Docket UT-110358

ITEM 11 - Audited Financial [illegible]

WASHINGTON 535 DEEP RIVER
WESTERN WAHKIAKUM COUNTY
TELEPHONE COMPANY

(A Wholly-Owned Subsidiary of
Wahkiakum West, Inc.)

Audited Financial Statements

December 31, 2009 and 2008

REDACTED

WASHINGTON 535 DEEP RIVER
WESTERN WAHKIAKUM COUNTY
TELEPHONE COMPANY
(A Wholly-Owned Subsidiary of Wahkiakum West, Inc.)

Audited Financial Statements

December 31, 2009 and 2008

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

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Independent Auditor's Report

Board of Directors
Western Wahkiakum County Telephone Company
Rosburg, Washington

We have audited the accompanying balance sheets of Western Wahkiakum County Telephone Company (a wholly-owned subsidiary of Wahkiakum West, Inc.) as of December 31, 2009 and 2008 and the related statements of operations, stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Wahkiakum County Telephone Company at December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated March 17, 2010 on our consideration of Western Wahkiakum County Telephone Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Johnson, Stone & Pagano, P.S.

JOHNSON, STONE & PAGANO, P.S.

March 17, 2010

AUDITED FINANCIAL STATEMENTS

WASHINGTON 535 DEEP RIVER
WESTERN WAHKIAKUM COUNTY
TELEPHONE COMPANY
(A Wholly-Owned Subsidiary of Wahkiakum West, Inc.)

BALANCE SHEETS

December 31, 2009 and 2008

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash		
Cash - construction fund		
Telecommunications accounts receivable		
Materials and supplies - at average cost		
Nonregulated materials and supplies - at average cost		
Prepaid expenses		
Recoverable federal income taxes		
Total Current Assets		
NONCURRENT ASSETS		
Nonregulated plant - net of allowances for depreciation (2009 - $190,134; 2008 - $189,372)		
Unamortized debt issuance expense		
Total Noncurrent Assets		
PROPERTY, PLANT AND EQUIPMENT		
Telecommunications plant in service		
Less allowances for depreciation		
Telecommunications plant under construction		
Total Telecommunications Plant		
Total Assets		

See accompanying notes to financial statements.

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	2009	2008
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable		
Due to exchange carrier associations		
Interest payable		
Advanced billings and payments		
Taxes, other than income taxes		
Other current liabilities		
Installments on long-term debt due within one year		
Total Current Liabilities		
DUE TO AFFILIATED COMPANIES		
LONG-TERM DEBT, less portion classified as current liability		
DEFERRED FEDERAL INCOME TAXES		
Total Liabilities		
STOCKHOLDER'S EQUITY		
Common stock, par value $ per share		
Authorized - shares		
Issued and outstanding - shares		
Additional paid-in capital		
Retained earnings		
Total Stockholder's Equity		
Total Liabilities and Stockholder's Equity		

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WASHINGTON 535 DEEP RIVER
WESTERN WAHKIAKUM COUNTY
TELEPHONE COMPANY
(A Wholly-Owned Subsidiary of Wahkiakum West, Inc.)

STATEMENTS OF OPERATIONS

Years Ended December 31, 2009 and 2008

	2009	2008
OPERATING REVENUES		
Local network service revenues		
Network access service revenues		
Miscellaneous revenues		
Uncollectible revenues (deduction)		
Total Operating Revenues		
OPERATING EXPENSES		
Plant specific operations		
Plant nonspecific operations		
Depreciation		
Customer operations		
Corporate operations		
Total Operating Expenses		
OPERATING TAXES		
Taxes, other than income		
Federal income taxes		
Total Operating Taxes		
Net Operating Income		
FIXED CHARGES		
Interest on RDUP and RTB notes		
Amortization of long-term debt expense		
Total Fixed Charges		
OTHER INCOME (EXPENSE)		
Interest and dividend income		
Miscellaneous expense		
Nonregulated expense - net		
Nonoperating federal income taxes		
Total Other Income (Expense)		
Net Income (Loss)		

See accompanying notes to financial statements.

REDACTED

WASHINGTON 535 DEEP RIVER
WESTERN WAHKIAKUM COUNTY
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STATEMENTS OF STOCKHOLDER'S EQUITY

Years Ended December 31, 2009 and 2008

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2007				
Net income				
Cash dividends on common stock ($ per share)				
BALANCE AT DECEMBER 31, 2008				
Net loss				
BALANCE AT DECEMBER 31, 2009				

See accompanying notes to financial statements.

REDACTED

WASHINGTON 535 DEEP RIVER
WESTERN WAHKIAKUM COUNTY
TELEPHONE COMPANY
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STATEMENTS OF CASH FLOWS

Years Ended December 31, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)		
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation of telecommunications plant		
Depreciation and amortization of other assets		
Deferred federal income tax benefits		
Net change in operating assets and liabilities		
Net Cash Provided by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Extension and replacement of telecommunications plant		
Net increase (decrease) in due to affiliated companies		
Net Cash Used by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt		
Dividends on common stock		
Net Cash Used by Financing Activities		
Net Decrease in Cash		
CASH AT BEGINNING OF YEAR		
Cash at End of Year		
COMPONENTS OF CASH AT END OF YEAR		
Cash		
Cash - construction fund		

See accompanying notes to financial statements.

REDACTED

WASHINGTON 535 DEEP RIVER
WESTERN WAHKIAKUM COUNTY
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STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2009 and 2008

	2009	2008
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets:		
Telecommunications accounts receivable		
Materials and supplies		
Nonregulated materials and supplies		
Prepaid expenses		
Recoverable federal income taxes		
Increase (decrease) in liabilities:		
Accounts payable		
Due to exchange carrier associations		
Interest payable		
Advanced billings and payments		
Taxes, other than income taxes		
Other current liabilities		
Net Change in Operating Assets and Liabilities		
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid (received) during the year for:		
Interest		
Income taxes, net of reimbursements from affiliated companies		
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Noncash transfer of federal income taxes to, due to affiliated companies		

See accompanying notes to financial statements.

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WASHINGTON 535 DEEP RIVER
WESTERN WAHKIAKUM COUNTY
TELEPHONE COMPANY
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NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

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

Organization
Western Wahkiakum County Telephone Company ("Company") is a wholly-owned subsidiary of Wahkiakum West, Inc.

Telephone Industry
The Company is a local exchange telecommunications company providing local exchange and other telecommunications services to customers in Pacific and Wahkiakum Counties in southwestern Washington.

Regulatory changes in the telecommunications industry have modified, or could modify, the manner in which the Company's approved telecommunication tariffed rates are calculated, as well as modify the manner in which the Company recovers its revenue requirements. Implementation of modifications and the outcome of regulatory proceedings may adversely affect certain current or future revenue streams of the Company.

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

Cash
For purposes of the statement of cash flows, the Company considers cash to be cash on hand, in checking accounts, in money market accounts of a broker-dealer and cash restricted for plant construction purposes.

Unamortized Debt Issuance Expense
Costs incurred to obtain financing for telephone plant additions are capitalized and amortized over the respective loan period.

Telecommunications Plant
Telecommunications plant is stated at cost and is depreciated on a straight-line basis for accounting purposes. Lives used for calculating depreciation are in accordance with the rules of the WUTC and are based on the estimated economic useful lives of the assets.

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 allowance for depreciation. Consequently, no gain or loss upon disposition is recognized.

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

Allowance for Funds Used During Construction
Interest applicable to funds used for long-term construction projects is capitalized as a part of the cost of the asset and depreciated over the asset's estimated useful life. Interest capitalized totaled $ in 2009. There was not any interest capitalized in 2008.

Revenue Recognition, Major Customers and Services
Services provided by the Company include primarily local network and network access services. 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 end users of telecommunication services beyond the Company's local network.

Revenues for interstate access services are received through tariffed access charges filed by the National Exchange Carrier Association ("NECA") with the Federal Communications Commission ("FCC") on behalf of the NECA member companies. These access charges are 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 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.

Revenues for intrastate access service are received through tariffed access charges filed by the Company and the Washington Exchange Carrier Association ("WECA") and approved by Washington Utilities Telecommunication Commission ("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. The traffic sensitive revenues 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.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

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

Federal Income Taxes
The Company provides federal income taxes for the effects of transactions reported in the financial statements and consists of taxes currently due and deferred income taxes.

The Company utilizes the liability method of accounting for income taxes as set forth in authoritative guidance. 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, if any, is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

Authoritative guidance provides for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized 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 December 31, 2008, 2007 and 2006 remain subject to examination.

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.

Subsequent Events
The management of the Company evaluated for subsequent events through March 17, 2010 the date the financial statements were issued, no events requiring disclosure were identified.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at two financial institutions in southwestern Washington State, insured by the Federal Deposit Insurance Corporation up to $250,000 at December 31, 2009 and 2008. The Company's non-interest bearing accounts have unlimited FDIC deposit insurance through June 30, 2010. The Company periodically maintains cash balances in excess of the federally insured limits.

NOTE 3 - TELECOMMUNICATIONS ACCOUNTS RECEIVABLE

The telecommunications accounts receivable balance at December 31, 2009 and 2008 consists of:

	2009	2008
Due from customers and agents		
Due from exchange carriers and exchange carrier associations		
Total		

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 rendered. Certain exchange carrier associations' settlements are subject to out-of-period adjustments and are recorded during the year in which they become determinable. Telecommunications accounts receivable are written off when they are determined to be uncollectible. The Company believes no allowance for doubtful accounts is necessary at December 31, 2009 and 2008. As of December 31, 2009, the majority of accounts receivable are current.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 4 - TELECOMMUNICATIONS PLANT IN SERVICE AND DEPRECIATION

Telecommunications plant in service is stated at cost. Listed below are the major classes of the telecommunications plant as of December 31, 2009 and 2008:

	2009	2008
General support facilities		
Central office equipment		
Cable and wire facilities		
Intangibles		
Total		

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

General support facilities	
Buildings	4.00% - 5.00%
Furniture and office equipment	14.29% - 20.00%
Vehicles and other work equipment	14.29% - 20.00%
Central office equipment	9.00% - 11.19%
Cable and wire facilities	4.55% - 42.06%
Intangible assets	2.70%

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following:

	Current Annual Installments of Principal	Principal Amount 2009	Principal Amount 2008
Rural Development Utilities Programs (RDUP) - First and supplemental mortgage notes			
2.00% - Due May 2009			
5.00% - Due August 2023			
Advance payments (deduction)			

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NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 5 - LONG-TERM DEBT (Continued)

	Current Annual Installments of Principal	Principal Amount 2009	Principal Amount 2008
Rural Telephone Bank (RTB) -			
Supplemental mortgage notes			
6.50% - due April 2020			
6.50% - due June 2016			
6.40% - due January 2016			
6.88% - due January 2016			
6.42% - due January 2016			
Less principal installments of long-term debt due within one year			

At December 31, 2009, maturities on long-term debt for the next five years and thereafter are as follows:

2010	
2011	
2012	
2013	
2014	
Thereafter	

Substantially all of the Company's telecommunications plant now owned and hereafter acquired is subject to first and supplemental mortgage agreements executed to the Rural Development Utilities Programs and the Rural Telephone 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.

REDACTED

NOTE 5 - LONG-TERM DEBT (Continued)

NOTE 6 - FEDERAL INCOME TAXES

The Company recognizes deferred federal 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 federal 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 depreciable assets' lives and methods of calculating depreciation and the deduction for the accrual of compensated time off for financial reporting and income tax reporting.

REDACTED

NOTE 6 - FEDERAL INCOME TAXES (Continued)

NOTE 7 - LEASES

Future lease commitments are not material;

NOTE 8 - PENSION PLAN

REDACTED

NOTE 9 - RELATED PARTY TRANSACTIONS

REDACTED