WASHINGTON 534 & 530
INLAND TELEPHONE COMPANY

(A Wholly-Owned Subsidiary of
Western Elite Incorporated Services)

Audited Financial Statements

December 31, 2013 and 2012

WASHINGTON 534 & 530
INLAND TELEPHONE COMPANY
(A Wholly-Owned Subsidiary of Western Elite Incorporated Services)

Audited Financial Statements

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JOHNSON STONE & PAGANO, P.S.
CERTIFIED PUBLIC ACCOUNTANTS
1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

Independent Auditor's Report

Board of Directors
Inland Telephone Company
Roslyn, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Inland Telephone Company (a wholly-owned subsidiary of Western Elite Incorporated Services) (the "Company") which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, comprehensive loss, stockholder's 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 audits 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 respective financial position of the Company as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows thereof 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 April 15, 2014 on our consideration of the Company'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 the Company's internal control over financial reporting and compliance.

Johnson, Stone & Pagano, P.S.

JOHNSON, STONE & PAGANO, P.S.

April 15, 2014

AUDITED FINANCIAL STATEMENTS

WASHINGTON 534 & 530
INLAND TELEPHONE COMPANY
(A Wholly-Owned Subsidiary of Western Elite Incorporated Services)

BALANCE SHEETS

December 31, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash	$ 298,416	$ 566,757
Cash - construction fund	395,813	8,040
Telecommunications accounts receivable, less allowance for doubtful accounts	720,927	535,807
Materials and supplies	269,547	259,636
Prepaid expenses	38,205	2,490
Total Current Assets	1,722,908	1,372,730
NONCURRENT ASSETS		
Cash surrender value of life insurance	144,388	137,680
Due from affiliated companies	51,709	290,671
Investments	45,718	40,443
Other assets	250	250
Total Noncurrent Assets	242,065	469,044
PROPERTY, PLANT AND EQUIPMENT		
Telecommunications plant in service	22,848,876	22,584,411
Less allowances for depreciation	16,940,466	15,657,911
	5,908,410	6,926,500
Telecommunications plant under construction	2,578,522	323,657
Total Telecommunications Plant	8,486,932	7,250,157
Nonregulated plant in service and miscellaneous physical property	2,969,429	1,933,776
Less allowances for depreciation	1,148,117	1,102,186
Total Nonregulated Plant and Miscellaneous Physical Property	1,821,312	831,590
TOTAL ASSETS	$ 12,273,217	$ 9,923,521

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

WASHINGTON 534 & 530
INLAND TELEPHONE COMPANY
(A Wholly-Owned Subsidiary of Western Elite Incorporated Services)

BALANCE SHEETS (Continued)

December 31, 2013 and 2012

	2013	2012
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 234,125	$ 192,641
Customers' deposits	2,539	2,090
Taxes, other than income taxes	142,940	78,559
Accrued payroll and benefits	801,672	772,311
Other current liabilities	13,899	4,458
Income taxes payable	60,011	20
Installments on long-term debt due within one year	411,023	673,300
Total Current Liabilities	1,666,209	1,723,379
LONG-TERM DEBT, less portion classified as a current liability	3,990,483	1,096,322
DEFERRED INCOME TAXES	528,126	716,612
Total Liabilities	6,184,818	3,536,313
STOCKHOLDER'S EQUITY		
Common stock, par value $10 per share		
Authorized - 10,000 shares		
Issued and outstanding - 9,315 shares	93,150	93,150
Additional paid-in capital	7,175	7,175
Retained earnings	5,985,387	6,287,790
Accumulated other comprehensive income (loss)	2,687	(907)
Total Stockholder's Equity	6,088,399	6,387,208
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 12,273,217	$ 9,923,521

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

WASHINGTON 534 & 530
INLAND TELEPHONE COMPANY
(A Wholly-Owned Subsidiary of Western Elite Incorporated Services)

STATEMENTS OF OPERATIONS

Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Local network service revenues	$ 668,600	$ 713,304
Network access service revenues	4,212,326	4,738,917
Miscellaneous revenues	108,521	158,491
Uncollectible revenues (deduction)	(6,272)	(4,796)
Total Operating Revenues	4,983,175	5,605,916
OPERATING EXPENSES		
Plant specific operations	2,001,657	2,240,021
Plant nonspecific operations	333,319	338,850
Depreciation and amortization	1,317,057	1,255,456
Customer operations	549,599	517,868
Corporate operations	1,011,766	1,032,592
Total Operating Expenses	5,213,398	5,384,787
OPERATING TAXES		
Taxes, other than income taxes	126,725	130,333
Income taxes (benefit)	(159,969)	668
Total Operating Taxes (Benefit)	(33,244)	131,001
Net Operating Income (Loss)	(196,979)	90,128
FIXED CHARGES		
Interest on funded debt	75,452	85,114
Other interest expense	19,260	14,655
Total Fixed Charges	94,712	99,769
OTHER INCOME (EXPENSE)		
Interest and dividend income	2,510	3,731
Gain on sale of investment and equipment		22,217
Miscellaneous expense	(15,432)	(26,948)
Nonregulated expense - net	(3,308)	(513,764)
Nonoperating income tax benefits	5,518	175,306
Total Other Expense	(10,712)	(339,458)
NET LOSS	$ (302,403)	$ (349,099)

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

WASHINGTON 534 & 530
INLAND TELEPHONE COMPANY
(A Wholly-Owned Subsidiary of Western Elite Incorporated Services)

STATEMENTS OF COMPREHENSIVE LOSS

Years Ended December 31, 2013 and 2012

	2013	2012
NET LOSS	$ (302,403)	$ (349,099)
OTHER COMPREHENSIVE INCOME		
Unrealized gain on investments, net of deferred income taxes (2013 - $1,851; 2012 - $771)	3,594	1,496
COMPREHENSIVE LOSS	$ (298,809)	$ (347,603)

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WASHINGTON 534 & 530
INLAND TELEPHONE COMPANY
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STATEMENTS OF STOCKHOLDER'S EQUITY

Years Ended December 31, 2013 and 2012

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE AT DECEMBER 31, 2011	$ 93,150	$ 7,175	$ 6,636,889	$ (2,403)	$ 6,734,811
Net loss for the year			(349,099)		(349,099)
Other comprehensive income				1,496	1,496
BALANCE AT DECEMBER 31, 2012	93,150	7,175	6,287,790	(907)	6,387,208
Net loss for the year			(302,403)		(302,403)
Other comprehensive income				3,594	3,594
BALANCE AT DECEMBER 31, 2013	$ 93,150	$ 7,175	$ 5,985,387	$ 2,687	$ 6,088,399

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

WASHINGTON 534 & 530
INLAND TELEPHONE COMPANY
(A Wholly-Owned Subsidiary of Western Elite Incorporated Services)

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (302,403)	$ (349,099)
Adjustments to reconcile net loss to net cash provided by operating activities		
Increase in cash surrender value of life insurance policies	(6,708)	(6,147)
Depreciation and amortization of telecommunications plant	1,317,057	1,255,456
Depreciation of nonregulated plant and miscellaneous physical property	83,144	74,448
Deferred income taxes	(225,518)	(174,658)
Gain on sale of investment and equipment		(22,217)
Noncash stock dividend		(813)
Net change in operating assets and liabilities	(25,639)	152,666
Net Cash Provided by Operating Activities	839,933	929,636
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to plant	(1,656,229)	(760,757)
Salvage on retired plant	3,000	22,217
Additions to nonregulated plant in service and miscellaneous physical property	(1,072,866)	(78,643)
Advances to affiliated companies	(9,861,537)	(8,525,292)
Payments received from affiliated companies	10,135,680	8,196,249
Proceeds from patronage dividend	170	
Net Cash Used by Investing Activities	(2,451,782)	(1,146,226)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bank line of credit repayment - net		(164,165)
Proceeds from long-term debt	2,435,898	541,768
Payments on long-term debt	(704,617)	(632,667)
Net Cash Provided (Used) by Financing Activities	1,731,281	(255,064)
NET INCREASE (DECREASE) IN CASH	119,432	(471,654)
Cash at Beginning of Year	574,797	1,046,451
CASH AT END OF YEAR	$ 694,229	$ 574,797

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

WASHINGTON 534 & 530
INLAND TELEPHONE COMPANY
(A Wholly-Owned Subsidiary of Western Elite Incorporated Services)

STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2013 and 2012

	2013	2012
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Telecommunications accounts receivable	$ (185,120)	$ 199,061
Materials and supplies	(9,911)	96,962
Prepaid expenses	(35,715)	(1,355)
Increase (decrease) in liabilities		
Accounts payable	41,484	(111,899)
Customers' deposits	449	566
Taxes, other than income taxes	64,381	(81,442)
Accrued payroll and benefits	29,361	91,970
Other current liabilities	9,441	(41,177)
Income taxes payable	59,991	(20)
Net Change in Operating Assets and Liabilities	$ (25,639)	$ 152,666
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest	$ 94,712	$ 99,769
SUPPLEMENTAL DISCLOSURES OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES		
Extension and replacement of telecommunications plant included in long-term debt	$ 900,603	
Noncash transfer of deferred income taxes to affiliated company	$ 35,181	$ 82,378
COMPONENTS OF CASH AT END OF YEAR		
Cash	$ 298,416	$ 566,757
Cash - construction fund	395,813	8,040
	$ 694,229	$ 574,797

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

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Telephone Industry
Inland Telephone Company (the "Company") is a local exchange telecommunications company providing local exchange, network access, broadband access services and other telecommunications services to customers in Columbia, Kittitas, Mason, Whitman and Walla Walla counties in Washington, and Latah and Nez Perce Counties in Idaho.

The Company is a small rate-of-return carrier. The Federal Communications Commission ("FCC") Report and Order and Further Notice of Proposed Rulemaking, ("FCC 11-161"), reformed the universal service and intercarrier compensation systems. These reforms modify the manner in which the Company recovers its telecommunication revenue requirements.

Organization
The Company is a wholly-owned subsidiary of Western Elite Incorporated Services ("WEIS").

Regulation
The Company is subject to the accounting rules and rate regulation policies of the Washington Utilities and Transportation Commission ("WUTC") and the Idaho Public Utilities Commission ("IPUC") and adheres to the FCC Uniform System of Accounts for a Class B telephone company as prescribed by the FCC under Part 32.

Cash
For purposes of the statements of cash flows, the Company considers cash to be cash on hand, in checking accounts, in money market accounts and in construction fund accounts.

Materials and Supplies
Materials and supplies consist of telephone installation equipment that is purchased by the Company and are reported at the lower of cost (first-in, first-out method) or market.

Investments
Investments in marketable equity securities are carried at fair value; investments in cooperative capital certificates are carried at cost as fair value is not readily determinable (see Note 4).

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Company measures fair value of its assets, liabilities and related disclosures in accordance with a hierarchy based on defined inputs. The hierarchy prioritizes the inputs underlying fair value measurements and requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs essentially distinguish the relative reliability of inputs to fair value measurements. Level 1 inputs are more reliable and objective than Level 2 inputs which are in turn more reliable and objective than Level 3 inputs. In arriving at a fair value measure, the Company is required to determine the level in the fair value hierarchy within which a fair value measurement ultimately falls and provide disclosure of such determinations.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and are depreciated on a straight-line basis for accounting purposes. Lives used for calculating depreciation on telecommunications plant are in accordance with the rules of the WUTC and IPUC and are based on the estimated economic useful lives of the assets. Likewise, lives used for calculating depreciation on all other property, plant and equipment are based on the estimated economic useful lives of the assets.

Accounting for Long-lived Assets

The Company periodically reviews its long-lived assets such as property, plant and equipment for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. At December 31, 2013 and 2012, management has determined that there were no material impairment charges to be recorded as of those dates.

Telecommunications Plant Retirements

When an asset is retired or otherwise disposed of, the cost of the asset is removed from the asset account and charged to the related allowance for depreciation. Similarly, the cost of removal and salvage proceeds are charged or credited to the allowances for depreciation. Consequently, no gain or loss upon disposition is recognized.

Advertising Costs

Costs incurred for advertising are expensed as incurred. Advertising expense was $3,191 and $5,771 for the years ended December 31, 2013 and 2012, respectively.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition, Major Customers and Services

Services provided by the Company include primarily local network, network access services, digital subscriber lines and broadband access services. In the normal course of the Company's business, certain network access service revenues are subject to out-of-period adjustments. Such adjustments are normal occurrences and are recorded by the Company during the year in which they become determinable.

Network access service revenues, which represent a major portion of the Company's operating revenues, are derived from the provision of exchange access services to interexchange carriers or to an end user of telecommunication services.

Revenues for certain interstate access services are currently received through tariffed access charges filed by the National Exchange Carrier Association ("NECA") with the FCC on behalf of the NECA member companies. These access charges are currently billed by the Company to interstate interexchange carriers and pooled with like-revenues from all NECA member companies. The pooled access charge revenues received by the Company are currently based upon the actual cost of providing interstate access services, plus a return on the investment dedicated to providing these services. Pooled access charge revenues are estimated at December 31 each year and are subject to adjustment. Such adjustments are normal occurrences and are recorded by the Company during the year in which they occur.

The FCC 11-161 modifies and replaces the existing universal system and intercarrier compensation systems with universal service reform and intercarrier compensation reform. A Connect America Fund has been established to replace all existing high-cost support mechanisms and sets broadband service requirements. Alongside the broadband service rules, reforms to establish a framework to limit reimbursements for excessive capital and operating expenses were implemented as of July 1, 2012 and phase outs of certain support payments occurred. Intercarrier compensation reform adopts a uniform bill-and-keep framework as the ultimate end state for all telecommunications traffic exchanged with the Company. Intercarrier compensation rates are capped and the disparity between intrastate and interstate terminating end office rates are being brought to parity in two steps as outlined in FCC 11-161. The state's public utilities commissions will be overseeing the modifications to rates in intrastate tariffs. Limits on carriers' total eligible recovery will reflect existing downward trends on intercarrier compensation revenues with declining switching costs and minutes of use.

The Company continues to review the reforms and modifications to the support that the Company receives, and understands that those reforms and modifications could have an adverse effect on the Company's revenues and cash flow. Revenue impacts are subject to change based upon the outcome of numerous petitions and legal challenges, as well as future data submissions and further clarification from the FCC.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition, Major Customers and Services *(Continued)*
Revenues for intrastate access services are received through tariffed access charges filed by the Company and the Washington Exchange Carrier Association ("WECA") and approved by the WUTC. The access charges are billed by the Company to intrastate interexchange carriers. The carrier common line and state universal service fund revenues are pooled with all WECA member companies and are redistributed to the Company based upon the Company's proportionate share of cost to provide those services plus a return on investment as compared with the other participating WECA member companies. The traffic sensitive revenues are considered bill and keep based on tariffed rates.

Revenues for Idaho State intrastate access services are received through tariffed access charges filed by the Company and approved by the IPUC. The access charges are billed by the Company to intrastate interexchange carriers and are considered bill and keep based on tariffed rates.

For some of the services that the Company provides to its customers, the Company relies upon services and facilities supplied to it by other companies. Any material disruption of the services or facilities supplied to the Company by other companies could potentially have an adverse effect upon the Company's operating results.

Income Taxes
The Company provides federal and state income taxes for the effects of transactions reported in the financial statements and consists of taxes currently due and deferred income taxes. The Company files a consolidated federal and state income tax return with its parent, Western Elite Incorporated Services and affiliated subsidiaries. The consolidated tax liability of the affiliated group is allocated based upon each company's contributions to consolidated taxable income.

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

The Company is required to recognize, measure and disclose uncertain tax positions in the Company's financial statements. Management is of the opinion that the income tax positions taken by the Company meet the more-likely-than-not threshold that the tax returns filed by the Company have greater than a 50 percent chance of being sustained under examination by the Internal Revenue Service. The Company's federal income tax returns for the tax years ended previous to December 31, 2010 are closed to examination.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions used in preparing the accompanying financial statements. Significant accounting estimates include the estimated useful lives of property, plant and equipment, the recoverability of long-term assets, interstate revenue requirements, accounts receivable allowance for doubtful accounts and future maturities of long-term debt.

Reclassifications
Certain reclassifications have been made to the previously reported 2012 financial statements in order to make them comparable with the 2013 financial statements.

Subsequent Events
The management of the Company evaluated for subsequent events and transactions for potential recognition and disclosure through April 15, 2014 the date the financial statements were available to be issued. All identified material events or transactions have been recorded or disclosed.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at various financial institutions in eastern Washington, insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At December 31, 2013, the Company's cash balances at the institutions exceeded the FDIC insured amount by $673,996.

The Company has an account with a broker-dealer with investments in a cash/money account totaling $5,334 at December 31, 2013. Securities held at such institutions are each insured by the Securities Investor Protection Corporation up to $500,000 for brokerage accounts, of which $250,000 of the total available applied to any cash claims.

The Company's accounts receivable are subject to potential credit risk as they are unsecured.

NOTE 3 - TELECOMMUNICATIONS ACCOUNTS RECEIVABLE

The telecommunications accounts receivable balance consists of:

	2013	2012
Due from customers and agents	$ 94,486	$ 92,426
Due from exchange carriers and exchange carrier associations	600,778	406,945
Other accounts receivable	35,663	46,436
Allowance for doubtful accounts (deduction)	(10,000)	(10,000)
	$ 720,927	$ 535,807

The Company extends credit to its business and residential customers based upon a written credit policy. Service interruption is the primary vehicle for controlling losses. Telecommunications accounts receivable are recorded when subscriber bills, carrier access bills and exchange carrier associations settlement statements are billed and are presented in the balance sheets net of the allowance for doubtful accounts. Certain exchange carrier associations' settlements are subject to out-of-period adjustments and are recorded during the year in which they become determinable. The allowance for doubtful accounts is estimated based on the Company's historical losses, the existing economic conditions in the telecommunications industry, and the financial stability of its customers. At December 31, 2013, approximately 28% of telecommunications accounts receivable are ninety days or more over due from the date invoices were first issued.

NOTE 4 - INVESTMENTS

Investments consist of the following:

	2013	2012
Common stock of Verizon Communications, Inc. (at fair value)	$ 42,014	$ 36,569
Rural Telephone Finance Cooperative Capital Certificates	3,704	3,874
	$ 45,718	$ 40,443

NOTE 4 - INVESTMENTS (Continued)

Following is the hierarchy and fair value measurements at December 31, 2013 and 2012:

		Fair Value Measurements		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Other Subjective Inputs (Level 3)
December 31, 2013				
Telecommunications stock	$ 42,014	$ 42,014		
Investment in co-operative capital certificates	3,704	—	$ 3,704	—
	$ 45,718	$ 42,014	$ 3,704	$ —
December 31, 2012				
Telecommunications stock	$ 36,569	$ 36,569		
Investment in co-operative capital certificates	3,874	—	$ 3,874	—
	$ 40,443	$ 36,569	$ 3,874	$ —

Investments valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Investments valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Level 3 inputs are based on the Company's own assumptions on how knowledgeable parties would price assets or liabilities and are developed using the best information available in the circumstances.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Telecommunications Plant in Service

Telecommunications plant in service is stated at cost. Listed below are the major classes of the telecommunications plant:

	2013	2012
General support facilities	$ 6,339,631	$ 6,272,299
Central office equipment	5,949,919	5,790,964
Cable and wire facilities	10,550,717	10,512,539
Intangible assets	8,609	8,609
	$ 22,848,876	$ 22,584,411

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Provisions have been made for depreciation of major classes of the telecommunications plant at straight-line rates as follows:

General support facilities	
Buildings	2.50% - 4.00%
Furniture and office equipment	15.00% - 25.00%
Vehicles and other work equipment	12.50% - 16.00%
Central office equipment	9.00% - 11.19%
Cable and wire facilities	5.00% - 42.06%

Nonregulated Plant in Service and Miscellaneous Physical Property
Nonregulated plant in service and miscellaneous physical property are stated at cost. Listed below are the major classes of nonregulated plant and miscellaneous physical property:

	2013	2012
Land	$ 581,803	$ 162,130
Buildings	1,167,560	526,328
Towers	181,015	181,015
General support assets	362,379	399,592
Nonregulated telecommunications equipment	337,027	337,027
Broadband and internet equipment	337,240	325,279
Trademark	2,405	2,405
	$ 2,969,429	$ 1,933,776

Provisions have been made for depreciation of major classes of nonregulated plant and miscellaneous physical property at straight-line rates as follows:

Buildings	5.00%
Towers	5.00%
General support assets	15.00% - 16.00%
Nonregulated telecommunications equipment	20.00%
Broadband and internet equipment	20.00%
Trademark	6.72%

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation Expense
The provisions for depreciation on telecommunications plant and nonregulated plan in service and miscellaneous physical property is as follows:

	2013	2012
Telecommunication plant	$ 1,317,057	$ 1,255,456
Nonregulated plant and miscellaneous physical property	83,144	74,448
	$ 1,400,201	$ 1,329,904

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following:

	Current Annual Installments of Principal	Principal Amount 2013	Principal Amount 2012
Rural Utilities Services ("RUS") - first and supplemental mortgage notes			
2.00% - due May 2018	$ 46,000	$ 205,175	$ 250,162
5.00% - due October 2014	16,480	16,480	37,422
5.00% - due January 2021	10,200	82,650	92,285
6.91% - due April 2014	6,584	6,584	32,033
7.00% - due April 2014	22,535	22,535	112,973
6.26% - due April 2014	7,463	7,463	37,823
4.86% - due April 2014	10,172	10,172	51,068
5.71% - due April 2014	6,619	6,619	36,838
		357,678	650,604
Rural Telephone Bank ("RTB") - supplemental mortgage notes			
5.54% - due April 2014	7,424	7,424	38,517
8.00% - due January 2018	19,200	85,266	103,018
8.00% - due October 2014	28,581	28,581	54,979
5.49% - due April 2014	28,517	28,517	142,541
5.10% - due April 2014	44,507	44,507	217,954
5.13% - due April 2014	4,141	4,141	20,241
		198,436	577,250

NOTE 6 - LONG-TERM DEBT (Continued)

	Current Annual Installments of Principal	Principal Amount 2013	2012
Federal Financing Bank ("FFB") - supplemental mortgage note			
1.70% - due December 2029	$ 29,500	$ 534,534	$ 541,768
2.468% - due December 2029	69,100	1,336,586	
2.681% - due December 2029	19,800	388,552	
2.894% - due December 2029	34,200	687,773	
		2,947,445	541,768
Total Long-term Debt		3,503,559	1,769,622
Advanced payments unapplied - net		(2,656)	
		3,500,903	1,769,622
Less principal installments on long-term debt due within one year		411,023	673,300
		3,089,880	1,096,322
Amounts due to vendors for completed construction projects to be financed by borrowings from the FFB		900,603	
		$ 3,990,483	$ 1,096,322

At December 31, 2013, maturities on long-term debt for the next five years and thereafter are as follows:

2014	$ 411,023
2015	234,300
2016	241,100
2017	247,200
2018	196,100
Thereafter	3,071,783
	$ 4,401,506

Substantially all of the Company's telephone plant now owned and hereafter acquired is subject to first and supplemental mortgage agreements executed to the Rural Utilities Services, the Rural Telephone Bank and the Federal Financing Bank. The terms of the mortgage agreements restrict distributions to stockholders, redemptions of capital stock and investments in affiliated companies. Allowable distributions are based on minimum net worth requirements defined in the agreements.

NOTE 6 - LONG-TERM DEBT (Continued)

The Company has available approximately $21,845,000 for future borrowing from the Federal Financing Bank for approved telephone plant expenditures.

Pursuant to the FFB Loan Agreement dated October 7, 2011, Section 5.12, TIER Requirement, the Company "will endeavor, but not be required, to maintain a TIER of at least 1.0." At December 31, 2013, the Company's TIER is (2.19).

NOTE 7 - INCOME TAXES

The Company recognizes deferred income taxes for differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent future income tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. The differences relate to the following:

- Depreciable assets' lives and methods of calculating depreciation for financial and income tax reporting.

- Accounting for investment in marketable equity securities at fair market value for financial reporting purposes and cost for income tax purposes.

- Carryforward of a net operating loss for income tax reporting.

The tax effects of temporary differences that give rise to significant portions of deferred tax (assets) liabilities consist of the following:

	2013	2012
Telecommunications plant	$ 538,501	$ 763,404
Net operating loss carryforward		(35,181)
Nonregulated assets	(11,759)	(11,144)
Investments	1,384	(467)
	$ 528,126	$ 716,612

The Company's share of the consolidated net operating loss carryforward from 2012 was $103,473 and the resulting deferred income tax benefit of $35,181 was transferred to WEIS.

NOTE 7 - INCOME TAXES (Continued)

The provision for (benefits of) income taxes is allocated between operating and nonoperating income as follows:

	2013	2012
Operating income taxes		
Current	$ 64,934	$ 175,382
Deferred	(224,903)	(174,714)
	(159,969)	668
Nonoperating income taxes (benefits)		
Current	(4,903)	(175,362)
Deferred	(615)	56
	(5,518)	(175,306)
Total Income Taxes	$ (165,487)	$ (174,638)

Components of the provisions for income taxes are as follows:

	2013	2012
Current	$ 60,031	$ 20
Deferred	(225,518)	(174,658)
	$ (165,487)	$ (174,638)

NOTE 8 - LEASES

Future lease commitments are not material; total rental and lease expense for the years ended December 31, 2013 and 2012 are less than one percent of revenues.

NOTE 9 - EMPLOYEE BENEFIT PLANS

The Company participates in a 401(k) profit sharing plan and a discretionary integrated pension plan for the benefit of all full-time eligible employees. The 401(k) plan provides for employee elective deferrals up to a maximum allowed by law. The Company has a matching contribution rate that is equal to 100% of each eligible employees elective deferrals up to and including, but not exceeding 4% of said eligible employees eligible compensation (as defined in the 401(k) plan document). In compliance with the integration formula which coordinates the pension plan with Social Security, the Company can elect to contribute 4% of eligible employees' first $90,960 for 2013 and $88,080 for 2012 of regular compensation and 4% of their regular compensation in excess of $90,960 in 2013 and $88,080 in 2012 to the plan, but not to exceed $51,000 per employee in 2013 and $50,000 in 2012. The Company did not make a discretionary integrated pension or profit sharing contribution in 2013 or 2012. Company contributions charged to operations in connection with the 401(k) profit sharing plan and the integrated pension plan were $86,369 and $80,347 in 2013 and 2012, respectively.

NOTE 10 - RELATED-PARTY TRANSACTIONS

The Company's parent, Western Elite Incorporated Services, also owns Inland Long Distance Company and R&R Cable Company. Inland Telephone Company conducts certain business transactions with Inland Long Distance Company, R&R Cable Company, and, in addition, Washington RSA No. 8 Limited Partnership and Eastern Sub-RSA Limited Partnership in which Inland Cellular Telephone Company, an affiliated company through common ownership, is the General Partner.

During the years ended December 31, the Company had the following related party transactions:

	2013	2012
R&R Cable Company		
Storage space rental charged to the Company	$ 4,800	$ 4,800
Inland Cellular, LLC ("LLC")		
Rental of switch space from the Company	$ 72,000	$ 90,000
Administrative overhead charged to the LLC	$ 21,600	$ 21,600
Interest charged to the LLC on advances		$ 2,541
Interest paid to the LLC on advances	$ 11,460	$ 2,120
Special access services provided to the Company	$ 517,495	$ 340,327

NOTE 10 - RELATED-PARTY TRANSACTIONS (Continued)

	2013	2012
Inland Long Distance Company		
Amounts charged for telecommunication services	$ 55,923	$ 49,000
Inland Cellular Telephone Company		
Interest paid on advances	$ 5,938	$ 853

WASHINGTON 534 & 530
INLAND TELEPHONE COMPANY
(A Wholly-Owned Subsidiary of
Western Elite Incorporated Services)

Independent Auditor's Report on Compliance with
Aspects of Contractual Agreements and Regulatory
Requirements for Telecommunications Borrowers
Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements in
Accordance with *Government Auditing Standards*

December 31, 2013

WASHINGTON 534 & 530
INLAND TELEPHONE COMPANY
(A Wholly-Owned Subsidiary of Western Elite Incorporated Services)

Independent Auditor’s Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Telecommunications Borrowers
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with *Government Auditing Standards*

December 31, 2013

- Independent Auditor’s Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Telecommunications Borrowers

- 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*

WASHINGTON 534 & 530
INLAND TELEPHONE COMPANY
(A Wholly-Owned Subsidiary of Western Elite Incorporated Services)

Independent Auditor's Report on Compliance with Aspects of
Contractual Agreements and Regulatory Requirements
for Telecommunications Borrowers

December 31, 2013

JOHNSON STONE & PAGANO, P.S.
CERTIFIED PUBLIC ACCOUNTANTS
1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

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

Board of Directors
Inland Telephone Company
Roslyn, Washington

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 Inland Telephone Company (a wholly-owned subsidiary of Western Elite Incorporated Services) (the "Company") which comprise the balance sheet as of December 31, 2013, and the related statements of operations, comprehensive loss, stockholder's equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 15, 2014. In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2014, on our consideration of the Company'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 and our communications with management have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Company 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* ("RUS") *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 the Company'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 the Company's accounting and records to indicate that the Company 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; the Company is updating the established continuing property records to December 31, 2013, as soon as is practicable;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Open and maintain a deposit account pledged to RUS in a bank whose deposits are insured by the Federal Deposit Insurance Corporation;

Meet the obligations with respect to the construction, operation and maintenance of the construction project funded by the Telecommunications Loan Guarantee;

Meet the obligations applicable to area coverage of telephone services;

Meet the nondiscrimination and buy American clauses as noted in the loan agreement;

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;

Endeavor, but not be required to maintain a times-interest-earned ratio of 1.00. At December 31, 2013 the Company's times-interest-earned ratio was (2.19);

Obtain written RUS approval to enter into any contract for the management, operation, use or maintenance of all or any part of the Company's property;

Disclose material related party transactions in the financial statements in accordance with accounting principles generally accepted in the United States of America;

Incur additional indebtedness or create or suffer any lien, mortgage, pledge, assignment or other encumbrance on or security interest in the Company's property without written RUS approval;

Extend its credit, either directly or indirectly, with or without interest, to any of its directors, officers, employees, stockholders or affiliated companies without written RUS approval;

Pay salaries, wages and other compensation that is reasonable and in conformity with the usual practice of entities of the size and nature of the Company;

Make any dividend, stock, capital or other distribution in the nature of an investment, guarantee, extension of credit, advance or loan unless allowed pursuant to annual distribution calculations;

Enter into any transaction, contract or dealing with an affiliate of the Company or other corporate official without written RUS approval;

Perform all applicable covenants, agreements, terms and conditions in the Loan Agreement and Prior Telephone Loan Contracts;

Comply with the requirements for the detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments in affiliated companies required by 7 CFR Part 1773.33(i), and provided below, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

	Western Elite Incorporated Services and Subsidiaries	Inland Cellular Telephone Company
Balance December 31, 2012	$ 501,466	$ (210,795)
Interest received (paid) - net		(17,398)
Advances to affiliates	3,375,007	5,863,434
Transfer of income taxes	35,181	
Space rent		84,000
Special access services		517,495
Administrative overhead		21,600
Repayment of advances	(3,586,358)	(6,531,923)
Balance December 31, 2013	$ 325,296	$ (273,587)

Western Elite Incorporated Services is the parent of Inland Telephone Company.

Inland Cellular Telephone Company provides cellular telecommunication services and is affiliated with Western Elite Incorporated Services through common ownership.

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

Johnson, Stone & Pagano, P.S.

JOHNSON, STONE & PAGANO, P.S.

April 15, 2014

WASHINGTON 534 & 530
INLAND TELEPHONE COMPANY
(A Wholly-Owned Subsidiary of Western Elite Incorporated Services)

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with *Government Auditing Standards*

December 31, 2013

JOHNSON STONE & PAGANO, P.S.
CERTIFIED PUBLIC ACCOUNTANTS

1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

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*

Board of Directors
Inland Telephone Company
Roslyn, Washington

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 Inland Telephone Company (a wholly-owned subsidiary of Western Elite Incorporated Services) (the "Company") which comprise the balance sheet as of December 31, 2013, and the related statements of operations, comprehensive loss, stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 15, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company'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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company'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*.

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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson, Stone & Pagano, P.S.

JOHNSON, STONE & PAGANO, P.S.

April 15, 2014

JOHNSON STONE & PAGANO, P.S.
CERTIFIED PUBLIC ACCOUNTANTS
1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

April 15, 2014

To the Board of Directors and Management of
Inland Telephone Company
Roslyn, Washington

To the Board of Directors and Management:

We have audited the financial statements of Inland Telephone Company (the "Company") for the year ended December 31, 2013 and have issued our report thereon dated April 15, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 20, 2013. Professional standards also require that we communicate to you the following information related to our audit.

- **Significant Audit Findings**

  Qualitative Aspects of Accounting Practices

  Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Inland Telephone Company are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

  Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting these financial statements were:

  > Management's estimates of the estimated useful lives of property, plant and equipment, recoverability of long-term assets and interstate revenue requirements which are based on prior experience with similar assets and interstate filing requirements. We evaluated the estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

- **Significant Audit Findings** (Continued)

Qualitative Aspects of Accounting Practices *(Continued)*

Management's estimate of allowance for doubtful accounts which is based on historical revenue, historical loss levels and an analysis of collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the future maturities of long-term debt which is based on minimum required payments at current levels of debt. We evaluated these required payments and determined that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were regarding property, plant and equipment (Note 5), long-term debt (Note 6), and related party transactions (Note 10).

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial and communicate them to the appropriate level of management. Management has corrected all such misstatements. The adjustments for current period income taxes and deferred income taxes were material misstatements detected as a result of audit procedures and were corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 15, 2014.

- **Significant Audit Findings** (Continued)

  Management Consultations with Other Independent Accountants

  In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

  Other Audit Findings or Issues

  We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

JOHNSON, STONE & PAGANO, P.S.