



July 29, 2014

Mr. Steven V. King, Executive Secretary
Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive SW
Olympia, WA 98504-7250

Re: Petition to receive support from the Universal Service Communications Program

Dear Mr. King:

Pursuant to WAC 480-123-110, Please find enclosed a petition for The Toledo Telephone Company, Inc. to receive funds under the Universal Service Communications Program.

Sincerely,

A handwritten signature in black ink, appearing to read "Dale Merten", with a long, sweeping underline.

Dale Merten
Chief Operating Officer

Encl/

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**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

IN RE

PETITION OF THE TOLEDO TELEPHONE
CO., INC. TO RECEIVE SUPPORT FROM
THE UNIVERSAL SERVICE
COMMUNICATIONS PROGRAM

DOCKET NO.

PETITION FOR SUPPORT

2014 JUL 31 PM 3:14

COMES NOW The Toledo Telephone Company, Inc. (the "Company") and, pursuant to Chapter 480-123 of the Washington Administrative Code ("WAC"), including, but not limited to, WAC 480-123-110, hereby petitions the Washington Utilities and Transportation Commission (the "Commission") to receive support from the Universal Service Communications Program (the "Program") for the Program year 2015.

I. Demonstration of Eligibility under WAC 480-123-100

1. WAC 480-123-100(1)(a): The Company is a local exchange company as defined in WAC 480-120-021 that serves less than forty thousand access lines within the state.
2. WAC 480-123-100(1)(b): The Company is an incumbent local exchange carrier as defined in 47 U.S.C. Sec. 251(h) or has been designated as an incumbent local exchange carrier by

1 the Federal Communications Commission.

- 2 3. WAC 480-123-100(1)(c): The Company offers basic residential and business exchange
3 telecommunications services as set forth in WAC 480-120-021 and RCW 80.36.630.
- 4 4. WAC 480-123-100(1)(d): The Company's rates for residential local exchange service, plus
5 mandatory extended area service charges, are no lower than the local urban rate floor
6 established by the Commission as the benchmark rate based on the Federal Communications
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: The Toledo Telephone Company,
16 Inc.
- 17 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between
18 the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.
19 A detailed description of any transactions between the Company and the affiliates named in
20 Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.
- 21 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No.
22 20 in of the Company's Tariff.
- 23 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate
24 instability or service interruption or cessation in the absence of support from the Program is
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1 attached as Exhibit 3.

- 2 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,
3 are copies of the Company's balance sheet as of December 31, 2013, and December 31,
4 2012, and copies of the Company's statements of income and retained earnings or margin for
5 the years ended December 31, 2013, and December 31, 2012.
- 6 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial
7 statements for the years ended December 31, 2012, and December 31, 2013, are
8 attached as Exhibit 5. [If no audited financial statements, use the following: Copies of the
9 Company's financial statements for the years ended December 31, 2013, and December 31,
10 2012, reviewed by a certified public accountant, are attached as Exhibit 5.
- 11 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of
12 return on a total Washington unseparated regulated operations basis for each of the two prior
13 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
- 14 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on
15 equity on a total company (regulated and non-regulated) Washington basis for each of the
16 two prior years, calculated in the manner prescribed by the Commission, is provided in
17 Exhibit 4.
- 18 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the
19 statements of income and retained earnings or margin section of RUS Form 479 for the prior
20 two years is attached as Exhibit 6.
- 21 10. WAC 480-123-110(1)(e)(vi): Information detailing the amounts of any corporate operations
22 adjustment to existing high-cost loop and interstate common line support mechanisms
23 required of the Company by the Federal Communications Commission for the past two
24 years is attached as Exhibit 7.

- 1 11. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains additional supporting information
2 requested by the Commission.
- 3 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company
4 officer with personal knowledge and responsibility certifying that the Company complies
5 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to
6 incumbent local exchange companies is attached as Exhibit 8.
- 7 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or
8 on its behalf with the Federal Communications Commission for the calendar year preceding
9 the current year has already been filed with the Commission. See the Company's filing in
10 Docket No. UT-143013 filed on or about July 1, 2014.
- 11 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by
12 the Company as of December 31, 2013, was 1390, all of which were within the geographic
13 area for which the Company is seeking support. The number of residential local exchange
14 access lines served by the Company as of December 31, 2012, was 1434, all of which were
15 within the geographic area for which the Company is seeking support. The number of
16 business local exchange access lines served by the Company as of December 31, 2013, was
17 285, all of which were within the geographic area for which the Company is seeking
18 support. The
19 number of business local exchange access lines served by the Company as of December 31,
20 2012, was 297 all of which were within the geographic area for which the Company is
21 seeking support. The monthly recurring rate charged by the Company for residential local
22 exchange access service on December 31, 2013, was \$14.00. The monthly recurring rate
23 charged by the Company for residential local exchange access service on December 31,
24 2012, was 10.94. The rate charged by the Company for single line business local exchange
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1 access service on December 31, 2013, was \$14.00. The rate charged by the Company for
2 single line business local exchange access service on December 31, 2012, was \$11.00.

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

4 16. All exhibits attached hereto are incorporated into this Petition as though fully set forth.

5 Respectfully submitted this 29th day of July, 2014.

6
7 The Toledo Telephone Company, Inc.

8 By 

9 Dale Merten
10 C.O.O.

11 CERTIFICATION

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

17 

18 Dale Merten
19 C.O.O.

EXHIBIT 1

CORPORATE ORGANIZATION CHART

The Toledo Telephone Co., Inc

Toledo Telenet (Affiliate)

Toledo Telenet Long Distance (Affiliate)

EXHIBIT 2

AFFILIATED TRANSACTIONS

Toledo Telenet is the non-regulated affiliate that provides DSL, broadband, ISP, hosted products and network related services directly to customers. Toledo Telephone sells broadband access to Toledo Telenet based on NECA rate structures and associated discounts.

Toledo Telenet Long Distance provides intrastate, interstate and international long distance for those customers that choose Toledo Telenet Long Distance.

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 \$ 101,000.

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. Using 2012 as a base line, which is the latest year with final pool numbers, the Company is facing a loss of traditional universal service fund revenues of approximately \$109,410.00 per year.

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 1 year period ended December 31, 2013, the Company has seen its Federal high cost loop support undergo a significant reduction – declining from \$1,047,750.00 in 2012 to \$901,176.00 in 2013, a 14% reduction in only one year.

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

Company Name: The Toledo Telephone Company

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 End of Year 2012 (A)	Part 64 Adj to NonReg 2012 (B)	Adj. Balance End of Year 2012
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	572,318		572,318	25. Accounts Payable	51,082		51,082
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	110		110	28. Customer Deposits	1,260	(323)	937
b. Other Accounts Receivable	(4,353)		(4,353)	29. Current Mat. L/T Debt	979,329		979,329
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	52,101		52,101	32. Income Taxes Accrued	653,517		653,517
b. Other Accounts Receivable	264,496		264,496	33. Other Taxes Accrued	0		0
c. Notes Receivable	0		0	34. Other Current Liabilities	(19,045)		(19,045)
5. Interest and Dividends Receivable	0		0	35. Total Current Liabilities (25 thru 34)	1,666,143	(323)	1,665,820
6. Material-Regulated	128,264		128,264	LONG-TERM DEBT			
7. Material-Nonregulated	185,325		185,325	36. Funded Debt-RUS Notes	4,204,173		4,204,173
8. Prepayments	80,140		80,140	37. Funded Debt-RTB Notes	332,120		332,120
9. Other Current Assets	0		0	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	1,278,401		1,278,401	39. Funded Debt-Other	0		0
NONCURRENT ASSETS				40. Funded Debt-Rural Develop. Loan	0		0
11. Investment in Affiliated Companies				41. Premium (Discount) on L/T Debt	0		0
a. Rural Development	0		0	42. Reacquired Debt	0		0
b. Nonrural Development	0		0	43. Obligations Under Capital Lease	0		0
12. Other Investments				44. Adv. From Affiliated Companies	0		0
a. Rural Development	792,367		792,367	45. Other Long-Term Debt	0		0
b. Nonrural Development	2,053,516		2,053,516	46. Total Long-Term Debt (36 thru 45)	4,536,293		4,536,293
13. Nonregulated Investments (B1)	156,201	(156,201)	0	OTHER LIAB. & DEF. CREDITS			
14. Other Noncurrent Assets	0		0	47. Other Long-Term Liabilities	0		0
15. Deferred Charges	(315,831)		(315,831)	48. Other Deferred Credits (C)	0		0
16. Jurisdictional Differences	0		0	49. Other Jurisdictional Differences	0		0
17. Total noncurrent Assets (11 thru 16)	2,686,253	(156,201)	2,530,052	50. Total Other Liab. & Def. Credits (47 thru 49)	0	0	0
PLANT, PROPERTY AND EQUIPMENT				EQUITY			
18. Telecom Plant-In-Service	21,494,140	(115,526)	21,078,614	51. Cap. Stock Outstanding & Subscribed	10,670		10,670
19. Property Held for Future Use	0		0	52. Additional Paid-in-Capital	0		0
20. Plant Under Construction	499,354		499,354	53. Treasury Stock	0		0
21. Plant Adj., Nonop Plant & Goodwill	0		0	54. Membership and cap. Certificates	0		0
22. Accumulated Depreciation (CR.)	(14,078,720)	314,941	(13,763,779)	55. Other Capital	0		0
23. Net Plant (18 thru 21 less 22)	7,914,774	(100,585)	7,814,189	56. Patronage Capital Credits	173,976		173,976
TOTAL ASSETS (10+17+23)	11,879,428	(256,786)	11,622,642	57. Retained Earnings or Margins (B2)	5,492,346	(256,463)	5,235,883
				58. Total Equity (51 thru 57)	5,676,992	(256,463)	5,420,529
				59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	11,879,428	(256,786)	11,622,642

(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:

The Toledo Telephone Company

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 End of Year 2013 (A)	Part 64 Adj to NonReg 2013 (B)	Adj. Balance End of Year 2013
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	7,804,822		7,804,822	25. Accounts Payable	1,073,189		1,073,189
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	345		345	28. Customer Deposits	620	(163)	457
b. Other Accounts Receivable	(4,157)		(4,157)	29. Current Mat. L/T Debt	1,275,692		1,275,692
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	48,694		48,694	32. Income Taxes Accrued	750,403		750,403
b. Other Accounts Receivable	671,655		671,655	33. Other Taxes Accrued	0		0
c. Notes Receivable	0		0	34. Other Current Liabilities	162,329		162,329
5. Interest and Dividends Receivable	0		0	35. Total Current Liabilities (25 thru 34)	3,262,233	(163)	3,262,070
6. Material-Regulated	145,595		145,595	LONG-TERM DEBT			
7. Material-Nonregulated	186,086		186,086	36. Funded Debt-RUS Notes	11,070,857		11,070,857
8. Prepayments	123,051		123,051	37. Funded Debt-RTB Notes	85,905		85,905
9. Other Current Assets	0		0	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	8,976,091		8,976,091	39. Funded Debt-Other	0		0
NONCURRENT ASSETS				40. Funded Debt-Rural Develop. Loan	0		0
11. Investment in Affiliated Companies				41. Premium (Discount) on L/T Debt	0		0
a. Rural Development	0		0	42. Reacquired Debt	0		0
b. Nonrural Development	0		0	43. Obligations Under Capital Lease	0		0
12. Other Investments				44. Adv. From Affiliated Companies	0		0
a. Rural Development	846,507		846,507	45. Other Long-Term Debt	0		0
b. Nonrural Development	1,949,611		1,949,611	46. Total Long-Term Debt (36 thru 45)	11,156,762		11,156,762
13. Nonregulated investments (B1)	119,924	(119,924)	0	OTHER LIAB. & DEF. CREDITS			
14. Other Noncurrent Assets	0		0	47. Other Long-Term Liabilities	0		0
15. Deferred Charges	(237,123)		(237,123)	48. Other Deferred Credits (C)	0		0
16. Jurisdictional Differences	0		0	49. Other Jurisdictional Differences	0		0
17. Total noncurrent Assets (11 thru 16)	2,678,919	(119,924)	2,558,995	50. Total Other Liab. & Def. Credits (47 thru 49)	0	0	0
PLANT, PROPERTY AND EQUIPMENT				EQUITY			
18. Telecom Plant-In-Service	21,496,249	(373,752)	21,122,497	51. Cap. Stock Outstanding & Subscribed	10,670		10,670
19. Property Held for Future Use	0		0	52. Additional Paid-in-Capital	0		0
20. Plant Under Construction	2,339,524		2,339,524	53. Treasury Stock	0		0
21. Plant Adj., Nonop Plant & Goodwill	0		0	54. Membership and cap. Certificates	0		0
22. Accumulated Depreciation (CR.)	(14,823,216)	790,224	(14,532,992)	55. Other Capital	0		0
23. Net Plant (18 thru 21 less 22)	9,012,557	(83,528)	8,929,029	56. Patronage Capital Credits	399,609		399,609
TOTAL ASSETS (10+17+23)	20,667,567	(203,452)	20,464,115	57. Retained Earnings or Margins (B2)	5,838,293	(203,289)	5,635,004
				58. Total Equity (51 thru 57)	6,248,572	(203,289)	6,045,283
				59. TOTAL LIABILITIES AND EQUITY (35+46+50+54)	20,667,567	(203,452)	20,464,115

(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

Company Name:

The Toledo Telephone Company

ASSETS	Adjusted Prior Year Balance 2012	Adjusted Current Year Balance 2013	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2012	Adjusted Current Year Balance 2013
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	572,318	7,804,822	25. Accounts Payable	51,082	1,073,189
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	110	345	28. Customer Deposits	937	457
b. Other Accounts Receivable	(4,353)	(4,157)	29. Current Mat. L/T Debt	979,329	1,275,692
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	52,101	48,694	32. Income Taxes Accrued	653,517	750,403
b. Other Accounts Receivable	264,496	671,655	33. Other Taxes Accrued	0	0
c. Notes Receivable	0	0	34. Other Current Liabilities	(19,045)	162,329
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	1,665,820	3,262,070
6. Material-Regulated	128,264	145,595	LONG-TERM DEBT		
7. Material-Nonregulated	185,325	186,086	36. Funded Debt-RUS Notes	4,204,173	11,070,857
8. Prepayments	80,140	123,051	37. Funded Debt-RTB Notes	332,120	85,905
9. Other Current Assets	0	0	38. Funded Debt-FFB Notes	0	0
10. Total Current Assets (1 Thru 9)	1,278,401	8,976,091	39. Funded Debt-Other	0	0
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan	0	0
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt	0	0
a. Rural Development	0	0	42. Reacquired Debt	0	0
b. Nonrural Development	0	0	43. Obligations Under Capital Lease	0	0
12. Other Investments			44. Adv. From Affiliated Companies	0	0
a. Rural Development	792,367	846,507	45. Other Long-Term Debt	0	0
b. Nonrural Development	2,053,516	1,949,611	46. Total Long-Term Debt (36-45)	4,536,293	11,156,762
13. Nonregulated Investments	0	0	OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets	0	0	47. Other Long-Term Liabilities	0	0
15. Deferred Charges	(315,831)	(237,123)	48. Other Deferred Credits (B)	0	0
16. Jurisdictional Differences	0	0	49. Other Jurisdictional Differences	0	0
17. Total noncurrent Assets (11 thru 16)	2,530,052	2,558,995	50. Total Other Liab. & Def. Credits (47 thru 49)	0	0
PLANT, PROPERTY AND EQUIPMENT			EQUITY		
18. Telecom Plant-in-Service	21,078,614	21,122,497	51. Cap. Stock Outstanding & Subscribed	10,670	10,670
19. Property Held for Future Use	0	0	52. Additional Paid-in-Capital	0	0
20. Plant Under Construction	499,354	2,339,524	53. Treasury Stock	0	0
21. Plant Adj., Nonop Plant & Goodwill	0	0	54. Membership and cap. Certificates	0	0
22. Accumulated Depreciation (CR.)	(13,763,779)	(14,532,992)	55. Other Capital	0	0
23. Net Plant (18 thru 21 less 22)	7,814,189	8,929,029	56. Patronage Capital Credits	173,976	399,609
TOTAL ASSETS (10+17+23)	11,622,642	20,464,115	57. Retained Earnings or Margins	5,235,883	5,635,004
			58. Total Equity (51 thru 57)	5,420,529	6,045,283
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	11,622,642	20,464,115

Note:

0.00 0.00

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

Company Name:

The Toledo Telephone Company

	Line #	Adj. Balance End of Year 2012	Adj. Balance End of Year 2013	Average Adj End of Year Balance
Average Rate Base:				
Total Regulated Adjusted Telecom Plant-In-service	18	21,078,614	21,122,497	21,100,556
Total Regulated Adjusted Accumulated Depreciation (CR)	22	(13,763,779)	(14,532,992)	(14,148,386)
Total Regulated Materials & Supplies	6	128,264	145,595	136,930
Deferred Income Taxes (CR)				0
Total Regulated Rate Base		7,443,099	6,735,100	7,089,100

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: The Toledo Telephone Company

Description	Prior Year End of Yr. Balance - 2012	Current Year End of Yr Balance - 2013	Difference	% Change
Access Lines:				
Residential	1,465	1,435	30	2.0%
Business	295	291	(4)	-1.4%
Total	1,760	1,726	26	1.5%
	End of Yr. Balance - 2012	End of Year Balance -2013	Difference	% Change
Broadband Connections	1,378	1,320	(58)	-4.2%
	Prior Yr. 2012	Current Yr. 2013	Difference	% Change
Total Annual Amount: Gross Capital Expenditures	964,938	125,239	(839,699)	-87.0%

Part B Statement of Income and Retained Earnings Statement

Company Name:

The Toledo Telephone Company

Line #	Item	Prior Year 2012 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2012
1	Local Network Services Revenues	428,630	(231)	428,399
2	Network Access Services Revenues	3,450,153	2,049	3,452,202
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	9,251	(8,691)	560
5	Miscellaneous Revenues	105,961		105,961
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(7,877)		(7,877)
7	Net Operating Revenues (1 thru 6)	3,986,118	(6,873)	3,979,245
8	Plant Specific Operations Expense	1,268,222	(271,432)	996,790
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	354,208	(118,510)	235,698
10	Depreciation Expense	1,104,511	(22,422)	1,082,089
11	Amortization Expense	0		0
12	Customer Operations Expense	476,373	(53,074)	423,299
13	Corporate Operations	1,656,084	(824,076)	832,008
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()	0		0
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	1,656,084	(824,076)	832,008
14	Total Operations Expenses (8 thru 12 +13b)	4,859,398	(1,289,514)	3,569,884
15	Operating Income or Margins (7 less 14)	(873,280)	1,282,641	409,361
16	Other Operating Income and Expenses ()	0		0
17	State and Local Taxes	122,549	(2,549)	120,000
18	Federal Income Taxes (A1)	(22,535)	41,927	19,392
19	Other Taxes	1,946	2,049	3,995
20	Total Operating Taxes (17+18+19)	101,960	41,427	143,387
21	Net Operating Income or Margins (15+16-20)	(975,240)	1,241,214	265,974
22	Interest on Funded Debt	247,865	(24,780)	223,085
23	Interest Expense - Capital Leases	0		0
24	Other Interest Expense	0		0
25	Allowance for Funds Used During Construction (CR)	(6,815)		(6,815)
26	Total Fixed Charges (22+23+24-25)	241,050	(24,780)	216,270
27	Nonoperating Net Income	227,324		227,324
28	Extraordinary Items	0		0
29	Jurisdictional Differences	0		0
30	Nonregulated Net Income (B1)	1,162,942	(1,241,214)	(78,272)
31	Total Net Income or Margins (21+27+28+29+30-26)	173,976	24,780	198,756
32	Total Taxes Based on Income	101,960		101,960
33	Retained Earnings or Margins Beginning-of-Year	5,492,346		5,492,346
34	Miscellaneous Credits Year-to-Date	0		0
35	Dividends Declared (Common)	0		0
36	Dividends Declared (Preferred)	0		0
37	Other Debits Year-to-Date	0		0
38	Transfers to Patronage Capital	0		0
39	Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))	5,666,322	24,780	5,691,102
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	0
44	Annual Debt Service Payments	1,523,557		1,523,557
45	Cash Ratio ((14+20-10-11)/7)	0.9676	178.3304	0.6612
46	Operating Accrual Ratio ((14+20+26)/7)	1.3051	185.1982	0.9875
47	TIER ((31+26)/26)	1.7217	-	1.9190
48	DSCR ((31+26+10+11)/44)	0.9974	#DIV/0!	0.9826

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)

Part B Statement of Income and Retained Earnings Statement

Company Name:

The Toledo Telephone Company

Line #	Item	Current Year 2013 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2013
1	Local Network Services Revenues	426,242	(572)	425,670
2	Network Access Services Revenues	3,543,484	2,049	3,545,533
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	8,343	(7,926)	417
5	Miscellaneous Revenues	124,073		124,073
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(9,371)		(9,371)
7	Net Operating Revenues (1 thru 6)	4,092,771	(6,449)	4,086,322
8	Plant Specific Operations Expense	1,274,785	(300,331)	974,454
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	359,466	(105,963)	253,503
10	Depreciation Expense	965,638	(8,757)	956,881
11	Amortization Expense	0		0
12	Customer Operations Expense	362,236	(72,930)	289,306
13	Corporate Operations	1,584,784	(847,640)	737,144
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()	0		0
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	1,584,784	(847,640)	737,144
14	Total Operations Expenses (8 thru 12 +13b)	4,546,909	(1,335,621)	3,211,288
15	Operating Income or Margins (7 less 14)	(454,138)	1,329,172	875,034
16	Other Operating Income and Expenses ()	0		0
17	State and Local Taxes	117,569	(2,044)	115,525
18	Federal Income Taxes (A1)	247,442	(53,509)	193,933
19	Other Taxes	2,133	2,032	4,165
20	Total Operating Taxes (17+18+19)	367,144	(53,521)	313,623
21	Net Operating Income or Margins (15+16-20)	(821,282)	1,382,693	561,411
22	Interest on Funded Debt	296,143	(110,336)	185,807
23	Interest Expense - Capital Leases	0		0
24	Other Interest Expense	0		0
25	Allowance for Funds Used During Construction (CR)	(18,245)		(18,245)
26	Total Fixed Charges (22+23+24-25)	277,898	(110,336)	167,562
27	Nonoperating Net Income	95,749		95,749
28	Extraordinary Items	0		0
29	Jurisdictional Differences	0		0
30	Nonregulated Net Income (B1)	1,403,040	(1,382,693)	20,347
31	Total Net Income or Margins (21+27+28+29+30-26)	399,609	110,336	509,945
32	Total Taxes Based on Income	367,144		367,144
33	Retained Earning or Margins Beginning-of-Year	5,838,293		5,838,293
34	Miscellaneous Credits Year-to-Date	0		0
35	Dividends Declared (Common)	0		0
36	Dividends Declared (Preferred)	0		0
37	Other Debits Year-to-Date	0		0
38	Transfers to Patronage Capital	0		0
39	Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))	6,237,902	110,336	6,348,238
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	1,275,472		1,275,472
45	Cash Ratio ((14+20-10-11)/7)	0.9647	214.0464	0.6284
46	Operating Accrual Ratio ((14+20+26)/7)	1.2686	232.5133	0.9036
47	TIER ((31+26)/26)	2.4380	0.0000	4.0433
48	DSCR ((31+26+10+11)/44)	1.2883	#DIV/0!	1.2814

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)

Part B Statement of Income and Retained Earnings Statement

Company Name:

The Toledo Telephone Company

Line #	Item	Adjusted Prior Year 2012	Adjusted Current Year 2013
1	Local Network Services Revenues	428,399	425,670
2	Network Access Services Revenues	3,452,202	3,545,533
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	560	417
5	Miscellaneous Revenues	105,961	124,073
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(7,877)	(9,371)
7	Net Operating Revenues (1 thru 6)	3,979,245	4,086,322
8	Plant Specific Operations Expense	996,790	974,454
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	235,698	253,503
10	Depreciation Expense	1,082,089	956,881
11	Amortization Expense	0	0
12	Customer Operations Expense	423,299	289,306
13	Corporate Operations	832,008	737,144
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()	0	0
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	832,008	737,144
14	Total Operations Expenses (8 thru 12 +13b)	3,569,884	3,211,288
15	Operating Income or Margins (7 less 14)	409,361	875,034
16	Other Operating Income and Expenses ()	0	0
17	State and Local Taxes	120,000	115,525
18	Federal Income Taxes	19,392	193,933
19	Other Taxes	3,995	4,165
20	Total Operating Taxes (17+18+19)	143,387	313,623
21	Net Operating Income or Margins (15+16-20)	265,974	561,411
22	Interest on Funded Debt	223,085	185,807
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	0	0
25	Allowance for Funds Used During Construction	(6,815)	(18,245)
26	Total Fixed Charges (22+23+24-25)	216,270	167,562
27	Nonoperating Net Income	227,324	95,749
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	(78,272)	20,347
31	Total Net Income or Margins (21+27+28+29+30-26)	198,756	509,945
32	Total Taxes Based on Income	101,960	367,144
33	Retained Earning or Margins Beginning-of-Year	5,492,346	5,838,293
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	0	0
36	Dividends Declared (Preferred)	0	0
37	Other Debits Year-to-Date	0	0
38	Transfers to Patronage Capital	0	0
39	Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))	5,691,102	6,348,238
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	1,523,557	1,275,472
45	Cash Ratio ((14+20-10-11)/7)	0.6612	0.6284
46	Operating Accrual Ratio ((14+20+26)/7)	0.9875	0.9036
47	TIER ((31+26)/26)	1.9190	4.0433
48	DSCR ((31+26+10+11)/44)	0.98	1.2814

Footnote (A1)

S Corporation Effective Tax Rate (2 decimal places):

2012

2013

Network Access Services Revenue:

Company Name: The Toledo Telephone Company

Description	Part 32 Account	2012	2013
End User Revenue (SLC, ARC, etc.)	5081	194,348	212,039
Switched Access (excluding USF):	5082		
Intrastate	5084	475,648	437,307
Interstate	5082	1,340,953	1,529,425
Special Access:	5083		
Intrastate	5084.1	0	0
Interstate	5083	393,503	465,586
Federal USF (ICLS/Caf/HCL/SN)	5082.1	1,047,750	901,176
Total (must equal line 2 of Income Stmt.)		3,452,202	3,545,533
Line 2 of Income Stmt.		3,452,202	3,545,533
Difference		0	0

EXHIBIT 5

Audited Financial Statements



**THE TOLEDO TELEPHONE CO., INC.
AND SUBSIDIARIES**

Consolidated Financial Statements with Supplemental Information

Years Ended December 31, 2013 and 2012



THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES
Consolidated Financial Statements with Supplemental Information
Years Ended December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of The Toledo Telephone Co., Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Toledo Telephone Co., Inc. and Subsidiaries, as of December 31, 2013 and 2012, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

680 HAWTHORNE AVENUE SE, #140, SALEM, OR 97301

PHONE: 503.585.7774 FAX: 503.364.8405

PORTLAND, OR ; SALEM, OR ; CARLSBAD, CA ; ESCONDIDO, CA ; SAN DIEGO, CA ; ANCHORAGE, AK

AKT LLP

REPORT ON CONSOLIDATING INFORMATION

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued a report dated April 17, 2014, on our consideration of Toledo Telephone Co., Inc. and Subsidiaries' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

AKT LLP

Salem, Oregon
April 17, 2014

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES**Consolidated Balance Sheets**

December 31, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and cash equivalents	\$ 7,927,736	\$ 807,835
Accounts receivable, less allowance for doubtful accounts of \$0 in 2013 and 2012	720,349	316,597
Marketable securities	2,235,703	2,188,338
Materials and supplies	331,681	313,589
Prepaid expenses	129,351	86,440
Income tax receivable	-	29,641
Total Current Assets	<u>11,344,820</u>	<u>3,742,440</u>
Other Assets and Investments:		
Non-regulated equipment, net	119,727	156,004
Other investments	<u>461,417</u>	<u>442,896</u>
Total Other Assets and Investments	<u>581,144</u>	<u>598,900</u>
Property, Plant, and Equipment:		
In service	21,496,249	21,494,140
Under construction	<u>2,339,721</u>	<u>499,551</u>
	23,835,970	21,993,691
Less accumulated depreciation	<u>14,823,216</u>	<u>14,078,720</u>
Property, Plant, and Equipment, net	<u>9,012,754</u>	<u>7,914,971</u>
	<u>\$ 20,938,718</u>	<u>\$ 12,256,311</u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	<u>2013</u>	<u>2012</u>
Current Liabilities:		
Current portion of long-term debt	\$ 1,275,692	\$ 979,329
Accounts payable	902,603	89,973
Income tax payable	155,573	-
Accrued expenses	211,990	4,376
Deferred income taxes	88,003	9,817
Current portion of deferred grant revenue	<u>198,938</u>	<u>255,959</u>
Total Current Liabilities	<u>2,832,799</u>	<u>1,339,454</u>
Noncurrent Liabilities:		
Deferred grant revenue	38,185	59,872
Deferred Income Taxes	662,400	643,700
Long-Term Debt	<u>11,156,762</u>	<u>4,536,293</u>
Total Noncurrent Liabilities:	<u>11,857,347</u>	<u>5,239,865</u>
Stockholders' Equity:		
Common stock, \$10 par value, 5,000 shares authorized, 1,067 shares issued and outstanding	10,670	10,670
Retained earnings	6,039,910	5,640,301
Accumulated other comprehensive income	<u>197,992</u>	<u>26,021</u>
Total Stockholders' Equity	<u>6,248,572</u>	<u>5,676,992</u>
	<u>\$ 20,938,718</u>	<u>\$ 12,256,311</u>

See accompanying notes to consolidated financial statements.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES**Consolidated Statements of Operations**

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Local network	\$ 425,670	\$ 428,399
Network access	3,516,845	3,423,094
Long-distance	57,139	53,937
Miscellaneous	<u>42,969</u>	<u>60,185</u>
Total Operating Revenues	<u>4,042,623</u>	<u>3,965,615</u>
Operating Expenses:		
Plant specific	973,006	964,178
Plant nonspecific	312,486	301,122
Customer	327,734	480,020
Corporate	783,262	903,210
Depreciation	965,638	1,104,511
Income tax expense (benefit)	108,335	(29,465)
Other operating taxes	<u>119,702</u>	<u>125,295</u>
Total Operating Expenses	<u>3,590,163</u>	<u>3,848,871</u>
Operating Income	<u>452,460</u>	<u>116,744</u>
Other Income (Expense):		
Interest and dividends	126,751	63,764
Allowance for funds used during construction	18,245	6,815
Non-regulated operations, net	240,299	1,095
Toledo/Cowlitz Broadband Initiative, net	16,319	70,726
Other income (expense)	(15,706)	170,596
Nonoperating income tax	<u>(142,616)</u>	<u>(7,752)</u>
Total Other Income, net	<u>243,292</u>	<u>305,244</u>
Income Before Interest Expense	695,752	421,988
Interest Expense	<u>296,143</u>	<u>248,012</u>
Net Income	<u>\$ 399,609</u>	<u>\$ 173,976</u>

See accompanying notes to consolidated financial statements.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Net Income	\$ <u>399,609</u>	\$ <u>173,976</u>
Other Comprehensive Income:		
Unrealized holding gains arising during the period net of deferred taxes of \$88,003 (\$9,817 in 2012)	185,194	71,846
Reclassifications for realized (gains) losses included in net income	<u>(13,223)</u>	<u>61,861</u>
Total Other Comprehensive Income	<u>171,971</u>	<u>133,707</u>
Total Comprehensive Income	\$ <u><u>571,580</u></u>	\$ <u><u>307,683</u></u>

See accompanying notes to consolidated financial statements.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES**Consolidated Statements of Changes in Stockholders' Equity**

Years Ended December 31, 2013 and 2012

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Balance, December 31, 2011	\$ 10,970	\$ 5,578,311	\$ (107,686)	\$ 5,481,595
Stock redemption	(300)	(111,986)	-	(112,286)
2012 net income	-	173,976	-	173,976
Net change in unrealized holding gains, net of deferred taxes	<u>-</u>	<u>-</u>	<u>133,707</u>	<u>133,707</u>
Balance, December 31, 2012	10,670	5,640,301	26,021	5,676,992
2013 net income	-	399,609	-	399,609
Net change in unrealized holding gains, net of deferred taxes	<u>-</u>	<u>-</u>	<u>171,971</u>	<u>171,971</u>
Balance, December 31, 2013	<u>\$ 10,670</u>	<u>\$ 6,039,910</u>	<u>\$ 197,992</u>	<u>\$ 6,248,572</u>

See accompanying notes to consolidated financial statements.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES**Consolidated Statements of Cash Flows**

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Net income	\$ 399,609	\$ 173,976
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	965,638	1,104,511
Non-regulated depreciation	114,434	228,077
Change in deferred taxes	11,735	(26,600)
(Gains) Losses on sales of marketable securities	(13,223)	61,861
Patronage allocations received	(25,318)	-
Gain on life insurance policy	-	(253,996)
Impairment loss	18,219	-
Changes in assets and liabilities:		
Accounts receivable	(402,827)	41,712
Materials and supplies	(18,092)	(107,939)
Prepaid expenses	(42,911)	(44,562)
Income tax receivable	50,007	(29,352)
Accounts payable	811,705	(130,836)
Accrued expenses	207,614	(48,350)
Income tax payable	135,207	-
Deferred grant revenue	(78,708)	(17,104)
Net Cash Provided by Operating Activities	<u>2,133,089</u>	<u>951,398</u>
Cash Flows from Investing Activities:		
Capital expenditures	(2,063,421)	(935,695)
Change in other investments	(11,422)	45,760
Proceeds from life insurance policy	-	589,004
Purchases of marketable securities	(475,435)	(956,766)
Proceeds from sales of marketable securities	698,415	445,717
Purchases of non-regulated equipment	(78,157)	(80,067)
Net Cash Used by Investing Activities	<u>\$ (1,930,020)</u>	<u>\$ (892,047)</u>

See accompanying notes to consolidated financial statements.

	<u>2013</u>	<u>2012</u>
Cash Flows from Financing Activities:		
Proceeds from long-term debt	\$ 7,989,300	\$ 1,271,726
Payments on long-term debt	(1,072,468)	(879,446)
Redemption of common stock	<u>-</u>	<u>(112,286)</u>
Net Cash Provided by Financing Activities	<u>6,916,832</u>	<u>279,994</u>
Net Increase in Cash and Cash Equivalents	7,119,901	339,345
Cash and Cash Equivalents, beginning	<u>807,835</u>	<u>468,490</u>
Cash and Cash Equivalents, ending	<u>\$ 7,927,736</u>	<u>\$ 807,835</u>
Cash Paid During the Year for:		
Interest, net of amount capitalized	<u>\$ 289,328</u>	<u>\$ 253,265</u>
Income taxes	<u>\$ 32,200</u>	<u>\$ -</u>

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

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

Principles of Consolidation

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

Basis of Accounting

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

Revenue Recognition

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

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

The Company recognizes revenue from sales of equipment, and accessories at the time of sale. Discounts provided to customers at the time of sale are recognized as a reduction in sales as the products are sold.

Regulation

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

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

Use of Estimates

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

Fair Value of Financial Instruments

The Company's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, marketable securities, receivables, accounts payable, and notes payable. The Company estimates that the fair value of all of these non-derivative financial instruments at December 31, 2013 and 2012 does not differ materially from the aggregate carrying value of its financial instruments (other than marketable securities, see Note 2) recorded in the accompanying consolidated balance sheets.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

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

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term, highly liquid investments that were purchased with an original maturity of 3 months or less and are readily convertible into cash. The Company maintains its cash and equivalents in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor per bank by the FDIC. At December 31, 2013 the Company had uninsured cash of \$7,717,995 (\$237,456 at December 31, 2012).

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

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

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

	<u>2013</u>	<u>2012</u>
Cash, checking and in sweep accounts	\$ 199,794	\$ 587,612
Cash, RUS construction account	7,721,948	-
Cash, money market funds	<u>5,994</u>	<u>220,223</u>
	\$ <u>7,927,736</u>	\$ <u>807,835</u>

Marketable Securities

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

Accounts Receivable

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

Materials and Supplies

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

Property, Plant, and Equipment

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

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

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

Property, Plant, and Equipment, continued

Non-regulated equipment represents the book value of Internet and other equipment utilized in providing non-regulated services. Non-regulated equipment is stated at cost, less accumulated depreciation. Upon retirement, sale, or other disposition of non-regulated property, plant, and equipment, the cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses are included in operations. Depreciation rates for non-regulated assets range from 4.55% to 25%.

The Company follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. In 2013, total interest incurred was \$296,143 of which \$18,245 was capitalized to property, plant, and equipment (\$248,012 and \$6,815 in 2012).

Comprehensive Income

The purpose of reporting comprehensive income is to report all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners.

Network Access Revenues

Network access revenue is received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long distance carrier for access and interconnection to local facilities. The Company has elected to file access tariffs through the Washington Exchange Carriers Association (WECA) and the National Exchange Carriers Association (NECA) for these charges. These access tariffs are subject to approval by the WUTC for intrastate charges and the FCC for interstate charges.

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

The Company participates in pooling arrangements with NECA and 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 (NECA pool only) after the close of the related calendar year, are recorded in the year in which such adjustments become determinable, based upon studies prepared by outside consultants.

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

In 2013, the Company received \$901,176 (\$1,047,750 in 2012) from the USAC High Cost Loop Fund and \$1,527,376 in interstate revenues in 2013 (\$1,338,904 in 2012) administered through the NECA pools.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

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

National Broadband Plan and FCC Order

In 2010 the FCC issued the National Broadband Plan which outlined a long-term plan to increase broadband penetrations and services throughout the United States of America. The plan further outlined a proposed long-term phase-out of access charges (referred to as Intercarrier Compensation) and moved to support mechanisms based on broadband services rather than the current Universal Service High Cost Loop Fund administered by USAC.

In response to the plan, the FCC on October 27, 2011, approved Report and Order 11-161 (the Order), that begins the process of reforming the universal service and intercarrier compensation (ICC) systems and adopts support for broadband-capable networks as an express universal service principle. The Order further creates the Connect America Fund (CAF) which will ultimately replace all existing high-cost support mechanisms as well as help facilitate ICC reforms.

The key provisions of the order include:

- Capping the federal universal service fund at current levels.
- Placing limitations on capital and operating spending.
- Establishing local rate benchmarks.
- Capping the per-line support amount for the universal service high cost loop fund at \$250 per month.
- Phase out of local switching support and the establishment of the CAF for recovery of investment and expenses related to the provision of switching services.
- Reforming the ICC system by adopting a plan to transition from access charges to a bill and keep framework. The transition period for rate-of-return carriers such as the Cooperative is approximately 9 years from the date of the order.
- Adoption of a monthly Access Recovery Charge as a transitional recovery mechanism to mitigate the impact of reduced intercarrier revenues.

The Order was effective December 29, 2011 and implementation began on July 1, 2012. As of the implementation date CAF recovery is calculated based on the frozen fiscal year 2011 interstate switched access revenue requirement, plus certain 2011 intrastate access revenues, and will decline annually by 5% during the transition period.

As of December 31, 2013 the Company is transitioning its local rates and is not subject to the \$250 per line support cap. Furthermore, for the period ended December 31, 2013 the impacts to the Company related to the 5% annual decline in switched access revenues have not been significant.

The overall reform process will take place in phases and will take several years to implement. Furthermore, the Order includes a Further Notice of Proposed Rulemaking The FCC has issued numerous Orders on Reconsideration and continues to seek comments on various items. As a result, the ultimate outcome of these proceedings and their impact is uncertain at this time.

Income Taxes

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

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

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

Income Taxes, continued

The Company follows accounting standards generally accepted in the United States of America related to the recognition of uncertain tax positions. The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provisions, when applicable. There are no amounts accrued in the consolidated financial statements related to uncertain tax positions. The Company files income tax returns in the United States, state and local jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal, state or local tax examination by tax authorities for years before 2010.

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

Subsequent Events

The Company has evaluated subsequent events through April 17, 2014, which is the date the consolidated financial statements were available to be issued.

Reclassification

Certain accounts in the 2012 consolidated financial statements have been reclassified to conform to the presentation in the 2013 consolidated financial statements. Such reclassifications have no effect on net income or retained earnings.

Note 2 - Marketable Securities

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

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

Note 2 - Marketable Securities, continued

Marketable securities at December 31 consisted of the following:

	2013	2012
<i>Fair value:</i>		
Mutual Funds - Balanced and Value Funds	\$ 500,957	\$ 353,499
Mutual Funds - International Funds	160,507	215,889
Mutual Funds - Bond Funds	785,179	936,103
Mutual Funds - Blended Funds	125,428	192,421
Mutual Funds - Growth Funds	663,632	490,426
	\$ 2,235,703	\$ 2,188,338
<i>Cost:</i>		
Mutual Funds - Balanced and Value Funds	\$ 414,528	\$ 342,984
Mutual Funds - International Funds	150,013	215,848
Mutual Funds - Bond Funds	784,441	924,050
Mutual Funds - Blended Funds	95,734	199,310
Mutual Funds - Growth Funds	498,027	470,308
	\$ 1,942,743	\$ 2,152,500
<i>Gross unrealized holding gains:</i>		
Mutual funds	\$ 292,960	\$ 35,838
Less deferred income taxes	94,968	9,817
	\$ 197,992	\$ 26,021

Realized gains or losses are determined on the basis of specific identification. The Company had \$698,416 in proceeds from the sales of marketable securities in 2013 (\$445,717 in 2012). There were gross realized gains of \$27,978 and gross realized losses of \$14,755 in 2013 (gross realized losses of \$61,861 in 2012).

Note 3 - Other Investments

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

	2013	2012
Cash surrender value of life insurance policies	\$ 247,238	\$ 235,816
Western Independent Networks, Inc., 444 shares common stock	16,987	16,987
Property and building, available for sale	40,239	58,458
NRTC patronage certificates	106,953	81,635
NECA Services, Inc., 5,000 shares common stock	50,000	50,000
	\$ 461,417	\$ 442,896

During 2008 the Company classified the property and building in Winlock, Washington as available for sale. During 2013, because the real estate market in the area is depressed, it was established that the property's net realizable value was less than its carrying amount of \$58,458. Accordingly, the Company recognized an impairment loss of \$18,219, which is included in other expenses on the Company's consolidated statement of operations.

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

Note 3 - Other Investments, continued

The Company maintains a life insurance policy on the life of the owner and officer of the Company, with total death benefits of approximately \$400,000 at December 31, 2013. During the prior year one owner passed away, and the Company received a death benefit of approximately \$590,000 on the life insurance policy.

Note 4 - Property, Plant, and Equipment

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

	<u>2013</u>	<u>2012</u>
Land	\$ 135,858	\$ 135,858
Buildings and improvements	2,335,971	2,325,504
Central office equipment	3,789,463	3,784,381
Cable and wire facilities	12,916,174	12,934,387
Furniture and office equipment	1,323,558	1,310,695
Vehicles and work equipment	995,225	1,003,315
	<u>\$ 21,496,249</u>	<u>\$ 21,494,140</u>

Note 5 - Long-Term Debt

Long-term debt consists of the following:

	<u>2013</u>	<u>2012</u>
2% mortgage notes payable to the Rural Utilities Service (RUS), in quarterly installments of \$328, principal and interest, collateralized by real and personal property, paid off in 2013.	\$ -	\$ 1,313
5.84% to 7.00% mortgage notes payable to RUS, in monthly installments of \$17,514, principal and interest, collateralized by substantially all real and personal property, due in 2014.	192,050	416,288
5.76% to 6.67% mortgage notes payable to RUS, in monthly installments of \$16,139, principal and interest, collateralized by substantially all real and personal property, due in 2016.	627,866	833,306
1.59% to 4.79% mortgage notes payable to RUS, in monthly installments of \$13,874, principal and interest, collateralized by substantially all real and personal property, due in 2020.	<u>1,306,155</u>	<u>1,479,849</u>
Carried forward	\$ 2,126,071	\$ 2,730,756

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

Note 5 - Long-Term Debt, continued

	<u>2013</u>	<u>2012</u>
Brought forward	\$ 2,126,071	\$ 2,730,756
5.54% to 6.54% mortgage notes payable to Rural Telephone Bank (RTB), in monthly installments of \$15,206, principal and interest, collateralized by substantially all real and personal property, due in 2014.	179,505	407,875
5.17% mortgage note payable to RTB, in monthly installments of \$3,172, principal and interest, collateralized by substantially all real and personal property, due in 2016.	131,976	179,321
1.18% to 3.05% note payable to the Federal Financing Bank (FFB), in quarterly installments of \$26,215, principal and interest, collateralized by substantially all real and personal property, due December 2020.	818,949	925,944
2.11% to 2.41% note payable to FFB in quarterly installments of \$19,565, principal and interest, collateralized by substantially all real and personal property, due January 2034.	<u>9,175,953</u>	<u>1,270,726</u>
	12,432,454	5,514,622
Less current portion	<u>1,275,692</u>	<u>979,329</u>
	\$ <u>11,156,762</u>	\$ <u>4,535,293</u>

Future maturities of long-term debt are as follows:

2014	\$ 1,275,692
2015	939,876
2016	804,260
2017	687,708
2018	821,003
Thereafter	<u>7,903,915</u>
	\$ <u>12,432,454</u>

Substantially all assets of the Company are pledged as security for the long-term debt under the first mortgages executed to RUS, RTB, and FFB. The terms of the mortgage agreements contain restrictions on the payment of dividends and the maintenance of defined amounts of stockholders' equity and working capital after payment of dividends, as well as limitations on additional debt. The mortgage agreements also contain requirements regarding debt service coverage and other financial ratios. Management believes they are in compliance with these ratios as of December 31, 2013.

As of December 31, 2013, the Company had unadvanced funds of \$8,829,730 (\$16,819,030 in 2012).

Note 6 - Income Taxes and Deferred Income Taxes

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

	<u>2013</u>	<u>2012</u>
Operating:		
Current federal tax	\$ (93,435)	\$ 50,665
Deferred taxes	<u>(14,900)</u>	<u>(21,200)</u>
Total operating income taxes	\$ <u>(108,335)</u>	\$ <u>29,465</u>

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2013 and 2012

Note 6 - Income Taxes and Deferred Income Taxes, continued

	<u>2013</u>	<u>2012</u>
Nonoperating:		
Current federal tax	\$ (138,816)	\$ (55,552)
Deferred taxes	<u>(3,800)</u>	<u>47,800</u>
Total nonoperating income taxes	\$ <u>(142,616)</u>	\$ <u>(7,752)</u>

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

Deferred income tax assets and liabilities are as follows:

	<u>2013</u>	<u>2012</u>
Current deferred tax liability:		
Unrealized gains and losses on marketable securities	\$ <u>(88,003)</u>	\$ <u>(9,817)</u>
Non-current deferred tax liability:		
Accelerated depreciation	\$ <u>(662,400)</u>	\$ <u>(643,700)</u>

Note 7 - Retirement Plans

The Company has established a defined contribution retirement plan that covers substantially all employees. Eligible participants may defer a portion of their wages to their employee deferral accounts, and the Company contributes a discretionary amount, as determined by the Company. In 2013, the Company made contributions of \$153,517 (\$162,211 in 2012).

Note 8 - Toledo/Cowlitz Broadband Initiative

In 2010 the Company received a federal grant award of approximately \$2,870,000 through the Broadband Technologies Opportunities Program (BTOP) under the Sustainable Broadband Adoption program of the American Recovery and Reinvestment Act of 2009. Of this award, \$2,100,000 is the federal share, and approximately \$770,000 is the Company's share, to be contributed as matching funds of either cash or in-kind contributions.

The grant funds will be used to support the Company's Toledo/Cowlitz Broadband Initiative (TCBI), which proposes to increase broadband adoption and economic opportunities in the tri-county area (Lewis, Cowlitz and Thurston Counties) by partnering with the Cowlitz Tribe to provide equipment, service, and education relevant to the surrounding community and tribal members. Participants in the program will complete a training curriculum to qualify for a subsidized computer that would be provided "on loan" until the end of a two-year training period. The Company also offers discounted broadband services for a two year period to enable participants to become home subscribers. TCBI plans to train approximately 750 residents, offering up to 30,000 hours of teacher-led training focused on basic computer literacy and job searching skills. The program ended on September 30, 2013. After this date all revenues and expenses resulting from the project will be included in the operations section on the statement of operations, versus the other income section.

For the year ended December 31, 2013 the Company received grant funds in the amount of \$544,255 (\$580,402 in 2012). The Company incurred expenses of \$538,856 related to TCBI (\$482,145 for 2012), and recognized grant revenues of \$555,175 (\$552,871 in 2012).

At December 31, 2013, the Company has \$237,123 of deferred grant revenue that will be recognized into revenue over the two year service contract of each participant in the program (\$315,831 at December 31, 2012).

SUPPLEMENTAL INFORMATION

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidating Balance Sheets

December 31, 2013

ASSETS	The Toledo Telephone Company, Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	<u>Consolidated</u>
Current Assets:					
Cash and cash equivalents	\$ 7,804,822	\$ 299	\$ 122,615	\$ -	\$ 7,927,736
Accounts receivable, less allowance for doubtful accounts of zero	720,349	-	-	-	720,349
Accounts receivable, affiliate	10,116	-	3,812	(13,928)	-
Marketable securities	1,702,373	533,330	-	-	2,235,703
Materials and supplies	331,681	-	-	-	331,681
Prepaid expenses	123,051	-	6,300	-	129,351
Total Current Assets	<u>10,692,392</u>	<u>533,629</u>	<u>132,727</u>	<u>(13,928)</u>	<u>11,344,820</u>
Other Assets and Investments:					
Non-regulated equipment, net	119,727	-	-	-	119,727
Other investments	461,417	-	-	-	461,417
Investment in subsidiaries	632,328	-	-	(632,328)	-
Total Other Assets and Investments	<u>1,213,472</u>	<u>-</u>	<u>-</u>	<u>(632,328)</u>	<u>581,144</u>
Property, Plant, and Equipment:					
In service	21,496,249	-	-	-	21,496,249
Under construction	2,339,721	-	-	-	2,339,721
	23,835,970	-	-	-	23,835,970
Less accumulated depreciation	14,823,216	-	-	-	14,823,216
Property, Plant, and Equipment, net	<u>9,012,754</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,012,754</u>
	<u>\$ 20,918,618</u>	<u>\$ 533,629</u>	<u>\$ 132,727</u>	<u>\$ (646,256)</u>	<u>\$ 20,938,718</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	The Toledo Telephone Company, Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	Consolidated
Current Liabilities:					
Current portion of long-term debt	\$ 1,275,692	\$ -	\$ -	\$ -	\$ 1,275,692
Accounts payable	902,566	-	37	-	902,603
Income tax payable	131,698	14,301	9,574	-	155,573
Accrued expenses	211,990	-	-	-	211,990
Accounts payable, affiliate	3,812	10,116	-	(13,928)	-
Deferred income taxes	88,003	-	-	-	88,003
Current portion of deferred grant revenue	198,938	-	-	-	198,938
Total Current Liabilities	2,812,699	24,417	9,611	(13,928)	2,832,799
Noncurrent Liabilities:					
Deferred grant revenues	38,185	-	-	-	38,185
Deferred Income Taxes	662,400	-	-	-	662,400
Long-Term Debt	11,156,762	-	-	-	11,156,762
Total Noncurrent Liabilities	11,857,347	-	-	-	11,857,347
Stockholders' Equity:					
Common stock	10,670	100	100	(200)	10,670
Paid-in capital	-	196,825	48,523	(245,348)	-
Retained earnings	6,039,910	278,159	74,493	(352,652)	6,039,910
Accumulated other comprehensive income	197,992	34,128	-	(34,128)	197,992
Total Stockholders' Equity	6,248,572	509,212	123,116	(632,328)	6,248,572
	\$ 20,918,618	\$ 533,629	\$ 132,727	\$ (646,256)	\$ 20,938,718

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidating Statements of Operations

Year Ended December 31, 2013

Schedule II

	The Toledo Telephone Company, Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	Consolidated
Operating Revenues:					
Local network	\$ 425,670	-	-	-	425,670
Network access	3,516,845	-	-	-	3,516,845
Long-distance	-	-	57,139	-	57,139
Miscellaneous	50,895	-	-	(7,926)	42,969
Total Operating Revenues	3,993,410	-	57,139	(7,926)	4,042,623
Operating Expenses:					
Plant specific	973,006	-	-	-	973,006
Plant nonspecific	312,486	-	-	-	312,486
Customer	289,306	-	46,354	(7,926)	327,734
Corporate	780,566	2,043	653	-	783,262
Depreciation	965,638	-	-	-	965,638
Income tax expense	108,335	-	-	-	108,335
Other operating taxes	119,702	-	-	-	119,702
Total Operating Expenses	3,549,039	2,043	47,007	(7,926)	3,590,163
Operating Income (Loss)	444,371	(2,043)	10,132	-	452,460
Other Income (Expense):					
Interest and dividends	110,863	15,723	165	-	126,751
Allowance for funds used during construction	18,245	-	-	-	18,245
Non-regulated operations, net	240,299	-	-	-	240,299
Toledo/Cowlitz Broadband Initiative, net	16,319	-	-	-	16,319
Other income (expense)	4,762	(144)	(446)	(19,878)	(15,706)
Nonoperating income tax expense	(139,107)	(2,031)	(1,478)	-	(142,616)
Total Other Income (Expense), net	251,381	13,548	(1,759)	(19,878)	243,292
Income Before Interest Expense	695,752	11,505	8,373	(19,878)	695,752
Interest Expense	296,143	-	-	-	296,143
Net Income	\$ 399,609	11,505	8,373	(19,878)	399,609

THE TOLEDO TELEPHONE CO., INC. AND SUBSIDIARIES

Consolidating Statements of Cash Flows

Year Ended December 31, 2013

Schedule III

	The Toledo Telephone Company, Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	Consolidated
Cash Flows from Operating Activities:					
Net income	\$ 399,609	11,505	8,373	(19,878)	399,609
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation	965,638	-	-	-	965,638
Non-regulated depreciation	114,434	-	-	-	114,434
Change in deferred taxes	11,735	-	-	-	11,735
Income from subsidiaries	(19,878)	-	-	19,878	-
Gains on sales of marketable securities	(13,223)	-	-	-	(13,223)
Patronage allocations received	(25,318)	-	-	-	(25,318)
Impairment loss	18,219	-	-	-	18,219
Changes in assets and liabilities:					
Accounts receivable	(403,752)	-	431	494	(402,827)
Materials and supplies	(18,092)	-	-	-	(18,092)
Prepaid expenses	(42,911)	-	-	-	(42,911)
Income tax receivable	50,007	-	-	-	50,007
Accounts payable	813,091	-	(892)	(494)	811,705
Accrued expenses	207,614	-	-	-	207,614
Income tax payable	131,698	2,032	1,477	-	135,207
Deferred grant revenues	(78,708)	-	-	-	(78,708)
 Net Cash Provided by Operating Activities	 2,110,163	 13,537	 9,389	 -	 2,133,089
Cash Flows from Investing Activities:					
Capital expenditures	(2,063,421)	-	-	-	(2,063,421)
Change in other investments	(11,422)	-	-	-	(11,422)
Purchases of marketable securities	(239,246)	(236,189)	-	-	(475,435)
Proceeds from sales of marketable securities	597,755	100,660	-	-	698,415
Purchases of non-regulated equipment	(78,157)	-	-	-	(78,157)
 Net Cash Used by Investing Activities	 \$ (1,794,491)	 (135,529)	 -	 -	 (1,930,020)

	The Toledo Telephone Company, Inc.	Toledo Cellular, Inc.	Toledo Telenet Long Distance Company	Eliminations	Consolidated
Cash Flows from Financing Activities:					
Proceeds from long-term debt	\$ 7,989,300	-	-	-	7,989,300
Payments on long-term debt	(1,072,468)	-	-	-	(1,072,468)
Net Cash Provided by Financing Activities	<u>6,916,832</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,916,832</u>
Net Increase (Decrease) in Cash and Cash Equivalents	7,232,504	(121,992)	9,389	-	7,119,901
Cash and Cash Equivalents, beginning	<u>572,318</u>	<u>122,291</u>	<u>113,226</u>	<u>-</u>	<u>807,835</u>
Cash and Cash Equivalents, ending	<u>\$ 7,804,822</u>	<u>299</u>	<u>122,615</u>	<u>-</u>	<u>7,927,736</u>
Cash Paid During the Year for:					
Interest, net of amount capitalized	<u>\$ 289,328</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>289,328</u>
Income taxes	<u>\$ 32,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,200</u>

EXHIBIT 6

RUS Form 497

**PETITION OF THE TOLEDO TELEPHONE CO., INC. TO
RECEIVE SUPPORT FROM THE UNIVERSAL
SERVICE COMMUNICATIONS PROGRAM –
EXHIBIT 6 – 7**

USDA-RUS		BORROWER DESIGNATION	
OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS		WA0538	
		PERIOD ENDING	
INSTRUCTIONS- See RUS Bulletin 1744-2		December, 2013	
PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS			
ITEM	PRIOR YEAR	THIS YEAR	
1. Local Network Services Revenues	428,399	425,670	
2. Network Access Services Revenues	3,423,094	3,516,845	
3. Long Distance Network Services Revenues			
4. Carrier Billing and Collection Revenues	9,251	8,343	
5. Miscellaneous Revenues	67,502	51,923	
6. Uncollectible Revenues	7,877	9,371	
7. Net Operating Revenues (1 thru 5 less 6)	3,920,369	3,993,410	
8. Plant Specific Operations Expense	964,178	973,006	
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	301,122	312,486	
10. Depreciation Expense	1,104,511	965,638	
11. Amortization Expense			
12. Customer Operations Expense	432,491	327,734	
13. Corporate Operations Expense	901,389	783,262	
14. Total Operating Expenses (8 thru 13)	3,703,691	3,362,126	
15. Operating Income or Margins (7 less 14)	216,678	631,284	
16. Other Operating Income and Expenses			
17. State and Local Taxes			
18. Federal Income Taxes	(22,535)	250,951	
19. Other Taxes	124,495	120,148	
20. Total Operating Taxes (17+18+19)	101,960	371,099	
21. Net Operating Income or Margins (15+16-20)	114,718	260,185	
22. Interest on Funded Debt	247,863	296,143	
23. Interest Expense - Capital Leases			
24. Other Interest Expense	149	6	
25. Allowance for Funds Used During Construction	6,815	18,245	
26. Total Fixed Charges (22+23+24-25)	241,197	277,904	
27. Nonoperating Net Income	228,634	62,053	
28. Extraordinary Items			
29. Jurisdictional Differences			
30. Nonregulated Net Income	71,821	355,275	
31. Total Net Income or Margins (21+27+28+29+30-26)	173,976	399,609	
32. Total Taxes Based on Income			
33. Retained Earnings or Margins Beginning-of-Year	5,578,311	5,640,301	
34. Miscellaneous Credits Year-to-Date			
35. Dividends Declared (Common)			
36. Dividends Declared (Preferred)			
37. Other Debits Year-to-Date	111,986	0	
38. Transfers to Patronage Capital			
39. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]	5,640,301	6,039,910	
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	1,159,734	1,368,605	
45. Cash Ratio [(14+20-10-11) / 7]	0.6890	0.6930	
46. Operating Accrual Ratio [(14+20+26) / 7]	1.0323	1.0044	
47. TIER [(31+26) / 26]	1.7213	2.4379	
48. DSCR [(31+26+10+11) / 44]	1.3104	1.2006	

USDA-RUS

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

INSTRUCTIONS - See RUS Bulletin 1744-2

BORROWER DESIGNATION

WA0538

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)
Toledo, WA	14.00	14.00	285	1,390	1,675	301.50	61.00
MobileWireless					0		
Route Mileage Outside Exchange Area						0.00	0.00
Total			285	1,390	1,675	301.50	61.00
No. Exchanges	1						

USDA-RUS

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

INSTRUCTIONS - See RUS Bulletin 1744-2

BORROWER DESIGNATION

WA0538

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)
Toledo, WA	1,675	1,337	444	1,500	512	39.95	Package	DSL
Total	1,675	1,337						

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	BORROWER DESIGNATION WA0538 PERIOD ENDING December, 2013
INSTRUCTIONS- See RUS Bulletin 1744-2	

PART D. SYSTEM DATA				
1. No. Plant Employees	2. No. Other Employees	3. Square Miles Served	4. Access Lines per Square Mile	5. Subscribers per Route Mile
8	11	386	4.34	5.56

PART E. TOLL DATA	
1. Study Area ID Code(s) a. 522447 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	267,352
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)	
6. Salvaged Materials	
7. Contribution in Aid to Construction	
8. Gross Additions to Telecom. Plant (1 thru 7)	267,352

PART G. INVESTMENTS IN AFFILIATED COMPANIES					
INVESTMENTS	CURRENT YEAR DATA		CUMULATIVE DATA		
	Investment This Year	Income/Loss This Year	Cumulative Investment To Date	Cumulative Income/Loss To Date	Current Balance
	(b)	(c)	(d)	(e)	(f)
1. Investment in Affiliated Companies - Rural Development				0	0
2. Investment in Affiliated Companies - Nonrural Development				461,417	461,417

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

BORROWER DESIGNATION

WA0538

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	16.00%
2. Land and support assets - Aircraft	
3. Land and support assets - Special purpose vehicles	
4. Land and support assets - Garage and other work equipment	16.00%
5. Land and support assets - Buildings	4.00%
6. Land and support assets - Furniture and Office equipment	20.00%
7. Land and support assets - General purpose computers	
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	
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	20.00%
17. Information origination/termination - Other terminal equipment	
18. Cable and wire facilities - Poles	7.59%
19. Cable and wire facilities - Aerial cable - Metal	20.40%
20. Cable and wire facilities - Aerial cable - Fiber	20.40%
21. Cable and wire facilities - Underground cable - Metal	4.55%
22. Cable and wire facilities - Underground cable - Fiber	5.00%
23. Cable and wire facilities - Buried cable - Metal	6.00%
24. Cable and wire facilities - Buried cable - Fiber	5.00%
25. Cable and wire facilities - Conduit systems	4.55%
26. Cable and wire facilities - Other	

USDA-RUS		BORROWER DESIGNATION
OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS		WA0538
INSTRUCTIONS – See help in the online application.		PERIOD ENDED December, 2013
PART I – STATEMENT OF CASH FLOWS		
1. Beginning Cash (Cash and Equivalents plus RUS Construction Fund)		572,318
CASH FLOWS FROM OPERATING ACTIVITIES		
2. Net Income		399,609
<i>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</i>		
3. Add: Depreciation		965,638
4. Add: Amortization		0
5. Other (Explain)		
<i>Changes in Operating Assets and Liabilities</i>		
6. Decrease/(Increase) in Accounts Receivable		(407,995)
7. Decrease/(Increase) in Materials and Inventory		(18,092)
8. Decrease/(Increase) in Prepayments and Deferred Charges		(49,211)
9. Decrease/(Increase) in Other Current Assets		115,327
10. Increase/(Decrease) in Accounts Payable		810,575
11. Increase/(Decrease) in Advance Billings & Payments		(78,708)
12. Increase/(Decrease) in Other Current Liabilities		426,934
13. Net Cash Provided/(Used) by Operations		2,164,077
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		(640)
17. Net Increase/(Decrease) in Long Term Debt (Including Current Maturities)		6,916,832
18. Increase/(Decrease) in Other Liabilities & Deferred Credits		96,886
19. Increase/(Decrease) in Capital Stock, Paid-in Capital, Membership and Capital Certificates & Other Capital		171,971
20. Less: Payment of Dividends		0
21. Less: Patronage Capital Credits Retired		0
22. Other (Explain)		
23. Net Cash Provided/(Used) by Financing Activities		7,185,049
CASH FLOWS FROM INVESTING ACTIVITIES		
24. Net Capital Expenditures (Property, Plant & Equipment)		(1,842,279)
25. Other Long-Term Investments		69,713
26. Other Noncurrent Assets & Jurisdictional Differences		0
27. Other (Explain) net/reclass from other activities		(221,142)
28. Net Cash Provided/(Used) by Investing Activities		(1,993,708)
29. Net Increase/(Decrease) in Cash		7,355,418
30. Ending Cash		7,927,736

Revision Date 2010

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	BORROWER DESIGNATION WA0538
INSTRUCTIONS - See RUS Bulletin 1744-2	PERIOD ENDED December, 2013
NOTES TO THE OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	BORROWER DESIGNATION WA0538
INSTRUCTIONS - See RUS Bulletin 1744-2	PERIOD ENDED December, 2013
CERTIFICATION LOAN DEFAULT NOTES TO THE OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	

EXHIBIT 7

CORPORATE OPERATIONS EXPENSE ADJUSTMENT(S)

For 2013: _____\$0.00_____

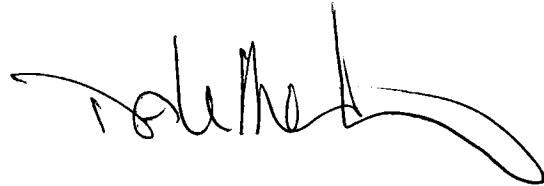
For 2012: _____\$69,964_____

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

I, Dale Merten an officer of The Toledo Telephone Company, 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 29 day of July, 2014.

A handwritten signature in black ink, appearing to read 'Dale Merten', with a long, sweeping underline that extends to the right.

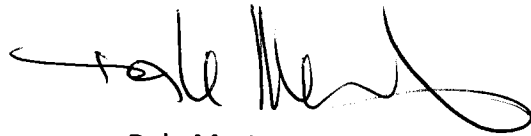
Dale Merten
C.O.O.

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Dale Merten, 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 29th day of July, 2014.

A handwritten signature in black ink, appearing to read "Dale Merten", with a stylized flourish at the end.

Dale Merten
C.O.O.