

PO BOX 609
MOUNT VERNON, OR 97865-0609
1-888-383-4132

July 27, 2016

Washington Utilities and Transportation Commission
PO BOX 47250
1300 South Evergreen Park Drive, SW
Olympia, WA 98504-7250

RE: 2016 Petition to Receive Support from the State Universal Communications Services Program

CLAIM OF CONFIDENTIALITY


Pursuant to WAC 480-123-110 on behalf of Skyline Telecom ("Company"), attached herewith for filing with the Washington Utilities and Transportation Commission ("Commission") is the original, confidential, unredacted version of the Company's Petition to receive support from the state universal communication services program established by RCW 80.36.650 ("Petition"), together with an original, confidential, redacted version of the Petition.

Because of the CONFIDENTIAL nature of the information set forth in portions of the accompanying Petition pursuant to RCW 80.04.095 and WAC 480-07-160 the Company hereby asserts a claim of confidentiality with respect thereto. The basis for this claim is that the portions of the Petition, including the exhibits, that have been marked as "confidential" contain valuable commercial information, including confidential marketing, cost and financial information. Accordingly, in compliance with WAC 480-07-160(3)(c), redacted and unredacted versions of those documents accompany this letter. As specified in WAC 480-07-160(3)(b)(i), the original and a copy (both redacted and unredacted) of materials claimed to be confidential have been marked "CONFIDENTIAL PER WAS 480-07-160." The redacted version has been marked "REDACTED."

Native versions of all documents have been provided whenever possible. A .PDF version of the entire filing has also been submitted.

If the Commission has any questions regarding the filing, please feel free to contact me at 541-932-4411 or dkluser@ortelco.net.

Sincerely,


Delinda Kluser
Vice-Pres, Manager

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6 **BEFORE THE WASHINGTON**
7 **UTILITIES AND TRANSPORTATION COMMISSION**

8 IN RE

9
10 PETITION OF SKYLINE TELECOM INC,
11 TO RECEIVE SUPPORT FROM THE
12 STATE UNIVERSAL COMMUNICATIONS
SERVICES PROGRAM

DOCKET NO.

PETITION FOR SUPPORT

13 COMES NOW SKYLINE TELECOM INC (the "Company"), and, pursuant to Chapter 480-
14 123 of the Washington Administrative Code ("WAC") including, but not limited to, WAC 480-123-
15 110, hereby petitions the Washington Utilities and Transportation Commission (the "Commission")
16 to receive support from the State Universal Communications Services Program established in RCW
17 80.36.650 (the "Program") for the fiscal year ending June 30, 2017.
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20 **I. Demonstration of Eligibility under WAC 480-123-100**

- 21 1. WAC 480-123-100(1)(a): The Company is a local exchange company as defined in WAC
22 480-120-021 that serves less than forty thousand access lines within the state.
23 2. WAC 480-123-100(1)(b): The Company is an incumbent local exchange carrier as defined
24 in 47 U.S.C. Sec. 251(h).
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- 1 3. WAC 480-123-100(1)(c): The Company offers basic residential and business exchange
2 telecommunications services as set forth in WAC 480-120-021 and RCW 80.36.630.
- 3 4. WAC 480-123-100(1)(d): The Company's rates for residential local exchange service, plus
4 mandatory extended area service charges, are no lower than the local urban rate floor
5 established by the Commission as the benchmark rate based on the Federal Communications
6 Commission's national local urban rate floor pursuant to 47 C.F.R. Sec. 54.318 in effect on
7 the date of this Petition.
- 8 5. WAC 480-123-100(1)(e): The Company has been designated by the Commission as an
9 eligible telecommunications carrier for purposes of receiving federal universal services
10 support pursuant to 47 C.F.R. Part 54 Subpart D - Universal Service Support for High Cost
11 Areas with respect to the service area for which the Company is seeking Program support.
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15 **II. Demonstration of Eligibility under WAC 480-123-110**

- 16 1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications
17 services and is seeking Program support is as follows: SKYLINE TELECOM INC.
- 18 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between
19 the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.
20 A detailed description of any transactions between the Company and the affiliates named in
21 Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.
- 22 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet Nos.
23 49 and 63 of the Company's Tariff WN U-2.
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- 1 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate
2 instability or service interruption or cessation in the absence of support from the Program is
3 attached as Exhibit 3.
- 4 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,
5 are copies of the Company's balance sheet as of December 31, 2015, and December 31,
6 2014, and copies of the Company's statements of income and retained earnings or margin for
7 the years ended December 31, 2015 and December 31, 2014.
- 8 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial
9 statements for the years ended December 31, 2015 and December 31, 2014, are attached as
10 Exhibit 5.
- 11 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of
12 return on a total Washington unseparated regulated operations basis for each of the two prior
13 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
- 14 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on
15 equity on a total company (regulated and non-regulated) Washington basis for each of the
16 two prior years, calculated in the manner prescribed by the Commission, is provided in
17 Exhibit 5.
- 18 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the
19 statements of income and retained earnings or margin in the same format and detail as is
20 required to complete RUS Form 479 for the prior two years is presented on Exhibit 6.
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1 10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company officer
2 with personal knowledge and responsibility certifying that no corporate operations
3 adjustment to existing high-cost loop and interstate common line support mechanisms
4 required by the Federal Communications Commission applied to the Company for the two
5 prior years is attached hereto as Exhibit 7.

6
7 11. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains additional supporting information
8 requested by the Commission.

9 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company
10 officer with personal knowledge and responsibility certifying that the Company complies
11 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to
12 incumbent local exchange companies is attached as Exhibit 8.

13
14 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or
15 on its behalf with the Federal Communications Commission for the calendar year preceding
16 the current year has already been filed with the Commission. See the Company's filing in
17 Docket No. UT-160030 filed on or about July 1, 2016.

18 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by
19 the Company as of December 31, 2015, was 108 all of which were within the geographic
20 area for which the Company is seeking support. The number of residential local exchange
21 access lines served by the Company as of December 31, 2014, was 117, all of which were
22 within the geographic area for which the Company is seeking support.
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1 The number of business local exchange access lines served by the Company as of December
2 31, 2015, was 18, all of which were within the geographic area for which the Company is
3 seeking support. The number of business local exchange access lines served by the
4 Company as of December 31, 2014, was 27, all of which were within the geographic area
5 for which the Company is seeking support.

6
7 The monthly recurring rate charged by the Company for residential local exchange access
8 service on December 31, 2015, was \$25.00 for Silverton and \$19.50 for MT Hull. The
9 monthly recurring rate charged by the Company for residential local exchange access
10 service on December 31, 2014, was \$25.00 for Silverton and \$19.50 for MT Hull.

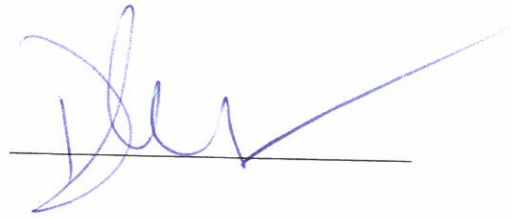
11 The rate charged by the Company for single line business local exchange access service on
12 December 31, 2015, was \$35.00 for Silverton and \$25.00 for MT Hull. The rate charged
13 by the Company for single line business local exchange access service on December 31,
14 2014, was \$35.00 for Silverton and \$25.00 for MT Hull. (The Company has other business
15 local exchange service rates, but the Company understands that WAC 480-123-110(1)(g) is
16 requesting the single line business local exchange access service rate.)
17

18 15. WAC 480-123-110(1)(h): The requested statement is attached as Exhibit 9.

19 16. The amount on Line 4, labeled 2011 ROR Carrier Base Period Revenue, of the CAF ICC
20 Data collection Report for the period 7/1/2016 - 6/30/2017 is \$347,635 and has not changed
21 from the last filing.
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23 17. All exhibits attached hereto are incorporated in this Petition as though fully set forth.
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1 Respectfully submitted this 27^R day of July, 2016.
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7 CERTIFICATION

8 I Delinda Kluser, an officer of the Company that is responsible for the Company's
9 business and financial operations, hereby certify under penalty of perjury that the information and
10 representations set forth in the Petition, above, are accurate and the Company has not knowingly
11 withheld any information required to be provided to the Commission pursuant to the rules
12 governing the Program.


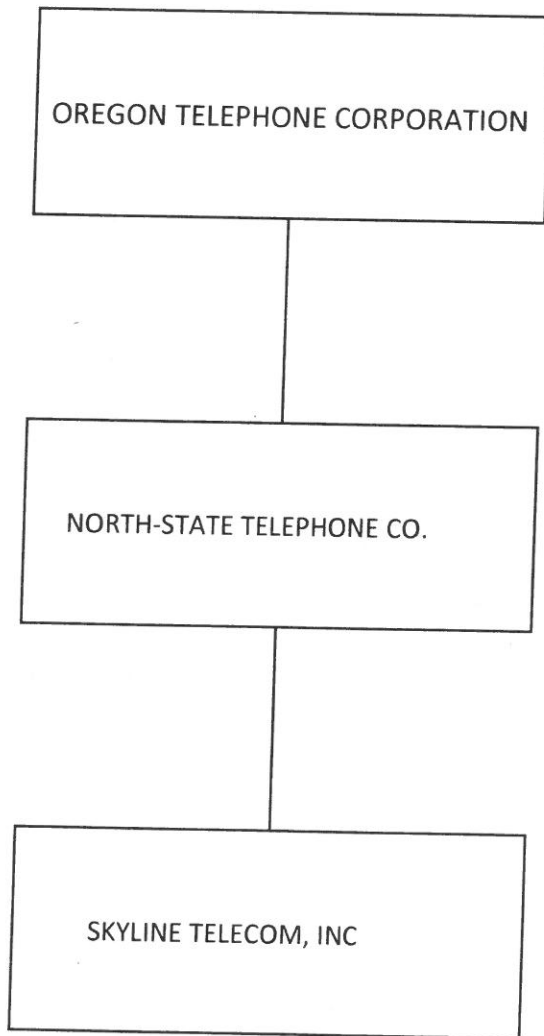
13 
14 By: Delinda Kluser
15 Title: Vice-Pres, manager
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EXHIBIT 1

CORPORATE ORGANIZATION CHART



PETITION OF SKYLINE TELECOM, INC TO
RECEIVE SUPPORT FROM THE UNIVERSAL
SERVICE COMMUNICATIONS PROGRAM –

EXHIBIT 2

AFFILIATED TRANSACTIONS

Affiliated Transactions

Oregon Telephone Corporation is the managing company for Skyline Telecom Inc. The business office is located in MT Vernon, OR. All billing, customer support, technical support and financial reporting is performed by the staff of Oregon Telephone Corporation. All labor expenses are direct coded to Skyline. A management agreement is in place which identifies how expenses are allocated between companies. Skyline currently has two part time employees on staff which are paid directly by the Company in addition to the labor charged through the management agreement. Skyline also has a contract employee paid directly by the company for locates, trouble reports and installs.

At times it is necessary for the combo tech employed by either Oregon Telephone Corporation or North-State Telephone to assist with construction projects or cover for absences. This employee also directly codes labor and expenses to Skyline Telecom.

EXHIBIT 3

DEMONSTRATION OF RISK OF RATE INSTABILITY OR SERVICE INTERRUPTION OR CESSATION

The operating environment in which the Company finds itself has created a climate of great financial uncertainty. The Company has been working over the past several years to address growing competition. The Company has taken steps to increase the availability and attributes of advanced services offered by the Company, including broadband. This has resulted in the Company making additional investments in regulated plant of approximately \$123,583 during the period January 1, 2011 through December 31, 2015. The Company has a substantial debt obligation to cover the original investment that has been made.

The overall financial condition of the Company is detailed on other Exhibits to this Petition. What this information demonstrates is that, when adjusted to eliminate the support from the state Universal Communications Services Program that the Company received or accrued in 2015, the Company's total regulated revenue remained essentially flat from 2011 through 2015. The Company has looked for ways to lower expenses. However, much of the Company's operating expenses are fixed obligations, such as debt-related payments which include principal and interest.

At the same time, the Company is seeing increased competition. For example, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. Since 2011, the Company has lost 45 access lines. A loss of customers equates to a loss of revenue without a corresponding reduction in expenses or corresponding increase in rates. This trend of access line loss is exacerbated by the Federal Communications Commission's requirement that the Company increase its rates to remain eligible for full federal USF support.

As another example, some of the financial uncertainty that the Company faces stems from the USF/ICC Transformation Order issued by the Federal Communications Commission.¹ The USF/ICC Transformation Order has built in an automatic decline in the Company's intrastate and interstate access revenues. The intercarrier compensation portion of the Transformation Order introduces a concept of a base line year for calculating terminating access and reciprocal compensation revenues and provides support from the Connect America Fund ("CAF") based on the base line year. However, the base line year revenues (from which the level of CAF support is derived) are reduced iteratively by five percent each year. The CAF support reduction began in

¹ *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform - Mobility Fun*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011)(*USF/ICC Transformation Order*).

July 2012. Projecting through the calendar year 2017, including additional reductions that will occur July 1, 2017, the Company has seen a reduction in support from the base line revenue amount of approximately \$78,642 through 2017.

These factors, among others, have led to the strained financial condition of the Company as reflected in the financial reports that are part of the Petition.

The combination of factors noted above creates a situation in which, without support from the state universal communications services program, the Company may be faced with a choice of increasing rates further or reducing service in order to be able to match expenses to revenues. Neither choice presents a viable path for providing continued high quality service to customers. The dilemma presented by these choices reflects the risk of rate instability or service interruption or cessation to which the Company is subject.

EXHIBIT 4

**STATE USF FILING
FINANCIAL TEMPLATE
NON-"S CORP" COMPANIES**

State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)
 Prior Year Balance Sheet

Company Name: (Below)
 Skyline Telecom Inc

Redacted per WAC 480-123-110(1)(e)
 CONFIDENTIAL

ASSETS	Balance End of Year 2014 (A)	Part 64 Adj to NonReg 2014 (B)	Adj. Balance End of Year 2014 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2014 (A)	Part 64 Adj to NonReg 2014 (B)	Adj. Balance End of Year 2014 (C)
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents				25. Accounts Payable			
2. Cash-RUS Construction Fund				27. Advance Billings and Payments			
3. Affiliates:				28. Customer Deposits			
a. Telecom, Accounts Receivable				29. Current Mat. L/T Debt			
b. Other Accounts Receivable				30. Current Mat. L/T Debt Rur. Dev.			
c. Notes Receivable				31. Current Mat. - Capital Leases			
4. Non-Affiliates:				32. Income Taxes Accrued			
a. Telecom, Accounts Receivable				33. Other Taxes Accrued			
b. Other Accounts Receivable				34. Other Current Liabilities			
c. Notes Receivable				35. Total Current Liabilities (25 thru 34)			
5. Interest and Dividends Receivable				LONG-TERM DEBT			
6. Material-Regulated				36. Funded Debt-RUS Notes			
7. Material-Nonregulated				37. Funded Debt-RTB Notes			
8. Prepayments				38. Funded Debt-FFB Notes			
9. Other Current Assets				39. Funded Debt-Other			
10. Total Current Assets (1 Thru 9)		0		40. Funded Debt-Rural Develop. Loan			
NONCURRENT ASSETS				41. Premium (Discount) on L/T Debt			
11. Investment in Affiliated Companies				42. Reacquired Debt			
a. Rural Development	0			43. Obligations Under Capital Lease			
b. Nonrural Development	0			44. Adv. From Affiliated Companies			
12. Other Investments				45. Other Long-Term Debt			
a. Rural Development	0			46. Total Long-Term Debt (36 thru 45)			
b. Nonrural Development				OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)		0		47. Other Long-Term Liabilities			
14. Other Noncurrent Assets				48. Other Deferred Credits (C)			
15. Deferred Charges				49. Other Jurisdictional Differences			
16. Jurisdictional Differences				50. Total Other Liab. & Def. Credits (47 thru 49)			
17. Total noncurrent Assets (11 thru 16)		0		EQUITY			
PLANT, PROPERTY AND EQUIPMENT				51. Cap. Stock Outstanding & Subscribed			
18. Telecom Plant-In-Service				52. Additional Paid-in-Capital			
19. Property Held for Future Use				53. Treasury Stock			
20. Plant Under Construction				54. Membership and cap. Certificates			
21. Plant Adj., Nonop Plant & Goodwill				55. Other Capital			
22. Accumulated Depreciation (CR.)				56. Patronage Capital Credits			
23. Net Plant (18 thru 21 less 22)		0		57. Retained Earnings or Margins (B2)			
24. TOTAL ASSETS (10+17+23)		0		58. Total Equity (51 thru 57)			
				59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)			

Footnotes:

- (A) - As reported on RUS Form 479
- (B) - Part 64 adjustments from regulated to nonregulated.

- (B1) - Part 64 offset to nonreg investment
- (B2) - Part 64 offset to retained earnings
- (C) - Includes deferred taxes

Company Name: (Below)
Skyline Telecom Inc

Rejected
 CONFIDENTIAL
 480-123-110
 7/18/2016
 for

ASSETS	Balance End of Year 2015 (A)	Part 64 Adj to NonReg 2015 (B)	Adj. Balance End of Year 2015 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2015 (A)	Part 64 Adj to NonReg 2015 (B)	Adj. Balance End of Year 2015 (C)
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents				25. Accounts Payable			
2. Cash-RUS Construction Fund				26. Notes Payable			
3. Affiliates:				27. Advance Billings and Payments			
a. Telecom, Accounts Receivable				28. Customer Deposits			
b. Other Accounts Receivable				29. Current Mat. L/T Debt			
c. Notes Receivable				30. Current Mat. L/T Debt Rur. Dev.			
4. Non-Affiliates:				31. Current Mat. - Capital Leases			
a. Telecom, Accounts Receivable				32. Income Taxes Accrued			
b. Other Accounts Receivable				33. Other Taxes Accrued			
c. Notes Receivable				34. Other Current Liabilities			
5. Interest and Dividends Receivable				35. Total Current Liabilities (25 thru 34)			
6. Material-Regulated				LONG-TERM DEBT			
7. Material-Nonregulated				36. Funded Debt-RUS Notes			
8. Prepayments				37. Funded Debt-RTB Notes			
9. Other Current Assets				38. Funded Debt-FFB Notes			
10. Total Current Assets (1 Thru 9)				39. Funded Debt-Other			
NONCURRENT ASSETS				40. Funded Debt-Rural Develop. Loan			
11. Investment in Affiliated Companies				41. Premium (Discount) on L/T Debt			
a. Rural Development				42. Reacquired Debt			
b. Nonrural Development				43. Obligations Under Capital Lease			
12. Other Investments				44. Adv. From Affiliated Companies			
a. Rural Development				45. Other Long-Term Debt			
b. Nonrural Development				46. Total Long-Term Debt (36 thru 45)			
13. Nonregulated Investments (B1)				OTHER LIAB. & DEF. CREDITS			
14. Other Noncurrent Assets				47. Other Long-Term Liabilities			
15. Deferred Charges				48. Other Deferred Credits (C)			
16. Jurisdictional Differences				49. Other Jurisdictional Differences			
17. Total noncurrent Assets (11 thru 16)				50. Total Other Liab. & Def. Credits (47 thru 49)			
PLANT, PROPERTY AND EQUIPMENT				EQUITY			
18. Telecom Plant-in-Service				51. Cap. Stock Outstanding & Subscribed			
19. Property Held for Future Use				52. Additional Paid-in-Capital			
20. Plant Under Construction				53. Treasury Stock			
21. Plant Adj., Nonop Plant & Goodwill				54. Membership and cap. Certificates			
22. Accumulated Depreciation (CR.)				55. Other Capital			
23. Net Plant (18 thru 21 less 22)				56. Patronage Capital Credits			
24. TOTAL ASSETS (10+17+23)				57. Retained Earnings or Margins (B2)			
				58. Total Equity (51 thru 57)			
				59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)			

Footnotes:
 (A) - As reported on RUS Form 479
 (B) - Part 64 adjustments from regulated to nonregulated.
 (C) - Includes deferred taxes

Redacted
 CONFIDENTIAL
 480-07-160
 7/18/2016

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)
 Prior and Current Year Balance Sheet

Company Name: (Below)
 Skyline Telecom Inc

ASSETS	Adjusted Prior Year Balance 2014	Adjusted Current Year Balance 2015	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2014	Adjusted Current Year Balance 2015
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	0	0	25. Accounts Payable	0	0
2. Cash-RUS Construction Fund	0	0	26. Notes Payable	0	0
3. Affiliates:			27. Advance Billings and Payments	0	0
a. Telecom, Accounts Receivable	0	0	28. Customer Deposits	0	0
b. Other Accounts Receivable	0	0	29. Current Mat. L/T Debt	0	0
c. Notes Receivable	0	0	30. Current Mat. L/T Debt-Rur. Dev.	0	0
4. Non-Affiliates:			31. Current Mat. - Capital Leases	0	0
a. Telecom, Accounts Receivable	0	0	32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	0	0	33. Other Taxes Accrued	0	0
c. Notes Receivable	0	0	34. Other Current Liabilities	0	0
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	0	0
6. Material-Regulated	0	0	LONG-TERM DEBT		
7. Material-Nonregulated	0	0	36. Funded Debt-RUS Notes	0	0
8. Prepayments	0	0	37. Funded Debt-RTB Notes	0	0
9. Other Current Assets	0	0	38. Funded Debt-FFB Notes	0	0
10. Total Current Assets (1 Thru 9)	0	0	39. Funded Debt-Other	0	0
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan	0	0
11. Investment in Affiliated Companies	0	0	41. Premium (Discount) on L/T Debt	0	0
a. Rural Development	0	0	42. Recquired Debt	0	0
b. Nonrural Development	0	0	43. Obligations Under Capital Lease	0	0
12. Other Investments	0	0	44. Adv. From Affiliated Companies	0	0
a. Rural Development	0	0	45. Other Long-Term Debt	0	0
b. Nonrural Development	0	0	46. Total Long-Term Debt (36-45)	0	0
13. Nonregulated Investments	0	0	OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets	0	0	47. Other Long-Term Liabilities	0	0
15. Deferred Charges	0	0	48. Other Deferred Credits	0	0
16. Jurisdictional Differences	0	0	49. Other Jurisdictional Differences	0	0
17. Total noncurrent Assets (11 thru 16)	0	0	50. Total Other Liab. & Def. Credits (47 thru 49)	0	0
PLANT, PROPERTY AND EQUIPMENT			EQUITY		
18. Telecom Plant-in-Service	0	0	51. Cap. Stock Outstanding & Subscribed	0	0
19. Property Held for Future Use	0	0	52. Additional Paid-in-Capital	0	0
20. Plant Under Construction	0	0	53. Treasury Stock	0	0
21. Plant Adj., Nonop Plant & Goodwill	0	0	54. Membership and cap. Certificates	0	0
22. Accumulated Depreciation (CR.)	0	0	55. Other Capital	0	0
23. Net Plant (18 thru 21 less 22)	0	0	56. Patronage Capital Credits	0	0
24. TOTAL ASSETS (10-17+23)	0	0	57. Retained Earnings or Margins	0	0
			58. Total Equity (51 thru 57)	0	0
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	0	0

Footnote:
 Adjusted Balances represents balances
 after Part 64 adjustments

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)
 Prior and Current Year Rate Base

Company Name: (Below)
 Skyline Telecom Inc

Redacted
CONFIDENTIAL - 07-160
per write

Line #	Description	B/S Line #	Adj. Balance End of Year 2014	Adj. Balance End of Year 2015	Average Balance Adj End of Year
	Average Rate Base:				
1	Total Regulated Adjusted Telecom Plant-in-service	18			
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22			
4	Total Regulated Materials & Supplies	6			
5	Deferred Income Taxes (CR)				
6	Total Regulated Rate Base				

Footnotes:

1. Normal balance of deferred income taxes and accumulated depreciation is a credit.
2. Adjusted balance includes Part 64 adjustments

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)
 Prior and Current Year Access Lines

Company Name: (Below)
 Skyline Telecom Inc

Line #	Description	Prior Year End of Yr. Balance - 2014	Current Year End of Yr. Balance - 2015	Difference	% Change
Access Lines:					
1	Residential				-7.7%
2	Business				-33.3%
3	Total				-12.5%

Note: If 2014 does not equal last year's petition and template, explain.

Redacted
CONFIDENTIAL
480-07-160
for wife

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)
 Prior Year Income Statement

*Redacted
 CONFIDENTIAL
 per WAC 480-07-160*

Company Name: (Below)
 Skyline Telecom Inc

Line #	Description	Prior Year 2014 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2014 (C)
1	Local Network Services Revenues	[REDACTED]		[REDACTED]
2	Network Access Services Revenues	[REDACTED]		[REDACTED]
3	Long Distance Network Services Revenues			0
4	Carrier Billing and Collection Revenues			0
5	Miscellaneous Revenues			0
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	[REDACTED]		[REDACTED]
7	Net Operating Revenues (1 thru 6)	[REDACTED]	0	[REDACTED]
8	Plant Specific Operations Expense	[REDACTED]		[REDACTED]
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	[REDACTED]		[REDACTED]
10	Depreciation Expense	[REDACTED]		[REDACTED]
11	Amortization Expense	[REDACTED]		[REDACTED]
12	Customer Operations Expense			0
13	Corporate Operations	[REDACTED]		[REDACTED]
14	Total Operations Expenses (8 thru 12 +13b)	[REDACTED]	0	[REDACTED]
15	Operating Income or Margins (7 less 14)	[REDACTED]	0	[REDACTED]
16	Other Operating Income and Expenses ()			0
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	[REDACTED]		[REDACTED]
19	Other Taxes	[REDACTED]		[REDACTED]
20	Total Operating Taxes (17+18+19)	[REDACTED]	0	[REDACTED]
21	Net Operating Income or Margins (15+16-20)	[REDACTED]	0	[REDACTED]
22	Interest on Funded Debt	[REDACTED]		[REDACTED]
23	Interest Expense - Capital Leases			0
24	Other Interest Expense	[REDACTED]		[REDACTED]
25	Allowance for Funds Used During Construction (CR)			0
26	Total Fixed Charges (22+23+24-25)	[REDACTED]	0	[REDACTED]
27	Nonoperating Net Income	[REDACTED]		[REDACTED]
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	[REDACTED]	0	[REDACTED]
31	Total Net Income or Margins (21+27+28+29+30-26)	[REDACTED]	0	[REDACTED]
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	[REDACTED]		[REDACTED]
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)			0
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38))(A2)	[REDACTED]	0	[REDACTED]
40	Patronage Capital Beginning-of-Year			0
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	Patronage Capital End-of-Year (40+41-42)	0	0	0
44	Annual Debt Service Payments	[REDACTED]		[REDACTED]
45	Cash Ratio ((14+20-10-11)/7)	[REDACTED]	#DIV/0!	[REDACTED]
46	Operating Accrual Ratio ((14+20+26)/7)	[REDACTED]	#DIV/0!	[REDACTED]
47	TIER ((31+26)/26)	[REDACTED]	#DIV/0!	[REDACTED]
48	DSCR ((31+26+10+11)/44)	[REDACTED]	#DIV/0!	[REDACTED]

Footnotes:
 (A) As reported on RUS Form 479
 (A1) S Corps provide effective tax rate from Cost study on Page 9, Inc. Statement Summary Schedule Footnote
 (A2) Column A, Line 39 must equal Column A, Line 57 of Page 1, Balance Sheet
 (B) Part 64 adjustment from regulated to nonregulated
 (B1) Column B, automatic offset to Nonregulated Net Income (No impact to Retained Earnings)

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)
Current Year Income Statement

Redacted
CONFIDENTIAL
Per WAC 480-02-160

Company Name: (Below)
Skyline Telecom Inc

Line #	Description	Current Year 2015 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2015 (C)
1	Local Network Services Revenues			
2	Network Access Services Revenues			
3	Long Distance Network Services Revenues			
4	Carrier Billing and Collection Revenues			0
5	Miscellaneous Revenues			0
6	Uncollectible Revenues (Normal Balance is debit or in brackets)			0
7	Net Operating Revenues (1 thru 6)			
8	Plant Specific Operations Expense		0	
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)			
10	Depreciation Expense			
11	Amortization Expense			
12	Customer Operations Expense			
13	Corporate Operations			0
14	Total Operations Expenses (8 thru 12 +13b)			
15	Operating Income or Margins (7 less 14)		0	
16	Other Operating Income and Expenses ()		0	
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)			0
19	Other Taxes			
20	Total Operating Taxes (17+18+19)			
21	Net Operating Income or Margins (15+16-20)		0	
22	Interest on Funded Debt		0	
23	Interest Expense - Capital Leases			
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (CR)			0
26	Total Fixed Charges (22+23+24-25)		0	
27	Nonoperating Net Income			
28	Extraordinary Items			
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)		0	
31	Total Net Income or Margins (21+27+28+29+30-26)		0	
32	Total Taxes Based on Income		0	
33	Retained Earning or Margins Beginning-of-Year			
34	Miscellaneous Credits Year-to-Date			
35	Dividends Declared (Common)			0
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38)(A2)		0	
40	Patronage Capital Beginning-of-Year			
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	Patronage Capital End-of-Year (40+41-42)			
44	Annual Debt Service Payments		0	0
45	Cash Ratio ((14+20-10-11)/7)			
46	Operating Accrual Ratio ((14+20+26)/7)		#DIV/0!	
47	TIER ((31+26)/26)		#DIV/0!	
48	DSCR ((31+26+10+11)/44)		#DIV/0!	

Footnotes:
 (A) As reported on RUS Form 479
 (A1) S Corps provide effective tax rate from Cost study on Page 9, Inc. Statement Summary Schedule Footnote
 (A2) Column A, Line 39 must equal Column A, Line 57 of Page 2, Balance Sheet
 (B) Part 64 adjustment from regulated to nonregulated
 (B1) Column B, automatic offset to Nonregulated Net Income (No Impact to Retained Earnings)

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)
 Prior and Current Year Income Statement

Redacted
CONFIDENTIAL
 per WAC 480-07-160

Company Name:
 Skyline Telecom Inc

Line #	Description	Adjusted Prior Year 2014	Adjusted Current Year 2015
1	Local Network Services Revenues	[REDACTED]	[REDACTED]
2	Network Access Services Revenues	[REDACTED]	[REDACTED]
3	Long Distance Network Services Revenues	[REDACTED]	[REDACTED]
4	Carrier Billing and Collection Revenues	0	0
5	Miscellaneous Revenues	0	0
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	0	0
7	Net Operating Revenues (1 thru 6)	[REDACTED]	[REDACTED]
8	Plant Specific Operations Expense	[REDACTED]	[REDACTED]
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	[REDACTED]	[REDACTED]
10	Depreciation Expense	[REDACTED]	[REDACTED]
11	Amortization Expense	[REDACTED]	[REDACTED]
12	Customer Operations Expense	[REDACTED]	[REDACTED]
13	Corporate Operations	0	0
14	Total Operations Expenses (8 thru 12 +13b)	[REDACTED]	[REDACTED]
15	Operating Income or Margins (7 less 14)	[REDACTED]	[REDACTED]
16	Other Operating Income and Expenses ()	[REDACTED]	[REDACTED]
17	State and Local Taxes	0	0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	0	0
19	Other Taxes	[REDACTED]	[REDACTED]
20	Total Operating Taxes (17+18+19)	[REDACTED]	[REDACTED]
21	Net Operating Income or Margins (15+16-20)	[REDACTED]	[REDACTED]
22	Interest on Funded Debt	[REDACTED]	[REDACTED]
23	Interest Expense - Capital Leases	[REDACTED]	[REDACTED]
24	Other Interest Expense	0	0
25	Allowance for Funds Used During Construction	[REDACTED]	[REDACTED]
26	Total Fixed Charges (22+23+24-25)	[REDACTED]	[REDACTED]
27	Nonoperating Net Income	[REDACTED]	[REDACTED]
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	[REDACTED]	[REDACTED]
31	Total Net Income or Margins (21+27+28+29+30-26)	[REDACTED]	[REDACTED]
32	Total Taxes Based on Income	[REDACTED]	[REDACTED]
33	Retained Earning or Margins Beginning-of-Year	[REDACTED]	[REDACTED]
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	0	0
36	Dividends Declared (Preferred)	0	0
37	Other Debits Year-to-Date	0	0
38	Transfers to Patronage Capital	0	0
39	Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))	[REDACTED]	[REDACTED]
40	Patronage Capital Beginning-of-Year	0	0
41	Transfers to Patronage Capital	0	0
42	Patronage Capital Credits Retired	0	0
43	Patronage Capital End-of-Year (40+41-42)	[REDACTED]	[REDACTED]
44	Annual Debt Service Payments	[REDACTED]	[REDACTED]
45	Cash Ratio ((14+20-10-11)/7)	[REDACTED]	[REDACTED]
46	Operating Accrual Ratio ((14+20+26)/7)	[REDACTED]	[REDACTED]
47	TIER ((31+26)/26)	[REDACTED]	[REDACTED]
48	DSCR ((31+26+10+11)/44)	[REDACTED]	[REDACTED]

Footnote
 (A1) S Corporation Effective Tax Rate (2 decimal places):
 Note:
 Adjusted Income Statement reflects Part 64 Adjustments (Regulated to Nonregulated).

2014 2015

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)
 Prior and Current Year Access Revenue Detail

Company Name: (Below)
 Skyline Telecom Inc

Rejected
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Line #	Description	Part 32 Account	Prior Year 2014	Current Year 2015
1	End User Revenue (SLC, ARC, etc.)	5081		
2	Switched Access (excluding USF):	5082		
2a	Intrastate			
2b	Interstate (includes CAF)			
3	Special Access:	5083		
3a	Intrastate			
3b	Interstate			
4	Federal USF (ICLS/HCL/SN)	Varies		
5	State USF			
6	Other*			
7	Total (must equal line 2 of Income Stmt.)			
8	Line 2 of Income Stmt.			
9	Difference		0	0

Footnote:

* - if > than 5% of Access revenue total, provide description below.

State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)
 Out-of-Period and Pro Forma Adjustments

Company Name: (Below)
 Skyline Telecom Inc

Description of Out-of-Period (OOP) - 2015 (As Recorded) OR Pro Forma (PF) Adjustment for Current Year Petition or Reversing from Prior Year	Year	OOP or PF?	Part 32 Account	
			Debit	Credit
Adjustment #1:				
Adjustment #2:				
Adjustment #3:				
Adjustment #4:				
Adjustment #5:				

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)
 Rate of Return and Consolidated Return on Equity

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per WIRE 480-07-160

Company Name: (Below)
 Skyline Telecom Inc

Line #	Description	2015 (A)	2015 (B)
1	Rate Base (Jan. 1)		
2	Rate Base (Dec. 31)		
3	Average Rate Base		
4	Net Operating Income		
5	Out-of-Period Adjustments Net of FIT (1)		
6	Adjusted Net Operating Income		
7	Earned Regulated Rate of Return		
8	Consolidated Equity (Jan 1)		
9	Consolidated Equity (Dec 31)		
10	Average Equity		
11	Consolidated Net Income		
12	Out-of-Period Adjustments Net of FIT (1)		
13	Adjusted Consolidated Net Income		
14	Earned Return on Equity		

Footnotes:

- (1) Lines 5 & 12 will be completed by Staff
- (A) Column A to be completed by Company.
- (B) Column B should equal Column A, but may include any Staff Adjustments

State USF Petition Filing Requirement - WAC 480-123-110(e)
 Prior and Current Year Broadband and Gross Capital Expenditures

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 CONFIDENTIAL-480-07-160
by WAC

Company Name: (Below)
 Skyline Telecom Inc

Description	Prior Year End of Yr. Balance - 2014	Current Year End of Yr. Balance - 2015	Difference	% Change
Broadband Connections:				
Residential				
Business				
Total				#DIV/0!
Gross Regulated and Nonregulated Capital Expenditures:				
Total Annual Amount	2014	2015	Difference	% Change #DIV/0!

EXHIBIT 5

AUDITED FINANCIAL STATEMENTS

PETITION OF SKYLINE TELECOME INC. TO RECEIVE
SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM –
EXHIBIT 5

SKYLINE TELECOM, INC.

FINANCIAL REPORT

DECEMBER 31, 2015 AND 2014

SKYLINE TELECOM, INC.
FINANCIAL REPORT
DECEMBER 31, 2015 AND 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Skyline Telecom, Inc.
Mt. Vernon, Oregon

We have audited the accompanying financial statements of Skyline Telecom, Inc. (a Washington corporation), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income and retained earnings, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 Skyline Telecom, Inc. as of December 31, 2015 and 2014, and the results of its operations and its 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 2, 2016, on our consideration of Skyline Telecom, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Skyline Telecom, Inc.'s internal control over financial reporting and compliance.

Wiggins & Co., PC

Brigham City, Utah

March 2, 2016

SKYLINE TELECOM, INC.
BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ [REDACTED]	\$ [REDACTED]
Due from customers and agents (no bad debt allowance)	[REDACTED]	[REDACTED]
Materials and supplies	[REDACTED]	[REDACTED]
Prepaid taxes	[REDACTED]	[REDACTED]
Prepaid expenses	[REDACTED]	[REDACTED]
Total current assets	[REDACTED]	[REDACTED]
Other assets		
Deferred charges:		
RUS loan costs	[REDACTED]	[REDACTED]
Total other assets	[REDACTED]	[REDACTED]
Property, plant, and equipment		
In Service:		
Regulated telecommunications plant	[REDACTED]	[REDACTED]
Non-regulated telecommunications plant	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]
Less: accumulated depreciation	[REDACTED]	[REDACTED]
Total property, plant and equipment	[REDACTED]	[REDACTED]
Total assets	\$ [REDACTED]	\$ [REDACTED]
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ [REDACTED]	\$ [REDACTED]
Accounts payable-affiliated companies	[REDACTED]	[REDACTED]
Customer deposits	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]
Current portion of long-term debt	[REDACTED]	[REDACTED]
Total current liabilities	[REDACTED]	[REDACTED]
Other liabilities		
Deferred income taxes	[REDACTED]	[REDACTED]
Long-term debt, net of current portion	[REDACTED]	[REDACTED]
Total other liabilities	[REDACTED]	[REDACTED]
Stockholders' equity		
Common stock	[REDACTED]	[REDACTED]
Retained earnings	[REDACTED]	[REDACTED]
Total stockholders' equity	[REDACTED]	[REDACTED]
Total liabilities and stockholders' equity	\$ [REDACTED]	\$ [REDACTED]

Redacted
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 PER WRK 480-07-160

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

SKYLINE TELECOM, INC.
 STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Operating revenue		
Local network	\$ [REDACTED]	\$ [REDACTED]
Network access	[REDACTED]	[REDACTED]
Miscellaneous	[REDACTED]	[REDACTED]
Total operating revenue	[REDACTED]	[REDACTED]
Operating expenses		
Plant specific	[REDACTED]	[REDACTED]
Plant nonspecific	[REDACTED]	[REDACTED]
Customer service	[REDACTED]	[REDACTED]
Corporate operations	[REDACTED]	[REDACTED]
Depreciation and amortization	[REDACTED]	[REDACTED]
Total operating expenses	[REDACTED]	[REDACTED]
Operating taxes		
Income taxes (benefit)	[REDACTED]	[REDACTED]
Other operating taxes	[REDACTED]	[REDACTED]
Total operating expenses and taxes	[REDACTED]	[REDACTED]
Operating income	[REDACTED]	[REDACTED]
Other income (expense)	[REDACTED]	[REDACTED]
Income (taxes) benefit	[REDACTED]	[REDACTED]
Total non-operating income (loss)	[REDACTED]	[REDACTED]
Income available for fixed charges	[REDACTED]	[REDACTED]
Fixed charges, interest on long-term debt	[REDACTED]	[REDACTED]
Net income (loss)	[REDACTED]	[REDACTED]
Retained earnings (deficit), beginning of year	[REDACTED]	[REDACTED]
Retained earnings (deficit), end of year	\$ [REDACTED]	\$ [REDACTED]

Redacted
 CONFIDENTIAL
 Per WTR 480-07-160

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

SKYLINE TELECOM, INC.
 STATEMENTS OF STOCKHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2013	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Net income (loss)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Dividends paid	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Balance, December 31, 2014	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net income (loss)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Dividends paid	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Balance, December 31, 2015	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

Redacted
 CONFIDENTIAL
 Per WTR 480-07-160

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

SKYLINE TELECOM, INC.
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash flows from operating activities		
Net income	\$ [REDACTED]	\$ [REDACTED]
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	[REDACTED]	[REDACTED]
Depreciation on other assets	[REDACTED]	[REDACTED]
Amortization of business start up costs & loan costs	[REDACTED]	[REDACTED]
Deferred taxes	[REDACTED]	[REDACTED]
Changes in assets and liabilities		
Due from customers and agents	[REDACTED]	[REDACTED]
Materials & supplies	[REDACTED]	[REDACTED]
Prepaid taxes	[REDACTED]	[REDACTED]
Prepaid expense	[REDACTED]	[REDACTED]
Accounts payable	[REDACTED]	[REDACTED]
Accounts payable-affiliated companies	[REDACTED]	[REDACTED]
Customer deposits	[REDACTED]	[REDACTED]
Other accrued liabilities	[REDACTED]	[REDACTED]
Net cash provided (used) by operating activities	[REDACTED]	[REDACTED]
Cash flows from investing activities		
Capital expenditures	[REDACTED]	[REDACTED]
Net cash provided (used) by investing activities	[REDACTED]	[REDACTED]
Cash flows from financing activities		
Payments on long-term debt	[REDACTED]	[REDACTED]
Net cash provided (used) by financing activities	[REDACTED]	[REDACTED]
Net increase (decrease) in cash and cash equivalents	[REDACTED]	[REDACTED]
Cash and cash equivalents, beginning	[REDACTED]	[REDACTED]
Cash and cash equivalents, ending	\$ [REDACTED]	\$ [REDACTED]
Cash paid during the year for:		
Interest	\$ [REDACTED]	\$ [REDACTED]
Income taxes	\$ [REDACTED]	\$ [REDACTED]

Redacted
 CONFIDENTIAL
 per WTR 480-07-160

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

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Skyline Telecom, Inc. (formerly Beaver Creek Telephone Company) has been granted authority by the Washington Utilities and Transportation Commission (WUTC) to offer telecommunication services to areas in Snohomish County in the State of Washington. The Company is presently operating telecommunications plant necessary to provide these services.

The Company is a wholly-owned subsidiary of North State Telephone Company and is consolidated into the consolidated financial statements of North State Telephone Company. All intercompany entries are eliminated in the consolidation.

Regulation and Accounting Records

The Company provides intrastate and interstate telecommunication services which are subject to various state and federal regulations including certification by the state and federal commissions, filing and approval of tariffs or price lists, and other reporting requirements. Other regulations affecting telecommunications continue to evolve. The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission. Regulatory actions currently pending, as well as future regulations, may impact the Company.

Estimates

The Company uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Company maintains its cash and cash equivalents in accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. Cash and cash equivalents are defined as all short term cash with a maturity of three months or less. Cash equivalents are recorded at cost, which approximates fair value.

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant, and Equipment

Regulated property, plant, and equipment in service is stated at cost, including estimated overhead expense. Maintenance and repairs are charged to operations when incurred. Renewals and betterments are capitalized. Non-regulated property, plant and equipment is stated at cost.

Depreciation is calculated on a straight-line basis over the estimated life of the classes of buildings and equipment in accordance with rates approved by the WUTC. Depreciation rates range from [REDACTED] to [REDACTED]. Costs of plant retired are eliminated from utility plant accounts and such costs plus removal expenses, less salvage, are charged to accumulated provision for depreciation. Depreciation expense for the years ended December 31, 2015 and 2014, was [REDACTED] and [REDACTED], respectively for property, plant and equipment.

Network Access Revenues

Network access revenues related to interlata and intralata toll service are received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long distance carrier for access and interconnection to local facilities. The Company follows an access tariff filed with the WUTC for these charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are divided into traffic sensitive, nontraffic sensitive, and billing and collecting portions. The revenues are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Company. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investment maintained. The Company participates in pooling arrangements with the National Exchange Carrier Association (NECA) and the Washington Exchange Carrier Association (WECA).

Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months after the close of the related calendar years (NECA only), are recorded in the year in which such adjustments become determinable, based upon studies by an outside consultant.

*Redacted
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Per WUT 480-07-160*

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

The Company follows *FASB Accounting Standards Codification Section 825 Disclosures about Fair Value of Financial Instruments*. The Standards extend fair value disclosure practices by requiring all entities to disclose the fair value of financial instruments, both assets and liabilities, recognized and not recognized in the balance sheets, for which it is practicable to estimate fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. The fair value of the Company's financial instruments approximates carrying value. Fair values were estimated based on quoted market prices and on current rates offered to the Company for debt with similar terms and maturities.

Comprehensive Income

The Company follows *FASB Accounting Standards Codification Sections for Reporting Comprehensive Income*. The purpose of reporting comprehensive income is to report all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. There were no comprehensive income items in 2015 and 2014.

Materials and Supplies

Materials and supplies are stated at lower of average cost or market. Cost is determined principally by the specific identification method.

Credit Risk and Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash, receivables, and debt agreements. The Company does not require collateral or other security to support receivables from customers or agents.

The Company maintains most of its cash accounts in a commercial bank located in Oregon. The Federal Deposit Insurance Corporation announced its Transaction Account Guarantee Program, which provides full coverage for non-interest bearing transaction deposit accounts at FDIC insured institutions. The deposits of the Company qualify for the coverage under this program.

SKYLINE TELECOM, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Credit Risk and Concentrations of Credit Risk (continued)

A summary of the total insured bank balances follows:

	2015	2014
Total cash balance (bank balance)	\$ [REDACTED]	\$ [REDACTED]
Portion uninsured by FDIC	[REDACTED]	[REDACTED]
Insured bank balances	\$ [REDACTED]	\$ [REDACTED]
Reconciled book balance - 12-31	\$ [REDACTED]	\$ [REDACTED]

Credit sales are made to the Company's customers in the ordinary course of business. Generally, these sales are unsecured and are recorded at the billable amounts based on WUTC approved rates.

Deferred Charges and Amortization

Deferred charges consist of business start up costs and RUS loan costs. The business start up costs will be amortized using the straight-line method over sixty months beginning with the first month of operations. The RUS loan costs will be amortized using the straight-line method over a period of 180 months (the life of the RUS and RTB loans) beginning with the first month of operations. The Company began operations in July 2006 and the amortization of the above costs began then. Amortization expense for 2015 and 2014 was [REDACTED] and [REDACTED] respectively.

Income Taxes

The Company accounts for income taxes in accordance with *FASB Accounting Standards Codification Section 740 on Accounting for Income Taxes*. This statement requires the annual computation of income taxes under an asset and liability approach and the recognition of deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements and income tax returns. The Company annually computes deferred tax assets and liabilities for differences between financial statements and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. There is no state income tax in the State of Washington.

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SKYLINE TELECOM, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Common Stock

Common stock of the Company is as follows at December 31, 2015 and 2014:

<u>Par Value</u>	<u>Authorized</u>	<u>Issued and Outstanding</u>
No par	██████████	██████████

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expenses and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and reduction of the accounts receivable accounts. Late fees are charged on accounts that are thirty days past due.

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

Listed below are the major classes of property, plant, and equipment in service:

	<u>2015</u>	<u>2014</u>
Regulated telecommunications equipment:		
Land and support	\$ ██████████	\$ ██████████
Work equipment	██████████	██████████
Central office	██████████	██████████
Cable and wire facilities	██████████	██████████
Computers	██████████	██████████
	<u>██████████</u>	<u>██████████</u>
Accumulated depreciation	(██████████)	(██████████)
Total regulated telecommunications equipment	<u>\$ ██████████</u>	<u>\$ ██████████</u>
Non-regulated telecommunications equipment:		
Voice mail system	\$ ██████████	\$ ██████████
Paystations	██████████	██████████
	<u>██████████</u>	<u>██████████</u>
Accumulated depreciation	(██████████)	(██████████)
Total non-regulated telecommunications equipment	<u>\$ ██████████</u>	<u>\$ ██████████</u>

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SKYLINE TELECOM, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 4. LONG-TERM DEBT

Long-term debt consists of the following:

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	2015	2014
████████ mortgage note payable to the Rural Utility Services (RUS) payable in monthly installments of ██████████, collateralized by substantially all real and personal property, due in various years through January 2021.	\$ ██████████	\$ ██████████
████████ mortgage note payable to the Rural Utility Services (RUS), payable in monthly installments of ██████████, collateralized by substantially all real and personal property, due in various years through January 2021.	██████████	██████████
████████ mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of ██████████ collateralized by substantially all real and personal property, due in various years through January 2021.	██████████	██████████
████████ mortgage note payable to Rural Utility Services (RUS), payable in monthly payments of ██████████, collateralized by substantially all real and personal property, due in various years through January 2021.	██████████	██████████
████████ mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of ██████████ collateralized by substantially all real and personal property, due in various years through January 2021.	██████████	██████████
████████ mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of ██████████, collateralized by substantially all real and personal property, due in various years through January 2021.	██████████	██████████
████████ mortgage notes payable to Rural Telephone Bank (RTB), payable in monthly installments of ██████████ collateralized by substantially all real and personal property, due in various years through May 2021.	██████████	██████████
	██████████	██████████
	██████████	██████████
Less current portion	\$ ██████████	\$ ██████████

SKYLINE TELECOM, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 4. LONG-TERM DEBT (continued)

The anticipated principal payments of the outstanding debt at December 31, 2015, are as follows:

2016	\$	██████████
2017		██████████
2018		██████████
2019		██████████
2020		██████████
Thereafter		██████████
		██████████
		\$ ██████████

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Interest expense incurred and charged to expense was ██████████ and \$██████████ for the years ended December 31, 2015 and 2014, respectively.

All assets of the Company are pledged as security for the long-term debt under the loan agreements with Rural Utilities Service (RUS) and the loan agreements also contain certain restrictions on the declaration or payment of cash dividends, redemption of capital stock, or investment in affiliated companies. The Company met the Tier Ratio requirement of the loan agreements with RUS during 2015 and 2014.

NOTE 5. RELATED PARTY TRANSACTIONS

The Company paid North State Telephone Company ██████████ and \$██████████ in 2015 and 2014, respectively for management fees, shared and actual costs. The Company owed North State Telephone Company ██████████ for 2015 and ██████████ for 2014.

The Company has entered into a management agreement with Oregon Telephone Corporation. The operating management agreement is effective for a period of 35 years or unless ordered to be terminated by the Utilities and Transportation Commission of Washington. The Company also pays Oregon Telephone Corporation for the use of a Chevy truck. That amount for 2015 and 2014 was ██████████ and ██████████ respectively. The Company paid Oregon Telephone Corporation ██████████ and \$██████████ in 2015 and 2014, respectively for management fees, shared and actual costs. The Company owed Oregon Telephone \$██████████ for 2015 and \$██████████ for 2014.

These liabilities are included in accounts payable-affiliated companies in the balance sheet.

SKYLINE TELECOM, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 6. CONCENTRATIONS

Approximately [REDACTED] and [REDACTED], respectively of total revenue and receivables for the years ended December 31, 2015 and 2014, is attributable to distributions from the National Exchange Carrier Association (NECA) and the Washington Exchange Carrier Association (WECA).

NOTE 7. INCOME TAXES

In accordance with *FASB Accounting Standards Codification Section 740 on Accounting for Income Taxes*, deferred income tax assets and liabilities are computed annually for differences between financial statements and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. For 2012 and subsequent years, the Company filed income tax returns separately from its parent company and, as such, each entity accounted for its own income tax transactions.

At December 31, 2015 and 2014, the Company had deferred tax assets (liabilities) of [REDACTED] and [REDACTED], respectively. Deferred income taxes result from differences in depreciation from financial statement and income tax reporting.

Operating income tax:

	2015	2014
Federal		
Operating:		
Current provision (benefit)	\$ [REDACTED]	\$ [REDACTED]
Prior year under (over) accrual	[REDACTED]	[REDACTED]
Deferred provision	[REDACTED]	[REDACTED]
Total operating income tax provision	[REDACTED]	[REDACTED]
Non-operating:		
Current provision (benefit)	[REDACTED]	[REDACTED]
Prior year under (over) accrual	[REDACTED]	[REDACTED]
Deferred provision	[REDACTED]	[REDACTED]
Total non-operating income tax provision	[REDACTED]	[REDACTED]
Total income tax provision	\$ [REDACTED]	\$ [REDACTED]

The Company still has open tax years for the current year plus the three previous tax years.

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SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 8. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the auditor's report date, which is the date that the financial statements were available to be issued.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Skyline Telecom, Inc.
Mt. Vernon, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Skyline Telecom, Inc. (a Washington corporation), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income and retained earnings, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 2, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Skyline Telecom, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Skyline Telecom, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wiggins & Co., PC
Brigham City, Utah
March 2, 2016



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF
CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR
TELEPHONE BORROWERS

The Board of Directors
Skyline Telecom, Inc.
Mt. Vernon, OR

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Skyline Telecom, Inc., which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income and retained earnings, stockholders' equity and changes in cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 2, 2016. In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2016, on our consideration of Skyline Telecom, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above, related to our audit, have been furnished to management.

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

Maintain adequate and effective accounting procedures;

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

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

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

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

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

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

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

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

Comply with the requirements for the detailed schedule of deferred debits and deferred credits, if any (The Company had no such items during 2015 and 2014); and

Comply with the requirements for the detailed schedule of investments, if the Company has such investments. The Company had no such investments during 2015 and 2014.

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and regulatory requirement for telephone borrowers based on the requirements of 7 CFR Part 1773, as clarified in the RUS policy memorandum dated February 7, 2014. Accordingly, this report is not suitable for any other purpose.

Wiggins & Co., PC

Brigham City, Utah
March 2, 2016

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2015 AND 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Oregon Telephone Corporation and Subsidiaries
Mt. Vernon, Oregon

We have audited the accompanying consolidated financial statements of Oregon Telephone Corporation (an Oregon corporation) and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles 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; 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 for the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oregon Telephone Corporation and Subsidiaries at December 31, 2015 and 2014, and the results of their operations, comprehensive income and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

GAO Reporting

In accordance with *Government Auditing Standards*, we have also issued a report dated April 8, 2016, on our consideration of Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting, and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements. 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.

Wiggins & Co., PC
Brigham City, Utah
April 8, 2016

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ [REDACTED]	\$ [REDACTED]
Restricted cash and cash equivalents	[REDACTED]	[REDACTED]
Investments	[REDACTED]	[REDACTED]
Due from customers and agents, less allowance for doubtful accounts of \$1,400 and \$1,400	[REDACTED]	[REDACTED]
Accounts receivable-affiliates	[REDACTED]	[REDACTED]
Interest receivable	[REDACTED]	[REDACTED]
Materials and supplies	[REDACTED]	[REDACTED]
Prepaid expenses	[REDACTED]	[REDACTED]
Total current assets	[REDACTED]	[REDACTED]
Other assets and investments		
Restricted investments	[REDACTED]	[REDACTED]
Investments in affiliates	[REDACTED]	[REDACTED]
Other investments	[REDACTED]	[REDACTED]
Loan charges	[REDACTED]	[REDACTED]
Notes receivable-affiliates	[REDACTED]	[REDACTED]
Goodwill	[REDACTED]	[REDACTED]
Non-regulated assets, net of accumulated depreciation	[REDACTED]	[REDACTED]
Total other assets and investments	[REDACTED]	[REDACTED]
Property, plant, and equipment		
Telecommunications		
Non-operating	[REDACTED]	[REDACTED]
Plant held for future use	[REDACTED]	[REDACTED]
Operating	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
Less accumulated depreciation	[REDACTED]	[REDACTED]
Property, plant, and equipment, net	[REDACTED]	[REDACTED]
Total assets and investments	\$ [REDACTED]	\$ [REDACTED]

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

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
DECEMBER 31, 2015 AND 2014

	2015	2014
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ [REDACTED]	\$ [REDACTED]
Accounts payable-affiliates	[REDACTED]	[REDACTED]
Advance billings	[REDACTED]	[REDACTED]
Customer deposits	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]
Accrued interest	[REDACTED]	[REDACTED]
Deferred revenue-current portion	[REDACTED]	[REDACTED]
Income taxes payable	[REDACTED]	[REDACTED]
Current portion of long-term debt	[REDACTED]	[REDACTED]
Total current liabilities	[REDACTED]	[REDACTED]
Other liabilities		
Deferred income taxes	[REDACTED]	[REDACTED]
Deferred revenue	[REDACTED]	[REDACTED]
Post retirement benefits payable	[REDACTED]	[REDACTED]
Long-term debt, net of current portion	[REDACTED]	[REDACTED]
Total other liabilities	[REDACTED]	[REDACTED]
Stockholders' equity		
Common stock	[REDACTED]	[REDACTED]
Common stock reacquired, [REDACTED] shares at cost	[REDACTED]	[REDACTED]
Additional paid in capital	[REDACTED]	[REDACTED]
Retained earnings	[REDACTED]	[REDACTED]
Accumulated other comprehensive income	[REDACTED]	[REDACTED]
Total stockholders' equity	[REDACTED]	[REDACTED]
Total liabilities and stockholders' equity	\$ [REDACTED]	\$ [REDACTED]

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Per WTR 480-07-160

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

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Operating revenue		
Local network	\$ 1,546,093	\$ 1,519,069
Network access	1,475,472	1,702,851
Fiber lease revenue	80,060	91,711
Miscellaneous	189,740	131,981
Total operating revenue	<u>19,391,368</u>	<u>19,966,624</u>
Operating expenses		
Plant specific	3,363,711	3,491,339
Plant nonspecific	58,386	109,472
Customer operations	772,041	971,113
Corporate operations	161,884	150,995
Depreciation	455,576	657,279
Total operating expenses	<u>4,811,598</u>	<u>4,922,098</u>
Operating taxes		
Income taxes (benefit)	17,477	(26,767)
Other operating taxes	871,996	905,293
Total operating expenses and taxes	<u>5,801,068</u>	<u>5,801,068</u>
Operating income	1,590,300	1,136,000
Other income (expense)	710,688	407,999
Income tax benefit (expense)	(107,520)	(10,466)
Income available for fixed charges	<u>1,163,468</u>	<u>1,501,533</u>
Fixed charges, interest on long-term debt	<u>422,856</u>	<u>430,613</u>
Net income	<u>\$ 740,612</u>	<u>\$ 1,070,920</u>

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

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Net income	\$ <u>740,609</u>	\$ <u>2,260,922</u>
Other comprehensive income (loss)		
Change in unrealized gains (losses) on marketable securities	431,079	482,111
Change in deferred tax liability on unrealized gains (losses)	<u>166,109</u>	<u>217,143</u>
Total other comprehensive income (loss)	<u>264,970</u>	<u>264,970</u>
Total comprehensive income	<u>\$ 1,475,639</u>	<u>\$ 2,525,892</u>

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

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	Common Stock	Reacquired Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2013	\$ [REDACTED]	[REDACTED]	\$ [REDACTED]	[REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Reacquired/eliminated stock	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Capital contributed	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Balance, December 31, 2014	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Transfer	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other comprehensive income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Balance, December 31, 2015	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$ [REDACTED]	\$ [REDACTED]

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

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash flows from operating activities		
Net income (loss)	\$ [REDACTED]	\$ [REDACTED]
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Allowance for funds used during construction	[REDACTED]	[REDACTED]
Loss on non-regulated assets recorded to expense but no cash paid out.	[REDACTED]	[REDACTED]
Depreciation on miscellaneous physical property/nonoperating property included in other expense	[REDACTED]	[REDACTED]
Depreciation on non-operating plant	[REDACTED]	[REDACTED]
Depreciation	[REDACTED]	[REDACTED]
Amortization	[REDACTED]	[REDACTED]
Deferred taxes	[REDACTED]	[REDACTED]
Post retirement benefits payable	[REDACTED]	[REDACTED]
Increase in bad debt reserve	[REDACTED]	[REDACTED]
Changes in assets and liabilities		
Due from customers and agents	[REDACTED]	[REDACTED]
Accounts receivable-affiliates	[REDACTED]	[REDACTED]
Income tax refund receivable	[REDACTED]	[REDACTED]
Materials and supplies	[REDACTED]	[REDACTED]
Prepaid expenses	[REDACTED]	[REDACTED]
Accounts payable	[REDACTED]	[REDACTED]
Accounts payable-affiliates	[REDACTED]	[REDACTED]
Advance billing	[REDACTED]	[REDACTED]
Customer deposits	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]
Deferred revenue	[REDACTED]	[REDACTED]
Income taxes payable	[REDACTED]	[REDACTED]
Net cash provided (used) by operating activities	[REDACTED]	[REDACTED]
Cash flows from investing activities		
Capital expenditures	[REDACTED]	[REDACTED]
Payments on (issuance of) notes receivable	[REDACTED]	[REDACTED]
Proceeds from (purchase of) investments in affiliates	[REDACTED]	[REDACTED]
Purchase of goodwill	[REDACTED]	[REDACTED]
Proceeds from retirement of affiliated company stock	[REDACTED]	[REDACTED]
(Purchase of) proceeds from marketable securities	[REDACTED]	[REDACTED]
(Purchase) disposal of miscellaneous physical property	[REDACTED]	[REDACTED]
Proceeds and salvage received	[REDACTED]	[REDACTED]
(Purchase of) proceeds from other investments	[REDACTED]	[REDACTED]
Net cash provided (used) by investing activities	[REDACTED]	[REDACTED]

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

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2,015	2,014
Cash flows from financing activities		
Payments on long-term debt	(1,281,685)	(1,345,630)
Issuance of long-term debt	1,225,793	1,999,409
Payment of loan costs	—	(10,000)
Payment of member loan	—	(109,996)
Proceeds from contributed capital	—	371,763
Repurchase of stock	—	(521,658)
	2,057,890	753,888
Net cash provided (used) by financing activities		
Net increase (decrease) in cash and cash equivalents	1,856,881	(3,222,689)
Cash from acquired companies	—	2,798,052
Cash and cash equivalents, beginning	3,576,173	6,800,810
Cash and cash equivalents, ending	\$ 5,433,054	\$ 6,376,173
Cash paid during the year for:		
Interest	\$ 2,593,304	\$ 2,571,321
Income taxes	\$ 1,081,220	\$ 1,236,180

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

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Oregon Telephone Corporation (the Company) is an Oregon corporation providing telecommunications services within and around the cities of Mt. Vernon, Prairie City, Unity, Bates, Harper, Juntura and Dayville, Oregon.

North State Telephone Company is an Oregon corporation providing telecommunications services within and around the City of Dufur, Oregon, and provides cable television services to a similar area through North State Cablevision Company.

During 2014, Oregon Telephone Corporation bought [REDACTED] of the outstanding stock in New Florence Telephone Company and included New Florence Telephone Company as part of these consolidated financial statements. New Florence Telephone Company services various areas of Missouri.

Principals of Consolidation

Oregon Telephone Corporation owns [REDACTED] and its stockholders own [REDACTED] of North State Telephone Company.

The consolidated financial statements include the accounts of Oregon Telephone Corporation and its subsidiaries, North State Telephone Company and New Florence Telephone Company. All intercompany transactions and balances have been eliminated in the consolidation.

During 2010, North State Telephone Company acquired [REDACTED] of the outstanding common stock of Beaver Creek Telephone Company (name changed in 2011 to Skyline Telecom, Inc.). During 2014, North State Telephone Company also acquired [REDACTED] of the outstanding shares/member interest of Home Telephone Company and [REDACTED] Communications, L.L.C., (which owns [REDACTED] of the outstanding stock of [REDACTED] Telephone System, Inc.). Oregon Telephone Corporation also owns a single member limited liability company, [REDACTED] Communications, L.L.C., which operates non-regulated services. This entity is included in the consolidated statements of the Company. Oregon Telephone Corporation purchased [REDACTED] of the outstanding shares of New Florence Telephone Company and includes the audited financial statements of New Florence Telephone Company in the consolidated financial statements.

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Principals of Consolidation (continued)

Under the terms of a management agreement, Oregon Telephone Corporation provides labor, overhead, and support services to all of the consolidated entities, which are reimbursed each month. During 2015 and 2014, the total reimbursements under the agreement were [REDACTED] and [REDACTED] respectively. These amounts are recorded against expenditures when accrued and thus no elimination is required. Oregon Telephone Corporation became the common paymaster for all companies during 2015, which is the reason for the large increase in 2015.

Regulation

The Company's telecommunication services are subject to limited regulations by the Public Utility Commission of Oregon (PUC). The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission. Regulatory actions currently pending, as well as future regulations, may impact the Company.

Estimates

The Company uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly actual results could differ from those estimates.

Comprehensive Income

The Company follows *FASB Accounting Standards Codification Sections for Reporting Comprehensive Income*. The purpose of reporting comprehensive income is to report all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. The Company reported results from comprehensive income in the consolidated financial statements for 2015 and 2014.

Cash and Cash Equivalents

The Company maintains its cash and cash equivalents in accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. Cash and cash equivalents are defined as all short term cash with a maturity of three months or less. Cash equivalents are recorded at cost, which approximates fair value. Restricted cash and cash equivalents include funds deposited in separate accounts for the loan funds that are received from Rural Utility Services to be used for plant acquisition and also includes funds deposited

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Cash and Cash Equivalents (continued)

in Zions First National Bank to serve as collateral for loans that [Redacted] Telephone Company entered into during 2014. [Redacted] these loans were [Redacted] in 2010.

Other Investments

Other investments are in common stock of non-controlled entities with ownership percentages less than ten percent. These investments are recorded at cost.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expenses and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and reductions of the accounts receivable accounts. Late fees are charged on accounts that are thirty days past due.

Materials and Supplies

Materials and supplies are stated at the lower of average cost or market. Cost is determined principally by the specific identification method.

Property, Plant, and Equipment

Property, plant, and equipment in service and under construction is stated at cost, including estimated overhead expense. Maintenance and repairs are charged to operations when incurred. Renewals and betterments are capitalized.

Depreciation is calculated on a straight-line basis over the estimated life of the classes of buildings and equipment in accordance with rates approved by the PUC. Depreciation rates range from [Redacted] to [Redacted]. Costs of plant retired are eliminated from utility plant accounts and such costs plus removal expenses, less salvage, are charged to accumulated depreciation.

Network Access Revenues

Network access revenues related to interlata and intralata toll service are received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long distance carrier for access and interconnection to local facilities. The company follows an access tariff filed with the PUC for these charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are divided into traffic sensitive, nontraffic sensitive, and billing and collecting portions. The revenues are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Company. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Network Access Revenues (continued)

and investment maintained. The Company participates in pooling arrangements with the National Exchange Carrier Association (NECA) and the Oregon Exchange Carrier Association (OECA). Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months after the close of the related calendar years (NECA only), are recorded in the year in which such adjustments become determinable, based upon studies by an outside consultant.

Financial Instruments

The Company follows *FASB Accounting Standards Codification Sections on Disclosures about Fair Value of Financial Instruments*. The Statement extends fair value disclosure practices by requiring all entities to disclose the fair value of financial instruments, both assets and liabilities, recognized and not recognized in the balance sheets, for which it is practicable to estimate fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. The fair value of the Company's financial instruments approximates carrying value. Interest is charged on loans and notes receivable and recognized when earned. Fair values were estimated based on quoted market prices and on current rates offered to the Company for debt with similar terms and maturities.

Credit Risk and Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of debt agreements. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers. No collateral is required by the Company to support financial instruments subject to credit risk.

The Company maintains most of its cash accounts in commercial banks located in Oregon. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest bearing accounts and unlimited insurance for other eligible accounts. A summary of the total insured bank balances (these are not reconciled book balances) follows:

	2015	2014
Total cash balance (bank balance)	\$ [REDACTED]	\$ [REDACTED]
Portion of bank balance uninsured by FDIC	[REDACTED]	[REDACTED]
Insured bank balances	\$ [REDACTED]	\$ [REDACTED]
Book balances	\$ [REDACTED]	[REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Credit Risk and Concentrations of Credit Risk (continued)

Credit sales are made to the Company's customers in the ordinary course of business. Generally, these sales are unsecured and are recorded at the billed amounts based on PUC approved rates.

Correction of Prior Year Amounts

A correction was made to the 2014 figures to correct an error in the reporting of retained earnings and investments in affiliated companies, which resulted from an adjustment to deferred income taxes, which increased both by [REDACTED] and increased 2014 net income to [REDACTED].

Allowance for Funds Used During Construction

The Company is required to calculate an amount, [REDACTED] for 2015 and [REDACTED] for [REDACTED], to be capitalized to plant for funds used during construction as defined by FCC Part 32 accounting policies. The calculation involves capitalizing funds at an average rate based on the Company's borrowing rate.

Common Stock

Common stock of the Companies is as follows at December 31, 2015 and 2014:

	Par Value	Authorized	Issued and Outstanding
2015:			
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2014:			
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Allowance for Doubtful Accounts

An allowance for doubtful accounts is maintained. Additions are estimated based on historical analysis of write-offs and collections as a percentage of sales and accounts receivable balances.

NOTE 2. INVESTMENTS

Other Investments

Other investments consist of the following:

	2015	2014
[REDACTED]	\$ [REDACTED]	\$ [REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 2. INVESTMENTS (continued)

Investments in Marketable Equity Securities

The Company classifies its marketable equity securities as “available for sale” under the provisions of ASC 820 *Fair Value Measurements*. Available for sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in other comprehensive income and presented in accumulated other comprehensive income in the equity section. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss. Available for sale financial assets are comprised entirely of equity securities. The fair values of investments in equity securities are determined with reference to their quoted closing bid price at the measurement date. ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value of financial assets and liabilities and are summarized into three broad categories.

- Level 1 – quoted prices in active markets for identical securities,
- Level 2 – other significant observable inputs, including quoted prices for similar securities, interest rates, prepayments speeds, credit risk, etc.,
- Level 3 – significant unobservable inputs, including our own assumptions in determining fair value.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with those securities.

Cost and fair value of marketable equity securities at December 31, 2015 and 2014, are as follows:

	Amortized Cost	Fair Value	Fair Value Measurement at Reporting Date- Quoted Prices in Active Markets for Identical Assets (Level 1)
December 31, 2015:			
Available for sale securities:			
Domestic equity securities	\$ ██████████	\$ ██████████	\$ ██████████
December 31, 2014:			
Available for sale securities:			
Domestic equity securities	\$ ██████████	\$ ██████████	\$ ██████████

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 2. INVESTMENTS (continued)

Realized gains and losses are included in earnings and reported as other income for the years ended December 31, 2015 and 2014. Proceeds from the sale of available for sale securities were [REDACTED] in 2015 and [REDACTED] in 2014. Realized earnings for 2015 and 2014 were [REDACTED] and [REDACTED]. Unrealized gains for 2015 and 2014 were [REDACTED] and [REDACTED]. Unrealized gains, less any income tax effect, are included in other comprehensive income.

NOTE 3. PROPERTY, PLANT, AND EQUIPMENT

Listed below are the major classes of property, plant, and equipment in service:

	2015	2014
Telecommunications:		
Operating plant:		
Land and support	\$ [REDACTED]	\$ [REDACTED]
Plant held for future use	[REDACTED]	[REDACTED]
Central office	[REDACTED]	[REDACTED]
Cable and wire facilities	[REDACTED]	[REDACTED]
Under construction	[REDACTED]	[REDACTED]
Total operating plant	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Non-operating plant		
Non-operating Plant	[REDACTED]	[REDACTED]
Non-regulated plant	[REDACTED]	[REDACTED]
Total non-operating plant	<u>[REDACTED]</u>	<u>[REDACTED]</u>
	<u>\$ [REDACTED]</u>	<u>\$ [REDACTED]</u>

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 4. LONG-TERM DEBT

Long-term debt consists of the following:

	2015		2014
<u>Oregon Telephone Corporation</u>			
notes payable to Zions First National Bank, interest at [REDACTED], payable in monthly payments totaling [REDACTED], collateralized by vehicles, due in [REDACTED]	\$ [REDACTED]		\$ [REDACTED]
[REDACTED] note payable to Zions First National Bank, payable in monthly payments of [REDACTED] collateralized by [REDACTED]	[REDACTED]		[REDACTED]
[REDACTED] notes payable to Bank of Eastern Oregon, payable in monthly payments of [REDACTED], collateralized by a [REDACTED] Vehicle [REDACTED] 7.	[REDACTED]		[REDACTED]
[REDACTED] note payable to [REDACTED] Bank, N.A. collateralized by investment account, interest at Corresponding PLA index + 3%, payments of interest only, due on demand or when investment account drops below [REDACTED]	[REDACTED]		[REDACTED]
[REDACTED] mortgage notes payable to RTB, payable in quarterly installments of [REDACTED], collateralized by substantially all real and personal property, due in various years [REDACTED] through 2022.	[REDACTED]		[REDACTED]
[REDACTED] mortgage notes payable to RTB, payable in monthly installments of [REDACTED] collateralized by substantially all real and personal property, due 2013-2020.	[REDACTED]		[REDACTED]
[REDACTED] mortgage notes payable to RTB, payable in monthly installments of [REDACTED], collateralized by substantially all real and personal property, due 2013-2021.	[REDACTED]		[REDACTED]
[REDACTED] mortgage notes payable to RUS, payable in monthly installments of [REDACTED] on finalized loans and interest only on non-finalized loans, collateralized by substantially all real and personal property, due 2013-2021.	[REDACTED]		[REDACTED]
[REDACTED] note payable to James Damon, payable in monthly installments of [REDACTED], collateralized by a 2nd mortgage on all real and personal property, [REDACTED].	[REDACTED]		[REDACTED]
	[REDACTED]		[REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 4. LONG-TERM DEBT (continued)

	2015	2014
<u>New Florence Telephone Company</u>		
See separately issued consolidated financial statements for debt detail	[REDACTED]	[REDACTED]
<u>M.D. Communications, LLC:</u>		
[REDACTED] note payable to Mike and Kimberly Ballard, payable in monthly installments of [REDACTED], collateralized by lien of real property, [REDACTED]	[REDACTED]	[REDACTED]
[REDACTED] notes payable to Bank of Eastern Oregon, payable in monthly payments of [REDACTED], collateralized by a [REDACTED]	[REDACTED]	[REDACTED]
[REDACTED] note payable to [REDACTED] and William O. [REDACTED], payable in monthly installments of [REDACTED], collateralized by a lien on all real property, [REDACTED]	[REDACTED]	[REDACTED]
Total Oregon Telephone Corporation, New Florence Telephone Company and M.D. Communications, LLC	[REDACTED]	[REDACTED]
<u>North State Telephone Company</u>		
See separately issued consolidated financial statements for debt detail	[REDACTED]	[REDACTED]
<u>Skyline Telecom, Inc.:</u>		
See separately issued consolidated financial statements for debt detail	[REDACTED]	[REDACTED]
<u>Pine Communications, LLC</u>		
See separately issued consolidated financial statements for debt detail	[REDACTED]	[REDACTED]
Total North State Telephone Company	[REDACTED]	[REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 4. LONG-TERM DEBT (continued)

	2015	2014
Total consolidated amount	██████████	██████████
Less: current long-term debt	██████████	██████████
Long-term debt	\$ ██████████	\$ ██████████

Future maturities of long-term debt are as follows:

2016	\$ ██████████
2017	██████████
2018	██████████
2019	██████████
2020	██████████
Thereafter	██████████
	\$ ██████████

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Oregon Telephone Corporation had unadvanced loan commitments for the replacement and expansion of its property, plant, and equipment from Rural Telephone Bank of ██████████ for both 2015 and 2014, and from Rural Utilities Service, ██████████ at December 31, 2015 and in 2014, ██████████. North State Telephone had unadvanced loan commitments from Rural Utilities Service of ██████████ in 2015 and 2014. Phone Telephone System, Inc. had ██████████ and ██████████ in unadvanced loan commitments from RUS at December 31, 2015 and 2014. These unadvanced funds are expected to be utilized in the next few years.

The long-term debt agreements contain restrictions on the payment of dividends or redemption of capital stock. The terms of the long-term debt agreements require the maintenance of defined amounts of stockholders' equity and working capital after payment of dividends.

The RUS loan documents require that the Company meet a TIER ratio of 1 and a debt service ratio of 1.25 on an unconsolidated basis. The debt service requirement was met during 2015 and 2014. The TIER ratio was met in 2015 and 2014.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 5. PENSION PLAN

Substantially all employees of the Company are covered by a defined contribution plan. Contributions to the plan are [REDACTED] (up to [REDACTED] for employees of ~~Pine Communications, LLC~~) of an employee's eligible annual compensation. Contributions to the plan for 2015 were [REDACTED] and for 2014 were [REDACTED]. The plan (except for the Pine plan, which used an outside administrator for 2014) is administered by the National Cooperative Telephone Association (NTCA). New Florence Telephone Company has a defined benefit plan and the information related to that plan is disclosed in the separately issued financial statements.

NOTE 6. OTHER ASSETS

The Company has other assets that are made up of non-regulated assets that are not figured into the rate base for the determination of universal service fund payments and are used for purposes that are not regulated. The assets and the accumulated depreciation are disclosed below:

	2015	2014
Acquisition costs	\$ [REDACTED]	\$ [REDACTED]
Public telephones & customer premise equipment	[REDACTED]	[REDACTED]
Cable television	[REDACTED]	[REDACTED]
Paystations & MDR pagers	[REDACTED]	[REDACTED]
Internet equipment & voicemail system	[REDACTED]	[REDACTED]
Wireless DSL equipment & Wimax equipment	[REDACTED]	[REDACTED]
Fiber plant & electronics	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
Accumulated depreciation	[REDACTED]	[REDACTED]
	\$ [REDACTED]	\$ [REDACTED]

During 2014, as part of the purchase of the new companies mentioned in note 1, the Company and its subsidiaries recorded goodwill in the consolidated amount of [REDACTED]. The amount for 2015 was [REDACTED]. This goodwill is reported separately in the other assets and investments section of the balance sheet and is not amortized in accordance with generally accepted accounting principles in the United States of America.

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 7. INCOME TAXES AND DEFERRED INCOME TAXES

In accordance with *FASB Accounting Standards Codification Section 740 on Accounting for Income Taxes*, deferred income tax assets and liabilities are computed annually for differences between financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The Company files tax returns separately from its subsidiaries and, as such, each entity accounts for its own income tax transactions.

At December 31, 2015, the Company has a deferred tax liability of [REDACTED] and at December 31, 2014, the Company had a deferred tax liability of [REDACTED] resulting from differences in depreciation, amortization, bad debt reserves, post-retirement benefits, unrealized gain on investments and other temporary differences for financial statement reporting and income tax reporting. Operating income tax expense (benefit) consists of the following:

	2015	2014
Federal		
Current provision	\$ [REDACTED]	\$ [REDACTED]
Prior year under (over) accrual	[REDACTED]	[REDACTED]
Deferred	[REDACTED]	[REDACTED]
	<u>[REDACTED]</u>	<u>[REDACTED]</u>
State		
Current provision	[REDACTED]	[REDACTED]
Prior year under (over) accrual	[REDACTED]	[REDACTED]
Deferred	[REDACTED]	[REDACTED]
	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Provision for operating income taxes	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Nonoperating income tax expense (benefit) consists of the following:

Federal	[REDACTED]	[REDACTED]
State	[REDACTED]	[REDACTED]
Deferred	[REDACTED]	[REDACTED]
Over accrual of prior year taxes	[REDACTED]	[REDACTED]
Provision for nonoperating income tax expense (benefit)	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Total income tax expense (benefit)	<u>\$ [REDACTED]</u>	<u>\$ [REDACTED]</u>
Other Comprehensive Income tax:		
Federal deferred provision (benefit)	\$ [REDACTED]	\$ [REDACTED]
State deferred provision (benefit)	[REDACTED]	[REDACTED]
Total other comprehensive income tax	<u>\$ [REDACTED]</u>	<u>\$ [REDACTED]</u>

Each of the consolidated companies file their own tax returns. The Company and its subsidiaries have open tax years subject to examination for the current year and the prior three years.

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 8. POST RETIREMENT BENEFIT

During 2002, the Board of Directors approved a post retirement benefit for two former employees, which requires the Company to provide health insurance for the duration of their lives. The benefit is treated as a single employer defined benefit plan and is administered by the Company. The plan is funded on a pay-as-you-go basis. An accrual for the net present value of the expected liability has been recorded in the financial statements based on an historical cost trend of 5%. At December 31, 2014, the accrued net present value balance was [REDACTED]. In 2015 and 2014, [REDACTED] and [REDACTED] was paid to meet this benefit. The liability was extinguished in 2015.

NOTE 9. RELATED PARTY TRANSACTIONS

The Company incurred related party transactions during 2015 and 2014. The transactions are with other companies that share common ownership with the Company. The Company charged [REDACTED] in 2015 and [REDACTED] in 2014 in management fees and other costs. At December 31, 2015, the Company had intercompany receivables, totaling [REDACTED], from the following subsidiaries: ~~North State Telephone Company, \$88,520, MD Communications, LLC, \$230,699, Home Telephone Company, \$20,291, Pine Communications, LLC, \$256,289, and Skyline Telecom, Inc., \$47,597~~ all of which were eliminated in the consolidation of the financial statements.

For 2015 and 2014, the Company's subsidiary, ~~New Florence Telephone Company~~ has receivables from ~~Direct Communications Cedar Valley, LLC~~ of [REDACTED] and [REDACTED]. This receivable is for reimbursement of costs for a shared employee of [REDACTED] and [REDACTED]. ~~New Florence Telephone Company~~ also had a receivable from ~~Direct Communications Rockland, Inc.~~ for [REDACTED] in 2015, for the costs of a separate employee and a receivable for [REDACTED] from ~~Direct Communications Star West, Inc.~~ in 2015 for [REDACTED].

NOTE 10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the auditor's report date, which is the date that the financial statements were available to be issued.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors
Oregon Telephone Corporation and Subsidiaries
Mt. Vernon, Oregon

Our report on our audits of the consolidated financial statements of Oregon Telephone Corporation and Subsidiaries, for the years ended December 31, 2015 and 2014, appears on pages 1-2. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information consisting of the consolidating balance sheet at December 31, 2015, and the consolidating statements of income, comprehensive income and cash flows of Oregon Telephone Corporation and Subsidiaries for the year then ended is presented for purposes of additional analysis of the 2015 consolidated financial statements, rather than to present financial position, results of operations, and cash flows of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Wiggins & Co., PC
Brigham City, Utah
April 8, 2016

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2015

	Oregon Telephone Corporation	Communications Company	Telephone Company	Eliminations	Total
ASSETS					
Current assets					
Cash and cash equivalents	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Investments	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Restricted cash and cash equivalents	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Due from customers and agents, less allowance for doubtful accounts of \$1,400	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accounts receivable-affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Interest receivable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Materials and supplies	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Prepaid expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total current assets	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other assets and investments					
Restricted investments	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Investment in affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other investments	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Loan charges	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deferred income taxes	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Notes receivable-affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Goodwill	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Non-regulated assets, net of accumulated depreciation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total other assets and investments	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Property, plant, and equipment					
Telecommunications:					
Non-operating	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Plant held for future use	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Operating	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Less accumulated depreciation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Property, plant, and equipment, net	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total assets	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 CONSOLIDATING BALANCE SHEET (continued)
 DECEMBER 31, 2015

	Oregon Telephone Corporation	Telephone Company and Subsidiaries	Telephone Company	Telephone Company	Eliminations	Total
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities						
Accounts payable	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Accounts payable-affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advance billings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Customer deposits	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accrued interest	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deferred revenue	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Income taxes payable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Current portion of long-term debt	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total current liabilities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other liabilities						
Deferred income taxes	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deferred revenue	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Post retirement benefits	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Long-term debt, net	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total other liabilities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Stockholders' equity						
Common stock	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Common stock reacquired	([REDACTED])	([REDACTED])	[REDACTED]	([REDACTED])	[REDACTED]	[REDACTED]
Additional paid in capital	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Member equity	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Retained earnings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accumulated other comprehensive income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total stockholders' equity	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total liabilities and stockholders' equity	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015

	Oregon Telephone Corporation	Portland Telephone Company	Medford Telephone Company	Newell Telephone Company Inc.	Eliminations	Total
Operating revenue						
Local network	\$ 18,860	\$ 33,128	\$	\$ 38,186	\$	\$ 89,974
Network access	6,750,880	2,167,211		2,257,376		11,175,467
Fiber lease revenue		30,000				30,000
Miscellaneous	10,620	8,510		54,497		73,627
Total operating revenue	7,200,360	4,538,949		9,000,059		20,739,368
Operating expenses						
Plant specific	2,173,740	1,833,027		333,941		4,340,708
Plant nonspecific	253,180	223,770		217,400		694,350
Customer operations	1,193,330	230,910		1,123,310		2,547,550
Corporate operations	1,233,330	1,114,310		1,181,059		3,528,700
Depreciation and amortization	1,193,430	2,160,070		301,100		3,654,600
Total operating expenses	6,047,010	5,561,127		5,956,810		17,565,057
Operating taxes						
Income taxes (benefit)	18,500	167,110		221,321		406,931
Other operating taxes	207,700	63,267		11,000		281,967
Total operating expenses and taxes	6,273,210	5,791,504		6,089,131		18,153,845
Operating income	927,150	747,445		2,910,928		4,585,523
Other income (expense)	510,000	38,117	(1,000)	73,200	(20,100)	599,217
Income from subsidiary	1,000				71,600	72,600
Income tax benefit (expense)	(23,130)	(56,130)		(56,500)		(135,760)
Income available for fixed charges	1,214,020	729,432	(1,000)	2,928,628	(10,600)	4,870,480
Fixed charges - interest on long-term debt	(93,730)	(1,337,681)		(101,651)	30,170	(1,402,892)
Net income	\$ 1,120,290	\$ 391,751	\$ (1,000)	\$ 2,826,977	\$ (7,430)	\$ 3,460,588

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015

	Oregon Telephone Corporation	Telephone Company and Subsidiaries	MP Communications, LLC	New Phone Telephone Company, Inc	Eliminations	Total
Net income	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Other comprehensive income (loss)						
Change in unrealized gains (losses) on marketable securities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Change in deferred tax liability on unrealized gains (losses)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total other comprehensive income (loss)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total comprehensive income	[REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Oregon Telephone Corporation	Telephone Company	Telephone Company	Telephone Company	Eliminations	Total
Cash flows from operating activities						
Net income (loss)	\$ [REDACTED]	\$ [REDACTED]	[REDACTED]	[REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Adjustments to reconcile net income to net cash provided (used) by operating activities						
AFUDC, no cash generated	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Loss on non-regulated assets recorded to expense but no cash was paid out	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Depreciation and amortization on miscellaneous physical property/nonoperating property included in other expense	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Depreciation on capital lease included in other expense	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Depreciation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Amortization	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Increase in bad debt reserve	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deferred taxes	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Income from subsidiaries	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Post retirement benefits	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Changes in assets and liabilities						
Due from customers and agents	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accounts receivable-affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Materials and supplies	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Prepaid expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accounts payable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accounts payable-affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advance billings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Customer deposits	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deferred revenue	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Income taxes payable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net cash provided (used) by operating activities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Cash flows from investing activities						
Capital expenditures	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
(Purchase of) proceeds from non-regulated assets	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Proceeds from (purchase of) investments in affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Purchase of goodwill	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
(Purchase of) proceeds from marketable securities and other investments	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Proceeds from (loans to) repayment of note receivable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Change in interest receivable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Proceeds and salvage received from sale of assets	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net cash provided (used) by investing activities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 CONSOLIDATING STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2015

	Oregon Telephone Corporation	Northwest Telephone Company	Northwest Telephone Company	Northwest Telephone Company	Northwest Telephone Company	Total
Cash flows from financing activities						
Payments on long-term debt	(1,050,330)	(1,000,000)	(2,500,000)	(1,000,000)	(1,000,000)	(4,550,330)
Proceeds from long-term debt	1,050,330		2,500,000	1,000,000	1,000,000	4,550,330
Payment of member loans						
Payment of loan costs						
Proceeds from contributed capital						
Re-purchase of outstanding capital stock						
Net cash provided (used) by financing activities	(1,050,330)	(1,000,000)	(2,500,000)	(1,000,000)	(1,000,000)	(4,550,330)
Net increase (decrease) in cash and cash equivalents	644,355	2,400,000	2,500,000	1,000,000	1,000,000	4,544,355
Cash and cash equivalents, beginning	1,100,000	1,000,000	1,000,000	1,000,000	1,000,000	4,100,000
Cash and cash equivalents, ending	\$ 1,744,355	\$ 3,400,000	\$ 3,500,000	\$ 2,000,000	\$ 2,000,000	\$ 6,644,355
Cash paid during the year for:						
Interest	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 5,000,000
Income taxes	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 5,000,000

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Oregon Telephone Corporation
Mt. Vernon, Oregon

We have audited the consolidated financial statements of Oregon Telephone Corporation and Subsidiaries as of and for the years ended December 31, 2015 and 2014, and have issued our report thereon dated April 8, 2016. 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

This report is intended for the information and use of the board of directors, management, and the Rural Utilities Service and is not intended to be and should not be used by anyone other than these specified parties.

Wiggins & Co., PC
Brigham City, Utah
April 8, 2016



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF
CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR
TELEPHONE BORROWERS

The Board of Directors
Oregon Telephone Corporation
Mt. Vernon, Oregon

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Oregon Telephone Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of revenue, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 8, 2016. In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2016, on our consideration of Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Oregon Telephone Corporation and Subsidiaries failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 8, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Oregon Telephone Corporation and Subsidiaries' noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Oregon Telephone Corporation and Subsidiaries' accounting and records to indicate that Oregon Telephone Corporation and Subsidiaries did not:

Maintain adequate and effective accounting procedures;

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

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

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

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

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

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

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

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

Comply with the requirements for the detailed schedule of investments in affiliated companies.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The detailed schedule of investments in affiliated companies, which is required by 7 CFR 1733.33(i), and attached to this letter, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements, taken as a whole.

See Schedule of Investments in Affiliated Companies

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

Wiggins + Co, PC

Brigham City, Utah
April 8, 2016

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 SCHEDULE OF INVESTMENTS IN AFFILIATED COMPANIES
 FOR THE YEAR ENDED DECEMBER 31, 2015

	[REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED] [REDACTED]	Total
Original investment cost	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Cumulative net income as of December 31, 2014	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net income for the year ended December 31, 2015	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Book value of investments as of December 31, 2015	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

Oregon Telephone Corporation owns 100% of the stock/member interest of each company, except New Florence Telephone Company which is owned 65%. Each company is accounted for on the consolidated method (equity method).

Redacted
 CONFIDENTIAL
 per WATC 480-07-160

EXHIBIT 6

RUS 479 OPERATING REPORT

PETITION OF SKYLINE TELECOME INC. TO RECEIVE
SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM –
EXHIBIT 6

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0572-0031. The time required to complete this information collection is estimated to average 4 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

USDA-RUS

This data will be used by RUS to review your financial situation. Your response is required by 7 U.S.C. 901 et seq. and, subject to federal laws and regulations regarding confidential information, will be treated as confidential.

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

BORROWER NAME

Skyline Telecom Company

INSTRUCTIONS-Submit report to RUS within 30 days after close of the period
For detailed instructions, see RUS Bulletin 1744-2. Report in whole dollars only.

PERIOD ENDING
December, 2015

BORROWER DESIGNATION
WA0546

CERTIFICATION

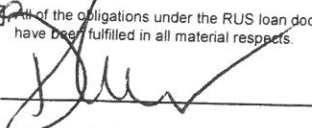
We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

ALL INSURANCE REQUIRED BY 7 CFR PART 1788, CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES.

DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1788 OF 7CFR CHAPTER XVII
(Check one of the following)

All of the obligations under the RUS loan documents have been fulfilled in all material respects.

There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in the Telecom Operating Report



3/29/16
DATE

PART A. BALANCE SHEET

ASSETS	BALANCE	BALANCE	LIABILITIES AND STOCKHOLDERS' EQUITY	BALANCE	BALANCE
	PRIOR YEAR	END OF PERIOD		PRIOR YEAR	END OF PERIOD
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	372,946	305,158	25. Accounts Payable	98,118	52,146
2. Cash-RUS Construction Fund			26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments		
a. Telecom, Accounts Receivable	68,425	104,236	28. Customer Deposits	700	665
b. Other Accounts Receivable			29. Current Mat. L/T Debt	111,793	117,102
c. Notes Receivable			30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable			32. Income Taxes Accrued		
b. Other Accounts Receivable			33. Other Taxes Accrued		
c. Notes Receivable			34. Other Current Liabilities		
5. Interest and Dividends Receivable			35. Total Current Liabilities (25 thru 34)	210,611	169,913
6. Material-Regulated			LONG-TERM DEBT		
7. Material-Nonregulated	455	581	36. Funded Debt-RUS Notes	410,321	336,048
8. Prepayments	12,885	43,293	37. Funded Debt-RTB Notes	243,973	201,091
9. Other Current Assets			38. Funded Debt-FFB Notes		
10. Total Current Assets (1 Thru 9)	454,711	453,268	39. Funded Debt-Other		
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan		
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt		
a. Rural Development			42. Recquired Debt		
b. Nonrural Development			43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies		
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development			46. Total Long-Term Debt (36 thru 45)	654,294	537,139
13. Nonregulated Investments	0		OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets			47. Other Long-Term Liabilities	72,694	75,870
15. Deferred Charges	19,715	18,175	48. Other Deferred Credits		
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
17. Total Noncurrent Assets (11 thru 16)	19,715	18,175	50. Total Other Liabilities and Deferred Credits (47 thru 49)	72,694	75,870
PLANT, PROPERTY, AND EQUIPMENT			EQUITY		
18. Telecom, Plant-in-Service	2,963,014	3,019,743	51. Cap. Stock Outstand. & Subscribed	262,582	262,582
19. Property Held for Future Use			52. Additional Paid-in-Capital		
20. Plant Under Construction			53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill			54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation	1,855,980	2,045,030	55. Other Capital		
23. Net Plant (18 thru 21 less 22)	1,107,034	974,713	56. Patronage Capital Credits		
24. TOTAL ASSETS (10+17+23)			57. Retained Earnings or Margins	381,279	400,652
	1,581,460	1,446,156	58. Total Equity (51 thru 57)	643,861	663,234
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	1,581,460	1,446,156

Total Equity = 45.86% % of Total Assets

USDA-RUS

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

BORROWER DESIGNATION

WA0546

PERIOD ENDING

December, 2015

INSTRUCTIONS- See RUS Bulletin 1744-2

PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS

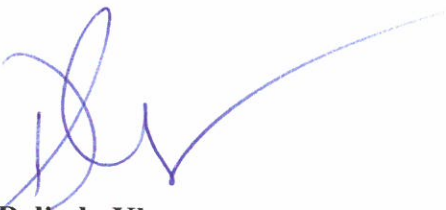
ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues		
2. Network Access Services Revenues	30,037	28,841
3. Long Distance Network Services Revenues	830,561	935,151
4. Carrier Billing and Collection Revenues		
5. Miscellaneous Revenues		
6. Uncollectible Revenues		
7. Net Operating Revenues (1 thru 5 less 6)	(348)	182
8. Plant Specific Operations Expense	860,946	963,810
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	187,998	255,327
10. Depreciation Expense	8,183	14,095
11. Amortization Expense	204,492	189,051
12. Customer Operations Expense	1,540	1,540
13. Corporate Operations Expense		
14. Total Operating Expenses (8 thru 13)	233,736	369,765
15. Operating Income or Margins (7 less 14)	635,949	829,778
16. Other Operating Income and Expenses	224,997	134,032
17. State and Local Taxes		
18. Federal Income Taxes		
19. Other Taxes	60,051	33,520
20. Total Operating Taxes (17+18+19)	7,044	5,402
21. Net Operating Income or Margins (15+16-20)	67,095	38,922
22. Interest on Funded Debt	157,902	95,110
23. Interest Expense - Capital Leases	38,805	33,677
24. Other Interest Expense		
25. Allowance for Funds Used During Construction	2,527	
26. Total Fixed Charges (22+23+24-25)		
27. Nonoperating Net Income	41,332	33,677
28. Extraordinary Items	24,852	21,665
29. Jurisdictional Differences		
30. Nonregulated Net Income		
31. Total Net Income or Margins (21+27+28+29+30-26)	(72,913)	(63,722)
32. Total Taxes Based on Income	68,509	19,376
33. Retained Earnings or Margins Beginning-of-Year	35,515	33,566
34. Miscellaneous Credits Year-to-Date	312,770	381,276
35. Dividends Declared (Common)		
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date		
38. Transfers to Patronage Capital		
39. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]		
40. Patronage Capital Beginning-of-Year	381,279	400,652
41. Transfers to Patronage Capital		
42. Patronage Capital Credits Retired		
43. Patronage Capital End-of-Year (40+41-42)		
44. Annual Debt Service Payments	0	0
45. Cash Ratio [(14+20-10-11) / 7]	215,260	145,522
46. Operating Accrual Ratio [(14+20+26) / 7]	0.5773	0.7036
47. TIER [(31+26) / 26]	0.8646	0.9363
48. DSCR [(31+26+10+11) / 44]	2.6575	1.5753
	1.4674	1.6743

Exhibit 7
(Option 1 – Report NO Corporate Operations Expense Adjustment and Certify)
As Required in WAC 480-123-110(e)(vi)

If a Provider **HAD NO** corporate operations expense excluded (not allowed to recover) in 2015 or 2014 as calculated in the high cost loop support algorithm which is input in both the high cost loop support and interstate common line support cost studies, certify below that no adjustments apply and that the calculation is accurate and correct.

I, **DELINDA KLUSER**, an officer of **SKYLINE TELECOM INC** with personal knowledge and responsibility, under penalty of perjury, hereby certify that no corporate operations adjustment(s) to existing high-cost loop and/or interstate common line support mechanisms, as required by the Federal Communications Commission applied to the Company in 2015 and 2014.

Dated this 27 th day of **JULY**, 2016


Delinda Kluser
Vice-Pres, Manager

Notes:

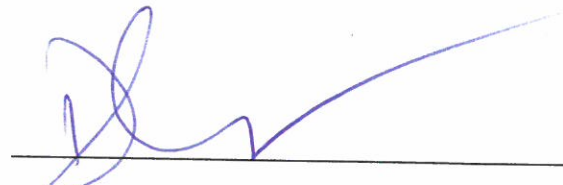
1. Report corporate operations expense excluded or disallowed NOT the revenue impact.
2. The calculated expense excluded in the high cost loop support algorithm should be the same amount that would be input in both the high cost loop support and interstate common line support studies.
3. The disallowed corporate operations expense amounts will only be considered by Staff if the Company is potentially overearning. These amounts WILL NOT be reported on the income statement template.

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

I, Delinda Kluser, an officer of Skyline Telecom Inc. with personal knowledge and responsibility, based upon my discussions with the outside consultants retained by the Company to handle such matters, under penalty of perjury, state that the Company complies with state and federal accounting, cost allocation and cost adjustment rules pertaining to incumbent local exchange companies.

Dated this 27th day of July, 2016.



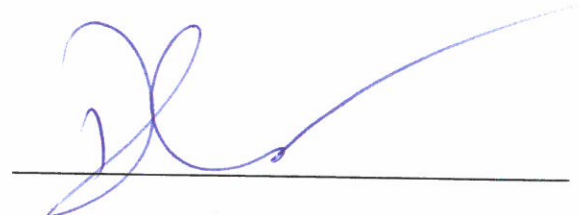
Delinda Kluser, Vice-Pres/Manager

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Delinda Kluser, an officer of Skyline Telecom Inc. under penalty of perjury, hereby certify that if the Company receives Program support, the Company will continue to provide communications services pursuant to its tariffs on file with the Commission throughout its service territory in Washington for which the Company is seeking and receives Program support during the entirety of 2017.

Dated this 21st day of July, 2016.



Delinda Kluser, Vice-Pres/Manager