



PO BOX 609  
MOUNT VERNON, OR 97865-0609  
1-888-383-4132

July 31, 2017

Washington Utilities and Transportation Commission  
PO BOX 47250  
1300 South Evergreen Park Drive, SW  
Olympia, WA 98504-7250

RE: 2017 Petition to Receive Support from the State Universal Communications Services  
Program-Redacted Version #2

**This filing replaces the original redacted version filed July 28, 2017. It was brought to my attention that the "black-outs" were not effective in the filing. Please replace the original with this filing.**

CLAIM OF CONFIDENTIALITY

Pursuant to WAC 480-123-110 on behalf of Skyline Telecom ("Company"), attached herewith for filing with the Washington Utilities and Transportation Commission ("Commission") is the original, confidential, unredacted version of the Company's Petition to receive support from the state universal communication services program established by RCW 80.36.650 ("Petition"), together with an original, confidential, redacted version of the Petition.

Because of the CONFIDENTIAL nature of the information set forth in portions of the accompanying Petition pursuant to RCW 80.04.095 and WAC 480-07-160 the Company hereby asserts a claim of confidentiality with respect thereto. The basis for this claim is that the portions of the Petition, including the exhibits, that have been marked as "confidential" contain valuable commercial information, including confidential marketing, cost and financial information. Accordingly, in compliance with WAC 480-07-160(3)(c), redacted and unredacted versions of those documents accompany this letter. As specified in WAC 480-07-160(3)(b)(i), the original and a copy (both redacted and unredacted) of materials claimed to be confidential have been marked "CONFIDENTIAL PER WAS 480-07-160." The redacted version has been marked "REDACTED."

Native versions of all documents have been provided whenever possible. A .PDF version of the entire filing has also been submitted.

If the Commission has any questions regarding the filing, please feel free to contact me at 541-932-4411 or [dkluser@ortelco.net](mailto:dkluser@ortelco.net).

Sincerely,

Delinda Kluser  
Vice-Pres, Manager

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6 **BEFORE THE WASHINGTON**  
7 **UTILITIES AND TRANSPORTATION COMMISSION**

8 IN RE

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10 PETITION OF SKYLINE TELECOM INC,  
11 TO RECEIVE SUPPORT FROM THE  
12 STATE UNIVERSAL COMMUNICATIONS  
SERVICES PROGRAM

DOCKET NO.

PETITION FOR SUPPORT

13 COMES NOW SKYLINE TELECOM INC, (the "Company"), and, pursuant to Chapter  
14 480-123 of the Washington Administrative Code ("WAC") including, but not limited to, WAC 480-  
15 123-110, hereby petitions the Washington Utilities and Transportation Commission (the  
16 "Commission") to receive support from the State Universal Communications Services Program  
17 established in RCW 80.36.650 (the "Program") for the fiscal year ending June 30, 2018.  
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20 **I. Demonstration of Eligibility under WAC 480-123-100**

- 21 1. WAC 480-123-100(1)(a): The Company is a local exchange company as defined in WAC  
22 480-120-021 that serves less than forty thousand access lines within the state.  
23 2. WAC 480-123-100(1)(b): The Company is an incumbent local exchange carrier as defined  
24 in 47 U.S.C. Sec. 251(h).  
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PETITION OF SKYLINE TELECOM INC  
TO RECEIVE SUPPORT  
FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM - 1

- 1 3. WAC 480-123-100(1)(c): The Company offers basic residential and business exchange  
2 telecommunications services as set forth in WAC 480-120-021 and RCW 80.36.630.
- 3 4. WAC 480-123-100(1)(d): The Company's rates for residential local exchange service, plus  
4 mandatory extended area service charges, are no lower than the local urban rate floor  
5 established by the Commission as the benchmark rate based on the Federal Communications  
6 Commission's national local urban rate floor pursuant to 47 C.F.R. Sec. 54.318 in effect on  
7 the date of this Petition.
- 8 5. WAC 480-123-100(1)(e): The Company has been designated by the Commission as an  
9 eligible telecommunications carrier for purposes of receiving federal universal services  
10 support pursuant to 47 C.F.R. Part 54 Subpart D - Universal Service Support for High Cost  
11 Areas with respect to the service area for which the Company is seeking Program support.  
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15 **II. Demonstration of Eligibility under WAC 480-123-110**

- 16 1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications  
17 services and is seeking Program support is as follows: SKYLINE TELECOM INC.
- 18 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between  
19 the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.  
20 A detailed description of any transactions between the Company and the affiliates named in  
21 Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.
- 22 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet Nos.  
23 49 and 63 of the Company's Tariff WN U-2.  
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- 1 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate  
2 instability or service interruption or cessation in the absence of support from the Program is  
3 attached as Exhibit 3.
- 4 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,  
5 are copies of the Company's balance sheet as of December 31, 2016, and December 31,  
6 2015, and copies of the Company's statements of income and retained earnings or margin for  
7 the years ended December 31, 2016 and December 31, 2015.
- 8 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial  
9 statements for the years ended December 31, 2016 and December 31, 2015, are attached as  
10 Exhibit 5.
- 11 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of  
12 return on a total Washington unseparated regulated operations basis for each of the two prior  
13 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
- 14 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on  
15 equity on a total company (regulated and non-regulated) Washington basis for each of the  
16 two prior years, calculated in the manner prescribed by the Commission, is provided in  
17 Exhibit 5.
- 18 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the  
19 statements of income and retained earnings or margin in the same format and detail as is  
20 required to complete RUS Form 479 for the prior two years is presented on Exhibit 6.  
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1 10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company officer  
2 with personal knowledge and responsibility certifying that no corporate operations  
3 adjustment to existing high-cost loop and interstate common line support mechanisms  
4 required by the Federal Communications Commission applied to the Company for the two  
5 prior years is attached hereto as Exhibit 7.

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7 11. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains additional supporting information  
8 requested by the Commission.

9 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company  
10 officer with personal knowledge and responsibility certifying that the Company complies  
11 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to  
12 incumbent local exchange companies is attached as Exhibit 8.

13 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or  
14 on its behalf with the Federal Communications Commission for the calendar year preceding  
15 the current year has already been filed with the Commission. See the Company's filing in  
16 Docket No. UT-170011 filed on or about June 28, 2017.

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18 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by  
19 the Company as of December 31, 2016, was 100 all of which were within the geographic  
20 area for which the Company is seeking support. The number of residential local exchange  
21 access lines served by the Company as of December 31, 2015, was 108, all of which were  
22 within the geographic area for which the Company is seeking support.  
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1 The number of business local exchange access lines served by the Company as of December  
2 31, 2016, was 11 all of which were within the geographic area for which the Company is  
3 seeking support. The number of business local exchange access lines served by the  
4 Company as of December 31, 2015, was 18, all of which were within the geographic area  
5 for which the Company is seeking support.

6 The monthly recurring rate charged by the Company for residential local exchange access  
7 service on December 31, 2016, was \$25.00 for Silverton and \$19.50 for Mt Hull. The  
8 monthly recurring rate charged by the Company for residential local exchange access  
9 service on December 31, 2015, was \$25.00 for Silverton and \$19.50 for Mt Hull.

10 The rate charged by the Company for single line business local exchange access service on  
11 December 31, 2016, was \$35.00 for Silverton and \$25.00 for Mt Hull. The rate charged by  
12 the Company for single line business local exchange access service on December 31, 2015,  
13 was \$35.00 for Silverton and \$25.00 for Mt Hull. (The Company has other business local  
14 exchange service rates, but the Company understands that WAC 480-123-110(1)(g) is  
15 requesting the single line business local exchange access service rate.)  
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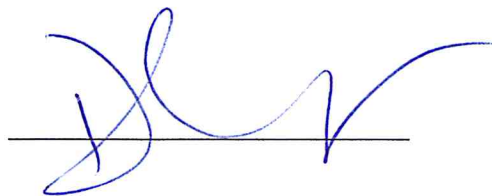
18 15. WAC 480-123-110(1)(h): The requested statement is attached as Exhibit 9.

19 16. The amount on Line 4, labeled 2011 ROR Carrier Base Period Revenue, of the CAF ICC  
20 Data collection Report for the period 7/1/2017 - 6/30/2018 is \$347,635 and has not changed  
21 from the last filing.

22 17. All exhibits attached hereto are incorporated in this Petition as though fully set forth.  
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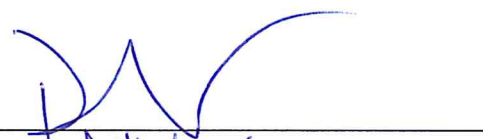
1 Respectfully submitted this 28<sup>th</sup> day of July, 2017.

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CERTIFICATION

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

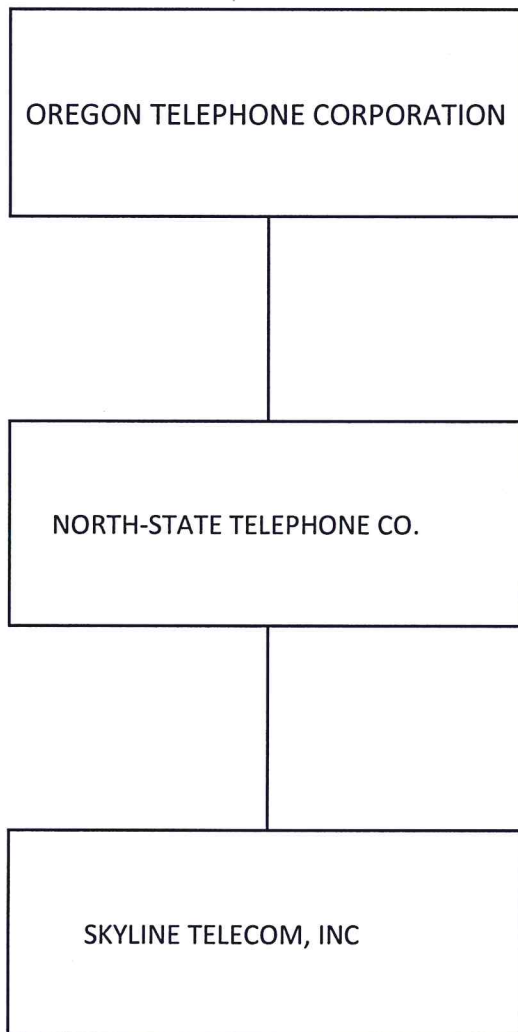


By: Delinda Kluser  
Title: Vice-pres, manager



EXHIBIT 1

CORPORATE ORGANIZATION CHART



PETITION OF SKYLINE TELECOM, INC TO  
RECEIVE SUPPORT FROM THE UNIVERSAL  
SERVICE COMMUNICATIONS PROGRAM –

## EXHIBIT 2

### AFFILIATED TRANSACTIONS

#### Affiliated Transactions

Oregon Telephone Corporation is the managing company for Skyline Telecom Inc. The business office is located in MT Vernon, OR. All billing, customer support, technical support and financial reporting are performed by the staff of Oregon Telephone Corporation. All labor expenses are direct coded to Skyline. A management agreement is in place which identifies how expenses are allocated between companies. Skyline currently has two part time employees on staff that are paid directly by the Company in addition to the labor charged through the management agreement. Skyline also has a contract employee paid directly by the company for locates, trouble reports and installs.

At times it is necessary for the combo tech employed by either Oregon Telephone Corporation or North-State Telephone to assist with construction projects or cover for absences. This employee also directly codes labor and expenses to Skyline Telecom.

### EXHIBIT 3

#### DEMONSTRATION OF RISK OF RATE INSTABILITY OR SERVICE INTERRUPTION OR CESSATION

The operating environment in which the Company finds itself has created a climate of great financial uncertainty. The Company has been working over the past several years to address growing competition. The Company has taken steps to increase the availability and attributes of advanced services offered by the Company, including broadband. This has resulted in the Company making additional investments in regulated plant of approximately \$238,245 during the period January 1, 2011 through December 31, 2016. The Company made significant investments in plant prior to 2011. As a result, the Company has a substantial debt obligation to cover the investment that has been made.

The overall financial condition of the Company is detailed on other Exhibits to this Petition. What this information demonstrates is that, when adjusted to eliminate the support from the state Universal Communications Services Program that the Company received or accrued in 2016, the Company's total regulated revenue decreased by \$107,191 from 2011 through 2016. The Company has looked for ways to lower expenses. However, much of the Company's operating expenses are fixed obligations, such as debt-related payments.

At the same time, the Company is seeing increased competition. For example, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. Since 2011, the Company has lost 33 access lines. A loss of customers equates to a loss of revenue without a corresponding reduction in expenses or corresponding increase in rates. This trend of access line loss is exacerbated by the Federal Communications Commission's requirement that the Company increase its rates to remain eligible for full federal USF support.

As another example, some of the financial uncertainty that the Company faces stems from the USF/ICC Transformation Order issued by the Federal Communications Commission.<sup>1</sup> The USF/ICC Transformation Order has built in an automatic decline in the Company's intrastate and interstate access revenues. The intercarrier compensation portion of the Transformation Order introduces a concept of a base line year for calculating terminating access and reciprocal compensation revenues and provides support from the Connect America Fund ("CAF") based on the base line year. However, the base line year revenues (from which the level of CAF support is

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<sup>1</sup> *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform - Mobility Fun*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011)(*USF/ICC Transformation Order*).



derived) are reduced iteratively by five percent each year. The CAF support reduction began in July 2012. Projecting through the year ending June 30, 2018, including reductions that will occur July 1, 2017, the Company has seen a reduction in support from the base line revenue of approximately \$68,395.

These factors, among others, have led to the strained financial condition of the Company as reflected in the financial reports that are part of the Petition.

The combination of factors noted above creates a situation in which, without support from the state universal communications services program, the Company may be faced with a choice of increasing rates further or reducing service in order to be able to match expenses to revenues. Neither choice presents a viable path for providing continued high quality service to customers. The dilemma presented by these choices reflects the risk of rate instability or service interruption or cessation to which the Company is subject.

EXHIBIT 4  
STATE USF FILING  
FINANCIAL TEMPLATE  
NON-"S CORP" COMPANIES

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)  
Prior Year Balance Sheet

Company Name: (Below)  
Skyline Telecom Inc

ASSETS	Balance End of Year 2015 (A)	Part 64 Adj to NonReg 2015 (B)	Adj. Balance End of Year 2015 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2015 (A)	Part 64 Adj to NonReg 2015 (B)	Adj. Balance End of Year 2015 (C)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
1. Cash and Equivalents	305,158		305,158	25. Accounts Payable	52,146		52,146
2. Cash-RUS Construction Fund			0	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments	665		665
a. Telecom, Accounts Receivable	104,236		104,236	28. Customer Deposits			
b. Other Accounts Receivable			0	29. Current Mat. L/T Debt	117,102		117,102
c. Notes Receivable			0	30. Current Mat. L/T Debt Rural Dev.	0		0
4. Non-Affiliates:				31. Current Mat. - Capital Leases	0		0
a. Telecom, Accounts Receivable			0	32. Income Taxes Accrued	0		0
b. Other Accounts Receivable			0	33. Other Taxes Accrued	0		0
c. Notes Receivable			0	34. Other Current Liabilities	0		0
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	169,913	0	169,913
6. Material-Regulated			0	<b>LONG-TERM DEBT</b>			
7. Material-Nonregulated	581		581	36. Funded Debt-RUS Notes	336,048		336,048
8. Prepayments	43,293		43,293	37. Funded Debt-RTB Notes	201,091		201,091
9. Other Current Assets			0	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	453,268	0	453,268	39. Funded Debt-Other	0		0
				40. Funded Debt-Rural Develop. Loan	0		0
<b>NONCURRENT ASSETS</b>				41. Premium (Discount) on L/T Debt	0		0
11. Investment in Affiliated Companies				42. Recquired Debt	0		0
a. Rural Development	0		0	43. Obligations Under Capital Lease	0		0
b. Nonrural Development	0		0	44. Adv. From Affiliated Companies	0		0
12. Other Investments				45. Other Long-Term Debt	0		0
a. Rural Development	0		0	46. Total Long-Term Debt (36 thru 45)	557,139	0	557,139
b. Nonrural Development			0	<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
13. Nonregulated Investments (B1)			0	47. Other Long-Term Liabilities	75,870		75,870
14. Other Noncurrent Assets			0	48. Deferred Income Taxes	0		0
15. Deferred Charges	18,175		18,175	49. Other Deferred Credits (D)	0		0
16. Jurisdictional Differences			0	50. Other Jurisdictional Differences	0		0
17. Total noncurrent Assets (11 thru 16)	18,175	0	18,175	51. Total Other Liab. & Def. Credits (47 thru 50)	75,870	0	75,870
				<b>EQUITY</b>			
<b>PLANT, PROPERTY AND EQUIPMENT</b>				52. Cap. Stock Outstanding & Subscribed	262,582		262,582
18. Telecom Plant-in-Service	3,019,743		3,019,743	53. Additional Paid-in-Capital	0		0
19. Property Held for Future Use			0	54. Treasury Stock	0		0
20. Plant Under Construction			0	55. Membership and Capital Certificates	0		0
21. Plant Adj., Nonop Plant & Goodwill			0	56. Other Capital	0		0
22. Accumulated Depreciation (CR.)	(2,045,030)		(2,045,030)	57. Patronage Capital Credits	0		0
23. Net Plant (18 thru 21 less 22)	974,713	0	974,713	58. Retained Earnings or Margins (B2)	400,652	0	400,652
				59. Total Equity (52 thru 58)	663,234	-	663,234
<b>24. TOTAL ASSETS (10+17+23)</b>	<b>1,446,156</b>	<b>0</b>	<b>1,446,156</b>	<b>60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>1,446,156</b>	<b>0</b>	<b>1,446,156</b>

Footnotes:

- (B1) - Part 64 offset to nonreg investment
- (B2) - Part 64 offset to retained earnings
- (D) - Excludes deferred taxes

Footnotes:

- (A) - As reported on RUS Form 479
- (B) - Part 64 adjustments from regulated to nonregulated.
- (C) - Adjusted Balance after Part 64



State USF Petition Filing Requirement -WAC 480-123-110(1)(e)  
Current Year Balance Sheet

Company Name: (Below)  
Skyline Telecom Inc

ASSETS	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
1. Cash and Equivalents	364,491		364,491	25. Accounts Payable	64,991		64,991
2. Cash-RUS Construction Fund			0	26. Notes Payable			0
3. Affiliates:				27. Advance Billings and Payments			0
a. Telecom, Accounts Receivable				28. Customer Deposits	365		365
b. Other Accounts Receivable	56,120		56,120	29. Current Mat. L/T Debt	123,205		123,205
c. Notes Receivable			0	30. Current Mat. L/T Debt Rur. Dev.			0
4. Non-Affiliates:				31. Current Mat. - Capital Leases			0
a. Telecom, Accounts Receivable			0	32. Income Taxes Accrued			0
b. Other Accounts Receivable			0	33. Other Taxes Accrued			0
c. Notes Receivable			0	34. Other Current Liabilities			0
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	188,561	0	188,561
6. Material-Regulated			0	<b>LONG-TERM DEBT</b>			
7. Material-Nonregulated	416		416	36. Funded Debt-RUS Notes	258,104		258,104
8. Prepayments	24,702		24,702	37. Funded Debt-RTB Notes	155,258		155,258
9. Other Current Assets			0	38. Funded Debt-FFB Notes			0
10. Total Current Assets (1 Thru 9)	445,729	0	445,729	39. Funded Debt-Other			0
				40. Funded Debt-Rural Develop. Loan			0
<b>NONCURRENT ASSETS</b>				41. Premium (Discount) on L/T Debt			0
11. Investment in Affiliated Companies				42. Recquired Debt			0
a. Rural Development			0	43. Obligations Under Capital Lease			0
b. Nonrural Development			0	44. Adv. From Affiliated Companies			0
12. Other Investments			0	45. Other Long-Term Debt			0
a. Rural Development			0	46. Total Long-Term Debt (36 thru 45)	413,362	0	413,362
b. Nonrural Development			0	<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
13. Nonregulated Investments (B1)			0	47. Other Long-Term Liabilities	74,770		74,770
14. Other Noncurrent Assets			0	48. Deferred Income Taxes			0
15. Deferred Charges	16,635		16,635	49. Other Deferred Credits (D)			0
16. Jurisdictional Differences			0	50. Other Jurisdictional Differences			0
17. Total noncurrent Assets (11 thru 16)	16,635	0	16,635	51. Total Other Liab. & Def. Credits (47 thru 50)	74,770	0	74,770
				<b>EQUITY</b>			
<b>PLANT, PROPERTY AND EQUIPMENT</b>				52. Cap. Stock Outstanding & Subscribed	262,582		262,582
18. Telecom Plant-in-Service	3,134,406		3,134,406	53. Additional Paid-in-Capital			0
19. Property Held for Future Use			0	54. Treasury Stock			0
20. Plant Under Construction			0	55. Membership and Capital Certificates			0
21. Plant Adj., Nonop Plant & Goodwill			0	56. Other Capital			0
22. Accumulated Depreciation (Cr.)	(2,254,906)		(2,254,906)	57. Patronage Capital Credits			0
23. Net Plant (18 thru 21 less 22)	879,500	0	879,500	58. Retained Earnings or Margins (B2)	402,589		402,589
				59. Total Equity (52 thru 58)	665,171		665,171
<b>24. TOTAL ASSETS (10+17+23)</b>	<b>1,341,864</b>	<b>0</b>	<b>1,341,864</b>	<b>60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>1,341,864</b>	<b>0</b>	<b>1,341,864</b>

Footnotes:

- (A) - As reported on RUS Form 479
- (B) - Part 64 adjustments from regulated to nonregulated.
- (C) - Adjusted Balance after Part 64

- (B1) - Part 64 offset to nonreg investment
- (B2) - Part 64 offset to retained earnings
- (D) - Excludes deferred taxes

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)  
Prior and Current Year Balance Sheet

Company Name: (Below)  
Skyline Telecom Inc

ASSETS	Adjusted Prior Year Balance 2015	Adjusted Current Year Balance 2016	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2015	Adjusted Current Year Balance 2016
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
1. Cash and Equivalents	305,158	364,491	25. Accounts Payable	52,146	64,991
2. Cash-RUS Construction Fund	0	0	26. Notes Payable	0	0
3. Affiliates:			27. Advance Billings and Payments	0	0
a. Telecom, Accounts Receivable	104,236	56,120	28. Customer Deposits	665	365
b. Other Accounts Receivable	0	0	29. Current Mat. L/T Debt	117,102	123,205
c. Notes Receivable	0	0	30. Current Mat. L/T Debt Rur. Dev.	0	0
4. Non-Affiliates:			31. Current Mat. - Capital Leases	0	0
a. Telecom, Accounts Receivable	0	0	32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	0	0	33. Other Current Liabilities	0	0
c. Notes Receivable	0	0	34. Other Current Liabilities	0	0
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	169,913	188,561
6. Material-Regulated	0	0	<b>LONG-TERM DEBT</b>		
7. Material-Nonregulated	581	416	36. Funded Debt-RUS Notes	336,048	258,104
8. Prepayments	43,293	24,702	37. Funded Debt-RTB Notes	201,091	155,258
9. Other Current Assets	0	0	38. Funded Debt-FFB Notes	0	0
10. Total Current Assets (1 Thru 9)	453,268	445,729	39. Funded Debt-Other	0	0
			40. Funded Debt-Rural Develop. Loan	0	0
<b>NONCURRENT ASSETS</b>			41. Premium (Discount) on L/T Debt	0	0
11. Investment in Affiliated Companies			42. Reacquired Debt	0	0
a. Rural Development	0	0	43. Obligations Under Capital Lease	0	0
b. Nonrural Development	0	0	44. Adv. From Affiliated Companies	0	0
12. Other Investments			45. Other Long-Term Debt	0	0
a. Rural Development	0	0	46. Total Long-Term Debt (36-45)	537,139	413,362
b. Nonrural Development	0	0	<b>OTHER LIAB. &amp; DEF. CREDITS</b>		
13. Nonregulated Investments	0	0	47. Other Long-Term Liabilities	75,870	74,770
14. Other Noncurrent Assets	0	0	48. Deferred Income Taxes	0	0
15. Deferred Charges	18,175	16,635	49. Other Deferred Credits	0	0
16. Jurisdictional Differences	0	0	50. Other Jurisdictional Differences	0	0
17. Total noncurrent Assets (11 thru 16)	18,175	16,635	51. Total Other Liab. & Def. Credits (47 thru 50)	75,870	74,770
			<b>EQUITY</b>		
<b>PLANT, PROPERTY AND EQUIPMENT</b>			52. Cap. Stock Outstanding & Subscribed	262,582	262,582
18. Telecom Plant-in-Service	3,019,743	3,134,406	53. Additional Paid-in-Capital	0	0
19. Property Held for Future Use	0	0	54. Treasury Stock	0	0
20. Plant Under Construction	0	0	55. Membership and Capital Certificates	0	0
21. Plant Adj., Nonop Plant & Goodwill	0	0	56. Other Capital	0	0
22. Accumulated Depreciation (CR.)	(2,045,030)	(2,254,906)	57. Patronage Capital Credits	0	0
23. Net Plant (18 thru 21 less 22)	974,713	879,500	58. Retained Earnings or Margins	400,652	402,589
			59. Total Equity (52 thru 58)	663,234	665,171
<b>24. TOTAL ASSETS (10+17+23)</b>	<b>1,446,156</b>	<b>1,341,864</b>	<b>59. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>1,446,156</b>	<b>1,341,864</b>

Footnote:

Adjusted Balances represents balances after Part 64 adjustments

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)  
 Prior and Current Year Rate Base

Company Name: (Below)  
 Skyline Telecom Inc

Line #	Description	B/S Line #	Adj. Balance End of Year 2015	Adj. Balance End of Year 2016	Average Adj End of Year Balance
<b>Average Rate Base:</b>					
1	Total Regulated Adjusted Telecom Plant-In-service	18	3,019,743	3,134,406	3,077,075
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(2,045,030)	(2,254,906)	(2,149,968)
4	Total Regulated Materials & Supplies	6	0	0	0
5	Deferred Income Taxes (CR)	48	0	0	0
6	<b>Total Regulated Rate Base</b>		<b>974,713</b>	<b>879,500</b>	<b>927,107</b>

Footnotes:

1. Normal balance of deferred income taxes and accumulated depreciation is a credit.
2. Adjusted balance includes Part 64 adjustments



State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)  
 Prior and Current Year Access Lines

Company Name: (Below)  
 Skyline Telecom Inc

Line #	Description	Prior Year End of Yr. Balance - 2015	Current Year End of Yr. Balance - 2016	Difference	% Change
1	Access Lines: Residential	108	99	(9)	-8.3%
2	Business	18	11	(7)	-38.9%
3	Total	126	110	(16)	-12.7%

Note: If 2015 does not equal last year's petition and template, explain.

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)  
 Prior Year Income Statement

Company Name: (Below)  
 Skyline Telecom Inc

Line #	Description	Prior Year 2015 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2015 (C)
1	Local Network Services Revenues	28,841		28,841
2	Network Access Services Revenues	935,151		935,151
3	Long Distance Network Services Revenues			0
4	Carrier Billing and Collection Revenues			0
5	Miscellaneous Revenues			0
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(182)		(182)
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>963,810</b>	<b>0</b>	<b>963,810</b>
8	Plant Specific Operations Expense	255,327		255,327
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	14,095		14,095
10	Depreciation Expense	189,051		189,051
11	Amortization Expense	1,540		1,540
12	Customer Operations Expense			0
13	Corporate Operations	369,765		369,765
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>829,778</b>	<b>0</b>	<b>829,778</b>
15	Operating Income or Margins (7 less 14)	134,032	0	134,032
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	33,520		33,520
19	Other Taxes	5,402		5,402
20	<b>Total Operating Taxes (17+18+19)</b>	<b>38,922</b>	<b>0</b>	<b>38,922</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>95,110</b>	<b>0</b>	<b>95,110</b>
22	Interest on Funded Debt	33,677		33,677
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (CR)			0
26	<b>Total Fixed Charges (22+23+24-25)</b>	<b>33,677</b>	<b>0</b>	<b>33,677</b>
27	Nonoperating Net Income	21,665		21,665
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	<b>Nonregulated Net Income (B1)</b>	<b>(63,722)</b>	<b>0</b>	<b>(63,722)</b>
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>19,376</b>	<b>0</b>	<b>19,376</b>
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	381,276		381,276
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)			0
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	<b>Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38)(A2)</b>	<b>400,652</b>	<b>0</b>	<b>400,652</b>
40	Patronage Capital Beginning-of-Year			0
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	<b>Patronage Capital End-of-Year (40+41-42)</b>	<b>0</b>	<b>0</b>	<b>0</b>
44	Annual Debt Service Payments	145,522		145,522
45	Cash Ratio ((14+20-10-11)/7)	0.7036	#DIV/0!	0.7036
46	Operating Accrual Ratio ((14+20+26)/7)	0.9363	#DIV/0!	0.9363
47	TIER ((31+26)/26)	1.5753	#DIV/0!	1.5753
48	DSCR ((31+26+10+11)/44)	1.6743	#DIV/0!	1.6743

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9, Inc. Statement Summary Schedule Footnote
- (A2) Column A, Line 39 must equal Column A, Line 58 of Page 2, Balance Sheet
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Column B, automatic offset to Nonregulated Net Income (No impact to Retained Earnings)
- (C) Adjusted balance after Part 64 adjustments

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)  
Current Year Income Statement

Company Name: (Below)  
Skyline Telecom Inc

Line #	Description	Current Year 2016 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2016 (C)
1	Local Network Services Revenues	28,596		28,596
2	Network Access Services Revenues	708,176		708,176
3	Long Distance Network Services Revenues			0
4	Carrier Billing and Collection Revenues			0
5	Miscellaneous Revenues			0
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(738)		(738)
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>736,034</b>	<b>0</b>	<b>736,034</b>
8	Plant Specific Operations Expense	181,975		181,975
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	5,834		5,834
10	Depreciation Expense	209,876		209,876
11	Amortization Expense	1,540		1,540
12	Customer Operations Expense			0
13	Corporate Operations	225,628		225,628
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>624,853</b>	<b>0</b>	<b>624,853</b>
15	Operating Income or Margins (7 less 14)	111,181	0	111,181
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	26,347		26,347
19	Other Taxes	5,445		5,445
20	<b>Total Operating Taxes (17+18+19)</b>	<b>31,792</b>	<b>0</b>	<b>31,792</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>79,389</b>	<b>0</b>	<b>79,389</b>
22	Interest on Funded Debt	28,245		28,245
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (CR)			0
26	<b>Total Fixed Charges (22+23+24-25)</b>	<b>28,245</b>	<b>0</b>	<b>28,245</b>
27	Nonoperating Net Income	25,377		25,377
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	<b>Nonregulated Net Income (B1)</b>	<b>(74,584)</b>	<b>0</b>	<b>(74,584)</b>
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>1,937</b>	<b>0</b>	<b>1,937</b>
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	400,652		400,652
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)			0
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	<b>Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38))(A2)</b>	<b>402,589</b>	<b>0</b>	<b>402,589</b>
40	Patronage Capital Beginning-of-Year			0
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	<b>Patronage Capital End-of-Year (40+41-42)</b>	<b>0</b>	<b>0</b>	<b>0</b>
44	Annual Debt Service Payments	145,919		145,919
45	Cash Ratio ((14+20-10-11)/7)	0.6049	#DIV/0!	0.6049
46	Operating Accrual Ratio ((14+20+26)/7)	0.9305	#DIV/0!	0.9305
47	TIER ((31+26)/26)	1.0686	#DIV/0!	1.0686
48	DSCR ((31+26+10+11)/44)	1.6557	#DIV/0!	1.6557

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9, Inc. Statement Summary Schedule Footnote
- (A2) Column A, Line 39 must equal Column A, Line 58 of Page 3, Balance Sheet
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Column B, automatic offset to Nonregulated Net Income (No Impact to Retained Earnings)
- (C) Adjusted balance after Part 64 adjustments

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)  
 Prior and Current Year Income Statement

Company Name:  
 Skyline Telecom Inc

Line #	Description	Adjusted Prior Year 2015	Adjusted Current Year 2016
1	Local Network Services Revenues	28,841	28,596
2	Network Access Services Revenues	935,151	708,176
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	0	0
5	Miscellaneous Revenues	0	0
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(182)	(738)
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>963,810</b>	<b>736,034</b>
8	Plant Specific Operations Expense	255,327	181,975
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	14,095	5,834
10	Depreciation Expense	189,051	209,876
11	Amortization Expense	1,540	1,540
12	Customer Operations Expense	0	0
13	Corporate Operations	369,765	225,628
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>829,778</b>	<b>624,853</b>
15	Operating Income or Margins (7 less 14)	134,032	111,181
16	Other Operating Income and Expenses ( )	0	0
17	State and Local Taxes	0	0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	33,520	26,347
19	Other Taxes	5,402	5,445
20	<b>Total Operating Taxes (17+18+19)</b>	<b>38,922</b>	<b>31,792</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>95,110</b>	<b>79,389</b>
22	Interest on Funded Debt	33,677	28,245
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	0	0
25	Allowance for Funds Used During Construction	0	0
26	<b>Total Fixed Charges (22+23+24-25)</b>	<b>33,677</b>	<b>28,245</b>
27	Nonoperating Net Income	21,665	25,377
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	(63,722)	(74,584)
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>19,376</b>	<b>1,937</b>
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	381,276	400,652
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	0	0
36	Dividends Declared (Preferred)	0	0
37	Other Debits Year-to-Date	0	0
38	Transfers to Patronage Capital	0	0
39	<b>Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))</b>	<b>400,652</b>	<b>402,589</b>
40	Patronage Capital Beginning-of-Year	0	0
41	Transfers to Patronage Capital	0	0
42	Patronage Capital Credits Retired	0	0
43	<b>Patronage Capital End-of-Year (40+41-42)</b>	<b>0</b>	<b>0</b>
44	Annual Debt Service Payments	145,522	145,919
45	Cash Ratio ((14+20-10-11)/7)	0.7036	0.6049
46	Operating Accrual Ratio ((14+20+26)/7)	0.9363	0.9305
47	TIER ((31+26)/26)	1.5753	1.0686
48	DSCR ((31+26+10+11)/44)	1.67	1.6557

Footnote

	2015	2016
--	------	------

(A1) S Corporation Effective Tax Rate (2 decimal places):  
 Note:  
 Adjusted Income Statement reflects Part 64 Adjustments (Regulated to Nonregulated).



State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)  
 Prior and Current Year Access Revenue Detail

Company Name: (Below)  
 Skyline Telecom Inc

Line #	Description	Part 32 Account	Prior Year 2015	Current Year 2016
1	End User Revenue (SLC, ARC, etc.)	5081	14,978	12,001
2	Switched Access (excluding USF):	5082		
2a	Intrastate		11,490	7,730
2b	Interstate (includes CAF)		438,938	358,170
3	Special Access:	5083		
3a	Intrastate			
3b	Interstate		45,121	49,074
4	Federal USF (ICLS/HCL/SN)	Varies	299,067	266,195
5	State USF		114,065	
6	Other*		11,492	15,006
7	Total (must equal line 2 of Income Stmt.)		935,151	708,176
8	Line 2 of Income Stmt.		935,151	708,176
9	Difference		0	0

Footnote:

\* - if > than 5% of Access revenue total, provide description below.

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)  
 Out-of-Period and Pro Forma Adjustments

Company Name: (Below)  
 Skyline Telecom Inc

Pro Forma (PF) Adjustment for Current Year Petition or Reversing from Prior Year	Year	OOP or PF?	Part 32 Account	
			Debit	Credit
Adjustment #1:				
Adjustment #2:				
Adjustment #3:				
Adjustment #4:				
Adjustment #5:				

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)  
 Rate of Return and Consolidated Return on Equity

Company Name: (Below)  
 Skyline Telecom Inc

Line #	Description	2016 (A)	2016 (B)
1	Rate Base (Jan. 1)	974,713	974,713
2	Rate Base (Dec 31)	879,500	879,500
3	Average Rate Base	927,107	927,107
4	Net Operating Income	79,389	79,389
5	Out-of-Period Adjustments Net of FIT (1)		
6	Adjusted Net Operating Income	79,389	79,389
7	Earned Regulated Rate of Return	8.56%	8.56%

Footnotes:

- (1) Lines 5 & 12 will be completed by Staff
- (A) Column A to be completed by Company,
- (B) Column B should equal Column A, but may include any Staff Adjustments

Company Name: (Below)  
 Skyline Telecom Inc

Description	Prior Year End of Yr. Balance - 2015	Current Year End of Yr. Balance - 2016	Difference	% Change
<b>Broadband Connections:</b>				
Residential				29.6%
Business				-100.0%
<b>Total</b>				-5.4%
<b>Gross Regulated and Nonregulated Capital Expenditures:</b>				
<b>Total Annual Amount</b>	2015	2016	Difference	% Change
				102.1%

*Redacted*  
**CONFIDENTIAL**  
 Per WAC 480-07-160



EXHIBIT 5

AUDITED FINANCIAL STATEMENTS

PETITION OF SKYLINE TELECOM INC. TO RECEIVE  
SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM –  
EXHIBIT 5

SKYLINE TELECOM, INC.  
FINANCIAL REPORT  
DECEMBER 31, 2016 AND 2015

SKYLINE TELECOM, INC.  
FINANCIAL REPORT  
DECEMBER 31, 2016 AND 2015

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Skyline Telecom, Inc.  
Mt. Vernon, Oregon

We have audited the accompanying financial statements of Skyline Telecom, Inc. (a Washington corporation), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income and retained earnings, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Skyline Telecom, Inc. as of December 31, 2016 and 2015, 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.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2017, on our consideration of Skyline Telecom, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Skyline Telecom, Inc.'s internal control over financial reporting and compliance.

*Wiggins + Co., PC*

Brigham City, Utah  
February 25, 2017

SKYLINE TELECOM, INC.  
BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015

	2016	2015
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$	\$
Due from customers and agents (no bad debt allowance)		
Materials and supplies		
Prepaid taxes		
Prepaid expenses		
Total current assets		
Other assets		
Deferred charges:		
RUS loan costs		
Total other assets		
Property, plant, and equipment		
In Service:		
Regulated telecommunications plant		
Non-regulated telecommunications plant		
Less: accumulated depreciation		
Total property, plant and equipment		
Total assets		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$	
Accounts payable-affiliated companies		
Customer deposits		
Accrued expenses		
Current portion of long-term debt		
Total current liabilities		
Other liabilities		
Deferred income taxes		
Long-term debt, net of current portion		
Total other liabilities		
Stockholders' equity		
Common stock		
Retained earnings		
Total stockholders' equity		
Total liabilities and stockholders' equity	\$	

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Per WTR 480-07-160

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

SKYLINE TELECOM, INC.  
 STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Operating revenue		
Local network	\$	\$
Network access		
Miscellaneous		
Total operating revenue		
Operating expenses		
Plant specific		
Plant nonspecific		
Customer service		
Corporate operations		
Depreciation and amortization		
Total operating expenses		
Operating taxes		
Income taxes (benefit)		
Other operating taxes		
Total operating expenses and taxes		
Operating income		
Other income (expense)		
Income (taxes) benefit		
Total non-operating income (loss)		
Income available for fixed charges		
Fixed charges, interest on long-term debt		
Net income (loss)		
Retained earnings (deficit), beginning of year		
Retained earnings (deficit), end of year	\$	\$

Redacted  
 CONFIDENTIAL  
 Per WPAZ 480-07-160

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

SKYLINE TELECOM, INC.  
 STATEMENTS OF STOCKHOLDERS' EQUITY  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common Stock	Additional Paid in Capital	Retained Earnings	Total
Balance, December 31, 2014	\$ _____	\$ _____	\$ _____	\$ _____
Net income (loss)	_____	_____	_____	_____
Dividends paid	_____	_____	_____	_____
Balance, December 31, 2015	_____	_____	_____	_____
Net income (loss)	_____	_____	_____	_____
Dividends paid	_____	_____	_____	_____
Balance, December 31, 2016	\$ _____	\$ _____	\$ _____	\$ _____

*Redacted*  
**CONFIDENTIAL**  
 per WAC 480-07-160

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



SKYLINE TELECOM, INC.  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash flows from operating activities		
Net income	\$	\$
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation		
Depreciation on other assets		
Amortization of business start up costs & loan costs		
Deferred taxes		
Changes in assets and liabilities		
Due from customers and agents		
Materials & supplies		
Prepaid taxes		
Prepaid expense		
Accounts payable		
Accounts payable-affiliated companies		
Customer deposits		
Other accrued liabilities		
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Capital expenditures		
Net cash provided (used) by investing activities		
Cash flows from financing activities		
Payments on long-term debt		
Net cash provided (used) by financing activities		
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents, beginning		
Cash and cash equivalents, ending	\$	\$
Cash paid during the year for:		
Interest	\$	\$
Income taxes	\$	\$

Redacted  
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 per WAC 480-07-160

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

SKYLINE TELECOM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Skyline Telecom, Inc. (formerly Beaver Creek Telephone Company) has been granted authority by the Washington Utilities and Transportation Commission (WUTC) to offer telecommunication services to areas in Snohomish County in the State of Washington. The Company is presently operating telecommunications plant necessary to provide these services.

The Company is a wholly-owned subsidiary of North State Telephone Company and is consolidated into the consolidated financial statements of North State Telephone Company. All intercompany entries are eliminated in the consolidation.

**Regulation and Accounting Records**

The Company provides intrastate and interstate telecommunication services which are subject to various state and federal regulations including certification by the state and federal commissions, filing and approval of tariffs or price lists, and other reporting requirements. Other regulations affecting telecommunications continue to evolve. The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission. Regulatory actions currently pending, as well as future regulations, may impact the Company.

**Estimates**

The Company uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Company maintains its cash and cash equivalents in accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. Cash and cash equivalents are defined as all short term cash with a maturity of three months or less. Cash equivalents are recorded at cost, which approximates fair value.



SKYLINE TELECOM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, Plant, and Equipment**

Regulated property, plant, and equipment in service is stated at cost, including estimated overhead expense. Maintenance and repairs are charged to operations when incurred. Renewals and betterments are capitalized. Non-regulated property, plant and equipment is stated at cost.

Depreciation is calculated on a straight-line basis over the estimated life of the classes of buildings and equipment in accordance with rates approved by the WUTC. Depreciation rates range from      to     . Costs of plant retired are eliminated from utility plant accounts and such costs plus removal expenses, less salvage, are charged to accumulated provision for depreciation. Depreciation expense for the years ended December 31, 2016 and 2015, was      and      respectively for property, plant and equipment.

**Network Access Revenues**

Network access revenues related to interlata and intralata toll service are received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long distance carrier for access and interconnection to local facilities. The Company follows an access tariff filed with the WUTC for these charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are divided into traffic sensitive, nontraffic sensitive, and billing and collecting portions. The revenues are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Company. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investment maintained. The Company participates in pooling arrangements with the National Exchange Carrier Association (NECA) and the Washington Exchange Carrier Association (WECA).

Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months after the close of the related calendar years (NECA only), are recorded in the year in which such adjustments become determinable, based upon studies by an outside consultant.

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SKYLINE TELECOM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments**

The Company follows *FASB Accounting Standards Codification Section 825 Disclosures about Fair Value of Financial Instruments*. The Standards extend fair value disclosure practices by requiring all entities to disclose the fair value of financial instruments, both assets and liabilities, recognized and not recognized in the balance sheets, for which it is practicable to estimate fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. The fair value of the Company's financial instruments approximates carrying value. Fair values were estimated based on quoted market prices and on current rates offered to the Company for debt with similar terms and maturities.

**Comprehensive Income**

The Company follows *FASB Accounting Standards Codification Sections for Reporting Comprehensive Income*. The purpose of reporting comprehensive income is to report all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. There were no comprehensive income items in 2016 and 2015.

**Materials and Supplies**

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

**Credit Risk and Concentrations of Credit Risk**

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash, receivables, and debt agreements. The Company does not require collateral or other security to support receivables from customers or agents.

The Company maintains most of its cash accounts in a commercial bank located in Oregon. The Federal Deposit Insurance Corporation announced its Transaction Account Guarantee Program, which provides full coverage for non-interest bearing transaction deposit accounts at FDIC insured institutions. The deposits of the Company qualify for the coverage under this program.



SKYLINE TELECOM, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Credit Risk and Concentrations of Credit Risk (continued)**

A summary of the total insured bank balances follows:

	2016	2015
Total cash balance (bank balance)	\$ 2	\$
Portion uninsured by FDIC		
Insured bank balances	\$	\$
Reconciled book balance - 12-31	\$	\$

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Credit sales are made to the Company's customers in the ordinary course of business. Generally, these sales are unsecured and are recorded at the billable amounts based on WUTC approved rates.

**Deferred Charges and Amortization**

Deferred charges consist of business start up costs and RUS loan costs. The business start up costs will be amortized using the straight-line method over sixty months beginning with the first month of operations. The RUS loan costs will be amortized using the straight-line method over a period of 180 months (the life of the RUS and RTB loans) beginning with the first month of operations. The Company began operations in July 2006 and the amortization of the above costs began then. Amortization expense for 2016 and 2015 was [redacted] and [redacted] respectively.

**Income Taxes**

The Company accounts for income taxes in accordance with *FASB Accounting Standards Codification Section 740 on Accounting for Income Taxes*. This statement requires the annual computation of income taxes under an asset and liability approach and the recognition of deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements and income tax returns. The Company annually computes deferred tax assets and liabilities for differences between financial statements and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. There is no state income tax in the State of Washington.

SKYLINE TELECOM, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Common Stock**

Common stock of the Company is as follows at December 31, 2016 and 2015:

Par Value	Authorized	Issued and Outstanding
No par	<u>                    </u>	<u>                    </u>

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**Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expenses and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and reduction of the accounts receivable accounts. Late fees are charged on accounts that are thirty days past due.

**NOTE 2. PROPERTY, PLANT AND EQUIPMENT**

Listed below are the major classes of property, plant, and equipment in service:

	2016	2015
<b>Regulated telecommunications equipment:</b>		
Land and support	\$ <u>                    </u>	\$ <u>                    </u>
Work equipment	<u>                    </u>	<u>                    </u>
Central office	<u>                    </u>	<u>                    </u>
Cable and wire facilities	<u>                    </u>	<u>                    </u>
Computers	<u>                    </u>	<u>                    </u>
Accumulated depreciation	<u>                    </u>	<u>                    </u>
<b>Total regulated telecommunications equipment</b>	<u>\$ <u>                    </u></u>	<u>\$ <u>                    </u></u>
<b>Non-regulated telecommunications equipment:</b>		
Voice mail system	\$ <u>                    </u>	\$ <u>                    </u>
Paystations	<u>                    </u>	<u>                    </u>
Accumulated depreciation	<u>                    </u>	<u>                    </u>
<b>Total non-regulated telecommunications equipment</b>	<u>\$ <u>                    </u></u>	<u>\$ <u>                    </u></u>

SKYLINE TELECOM, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 3. LONG-TERM DEBT**

Long-term debt consists of the following:

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	2016	2015
mortgage note payable to the Rural Utility Services (RUS) payable in monthly installments of _____ collateralized by substantially all real and personal property, due in various years through _____	\$ _____	\$ _____
mortgage note payable to the Rural Utility Services (RUS), payable in monthly installments of _____ collateralized by substantially all real and personal property, due in various years through _____	_____	_____
mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of _____ collateralized by substantially all real and personal property, due in various years through _____	_____	_____
mortgage note payable to Rural Utility Services (RUS), payable in monthly payments of _____ collateralized by substantially all real and personal property, due in various years through _____	_____	_____
mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of _____ collateralized by substantially all real and personal property, due in various years through _____	_____	_____
mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of _____ collateralized by substantially all real and personal property, due in various years through _____	_____	_____
mortgage notes payable to Rural Telephone Bank (RTB), payable in monthly installments of _____ collateralized by substantially all real and personal property, due in various years through _____	_____	_____
Less current portion	\$ _____	\$ _____



SKYLINE TELECOM, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 3. LONG-TERM DEBT (continued)**

The anticipated principal payments of the outstanding debt at December 31, 2016, are as follows:

2017	\$	
2018		
2019		
2020		
2021		
Thereafter		
	\$	

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Interest expense incurred and charged to expense was \_\_\_\_\_ and \_\_\_\_\_ for the years ended December 31, 2016 and 2015, respectively.

All assets of the Company are pledged as security for the long-term debt under the loan agreements with Rural Utilities Service (RUS) and the loan agreements also contain certain restrictions on the declaration or payment of cash dividends, redemption of capital stock, or investment in affiliated companies. The Company did not meet the Tier Ratio requirement of the loan agreements with RUS for 2016, but was in compliance for 2015.

**NOTE 4. RELATED PARTY TRANSACTIONS**

The Company paid North State Telephone Company \_\_\_\_\_ and \_\_\_\_\_ in 2016 and 2015, respectively for management fees, shared and actual costs. The Company owed North State Telephone Company \_\_\_\_\_ 2016 and \_\_\_\_\_ 2015.

The Company has entered into a management agreement with Oregon Telephone Corporation. The operating management agreement is effective for a period of 35 years or unless ordered to be terminated by the Utilities and Transportation Commission of Washington. The Company pays Oregon Telephone Corporation for the use of a Chevy truck. That amount for 2016 and 2015 was \_\_\_\_\_ and \_\_\_\_\_ respectively. The Company paid Oregon Telephone Corporation \_\_\_\_\_ and \_\_\_\_\_ in 2016 and 2015, respectively for management fees, shared and actual costs. The Company owed Oregon Telephone Corporation \_\_\_\_\_ for 2016 and \_\_\_\_\_ for 2015.

These liabilities are included in accounts payable-affiliated companies in the balance sheet.



SKYLINE TELECOM, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 5. CONCENTRATIONS**

Approximately            and           , respectively, of total revenue and receivables for the years ended December 31, 2016 and 2015, is attributable to distributions from the National Exchange Carrier Association (NECA) and the Washington Exchange Carrier Association (WECA).

**NOTE 6. INCOME TAXES**

In accordance with *FASB Accounting Standards Codification Section 740 on Accounting for Income Taxes*, deferred income tax assets and liabilities are computed annually for differences between financial statements and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. For 2012 and subsequent years, the Company filed income tax returns separately from its parent company and, as such, each entity accounted for its own income tax transactions.

At December 31, 2016 and 2015, the Company had deferred tax assets (liabilities) of (\$          ) and           , respectively. Deferred income taxes result from differences in depreciation from financial statement and income tax reporting.

Operating income tax:

	2016	2015
Federal		
Operating:		
Current provision (benefit)	\$ <u>          </u>	\$ <u>          </u>
Prior year under (over) accrual	<u>          </u>	<u>          </u>
Deferred provision	<u>          </u>	<u>          </u>
Total operating income tax provision	<u>          </u>	<u>          </u>
Non-operating:		
Current provision (benefit)	<u>          </u>	<u>          </u>
Prior year under (over) accrual	<u>          </u>	<u>          </u>
Deferred provision	<u>          </u>	<u>          </u>
Total non-operating income tax provision	<u>          </u>	<u>          </u>
Total income tax provision	<u>          </u>	<u>          </u>

The Company still has open tax years for the current year plus the three previous tax years.

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SKYLINE TELECOM, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 7. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through the auditor's report date, which is the date that the financial statements were available to be issued.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors  
Skyline Telecom, Inc.  
Mt. Vernon, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Skyline Telecom, Inc. (a Washington corporation), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income and retained earnings, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 25, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Skyline Telecom, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Skyline Telecom, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Skyline Telecom, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Wiggins + Co., PC*

Brigham City, Utah  
February 25, 2017



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

The Board of Directors  
Skyline Telecom, Inc.  
Mt. Vernon, OR

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Skyline Telecom, Inc., which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income and retained earnings, stockholders' equity and changes in cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 25, 2017. In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2017, on our consideration of Skyline Telecom, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above, related to our audit, have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Skyline Telecom, Inc. failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Skyline Telecom, Inc.'s noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Skyline Telecom, Inc.'s accounting and records to indicate that Skyline Telecom, Inc. did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the telephone system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits and deferred credits, if any (The Company had no such items during 2016 and 2015); and

Comply with the requirements for the detailed schedule of investments, if the Company has such investments. The Company had no such investments during 2016 and 2015.

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

*Wiggins & Co., PC*  
Brigham City, Utah  
February 25, 2017

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL REPORT  
DECEMBER 31, 2016 AND 2015

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Oregon Telephone Corporation and Subsidiaries  
Mt. Vernon, Oregon

We have audited the accompanying consolidated financial statements of Oregon Telephone Corporation (an Oregon corporation) and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 misstatements, 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 for the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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 Oregon Telephone Corporation and Subsidiaries at December 31, 2016 and 2015, and the results of their operations, comprehensive income and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **GAO Reporting**

In accordance with *Government Auditing Standards*, we have also issued a report dated March 20, 2017, on our consideration of Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting, and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

*Wiggins & Co., PC*

Brigham City, Utah  
March 20, 2017

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015

	2016	2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$	\$
Restricted cash and cash equivalents		
Investments		
Due from customers and agents, less allowance for doubtful accounts of \$1,400 and \$1,400		
Accounts receivable-affiliates		
Interest receivable		
Materials and supplies		
Prepaid expenses		
Total current assets		
<b>Other assets and investments</b>		
Cash and cash equivalents		
Investments in affiliates		
Other investments		
Loan charges		
Notes receivable-affiliates		
Goodwill		
Non-regulated assets, net of accumulated depreciation		
Total other assets and investments		
<b>Property, plant, and equipment</b>		
Telecommunications		
Non-operating		
Plant held for future use		
Operating		
Less accumulated depreciation		
Property, plant, and equipment, net		
Total assets and investments	\$	\$

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



OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (Continued)  
DECEMBER 31, 2016 AND 2015

	2016	2015
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ [REDACTED]	\$ [REDACTED]
Accounts payable-affiliates	[REDACTED]	[REDACTED]
Advance billings	[REDACTED]	[REDACTED]
Customer deposits	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]
Accrued interest	[REDACTED]	[REDACTED]
Deferred revenue-current portion	[REDACTED]	[REDACTED]
Income taxes payable	[REDACTED]	[REDACTED]
Current portion of long-term debt	[REDACTED]	[REDACTED]
Total current liabilities	[REDACTED]	[REDACTED]
<b>Other liabilities</b>		
Deferred income taxes	[REDACTED]	[REDACTED]
Deferred revenue	[REDACTED]	[REDACTED]
Long-term debt, net of current portion	[REDACTED]	[REDACTED]
Total other liabilities	[REDACTED]	[REDACTED]
<b>Stockholders' equity</b>		
Common stock	[REDACTED]	[REDACTED]
Common stock reacquired, 302.252 shares at cost	[REDACTED]	[REDACTED]
Additional paid in capital	[REDACTED]	[REDACTED]
Retained earnings	[REDACTED]	[REDACTED]
Total stockholders' equity	[REDACTED]	[REDACTED]
Total liabilities and stockholders' equity	\$ [REDACTED]	\$ [REDACTED]

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



OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Operating revenue		
Local network	\$	\$
Network access		
Miscellaneous		
Total operating revenue		
Operating expenses		
Plant specific		
Plant nonspecific		
Customer operations		
Corporate operations		
Depreciation		
Total operating expenses		
Operating taxes		
Income taxes (benefit)		
Other operating taxes		
Total operating expenses and taxes		
Operating income		
Other income (expense)		
Income tax benefit (expense)		
Income available for fixed charges		
Fixed charges, interest on long-term debt		
Net income		

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

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Net income	[REDACTED]	[REDACTED]
Other comprehensive income (loss)		
Change in unrealized gains (losses) on marketable securities	[REDACTED]	[REDACTED]
Change in deferred tax liability on unrealized gains (losses)	[REDACTED]	[REDACTED]
Total other comprehensive income (loss)	[REDACTED]	[REDACTED]
Total comprehensive income	[REDACTED]	[REDACTED]

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

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common Stock	Reacquired Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2014	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Transfer	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other comprehensive income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Balance, December 31, 2015	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Reacquired/eliminated stock	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net income	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Dividend	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Balance, December 31, 2016	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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



OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash flows from operating activities		
Net income (loss)	\$ [REDACTED]	[REDACTED]
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Loss on non-regulated assets recorded to expense but no cash paid out.	[REDACTED]	[REDACTED]
Depreciation on miscellaneous physical property/nonoperating property included in other expense	[REDACTED]	[REDACTED]
Depreciation on non-operating plant	[REDACTED]	[REDACTED]
Depreciation	[REDACTED]	[REDACTED]
Amortization	[REDACTED]	[REDACTED]
Deferred taxes	[REDACTED]	[REDACTED]
Post retirement benefits payable	[REDACTED]	[REDACTED]
Increase in bad debt reserve	[REDACTED]	[REDACTED]
Changes in assets and liabilities		
Due from customers and agents	[REDACTED]	[REDACTED]
Accounts receivable-affiliates	[REDACTED]	[REDACTED]
Materials and supplies	[REDACTED]	[REDACTED]
Prepaid expenses	[REDACTED]	[REDACTED]
Accounts payable	[REDACTED]	[REDACTED]
Accounts payable-affiliates	[REDACTED]	[REDACTED]
Advance billing	[REDACTED]	[REDACTED]
Customer deposits	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]
Deferred revenue	[REDACTED]	[REDACTED]
Income taxes payable	[REDACTED]	[REDACTED]
Net cash provided (used) by operating activities	[REDACTED]	[REDACTED]
Cash flows from investing activities		
Capital expenditures	[REDACTED]	[REDACTED]
Payments on ( issuance of ) notes receivable	[REDACTED]	[REDACTED]
Proceeds from (purchase of) investments in affiliates	[REDACTED]	[REDACTED]
Purchase of goodwill	[REDACTED]	[REDACTED]
Proceeds from retirement of affiliated company stock	[REDACTED]	[REDACTED]
(Purchase of) proceeds from marketable securities	[REDACTED]	[REDACTED]
(Purchase) disposal of miscellaneous physical property	[REDACTED]	[REDACTED]
Proceeds and salvage received	[REDACTED]	[REDACTED]
(Purchase of) proceeds from other investments	[REDACTED]	[REDACTED]
Net cash provided (used) by investing activities	[REDACTED]	[REDACTED]

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



OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2,016	2,015
Cash flows from financing activities		
Payments on long-term debt		
Issuance of long-term debt		
Payment of loan costs		
Proceeds from contributed capital		
Repurchase of stock		
Net cash provided (used) by financing activities		
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents, beginning		
Cash and cash equivalents, ending		
Cash paid during the year for:		
Interest		
Income taxes		

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

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Oregon Telephone Corporation (the Company) is an Oregon corporation providing telecommunications services within and around the cities of Mt. Vernon, Prairie City, Unity, Bates, Harper, Juntura and Dayville, Oregon.

North State Telephone Company is an Oregon corporation providing telecommunications services within and around the City of Dufur, Oregon, and provides cable television services to a similar area through North State Cablevision Company.

During 2014, Oregon Telephone Corporation bought [REDACTED] of the outstanding stock in New Florence Telephone Company and included New Florence Telephone Company as part of these consolidated financial statements. New Florence Telephone Company services various areas of Missouri.

Principals of Consolidation

Oregon Telephone Corporation owns [REDACTED] and its stockholders own [REDACTED] of North State Telephone Company.

The consolidated financial statements include the accounts of Oregon Telephone Corporation and its subsidiaries, North State Telephone Company and New Florence Telephone Company. All intercompany transactions and balances have been eliminated in the consolidation.

During 2010, North State Telephone Company acquired [REDACTED] of the outstanding common stock of Beaver Creek Telephone Company (name changed in 2011 to Skyline Telecom, Inc.). During 2014, [REDACTED] also acquired [REDACTED] of the outstanding shares/member interest of [REDACTED] and [REDACTED] also owns a single member limited liability company, [REDACTED] which operates non-regulated services. This entity is included in the consolidated statements of the Company. [REDACTED] purchased [REDACTED] the outstanding shares of [REDACTED] and includes the audited financial statements of [REDACTED] in the consolidated financial statements.

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principals of Consolidation (continued)

Under the terms of a management agreement, Oregon Telephone Corporation provides labor, overhead, and support services to all of the consolidated entities, which are reimbursed each month. During 2016 and 2015, the total reimbursements under the agreement were [REDACTED] and [REDACTED] respectively. These amounts are recorded against expenditures when accrued and thus no elimination is required. Oregon Telephone Corporation became the common paymaster for all companies during 2016.

Regulation

The Company's telecommunication services are subject to limited regulations by the Public Utility Commission of Oregon (PUC). The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission. Regulatory actions currently pending, as well as future regulations, may impact the Company.

Estimates

The Company uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly actual results could differ from those estimates.

Comprehensive Income

The Company follows *FASB Accounting Standards Codification Sections for Reporting Comprehensive Income*. The purpose of reporting comprehensive income is to report all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. The Company reported results from comprehensive income in the consolidated financial statements for 2015. There were no comprehensive income items in 2016.

Cash and Cash Equivalents

The Company maintains its cash and cash equivalents in accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. Cash and cash equivalents are defined as all short term cash with a maturity of three months or less. Cash equivalents are recorded at cost, which approximates fair value. Restricted cash and cash equivalents include funds deposited in separate accounts for the loan funds that are received from Rural Utility Services to be used for plant acquisition.

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Investments

Other investments are in common stock of non-controlled entities with ownership percentages less than ten percent. These investments are recorded at cost.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expenses and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and reductions of the accounts receivable accounts. Late fees are charged on accounts that are thirty days past due.

Materials and Supplies

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

Property, Plant, and Equipment

Property, plant, and equipment in service and under construction are stated at cost, including estimated overhead expense. Maintenance and repairs are charged to operations when incurred. Renewals and betterments are capitalized.

Depreciation is calculated on a straight-line basis over the estimated life of the classes of buildings and equipment in accordance with rates approved by the PUC. Depreciation rates range from ~~0.5%~~ to ~~10%~~. Costs of plant retired are eliminated from utility plant accounts and such costs plus removal expenses, less salvage, are charged to accumulated depreciation.

Network Access Revenues

Network access revenues related to interlata and intralata toll service are received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long distance carrier for access and interconnection to local facilities. The company follows an access tariff filed with the PUC for these charges.

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

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Network Access Revenues (continued)

and investment maintained. The Company participates in pooling arrangements with the National Exchange Carrier Association (NECA) and the Oregon Exchange Carrier Association (OECA). Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months after the close of the related calendar years (NECA only), are recorded in the year in which such adjustments become determinable, based upon studies by an outside consultant.

Financial Instruments

The Company follows *FASB Accounting Standards Codification Sections on Disclosures about Fair Value of Financial Instruments*. The Statement extends fair value disclosure practices by requiring all entities to disclose the fair value of financial instruments, both assets and liabilities, recognized and not recognized in the balance sheets, for which it is practicable to estimate fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. The fair value of the Company's financial instruments approximates carrying value. Interest is charged on loans and notes receivable and recognized when earned. Fair values were estimated based on quoted market prices and on current rates offered to the Company for debt with similar terms and maturities.

Credit Risk and Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of debt agreements. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers. No collateral is required by the Company to support financial instruments subject to credit risk.

The Company maintains most of its cash accounts in commercial banks located in Oregon. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest bearing accounts and unlimited insurance for other eligible accounts. A summary of the total insured bank balances (these are not reconciled book balances) follows:

	2016	2015
Total cash balance (bank balance)	\$	\$
Portion of bank balance uninsured by FDIC	\$	\$
Insured bank balances	\$	\$
Book balances	\$	\$

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Credit Risk and Concentrations of Credit Risk (continued)

Credit sales are made to the Company's customers in the ordinary course of business. Generally, these sales are unsecured and are recorded at the billed amounts based on PUC approved rates.

Allowance for Funds Used During Construction

The Company is required to calculate an amount, ● for 2016 and ● for 2015, to be capitalized to plant for funds used during construction as defined by FCC Part 32 accounting policies. The calculation involves capitalizing funds at an average rate based on the Company's borrowing rate.

Common Stock

Common stock of the Companies is as follows at December 31, 2016 and 2015:

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2016:	Par Value	Authorized	Issued and Outstanding
2015:			

Allowance for Doubtful Accounts

An allowance for doubtful accounts is maintained. Additions are estimated based on historical analysis of write-offs and collections as a percentage of sales and accounts receivable balances.

**NOTE 2. INVESTMENTS**

Other Investments

Other investments consist of the following:

	2016	2015
	\$ <span style="background-color: black; height: 15px;"></span>	\$ <span style="background-color: black; height: 15px;"></span>



OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 2. INVESTMENTS (continued)**

Investments in Marketable Equity Securities

The Company classifies its marketable equity securities as “available for sale” under the provisions of ASC 820 *Fair Value Measurements*. Available for sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in other comprehensive income and presented in accumulated other comprehensive income in the equity section. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss. Available for sale financial assets are comprised entirely of equity securities. The fair values of investments in equity securities are determined with reference to their quoted closing bid price at the measurement date. ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value of financial assets and liabilities and are summarized into three broad categories.

- Level 1 – quoted prices in active markets for identical securities,
- Level 2 – other significant observable inputs, including quoted prices for similar securities, interest rates, prepayments speeds, credit risk, etc.,
- Level 3 – significant unobservable inputs, including our own assumptions in determining fair value.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with those securities.

Cost and fair value of marketable equity securities at December 31, 2016 and 2015, are as follows:

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	Amortized Cost	Fair Value	Fair Value Measurement at Reporting Date- Quoted Prices in Active Markets for Identical Assets (Level 1)
December 31, 2016:			
Available for sale securities:			
Domestic equity securities	\$ <span style="background-color: black; color: black;">██████████</span>	\$ <span style="background-color: black; color: black;">██████████</span>	\$ <span style="background-color: black; color: black;">██████████</span>
December 31, 2015:			
Available for sale securities:			
Domestic equity securities	\$ <span style="background-color: black; color: black;">██████████</span>	\$ <span style="background-color: black; color: black;">██████████</span>	\$ <span style="background-color: black; color: black;">██████████</span>

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 2. INVESTMENTS (continued)**

Realized gains and losses are included in earnings and reported as other income for the years ended December 31, 2016 and 2015. Proceeds from the sale of available for sale securities were [REDACTED] in 2016 and [REDACTED] 306 in 2015. Realized earnings for 2016 and 2015 were [REDACTED] and [REDACTED]. Unrealized gains for 2016 and 2015 were [REDACTED] and [REDACTED].

**NOTE 3. PROPERTY, PLANT, AND EQUIPMENT**

Listed below are the major classes of property, plant, and equipment in service:

	2016	2015
Telecommunications:		
Operating plant:		
Land and support	\$ [REDACTED]	\$ [REDACTED]
Plant held for future use	[REDACTED]	[REDACTED]
Central office	[REDACTED]	[REDACTED]
Cable and wire facilities	[REDACTED]	[REDACTED]
Under construction	[REDACTED]	[REDACTED]
Total operating plant	[REDACTED]	[REDACTED]
Non-operating plant		
Non-operating Plant	[REDACTED]	[REDACTED]
Non-regulated plant	[REDACTED]	[REDACTED]
Total non-operating plant	[REDACTED]	[REDACTED]
	\$ [REDACTED]	\$ [REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 4. LONG-TERM DEBT**

Long-term debt consists of the following:

	2016		2015
<u>Oregon Telephone Corporation</u>			
notes payable to [REDACTED] interest at [REDACTED] payable in monthly payments totaling [REDACTED], collateralized by vehicles, due in [REDACTED]	\$	[REDACTED]	\$
[REDACTED] note payable to [REDACTED] payable in monthly payments of [REDACTED], collateralized by 4 vehicles and HVC equipment, due in [REDACTED]		[REDACTED]	[REDACTED]
[REDACTED] notes payable to [REDACTED] payable in monthly payments of [REDACTED] collateralized by a [REDACTED] core rig and vehicles due [REDACTED]		[REDACTED]	[REDACTED]
[REDACTED] note payable to [REDACTED] collateralized by a vehicle, interest at [REDACTED] payments of \$ [REDACTED] due [REDACTED]		[REDACTED]	[REDACTED]
[REDACTED] mortgage notes payable to [REDACTED] payable in quarterly installments of [REDACTED] collateralized by substantially all real and personal property, due in various years beginning [REDACTED]		[REDACTED]	[REDACTED]
[REDACTED] mortgage notes payable to [REDACTED] payable in monthly installments of [REDACTED] collateralized by substantially all real and personal property, due [REDACTED]		[REDACTED]	[REDACTED]
[REDACTED] mortgage notes payable to [REDACTED] payable in monthly installments of [REDACTED] collateralized by substantially all real and personal property, due [REDACTED]		[REDACTED]	[REDACTED]
[REDACTED] mortgage notes payable to [REDACTED] payable in monthly installments of [REDACTED] finalized loans and interest only on non-finalized loans, collateralized by substantially all real and personal property, due [REDACTED]		[REDACTED]	[REDACTED]
		[REDACTED]	[REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 4. LONG-TERM DEBT (Continued)**

	2016	2015
<u>New Florence Telephone Company</u>		
See separately issued consolidated financial statements for debt detail	[REDACTED]	[REDACTED]
<u>M.D. Communications, LLC:</u>		
[REDACTED] note payable to [REDACTED] payable in monthly installments of [REDACTED] collateralized by lien of real property, matures [REDACTED]	[REDACTED]	[REDACTED]
[REDACTED] note payable to [REDACTED] payable in monthly payments of [REDACTED] collateralized by a building, due [REDACTED]	[REDACTED]	[REDACTED]
[REDACTED] note payable to [REDACTED] payable in monthly installments of [REDACTED] collateralized by a lien on all real property, due [REDACTED]	[REDACTED]	[REDACTED]
Total Oregon Telephone Corporation, New Florence Telephone Company and M.D. Communications, LLC	[REDACTED]	[REDACTED]
<u>North State Telephone Company</u>		
See separately issued consolidated financial statements for debt detail	[REDACTED]	[REDACTED]
<u>Skyline Telecom, Inc.:</u>		
See separately issued consolidated financial statements for debt detail	[REDACTED]	[REDACTED]
<u>Pine Telephone System, Inc.</u>		
See separately issued consolidated financial statements for debt detail	[REDACTED]	[REDACTED]
Total North State Telephone Company	[REDACTED]	[REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 4. LONG-TERM DEBT (continued)**

	2016	2015
Total consolidated amount	██████████	██████████
Less: current long-term debt	██████████	██████████
Long-term debt	\$ ██████████	\$ ██████████

Future maturities of long-term debt are as follows:

2017	\$ ██████████
2018	██████████
2019	██████████
2020	██████████
2021	██████████
Thereafter	██████████
	\$ ██████████

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In 2016, Oregon Telephone Corporation rescinded all unadvanced loan commitments for the replacement and expansion of its property, plant, and equipment from ██████████. They had unadvanced loan commitments from ██████████ in 2015. The Company also rescinded the unadvanced loan commitments from ██████████ service during 2016 and had unadvanced loan commitments in 2015 of ██████████. Inc. rescinded all unadvanced loan commitments with ██████████ 2016 and had ██████████ in unadvanced loan commitments for 2015.

The long-term debt agreements contain restrictions on the payment of dividends or redemption of capital stock. The terms of the long-term debt agreements require the maintenance of defined amounts of stockholders' equity and working capital after payment of dividends.

The RUS loan documents require that the Company meet a TIER ratio of 1 and a debt service ratio of 1.25 on an unconsolidated basis. The Company met both ratio requirements in 2016 and 2015.



OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 5. PENSION PLAN**

Substantially all employees of the Company are covered by a defined contribution plan. Contributions to the plan are [REDACTED] (up to [REDACTED]) of an employee's eligible annual compensation. Contributions to the plan for 2016 were \$ [REDACTED] and for 2015 were [REDACTED]. The plan is administered by the National Cooperative Telephone Association (NTCA). New Florence Telephone Company has a defined benefit plan and the information related to that plan is disclosed in the separately issued financial statements.

**NOTE 6. OTHER ASSETS**

The Company has other assets that are made up of non-regulated assets that are not figured into the rate base for the determination of universal service fund payments and are used for purposes that are not regulated. The assets and the accumulated depreciation are disclosed below:

	2016	2015
Acquisition costs	\$ [REDACTED]	\$ [REDACTED]
Public telephones & customer premise equipment	[REDACTED]	[REDACTED]
Cable television	[REDACTED]	[REDACTED]
Paystations & MDR pagers	[REDACTED]	[REDACTED]
Internet equipment & voicemail system	[REDACTED]	[REDACTED]
Wireless DSL equipment & Wimax equipment	[REDACTED]	[REDACTED]
Fiber plant & electronics	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]
Accumulated depreciation	[REDACTED]	[REDACTED]
	\$ [REDACTED]	\$ [REDACTED]

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As part of the purchase of the new companies mentioned in note 1, the Company and its subsidiaries recorded goodwill in the consolidated amount of [REDACTED] in 2015. The amount for 2016 was [REDACTED]. This goodwill is reported separately in the other assets and investments section of the balance sheet and is not amortized in accordance with generally accepted accounting principles in the United States of America.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

**NOTE 7. INCOME TAXES AND DEFERRED INCOME TAXES**

In accordance with *FASB Accounting Standards Codification Section 740 on Accounting for Income Taxes*, deferred income tax assets and liabilities are computed annually for differences between financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The Company files tax returns separately from its subsidiaries and, as such, each entity accounts for its own income tax transactions.

At December 31, 2016, the Company has a deferred tax liability of [REDACTED] and at December 31, 2015, the Company had a deferred tax liability of [REDACTED] resulting from differences in depreciation, amortization, bad debt reserves, book vs. tax capital asset value differences, and other temporary differences for financial statement reporting and income tax reporting.

Operating income tax expense (benefit) consists of the following:

	2016	2015
<b>Federal</b>		
Current provision	\$ [REDACTED]	\$ [REDACTED]
Prior year under (over) accrual	[REDACTED]	[REDACTED]
Deferred	[REDACTED]	[REDACTED]
<b>State</b>		
Current provision	[REDACTED]	[REDACTED]
Prior year under (over) accrual	[REDACTED]	[REDACTED]
Deferred	[REDACTED]	[REDACTED]
<b>Provision for operating income taxes</b>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Nonoperating income tax expense (benefit) consists of the following:

<b>Federal</b>		
<b>State</b>	[REDACTED]	[REDACTED]
<b>Deferred</b>	[REDACTED]	[REDACTED]
Over accrual of prior year taxes	[REDACTED]	[REDACTED]
<b>Provision for nonoperating income tax expense (benefit)</b>	<u>[REDACTED]</u>	<u>[REDACTED]</u>
<b>Total income tax expense (benefit)</b>	<u>\$ [REDACTED]</u>	<u>\$ [REDACTED]</u>
<b>Other Comprehensive Income tax:</b>		
Federal deferred provision (benefit)	\$ [REDACTED]	\$ [REDACTED]
State deferred provision (benefit)	[REDACTED]	[REDACTED]
<b>Total other comprehensive income tax</b>	<u>\$ [REDACTED]</u>	<u>[REDACTED]</u>

Each of the consolidated companies files their own tax returns. The Company and its subsidiaries have open tax years subject to examination for the current year and the prior three years.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors  
Oregon Telephone Corporation and Subsidiaries  
Mt. Vernon, Oregon

Our report on our audits of the consolidated financial statements of Oregon Telephone Corporation and Subsidiaries, for the years ended December 31, 2016 and 2015, appears on pages 1-2. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information consisting of the consolidating balance sheet at December 31, 2016, and the consolidating statements of income, comprehensive income and cash flows of Oregon Telephone Corporation and Subsidiaries for the year then ended is presented for purposes of additional analysis of the 2016 consolidated financial statements, rather than to present financial position, results of operations, and cash flows of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Wiggins & Co., PC*

Brigham City, Utah  
March 20, 2017

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 CONSOLIDATING BALANCE SHEET  
 DECEMBER 31, 2016

	Oregon Telephone Corporation				Eliminations	Total
<b>ASSETS</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$					
Investments						
Restricted cash and cash equivalents						
Due from customers and agents, less allowance for doubtful accounts of \$1,400						
Accounts receivable-affiliates						
Interest receivable						
Materials and supplies						
Prepaid expenses						
<b>Total current assets</b>						
<b>Other assets and investments</b>						
Restricted cash and cash equivalents						
Investment in affiliates						
Other investments						
Loan charges						
Deferred income taxes						
Notes receivable-affiliates						
Goodwill						
Non-regulated assets, net of accumulated depreciation						
<b>Total other assets and investments</b>						
<b>Property, plant, and equipment</b>						
<b>Telecommunications:</b>						
Non-operating						
Plant held for future use						
Operating						
<b>Less accumulated depreciation</b>						
<b>Property, plant, and equipment, net</b>			25,550			
<b>Total assets</b>	\$	\$		\$	\$	\$

*Redacted*  
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 WAZ 480-07-160



OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 CONSOLIDATING BALANCE SHEET (continued)  
 DECEMBER 31, 2016

Oregon Telephone Corporation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	Eliminations	Total
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
<b>Current liabilities</b>						
Accounts payable	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	\$ [REDACTED]	[REDACTED]
Accounts payable-affiliates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Advance billings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Customer deposits	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accrued expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Accrued interest	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deferred revenue	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Income taxes payable	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Current portion of long-term debt	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total current liabilities</b>	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Other liabilities</b>						
Deferred income taxes	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deferred revenue	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Long-term debt, net	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total other liabilities</b>	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Stockholders' equity</b>						
Common stock	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Common stock reacquired	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Additional paid in capital	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Member equity	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Retained earnings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total stockholders' equity</b>	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total liabilities and stockholders' equity</b>	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 CONSOLIDATING STATEMENT OF INCOME  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Oregon Telephone Corporation			Eliminations	Total
Operating revenue					
Local network	\$		\$		
Network access					
Miscellaneous					
Total operating revenue					
Operating expenses					
Plant specific					
Plant nonspecific					
Customer operations					
Corporate operations					
Depreciation and amortization					
Total operating expenses					
Operating taxes					
Income taxes (benefit)					
Other operating taxes					
Total operating expenses and taxes					
Operating income					
Other income (expense)					
Income (loss) from subsidiary					
Income tax benefit (expense)					
Income available for fixed charges					
Fixed charges - interest on long-term debt					
Net income					
Retained earnings/member interest, beginning of year					
Dividends paid					
Retained earnings/member interest, end of year			\$		

*Redacted*  
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 WA 480-07-160



**OREGON TELEPHONE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Oregon Telephone Corporation	Company	Company	Company	Eliminations	Total
<b>Cash flows from operating activities</b>						
Net income (loss)					\$	
Adjustments to reconcile net income to net cash provided (used) by operating activities						
Loss on regulated assets recorded to expense but no cash was paid out						
Depreciation and amortization on miscellaneous physical property/nonoperating property included in other expense						
Depreciation on capital lease included in other expense						
Depreciation						
Amortization						
Increase in bad debt reserve						
Deferred taxes						
Income from subsidiaries						
Changes in assets and liabilities						
Due from customers and agents						
Accounts receivable-affiliates						
Materials and supplies						
Prepaid expenses						
Accounts payable						
Accounts payable-affiliates						
Advance billings						
Customer deposits						
Accrued expenses						
Deferred revenue						
Income taxes payable						
Net cash provided (used) by operating activities						
<b>Cash flows from investing activities</b>						
Capital expenditures						
(Purchase of) proceeds from non-regulated assets						
Proceeds from (purchase of) investments in affiliates						
Amount paid to retire capital assets						
(Purchase of) proceeds from marketable securities and other investments						
Proceeds from (loans to) repayment of note receivable						
Change in interest receivable						
Proceeds and salvage received from sale of assets						
Net cash provided (used) by investing activities						

*Redacted*  
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*480-07160*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors  
Oregon Telephone Corporation  
Mt. Vernon, Oregon

We have audited the consolidated financial statements of Oregon Telephone Corporation and Subsidiaries as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated March 20, 2017. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oregon Telephone Corporation and Subsidiaries' consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the board of directors, management, and the Rural Utilities Service and is not intended to be and should not be used by anyone other than these specified parties.

*Wiggins & Co., PC*  
Brigham City, Utah  
March 20, 2017

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

The Board of Directors  
Oregon Telephone Corporation  
Mt. Vernon, Oregon

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Oregon Telephone Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of revenue, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2017. In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2017, on our consideration of Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Oregon Telephone Corporation and Subsidiaries failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 8, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Oregon Telephone Corporation and Subsidiaries' noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Oregon Telephone Corporation and Subsidiaries' accounting and records to indicate that Oregon Telephone Corporation and Subsidiaries did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the telephone system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of investments in affiliated companies.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The detailed schedule of investments in affiliated companies, which is required by 7 CFR 1733.33(i), and attached to this letter, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements, taken as a whole.

See Schedule of Investments in Affiliated Companies



This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Wiggins & Co., PC*

Brigham City, Utah

March 20, 2017

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES  
 SCHEDULE OF INVESTMENTS IN AFFILIATED COMPANIES  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	[REDACTED]	[REDACTED]	[REDACTED]	Total
Original investment cost	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Cumulative net income as of December 31, 2015	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net income for the year ended December 31, 2016	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Book value of investments as of December 31, 2016	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Oregon Telephone Corporation owns 100% of the stock/member interest of each company, except New Florence Telephone Company which is owned 70%. Each company is accounted for on the consolidated method (equity method).

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 Per WATZ 480-07-160

EXHIBIT 6

RUS 479 OPERATING REPORT

PETITION OF SKYLINE TELECOME INC. TO RECEIVE  
SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM –  
EXHIBIT 6



According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0572-0031. The time required to complete this information collection is estimated to average 4 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

<p>USDA-RUS</p> <p><b>OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS</b></p>	<p><i>This data will be used by RUS to review your financial situation. Your response is required by 7 U.S.C. 901 et seq. and, subject to federal laws and regulations regarding confidential information, will be treated as confidential.</i></p> <p>BORROWER NAME</p> <p style="margin-left: 20px;">Skyline Telecom Company</p>
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<p><i>INSTRUCTIONS-Submit report to RUS within 30 days after close of the period. For detailed instructions, see RUS Bulletin 1744-2. Report in whole dollars only.</i></p>	<p>PERIOD ENDING December, 2016</p>	<p>BORROWER DESIGNATION WA0546</p>
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**CERTIFICATION**

*We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.*

**ALL INSURANCE REQUIRED BY 7 CFR PART 1788, CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES.**

**DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1788 OF 7CFR CHAPTER XVII**  
(Check one of the following)

All of the obligations under the RUS loan documents have been fulfilled in all material respects.

There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in the Telecom Operating Report

3/9/17  
DATE

PART A. BALANCE SHEET					
ASSETS	BALANCE PRIOR YEAR	BALANCE END OF PERIOD	LIABILITIES AND STOCKHOLDERS' EQUITY	BALANCE PRIOR YEAR	BALANCE END OF PERIOD
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
1. Cash and Equivalents	305,158	364,491	25. Accounts Payable	52,146	64,991
2. Cash-RUS Construction Fund			26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments		
a. Telecom, Accounts Receivable	104,236	56,120	28. Customer Deposits	665	365
b. Other Accounts Receivable			29. Current Mat. L/T Debt	117,102	123,205
c. Notes Receivable			30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable			32. Income Taxes Accrued		
b. Other Accounts Receivable			33. Other Taxes Accrued		
c. Notes Receivable			34. Other Current Liabilities		
5. Interest and Dividends Receivable			<b>35. Total Current Liabilities (25 thru 34)</b>	169,913	188,561
6. Material-Regulated			<b>LONG-TERM DEBT</b>		
7. Material-Nonregulated	581	416	36. Funded Debt-RUS Notes	336,048	258,104
8. Prepayments	43,293	24,702	37. Funded Debt-RTB Notes	201,091	155,258
9. Other Current Assets			38. Funded Debt-FFB Notes		
<b>10. Total Current Assets (1 Thru 9)</b>	<b>453,268</b>	<b>445,729</b>	39. Funded Debt-Other		
<b>NONCURRENT ASSETS</b>			40. Funded Debt-Rural Develop. Loan		
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt		
a. Rural Development			42. Reacquired Debt		
b. Nonrural Development			43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies		
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development			<b>46. Total Long-Term Debt (36 thru 45)</b>	537,139	413,362
13. Nonregulated Investments			<b>OTHER LIAB. &amp; DEF. CREDITS</b>		
14. Other Noncurrent Assets			47. Other Long-Term Liabilities	75,870	74,770
15. Deferred Charges	18,175	16,635	48. Other Deferred Credits		
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
<b>17. Total Noncurrent Assets (11 thru 16)</b>	<b>18,175</b>	<b>16,635</b>	<b>50. Total Other Liabilities and Deferred Credits (47 thru 49)</b>	<b>75,870</b>	<b>74,770</b>
<b>PLANT, PROPERTY, AND EQUIPMENT</b>			<b>EQUITY</b>		
18. Telecom, Plant-in-Service	3,019,743	3,134,406	51. Cap. Stock Outstand. & Subscribed	262,582	262,582
19. Property Held for Future Use			52. Additional Paid-in-Capital		
20. Plant Under Construction			53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill			54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation	2,045,030	2,254,906	55. Other Capital		
<b>23. Net Plant (18 thru 21 less 22)</b>	<b>974,713</b>	<b>879,500</b>	56. Patronage Capital Credits		
<b>24. TOTAL ASSETS (10+17+23)</b>			57. Retained Earnings or Margins	400,652	402,589
	<b>1,446,156</b>	<b>1,341,864</b>	<b>58. Total Equity (51 thru 57)</b>	<b>663,234</b>	<b>665,171</b>
			<b>59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)</b>	<b>1,446,156</b>	<b>1,341,864</b>

Total Equity = 49.57% % of Total Assets



USDA-RUS

**OPERATING REPORT FOR  
TELECOMMUNICATIONS BORROWERS**

BORROWER DESIGNATION

WA0546

PERIOD ENDING

December, 2016

INSTRUCTIONS- See RUS Bulletin 1744-2

**PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS**

ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	28,841	28,596
2. Network Access Services Revenues	935,151	708,176
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues		
5. Miscellaneous Revenues		
6. Uncollectible Revenues	182	738
<b>7. Net Operating Revenues (1 thru 5 less 6)</b>	<b>963,810</b>	<b>736,034</b>
8. Plant Specific Operations Expense	255,327	181,975
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	14,095	5,834
10. Depreciation Expense	189,051	209,876
11. Amortization Expense	1,540	1,540
12. Customer Operations Expense		
13. Corporate Operations Expense	369,765	225,628
<b>14. Total Operating Expenses (8 thru 13)</b>	<b>829,778</b>	<b>624,853</b>
15. Operating Income or Margins (7 less 14)	134,032	111,181
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes	33,520	26,347
19. Other Taxes	5,402	5,445
<b>20. Total Operating Taxes (17+18+19)</b>	<b>38,922</b>	<b>31,792</b>
21. Net Operating Income or Margins (15+16-20)	95,110	79,389
22. Interest on Funded Debt	33,677	28,245
23. Interest Expense - Capital Leases		
24. Other Interest Expense		
25. Allowance for Funds Used During Construction		
<b>26. Total Fixed Charges (22+23+24-25)</b>	<b>33,677</b>	<b>28,245</b>
27. Nonoperating Net Income	21,665	25,377
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	(63,722)	(74,584)
<b>31. Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>19,376</b>	<b>1,937</b>
32. Total Taxes Based on Income	33,566	27,706
33. Retained Earnings or Margins Beginning-of-Year	381,276	400,652
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)		
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date		
38. Transfers to Patronage Capital		
<b>39. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]</b>	<b>400,652</b>	<b>402,589</b>
40. Patronage Capital Beginning-of-Year		
41. Transfers to Patronage Capital		
42. Patronage Capital Credits Retired		
<b>43. Patronage Capital End-of-Year (40+41-42)</b>	<b>0</b>	<b>0</b>
44. Annual Debt Service Payments	145,522	145,919
45. Cash Ratio [(14+20-10-11) / 7]	0.7036	0.6049
46. Operating Accrual Ratio [(14+20+26) / 7]	0.9363	0.9305
47. TIER [(31+26) / 26]	1.5753	1.0686
48. DSCR [(31+26+10+11) / 44]	1.6743	1.6557

USDA-RUS

**OPERATING REPORT FOR  
TELECOMMUNICATIONS BORROWERS**

INSTRUCTIONS - See RUS Bulletin 1744-2

BORROWER DESIGNATION

WA0546

PERIOD ENDED

December, 2016

**Part C. SUBSCRIBER (ACCESS LINE), ROUTE MILE, & HIGH SPEED DATA INFORMATION**

EXCHANGE	1. RATES		2. SUBSCRIBERS (ACCESS LINES)			3. ROUTE MILES	
	B-1 (a)	R-1 (b)	BUSINESS (a)	RESIDENTIAL (b)	TOTAL (c)	TOTAL (including fiber) (a)	FIBER (b)
Silverton	35.00	25.00	2	22	24	12.00	
MT Hull	25.00	19.50	1	77	78	121.57	69.00
MobileWireless					0		
Route Mileage Outside Exchange Area						0.00	0.00
Total			3	99	102	133.57	69.00
No. Exchanges	2						



USDA-RUS

**OPERATING REPORT FOR  
TELECOMMUNICATIONS BORROWERS**

INSTRUCTIONS - See RUS Bulletin 1744-2

BORROWER DESIGNATION

WA0546

PERIOD ENDED

December, 2016

**Part C. SUBSCRIBER (ACCESS LINE), ROUTE MILE, & HIGH SPEED DATA INFORMATION**

**4. BROADBAND SERVICE**

**Details on Least Expensive Broadband Service**

EXCHANGE	No. Access Lines with BB available (a)	No Of Broadband Subscribers (b)	Number Of Subscribers (c)	Advertised Download Rate (Kbps) (d)	Advertised Upload Rate (Kbps) (e)	Price Per Month (f)	Standalone/Pckg (f)	Type Of Technology (g)
Silverton	25	12	12	512	256	39.95	StandAlone	DSL
MT Hull	105	27	13	512	256	39.95	StandAlone	DSL
Total	130	39						

<b>USDA-RUS</b>  <b>OPERATING REPORT FOR</b> <b>TELECOMMUNICATIONS BORROWERS</b>	<b>BORROWER DESIGNATION</b> WA0546
<b>PERIOD ENDING</b> December, 2016	
<i>INSTRUCTIONS- See RUS Bulletin 1744-2</i>	

PART D. SYSTEM DATA				
1. No. Plant Employees	2. No. Other Employees	3. Square Miles Served	4. Access Lines per Square Mile	5. Subscribers per Route Mile
0	2	52	1.96	.76

PART E. TOLL DATA	
1. Study Area ID Code(s)  a. 520581 b. _____ c. _____ d. _____ e. _____ f. _____ g. _____ h. _____ i. _____ j. _____	2. Types of Toll Settlements (Check one)  Interstate: <input type="checkbox"/> Average Schedule <input checked="" type="checkbox"/> Cost Basis  Intrastate: <input type="checkbox"/> Average Schedule <input checked="" type="checkbox"/> Cost Basis

PART F. FUNDS INVESTED IN PLANT DURING YEAR	
1. RUS, RTB, & FFB Loan Funds Expended	
2. Other Long-Term Loan Funds Expended	
3. Funds Expended Under RUS Interim Approval	
4. Other Short-Term Loan Funds Expended	
5. General Funds Expended (Other than Interim)	114,662
6. Salvaged Materials	
7. Contribution in Aid to Construction	
8. Gross Additions to Telecom. Plant (1 thru 7)	114,662

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

USDA-RUS

**OPERATING REPORT FOR  
TELECOMMUNICATIONS BORROWERS**

BORROWER DESIGNATION

WA0546

PERIOD ENDING

December, 2016

**PART H. CURRENT DEPRECIATION RATES**

Are corporation's depreciation rates approved by the regulatory authority with jurisdiction over the provision of telephone services? (Check one)

YES

NO

EQUIPMENT CATEGORY	DEPRECIATION RATE
1. Land and support assets - Motor Vehicles	15.96%
2. Land and support assets - Aircraft	
3. Land and support assets - Special purpose vehicles	
4. Land and support assets - Garage and other work equipment	15.96%
5. Land and support assets - Buildings	3.96%
6. Land and support assets - Furniture and Office equipment	20.04%
7. Land and support assets - General purpose computers	24.96%
8. Central Office Switching - Digital	9.00%
9. Central Office Switching - Analog & Electro-mechanical	
10. Central Office Switching - Operator Systems	
11. Central Office Transmission - Radio Systems	
12. Central Office Transmission - Circuit equipment	11.16%
13. Information origination/termination - Station apparatus	
14. Information origination/termination - Customer premises wiring	
15. Information origination/termination - Large private branch exchanges	
16. Information origination/termination - Public telephone terminal equipment	
17. Information origination/termination - Other terminal equipment	
18. Cable and wire facilities - Poles	7.56%
19. Cable and wire facilities - Aerial cable - Metal	20.40%
20. Cable and wire facilities - Aerial cable - Fiber	
21. Cable and wire facilities - Underground cable - Metal	6.00%
22. Cable and wire facilities - Underground cable - Fiber	5.04%
23. Cable and wire facilities - Buried cable - Metal	6.00%
24. Cable and wire facilities - Buried cable - Fiber	5.04%
25. Cable and wire facilities - Conduit systems	4.56%
26. Cable and wire facilities - Other	



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OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS		WA0546	
INSTRUCTIONS – See help in the online application.		PERIOD ENDED December, 2016	
<b>PART I – STATEMENT OF CASH FLOWS</b>			
<b>1.</b>	<b>Beginning Cash (Cash and Equivalents plus RUS Construction Fund)</b>		305,158
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>2.</b>	<b>Net Income</b>		1,937
<i>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</i>			
3.	Add: Depreciation		209,876
4.	Add: Amortization		1,540
5.	Other (Explain) Prepaid Adj		(1,540)
<i>Changes in Operating Assets and Liabilities</i>			
6.	Decrease/(Increase) in Accounts Receivable		48,116
7.	Decrease/(Increase) in Materials and Inventory		165
8.	Decrease/(Increase) in Prepayments and Deferred Charges		20,131
9.	Decrease/(Increase) in Other Current Assets		0
10.	Increase/(Decrease) in Accounts Payable		12,845
11.	Increase/(Decrease) in Advance Billings & Payments		0
12.	Increase/(Decrease) in Other Current Liabilities		0
<b>13.</b>	<b>Net Cash Provided/(Used) by Operations</b>		293,070
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
14.	Decrease/(Increase) in Notes Receivable		0
15.	Increase/(Decrease) in Notes Payable		0
16.	Increase/(Decrease) in Customer Deposits		(300)
17.	Net Increase/(Decrease) in Long Term Debt (Including Current Maturities)		(117,674)
18.	Increase/(Decrease) in Other Liabilities & Deferred Credits		(1,100)
19.	Increase/(Decrease) in Capital Stock, Paid-in Capital, Membership and Capital Certificates & Other Capital		0
20.	Less: Payment of Dividends		0
21.	Less: Patronage Capital Credits Retired		0
22.	Other (Explain)		
<b>23.</b>	<b>Net Cash Provided/(Used) by Financing Activities</b>		(119,074)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
24.	Net Capital Expenditures (Property, Plant & Equipment)		(114,663)
25.	Other Long-Term Investments		0
26.	Other Noncurrent Assets & Jurisdictional Differences		0
27.	Other (Explain)		
<b>28.</b>	<b>Net Cash Provided/(Used) by Investing Activities</b>		(114,663)
<b>29.</b>	<b>Net Increase/(Decrease) in Cash</b>		59,333
<b>30.</b>	<b>Ending Cash</b>		364,491

Revision Date 2010

USDA-RUS  <b>OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS</b>	BORROWER DESIGNATION  WA0546
INSTRUCTIONS - See RUS Bulletin 1744-2	PERIOD ENDED December, 2016
<b>NOTES TO THE OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS</b>	

<p>USDA-RUS</p> <p><b>OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS</b></p>	<p>BORROWER DESIGNATION</p> <p>WA0546</p>
<p>INSTRUCTIONS - See RUS Bulletin 1744-2</p>	<p>PERIOD ENDED</p> <p>December, 2016</p>
<p><b>CERTIFICATION LOAN DEFAULT NOTES TO THE OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS</b></p>	

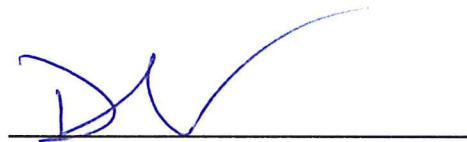


EXHIBIT 7

CORPORATE OPERATIONS EXPENSE ADJUSTMENT CERTIFICATE

I, Delinda Kluser an officer of Skyline Telecom Inc with personal knowledge and responsibility, under penalty of perjury, hereby certify that no corporate operations adjustment to existing high-cost loop and interstate common line support mechanisms, as required by the Federal Communications Commission, applied to the Company for 2016 and 2015.

Date this 28<sup>th</sup> day of July, 2017.



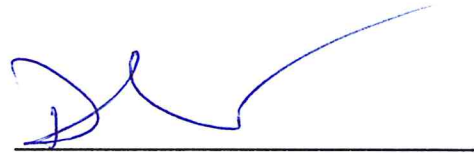
Delinda Kluser  
Vice-President, Manager

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

I, Delinda Kluser, an officer of Skyline Telecom Inc, with personal knowledge and responsibility, based upon my discussions with Company staff that handle such matters, under penalty of perjury, state that the Company complies with state and federal accounting, cost allocation and cost adjustment rules pertaining to incumbent local exchange companies.

Dated this 28<sup>th</sup> day of July, 2017.



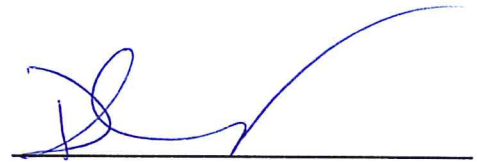
Delinda Kluser  
Vice-Pres, Manager

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Delinda Kluser, an officer of Skyline Telecom Inc, under penalty of perjury, hereby certify that if the Company receives Program support, the Company will continue to provide communications services pursuant to its tariffs on file with the Commission throughout its service territory in Washington for which the company is seeking and receives Program support during the entirety of 2018.

Dated this 28<sup>th</sup> day of July, 2017.



Delinda Kluser  
Vice-President, Manager