The Toledo Telephone Co., Inc. and Subsidiaries

Consolidated Financial Statements with Supplemental Information

Years Ended December 31, 2016 and 2015

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Aldrich CPAs + Advisors LLP
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Salem, Oregon 97301

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Toledo Telephone Co., Inc. and Subsidiaries
Toledo, Washington

We have audited the accompanying consolidated financial statements of The Toledo Telephone Co., Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform each audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe 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 The Toledo Telephone Co., Inc. and Subsidiaries, as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I-III is presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 28, 2017, on our consideration of Toledo Telephone Co., Inc. and Subsidiaries' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Toledo Telephone Co., Inc. and Subsidiaries' internal control over financial reporting and compliance.

Aldrich CPAs + Advisors LLP

Salem, Oregon
April 28, 2017

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2016 and 2015

ASSETS	2016	2015
Current Assets:		
Cash and cash equivalents	$ 1,877,155	$ 1,276,016
Accounts receivable, less allowance for doubtful accounts of $0 in 2016 and 2015	470,029	408,826
Marketable securities	3,079,892	2,911,806
Materials and supplies	302,093	560,994
Prepaid expenses	69,378	99,256
Income tax receivable	-	474,556
Total Current Assets	5,798,547	5,731,454
Other Assets and Investments:		
Non-regulated equipment, net	76,859	96,676
Other investments	494,955	475,125
Total Other Assets and Investments	571,814	571,801
Property, Plant, and Equipment:		
In service	35,802,950	35,406,333
Under construction	201,891	464,524
	36,004,841	35,870,857
Less accumulated depreciation	17,693,353	16,195,130
Property, Plant, and Equipment, net	18,311,488	19,675,727
	$ 24,681,849	$ 25,978,982

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	2016	2015
Current Liabilities:		
Current portion of long-term debt	$ 995,113	$ 915,826
Accounts payable	76,838	582,049
Accrued expenses	37,963	57,172
Total Current Liabilities	1,109,914	1,555,047
Noncurrent Liabilities:		
Deferred income taxes	1,705,056	1,514,071
Long-term debt	14,213,465	15,511,631
Total Noncurrent Liabilities	15,918,521	17,025,702
Stockholders' Equity:		
Common stock, $10 par value, 5,000 shares authorized, 1,067 shares issued and outstanding	10,670	10,670
Retained earnings	7,529,336	7,335,903
Accumulated other comprehensive income	113,408	51,660
Total Stockholders' Equity	7,653,414	7,398,233
	$ 24,681,849	$ 25,978,982

See accompanying notes to consolidated financial statements.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues:		
Local network	$ 441,342	$ 435,373
Network access	4,176,420	4,094,152
Long-distance	43,435	47,479
Miscellaneous	44,625	(128,672)
Total Operating Revenues	4,705,822	4,448,332
Operating Expenses:		
Plant specific	804,352	601,160
Plant nonspecific	519,203	424,769
Customer	309,537	298,405
Corporate	924,038	834,091
Depreciation	1,635,244	1,223,120
Income tax expense	10,800	222,159
Other operating taxes	191,539	287,811
Total Operating Expenses	4,394,713	3,891,515
Operating Income	311,109	556,817
Other Income (Expense):		
Interest and dividends	121,205	184,123
Allowance for funds used during construction	117	234,394
Non-regulated operations, net	456,226	411,779
Other income (expense)	(247,826)	23,408
Nonoperating income tax expense	(151,900)	(206,305)
Total Other Income, net	177,822	647,399
Income Before Interest Expense	488,931	1,204,216
Interest Expense	295,498	361,418
Net Income	$ 193,433	$ 842,798

See accompanying notes to consolidated financial statements.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2016 and 2015

	2016	2015
Net Income	$ 193,433	$ 842,798
Other Comprehensive Income (Loss):		
Unrealized holding gains (losses) arising during the year	90,174	(135,551)
Less: Reclassification adjustment for (gains) losses included in net income	(141)	8,780
Deferred income tax (expense) benefit related to other comprehensive income	(28,285)	33,689
Total Other Comprehensive Income (Loss)	61,748	(93,082)
Total Comprehensive Income	$ 255,181	$ 749,716

See accompanying notes to consolidated financial statements.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2016 and 2015

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2014	$ 10,670	$ 6,493,105	$ 144,742	$ 6,648,517
2015 net income	-	842,798	-	842,798
Net change in other comprehensive income	-	-	(93,082)	(93,082)
Balance, December 31, 2015	10,670	7,335,903	51,660	7,398,233
2016 net income	-	193,433	-	193,433
Net change in other comprehensive income	-	-	61,748	61,748
Balance, December 31, 2016	$ 10,670	$ 7,529,336	$ 113,408	$ 7,653,414

See accompanying notes to consolidated financial statements.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities:		
Net income	$ 193,433	$ 842,798
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,635,244	1,223,120
Non-regulated depreciation	73,824	35,118
Change in deferred taxes	162,701	761,599
(Gains) losses on sale of marketable securities	(141)	8,780
Patronage allocations received	(2,216)	(7,069)
Changes in operating assets and liabilities:		
Accounts receivable	(61,203)	115,029
Materials and supplies	258,901	(25,762)
Prepaid expenses	29,878	521
Income tax receivable	474,556	(451,136)
Accounts payable	(482,924)	(354,856)
Accrued expenses	(19,209)	(9,552)
Deferred grant revenue	-	(23,075)
Net Cash Provided by Operating Activities	2,262,844	2,115,515
Cash Flows from Investing Activities:		
Capital expenditures	(3,232,281)	(4,319,781)
Change in other investments	(17,614)	(29,187)
Purchases of marketable securities	(96,787)	(352,848)
Proceeds from sales of marketable securities	18,874	228,229
Plant removal costs	-	(14,322)
Purchases of non-regulated equipment	(54,007)	(65,917)
Net Cash Used by Investing Activities	$ (3,381,815)	$ (4,553,826)

See accompanying notes to consolidated financial statements.

	2016	2015
Cash Flows from Financing Activities:		
Proceeds from long-term debt	$ 2,835,723	$ 3,295,320
Payments on long-term debt	(1,115,613)	(963,765)
Net Cash Provided by Financing Activities	1,720,110	2,331,555
Net Increase (Decrease) in Cash and Cash Equivalents	601,139	(106,756)
Cash and Cash Equivalents, beginning	1,276,016	1,382,772
Cash and Cash Equivalents, ending	$ 1,877,155	$ 1,276,016
Cash Paid During the Year for:		
Interest, net of amount capitalized	$ 295,381	$ 127,024
Income taxes	$ -	$ 132,000
Non-Cash Investing and Financing Activity:		
Additions to property, plant and equipment included in accounts payable	$ 22,287	$ 3,436,755
Reclassification of accounts payable to long-term debt	$ -	$ 2,938,988

See accompanying notes to consolidated financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

Organization
The Toledo Telephone Co., Inc. (the Company) provides telecommunication services to customers within and around the city of Toledo, Washington.

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Toledo Telenet Long Distance Company and Toledo Cellular, Inc. All material intercompany transactions and balances have been eliminated in the consolidation.

Basis of Accounting
The Company's consolidated financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America applicable to regulated enterprises.

Revenue Recognition
The Company recognizes revenues when earned regardless of the period in which they are billed.

Monthly service fees derived from local telephone service and internet are billed in advance. Accounts receivable are reduced by advanced billings and subsequently transferred to income in the period earned. Access charges (see Note 1, Network Access Revenue), long distance, and other revenues based on usage are billed in arrears.

Regulation
The Company is subject to limited regulation by the Washington Utilities and Transportation Commission (WUTC), and by the Federal Communications Commission (FCC). The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the FCC, and adopted by the WUTC. As a result, the application of accounting principles generally accepted in the United States of America by the Company differs in certain respects from the application by non-regulated entities. Such differences primarily concern the time at which certain items enter into the determination of net income.

Regulatory and legislative actions, as well as future regulations, could have a significant impact on the Company's future operations and financial condition. See Note 1, National Broadband Plan and FCC Order.

Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates involve judgments with respect to numerous factors that are beyond management's control. Actual results could differ from those estimates.

Fair Value of Financial Instruments
The Company's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, marketable securities, receivables, accounts payable, and notes payable. The Company estimates that the fair value of all of these non-derivative financial instruments at December 31, 2016 and 2015 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying consolidated balance sheets.

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term, highly liquid investments that were purchased with an original maturity of 3 months or less and are readily convertible into cash. The Company maintains its cash and equivalents in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000 per depositor per bank. At December 31, 2016 the Company had uninsured cash of $1,665,632 ($1,034,862 at December 31, 2015).

All funds advanced to the Company from the Rural Utilities Service (RUS) and related lenders, are required to be deposited in a special construction account, held in trust for RUS, with a federally insured institution.

The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and cash equivalents as of December 31 consist of the following:

	2016	2015
Cash, checking and in sweep account	$ 1,872,192	$ 1,269,041
Cash, money market funds	-	1,987
Cash, RUS construction account	4,963	4,988
	$ 1,877,155	$ 1,276,016

Marketable Securities

Marketable securities are stated at fair value based on a framework that provides a fair value hierarchy prioritizing the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The Company's marketable securities are measured and reported at fair value on a recurring basis based on quoted prices available in active markets for identical investments as of the reporting date (Classification Level 1).

Accounts Receivable

The Company provides an allowance for doubtful accounts that is based on a review of outstanding receivables, historical collection information, and existing economic conditions. Receivables from subscribers are due 30 days after the issuance of the invoice. Receivables from other exchange carriers are typically outstanding from 30 to 60 days before payment is received. Delinquent accounts are charged to uncollectible expense when it is determined that the account will not be collected. Receivables past due more than 90 days are considered delinquent. Delinquent receivables are assessed monthly and accounts are written off and turned over to a collection agency at management's discretion.

Materials and Supplies

Materials and supplies are stated at the lower of cost or market. Cost is determined principally by the average cost method. Items are written off when determined to be obsolete.

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Property, Plant, and Equipment
Property, plant, and equipment in service and under construction is recorded at cost, including appropriate direct and indirect costs associated with construction. Depreciation is calculated on a straight-line basis over the estimated life of the classes of property and equipment in accordance with rates consistent with industry standards. Depreciation rates range from 4% to 25%. In accordance with composite group depreciation methodology and with the Uniform System of Accounts, as prescribed by the FCC, when a portion of the Company's regulated property, plant, and equipment is retired in the ordinary course of business, the gross book value is eliminated from telecommunications plant accounts and such costs plus removal expenses, less salvage, are charged to accumulated depreciation, and no gain or loss is recognized.

Non-regulated equipment represents the book value of Internet and other equipment utilized in providing non-regulated services. Non-regulated equipment is stated at cost, less accumulated depreciation. Upon retirement, sale, or other disposition of non-regulated property, plant, and equipment, the cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses are included in operations. Depreciation rates for non-regulated assets range from 4% to 25%.

The Company follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. In 2016, total interest incurred was $295,498 of which $117 was capitalized to property, plant, and equipment ($361,418 and $234,394, respectively, in 2015).

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.

Network Access Revenues
Network access revenue is 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 has elected to file access tariffs through the National Exchange Carriers Association (NECA) for these charges. These access tariffs are subject to approval by the WUTC for intrastate charges and the FCC for interstate charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they 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 NECA.

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 year, are recorded in the year in which such adjustments become determinable, based upon studies prepared by outside consultants.

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Network Access Revenues, continued
In addition to recoveries from the pools, the Company also receives revenues from the Universal Service High Cost Loop Fund (HCL) and other support mechanisms administered by the Universal Service Administrative Company (USAC). These universal service support revenues are intended to compensate the Company for the high cost of providing service in rural areas. The amount of support received from USAC is based on the number of customers served and the cost of providing service in that area being in excess of the national average cost per loop, as determined by the FCC.

In 2016, the Company received $1,124,744 ($733,972 in 2015) from the USAC High Cost Loop Fund and $1,696,903 in interstate revenues in 2016 ($1,787,616 in 2015) administered through the NECA pools.

The Company also receives funding from state universal funds. These support revenues are included in the network access revenues in the accompanying consolidated financial statements. In 2016, the Company received $320,153 from the Washington Universal Service Fund ($405,848 in 2015). The Company must petition for continued support annually by August 1 of each year. Unless extended, the Washington Universal Service Fund will sunset on July 1, 2020. The amount of the annual distribution is unknown, but it cannot exceed the sum of the amount the Company cumulatively received in 2012 under the Washington State's former "traditional USF" and the Company's cumulative reduction, up through the program year, of support from the federal Connect America Fund.

National Broadband Plan and FCC Order
In 2010, the FCC issued the National Broadband Plan which outlined a long-term plan to increase broadband penetration rates and services throughout the United States of America.

In 2011, as an initial response to the plan, the FCC approved Report and Order 11-161 (the Order), that began the process of reforming the universal service and Intercarrier Compensation (ICC) systems and adopted support for broadband-capable networks as an express universal service principle. The Order further created the Connect America Fund which will ultimately replace all existing high-cost support mechanisms and help facilitate ICC reforms.

The key provisions of the order included capping the federal universal service fund (USF), placing limitations on capital and operating expenditures (subsequently eliminated in 2014 by an Order for Reconsideration issued by the FCC), establishing local rate benchmarks, capping monthly USF at $250 per line, 5% annual reduction of the frozen 2011 interstate switched access revenue requirement, the phase-out of local switching support to be replaced by the CAF to recover costs of switching services, a 9 year transition from the previous ICC system to bill and keep, and adoption of the Access Recovery Charge (ARC) to mitigate impacts of reduced ICC revenues. Implementation of this transition began July 1, 2012.

In 2016, the FCC issued Order 16-33, which provided the option for a voluntary election by rate-of-return carriers to receive model-based support under the Alternative Connect America Cost Model (A-CAM). On November 1, 2016, the Company did not elect to receive model based support under A-CAM. Carriers not electing A-CAM will continue to receive support based on their costs, however these legacy support mechanisms will be modified by Order 16-33.

The main changes for carriers remaining on legacy support are as follows:

- Interstate Common Line Support (ICLS) will be transitioned to CAF – Broadband Line Support (CAF-BLS), which provides support for voice and voice-data lines, as well as broadband only lines. Additionally, the funding for overall high cost support will be limited to $2 billion dollars.
- The prescribed rate of return will be reduced by 0.25% annually starting July 1, 2016, effectively reducing the rate of return from 11.25% to 9.75% by June 2021.

Note 1 - Organization and Summary of Significant Accounting Policies, continued

National Broadband Plan and FCC Order, continued

- Carriers will have broadband deployment obligations based on their current availability of 10/1 mbps broadband service in applicable study areas.

- Support will be phased out in census blocks if 85% or more of the locations in the census block are served by unsubsidized competitors offering 10/1 mbps broadband. Lost support will be phased out over 3 to 6 years depending on the severity of lost support.
- Limits to capital and operating expenditures on a prospective basis as outlined in the Order.

The Company continues to monitor various effects and requirements of the Orders noted above. As of December 31, 2016 the Company meets the local rate benchmark requirements of the Order and is not subject to the $250 per line support cap. For the period ended December 31, 2016 the impacts to the Company related to the 5% annual decline in switched access revenues, and the .25% reduction of the prescribed rate of return have not been significant.

The overall reform process will continue to take place in phases and will take several more years to implement. Furthermore, it is anticipated that the FCC will continue to issue Further Notices of Proposed Rulemaking and/or Orders for Reconsideration and continue to seek comments on various items. As a result, the ultimate outcome of these proceedings and their impact is uncertain at this time.

Income Taxes
The Company is a taxable corporation and files a consolidated income tax return with its taxable subsidiaries, Toledo Telenet Long Distance Company, and Toledo Cellular, Inc.

The Company follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provisions, when applicable. There are no amounts accrued in the consolidated financial statements related to uncertain tax positions. The Company files income tax returns in the United States, state and local jurisdictions.

Deferred income taxes are provided on a liability method whereby deferred tax assets and liabilities are recognized for temporary differences. Temporary differences are the differences between the tax basis of assets and liabilities and their financial reporting amounts. Deferred tax assets, if any, are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Subsequent Events
The Company has evaluated subsequent events through April 28, 2017, which is the date the consolidated financial statements were available to be issued.

Note 2 - Marketable Securities

All marketable securities of the Company have been categorized as available for sale. These investments are stated at fair value in the consolidated financial statements with unrealized gains and losses reported as accumulated other comprehensive income as a separate component of stockholders' equity. The Company's marketable securities are measured and reported at fair value on a recurring basis based on quoted prices available in active markets for identical investments as of the reporting date (Classification Level 1).

Marketable securities at December 31 consisted of the following:

	2016	2015
Fair value:		
Mutual Funds - Balanced and Value Funds	$ 921,342	$ 817,960
Mutual Funds - International Funds	160,961	152,855
Mutual Funds - Bond Funds	1,101,938	1,077,181
Mutual Funds - Blended Funds	162,371	145,727
Mutual Funds - Growth Funds	733,280	718,083
	$ 3,079,892	$ 2,911,806
Cost:		
Mutual Funds - Balanced and Value Funds	$ 843,540	$ 842,323
Mutual Funds - International Funds	166,093	163,065
Mutual Funds - Bond Funds	1,103,789	1,075,429
Mutual Funds - Blended Funds	154,108	143,670
Mutual Funds - Growth Funds	637,698	602,688
	$ 2,905,228	$ 2,827,175
Gross unrealized holding gains:		
Mutual funds	$ 174,664	$ 84,632
Less deferred income taxes	61,256	32,971
	$ 113,408	$ 51,661

Realized gains or losses are determined on the basis of specific identification. The Company had $18,874 in proceeds from the sales of marketable securities in 2016 ($228,229 in 2015). There were gross realized gains of $141 and no gross realized losses in 2016 (gross realized gains of $1 and gross realized losses of $8,781 in 2015).

Note 3 - Other Investments

Other investments are recorded at cost and consist of the following at December 31:

	2016	2015
Cash surrender value of life insurance policies	$ 304,654	$ 287,040
Western Independent Networks, Inc., 444 shares common stock	16,987	16,987
NRTC patronage certificates	123,314	121,098
NECA Services, Inc., 5,000 shares common stock	50,000	50,000
	$ 494,955	$ 475,125

Note 3 - Other Investments, continued

The Company maintains a life insurance policy on the life of the owner and officer of the Company, with total death benefits of approximately $1,500,000 at December 31, 2016.

Note 4 - Property, Plant, and Equipment

Major classes of the Company's property, plant, and equipment in service are as follows at December 31:

	2016	2015
Land	$ 135,858	$ 135,858
Buildings and improvements	2,554,198	2,554,198
Central office equipment	5,044,183	4,999,166
Cable and wire facilities	25,956,881	25,394,654
Furniture and office equipment	1,331,126	1,327,232
Vehicles and work equipment	780,704	995,225
	$ 35,802,950	$ 35,406,333

Note 5 - Long-Term Debt

Long-term debt consists of the following:

	2016	2015
5.65% to 6.67% notes payable to the Rural Utilities Service (RUS), in monthly installments of $19,868, including interest, collateralized by substantially all real and personal property, paid in full in 2016.	$ -	$ 178,814
5.17% mortgage note payable to the RUS, in monthly installments of $4,138, including interest, collateralized by substantially all real and personal property, paid in full in 2016.	-	37,242
1.59% to 4.79% notes payable to the RUS, in monthly installments of $16,457 including interest, collateralized by substantially all real and personal property, due December 2020.	738,367	935,846
1.18% to 3.05% note payable to the Federal Financing Bank (FFB), in quarterly installments of $28,551, including interest, collateralized by substantially all real and personal property, due December 2020.	483,566	597,773
Carried forward	$ 1,221,933	$ 1,749,675

Note 5 - Long-Term Debt, continued

	2016	2015
Brought forward	$ 1,221,933	$ 1,749,675
1.53% to 2.83% note payable to the FFB, in quarterly installments of $28,551, including interest, collateralized by substantially all real and personal property, due January 2034.	11,661,891	11,738,794
Variable interest (.27% at 12/31/2016) note payable to the FFB in quarterly principal installments of $33,257, plus interest, collateralized by substantially all real and personal property, due January 2034.	2,324,754	-
Final construction accounts payable reclassified into long-term debt	-	2,938,988
	15,208,578	16,427,457
Less current portion	995,113	915,826
	$ 14,213,465	$ 15,511,631

Future maturities of long-term debt are as follows:

2017	$ 995,113
2018	1,177,957
2019	1,063,934
2020	948,961
2021	592,993
Thereafter	10,429,620
Total	$ 15,208,578

Substantially all assets of the Company are pledged as security for the long-term debt under the first mortgages executed to RUS and FFB. The terms of the mortgage agreements contain restrictions on the payment of dividends and the maintenance of defined amounts of stockholders' equity and working capital after payment of dividends, as well as limitations on additional debt. The mortgage agreements also contain requirements regarding financial ratios. Management believes they are in compliance with these ratios as of December 31, 2016.

Note 6 - Income Taxes and Deferred Income Taxes

Income tax (expense) benefit for the years ended December 31 are as follows:

		2016		2015
Operating:				
Current federal tax benefit	$	110,300	$	134,041
Deferred tax expense		(121,100)		(356,200)
Total Operating Income Tax Expense	$	(10,800)	$	(222,159)
Non-Operating:				
Current federal tax benefit (expense)	$	(110,300)	$	199,095
Deferred tax expense		(41,600)		(405,400)
Total Non-Operating Income Tax Expense	$	(151,900)	$	(206,305)

The provision for income taxes differs from the amount computed by applying the current statutory federal income tax rate to earnings before income taxes due to the effects of nondeductible items, prior year over or under accruals, and the use of accelerated depreciation for income tax purposes.

Deferred taxes consist of the following at December 31:

		2016		2015
Deferred Income Tax Asset (Liability):				
Unrealized gains on marketable securities	$	(61,256)	$	(32,971)
Accelerated Depreciation		(2,819,900)		(2,868,700)
Net Operating Losses		1,176,100		1,387,600
Net Deferred Income Tax Liability	$	(1,705,056)	$	(1,514,071)

At December 31, 2016 and 2015 the Company believes it has the ability to realize the benefits of all deferred tax assets and accordingly has not recorded a valuation allowance. Net operating losses remaining are $3,507,069, which expire in 2035.

During the period ended December 31, 2015 the Company has adopted *Financial Accounting Standards Board's Accounting Codification (ASU) 2015-17 Income Taxes(Topic 740).* This update requires that deferred tax assets and liabilities be presented net as one noncurrent amount on the consolidated balance sheet. The update was adopted to simplify the presentation of deferred taxes on the consolidated balance sheet.

Note 7 - Retirement Plans

The Company has established a defined contribution retirement plan that covers substantially all employees. Eligible participants may defer a portion of their wages to their employee deferral accounts, and the Company contributes a discretionary amount, as determined by the Company. In 2016, the Company made contributions of $154,340 ($166,999 in 2015).

SUPPLEMENTAL INFORMATION

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidating Balance Sheets

December 31, 2016

ASSETS	The Toledo Telephone Co., Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	Consolidated
Current Assets:					
Cash and cash equivalents	$ 1,742,527	$ 57	$ 134,571	$ -	$ 1,877,155
Accounts receivable, less allowance for doubtful accounts of zero	470,029	-	-	-	470,029
Accounts receivable, affiliate	1,344	-	(1,344)	-	-
Marketable securities	2,517,801	562,091	-	-	3,079,892
Materials and supplies	302,093	-	-	-	302,093
Prepaid expenses	63,078	-	6,300	-	69,378
Income tax receivable	32,972	(22,028)	(10,944)	-	-
Total Current Assets	5,129,844	540,120	128,583	-	5,798,547
Other Assets and Investments:					
Non-regulated equipment, net	76,859	-	-	-	76,859
Other investments	494,955	-	-	-	494,955
Investment in subsidiaries	658,587	-	-	(658,587)	-
Total Other Assets and Investments	1,230,401	-	-	(658,587)	571,814
Property, Plant, and Equipment:					
In service	35,802,950	-	-	-	35,802,950
Under construction	201,891	-	-	-	201,891
	36,004,841	-	-	-	36,004,841
Less accumulated depreciation	17,693,353	-	-	-	17,693,353
Property, Plant, and Equipment, net	18,311,488	-	-	-	18,311,488
	$ 24,671,733	$ 540,120	$ 128,583	$ (658,587)	$ 24,681,849

LIABILITIES AND STOCKHOLDERS' EQUITY	The Toledo Telephone Company, Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	Consolidated
Current Liabilities:					
Current portion of long-term debt	$ 995,113	$ -	$ -	$ -	$ 995,113
Accounts payable	76,838	-	-	-	76,838
Accrued expenses	37,963	-	-	-	37,963
Accounts payable, affiliate	(10,116)	10,116	-	-	-
Total Current Liabilities	1,099,798	10,116	-	-	1,109,914
Noncurrent Liabilities:					
Deferred Income Taxes	1,705,056	-	-	-	1,705,056
Long-Term Debt	14,213,465	-	-	-	14,213,465
Total Noncurrent Liabilities	15,918,521	-	-	-	15,918,521
Stockholders' Equity:					
Common stock	10,670	100	100	(200)	10,670
Paid-in capital	-	196,825	48,523	(245,348)	-
Retained earnings	7,529,336	338,580	79,960	(418,540)	7,529,336
Accumulated other comprehensive income	113,408	(5,501)	-	5,501	113,408
Total Stockholders' Equity	7,653,414	530,004	128,583	(658,587)	7,653,414
	$ 24,671,733	$ 540,120	$ 128,583	$ (658,587)	$ 24,681,849

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Year Ended December 31, 2016 Schedule II

	The Toledo Telephone Co., Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	Consolidated
Operating Revenues:					
Local network	$ 441,342	$ -	$ -	$ -	$ 441,342
Network access	4,176,420	-	-	-	4,176,420
Long-distance	-	-	43,435	-	43,435
Miscellaneous	51,678	-	-	(7,053)	44,625
Total Operating Revenues	4,669,440	-	43,435	(7,053)	4,705,822
Operating Expenses:					
Plant specific	804,352	-	-	-	804,352
Plant nonspecific	519,203	-	-	-	519,203
Customer	275,917	-	40,673	(7,053)	309,537
Corporate	916,551	2,743	4,744	-	924,038
Depreciation	1,635,244	-	-	-	1,635,244
Income tax expense	10,800	-	-	-	10,800
Other operating taxes	191,052	-	487	-	191,539
Total Operating Expenses	4,353,119	2,743	45,904	(7,053)	4,394,713
Operating Income (Loss)	316,321	(2,743)	(2,469)	-	311,109
Other Income (Expense):					
Interest and dividends	102,394	18,631	180	-	121,205
Allowance for funds used during construction	117	-	-	-	117
Non-regulated operations, net	456,226	-	-	-	456,226
Other income	(234,227)	748	-	(14,347)	(247,826)
Nonoperating income tax expense	(151,900)	-		-	(151,900)
Total Other Income, net	172,610	19,379	180	(14,347)	177,822
Income (Loss) Before Interest Expense	488,931	16,636	(2,289)	(14,347)	488,931
Interest Expense	295,498	-	-	-	295,498
Net Income (Loss)	$ 193,433	$ 16,636	$ (2,289)	$ (14,347)	$ 193,433

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidating Statements of Cash Flows

Year Ended December 31, 2016

	The Toledo Telephone Co., Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net income (loss)	$ 193,433	$ 16,636	$ (2,289)	$ (14,347)	$ 193,433
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:					
Depreciation	1,635,244	-	-	-	1,635,244
Non-regulated depreciation	73,824	-	-	-	73,824
Change in deferred taxes	162,701	-	-	-	162,701
Income from subsidiaries	(14,347)	-	-	14,347	-
Gain on sales of marketable securities	(117)	(24)	-	-	(141)
Patronage allocations received	(2,216)	-	-	-	(2,216)
Changes in operating assets and liabilities:					
Accounts receivable	(65,887)	-	4,684	-	(61,203)
Materials and supplies	258,901	-	-	-	258,901
Prepaid expenses	29,878		-	-	29,878
Accounts payable	(479,036)	-	(3,888)	-	(482,924)
Accrued expenses	(19,209)	-	-	-	(19,209)
Income tax receivable	474,556	-	-	-	474,556
Net Cash Provided (Used) by Operating Activities	2,247,725	16,612	(1,493)	-	2,262,844
Cash Flows from Investing Activities:					
Capital expenditures	(3,232,281)	-	-	-	(3,232,281)
Change in other investments	(17,614)	-	-	-	(17,614)
Purchases of marketable securities	(77,490)	(19,297)	-	-	(96,787)
Proceeds from sales of marketable securities	16,146	2,728	-	-	18,874
Purchases of non-regulated equipment	(54,007)	-	-	-	(54,007)
Net Cash Used by Investing Activities	$ (3,365,246)	$ (16,569)	$ -	$ -	$ (3,381,815)

	The Toledo Telephone Company, Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	Consolidated
Cash Flows from Financing Activities:					
Proceeds on long-term debt	$ 2,835,723	$ -	$ -	$ -	$ 2,835,723
Payments on long-term debt	(1,115,613)	-	-	-	(1,115,613)
Net Cash Provided by Financing Activities	1,720,110	-	-	-	1,720,110
Net Increase (Decrease) in Cash and Cash Equivalents	602,589	43	(1,493)	-	601,139
Cash and Cash Equivalents, beginning	1,139,938	14	136,064	-	1,276,016
Cash and Cash Equivalents, ending	$ 1,742,527	$ 57	$ 134,571	$ -	$ 1,877,155
Cash Paid During the Year for:					
Interest, net of amount capitalized	$ 295,381	$ -	$ -	$ -	$ 295,381
Non-Cash Investing and Financing Activity:					
Additions to property, plant and equipment included in accounts payable	$ 22,287	$ -	$ -	$ -	$ 22,287