	$55,000	Delayed investment on software upgrades
4	Copper Drops	$18,223	$0	Took advantage of VDSL technology
5	Alarm Equipment	$12,579	$0	Needed to replace defunct system not planned
6	Switching Cost	$4311	$55,000	Delayed investment on software upgrades
7	Vehicle	$12890	$0	Needed to replace aging vehicle
8	Broadband Access Gear	$8507	$0	Upgraded DSL access to our customers

[illegible]

We are making good progress and have extended our broadband capacity and coverage to areas not previously served with the speeds we can offer today. Most notably was the BB access gear that was deployed in 2015 and increased speeds to over 5,500 customers. We need to continue to upgrade our plant infrastructure and access platforms to continue these broadband service offerings. To be more specific:

1. In July 2015 we installed new broadband access gear in our central office that serves a wide berth of customer that are connected to our fiber network as well as the legacy hybrid fiber coax agreement. This was a large single investment in new CISCO broadband equipment and increased the Internet speeds from a standard 5 Mbps up to an astounding 100 Mbps speeds to a large number of customers. Much of the budget we had allocated for fiber network was used for this specific gear to take advantage of good vendor pricing and the ability to affect more customers.
2. The fiber network was well under budget compared to project spending for fiber optical deployment As noted in item # 1, much of the available funds were used to purchase broadband access gear.
3. Switching costs were under budget due to delayed software upgrades and changes in our planning for the total company central office plans. We will be pushing much of the planned budget for this category into the later years of our 5 year plan.
4. We have begun to deploy VDSL systems in our legacy copper network and are reaching speeds up to 50 Mbps for many of our rural customers. We plan to redirect funds in the future to take advantage of this technology as it is providing very cost effective broadband service and speeds to our most rural customers.
5. We have a critical notification and alarm system that was not budgeted to be replaced, but due to system failure and equipment that was end of life we had to spend the funds for this in 2015.
6. See Item #3.
7. Our fleet is an average of 8 years and we replaced an older model vehicle.
8. In order take advantage of DSL and specifically VDSL technology we spent funds out plant and access gear to serve customers that were previously out of range.

2016 Update:

As of the reporting date, we are in the early stages of implementing those capital expenditures and as indicated have not expended any capital for those projects.

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Company Name. Telephone Service Company
Wire Center; Cridersville 419-645

Wire Center	Description of Capital Improvement	Estimated Population Served by Improvement	Start Date	Completion Date	Estimated Capital Additions 2015	2016	2017	2018	2019	YTD - Actuals 2015	YTD - Actuals 2016
Cridersville 419-645	Broadband Access gear	500	6/1/2014	9/30/2018			$ 45,000	$ 45,000		$ 47,435	$ -
Cridersville 419-645	Optical Drops and backbone fiber	500	6/1/2015	9/30/2018	$ 330,000		$ 330,000	$ 330,000		$ -	$ -
Cridersville 419-645	Switching	500	6/1/2014	9/30/2017			$ 25,000			$ 821	$ -
Cridersville 419-645	Broadband Access gear	750	6/1/2015	9/30/2018	$ 67,500	$ 67,500		$ 67,500		$ 3,471	$ -
Cridersville 419-645	Optical Drops and backbone fiber	750	6/1/2016	9/30/2019		$ 495,000			$ 495,000	$ 989	$ -
Cridersville 419-645	Switching	750	6/1/2014	9/30/2017			$ 37,500				$ -
Cridersville 419-645	Broadband Access gear	1,100	6/1/2016	9/30/2016		$ 99,000				$ -	$ -
Cridersville 419-645	Optical Drops and backbone fiber	1,100	6/1/2017	9/30/2007			$ 375,000			$ -	$ -
Cridersville 419-645	Switching	1,100	6/1/2018	9/30/2018				$ 55,000			
					$ 397,500	$ 661,500	$ 812,500	$ 497,500	$ 495,000	$ 52,717	$ -

2015 Update:

This reports cover the Cridersville exchange of Telephone Service Company (TSC) TSC has two exchanges and Cridersville has been a remote or stand-alone office since 1947. Given the legacy telephone plant that is mixture of fiber and copper as well as coax cable, the age and distribution of the various outside plant infrastructures varies greatly and for the most part consist of copper. We *continue to upgrade all aspects of the plant and access gear on all platforms at the most economical way possible.*

[illegible]

TASK	% DONE	DUE DATE	NOTES
Upgrade access gear	15	7/1/2019	Was able to impact more people with one upgrade
Switch Upgrades	10	7/1/2019	Began release update program and capacity upgrade plans
Upgrade to VDSL system	15	7/1/2019	Used VDSL Technology to serve remote areas
Copper Drops	25	7/1/2019	Made necessary upgrades

[illegible]

	CATEGORY	SPENT	BUDGET	NOTES
1	Broadband Access Gear	$47,435	$0	Took advantage of great pricing to purchase CMTS
2	Switching Cost	$821	$0	Delayed investment on software upgrades
3	Copper Drops	$3,471	$67,500	Project did not begin on time and was changed
4	Cable Optical and Copper	$989	$330,000	Project start was delayed

[illegible]

We are making good progress and have extended our broadband capacity and coverage to areas not previously served with the speeds we can offer today. Most notably was the BB access gear that was deployed in 2015 and increased speeds to over 3,500 customers. We need to continue to upgrade our plant infrastructure and access platforms to continue these broadband service offerings. To be more specific:

1. In July 2015 we installed new broadband access gear in our central office that serves a wide berth of customer that are connected to our fiber network as well as the legacy hybrid fiber coax agreement. This was a large single investment in new CISCO broadband equipment and increased the internet speeds from a standard 5 Mbps up to an astounding 100 Mbps speeds to a large number of customers. Much of the budget we had allocated for fiber network was used for this specific gear to take advantage of good vendor pricing and the ability to affect more customers.
2. Switching costs were under budget due to delayed software upgrades and changes in our planning for the total company central office plans. We will be pushing much of the planned budget for this category into the later years of our 5 year plan.
3. Due to project delays and planning constraints that were encountered in 2015, the projects that were budgeted did not get started or were delayed in 2015

The fiber network was well under budget compared to project spending for fiber optical deployment. As noted in item # 1, much of the available funds were used to purchase broadband access gear.

2016 Update:

As of the reporting date, we are in the early stages of implementing those capital expenditures and as indicated have not expended any capital for those projects.

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SAC: [illegible]
State: OH
Telephone Service Company
Form 481 Line No. 112 Five Year Network Improvement Plan

Company Name: Telephone Service Company

Wire Center NPA-NXX	Wire Center POTS Lines	Broadband Lines	Actual Universal Support 2014	Actual Universal Support 2015	Actual Capital Additions 2014	Actual Capital Additions 2015	Actual Operating Expenses 2014	Actual Operating Expenses 2015	Estimated Capital Additions 2016	Estimated Capital Additions 2017	Estimated Capital Additions 2018	Estimated Capital Additions 2019	Estimated Operating Expenses 2016	Estimated Operating Expenses 2017	Estimated Operating Expenses 2018	Estimated Operating Expenses 2019
[illegible]	[illegible]	[illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ 632,500	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]
[illegible]	[illegible]	[illegible]	$ [illegible]	$ [illegible]	$ -	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ 812,500	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]
			$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
			$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
			$ -		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	[illegible]	[illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]	$ [illegible]

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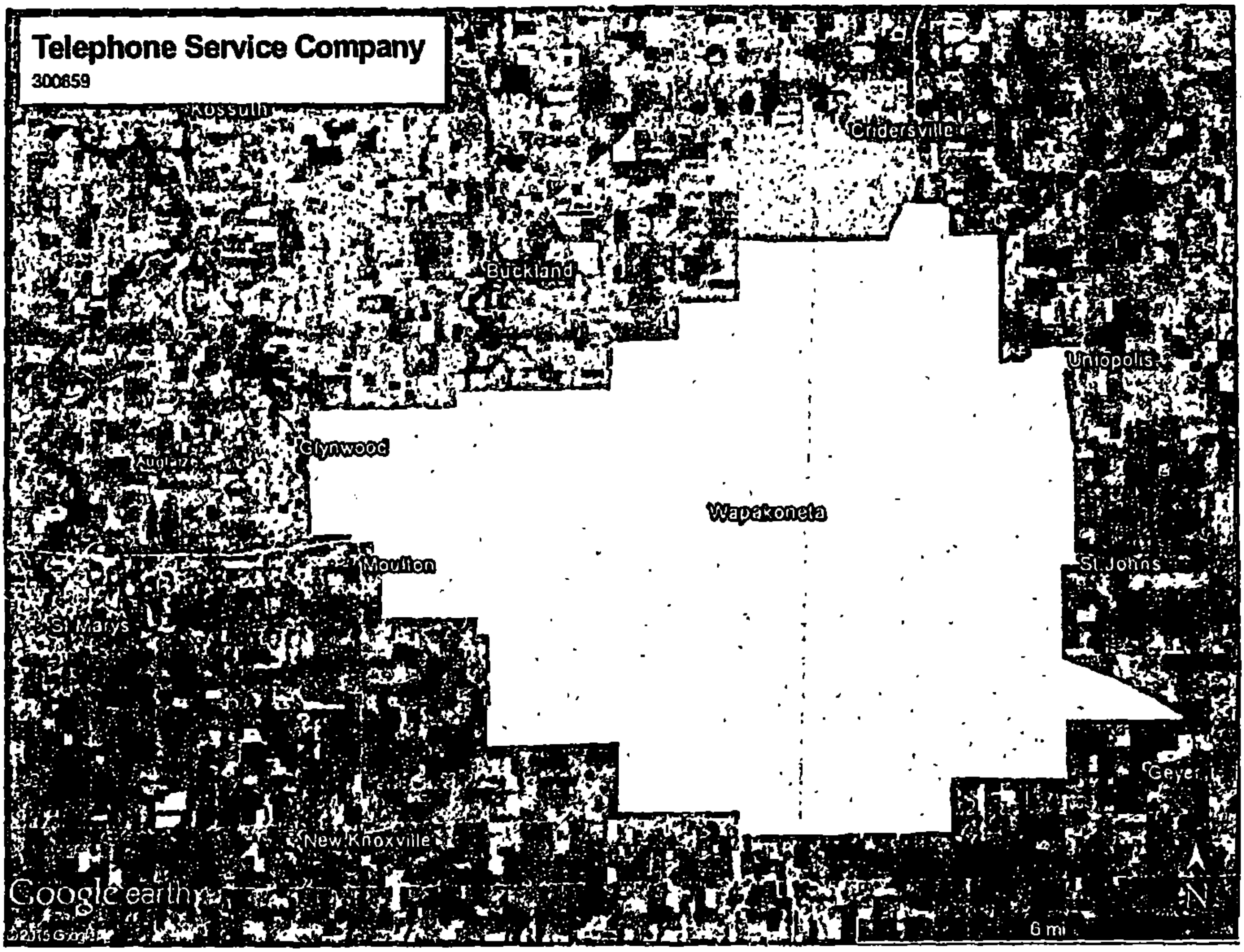

HANSON COMMUNICATIONS, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

CONFIDENTIAL

AND COMPANY

INDEPENDENT AUDITOR'S REPORT

CONFIDENTIAL

To the Board of Directors
Hanson Communications, Inc. and Subsidiaries
Willmar, Minnesota

We have audited the accompanying consolidated financial statements of Hanson Communications, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 audit. We conducted our audit 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.

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

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In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hanson Communications, Inc. and Subsidiaries as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

April 25, 2016

CONSOLIDATED FINANCIAL STATEMENTS

CONFIDENTIAL

HANSON COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 2015

Statement 1

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Assets	
Current assets:	
Cash	$2,988,646
Due from customers, less allowance for uncollectibles of $9,500	161,408
Other accounts receivable, less allowance for uncollectibles of $9,250	1,368,434
Materials and supplies	27,680
Prepaid expenses	254,284
Total current assets	4,800,452
Investments and other assets:	
Goodwill	11,934,359
Intangible assets, net	1,870,133
Other investments	2,674,669
Total investments and other assets	16,479,161
Property, plant and equipment.	
Telecommunications plant in service	98,848,324
Other property and equipment	22,862,987
Total	121,711,311
Less accumulated depreciation	(99,352,093)
Net property, plant and equipment	22,359,218
Total assets	$43,638,831
Liabilities and Stockholders' Equity	
Current liabilities:	
Current portion of long-term debt	$2,660,000
Accounts payable	1,769,772
Payable to affiliates	269,834
Accrued taxes	367,255
Other accrued liabilities	575,715
Total current liabilities	5,642,576
Other liabilities:	
Long-term debt	15,542,304
Total liabilities	21,184,880
Stockholders' equity:	
Controlling interest:	
Common stock	2,035,649
Paid-in capital	495,742
Retained earnings	21,053,604
Total controlling interest	23,584,995
Noncontrolling interest	(1,131,044)
Total stockholders' equity	22,453,951
Total liabilities and stockholders' equity	$43,638,831

The accompanying notes are an integral part of these consolidated financial statements.

HANSON COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
For The Year Ended December 31, 2015

Statement 2

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Operating revenues:	
Local network	$3,459,571
Network access	7,690,788
Nonregulated telecommunications	10,661,779
Cable television	6,472,070
Miscellaneous, net	454,127
Total operating revenues	28,738,335
Operating expenses:	
Plant specific	4,235,403
Plant support	1,506,781
Customer	1,470,886
Corporate	2,587,675
Nonregulated telecommunications	3,580,422
Cable television	6,287,251
Miscellaneous	633,716
Taxes	305,193
Depreciation and amortization	8,203,717
Total operating expenses	28,811,044
Operating loss	(72,709)
Other income (expense):	
Gain on sale of investment	715,230
Investment income	233,458
Interest expense	(550,037)
Income tax expense	(4,587)
Total other income (expense)	394,064
Net income	321,355
Net loss attributable to noncontrolling interest	65,651
Net income attributable to Hanson Communications, Inc.	$387,006

The accompanying notes are an integral part of these consolidated financial statements.

HANSON COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For The Year Ended December 31, 2015

Statement 3

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	Common Stock		Paid-In	Retained	Noncontrolling	
	Shares	Amount	Capital	Earnings	Interest	Total
Balance on December 31, 2014 (restated)	15,000,000	$2,035,649	$495,742	$24,021,598	($1,065,393)	$26,383,006
Net income (loss)	-	-	-	387,006	(65,651)	321,355
Distributions	-	-	-	(3,355,000)	-	(3,355,000)
Balance on December 31, 2015	15,000,000	$2,035,649	$495,742	$21,053,604	($1,131,044)	$22,453,951

Common Stock - no par value:
Class A voting shares: 200,000 shares authorized; 150,000 shares issued and outstanding
Class B nonvoting shares: 19,800,000 shares authorized; 14,850,000 shares issued and outstanding

The accompanying notes are an integral part of these consolidated financial statements.

HANSON COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2015

Statement 4

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Cash flows from operating activities:	
Net income	$321,355
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	8,203,717
CoBank patronage refund	(53,455)
Gain on sale of investment	(715,230)
Changes in operating assets and liabilities:	
Due from customers	40,999
Other accounts receivable	(470,057)
Prepaid expenses	49,715
Accounts payable	164,275
Accrued taxes	46,397
Other accrued liabilities	(13,694)
Net cash provided by operating activities	7,574,022
Cash flows from investing activities:	
Purchase of property, plant and equipment	(2,143,117)
Increase in materials and supplies	39,692
Net change in payables to affiliates	(18,474)
Sale of investments, net	817,211
(Increase) in cash surrender value of life insurance	(19,295)
Net cash used in investing activities	(1,323,983)
Cash flows from financing activities:	
Principal payments of long-term debt	(3,436,910)
Proceeds from issuance of long-term debt	853,500
Distributions	(3,355,000)
Net cash used in financing activities	(5,938,410)
Net increase in cash	311,629
Cash - beginning of year	2,677,017
Cash - end of year	$2,988,646
Supplemental schedule of cash flow information:	
Cash paid for interest	$564,471

The accompanying notes are an integral part of these consolidated financial statements.

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Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Company's principal line of business is providing local telephone service, internet, cable television service and access to long distance telephone service through its local exchange network. The revenues reported on the consolidated statement of income reflect the relative importance of each type of service. The principal market for these telecommunications services are local residential and business customers residing in each of the exchanges the Company serves in Minnesota, Ohio, South Dakota and Nebraska.

BASIS OF ACCOUNTING

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, including certain accounting practices prescribed by the Federal Communications Commission (FCC) and the state regulatory commissions in the states where the Company operates.

ACCOUNTING ESTIMATES

The presentation of consolidated 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CONSOLIDATION

The consolidated financial statements include the parent company, Hanson Communications, Inc. and its subsidiaries. All subsidiaries are wholly-owned except Dave, Bruce & S, LLC, which is 64.6% owned. All significant intercompany accounts and transactions have been eliminated.

RECEIVABLES

Receivables are stated at the amount the Company expects to collect from outstanding balances. The Company provides for probable uncollectible amounts through charges to earnings and credits to valuation allowances based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Company has used reasonable collection efforts are written off through charges to the valuation allowances and credits to the receivable accounts. Changes in the valuation allowances have not been material to the financial statements.

MATERIALS AND SUPPLIES

Materials and supplies are recorded at average cost.

INTANGIBLE ASSETS

Intangible assets consist primarily of customer lists and goodwill. Intangible assets with a determinable life are amortized over the useful life. Goodwill represents the excess of the purchase price of acquisitions over the fair value of the net assets acquired. *Financial Accounting Standards Board ASU No. 2014-02,* *Intangibles – Goodwill and Other (Topic 350)*, provides an accounting alternative for private companies related to accounting for goodwill. Following this guidance, the Company began amortizing goodwill on a straight-line basis over ten years in 2013. Also pursuant to the accounting alternative, the Company will test its goodwill for impairment only upon the occurrence of an event or circumstance that may indicate the fair value of the entity is less than its carrying amount.

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OTHER INVESTMENTS

Other investments are accounted for under the cost method of accounting. This method requires the Company to periodically evaluate whether non-temporary decreases in values of the investments have occurred, and if so, to write the investments down to net realizable values. As the Company is exempt from disclosing estimated fair values, the Company does not estimate fair values for cost method investments if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair values.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, including improvements that extend useful lives, is capitalized and recorded at cost, while maintenance and repairs are charged to operations as incurred. In accordance with composite group depreciation methodology, when a portion of the Company's depreciable property, plant and equipment is retired in the ordinary course of business, the original cost, including salvage and the cost of removal, is charged to accumulated depreciation with no gain or loss recognized. Upon the retirement of non-telecommunications property, the cost and related accumulated depreciation are removed from the related accounts and the resulting gain or loss is included in operations.

Property, plant and equipment is depreciated using straight-line methods over their estimated useful lives of five to forty years. Depreciation expense was $4,954,296 for the year ended December 31, 2015.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

RETIREMENT PLAN

The Company sponsors a defined contribution profit sharing plan. Plan expense, which equaled 5% of qualified salaries, was $216,564 for the year ended December 31, 2015.

REVENUE RECOGNITION

Revenues are recognized when earned. Local service and originating intrastate access services are based on tariffs filed with the state regulatory commission and retained by the Company, except Fort Randall Telephone Company's intrastate access revenues are based on cost based settlements filed with the Local Exchange Carrier Association with the South Dakota Public Service Commission. Interstate and terminating intrastate access revenues are billed based on tariffs filed with the FCC, reported to the National Exchange Carrier Association, and distributed based on average schedule and cost based settlements which include eligible funds governed by the Universal Service Administrative Company.

Access revenues based on cost are estimated pending completion of final cost studies. Non-regulated revenue for broadband, CATV, customer premise equipment, and other miscellaneous services is highly competitive and based on open market conditions.

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PRESENTATION OF TAXES COLLECTED FROM CUSTOMERS

Sales, excise, and other taxes are imposed on most of the Company's sales to non-exempt customers. The Company collects the taxes from customers and remits the entire amount collected to governmental authorities. The Company excludes taxes collected and remitted from revenues and expenses.

ADVERTISING

The Company's advertising costs are charged to expense as incurred. Advertising expense was $245,526 for the year ended December 31, 2015.

INCOME TAXES

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. The election provides that, in lieu of corporate income taxes, shareholders are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for income taxes is reflected in the accompanying consolidated financial statements.

The Company evaluates its tax positions on an annual basis. Management has determined that there are no uncertain tax positions at December 31, 2015 that meet the criteria for recognition in the consolidated financial statements. The Company will recognize interest and penalties in other expenses if incurred.

FAIR VALUE MEASUREMENTS

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. To determine fair value, the company uses a fair value hierarchy categorized into three levels based on the inputs used. Generally, the three levels are as follows:

- Level 1 – Quoted prices in active markets for identical assets
- Level 2 – Significant other observable inputs
- Level 3 – Significant unobservable inputs

The Company does not have any significant fair value measurements on a recurring or non-recurring basis as of December 31, 2015.

The carrying amounts of cash, receivables, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term debt approximate fair value because interest rates fluctuate with market interest rates or the fixed rates are based on current rates offered to the Company for debt with similar terms and uncertainty.

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Note 2 OTHER INVESTMENTS

Other investments consist primarily of investments in lending institutions and nonmarketable stock of telephone industry corporations. Other investments as of December 31, 2015 are as follows:

CoBank stock	$1,560,850
Horizon Telcom, Inc.	376,375
Com Net, Inc.	109,000
RTIC Holding Company	90,000
Cash surrender value of life insurance	294,473
Other	243,971
Total	$2,674,669

CoBank, from which the Company has loans, is a cooperative owned and controlled by its customers. Each customer borrowing from the bank on a patronage basis shares in the bank's net income through payment of patronage refunds. Patronage refunds included in investment income were $213,818 in 2015. Approximately 75% of patronage refunds are received in cash, with the balance in CoBank stock. Patronage stock is redeemable at its face value for cash after the related debt is paid off. The Company cannot predict what patronage refunds might be in the future years.

During 2015, the Company sold its investment in a Personal Communication Services (PCS) license for $820,000 and recognized a gain of $715,230.

Note 3 INTANGIBLE ASSETS

The Company has recorded goodwill as a result of acquiring the Telephone Service Company, Zumbrota Telephone Company, Fort Randall Telephone Company, Clara City Telephone Company, Middle Point Telephone Company and several CATV exchanges which were added to Fort Randall Cable Systems. The purchase price of these acquisitions was allocated among the acquired assets, goodwill, non-compete agreements, and customer lists. During 2009, goodwill was determined to be impaired by $10 million.

Intangible assets as of December 31, 2015 are as follows:

	Cost	Amortization	Impairment	Net Balance
Amortized intangibles:				
Goodwill	$27,175,501	($5,241,142)	($10,000,000)	$11,934,359
Customer lists	13,432,902	(11,570,360)	-	1,862,542
Other	10,904	(3,313)	-	7,591
Total	$40,619,307	($16,814,815)	($10,000,000)	$13,804,492

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Actual and future estimated amortization expense is as follows:

Years Ending December 31,	Goodwill	Customer Lists and Other	Total
2015	$1,906,131	$1,343,290	$3,249,421
2016	$1,704,913	$1,255,869	$2,960,782
2017	1,704,913	614,264	2,319,177
2018	1,704,913	-	1,704,913
2019	1,704,913	-	1,704,913
2020	1,704,913	-	1,704,913
Thereafter	3,409,794	-	3,409,794
Total	$11,934,359	$1,870,133	$13,804,492

Note 4 LONG-TERM DEBT

Long-term debt as of December 31, 2015 is as follows:

CoBank note	$17,375,000
Aircraft note	827,304
	18,202,304
Less current portion	(2,660,000)
Total long-term debt	$15,542,304

Annual maturities of long-term debt are as follows:

Years Ending December 31,	
2016	$2,660,000
2017	2,665,830
2018	2,671,471
2019	10,052,304
2020	152,699
Total	$18,202,304

COBANK NOTE

The CoBank note consists of two loans. A term note containing a balance of $9,375,000 as of December 31, 2015 requires quarterly principal installments of $625,000 plus monthly interest payments, and matures on November 18, 2019. The Company also has a revolving loan with CoBank which provides for borrowings up to $10,000,000. At December 31, 2015, the outstanding balance of the revolving loan was $8,000,000, leaving an available balance of $2,000,000. The revolving loan requires monthly interest-only payments, with the outstanding principal balance due on November 18, 2019.

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The loans are secured by property and equipment and a pledge of stock of all subsidiaries. The interest rate and both loans is based upon the LIBOR rate plus an applicable margin, varying with leverage. As of December 31, 2015, the interest rate was 2.92%.

The Company must comply with CoBank loan covenants including several financial ratios that must be met on a quarterly and annual basis. Distributions to stockholders are limited to consolidated taxable income multiplied by the highest effective federal and state tax rates, including carryovers from the prior year.

AIRCRAFT NOTE

During 2015, the Company paid off its existing loan with PNC Equipment Finance. The Company entered into a new loan agreement with Scope Aircraft Finance containing a principal amount of $853,500. The loan requires monthly principal and interest payments of $15,470, matures in October 2020, and is secured by an aircraft. Interest on the loan is fixed at 3.35% through October 2016, after which the rate will be adjusted to equal the Federal Home Loan Bank one year Advance Rate plus 2.75%, or the rate shall vary quarterly at the Prime Rate plus 1.00% with a floor of 4.00%.

Note 5 RELATED PARTY TRANSACTIONS

The Company does business with other companies that are related through common ownership. During 2015, the Company incurred $2,247,984 of related party expenditures pertaining to wages, management and accounting fees, and cable and related supplies.

Payables to affiliates consist of liabilities to Cable Plowing, Inc. in the amount of $269,834 as of December 31, 2015.

Note 6 BUY-SELL AGREEMENT

The Company has an agreement with its stockholders and Hanson Communications Company, a management LLC owned by some of the stockholders of the Company, whereby upon the occurrence of certain events, the stockholders, Hanson Communications Company and/or the Company, shall have the right or the obligation to purchase all or part of a stockholders' common stock.

Note 7 NONCONTROLLING INTEREST

The net income or loss attributable to the noncontrolling members' interest represents 35.4% of the net income or loss of the subsidiary, Dave, Bruce & S, LLC.

Note 8 CONCENTRATIONS

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash investments and trade receivables. The Company places its cash investments with high credit quality financial institutions and generally limits the amount of credit exposure to any one financial institution. Cash balances, at times, exceed federally insured limits. Concentrations of credit risk with respect to trade

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receivables are limited due to the Company's large number of customers and their dispersion across many different industries.

In October 2011, the FCC approved an Order on Intercarrier Compensation and Universal Service Fund (USF) reform and announced the issuance of a Further Notice of Proposed Rulemaking on long-term USF reform and transition as part of the National Broadband Plan. The Order required the transition of carrier access rates to decline over a nine year transition period. However, in an attempt to ease the transition, the access revenue was frozen based on 2011 revenue and will be reduced incrementally annually during the transition period. The Order also addressed local service rates by establishing benchmarks for high cost support eligibility to prevent USF from supporting artificially low end user rates. In addition, for cost companies the Order and Proposed Rulemaking outlined caps on capital expenditures and operating expenses recoverable from the Universal Service Fund. Additional reporting and oversight requirements continue to be implemented on an annual basis. During 2015, the Company received 27% of its revenues from network access, including assistance provided by the Federal Universal Service Fund.

A significant portion of the Company's revenues are collected from long distance carriers in the telephone industry, and consequently, the Company is directly affected by the financial wellbeing of the industry. The continued decline of access rates and elimination of wireless access based on enacted regulation have reduced the amount of disputes between the Company and long distance carriers resulting in a significant reduction in credit risk. Also, the credit risk associated with accounts receivable is minimized due to the large number of long distance carriers, and historically, credit losses have not been significant. In addition, intercarrier access charges are subject to dispute and are occasionally contested by the carrier.

Note 9 ASSET IMPAIRMENT

On December 7, 2015, property, plant and equipment with an original cost of $448,607 and a net book value of $204,320 was destroyed by fire. The impaired assets and corresponding accumulated depreciation were removed from the Company's books during 2015.

During 2016, the Company expects to receive proceeds from insurance in excess of the net book value of its impaired assets. As a result, a receivable in the amount of $204,320 has been accrued as of December 31, 2015. Any insurance proceeds received in excess of this amount will be recognized as a gain in 2016.

On March 5, 2016, the Company entered into a contract containing a guaranteed maximum price of $818,867 to reconstruct a building destroyed by the fire.

Note 10 SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 25, 2016, the date the consolidated financial statements were available to be issued, and concluded that there are no subsequent events that require disclosure, other than the contract commitment disclosed in Note 9.