

PO BOX 609
MOUNT VERNON, OR 97865-0609
1-888-782-4680

July 21, 2014

Washington Utilities and Transportation Commission

RE: Petition for Support

The attachment is supporting documentation for the Petition on behalf of Skyline Telecom, Inc. to receive support from the Universal Service Communications Program for the Program year 2015.

Respectfully,

A handwritten signature in blue ink, appearing to read "Delinda Kluser", with a long, sweeping flourish extending to the right.

Delinda Kluser
Vice President/Manager
Skyline Telecom, Inc.

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

8 IN RE

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

DOCKET NO.

PETITION FOR SUPPORT

13
14 COMES NOW SKYLINE TELECOM, INC (the "Company") and, pursuant to Chapter
15 480-123 of the Washington Administrative Code ("WAC"), including, but not limited to, WAC
16 480-123-110, hereby petitions the Washington Utilities and Transportation Commission (the
17 "Commission") to receive support from the Universal Service Communications Program (the
18 "Program") for the Program year 2015.

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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) or has been designated as an incumbent local exchange carrier by
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26

1 the Federal Communications Commission.

- 2 3. WAC 480-123-100(1)(c): The Company offers basic residential and business exchange
3 mandatory extended area service charges, are no lower than the local urban rate floor
4 established by the Commission as the benchmark rate based on the Federal Communications
5 telecommunications services as set forth in WAC 480-120-021 and RCW 80.36.630.
- 6 4. WAC 480-123-100(1)(d): The Company's rates for residential local exchange service, plus
7 Commission's national local urban rate floor pursuant to 47 C.F. R. Sec. 54.318 in effect on
8 the date of this Petition.
- 9 5. WAC 480-123-100(1)(e): The Company has been designated by the Commission as an
10 eligible telecommunications carrier for purposes of receiving federal universal services
11 support pursuant to 47 C.F.R. Part 54 Subpart D - Universal Service Support for High Cost
12 Areas with respect to the service areas for which the Company is seeking Program support.

13 **II. Demonstration of Eligibility under WAC 480-123-110**

- 14 1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications
15 services and is seeking Program support is as follows: SKYLINE TELECOM, INC
- 16 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between
17 the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.
18 A detailed description of any transactions between the Company and the affiliates named in
19 Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.
- 20 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet Nos.
21 49 and 63 of the Company's Tariff WN U-2
- 22 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate
23 instability or service interruption or cessation in the absence of support from the Program is
24 attached as Exhibit 3.

- 1 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,
2 are copies of the Company's balance sheet as of December 31, 2013, and December 31,
3 2012, and copies of the Company's statements of income and retained earnings or margin for
4 the years ended December 31, 2013, and December 31, 2012.
- 5 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial
6 statements for the years ended December 31, 2012, and December 31, 2013, are
7 attached as Exhibit 5.
- 8 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of
9 return on a total Washington unseparated regulated operations basis for each of the two prior
10 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
- 11 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on
12 equity on a total company (regulated and non-regulated) Washington basis for each of the
13 two prior years, calculated in the manner prescribed by the Commission, is provided in
14 Exhibit 4.
- 15 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the
16 statements of income and retained earnings or margin section of RUS Form 479 for the
17 prior two years is attached as Exhibit 6.
- 18 10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company with
19 personal knowledge and responsibility certifying that no corporate operations adjustment to
20 existing high-cost loop and interstate common line support mechanisms required by the
21 Federal Communications Commission applied to the Company for the two prior years is
22 attached hereto as Exhibit 7.
- 23 11. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains additional supporting information
24 requested by the Commission.
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1 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company
2 officer with personal knowledge and responsibility certifying that the Company complies
3 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to
4 incumbent local exchange companies is attached as Exhibit 8.

5 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or
6 on its behalf with the Federal Communications Commission for the calendar year preceding
7 the current year has already been filed with the Commission. See the Company's filing in
8 Docket No. UT-143013 filed on or about July 1, 2014.

9 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by
10 the Company as of December 31, 2013, was 23 for Silverton and 101 for Mt Hull. The
11 number of residential local exchange access lines served by the Company as of December
12 31, 2012, was was 24 for Silverton and 111 for Mt Hull. The number of business local
13 exchange access lines served by the Company as of December 31, 2013 was 5 for Silverton
14 and 2 for for Mt Hull. The number of business local exchange access lines served by the
15 Company as of December 31, 2012, was 6 for Silverton and 2 for Mt Hull. The monthly
16 recurring rate charged by the Company for residential local exchange access service on
17 December 31, 2013, was \$25.00 for Silverton and \$19.50 for Mt Hull. The monthly
18 recurring rate charged by the Company for residential local exchange access service on
19 December 31, 2012, was \$25.00 for Silverton and \$19.50 for Mt Hull. The rate charged by
20 the Company for single line business local exchange access service on December 31, 2013,
21 was \$35.00 for Silverton and \$25.00 for Mt Hull. The rate charged by the Company for
22 single line business local exchange access service on December 31, 2012, was \$35.00 for
23 Silverton and \$25.00 for Mt Hull.

24 15. WAC 480-123-110(1)(h): The requested statement is attached as Exhibit 9.
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1 16. All exhibits attached hereto are incorporated into this Petition as though fully set forth.

2 Respectfully submitted this 21st day of July, 2014.

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4 SKYLINE TELECOM, INC.

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6 By: 
7 Delinda Kluser, Vice President/Manager

8
9 CERTIFICATION

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

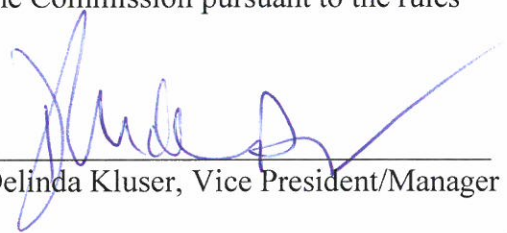
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Delinda Kluser, Vice President/Manager

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 three part time employees on staff which are paid directly by the Company in addition to the labor charged through the management agreement.

At times it is necessary for the combo tech employed by 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 is one of great financial uncertainty. In large part, this financial uncertainty stems from the Transformation Order issued by the Federal Communications Commission.¹ The 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 revenues and provides support from the Connect America Fund ("CAF") based on the base line year. However, the base line year revenues (i.e. CAF support) are reduced by five percent each year. The Company had been exploring ways of addressing access bypass to increase access revenues. However, any increase in access revenues under the Transformation Order would simply be a reduction in CAF support and no new net revenues would be produced. The CAF support reduction began July 2012. Projecting through the calendar year 2015, including additional reductions that will occur July 1, 2015, the Company has seen a reduction in support from the base line revenue amount of approximately \$ 42,387.

In addition, by order of this Commission, the traditional universal service access rate element and related pooling fund have been terminated effective July 1, 2014.

In addition, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. Further, in moving to the federal urban rate floor, the Company has seen an accelerated pace of customers giving up their land line telephone service subscribership. A loss of customers easily equates to a loss of revenue without a corresponding reduction in expenses.

In addition, during the 2-year period ended December 31, 2013, the Company has seen its Federal high cost loop support undergo a reduction – declining from \$284,604 in 2012 to \$276,852 in 2013.

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

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*).

The combination of factors noted above creates a situation in which, without support from the state universal service communications program, the Company may be faced with a choice of increasing rates further, which may drive more customers away, or cutting service in order to be able to match expenses to revenues. Neither choice presents a viable path for providing good 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

Financial Statement Data

Company Name: (Below)
 Skyline Telecom Inc

ASSETS	Balance End of Year 2012 (A)	Part 64 Adj to NonReg 2012 (B)	Adj. Balance End of Year 2012	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance Prior Year 2012 (A)	Part 64 Adj to NonReg 2012 (B)	Adj. Balance End of Year 2012
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	204,129		204,129	25. Accounts Payable	91,916		91,916
2. Cash-RUS Construction Fund			0	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments	0		0
a. Telecom, Accounts Receivable	67,728		67,728	28. Customer Deposits	670		670
b. Other Accounts Receivable			0	29. Current Mat. L/T Debt	165,828		165,828
c. Notes Receivable			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	32. Income Taxes Accrued	2,288		2,288
b. Other Accounts Receivable			0	33. Other Taxes Accrued	0		0
c. Notes Receivable			0	34. Other Current Liabilities	0		0
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	260,702		260,702
6. Material-Regulated			0	LONG-TERM DEBT			
7. Material-Nonregulated			0	36. Funded Debt-RUS Notes	549,178		549,178
8. Prepayments	1,217		1,217	37. Funded Debt-RTB Notes	323,682		323,682
9. Other Current Assets			0	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	273,074		273,074	39. Funded Debt-Other	0		0
				40. Funded Debt-Rural Develop. Loan	0		0
NONCURRENT ASSETS				41. Premium (Discount) on L/T Debt	0		0
11. Investment in Affiliated Companies				42. Reacquired Debt	0		0
a. Rural Development			0	43. Obligations Under Capital Lease	0		0
b. Nonrural Development			0	44. Adv. From Affiliated Companies	0		0
12. Other Investments				45. Other Long-Term Debt	67,232		67,232
a. Rural Development			0	46. Total Long-Term Debt (36 thru 45)	940,092		940,092
b. Nonrural Development			0	OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)	2,648		2,648	47. Other Long-Term Liabilities	73,223		73,223
14. Other Noncurrent Assets			0	48. Other Deferred Credits (C)	0		0
15. Deferred Charges	22,794		22,794	49. Other Jurisdictional Differences	0		0
16. Jurisdictional Differences			0	50. Total Other Liab. & Def. Credits (47 thru 49)	73,223		73,223
17. Total noncurrent Assets (11 thru 16)	25,442		25,442	EQUITY			
				51. Cap. Stock Outstanding & Subscribed	262,582		262,582
PLANT, PROPERTY AND EQUIPMENT				52. Additional Paid-in-Capital	0		0
18. Telecom Plant-In-Service	3,047,888		3,047,888	53. Treasury Stock	0		0
19. Property Held for Future Use			0	54. Membership and cap. Certificates	0		0
20. Plant Under Construction			0	55. Other Capital	0		0
21. Plant Adj., Nonop Plant & Goodwill			0	56. Patronage Capital Credits	0		0
22. Accumulated Depreciation (CR.)	(1,541,047)		(1,541,047)	57. Retained Earnings or Margins (B2)	268,758		268,758
23. Net Plant (18 thru 21 less 22)	1,506,841		1,506,841	58. Total Equity (51 thru 57)	531,340		531,340
TOTAL ASSETS (10+17+23)	1,805,357		1,805,357	59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	1,805,357		1,805,357

(A) - As reported on Form 481

(B) - Part 64 adjustments to rate base from regulated to nonregulated.

(B1) - Part 64 offset to nonreg investment

(B2) - Part 64 offset to retained earnings

(C) - Part 64 Adj. for line 48 is only for deferred taxes.

Company Name: (Below)
Skyline Telecom Inc

ASSETS	Balance End of Year 2013 (A)	Part 64 Adj to NonReg 2013 (B)	Adj. Balance End of Year 2013	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance Prior Year 2013 (A)	Part 64 Adj to NonReg 2013 (B)	Adj. Balance End of Year 2013
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	236,095		236,095	25. Accounts Payable	62,608		62,608
2. Cash-RUS Construction Fund			0	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments	0		0
a. Telecom, Accounts Receivable	79,417		79,417	28. Customer Deposits	410		410
b. Other Accounts Receivable			0	29. Current Mat. L/T Debt	173,879		173,879
c. Notes Receivable			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	32. Income Taxes Accrued	0		0
b. Other Accounts Receivable			0	33. Other Taxes Accrued	0		0
c. Notes Receivable			0	34. Other Current Liabilities	0		0
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	236,897		236,897
6. Material-Regulated			0	LONG-TERM DEBT			
7. Material-Nonregulated	228		228	36. Funded Debt-RUS Notes	481,199		481,199
8. Prepayments	4,800		4,800	37. Funded Debt-RTB Notes	284,937		284,937
9. Other Current Assets			0	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	320,540	-	320,540	39. Funded Debt-Other	0		0
				40. Funded Debt-Rural Develop. Loan	0		0
NONCURRENT ASSETS				41. Premium (Discount) on L/T Debt	0		0
11. Investment in Affiliated Companies				42. Recquired Debt	0		0
a. Rural Development			0	43. Obligations Under Capital Lease	0		0
b. Nonrural Development			0	44. Adv. From Affiliated Companies	0		0
12. Other Investments				45. Other Long-Term Debt	0		0
a. Rural Development			0	46. Total Long-Term Debt (36 thru 45)	766,136		766,136
b. Nonrural Development			0	OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)	710		710	47. Other Long-Term Liabilities	0		0
14. Other Noncurrent Assets			0	48. Other Deferred Credits (C)	75,646		75,646
15. Deferred Charges	21,255		21,255	49. Other Jurisdictional Differences	0		0
16. Jurisdictional Differences			0	50. Total Other Liab. & Def. Credits (47 thru 49)	75,646	0	75,646
17. Total noncurrent Assets (11 thru 16)	21,965	-	21,965	EQUITY			
				51. Cap. Stock Outstanding & Subscribed	262,582		262,582
PLANT, PROPERTY AND EQUIPMENT				52. Additional Paid-in-Capital	0		0
18. Telecom Plant-in-Service	2,963,014		2,963,014	53. Treasury Stock	0		0
19. Property Held for Future Use			0	54. Membership and cap. Certificates	0		0
20. Plant Under Construction			0	55. Other Capital	0		0
21. Plant Adj., Nonop Plant & Goodwill			0	56. Patronage Capital Credits	0		0
22. Accumulated Depreciation (CR.)	(1,651,488)		(1,651,488)	57. Retained Earnings or Margins (B2)	312,770		312,770
23. Net Plant (18 thru 21, less 22)	1,311,526	0	1,311,526	58. Total Equity (51 thru 57)	575,352	-	575,352
TOTAL ASSETS (10+17+23)	1,654,031	0	1,654,031	59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	1,654,031	0	1,654,031

(A) - As reported on Form 481

(B) - Part 64 adjustments to rate base from regulated to nonregulated.

(B1) - Part 64 offset to nonreg investment

(B2) - Part 64 offset to retained earnings

(C) - Part 64 Adj. for line 48 is only for deferred taxes.

Company Name: (Below)
Skyline Telecom Inc

ASSETS	Adjusted Prior Year Balance 2012	Adjusted Current Year Balance 2013	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2012	Adjusted Prior Year Balance 2013
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	204,129	236,095	25. Accounts Payable	91,916	62,608
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	67,728	79,417	28. Customer Deposits	670	410
b. Other Accounts Receivable	0	0	29. Current Mat. L/T Debt	165,828	173,879
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	2,288	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)	260,702	236,897
6. Material-Regulated	0	0	LONG-TERM DEBT		
7. Material-Nonregulated	0	228	36. Funded Debt-RUS Notes	549,178	481,199
8. Prepayments	1,217	4,800	37. Funded Debt-RTB Notes	323,682	284,937
9. Other Current Assets	0	0	38. Funded Debt-FFB Notes	0	0
10. Total Current Assets (1 Thru 9)	273,074	320,540	39. Funded Debt-Other	0	0
			40. Funded Debt-Rural Develop. Loan	0	0
NONCURRENT ASSETS			41. Premium (Discount) on L/T Debt	0	0
11. Investment in Affiliated Companies	0	0	42. Reacquired Debt	0	0
a. Rural Development	0	0	43. Obligations Under Capital Lease	0	0
b. Nonrural Development	0	0	44. Adv. From Affiliated Companies	0	0
12. Other Investments			45. Other Long-Term Debt	67,232	0
a. Rural Development	0	0	46. Total Long-Term Debt (36-45)	940,092	766,136
b. Nonrural Development	0	0	OTHER LIAB. & DEF. CREDITS		
13. Nonregulated Investments	2,648	710	47. Other Long-Term Liabilities	0	0
14. Other Noncurrent Assets	0	0	48. Other Deferred Credits (B)	73,223	75,646
15. Deferred Charges	22,794	21,255	49. Other Jurisdictional Differences	0	0
16. Jurisdictional Differences	0	0	50. Total Other Liab. & Def. Credits (47 thru 49)	73,223	75,646
17. Total noncurrent Assets (11 thru 16)	25,442	21,965	EQUITY		
			51. Cap. Stock Outstanding & Subscribed	262,582	262,582
PLANT, PROPERTY AND EQUIPMENT			52. Additional Paid-in-Capital	0	0
18. Telecom Plant-in-Service	3,047,888	2,963,014	53. Treasury Stock	0	0
19. Property Held for Future Use	0	0	54. Membership and cap. Certificates	0	0
20. Plant Under Construction	0	0	55. Other Capital	0	0
21. Plant Adj., Nonop Plant & Goodwill	0	0	56. Patronage Capital Credits	0	0
22. Accumulated Depreciation (CR.)	(1,541,047)	(1,651,488)	57. Retained Earnings or Margins	268,758	312,770
23. Net Plant (18 thru 21 less 22)	1,506,841	1,311,526	58. Total Equity (51 thru 57)	531,340	575,352
TOTAL ASSETS (10+17+23)	1,805,357	1,654,031	59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	1,805,357	1,654,031

Note:
Adjusted Balances represents balances after current year Part 64 adjustments (B) - Provide Deferred Taxes on separate rate base schedule

Company Name: (Below)
 Skyline Telecom Inc

Line #	Adj. Balance End of Year 2012	Adj. Balance End of Year 2013	Average Adj End of Year Balance
18	3,047,888	2,963,014	3,005,451
19	0	0	0
22	(1,541,047)	(1,651,488)	(1,596,268)
6	0	0	0
	1,506,841	1,311,526	1,409,184

Average Rate Base:

Total Regulated Adjusted Telecom Plant-in-service
 Total Property Held for Future Use
 Total Regulated Adjusted Accumulated Depreciation (CR)
 Total Regulated Materials & Supplies
 Deferred Income Taxes (CR)
 Total Regulated Rate Base

Note:

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

Company Name: (Below)
 Skyline Telecom Inc _____

Description	Prior Year End of Yr. Balance - 2012	Current Year End of Yr Balance - 2013	Difference	% Change
Access Lines:				
Residential	136	124	(12)	-8.8%
Business	25	26	1	4.0%
Total	161	150	(11)	-6.8%
<hr/>				
	End of Yr. Balance - 2012	End of Year Balance -2013	Difference	% Change
Broadband Connections	9	26	17	188.9%
<hr/>				
	Prior Yr. 2012	Current Yr. 2013	Difference	% Change
Total Annual Amount:				
Gross Capital Expenditures	821	16,033	15,212	1852.9%
<hr/>				

2014 State USF Petition Filing Requirement - WAC 480-123-110(e)
 Prior year Adjusted Income Statement

FCC Form 481

Part B Statement of Income and Retained Earnings Statement

Company Name: (Below)

Skyline Telecom Inc

Line #	Item	Prior Year 2012 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2012
1	Local Network Services Revenues	33,093		33,093
2	Network Access Services Revenues	741,425		741,425
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)	310		310
7	Net Operating Revenues (1 thru 6)	774,828	0	774,828
8	Plant Specific Operations Expense	148,225		148,225
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	4,532		4,532
10	Depreciation Expense	211,664		211,664
11	Amortization Expense	1,540		1,540
12	Customer Operations Expense	22,326		22,326
13	Corporate Operations	242,807		242,807
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()			0
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	242,807	0	242,807
14	Total Operations Expenses (8 thru 12 +13b)	631,094	0	631,094
15	Operating Income or Margins (7 less 14)	143,734	0	143,734
16	Other Operating Income and Expenses ()			0
17	State and Local Taxes			0
18	Federal Income Taxes (A1)	24,841		24,841
19	Other Taxes	9,007		9,007
20	Total Operating Taxes (17+18+19)	33,848	0	33,848
21	Net Operating Income or Margins (15+16-20)	109,886	0	109,886
22	Interest on Funded Debt	48,367		48,367
23	Interest Expense - Capital Leases			0
24	Other Interest Expense	13,308		13,308
25	Allowance for Funds Used During Construction (CR)			0
26	Total Fixed Charges (22+23+24-25)	61,675	0	61,675
27	Nonoperating Net Income	4,726		4,726
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	(13,932)	0	(13,932)
31	Total Net Income or Margins (21+27+28+29+30-26)	39,005	0	39,005
32	Total Taxes Based on Income	20,099		20,099
33	Retained Earning or Margins Beginning-of-Year	229,753		229,753
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 or Margins End-of-Period ((31+33+34)-(35+36+37+38))	268,758	0	268,758
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			0
45	Cash Ratio ((14+20-10-11)/7)	0.5830	#DIV/0!	0.5830
46	Operating Accrual Ratio ((14+20+26)/7)	0.9378	#DIV/0!	0.9378
47	TIER ((31+26)/26)	1.6324	#DIV/0!	1.6324
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!	#DIV/0!

Notes:

- (A) As reported on Form 481
- (A1) S Corporations provide effective tax rate on Income Statement
Summary Schedule footnote, Page 8
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Part 64 offset to nonregulated income (No Impact to retained earnings)

2014 State USF Petition Filing Requirement - WAC 480-123-110(e)
 Current Year Adjusted Income Statement

Company Name: (Below)
 Skyline Telecom Inc

Line #	Item	Prior Year 2013 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2013
1	Local Network Services Revenues	31,876		31,876
2	Network Access Services Revenues	787,200		787,200
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)	182		182
7	Net Operating Revenues (1 thru 6)	819,258	0	819,258
8	Plant Specific Operations Expense	173,431		173,431
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	12,595		12,595
10	Depreciation Expense	211,348		211,348
11	Amortization Expense	1,540		1,540
12	Customer Operations Expense	14,336		14,336
13	Corporate Operations	221,281		221,281
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()			0
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	221,281	0	221,281
14	Total Operations Expenses (8 thru 12 +13b)	634,531	0	634,531
15	Operating Income or Margins (7 less 14)	184,727	0	184,727
16	Other Operating Income and Expenses ()			0
17	State and Local Taxes			0
18	Federal Income Taxes (A1)	41,750		41,750
19	Other Taxes	9,096		9,096
20	Total Operating Taxes (17+18+19)	50,846	0	50,846
21	Net Operating Income or Margins (15+16-20)	133,881	0	133,881
22	Interest on Funded Debt	43,694		43,694
23	Interest Expense - Capital Leases			0
24	Other Interest Expense	7,209		7,209
25	Allowance for Funds Used During Construction (CR)			0
26	Total Fixed Charges (22+23+24-25)	50,903	0	50,903
27	Nonoperating Net Income	20,172		20,172
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	(59,136)	0	(59,136)
31	Total Net Income or Margins (21+27+28+29+30-26)	44,014	0	44,014
32	Total Taxes Based on Income	21,678		21,678
33	Retained Earning or Margins Beginning-of-Year	268,758		268,758
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)			0
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date	2		2
38	Transfers to Patronage Capital			0
39	Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))	312,770	0	312,770
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			0
45	Cash Ratio ((14+20-10-11)/7)	0.5767	#DIV/0!	0.5767
46	Operating Accrual Ratio ((14+20+26)/7)	0.8987	#DIV/0!	0.8987
47	TIER ((31+26)/26)	1.8647	#DIV/0!	1.8647
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!	#DIV/0!

Notes:

- (A) As reported on Form 481
- (A1) S Corporations provide effective tax rate on Income Statement
Summary Schedule footnote, Page 8
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Part 64 offset to nonregulated income (No impact to retained earnings)

2014 State USF Petition Filing Requirement - WAC 480-123-110(e)
 Prior and Current Year Income Statement

Company Name:
 Skyline Telecom Inc

Line #	Item	Adjusted Prior Year 2012	Adjusted Current Year 2013
1	Local Network Services Revenues	33,093	31,876
2	Network Access Services Revenues	741,425	787,200
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	0	0
5	Miscellaneous Revenues	0	0
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	310	182
7	Net Operating Revenues (1 thru 6)	774,828	819,258
8	Plant Specific Operations Expense	148,225	173,431
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	4,532	12,595
10	Depreciation Expense	211,664	211,348
11	Amortization Expense	1,540	1,540
12	Customer Operations Expense	22,326	14,336
13	Corporate Operations	242,807	221,281
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()	0	0
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	242,807	221,281
14	Total Operations Expenses (8 thru 12 +13b)	631,094	634,531
15	Operating Income or Margins (7 less 14)	143,734	184,727
16	Other Operating Income and Expenses ()	0	0
17	State and Local Taxes	0	0
18	Federal Income Taxes	24,841	41,750
19	Other Taxes	9,007	9,096
20	Total Operating Taxes (17+18+19)	33,848	50,846
21	Net Operating Income or Margins (15+16-20)	109,886	133,881
22	Interest on Funded Debt	48,367	43,694
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	13,308	7,209
25	Allowance for Funds Used During Construction	0	0
26	Total Fixed Charges (22+23+24-25)	61,675	50,903
27	Nonoperating Net Income	4,726	20,172
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	(13,932)	(59,136)
31	Total Net Income or Margins (21+27+28+29+30-26)	39,005	44,014
32	Total Taxes Based on Income	20,099	21,678
33	Retained Earning or Margins Beginning-of-Year	229,753	268,758
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	2
38	Transfers to Patronage Capital	0	0
39	Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))	268,758	312,770
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)	0	0
44	Annual Debt Service Payments	0	0
45	Cash Ratio ((14+20-10-11)/7)	0.5830	0.5767
46	Operating Accrual Ratio ((14+20+26)/7)	0.9378	0.8987
47	TIER ((31+26)/26)	1.6324	1.8647
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!

Footnote (A1)
 S Corporation Effective Tax Rate (2 decimal places):

2012 2013

2014 State USF Petition Filing requirement - WAC 480-123-110 (e)
 Network Access Services Revenue
 Prior and Current Year

Company Name: (Below)
 Skyline Telecom Inc

Description	Part 32 Account	2012	2013
End User Revenue (SLC, ARC, etc.)	5081	15,803	15,964
Switched Access (excluding USF):	5082		
Intrastate		38,206	23,217
Interstate		365,490	395,215
Special Access:	5083		
Intrastate			
Interstate		12,874	56,015
Federal USF (ICLS/CAF/HCL/SN)	Varies	280,365	275,669
Total (must equal line 2 of Income Stmt.)		712,738	766,080
Line 2 of Income Stmt.		741,425	787,200
Difference		(28,687)	(21,120)

EXHIBIT 5

Audited Financial Statements

SKYLINE TELECOM, INC.

FINANCIAL REPORT

DECEMBER 31, 2012 AND 2011

SKYLINE TELECOM, INC.
FINANCIAL REPORT
DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Skyline Telecom, Inc. (a Washington corporation), as of December 31, 2012 and 2011, 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. 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, 2012 and 2011, 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.

Wiggins & Co., LLC

Brigham City, Utah
February 20, 2013

SKYLINE TELECOM, INC.
BALANCE SHEET
DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 204,129	\$ 192,371
Due from customers and agents (no bad debt allowance)	67,728	81,815
Prepaid taxes	-	-
Prepaid expenses	<u>1,217</u>	<u>1,174</u>
Total current assets	<u>273,074</u>	<u>275,360</u>
Other assets		
Investment in affiliated companies	-	-
Deferred charges:		
Business start up costs	-	-
RUS loan costs	<u>13,345</u>	<u>14,885</u>
Total other assets and investments	<u>13,345</u>	<u>14,885</u>
Property, plant, and equipment		
In Service:		
Regulated telecommunications plant	3,047,888	3,047,067
Non-regulated telecommunications plant	<u>26,654</u>	<u>26,654</u>
	3,074,542	3,073,721
Less: accumulated depreciation	<u>(1,555,603)</u>	<u>(1,342,000)</u>
Total property, plant and equipment	<u>1,518,939</u>	<u>1,731,721</u>
Total assets	<u>\$ 1,805,358</u>	<u>\$ 2,021,966</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 21,155	\$ 20,847
Accounts payable-affiliated companies	24,328	18,415
Customer deposits	670	530
Accrued income taxes payable	2,288	3,232
Accrued expenses	46,432	78,235
Current portion of long-term debt	<u>165,828</u>	<u>226,566</u>
Total current liabilities	<u>260,701</u>	<u>347,825</u>
Other liabilities		
Deferred income taxes	73,223	75,817
Long-term debt, net of current portion	<u>940,094</u>	<u>1,105,989</u>
Total other liabilities	<u>1,013,317</u>	<u>1,181,806</u>
Stockholders' equity		
Common stock	262,582	262,582
Additional paid in capital	-	-
Retained earnings (deficit)	<u>268,758</u>	<u>229,753</u>
Total stockholders' equity	<u>531,340</u>	<u>492,335</u>
Total liabilities and stockholders' equity	<u>\$ 1,805,358</u>	<u>\$ 2,021,966</u>

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

SKYLINE TELECOM, INC.
STATEMENT OF INCOME AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating revenue		
Local network	\$ 33,093	\$ 34,231
Network access	741,425	816,872
Miscellaneous	310	(7,941)
Total operating revenue	774,828	843,162
Operating expenses		
Plant specific	148,225	147,634
Plant nonspecific	4,532	3,521
Corporate	265,133	262,679
Depreciation and amortization	213,204	227,227
Total operating expenses	631,094	641,061
Operating taxes		
Income taxes (benefit)	24,841	33,892
Other operating taxes	9,007	9,380
Total operating expenses and taxes	664,942	684,333
Operating income	109,886	158,829
Other income	(13,948)	(11,172)
Income (taxes) benefit	4,742	-
Total non-operating income (loss)	(9,206)	(11,172)
Income available for fixed charges	100,680	147,657
Fixed charges, interest on long-term debt	61,675	79,051
Net income (loss)	39,005	68,606
Retained earnings (deficit), beginning of year	229,753	161,147
Retained earnings (deficit), end of year	\$ 268,758	\$ 229,753

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

SKYLINE TELECOM, INC.
 STATEMENTS OF STOCKHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2010	\$ 284,481	\$ 145,868	\$ 161,147	\$ 591,496
Net income (loss)	-	-	68,606	68,606
Merger of Beaver Creek Telephone Company and Skyline Telecom, Inc.	(21,899)	(145,868)	-	(167,767)
Dividends paid	-	-	-	-
Balance, December 31, 2011	262,582	-	229,753	492,335
Net income (loss)	-	-	39,005	39,005
Contributions	-	-	-	-
Dividends paid	-	-	-	-
Balance, December 31, 2012	<u>\$ 262,582</u>	<u>\$ -</u>	<u>\$ 268,758</u>	<u>\$ 531,340</u>

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

SKYLINE TELECOM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Net income	\$ 39,005	\$ 68,606
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	211,664	208,543
Depreciation on other assets	1,939	2,177
Amortization of business start up costs & loan costs	1,540	18,684
Deferred taxes	(2,594)	5,986
Changes in assets and liabilities		
Due from customers and agents	14,087	6,941
Materials & supplies	-	-
Prepaid taxes	-	25,450
Prepaid expense	(43)	27
Accounts payable	308	(26,952)
Accounts payable-affiliated companies	5,913	(994)
Customer deposits	140	(66)
Accrued income taxes payable	(944)	3,232
Other accrued liabilities	(31,803)	57,014
	<u>239,212</u>	<u>368,648</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Proceeds from (purchase of) investments	-	-
Funds (deposited) withdrawn from escrow	-	-
Capital expenditures	(821)	(50,000)
	<u>(821)</u>	<u>(50,000)</u>
Net cash provided (used) by investing activities		
Cash flows from financing activities		
Payments on long-term debt	(226,633)	(263,011)
Funds from merger of Skyline Telecom, Inc.	-	7,674
Proceeds from notes payable-affiliated companies	-	-
Proceeds from contributed capital	-	-
	<u>(226,633)</u>	<u>(255,337)</u>
Net cash provided (used) by financing activities		
Net increase (decrease) in cash and cash equivalents	11,758	63,311
Cash and cash equivalents, beginning	<u>192,371</u>	<u>129,060</u>
Cash and cash equivalents, ending	<u>\$ 204,129</u>	<u>\$ 192,371</u>
Cash paid during the year for:		
Interest	<u>\$ 61,675</u>	<u>\$ 79,051</u>
Income taxes	<u>\$ 20,400</u>	<u>\$ 12,750</u>

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

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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.

Principles of Merger

On July 1, 2011, Beaver Creek Telephone Company and Skyline Telecom, Inc., a wholly owned subsidiary, were merged into one company. The original Skyline Telecom, Inc. filed an income tax return for the period ended June 30, 2011, and then the books were closed and the two companies were merged together. Merged operations began July 1, 2011.

Regulation and Accounting Records

The Company will provide 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, 2012 AND 2011

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 4% to 25%. 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, 2012 and 2011, was \$211,664 and \$176,943, respectively for property, plant and equipment. Prior to the merger, Skyline Telecom, Inc. reported depreciation of \$31,600 for the six months ended June 30, 2011.

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.

Investment in Affiliated Companies

Prior to the merger of the two companies, Beaver Creek Telephone Company carried the investment in Skyline Telecom, Inc. on its general ledger. When the two companies merged, the investment in affiliated companies was eliminated.

Allowance for Doubtful Accounts

An allowance for doubtful accounts has not been maintained because the Company believes that all receivables will be collected. In the future, an allowance may be set up based on the historical write off of accounts and overall gross sales on account. For 2012 and 2011, the Company did not record an allowance for doubtful accounts because it is believed that all accounts are collectible.

SKYLINE TELECOM, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

The Company follows *FASB Accounting Standards Codification Section 825 on 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 2012 and 2011.

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. A summary of the total insured bank balances follows:

	2012	2011
Total cash balance (bank balance)	\$ 206,394	\$ 195,112
Portion uninsured by FDIC	-	-
Insured bank balances	<u>\$ 206,394</u>	<u>\$ 195,112</u>
Reconciled book balance - 12-31	<u>\$ 204,129</u>	<u>\$ 192,371</u>

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.

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2012 and 2011 was \$1,540 and \$18,684, 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.

Common Stock

Common stock of the Company is as follows at December 31, 2012 and 2011:

<u>Par Value</u>	<u>Authorized</u>	<u>Issued and Outstanding</u>
No par	15,000	1,000

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.

Reclassification of Prior Year Amounts

Certain amounts as previously reported in 2011 have been reclassified to conform to the 2012 financial statement presentation.

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 2. BUSINESS STARTUP ISSUES

The Company was formed in August 1999 for the purpose of obtaining the proper approvals to provide telecommunications services to unserved territory in the State of Washington. The Company obtained the proper approvals from state and federal telecommunication commissions, and obtained the proper permits from local authorities and obtained financing for the construction of telephone plant. The operations prior to 2006 were minor and most of the costs related to obtaining the noted approvals and financing arrangements have been capitalized as business start up costs and were amortized over sixty months. The Company began operations in mid 2006. Start up costs were capitalized and are being amortized over a five year period. The amount remaining was \$0 and \$0 at December 31, 2012 and 2011. Amortization expense for 2012 and 2011 was \$0 and \$17,144.

NOTE 3. PROPERTY, PLANT, AND EQUIPMENT

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

	2012	2011
Regulated telecommunications equipment:		
Land and support	\$ 133,502	\$ 133,502
Work equipment	13,487	13,487
Central office	885,042	885,042
Cable and wire facilities	2,002,190	2,002,190
Computers	13,667	12,846
	3,047,888	3,047,067
Accumulated depreciation	(1,541,047)	(1,329,383)
Total regulated telecommunications equipment	\$ 1,506,841	\$ 1,717,684
Non-regulated telecommunications equipment:		
Voice mail system	\$ 24,837	\$ 24,837
Paystations	1,817	1,817
	26,654	26,654
Accumulated depreciation	(14,556)	(12,617)
Total non-regulated telecommunications equipment	\$ 12,098	\$ 14,037

NOTE 4. LONG-TERM DEBT

Long-term debt consists of the following:

	2012	2011
4.7% mortgage note payable to the Rural Utility Services (RUS) payable in monthly installments of \$167, collateralized by substantially all real and personal property, due in various years through January 2021.	\$ 13,388	\$ 14,725
4.56% mortgage note payable to the Rural Utility Services (RUS), payable in monthly installments of \$302, collateralized by substantially all real and personal property, due in various years through January 2021.	24,444	26,891

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 4. LONG TERM DEBT (continued)

4.65% mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of \$215, collateralized by substantially all real and personal property, due in various years through January 2021.	17,343	19,077
4.36% mortgage note payable to Rural Utility Services (RUS), payable in monthly payments of \$338, collateralized by substantially all real and personal property, due in various years through January 2021.	27,553	30,346
4.52% mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of \$3,238, collateralized by substantially all real and personal property, due in various years through July 2022.	261,912	288,274
4.10% mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of \$3,269, collateralized by substantially all real and personal property, due in various years through March 2022.	269,377	296,945
5%-5.49% mortgage notes payable to Rural Telephone Bank (RTB), payable in monthly installments of \$4,553, collateralized by substantially all real and personal property, due in various years through May 2023.	360,613	395,527
Variable interest rate, \$500,000 note payable to Bank of Eastern Oregon, principal and interest due 2012, not collateralized but fully guaranteed by the officers of the Company. Monthly payments of \$10,438 including principal and interest.	-	69,610
Variable interest rate, \$300,000 note payable to Bank of Eastern Oregon, principal and interest due monthly through 2014, not collateralized but fully guaranteed by the officers of the Company. Monthly payments of \$5,941 including principal and interest.	131,292	191,160
	1,105,922	1,332,555
Less current portion	(165,828)	(226,566)
	\$ 940,094	\$ 1,105,989

The anticipated principal payments of the outstanding debt at December 31, 2012, are as follows:

2013	\$ 165,828
2014	173,840
2015	111,679
2016	116,995
2017	122,567
Thereafter	415,013
	1,105,922

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 4. LONG TERM DEBT (continued)

Interest expense incurred and charged to expense was \$61,675 and \$79,050 for the years ended December 31, 2012 and 2011, respectively. Prior to the merger, Skyline Telecom, Inc. incurred interest expense of \$1.

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.

NOTE 6. RELATED PARTY TRANSACTIONS

The Company paid North State Telephone Company \$9,026 in 2012 for management and other fees. The Company paid \$18,352 to North State Telephone Company, its parent company, in 2011 for management and other fees. The Company owed North State Telephone Company \$498 for 2012 and \$2,634 for 2011.

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 for the use of a Chevy truck. That amount is \$7,800 for 2012. The amount charged for management fees in 2012 was \$155,799 and the amount charged in 2011 was \$142,406. The Company owed Oregon Telephone \$23,829 for 2012 and \$10,512 for 2011. These liabilities are included in accounts payable-affiliated companies in the balance sheet.

NOTE 7. CONCENTRATIONS

Approximately 81% and 94%, respectively of total revenue and receivables for the years ended December 31, 2012 and 2011, is attributable to distributions from the National Exchange Carrier Association (NECA) and the Washington Exchange Carrier Association (WECA).

NOTE 8. 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 2010 and prior, the Company filed income tax returns separately from its wholly owned subsidiary and, as such, each entity accounted for its own income tax transactions. As of June 30, 2011, the two companies merged and, as such, the subsidiary filed a separate tax return for the period ended June 30, 2011, while the parent company filed for the entire year.

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 8. INCOME TAXES (continued)

At December 31, 2012 and 2011, the Company had deferred tax assets (liabilities) of \$(73,223) and \$(75,817), respectively. Deferred income taxes result from differences in depreciation for financial statement and income tax reporting.

Operating income tax:	<u>2012</u>	<u>2011</u>
Federal		
Operating:		
Current provision (benefit)	\$ 26,771	\$ 28,560
Prior year under (over) accrual	5	-
Deferred provision	<u>(1,935)</u>	<u>5,332</u>
Total operating income tax provision	<u>24,841</u>	<u>33,892</u>
Non-operating:		
Current provision (benefit)	(4,083)	-
Prior year under (over) accrual	-	-
Deferred provision	<u>(659)</u>	<u>-</u>
Total non-operating income tax provision	<u>(4,742)</u>	<u>-</u>
Total income tax provision	<u>\$ 20,099</u>	<u>\$ 33,892</u>

As of December 2010, Skyline Telecom, Inc. had federal net operating loss carry forwards of approximately \$56,937, resulting in a deferred income tax asset of \$19,359, all of which was used in 2011 to offset income and lower income taxes.

The 2012 tax return of the company is open for review for the next three years. The tax returns of the pre-merged and merged companies remain open for the prior two years.

NOTE 9. 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.



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 the financial statements of Skyline Telecom, Inc. (formerly Beaver Creek Telephone Company) as of and for the year ended December 31, 2012 and 2011, and have issued our report thereon dated February 20, 2013. 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

Management of Skyline Telecom, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Skyline Telecom, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 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 Skyline Telecom, Inc.'s 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 solely for the information and use of management, the Board of Directors, 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., LLC
Brigham City, Utah
February 20, 2013

SKYLINE TELECOM, INC
FINANCIAL REPORT
DECEMBER 31, 2013 AND 2012

SKYLINE TELECOM, INC.
FINANCIAL REPORT
DECEMBER 31, 2013 AND 2012

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Skyline Telecom, Inc. (a Washington corporation), as of December 31, 2013 and 2012, 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, 2013 and 2012, 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 February 19, 2014, 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
February 19, 2014

SKYLINE TELECOM, INC.
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 236,095	\$ 204,129
Due from customers and agents (no bad debt allowance)	79,417	67,728
Materials and supplies	228	-
Prepaid taxes	3,545	-
Prepaid expenses	1,255	1,217
Total current assets	<u>320,540</u>	<u>273,074</u>
Other assets		
Deferred charges:		
RUS loan costs	11,805	13,345
Total other assets and investments	<u>11,805</u>	<u>13,345</u>
Property, plant, and equipment		
In Service:		
Regulated telecommunications plant	2,963,014	3,047,888
Non-regulated telecommunications plant	26,654	26,654
	<u>2,989,668</u>	<u>3,074,542</u>
Less: accumulated depreciation	<u>(1,667,982)</u>	<u>(1,555,603)</u>
Total property, plant and equipment	<u>1,321,686</u>	<u>1,518,939</u>
Total assets	<u>\$ 1,654,031</u>	<u>\$ 1,805,358</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 42,190	\$ 21,157
Accounts payable-affiliated companies	14,865	24,328
Customer deposits	410	670
Accrued income taxes payable	-	2,288
Accrued expenses	5,553	46,432
Current portion of long-term debt	173,879	165,828
Total current liabilities	<u>236,897</u>	<u>260,703</u>
Other liabilities		
Deferred income taxes	75,646	73,223
Long-term debt, net of current portion	766,136	940,094
Total other liabilities	<u>841,782</u>	<u>1,013,317</u>
Stockholders' equity		
Common stock	262,582	262,582
Retained earnings (deficit)	312,770	268,756
Total stockholders' equity	<u>575,352</u>	<u>531,338</u>
Total liabilities and stockholders' equity	<u>\$ 1,654,031</u>	<u>\$ 1,805,358</u>

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, 2013 AND 2012

	2013	2012
Operating revenue		
Local network	\$ 31,876	\$ 33,093
Network access	787,200	741,425
Miscellaneous	182	310
Total operating revenue	819,258	774,828
Operating expenses		
Plant specific	173,431	148,225
Plant nonspecific	12,595	4,532
Customer service	14,337	22,326
Corporate operations	221,280	242,807
Depreciation and amortization	212,888	213,204
Total operating expenses	634,531	631,094
Operating taxes		
Income taxes (benefit)	41,750	24,841
Other operating taxes	9,096	9,007
Total operating expenses and taxes	685,377	664,942
Operating income	133,881	109,886
Other income	(59,036)	(13,948)
Income (taxes) benefit	20,072	4,742
Total non-operating income (loss)	(38,964)	(9,206)
Income available for fixed charges	94,917	100,680
Fixed charges, interest on long-term debt	50,903	61,675
Net income (loss)	44,014	39,005
Retained earnings (deficit), beginning of year	268,756	229,751
Retained earnings (deficit), end of year	\$ 312,770	\$ 268,756

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

SKYLINE TELECOM, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2011	\$ 262,582	\$ -	\$ 229,751	\$ 492,333
Net income (loss)	-	-	39,005	39,005
Merger of Beaver Creek Telephone Company and Skyline Telecom, Inc.	-	-	-	-
Dividends paid	-	-	-	-
Balance, December 31, 2012	262,582	-	268,756	531,338
Net income (loss)	-	-	44,014	44,014
Contributions	-	-	-	-
Dividends paid	-	-	-	-
Balance, December 31, 2013	<u>\$ 262,582</u>	<u>\$ -</u>	<u>\$ 312,770</u>	<u>\$ 575,352</u>

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

SKYLINE TELECOM, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash flows from operating activities		
Net income	\$ 44,014	\$ 39,005
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	211,348	211,664
Depreciation on other assets	1,939	1,939
Amortization of business start up costs & loan costs	1,540	1,540
Deferred taxes	2,423	(2,594)
Changes in assets and liabilities		
Due from customers and agents	(11,689)	14,087
Materials & supplies	(228)	-
Prepaid taxes	(3,545)	-
Prepaid expense	(38)	(43)
Accounts payable	21,035	308
Accounts payable-affiliated companies	(9,463)	5,913
Customer deposits	(260)	140
Accrued income taxes payable	(2,288)	(944)
Other accrued liabilities	(40,879)	(31,803)
	213,909	239,212
Cash flows from investing activities		
Capital expenditures	(16,033)	(821)
	(16,033)	(821)
Cash flows from financing activities		
Payments on long-term debt	(165,910)	(226,633)
	(165,910)	(226,633)
Net increase (decrease) in cash and cash equivalents	31,966	11,758
Cash and cash equivalents, beginning	204,129	192,371
Cash and cash equivalents, ending	\$ 236,095	\$ 204,129
Cash paid during the year for:		
Interest	\$ 50,903	\$ 61,675
Income taxes	\$ 22,800	\$ 20,400

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

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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 will provide 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, 2013 AND 2012

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 4% to 25%. 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, 2013 and 2012, was \$211,348 and \$211,664, 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.

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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 2013 and 2012.

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, 2013 AND 2012

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:

Portion uninsured by FDIC	-	-
Insured bank balances	<u>\$ 238,116</u>	<u>\$ 206,394</u>
Reconciled book balance - 12-31	<u>\$ 236,095</u>	<u>\$ 204,129</u>

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

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 2013 and 2012 was \$1,540 and \$1,540, 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.

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Common Stock

Common stock of the Company is as follows at December 31, 2013 and 2012:

Par Value	Authorized	Issued and Outstanding
No par	15,000	1,000

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:

	2013	2012
Regulated telecommunications equipment:		
Land and support	\$ 133,502	\$ 133,502
Work equipment	13,487	13,487
Central office	807,822	885,042
Cable and wire facilities	2,002,190	2,002,190
Computers	6,013	13,667
	2,963,014	3,047,888
Accumulated depreciation	(1,651,487)	(1,541,047)
Total regulated telecommunications equipment	\$ 1,311,527	\$ 1,506,841
Non-regulated telecommunications equipment:		
Voice mail system	\$ 24,837	\$ 24,837
Paystations	1,817	1,817
	26,654	26,654
Accumulated depreciation	(16,495)	(14,556)
Total non-regulated telecommunications equipment	\$ 10,159	\$ 12,098

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 4. LONG-TERM DEBT

Long-term debt consists of the following:

	2013	2012
4.7% mortgage note payable to the Rural Utility Services (RUS) payable in monthly installments of \$167, collateralized by substantially all real and personal property, due in various years through January 2021.	\$ 11,987	\$ 13,388
4.56% mortgage note payable to the Rural Utility Services (RUS), payable in monthly installments of \$302, collateralized by substantially all real and personal property, due in various years through January 2021.	21,883	24,444
4.65% mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of \$215, collateralized by substantially all real and personal property, due in various years through January 2021.	15,526	17,343
4.36% mortgage note payable to Rural Utility Services (RUS), payable in monthly payments of \$338, collateralized by substantially all real and personal property, due in various years through January 2021.	24,635	27,553
4.52% mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of \$3,238, collateralized by substantially all real and personal property, due in various years through July 2022.	234,331	261,912
4.10% mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of \$3,269, collateralized by substantially all real and personal property, due in various years through March 2022.	240,655	269,377
5%-5.49% mortgage notes payable to Rural Telephone Bank (RTB), payable in monthly installments of \$4,553, collateralized by substantially all real and personal property, due in various years through May 2023.	323,786	360,613
Variable interest rate, \$300,000 note payable to Bank of Eastern Oregon, principal and interest due monthly through 2014, not collateralized but fully guaranteed by the officers of the Company. Monthly payments of \$5,941 including principal and interest.	67,212	131,292
	940,015	1,105,922
Less current portion	(173,879)	(165,828)
	\$ 766,136	\$ 940,094

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 4. LONG-TERM DEBT (continued)

The anticipated principal payments of the outstanding debt at December 31, 2013, are as follows:

2014	\$	173,879
2015		111,741
2016		117,060
2017		122,636
2018		128,482
Thereafter		<u>286,217</u>
		<u>940,015</u>

Interest expense incurred and charged to expense was \$50,903 and \$61,675 for the years ended December 31, 2013 and 2012, 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.

NOTE 5. RELATED PARTY TRANSACTIONS

The Company paid North State Telephone Company \$9,528 and \$9,026 in 2013 and 2012, respectively for management fees, shared and actual costs. The Company owed North State Telephone Company \$201 for 2013 and \$498 for 2012.

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 is for 2013 and 2012 was \$7,800 and \$7,800 respectively. The Company paid Oregon Telephone Corporation \$160,753 and \$155,799 in 2013 and 2012, respectively for management fees, shared and actual costs. The Company owed Oregon Telephone \$14,664 for 2013 and \$23,828 for 2012.

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, 2013 AND 2012

NOTE 6. CONCENTRATIONS

Approximately 73% and 81%, respectively of total revenue and receivables for the years ended December 31, 2013 and 2012, 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, 2013 and 2012, the Company had deferred tax assets (liabilities) of \$(75,646) and \$(73,223), respectively. Deferred income taxes result from differences in depreciation from financial statement and income tax reporting.

Operating income tax:

Operating income tax:

	2013	2012
Federal		
Operating:		
Current provision (benefit)	\$ 39,327	\$ 26,771
Prior year under (over) accrual	-	5
Deferred provision	2,423	(1,935)
Total operating income tax provision	41,750	24,841
Non-operating:		
Current provision (benefit)	(20,072)	(4,083)
Prior year under (over) accrual	-	-
Deferred provision	-	(659)
Total non-operating income tax provision	(20,072)	(4,742)
Total income tax provision	\$ 21,678	\$ 20,099

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

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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, 2013 and 2012, 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 February 19, 2014.

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
February 19, 2014



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, 2013 and 2012, and the related statements of revenue 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 February 19, 2014. In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2014, 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; and

Comply with the requirements for the detailed schedule of investments.

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
February 19, 2014

EXHIBIT 6

RUS 479 Operating Report

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

Beaver Creek Telephone 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, 2012

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.

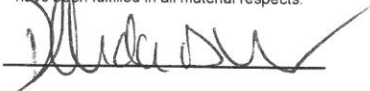
ALL INSURANCE REQUIRED BY 7 CFR PART 1788, CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES.

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



3/22/13
DATE

PART A. BALANCE SHEET

ASSETS	BALANCE PRIOR YEAR	BALANCE END OF PERIOD	LIABILITIES AND STOCKHOLDERS' EQUITY	BALANCE PRIOR YEAR	BALANCE END OF PERIOD
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	192,371	204,129	25. Accounts Payable	117,497	91,916
2. Cash-RUS Construction Fund			26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments		
a. Telecom, Accounts Receivable	81,815	67,728	28. Customer Deposits	530	670
b. Other Accounts Receivable			29. Current Mat. L/T Debt	226,566	165,828
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	3,232	2,288
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)	347,825	260,702
6. Material-Regulated			LONG-TERM DEBT		
7. Material-Nonregulated			36. Funded Debt-RUS Notes	614,067	549,178
8. Prepayments	1,174	1,217	37. Funded Debt-RTB Notes	360,604	323,682
9. Other Current Assets			38. Funded Debt-FFB Notes		
10. Total Current Assets (1 Thru 9)	275,360	273,074	39. Funded Debt-Other		
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan		
1. 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		
2. Other Investments			44. Adv. From Affiliated Companies		
a. Rural Development			45. Other Long-Term Debt	131,318	67,232
b. Nonrural Development			46. Total Long-Term Debt (36 thru 45)	1,105,989	940,092
3. Nonregulated Investments	4,587	2,648	OTHER LIAB. & DEF. CREDITS		
4. Other Noncurrent Assets			47. Other Long-Term Liabilities	75,817	73,223
5. Deferred Charges	24,335	22,794	48. Other Deferred Credits		
6. Jurisdictional Differences			49. Other Jurisdictional Differences		
7. Total Noncurrent Assets (11 thru 16)	28,922	25,442	50. Total Other Liabilities and Deferred Credits (47 thru 49)	75,817	73,223
PLANT, PROPERTY, AND EQUIPMENT			EQUITY		
8. Telecom, Plant-in-Service	3,047,067	3,047,888	51. Cap. Stock Outstand. & Subscribed	262,582	262,582
9. Property Held for Future Use			52. Additional Paid-in-Capital		
10. Plant Under Construction			53. Treasury Stock		
11. Plant Adj., Nonop. Plant & Goodwill			54. Membership and Cap. Certificates		
12. Less Accumulated Depreciation	1,329,383	1,541,047	55. Other Capital		
13. Net Plant (18 thru 21 less 22)	1,717,684	1,506,841	56. Patronage Capital Credits		
14. TOTAL ASSETS (10+17+23)			57. Retained Earnings or Margins	229,753	268,758
	2,021,966	1,805,357	58. Total Equity (51 thru 57)	492,335	531,340
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	2,021,966	1,805,357

Total Equity = 29.43% % of Total Assets

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

WA0546

PERIOD ENDING

December, 2012

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	34,231	33,093
2. Network Access Services Revenues	816,872	741,425
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues		
5. Miscellaneous Revenues		
6. Uncollectible Revenues	7,941	(310)
7. Net Operating Revenues (1 thru 5 less 6)	843,162	774,828
8. Plant Specific Operations Expense	147,634	148,225
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	3,521	4,532
10. Depreciation Expense	208,543	211,664
11. Amortization Expense	18,684	1,540
12. Customer Operations Expense		
13. Corporate Operations Expense	262,679	265,133
14. Total Operating Expenses (8 thru 13)	641,061	631,094
15. Operating Income or Margins (7 less 14)	202,101	143,734
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes	33,892	24,841
19. Other Taxes	9,380	9,007
20. Total Operating Taxes (17+18+19)	43,272	33,848
21. Net Operating Income or Margins (15+16-20)	158,829	109,886
22. Interest on Funded Debt	52,809	48,367
23. Interest Expense - Capital Leases		
24. Other Interest Expense	26,242	13,308
25. Allowance for Funds Used During Construction		
26. Total Fixed Charges (22+23+24-25)	79,051	61,675
27. Nonoperating Net Income	166	4,726
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	(11,338)	(13,932)
31. Total Net Income or Margins (21+27+28+29+30-26)	68,606	39,005
32. Total Taxes Based on Income	33,892	20,099
33. Retained Earnings or Margins Beginning-of-Year	161,147	229,753
34. Miscellaneous Credits Year-to-Date		
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)]	229,753	268,758
40. Patronage Capital Beginning-of-Year		
41. Transfers to Patronage Capital		
42. Patronage Capital Credits Retired		
43. Patronage Capital End-of-Year (40+41-42)	0	0
44. Annual Debt Service Payments	342,062	288,308
45. Cash Ratio [(14+20-10-11) / 7]	0.5421	0.5830
46. Operating Accrual Ratio [(14+20+26) / 7]	0.9054	0.9378
47. TIER [(31+26) / 26]	1.8679	1.6324
48. DSCR [(31+26+10+11) / 44]	1.0960	1.0887

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

BORROWER DESIGNATION

WA0546

PERIOD ENDED

December, 2012

INSTRUCTIONS - See RUS Bulletin 1744-2

Part C. SUBSCRIBER (ACCESS LINE), ROUTE MILE, & HIGH SPEED DATA INFORMATION

EXCHANGE	1. RATES		2. SUBSCRIBERS (ACCESS LINES)			3. ROUTE MILES	
	B-1 (a)	R-1 (b)	BUSINESS (a)	RESIDENTIAL (b)	TOTAL (c)	TOTAL (including fiber) (a)	FIBER (b)
Silverton	35.00	25.00	6	24	30	12.00	0.00
MT Hull	25.00	19.50	2	111	113	52.57	69.00
MobileWireless					0		
Route Mileage Outside Exchange Area						0.00	0.00
Total			8	135	143	64.57	69.00
No. Exchanges	2						

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

INSTRUCTIONS - See RUS Bulletin 1744-2

BORROWER DESIGNATION

WA0546

PERIOD ENDED

December, 2012

Part C. SUBSCRIBER (ACCESS LINE), ROUTE MILE, & HIGH SPEED DATA INFORMATION

4. BROADBAND SERVICE

Details on Least Expensive Broadband Service

EXCHANGE	No. Access Lines with BB available (a)	No Of Broadband Subscribers (b)	Number Of Subscribers (c)	Advertised Download Rate (Kbps) (d)	Advertised Upload Rate (Kbps) (e)	Price Per Month (f)	Standalone/Pckg (f)	Type Of Technology (g)
Silverton	30	9	9	512	256	39.95	StandAlone	DSL
MT Hull	113	0	0					
Total	143	9						

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

BORROWER DESIGNATION

WA0546

PERIOD ENDING
December, 2012

INSTRUCTIONS- See RUS Bulletin 1744-2

PART D. SYSTEM DATA

1. No. Plant Employees 1	2. No. Other Employees 2	3. Square Miles Served 52	4. Access Lines per Square Mile 2.75	5. Subscribers per Route Mile 2.21
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PART E. TOLL DATA

1. Study Area ID Code(s) a. 520581 b. _____ c. _____ d. _____ e. _____ f. _____ g. _____ h. _____ i. _____ j. _____	2. Types of Toll Settlements (Check one)	
	Interstate:	<input type="checkbox"/> Average Schedule <input checked="" type="checkbox"/> Cost Basis
	Intrastate:	<input type="checkbox"/> Average Schedule <input checked="" type="checkbox"/> Cost Basis

PART F. FUNDS INVESTED IN PLANT DURING YEAR

1. RUS, RTB, & FFB Loan Funds Expended	
2. Other Long-Term Loan Funds Expended	
3. Funds Expended Under RUS Interim Approval	
4. Other Short-Term Loan Funds Expended	
5. General Funds Expended (Other than Interim)	821
6. Salvaged Materials	
7. Contribution in Aid to Construction	
8. Gross Additions to Telecom. Plant (1 thru 7)	821

PART G. INVESTMENTS IN AFFILIATED COMPANIES

INVESTMENTS <i>(a)</i>	CURRENT YEAR DATA		CUMULATIVE DATA		
	Investment This Year <i>(b)</i>	Income/Loss This Year <i>(c)</i>	Cumulative Investment To Date <i>(d)</i>	Cumulative Income/Loss To Date <i>(e)</i>	Current Balance <i>(f)</i>
1. Investment in Affiliated Companies - Rural Development	0			0	0
2. Investment in Affiliated Companies - Nonrural Development	0			0	0

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

BORROWER DESIGNATION

WA0546

PERIOD ENDING

December, 2012

PART H. CURRENT DEPRECIATION RATES

Are corporation's depreciation rates approved by the regulatory authority with jurisdiction over the provision of telephone services? (Check one)

YES

NO

EQUIPMENT CATEGORY	DEPRECIATION RATE
1. Land and support assets - Motor Vehicles	15.96%
2. Land and support assets - Aircraft	
3. Land and support assets - Special purpose vehicles	
4. Land and support assets - Garage and other work equipment	15.96%
5. Land and support assets - Buildings	3.96%
6. Land and support assets - Furniture and Office equipment	20.04%
7. Land and support assets - General purpose computers	24.96%
8. Central Office Switching - Digital	9.00%
9. Central Office Switching - Analog & Electro-mechanical	
10. Central Office Switching - Operator Systems	
11. Central Office Transmission - Radio Systems	
12. Central Office Transmission - Circuit equipment	11.16%
13. Information origination/termination - Station apparatus	
14. Information origination/termination - Customer premises wiring	
15. Information origination/termination - Large private branch exchanges	
16. Information origination/termination - Public telephone terminal equipment	
17. Information origination/termination - Other terminal equipment	
18. Cable and wire facilities - Poles	7.56%
19. Cable and wire facilities - Aerial cable - Metal	20.40%
20. Cable and wire facilities - Aerial cable - Fiber	
21. Cable and wire facilities - Underground cable - Metal	6.00%
22. Cable and wire facilities - Underground cable - Fiber	5.04%
23. Cable and wire facilities - Buried cable - Metal	6.00%
24. Cable and wire facilities - Buried cable - Fiber	5.04%
25. Cable and wire facilities - Conduit systems	4.56%
26. Cable and wire facilities - Other	

USDA-RUS

BORROWER DESIGNATION

WA0546

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

PERIOD ENDED

December, 2012

INSTRUCTIONS – See help in the online application.

PART I – STATEMENT OF CASH FLOWS

1. Beginning Cash (Cash and Equivalents plus RUS Construction Fund)	192,371
CASH FLOWS FROM OPERATING ACTIVITIES	
2. Net Income	39,005
<i>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</i>	
3. Add: Depreciation	211,664
4. Add: Amortization	1,540
5. Other (Explain) PPD Adj/Accrued Taxes Adj	(2,484)
<i>Changes in Operating Assets and Liabilities</i>	
6. Decrease/(Increase) in Accounts Receivable	14,087
7. Decrease/(Increase) in Materials and Inventory	0
8. Decrease/(Increase) in Prepayments and Deferred Charges	1,498
9. Decrease/(Increase) in Other Current Assets	0
10. Increase/(Decrease) in Accounts Payable	(25,581)
11. Increase/(Decrease) in Advance Billings & Payments	0
12. Increase/(Decrease) in Other Current Liabilities	0
13. Net Cash Provided/(Used) by Operations	239,729
CASH FLOWS FROM FINANCING ACTIVITIES	
14. Decrease/(Increase) in Notes Receivable	0
15. Increase/(Decrease) in Notes Payable	0
16. Increase/(Decrease) in Customer Deposits	140
17. Net Increase/(Decrease) in Long Term Debt (Including Current Maturities)	(226,635)
18. Increase/(Decrease) in Other Liabilities & Deferred Credits	(2,594)
19. Increase/(Decrease) in Capital Stock, Paid-in Capital, Membership and Capital Certificates & Other Capital	0
20. Less: Payment of Dividends	0
21. Less: Patronage Capital Credits Retired	0
22. Other (Explain)	
23. Net Cash Provided/(Used) by Financing Activities	(229,089)
CASH FLOWS FROM INVESTING ACTIVITIES	
24. Net Capital Expenditures (Property, Plant & Equipment)	(821)
25. Other Long-Term Investments	1,939
26. Other Noncurrent Assets & Jurisdictional Differences	0
27. Other (Explain)	
28. Net Cash Provided/(Used) by Investing Activities	1,118
29. Net Increase/(Decrease) in Cash	11,758
30. Ending Cash	204,129

Revision Date 2010

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	BORROWER DESIGNATION WA0546
INSTRUCTIONS - See RUS Bulletin 1744-2	PERIOD ENDED December, 2012
NOTES TO THE OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	BORROWER DESIGNATION WA0546
INSTRUCTIONS - See RUS Bulletin 1744-2	PERIOD ENDED December, 2012
CERTIFICATION LOAN DEFAULT NOTES TO THE OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	

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

Beaver Creek Telephone Company

(Prepared with Audited Data)

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, 2013

BORROWER DESIGNATION
WA0546

CERTIFICATION

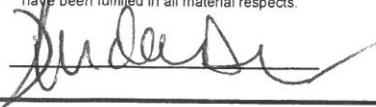
We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

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



3/17/14
DATE

PART A. BALANCE SHEET

ASSETS	BALANCE PRIOR YEAR	BALANCE END OF PERIOD	LIABILITIES AND STOCKHOLDERS' EQUITY	BALANCE PRIOR YEAR	BALANCE END OF PERIOD
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	204,129	236,095	25. Accounts Payable	91,916	62,608
2. Cash-RUS Construction Fund			26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments		
a. Telecom, Accounts Receivable	67,728	79,417	28. Customer Deposits	670	410
b. Other Accounts Receivable			29. Current Mat. L/T Debt	165,828	173,879
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	2,288	
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)	260,702	236,897
6. Material-Regulated			LONG-TERM DEBT		
7. Material-Nonregulated		228	36. Funded Debt-RUS Notes	549,178	481,199
8. Prepayments	1,217	4,800	37. Funded Debt-RTB Notes	323,682	284,937
9. Other Current Assets			38. Funded Debt-FFB Notes		
10. Total Current Assets (1 Thru 9)	273,074	320,540	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	67,232	
b. Nonrural Development			46. Total Long-Term Debt (36 thru 45)	940,092	766,136
13. Nonregulated Investments	2,648	710	OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets			47. Other Long-Term Liabilities	73,223	75,646
15. Deferred Charges	22,794	21,255	48. Other Deferred Credits		
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
17. Total Noncurrent Assets (11 thru 16)	25,442	21,965	50. Total Other Liabilities and Deferred Credits (47 thru 49)	73,223	75,646
PLANT, PROPERTY, AND EQUIPMENT			EQUITY		
18. Telecom, Plant-in-Service	3,047,888	2,963,014	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	1,541,047	1,651,488	55. Other Capital		
23. Net Plant (18 thru 21 less 22)	1,506,841	1,311,526	56. Patronage Capital Credits		
24. TOTAL ASSETS (10+17+23)			57. Retained Earnings or Margins	268,758	312,770
	1,805,357	1,654,031	58. Total Equity (51 thru 57)	531,340	575,352
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	1,805,357	1,654,031

Total Equity = 34.78% % of Total Assets

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

WA0546

PERIOD ENDING

December, 2013

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	33,093	31,876
2. Network Access Services Revenues	741,425	787,200
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues		
5. Miscellaneous Revenues		
6. Uncollectible Revenues	(310)	(182)
7. Net Operating Revenues (1 thru 5 less 6)	774,828	819,258
8. Plant Specific Operations Expense	148,225	173,431
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	4,532	12,595
10. Depreciation Expense	211,664	211,348
11. Amortization Expense	1,540	1,540
12. Customer Operations Expense		
13. Corporate Operations Expense	265,133	235,617
14. Total Operating Expenses (8 thru 13)	631,094	634,531
15. Operating Income or Margins (7 less 14)	143,734	184,727
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes	24,841	41,750
19. Other Taxes	9,007	9,096
20. Total Operating Taxes (17+18+19)	33,848	50,846
21. Net Operating Income or Margins (15+16-20)	109,886	133,881
22. Interest on Funded Debt	48,367	43,694
23. Interest Expense - Capital Leases		
24. Other Interest Expense	13,308	7,209
25. Allowance for Funds Used During Construction		
26. Total Fixed Charges (22+23+24-25)	61,675	50,903
27. Nonoperating Net Income	4,726	20,172
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	(13,932)	(59,136)
31. Total Net Income or Margins (21+27+28+29+30-26)	39,005	44,014
32. Total Taxes Based on Income	20,099	21,678
33. Retained Earnings or Margins Beginning-of-Year	229,753	268,758
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)		
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date		
38. Transfers to Patronage Capital		2
39. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]	268,758	312,770
40. Patronage Capital Beginning-of-Year		
41. Transfers to Patronage Capital		
42. Patronage Capital Credits Retired		
43. Patronage Capital End-of-Year (40+41-42)	0	0
44. Annual Debt Service Payments	288,308	216,811
45. Cash Ratio [(14+20-10-11) / 7]	0.5830	0.5767
46. Operating Accrual Ratio [(14+20+26) / 7]	0.9378	0.8987
47. TIER [(31+26) / 26]	1.6324	1.8647
48. DSCR [(31+26+10+11) / 44]	1.0887	1.4197

USDA-RUS

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

INSTRUCTIONS - See RUS Bulletin 1744-2

BORROWER DESIGNATION

WA0546

PERIOD ENDED

December, 2013

Part C. SUBSCRIBER (ACCESS LINE), ROUTE MILE, & HIGH SPEED DATA INFORMATION

EXCHANGE	1. RATES		2. SUBSCRIBERS (ACCESS LINES)			3. ROUTE MILES	
	B-1 (a)	R-1 (b)	BUSINESS (a)	RESIDENTIAL (b)	TOTAL (c)	TOTAL (including fiber) (a)	FIBER (b)
MT Hull	25.00	19.50	2	101	103	121.57	69.00
Silverton	35.00	25.00	5	23	28	12.00	
MobileWireless					0		
Route Mileage Outside Exchange Area						0.00	0.00
Total			7	124	131	133.57	69.00
No. Exchanges	2						

USDA-RUS

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

INSTRUCTIONS - See RUS Bulletin 1744-2

BORROWER DESIGNATION

WA0546

PERIOD ENDED

December, 2013

Part C. SUBSCRIBER (ACCESS LINE), ROUTE MILE, & HIGH SPEED DATA INFORMATION

4. BROADBAND SERVICE

Details on Least Expensive Broadband Service

EXCHANGE	No. Access Lines with BB available (a)	No Of Broadband Subscribers (b)	Number Of Subscribers (c)	Advertised Download Rate (Kbps) (d)	Advertised Upload Rate (Kbps) (e)	Price Per Month (f)	Standalone/Pckg (f)	Type Of Technology (g)
MT Hull	103	16	3			19.95	StandAlone	DSL
Silverton	28	9	9	512	256	39.95	StandAlone	DSL
Total	131	25						

USDA-RUS
**OPERATING REPORT FOR
 TELECOMMUNICATIONS BORROWERS**

BORROWER DESIGNATION

WA0546

PERIOD ENDING

December, 2013

INSTRUCTIONS- See RUS Bulletin 1744-2

PART D. SYSTEM DATA

1. No. Plant Employees 1	2. No. Other Employees 2	3. Square Miles Served 52	4. Access Lines per Square Mile 2.52	5. Subscribers per Route Mile .98
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PART E. TOLL DATA

1. Study Area ID Code(s) a 520581 b _____ c _____ d _____ e _____ f _____ g _____ h _____ i _____ j _____	2. Types of Toll Settlements (Check one)			
	Interstate:	<input type="checkbox"/> Average Schedule	<input checked="" type="checkbox"/> Cost Basis	
	Intrastate:	<input type="checkbox"/> Average Schedule	<input checked="" type="checkbox"/> Cost Basis	

PART F. FUNDS INVESTED IN PLANT DURING YEAR

1. RUS, RTB, & FFB Loan Funds Expended	
2. Other Long-Term Loan Funds Expended	
3. Funds Expended Under RUS Interim Approval	
4. Other Short-Term Loan Funds Expended	
5. General Funds Expended (Other than Interim)	16,033
6. Salvaged Materials	
7. Contribution in Aid to Construction	
8. Gross Additions to Telecom. Plant (1 thru 7)	16,033

PART G. INVESTMENTS IN AFFILIATED COMPANIES

INVESTMENTS (a)	CURRENT YEAR DATA		CUMULATIVE DATA		
	Investment This Year (b)	Income/Loss This Year (c)	Cumulative Investment To Date (d)	Cumulative Income/Loss To Date (e)	Current Balance (f)
1. Investment in Affiliated Companies - Rural Development	0				
2. Investment in Affiliated Companies - Nonrural Development	0				

USDA-RUS

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

BORROWER DESIGNATION

WA0546

PERIOD ENDING

December, 2013

PART H. CURRENT DEPRECIATION RATES

Are corporation's depreciation rates approved by the regulatory authority with jurisdiction over the provision of telephone services? (Check one)

YES NO

EQUIPMENT CATEGORY	DEPRECIATION RATE
1. Land and support assets - Motor Vehicles	15.96%
2. Land and support assets - Aircraft	
3. Land and support assets - Special purpose vehicles	
4. Land and support assets - Garage and other work equipment	15.96%
5. Land and support assets - Buildings	3.96%
6. Land and support assets - Furniture and Office equipment	20.04%
7. Land and support assets - General purpose computers	24.96%
8. Central Office Switching - Digital	9.00%
9. Central Office Switching - Analog & Electro-mechanical	
10. Central Office Switching - Operator Systems	
11. Central Office Transmission - Radio Systems	
12. Central Office Transmission - Circuit equipment	11.16%
13. Information origination/termination - Station apparatus	
14. Information origination/termination - Customer premises wiring	
15. Information origination/termination - Large private branch exchanges	
16. Information origination/termination - Public telephone terminal equipment	
17. Information origination/termination - Other terminal equipment	
18. Cable and wire facilities - Poles	7.56%
19. Cable and wire facilities - Aerial cable - Metal	20.40%
20. Cable and wire facilities - Aerial cable - Fiber	
21. Cable and wire facilities - Underground cable - Metal	6.00%
22. Cable and wire facilities - Underground cable - Fiber	5.04%
23. Cable and wire facilities - Buried cable - Metal	6.00%
24. Cable and wire facilities - Buried cable - Fiber	5.04%
25. Cable and wire facilities - Conduit systems	4.56%
26. Cable and wire facilities - Other	

USDA-RUS

BORROWER DESIGNATION

WA0546

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

PERIOD ENDED

December, 2013

INSTRUCTIONS – See help in the online application.

PART I – STATEMENT OF CASH FLOWS

1. Beginning Cash (Cash and Equivalents plus RUS Construction Fund)	204,129
CASH FLOWS FROM OPERATING ACTIVITIES	
2. Net Income	44,014
<i>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</i>	
3. Add: Depreciation	211,348
4. Add: Amortization	1,540
5. Other (Explain)	
<i>Changes in Operating Assets and Liabilities</i>	
6. Decrease/(Increase) in Accounts Receivable	(11,689)
7. Decrease/(Increase) in Materials and Inventory	(228)
8. Decrease/(Increase) in Prepayments and Deferred Charges	(2,044)
9. Decrease/(Increase) in Other Current Assets	0
10. Increase/(Decrease) in Accounts Payable	(29,308)
11. Increase/(Decrease) in Advance Billings & Payments	0
12. Increase/(Decrease) in Other Current Liabilities	(2,288)
13. Net Cash Provided/(Used) by Operations	211,345
CASH FLOWS FROM FINANCING ACTIVITIES	
14. Decrease/(Increase) in Notes Receivable	0
15. Increase/(Decrease) in Notes Payable	0
16. Increase/(Decrease) in Customer Deposits	(260)
17. Net Increase/(Decrease) in Long Term Debt (Including Current Maturities)	(165,905)
18. Increase/(Decrease) in Other Liabilities & Deferred Credits	2,423
19. Increase/(Decrease) in Capital Stock, Paid-in Capital, Membership and Capital Certificates & Other Capital	0
20. Less: Payment of Dividends	0
21. Less: Patronage Capital Credits Retired	0
22. Other (Explain) Prepay Adjustment	(1,542)
23. Net Cash Provided/(Used) by Financing Activities	(165,284)
CASH FLOWS FROM INVESTING ACTIVITIES	
24. Net Capital Expenditures (Property, Plant & Equipment)	84,874
25. Other Long-Term Investments	1,938
26. Other Noncurrent Assets & Jurisdictional Differences	0
27. Other (Explain) Retirement of Assets	(100,907)
28. Net Cash Provided/(Used) by Investing Activities	(14,095)
29. Net Increase/(Decrease) in Cash	31,966
30. Ending Cash	236,095

Revision Date 2010

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	BORROWER DESIGNATION WA0546
INSTRUCTIONS - See RUS Bulletin 1744-2	PERIOD ENDED December, 2013
NOTES TO THE OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	
SDSL is offered at speeds of 128K to customers in MT Hull as the lowest speed available.	

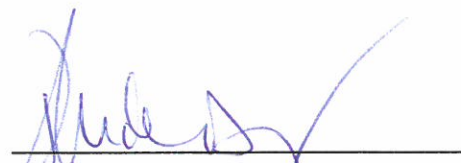
USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	BORROWER DESIGNATION WA0546
INSTRUCTIONS - See RUS Bulletin 1744-2	PERIOD ENDED December, 2013
CERTIFICATION LOAN DEFAULT NOTES TO THE OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	

ALTERNATE EXHIBIT 7

CORPORATE OPERATIONS EXPENSE ADJUSTMENT CERTIFICATE

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 to existing high-cost loop and interstate common line support mechanisms, as required by the Federal Communications Commission, applied to the Company for 2013 and 2012.

Date this 21st day of July, 2014.



Delinda Kluser, Vice Pres/Manager

EXHIBIT 7

CORPORATE OPERATIONS EXPENSE ADJUSTMENT(S)

For 2013: N/A

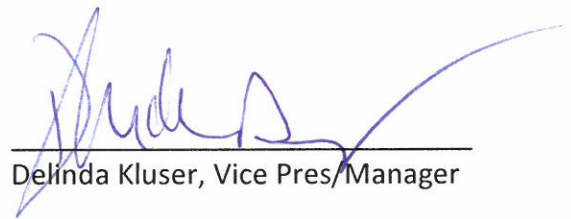
For 2012: N/A

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 21st day of July, 2014.



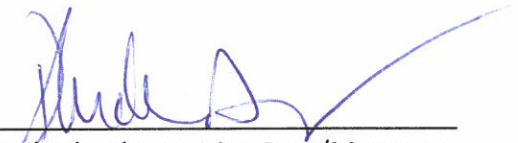
Delinda Kluser, Vice Pres/Manager

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Delinda Kluser, an officer of the Company, 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 2015.

Dated this 21st day of July, 2014.



Delinda Kluser, Vice Pres/Manager