

Confidential per WAC 480-07-160

**WESTERN ELITE INCORPORATED
SERVICES AND SUBSIDIARIES**

Audited Consolidated Financial Statements

December 31, 2015 and 2014

WESTERN ELITE INCORPORATED SERVICES AND SUBSIDIARIES

Audited Consolidated Financial Statements

December 31, 2015 and 2014

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Independent Auditor's Report

Board of Directors
Western Elite Incorporated Services and Subsidiaries
Roslyn, Washington

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Western Elite Incorporated Services and Subsidiaries (a Washington corporation), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Western Elite Incorporated Services and Subsidiaries as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Johnson, Stone & Pagano, P.S.

JOHNSON, STONE & PAGANO, P.S.

July 15, 2016

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

**WESTERN ELITE INCORPORATED SERVICES
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash		
Accounts receivable - trade, less allowance for doubtful accounts (2015 - [REDACTED] 2014 - [REDACTED])		
Other accounts receivable		
Materials and supplies - at average cost		
Other current assets		
Current portion of notes receivable		
Total Current Assets		
INVESTMENTS AND OTHER ASSETS		
Advances to affiliated company		
Notes receivable - less current portion classified as a current asset		
Notes and accounts receivable due from stockholders		
Investments		
Rural Telephone Finance Cooperative capital certificates		
Cash surrender value of life insurance, less policy loans		
Land under development		
Deferred income tax assets		
Other assets		
Total Investments and Other Assets		
PROPERTY, PLANT AND EQUIPMENT		
Land		
Depreciable plant and equipment		
Allowance for depreciation (deduction)		
Plant held for future use		
Allowance for depreciation (deduction)		
Plant under construction		
Total Property, Plant and Equipment		
TOTAL ASSETS		

PETITION OF INLAND TELEPHONE COMPANY TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -
EXHIBIT 5, PAGE - 6



REDACTED

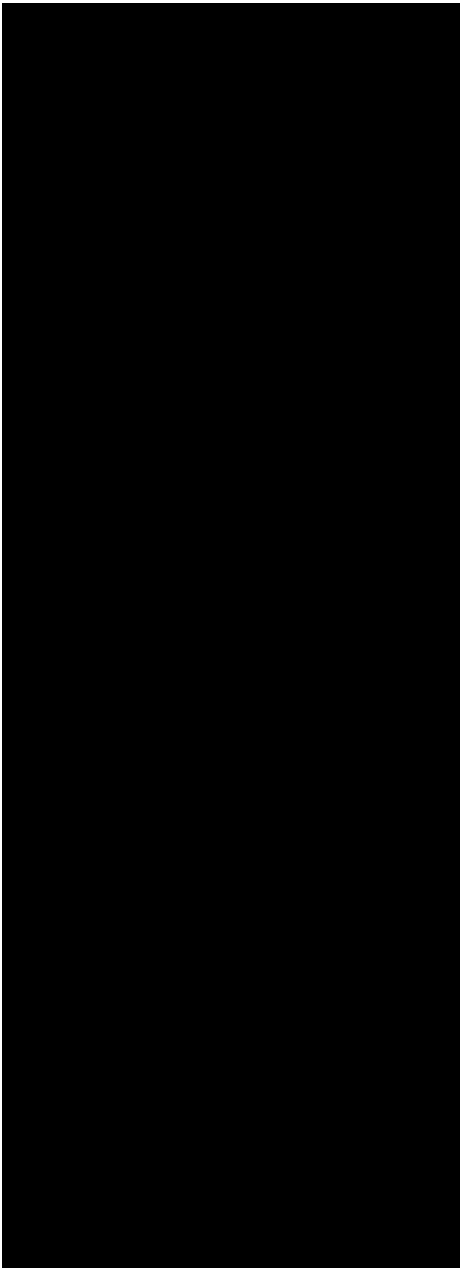
The accompanying notes are an integral part of these consolidated financial statements.

**WESTERN ELITE INCORPORATED SERVICES
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2015 and 2014

	2015	2014
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable - trade		
Taxes, other than income taxes		
Accrued payroll and benefits		
Other current liabilities		
Income taxes payable		
Deferred revenue		
Current portion of long-term debt		
Total Current Liabilities		
ADVANCES FROM AFFILIATED COMPANIES		
LONG-TERM DEBT , less portion classified as a current liability		
OTHER LIABILITIES		
Notes payable to stockholders		
Total Liabilities		
STOCKHOLDERS' EQUITY		
Common stock		
Additional paid-in capital		
Retained earnings		
Members' equity		
Accumulated other comprehensive income, net of deferred income taxes		
Total Stockholders' Equity		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		



PETITION OF INLAND TELEPHONE COMPANY TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -
EXHIBIT 5, PAGE - 7

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**WESTERN ELITE INCORPORATED SERVICES
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
REVENUES		
Telecommunication service revenues		
Other operating revenues		
Total Revenues		
EXPENSES		
Operating expenses		
General and administrative		
Depreciation and amortization		
Total Expenses		
Operating Loss		
OTHER INCOME (EXPENSE)		
Equity in losses of LLC		
Interest and dividend income		
Interest expense		
Other income		
Total Other Expense		
Loss before Income Taxes		
INCOME TAXES (BENEFITS)		
Currently payable		
Deferred income tax benefits		
Total Income Tax Benefits		
NET LOSS		

PETITION OF INLAND TELEPHONE COMPANY TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -
EXHIBIT 5, PAGE - 8

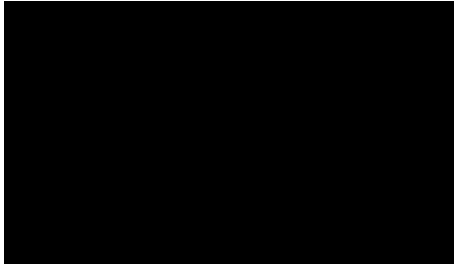


REDACTED

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**WESTERN ELITE INCORPORATED SERVICES
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
NET LOSS		
OTHER COMPREHENSIVE INCOME		
Unrealized loss on investments, net of deferred income benefits (2015 -  2014 - 		
COMPREHENSIVE LOSS		

**WESTERN ELITE INCORPORATED SERVICES
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2015 and 2014

	Western Elite Incorporated Services				Crushe, LLC Members' Equity	Accumulated Other Comprehensive Income	Total
	Class A Voting Common Stock	Class B Non-voting Common Stock	Total Common Stock	Additional Paid-in Capital			
BALANCE AT DECEMBER 31, 2013	[REDACTED]						
Net loss for the year							
Other comprehensive loss							
BALANCE AT DECEMBER 31, 2014	[REDACTED]						
Net loss for the year							
Other comprehensive loss							
BALANCE AT DECEMBER 31, 2015	[REDACTED]						

**WESTERN ELITE INCORPORATED SERVICES
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss		
Adjustments to reconcile net loss to net cash provided by operating activities		
Equity in losses of LLC		
(Increase) decrease in cash surrender value of life insurance policies		
Depreciation and amortization		
Deferred income taxes		
Noncash equipment rental and service transactions with affiliated company		
Increase in notes and accounts receivable due from stockholders		
Noncash interest expense		
Noncash stock dividend		
Net change in operating assets and liabilities		
Net Cash Provided by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments from notes receivable		
(Increase) decrease in notes and accounts receivable due from stockholders		
Additions to property, plant and equipment		
(Increase) decrease in land under development		
(Increase) decrease in other assets		
Net Cash Used by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in notes payable to stockholders		
Additional long-term borrowings		
Payments on long-term debt		
Advances from (to) affiliated cellular companies		
Net Cash Provided by Financing Activities		
NET INCREASE (DECREASE) IN CASH		
Cash at Beginning of Year		
CASH AT END OF YEAR		

PETITION OF INLAND TELEPHONE COMPANY TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -
EXHIBIT 5, PAGE - 11

REDACTED

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

**WESTERN ELITE INCORPORATED SERVICES
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Accounts receivable - trade		
Other accounts receivable		
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		
Income taxes payable		
Deferred revenue		
Net Change in Operating Assets and Liabilities		
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest, net of allowance for funds used during construction (2015 - ██████; 2014 - ██████)		
Income taxes paid		
SUPPLEMENTAL DISCLOSURES OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES		
Extension and replacement of property, plant and equipment included in accounts payable		
Noncash transfer of accrued payroll and related liabilities to affiliated company		
Noncash transfer of advances from affiliated companies to notes payable to stockholders		
Noncash transfer of notes and accounts receivable due from stockholders to notes payable to stockholders		

PETITION OF INLAND TELEPHONE COMPANY TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -
EXHIBIT 5, PAGE - 12

REDACTED

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

**WESTERN ELITE INCORPORATED SERVICES
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

**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 Western Elite Incorporated Services (the "Company") and its wholly-owned subsidiaries ("Subsidiaries"): Inland Telephone Company, R&R Cable Company, Inland Long Distance Company, Central Cascades Land Company, Inc., Easton Ridge Land Company, Inc., Moses Lake Views Land Company, Inc., Newport Hills Land Company, Inc., R&R Heights Land Company, Inc. and Crushe, LLC an affiliated company through common ownership which is included in consolidation. 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.

Inland Telephone 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 Inland Telephone Company recovers its telecommunication revenue requirements.

R&R Cable Company provides cable television services to customers in the Roslyn, Ronald, Cle Elum, South Cle Elum, Lake Cle Elum and portions of upper Kittitas County in Washington, rents equipment to Inland Telephone Company and others, and provides security alarm equipment and monitoring services.

Inland Long Distance Company provides long distance telecommunications service to customers in Inland Telephone Company's serving areas.

Central Cascades Land Company, Inc., Easton Ridge Land Company, Inc., Moses Lake Views Land Company, Inc., Newport Hills Land Company, Inc., R&R Heights Land Company, Inc. and Crushe, LLC hold land investments in various locations in central and eastern Washington.

Accounting principles generally accepted in the United States of America require certain Variable Interest Entities ("VIEs") to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have sufficient powers, obligations or rights or if the entity does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties.

**WESTERN ELITE INCORPORATED SERVICES
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

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 its 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 and Subsidiaries historical losses, the existing economic conditions in the 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.

Materials and Supplies

Materials and supplies consist of telephone installation equipment that is purchased by the Subsidiaries and also includes materials used for road construction. All materials and supplies are reported at the lower of cost (first-in, first-out method) or market.

Land Under Development

Land under development consists of undeveloped and developed land, as well as land improvements such as roads, water systems, sewers, utilities, buildings, construction period interest and taxes. At December 31, 2015 and 2014, management determined that the fair value of the land exceeded its carrying amount; therefore, no impairment loss has been recorded. The estimated total cost of future improvements for water, sewer and roads on R&R Heights Land Company, Inc. property totaled [REDACTED] and [REDACTED] at December 31, 2015 and 2014, respectively.

**WESTERN ELITE INCORPORATED SERVICES
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

Investments

Investments in marketable securities are carried at fair value; investments in cooperative capital certificates are carried at cost as fair value is not readily determinable. Other investments are carried at cost as fair value is also not readily determinable (see Note 6).

Fair Value Measurements

The Company measures fair value of assets and liabilities and related disclosures 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 and Subsidiaries are required to determine the level in the fair value hierarchy within which a fair value measurement ultimately falls and provide disclosure of such determinations.

Unamortized Debt Issuance Expense

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

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.

Allowance for Funds Used During Construction

Interest applicable to funds used for long-term construction projects are capitalized as a part of the cost of the asset and depreciated over the asset's estimated useful life. Interest capitalized totaled [REDACTED] and [REDACTED] in 2015 and 2014, respectively.

**WESTERN ELITE INCORPORATED SERVICES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

Accounting for Long-lived Assets

The Company reviews the recorded value of 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, 2015 and 2014, management has determined that there were no material impairment charges to be recorded as of those dates.

Common Stock

Common stock of the Company consists of two classes. Class A voting common stock has no par value, with [REDACTED] shares authorized and [REDACTED] shares issued and outstanding at December 31, 2015 and 2014, with a stated value of [REDACTED] per share. Class B non-voting common stock has no par value, with [REDACTED] shares authorized and [REDACTED] shares issued and outstanding at December 31, 2015 and 2014, with a stated value of [REDACTED] per share.

Advertising Costs

Costs incurred for advertising are expensed as incurred. Advertising expense was [REDACTED] and [REDACTED] for December 31, 2015 and 2014, respectively.

Revenue Recognition, Major Customers and Services

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

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 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 Inland Telephone Company to interstate interexchange carriers and pooled with like-revenues from all NECA member companies. The pooled access charge revenues received by Inland Telephone 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

**WESTERN ELITE INCORPORATED SERVICES
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

Revenue Recognition, Major Customers and Services (Continued)

charge revenues are estimated at December 31 each year and are subject to adjustment. Such adjustments are normal occurrences and are recorded by Inland Telephone Company during the year in which they occur.

The FCC 11-161 modified and replaced the existing universal service 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 Inland Telephone 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.

More recent universal service reform became effective July 2015. The FCC froze the National Average Cost per Loop ("NACPL") that serves as the threshold for support calculations of the High Cost Loop Support ("HCLS") revenues. The actual NACPL compared to the frozen NACPL is just one factor that impacts Inland Telephone Company's HCLS revenues in 2015. This recent reform caused no significant impact on Inland Telephone Company's revenues for 2015.

On March 30, 2016, the FCC issued and released the Report and Order, Order and Order on Reconsideration and Further Notice of Proposal Rulemaking ("FCC 16-33") reforming the universal support program for Inland Telephone Company and other rate-of-return carriers. FCC 16-33 creates two paths for rate-of-return carrier's Universal Service Fund support; a model-based option and a nonmodel-based option which will provide a modified HCLS, a Broadband Loop Support mechanism and will replace interstate carrier common line support. FCC 16-33 contains broadband deployment milestones, service performance requirements, operating and capital expense limitations as well as a budget control to maintain the current budget for total support. FCC 16-33 also reduces the allowable rate-of-return from the current 11.25% with a phased transition to 9.75% as outlined in FCC 16-33. The FCC was seeking comments for various allocations for ratemaking and support purposes as well as various other comments as noted in FCC 16-33.

**WESTERN ELITE INCORPORATED SERVICES
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

Revenue Recognition, Major Customers and Services (Continued)

Inland Telephone Company continues to review the reforms and modifications to the support that Inland Telephone Company receives, and understands that those reforms and modifications could have an adverse effect on Inland Telephone Company's revenues and cash flow. Revenue impacts may be subject to change based upon future data collections and further clarification from the FCC.

Revenues for intrastate access services are received through tariffed access charges filed by Inland Telephone Company at the WUTC. Once filed, the tariffed access charges become effective if specifically approved by the WUTC or allowed to become effective by operation of law. The intrastate switched access charges are billed by Inland Telephone Company to intrastate interexchange carriers. Intrastate special access charges are also billed to intrastate interexchange carriers that order such services and, in some cases, to retail customers that order special access services. Before July 1, 2014, the switched access charges associated with carrier common line and state universal service fund were pooled with all Washington Exchange Carrier Association ("WECA") member companies and Inland Telephone Company received a distribution of net revenues based upon its proportionate share of WUTC approved revenue objectives of all participating WECA member companies.

Effective July 1, 2014, the WUTC implemented a state universal communications service program ("State USF Program") that temporarily replaced the terminated universal service support pool ("Traditional USF") administered by WECA and also replaced the cumulative reduction in support Inland Telephone Company received from the federal Connect America Fund ("CAF"). The State USF Program began January 2015 which resulted in a cash flow issue for some of the companies that met the WUTC criteria to be eligible for such support. The WUTC granted a one-time partial distribution in 2014 of the State USF Program equal to the amount Inland Telephone Company received from the Traditional USF for 2012 in the amount of [REDACTED]. The remainder of the annual distribution, which was comprised of the cumulative reduction in CAF support of [REDACTED], was disbursed in January 2015. Subsequent annual disbursements comprised of the Traditional USF and the disbursement of the cumulative CAF deficit support are scheduled to occur in January of the following State USF Program years, assuming Inland Telephone Company continues to be eligible under the program. The State USF Program year runs from July 1 to June 30, therefore, Inland Telephone Company accrued [REDACTED] in 2014 as a receivable due from the State USF Program for the period July 1, 2014 to June 30, 2015. In 2015, Inland Telephone Company received [REDACTED] from the State USF Program, for the period July 1, 2015 to June 30, 2016, and recorded deferred revenue of [REDACTED] for the unearned portion. The State USF Program is scheduled to last for five program years.

**WESTERN ELITE INCORPORATED SERVICES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

Revenue Recognition, Major Customers and Services (Continued)

As of July 31, 2014, WECA terminated the pooling of originating carrier common line ("CCL") minutes of use and Inland Telephone Company opted to keep its existing originating CCL rate, which was allowed by the WUTC to become effective as a matter of law.

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

For some of the services that Inland Telephone Company provides to its customers, Inland Telephone Company relies upon services and facilities supplied by other companies. Any material disruption of the services or facilities supplied to Inland Telephone 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 and its Subsidiaries file federal and state income taxes on a consolidated basis. The consolidated tax liability of the affiliated group is allocated based on 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's federal income tax returns for the tax years ended previous to December 31, 2012 are closed to examination.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements.

**WESTERN ELITE INCORPORATED SERVICES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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

Reclassifications

Certain expenses in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the present year consolidated financial statements.

Subsequent Events

The management of the Company evaluated subsequent events and transactions for potential recognition and disclosure through July 15, 2016, the date the statements were issued. All identified material events or transactions have been recorded or disclosed.

NOTE 2 - NONCONSOLIDATED VARIABLE INTEREST ENTITIES

Generally accepted accounting principles provide a framework for identifying a variable interest entity ("VIE") and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements. In general, a VIE is a corporation, partnership, limited-liability corporation, trust or any other legal structure used to conduct activities or hold assets that (a) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (b) has a group of equity owners that are unable to direct the activities of the entity that most significantly impact its economic performance or (c) has a group of equity owners that do not have the obligation to absorb losses of the entity or the right to receive returns of the entity. A VIE should be consolidated if a party with an ownership, contractual or other financial interest in the VIE that is considered a variable interest (a variable interest holder), has the power to direct the VIE's most significant activities and the obligation to absorb losses or right to receive benefits of the VIE that could be significant to the VIE. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest.

The stockholders of the Company own Crushe, LLC. Crushe, LLC was evaluated against the criteria for consolidation and management determined that the Company is the primary beneficiary of the investments of Crushe, LLC because Crushe, LLC has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support from the Company. Therefore, the Company is required to consolidate Crushe, LLC in the Company's financial statements.

**WESTERN ELITE INCORPORATED SERVICES
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at various financial institutions in central and eastern Washington, insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At December 31, 2015, the Company and Subsidiaries' cash balances at various institutions exceeded the FDIC insured amount by [REDACTED].

The Company has accounts with a broker-dealer with investments in cash/money accounts. 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 risks as they are unsecured.

NOTE 4 - NOTES RECEIVABLE

Notes receivable consists of the following:

	Current Annual Installments of Principal	<u>Principal Amount</u>	
		<u>2015</u>	<u>2014</u>
Moses Lake Views Land Company, Inc. Fixed rate note receivable in monthly principal and interest payments [REDACTED] - due January 2017			
R&R Heights Land Company, Inc. Fixed rate notes receivable in monthly principal and interest payments [REDACTED] - due March 2022 (interest only) [REDACTED] - due April 2017			
Less principal installments on notes receivable due within one year			



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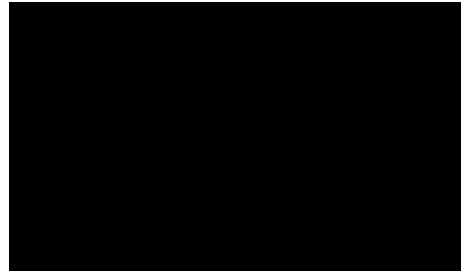
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 4 - NOTES RECEIVABLE (Continued)

At December 31, 2015, maturities on notes receivable for the next five years and thereafter are as follows:

2016
2017
2018
2019
Thereafter



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.

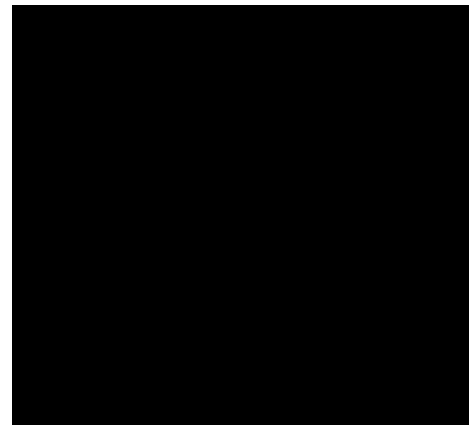
NOTE 5 - NOTES AND ACCOUNTS RECEIVABLE DUE FROM STOCKHOLDERS

Notes and accounts receivable due from stockholders consist of the following:

2015 2014

R&R Cable Company
Accounts receivable

Newport Hills Land Company, Inc.
Accounts receivable
note receivable due January 2017
note receivable due January 2017



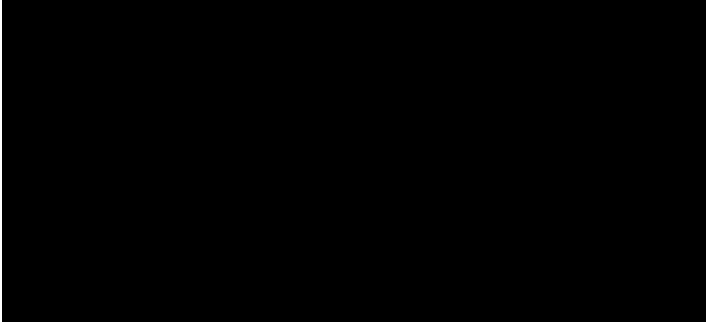
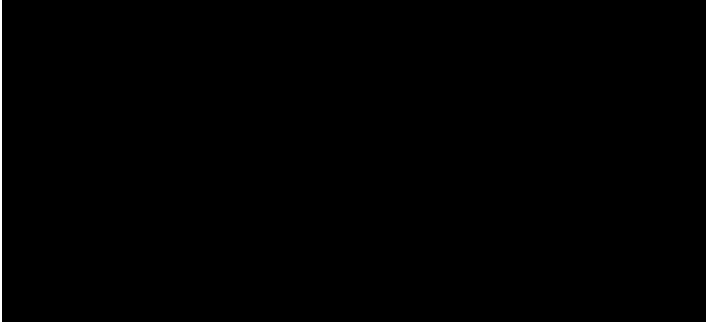
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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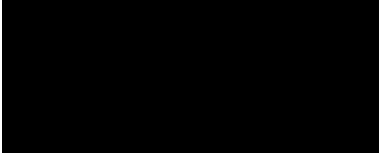
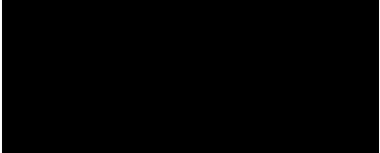
NOTE 6 - INVESTMENTS

Following is the hierarchy and fair value measurements at December 31, 2015 and 2014:

	Fair Value Measurements		
	Quoted Prices in Active Markets For Identical Assets <u>Fair Value</u> <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Other Subjective Inputs <u>(Level 3)</u>
<u>December 31, 2015</u>			
Verizon Communications, Inc. ID Optics, LLC			
<u>December 31, 2014</u>			
Verizon Communications, Inc.			

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.

Reconciliation of Level 3 Inputs

Balance at December 31, 2014	
Equity in ID Optics, LLC loss	
Balance at December 31, 2015	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 7 - DEPRECIABLE PLANT AND EQUIPMENT

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

	<u>Useful Lives</u> <u>(Years)</u>	<u>2015</u>	<u>2014</u>
Western Elite Incorporated Services			
Buildings			
Equipment and land improvements			
Inland Telephone Company			
Buildings			
Central office equipment			
Outside telephone plant			
Vehicles and other work equipment			
Furniture and fixtures			
Miscellaneous property and deregulated equipment			
R&R Cable Company			
Buildings			
Cable TV plant			
Vehicles and other work equipment			
Furniture and fixtures			
Equipment			
Inland Long Distance Company, Inc.			
Software			
Central Cascades Land Company, Inc.			
Tools and other equipment			
Easton Ridge Land Company, Inc.			
Vehicles and other work equipment			
Moses Lake Views Land Company, Inc.			
Buildings			
Tools and other equipment			
Newport Hills Land Company, Inc.			
Water equipment			



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NOTE 7 - DEPRECIABLE PLANT AND EQUIPMENT (Continued)

	Useful Lives (Years)	2015	2014
R&R Heights Land Company, Inc. Water equipment Tools and other work equipment			

NOTE 8 - LONG-TERM DEBT

Long-term debt consists of the following:

	Principal Amount	
	2015	2014
Western Elite Incorporated Services Real estate contract payable to an individual Fixed rate note of [REDACTED] payable in monthly installments; due June 2036, secured by certain real property. Promissory note payable to a financial institution. Fixed rate note of [REDACTED] payable in monthly installments; due March 2017; secured by certain real property, rents on certain real property and accounts described in the security agreement. Paid off in 2015.		
Inland Telephone Company Rural Utilities Service ("RUS") - first and supplemental mortgage notes, payable in monthly and quarterly installments. [REDACTED] - due May 2018 [REDACTED] - due January 2021 Rural Telephone Bank ("RTB") - supplemental mortgage notes, payable in quarterly installments. [REDACTED] - due January 2018		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 8 - LONG-TERM DEBT (Continued)

	<u>Principal Amount</u>	
	<u>2015</u>	<u>2014</u>
Federal Financing Bank ("FFB") - supplemental mortgage notes, payable in quarterly installments.		
<div style="background-color: black; width: 100px; height: 15px; display: inline-block;"></div> - due December 2029 - due December 2029 - due December 2029 - due December 2029 - due December 2029 - due December 2029 - due December 2029 - due December 2029 - due December 2029 - due December 2029 - due December 2029		
Advanced payments unapplied - net		
Less principal installments on long-term debt due within one year		

At December 31, 2015, maturities on long-term debt for the next five years and thereafter are as follows:

2016	
2017	
2018	
2019	
2020	
Thereafter	

Substantially all of Inland Telephone 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 8 - LONG-TERM DEBT (Continued)

Allowable distributions from Inland Telephone Company are based on distribution requirements defined in the agreements. Inland Telephone Company must also maintain certain interest coverage under the mortgage agreements.

Inland Telephone Company has approximately [REDACTED] available 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, Inland Telephone Company "will endeavor, but not be required, to maintain a TIER of at least [REDACTED]" At December 31, 2015, Inland Telephone Company's TIER was [REDACTED].

NOTE 9 - NOTES PAYABLE TO STOCKHOLDERS

	<u>Principal Amount</u>	
	<u>2015</u>	<u>2014</u>
Western Elite Incorporated Services	[REDACTED]	
Notes payable to certain stockholders due on demand with a variable monthly interest rate; current rate at December 31, 2015 was [REDACTED]		
Notes payable to stockholders due on demand with a variable monthly interest rate; current rate at December 31, 2015 was [REDACTED]		
R&R Cable Company		
Note payable to a stockholder due on demand with monthly interest only payments at a rate of [REDACTED]		
Crushe, LLC		
Notes payable to stockholders due on demand with a variable monthly interest rate; current rate at December 31, 2015 was [REDACTED]		

**WESTERN ELITE INCORPORATED SERVICES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 9 - NOTES PAYABLE TO STOCKHOLDERS (Continued)

The Company's notes payable to stockholders noted above are from stockholder amounts received as partial recognition for certain stockholders' sale of Inland Cellular, Inc. stock back to Inland Cellular, Inc. A portion of the amounts received are in lieu of payment to Inland Cellular, Inc. for advances to R&R Cable Company and the Company which were converted to the notes payable to stockholders. A portion of the amounts received from certain stockholders were used to pay off a promissory note payable to a financial institution (see Note 8). All the stockholder notes payable listed above are classified as an other liability for financial statement purposes due to the intent of the stockholders not to have the notes repaid in 2016.

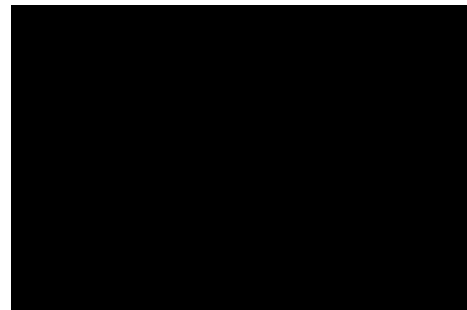
NOTE 10 - INCOME TAXES

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 certain investments and marketable securities at fair market values for financial reporting purposes and cost for income tax purposes.
- Accounting for land sales on the installment method 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:

Plant and equipment
Land sales on installment contracts
Net operating loss carryforward
Investments



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 10 - INCOME TAXES (Continued)

The Company has a net operating loss carryforward of [REDACTED] of which [REDACTED] is from 2015, [REDACTED] is from 2014, [REDACTED] is from 2013, [REDACTED] is from 2012 and [REDACTED] is from 2011 which will expire on December 31, 2035, 2034, 2033, 2032 and 2031 respectively.

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

	<u>2015</u>	<u>2014</u>
Current	[REDACTED]	[REDACTED]
Deferred	[REDACTED]	[REDACTED]

NOTE 11 - LEASES

Future lease commitments are not material; total rental and lease expense for the years ended December 31, 2015 and 2014 are less than one percent of total revenues.

NOTE 12 - EMPLOYEE BENEFIT PLANS

The Company and its Subsidiaries participate 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 and its Subsidiaries have a matching contribution rate that is equal to [REDACTED] of each eligible employee's elective deferrals up to and including, but not exceeding [REDACTED] of said eligible employee's 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 and its Subsidiaries can elect to contribute [REDACTED] of eligible employees' first [REDACTED] for 2015 and [REDACTED] for 2014 of regular compensation and [REDACTED] of their regular compensation in excess of [REDACTED] in 2015 and [REDACTED] in 2014 to the plan, but not to exceed [REDACTED] per employee in 2015 and [REDACTED] in 2014. The Company and its Subsidiaries did not make a discretionary integrated pension or profit sharing contribution in 2015 or 2014. Company and its Subsidiaries contributions charged to operations in connection with the 401(k) profit sharing plan and the integrated pension plan were [REDACTED] and [REDACTED] in 2015 and 2014, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 13 - RELATED PARTY TRANSACTIONS

The Company conducts certain business transactions with Inland Cellular Telephone Company ("Inland Cellular"), which was an affiliated company through common ownership (see Note 9). Inland Cellular Telephone Company is the sole owner of Inland Cellular, LLC.

R&R Cable Company accounts receivable due from stockholders were transferred to Western Elite Incorporated Services in 2015.

During the year ended December 31, the Company and its Subsidiaries had the following related party transactions:

	<u>2015</u>	<u>2014</u>
Inland Telephone Company		
Rental of switch space to Inland Cellular, LLC		
Interest charged to Inland Cellular, LLC on advances		
Interest paid to Inland Cellular, LLC on advances		
Administration services and work on cellular sites and switching locations charged to Inland Cellular, LLC		
Interest paid on advances to Inland Cellular Telephone Company		
Administrative overhead charged to Inland Cellular, LLC		
Special access services provided to Inland Cellular, LLC		
Transfer of accrued payroll and related liabilities to Inland Cellular Telephone Company		
Western Elite Incorporated Services		
Interest charged to Company on advances from Inland Cellular Telephone Company		
Interest paid/owed to stockholders		
R&R Cable Company		
Space rent charged to Inland Cellular, LLC		
Interest paid to Inland Cellular Telephone Company		
Interest charged to Company stockholders		
Interest paid/owed to Company stockholders		
Crushe, LLC		
Interest charged to Crushe, LLC on advances from Inland Cellular Telephone Company		
Interest paid/owed to Company stockholders		



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NOTE 14 - COMMITMENTS AND CONTINGENCIES

In 2014, Inland Telephone Company was examined by the Washington State Department of Revenue for the period January 1, 2010 to March 31, 2014 for revenues reported for the business and occupation tax and retail and local sales tax. From that examination, Inland Telephone Company was assessed a tax due of [REDACTED]. Inland Telephone Company challenged the assessment which was resolved in 2015 with no amounts due.