

**WESTERN ELITE INCORPORATED  
SERVICES AND SUBSIDIARIES**

Consolidated Financial Statements and  
Supplemental Financial Information

December 31, 2009 and 2008

## **WESTERN ELITE INCORPORATED SERVICES AND SUBSIDIARIES**

### **Consolidated Financial Statements and Supplemental Financial Information**

December 31, 2009 and 2008

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1501 Regents Blvd., Suite 100

Fircrest, WA 98466

(253)566-7070

fax (253)566-7100

## Independent Auditor's Report

Board of Directors  
Western Elite Incorporated Services  
Roslyn, Washington

We have audited the accompanying consolidated balance sheets of Western Elite Incorporated Services and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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 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.

As described in Note 6 to the financial statements, the assets received in 1999 in a nonmonetary transaction are not recorded at fair value as required by generally accepted accounting principles.

In our opinion, except for the effects on the 2009 and 2008 financial statements of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Western Elite Incorporated Services and Subsidiaries as of 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.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplemental financial information is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

*Johnson, Stone & Pagano, P.S.*

**JOHNSON, STONE & PAGANO, P.S.**

July 27, 2010

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

December 31, 2009 and 2008

2009

2008

(As Restated)

**ASSETS**

**CURRENT ASSETS**

Cash  
Short-term investments  
Accounts receivable - trade, less allowance for doubtful  
accounts of **REDACTED**  
Other accounts receivable  
Notes receivable from shareholders  
Recoverable federal and state income taxes  
Materials and supplies - at average cost  
Other current assets  
Current portion of notes receivable

**Total Current Assets**

**INVESTMENTS AND OTHER ASSETS**

Plant previously in service  
Notes receivable - less current portion classified as a  
current asset  
Investment in corporations and partnerships  
Rural Telephone Finance Cooperative capital certificates  
Cash surrender value of life insurance, less policy loans  
**REDACTED**  
Land under development  
Goodwill  
Other assets

**Total Investments and Other Assets**

**PROPERTY, PLANT AND EQUIPMENT**

Land  
Depreciable plant and equipment  
Allowance for depreciation (deduction)  
  
Plant under construction  
Plant held for future use

**Total Property, Plant and Equipment**

**Total Assets**



See accompanying notes to consolidated financial statements.

2009

2008

(As Restated)

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT LIABILITIES**

Accounts payable - trade  
Taxes, other than income taxes  
Accrued payroll and benefits  
Other current liabilities  
Due to former partner  
Current portion of long-term debt

**Total Current Liabilities**

**LONG-TERM DEBT**, less portion classified as a  
current liability

**OTHER LIABILITIES AND DEFERRED CREDITS**

Deferred investment tax credits  
Deferred federal and state income taxes  
Noncontrolling interest

**Total Other Liabilities and Deferred Credits**

**Total Liabilities**

**STOCKHOLDERS' EQUITY**

Common stock  
Additional paid-in capital  
Retained earnings  
Members' equity  
Accumulated other comprehensive income,  
net of deferred federal income taxes

**Total Stockholders' Equity**

**Total Liabilities and Stockholders' Equity**

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u> (As Restated)
<b>REVENUES</b>		
Telephone service revenues		
Other operating revenues		
<b>Total Revenues</b>		
<b>EXPENSES</b>		
Operating expenses		
General and administrative		
Depreciation and amortization		
<b>Total Expenses</b>		
<b>Operating Income</b>		
<b>OTHER INCOME (EXPENSE)</b>		
Interest and dividend income		
Interest expense		
Other income		
<b>Total Other Income</b>		
<b>Income before Income Taxes and Noncontrolling Interest</b>		
<b>INCOME TAXES</b>		
Currently payable		
Deferred		
<b>Total Income Taxes</b>		
<b>Income before Noncontrolling Interest</b>		
<b>NONCONTROLLING INTEREST</b>		
<b>Net Income</b>		

**REDACTED**

See accompanying notes to consolidated financial statements.



**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

Years Ended December 31, 2009 and 2008

Western Elite Incorporated Services	REDACTED		REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	
Class A Voting Common Stock	Class B Non-voting Common Stock	Class A Voting Common Stock	Class B Non-voting Common Stock	Total Common Stock	Additional Paid-in Capital	Retained Earnings	Equity	Accumulated Other Comprehensive Income	Total

**BALANCE AT DECEMBER 31, 2007 (As Restated)**

Net income for the year

Other comprehensive income:

**REDACTED**

**Comprehensive Income**

**BALANCE AT DECEMBER 31, 2008 (As Restated)**

Capital contribution

Common stock redemption

**REDACTED**

Net income (loss) for the year

Other comprehensive income:

**REDACTED**

**Comprehensive Income**

**BALANCE AT DECEMBER 31, 2009**



**REDACTED**

See accompanying notes to consolidated financial statements.

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u> (As Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncontrolling interest		
Increase in cash surrender value of life insurance policies		
Depreciation and amortization		
<b>REDACTED</b>		
Deferred federal and state income taxes		
<b>REDACTED</b>		
Net change in operating assets and liabilities		
<b>Net Cash Provided by Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) decrease in short-term investments		
(Increase) decrease in notes receivable		
<b>REDACTED</b>		
Increase in other assets		
<b>Net Cash Used by Investing Activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Common stock redemption		
Additional long-term borrowings		
Payments on long-term debt		
Cash distributions		
Due to former partner		
<b>Net Cash Provided (Used) by Financing Activities</b>		
<b>Net Increase (Decrease) in Cash</b>		
<b>CASH AT BEGINNING OF YEAR</b>		
<b>Cash at End of Year</b>		

See accompanying notes to consolidated financial statements.

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u> (As Restated)
<b>COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES</b>		
(Increase) decrease in assets:		
Accounts receivable - trade		
Other accounts receivable		
Recoverable federal and state income taxes		
Materials and supplies - at average cost		
Other current assets		
Increase (decrease) in liabilities:		
Accounts payable - trade		
Taxes, other than income taxes		
Accrued payroll and benefits		
Other current liabilities		
<b>Net Change in Operating Assets and Liabilities</b>		
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest		
Federal and state income taxes		
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Plant and equipment additions in accounts payable		
Common stock retired		



See accompanying notes to consolidated financial statements.

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

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

*Principles of Consolidation and Operations*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Inland Telephone Company, [REDACTED]

**REDACTED**

companies through common ownership. All material intercompany accounts and transactions have been eliminated in consolidation.

Inland Telephone Company is a local exchange telecommunications company providing local exchange 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.

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

**REDACTED**

**REDACTED**

**REDACTED**

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

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

*Principles of Consolidation and Operations (Continued)*



***Regulation***

Inland Telephone Company and Inland Long Distance Company are 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 adhere to the Federal Communications Commission (“FCC”) Uniform System of Accounts for Class B telephone companies as prescribed by the FCC under Part 32.

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

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

***Cash***

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

***Accounts Receivable***

The Company and Subsidiaries extend credit to its business and residential customers based upon a written credit policy. Service interruption is the primary vehicle for controlling accounts receivable 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 sheet 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. Approximately REDACTED of accounts receivable are ninety days or more over due from the date invoices were first issued.

**REDACTED**

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

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

***Fair Value Measurements***

On January 1, 2009, the Company and Subsidiaries adopted applicable authoritative guidance related to fair value measurements that defines fair value, provides a framework to measure the fair value of assets and liabilities and requires certain disclosures about those measurements. The guidance establishes a hierarchy to prioritize the inputs that underlie a fair value measurement 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 and Subsidiaries 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.

The carrying value of cash, accounts receivable and accounts payable approximates fair value due to the short maturity of these instruments. The carrying value of short and long-term debt approximates fair value based on discounting the projected cash flows using market rates available for similar maturities.

***Unamortized Debt Issuance Expense***

Costs incurred to obtain financing for telecommunications plant additions are capitalized and amortized over the respective loan period.

***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. There was no interest capitalized in 2009 and interest capitalized of \$3,191 in 2008.

***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 all assets. Likewise, lives used for calculating depreciation on all other property and equipment are based on the estimated economic useful lives of the assets.

***Telecommunications Plant Retirements***

When a telecommunications plant 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.

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

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

*Common Stock*

**REDACTED**

**REDACTED**

**REDACTED**

*Advertising Costs*

Costs incurred for advertising are expensed as incurred. Advertising expense was **REDACTED** and **REDACTED** for December 31, 2009 and 2008, respectively.

*Revenue Recognition, Major Customers and Service*

Services provided by Inland Telephone Company include primarily local network and network access services. Network access service revenues, which represent a major portion of Inland Telephone Company's operating revenues, are derived from the provision of exchange access services to interexchange carriers or to end users of telecommunication services beyond Inland Telephone 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.



**WESTERN ELITE INCORPORATED SERVICES  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

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

***Revenue Recognition, Major Customers and Service (Continued)***

Revenues for Washington State 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. 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.

**REDACTED**

***Federal and State Income Taxes***

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

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

***Comprehensive Income***

Authoritative guidance requires that total comprehensive income be reported in the financial statements. Total comprehensive income is presented on the Consolidated Statements of Stockholders' Equity.

***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 subsequent events and transactions for potential recognition and disclosure through July 27, 2010, the date the statements were available to be issued. No such subsequent events were noted, except as described in Note 15.

***Reclassifications***

Certain reclassifications have been made to the previously reported 2008 financial statements in order to make them comparable with the 2009 financial statements.

**NOTE 2 - PRIOR PERIOD ADJUSTMENT**

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 2 - PRIOR PERIOD ADJUSTMENT (Continued)**

**REDACTED**

**NOTE 3 - CONCENTRATION OF CREDIT RISK**

The Company and Subsidiaries maintains cash balances at various financial institutions in central and eastern Washington. Accounts at each of the financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) with basic coverage up to \$250,000 until December 31, 2013.

**REDACTED**

**REDACTED**

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

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 4 - NOTES RECEIVABLE**

Notes receivable consists of the following:

<u>Principal Amount</u>	
<u>2009</u>	<u>2008</u>

Western Elite Incorporated Services:

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 4 - NOTES RECEIVABLE (Continued)**

Notes receivable from the sales of developed lots, are reported at the outstanding principal balance, and are secured by the lots sold. Notes receivable are written off when all collection efforts have been used and the foreclosure process has been completed. Interest income is recognized when earned unless the likelihood of loss is greater than remote.

**NOTE 5 - INVESTMENT IN CORPORATIONS AND PARTNERSHIPS**

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 5 - INVESTMENT IN CORPORATIONS AND PARTNERSHIPS (Continued)**

**REDACTED**

**NOTE 6 - REDACTED**

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 6 - REDACTED**

**REDACTED**

**NOTE 7 - DEPRECIABLE PLANT AND EQUIPMENT**

The following is a summary of asset classifications and estimated useful lives for the depreciable assets:

Useful Lives (Years)	<u>2009</u>	<u>2008</u>
-------------------------	-------------	-------------

**REDACTED**

Inland Telephone Company:

Buildings	25 to 40
Central office equipment	9 to 11
Outside telephone plant	2 to 25
Vehicles and other work equipment	6 to 8
Furniture and fixtures	6 to 20
Miscellaneous property and deregulated equipment	10 to 20

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 7 - DEPRECIABLE PLANT AND EQUIPMENT (Continued)**

Useful Lives <u>(Years)</u>	<u>2009</u>	<u>2008</u>
--------------------------------	-------------	-------------

**REDACTED**



**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 8 - LONG-TERM DEBT**

Long-term debt consists of the following:

<u>Principal Amount</u>	
<u>2009</u>	<u>2008</u>

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 8 - LONG-TERM DEBT (Continued)**

<u>Principal Amount</u>	
<u>2009</u>	<u>2008</u>

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 8 - LONG-TERM DEBT (Continued)**

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

**REDACTED**

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**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 9 - REDACTED**

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 10 - FEDERAL AND STATE 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.
- Recording of partnership investments using the equity method for financial reporting purposes and the cost method for income tax purposes.
- Accounting for certain investments in corporations at fair market values for financial reporting purposes and cost for income tax purposes.

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

	<u>2009</u>	<u>2008</u>
Plant and equipment	<b>REDACTED</b>	
Land sales on installment contracts		
Partnership investments		
Investment in corporations		

Components of the provisions for (benefits of) income taxes are as follows:

	<u>2009</u>	<u>2008</u>
Currently payable	<b>REDACTED</b>	
Deferred income taxes (benefit)		
Amortization of investment tax credits		

**NOTE 11 - LEASES**

Future lease commitments are not material; total rental and lease expense for the years ended December 31, 2009 and 2008 are **REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 12 - EMPLOYEE BENEFIT PLANS**

**REDACTED**

**NOTE 13 - RELATED PARTY TRANSACTIONS**

Interest income, interest expense and other income and expenses include the following related party transactions:

2009                      2008

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 14 - REDACTED**

**REDACTED**

**NOTE 15 - SUBSEQUENT EVENT**

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 15 - SUBSEQUENT EVENT (Continued)**

**REDACTED**



SUPPLEMENTAL FINANCIAL INFORMATION

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**DETAILS OF CONSOLIDATED BALANCE SHEETS**

December 31, 2009 and 2008

	2009	2008	Eliminations	Western Elite Incorporated Services	Inland Telephone Company	2009	2008	2009	2008
		(As Restated)		(As Restated)					

**REDACTED**

(As Restated)

**ASSETS**

**CURRENT ASSETS**

- Cash
- Short-term investments
- Accounts receivable - trade
- Receivable from affiliated cellular partnerships
- Other accounts receivable
- Notes receivable from shareholders
- Recoverable federal and state income taxes
- Materials and supplies - at average cost
- Other current assets
- Current portion of notes receivable

**Total Current Assets**

**INVESTMENTS AND OTHER ASSETS**

- Investment in subsidiaries
- Intercompany advances
- Plant previously in service
- Notes receivable - less current portion classified as a current asset
- Investment in corporations and partnerships
- Rural Telephone Finance Cooperative capital certificates
- Cash surrender value of life insurance
- Land under development
- Goodwill
- Other assets

**Total Investments and Other Assets**

**PROPERTY, PLANT AND EQUIPMENT**

- Land
- Depreciable plant and equipment
- Allowance for depreciation (deduction)
- Plant under construction
- Plant held for future use

**Total Property, Plant and Equipment**

**Total Assets**



**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**DETAILS OF CONSOLIDATED BALANCE SHEETS (Continued)**

December 31, 2009 and 2008

	2009	2008	2009	2008	2009	2008	2009	2008
<b>REDACTED</b>								
<b>REDACTED</b>								

**ASSETS**

**CURRENT ASSETS**

- Cash
- Short-term investments
- Accounts receivable - trade
- Receivable from affiliated cellular partnerships
- Other accounts receivable
- Notes receivable from shareholders
- Recoverable federal and state income taxes
- Materials and supplies - at average cost
- Other current assets
- Current portion of notes receivable

**Total Current Asset**

**INVESTMENTS AND OTHER ASSETS**

- Investment in subsidiaries
- Intercompany advances
- Plant previously in service
- Notes receivable - less current portion classified as a current asset
- Investment in corporations and partnerships
- Rural Telephone Finance Cooperative capital certificates
- Cash surrender value of life insurance
- Land under development
- Goodwill
- Other assets

**Total Investments and Other Assets**

**PROPERTY, PLANT AND EQUIPMENT**

- Land
- Depreciable plant and equipment
- Allowance for depreciation (deduction)
- Plant under construction
- Plant held for future use

**Total Property, Plant and Equipment**

**Total Assets**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**DETAILS OF CONSOLIDATED BALANCE SHEETS (Continued)**

December 31, 2009 and 2008

	Consolidated		Eliminations		Western Elite Incorporated Services		Inland Telephone Company	
	2009	2008 (As Restated)	2009	2008 (As Restated)	2009	2008 (As Restated)	2009	2008

**REDACTED**

2008  
(As Restated)

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT LIABILITIES**

- Accounts payable - trade
- Taxes, other than income taxes
- Accrued payroll and benefits
- Other current liabilities
- Federal and state income taxes payable
- Due to former partner
- Current portion of long-term debt

**Total Current Liabilities**

**INTERCOMPANY ADVANCES**

**LONG-TERM DEBT**, less portion classified as a current liability

**OTHER LIABILITIES AND DEFERRED CREDITS**

- Deferred investment tax credits
- Deferred federal and state income taxes
- Noncontrolling interest

**Total Other Liabilities and Deferred Credits**

**Total Liabilities**

**STOCKHOLDERS' EQUITY**

- Common stock
- Additional paid-in capital
- Retained earnings (deficit)
- Members' equity
- Accumulated other comprehensive income, net of deferred federal income taxes

**Total Stockholders' Equity**

**Total Liabilities and Stockholders' Equity**



**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**DETAILS OF CONSOLIDATED BALANCE SHEETS (Continued)**

December 31, 2009 and 2008

	2009	2008	2009	2008	2009	2008	2009	2008
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>								
<b>CURRENT LIABILITIES</b>								
Accounts payable - trade								
Taxes, other than income taxes								
Accrued payroll and benefits								
Other current liabilities								
Federal and state income taxes payable								
Due to former partner								
Current portion of long-term debt								
<b>Total Current Liabilities</b>								
<b>INTERCOMPANY ADVANCES</b>								
<b>LONG-TERM DEBT, less portion classified as a current liability</b>								
<b>OTHER LIABILITIES AND DEFERRED CREDITS</b>								
Deferred investment tax credits								
Deferred federal and state income taxes								
Noncontrolling interest								
<b>Total Other Liabilities and Deferred Credits</b>								
<b>Total Liabilities</b>								
<b>STOCKHOLDERS' EQUITY</b>								
Common stock								
Additional paid-in capital								
Retained earnings (deficit)								
Members' equity								
Accumulated other comprehensive income, net of deferred federal income taxes								
<b>Total Stockholders' Equity</b>								
<b>Total Liabilities and Stockholders' Equity</b>								

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**DETAILS OF CONSOLIDATED STATEMENTS OF INCOME**

Years Ended December 31, 2009 and 2008

	Consolidated		Eliminations		Western Elite Incorporated Services		Inland Telephone Company		REDACTED	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	(As Restated)								(As Restated)	
<b>REVENUES</b>										
Telephone service revenues										
Other operating revenues										
<b>Total Revenues</b>										
<b>EXPENSES</b>										
Operating expenses										
General and administrative										
Depreciation and amortization										
<b>Total Expenses</b>										
<b>Operating Income (Loss)</b>										
<b>OTHER INCOME (EXPENSE)</b>										
Equity in earnings of subsidiaries										
Interest and dividend income										
Interest expense										
Other income (expense)										
<b>Total Other Income (Expense)</b>										
<b>Income (Loss) before Income Taxes and Noncontrolling Interest</b>										
<b>INCOME TAXES (BENEFIT)</b>										
Currently payable										
Deferred										
<b>Total Income Taxes (Benefit)</b>										
<b>Income (Loss) before Noncontrolling Interest</b>										
<b>NONCONTROLLING INTEREST</b>										
<b>Net Income (Loss)</b>										

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**DETAILS OF CONSOLIDATED STATEMENTS OF INCOME (Continued)**

Years Ended December 31, 2009 and 2008

	2009	2008	2009	2008	2009	2008	2009	2008
<b>REVENUES</b>								
Telephone service revenues								
Other operating revenues								
<b>Total Revenues</b>								
<b>EXPENSES</b>								
Operating expenses								
General and administrative								
Depreciation and amortization								
<b>Total Expenses</b>								
<b>Operating Income (Loss)</b>								
<b>OTHER INCOME (EXPENSE)</b>								
Equity in earnings of subsidiaries								
Interest and dividend income								
Interest expense								
Other income (expense)								
<b>Total Other Income (Expense)</b>								
<b>Income (Loss) before Income Taxes and Noncontrolling Interest</b>								
<b>INCOME TAXES (BENEFIT)</b>								
Currently payable								
Deferred								
<b>Total Income Taxes (Benefit)</b>								
<b>Income (Loss) before Noncontrolling Interest</b>								
<b>NONCONTROLLING INTEREST</b>								
Net Income (Loss)								

**REDACTED**

**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**DETAILS OF CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2009 and 2008

	Consolidated		Eliminations		Western Elite Incorporated Services		Inland Telephone Company	
	2009	2008	2009	2008	2009	2008	2009	2008

**REDACTED**

(As Restated)

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income (loss)  
 Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:  
 Noncontrolling interest  
 Equity in earnings of subsidiaries  
 Decrease (increase) in cash surrender value of life insurance policies  
 Depreciation and amortization  
 Gain on sale of stock and investments  
 (Gain) loss on sale of equipment and other assets  
 Deferred federal and state income taxes  
 Stock received in lieu of payment  
 Noncash equipment rental and service transactions with affiliated company  
 Noncash transfer of federal income taxes to parent  
 Net change in operating assets and liabilities

**Net Cash Provided (Used) by  
Operating Activities**

**REDACTED**

**CASH FLOWS FROM INVESTING ACTIVITIES**

Increase in short-term investments  
 (Increase) decrease in notes receivable from shareholders  
 Distribution from partnerships  
 Proceeds from sale of equipment and other assets  
 Additions to property, plant and equipment  
 Salvage on telephone plant retired  
 Advances (to) from affiliated cellular partnerships  
 Intercompany advances  
 Cash received from sale of stock and investments  
 Cash paid for partnership investment  
 (Increase) decrease in land under development  
 (Increase) decrease in other assets

**Net Cash Provided (Used) by  
Investing Activities**

**REDACTED**



**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**DETAILS OF CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

Years Ended December 31, 2009 and 2008

	2009	2008	2009	2008	2009	2008	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Net income (loss)								
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:								
Noncontrolling interest								
Equity in earnings of subsidiaries								
Decrease (increase) in cash surrender value of life insurance policies								
Depreciation and amortization								
Gain on sale of stock and investments								
(Cash) loss on sale of equipment and other assets								
Deferred federal and state income taxes								
Stock received in lieu of payment								
Noncash equipment rental and service transactions with affiliated company								
Noncash transfer of federal income taxes to parent								
Net change in operating assets and liabilities								
<b>Net Cash Provided (Used) by Operating Activities</b>								
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
Increase in short-term investments								
(Increase) decrease in notes receivable from shareholders								
Distribution from partnerships								
Proceeds from sale of equipment and other assets								
Additions to property, plant and equipment								
Salvage on telephone plant retired								
Advances (to) from affiliated cellular partnership								
Intercompany advances								
Cash received from sale of stock and investments								
Cash paid for partnership investment								
(Increase) decrease in land under development								
(Increase) decrease in other assets								
<b>Net Cash Provided (Used) by Investing Activities</b>								

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**DETAILS OF CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

Years Ended December 31, 2009 and 2008

	Consolidated		Eliminations		Western Elite Incorporated Services		Inland Telephone Company		2008 (As Restated)	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008

**REDACTED**

**CASH FLOWS FROM FINANCING ACTIVITIES**

- Common stock redemption
- Additional long-term borrowings
- Payments on long-term debt
- Cash distributions
- Due to former partner
- Advances from (to) affiliated companies

**Net Cash Provided (Used) by  
Financing Activities**

**Net Increase (Decrease) in Cash**

**CASH AT BEGINNING OF YEAR**

**Cash at End of Year**

**COMPONENTS OF NET CHANGE IN  
OPERATING ASSETS AND LIABILITIES**

- (Increase) decrease in assets:
  - Accounts receivable - trade
  - Other accounts receivable
  - Recoverable federal and state income taxes
  - Materials and supplies - at average cost
  - Other current assets
- Increase (decrease) in liabilities:
  - Accounts payable - trade
  - Taxes, other than income taxes
  - Accrued payroll and benefits
  - Due to affiliates
  - Other current liabilities
  - Federal and state income taxes payable

**Net Change in Operating Assets  
and Liabilities**



**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**DETAILS OF CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

Years Ended December 31, 2009 and 2008

	2009	2008	2009	2008	2009	2008	2009	2008
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>REDACTED</b>							
Common stock redemption								
Additional long-term borrowings								
Payments on long-term debt								
Cash distributions								
Due to former partner								
Advances from (to) affiliated companies								
<b>Net Cash Provided (Used) by Financing Activities</b>								
<b>Net Increase (Decrease) in Cash</b>								
<b>CASH AT BEGINNING OF YEAR</b>								
<b>Cash at End of Year</b>								
<b>COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES</b>	<b>REDACTED</b>							
(Increase) decrease in assets:								
Accounts receivable - trade								
Other accounts receivable								
Recoverable federal and state income taxes								
Materials and supplies - at average cost								
Other current assets								
Increase (decrease) in liabilities:								
Accounts payable - trade								
Taxes, other than income taxes								
Accrued payroll and benefits								
Due to affiliates								
Other current liabilities								
Federal and state income taxes payable								
<b>Net Change in Operating Assets and Liabilities</b>								

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**DETAILS OF CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

Years Ended December 31, 2009 and 2008

	Consolidated		Eliminations		Western Elite Incorporated Services		Inland Telephone Company		REDACTED	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008

**SUPPLEMENTAL DISCLOSURES OF CASH  
FLOW INFORMATION**

Cash paid during the year for:

- Interest
- Federal and state income taxes

**SUPPLEMENTAL DISCLOSURES OF NONCASH  
INVESTING AND FINANCING ACTIVITIES**

- Plant and equipment additions in accounts payable
- Noncash transfer of fixed assets
- Noncash transfer of amount due to affiliated company
- Noncash dividend to parent
- Common stock retired
- Noncash dividend



**REDACTED**

**WESTERN ELITE INCORPORATED SERVICES  
AND SUBSIDIARIES**

**DETAILS OF CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

Years Ended December 31, 2009 and 2008

	2009	2008	2009	2008	2009	2008	2009	2008
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**SUPPLEMENTAL DISCLOSURES OF CASH  
FLOW INFORMATION**

Cash paid during the year for:

- Interest
- Federal and state income taxes

**REDACTED**

**SUPPLEMENTAL DISCLOSURES OF NONCASH  
INVESTING AND FINANCING ACTIVITIES**

- Plant and equipment additions in accounts payable
- Noncash transfer of fixed assets
- Noncash transfer of amount due to affiliated company
- Noncash dividend to parent
- Common stock retired
- Noncash dividend

**REDACTED**