



Valley Telephone Cooperative Copper valley telephone
Digital Video - Internet - Phone - Business Systems

March 29, 2013

Arizona Corporation Commission
Docket Control
1200 West Washington Street
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

APR 03 2013

DOCKETED BY *JM*

RE: Audited Financial Statements for Valley Connections, LLC, Docket T-04169A-04-0816 Decision No: 68080

Director,

Please find attached the original and thirteen copies of the audited financial statements for Valley Connections, LLC, which are requested by Docket T-04169A-04-0816 Decision No: 68080 dated August 17, 2005.

If you need any further information feel free to contact me.

Sincerely,

Troy Judd
C.O.O. – Finance & Regulatory
Valley Connections LLC
520-384-8935

Enclosure

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AZ CORP COMMISSION
DOCKET CONTROL
2013 APR 3 PM 12 45

VALLEY CONNECTIONS, L.L.C.

WILLCOX, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Valley Connections, L.L.C.
Willcox, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Valley Connections, L.L.C., which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of income (loss), member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Valley Connections, L.L.C. as of December 31, 2012 and 2011, 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 Standard*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2013, on our consideration of Valley Connections, L.L.C.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 result 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* in considering Valley Connections, L.L.C.'s internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

Lubbock, Texas

March 12, 2013

VALLEY CONNECTIONS, L.L.C.

Exhibit A

BALANCE SHEET
DECEMBER 31, 2012 AND 2011

ASSETS

	December 31,	
	2012	2011
CURRENT ASSETS		
Cash in Bank	\$ 203,021	\$ 276,664
Cash - Construction Fund	175	175
Accounts Receivable (Less allowance of \$11,041 in 2012 and \$8,763 in 2011)	198,649	221,651
Materials and Supplies (At average unit cost)	664,487	795,955
Accounts Receivable - Affiliated Companies	997,651	
Prepaid Expenses	90,668	136,321
	<u>\$ 2,154,651</u>	<u>\$ 1,430,766</u>
NONCURRENT ASSETS		
Deferred Federal and State Income Taxes	\$	\$ 581,649
Investment in Associated Companies	53,238	6,468
	<u>\$ 53,238</u>	<u>\$ 588,117</u>
PLANT, PROPERTY, AND EQUIPMENT		
Telecommunications Plant in Service	\$ 20,679,076	\$ 19,598,238
Plant Under Construction	19,345	159,657
	<u>\$ 20,698,421</u>	<u>\$ 19,757,895</u>
Less: Accumulated Provision for Depreciation and Amortization	9,206,504	7,969,666
	<u>\$ 11,491,917</u>	<u>\$ 11,788,229</u>
TOTAL ASSETS	<u>\$ 13,699,806</u>	<u>\$ 13,807,112</u>

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES		
Current Maturities of Long-Term Debt - RUS	\$ 187,776	\$ 179,439
Accounts Payable - Trade	192,283	159,099
Accounts Payable - Affiliated Companies		170,701
Customer Deposits	8,815	4,450
Other Current and Accrued Liabilities	138,977	122,674
	<u>\$ 527,851</u>	<u>\$ 636,363</u>
LONG-TERM DEBT		
RUS Notes	\$ 2,816,347	\$ 3,003,706
OTHER LIABILITIES AND DEFERRED CREDITS		
Net Non-Current Deferred Federal and State Income Taxes	\$ 248,763	\$
MEMBERS' EQUITY		
Valley Telephone Cooperative, Inc.	\$ 10,106,845	\$ 10,167,043
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 13,699,806</u>	<u>\$ 13,807,112</u>

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

VALLEY CONNECTIONS, L.L.C.

Exhibit B

STATEMENT OF INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	December 31,	
	2012	2011
OPERATING REVENUES		
Sales and Service Revenues		
Video Services Revenue	\$ 776,454	\$ 551,853
Business Systems Revenue	361,991	269,414
Internet Revenue	2,559,167	1,997,184
Voice Mail Revenue	15,031	17,165
Pager Revenue	179	209
Cellular Agency Revenue	30,873	36,653
Uncollectible Operating Revenue	(49,200)	(84,500)
	<u>\$ 3,694,495</u>	<u>\$ 2,787,978</u>
Cost of Sales and Service Revenues		
Video Services	\$ 894,617	\$ 658,624
Business Systems	123,341	132,167
Internet	1,041,398	1,144,989
Voice Mail	1,334	11,885
Pager	123	103
Cellular	24,166	20,159
	<u>\$ 2,084,979</u>	<u>\$ 1,967,927</u>
Gross Profit From Sales and Service Revenues	\$ 1,609,516	\$ 820,051
Telecommunications Services		
Local Service	292,002	331,794
Network Access and Long Distance	1,806,804	2,145,892
Miscellaneous Telecommunications Revenue	84,613	77,160
	<u>\$ 3,792,935</u>	<u>\$ 3,374,897</u>
OPERATING EXPENSES		
Plant Specific Operations	\$ 849,578	\$ 659,324
Plant Nonspecific Operations	702,406	720,097
Depreciation Expense	1,226,615	1,208,536
Customer Operations	1,278,021	991,863
Corporate Operations	713,631	554,643
	<u>\$ 4,770,251</u>	<u>\$ 4,134,463</u>
OPERATING LOSS	\$ (977,316)	\$ (759,566)
OPERATING TAXES	250,632	210,177
NET OPERATING LOSS BEFORE FIXED CHARGES	\$ (1,227,948)	\$ (969,743)
FIXED CHARGES		
Interest on Long-Term Debt	\$ 141,816	\$ 162,418
Other Interest Expense	252	266
Allowance for Funds Used During Construction	(5,535)	(3,802)
	<u>\$ 136,533</u>	<u>\$ 158,882</u>
NET OPERATING LOSS	\$ (1,364,481)	\$ (1,128,625)
NONOPERATING INCOME (EXPENSE)		
Interest and Dividends	\$	\$ 22
Other Income (Expense)	50,148	3,169
	<u>\$ 50,148</u>	<u>\$ 3,191</u>
NET LOSS BEFORE INCOME TAXES	\$ (1,314,333)	\$ (1,125,434)
Income Tax Benefit - Current	\$ 1,419,547	\$ 257,746
Income Tax Benefit (Expense) - Deferred	(830,412)	122,990
	<u>\$ 589,135</u>	<u>\$ 380,736</u>
NET LOSS	<u>\$ (725,198)</u>	<u>\$ (744,698)</u>

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

VALLEY CONNECTIONS, L.L.C.

Exhibit C

STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>Total</u>
Balance - January 1, 2011	\$ 10,511,741
Contributions	400,000
Net Loss - 2011	<u>(744,698)</u>
Balance - December 31, 2011	\$ 10,167,043
Contributions	665,000
Net Loss - 2012	<u>(725,198)</u>
Balance - December 31, 2012	<u>\$ 10,106,845</u>

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

VALLEY CONNECTIONS, L.L.C.

Exhibit D

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	December 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (725,198)	\$ (744,698)
Adjustment to Reconcile Net Loss to Net Cash Provided by Operating Activities		
Depreciation	1,243,305	1,218,717
Noncash Income from Associated Company	(46,770)	(1,491)
Accounts Receivable	23,002	(50,903)
Materials and Supplies	131,468	101,051
Prepaid and Other Current Assets	45,653	176
Deferred Federal and State Income Taxes	830,412	(122,990)
Accounts Payable and Other Current Liabilities	53,852	(19,111)
Accounts Receivable (Payable) - Affiliated Companies	(1,168,352)	909,787
Net Cash Provided by Operating Activities	<u>\$ 387,372</u>	<u>\$ 1,290,538</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant in Service	\$ (946,992)	\$ (893,752)
Excess Salvage Value over Removal Costs		(2,595)
Net Cash Used in Investing Activities	<u>\$ (946,992)</u>	<u>\$ (896,347)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Members' Equity Contributions	\$ 665,000	\$ 400,000
Payments on RUS Long-Term Debt	(179,023)	(561,409)
Net Cash Provided by (Used in) Financing Activities	<u>\$ 485,977</u>	<u>\$ (161,409)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (73,643)	\$ 232,782
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>276,839</u>	<u>44,057</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 203,196</u>	<u>\$ 276,839</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest	\$ 141,816	\$ 162,418
Income Taxes	<u>\$ 0</u>	<u>\$ 0</u>

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

VALLEY CONNECTIONS, L.L.C.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Valley Connections, L.L.C. (the Company) is a wholly-owned subsidiary of Valley Telephone Cooperative, Inc. The Company was formed during 2005 for the purpose of providing local telecommunications services to designated geographical service areas. Operating divisions also include the business systems division, which includes the sale and installation of telephones and telephone equipment, the retail cellular agent division, and the internet operating division, which involves the provision of internet access and related services.

System of Accounts

The accounting records of the Company conform to the Uniform System of Accounts prescribed by the Federal Communications Commission for Class A telephone companies further modified for telephone borrowers of the Rural Utilities Service (RUS).

Telephone Revenues

Local and intrastate operating revenues related to the provision of telecommunications services are under the jurisdiction of the Arizona Corporation Commission.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers Cash in Bank and Cash – Construction Fund to be cash and cash equivalents.

Group Concentrations of Credit Risk

The Company's headquarters facility is located in Willcox, Arizona. The customers are generally located in the southeastern portion of the State of Arizona. The Company may require a deposit from its customers upon connection which is applied to unpaid bills in the event of default. The deposit is returned after a prompt payment history is established. As of December 31, 2012 and 2011, deposits on hand totaled \$8,815 and \$4,450, respectively.

The Company maintains cash balances in various financial institutions located in Southeast Arizona. At times during the year and at year end, deposit balances exceeded FDIC insured amounts.

Accounts Receivable/Payable – Affiliated Companies, Related Party Transactions

The accounts represent amounts due to/from the parent company Valley Telephone Cooperative, Inc. and from Copper Valley Telephone, Inc. and Valley Telecommunications Company, Inc. for operating costs incurred by these companies on behalf of the Company. It is the Company's practice to liquidate these intercompany accounts periodically.

Trade Accounts Receivable

In the normal course of business, the Company recognizes accounts receivable for telecommunications services provided and billed. The Company allows 45 days from the date of billing for payment to be received or the service is disconnected. No interest is accrued on delinquent balances. The Company provides an allowance for doubtful accounts to recognize the portion of the receivables considered uncollectible. The allowance is estimated based on an aging of the receivables.

VALLEY CONNECTIONS, L.L.C.

NOTES FINANCIAL STATEMENTS

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Assets Pledged

All assets are pledged as security for the long-term debt to RUS.

3. Telecommunications Plant in Service

Telecommunications Plant, Maintenance, and Depreciation

Telecommunications plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials, allowance for funds used during construction (capitalized interest), and overhead items. Contributions from others toward construction are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to plant and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the removal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to cost of construction and plant specific operations.

The major classes of telecommunications plant in service and related accumulated depreciation as of December 31, 2012 and 2011 are as follows:

	Original Cost		Depreciation Rate	Accumulated Depreciation	
	December 31,			December 31,	
	2012	2011		2012	2011
General Support Assets	\$ 3,538,274	\$ 3,413,601	4.0 - 33.0%	\$ 2,484,662	\$ 2,370,717
Central Office Assets	8,138,107	7,519,369	9.0 - 50.0%	4,454,894	3,691,007
Cable and Wire Facilities	9,002,695	8,665,268	4.0%	2,266,948	1,907,942
	<u>\$ 20,679,076</u>	<u>\$ 19,598,238</u>		<u>\$ 9,206,504</u>	<u>\$ 7,969,666</u>

The Company provides for depreciation on a straight-line basis at annual rates, which will amortize the property over its estimated useful life. Depreciation on these assets for the years ended December 31, 2012 and 2011 was \$1,243,305 and \$1,218,717, respectively of which \$16,690 and \$10,181 was transferred from affiliated companies.

VALLEY CONNECTIONS, L.L.C.

NOTES FINANCIAL STATEMENTS

4. RUS Mortgage Notes

Mortgage notes due to RUS are payable to the United States of America. The notes are for a 20-year period and mature in 2025. Following is a summary of the outstanding debt:

	December 31,	
	2012	2011
Note N001 - 4.56%	\$ 3,004,123	\$ 3,183,145
Less: Current Maturities	187,776	179,439
	<u>\$ 2,816,347</u>	<u>\$ 3,003,706</u>

Estimated RUS long-term debt maturities for the next five years are as follows:

2013	\$ 187,776
2014	196,540
2015	205,692
2016	215,270
2017	225,271

5. Income Taxes

The Company is a single member limited liability company and considered a disregarded entity (i.e. division) of the parent company for federal and state income tax purposes. As such, the operations are included in the consolidated federal and state income tax returns filed by the parent company and other affiliates owned by the parent company. Accordingly, the Company records federal and state income tax expense or benefit. Current taxes are allocated to the Company based on taxable income (loss) and deferred taxes are allocated to the Company on a standalone basis. Prior to the 2007 calendar year, however, the Company operated as a multi-member limited liability company taxed as a partnership. Accordingly, federal and state income tax expense or benefit were not reported by the Company but were reported directly by the respective members.

Any net operating losses incurred by the Company and not utilized on a consolidated basis are either carried back to offset prior taxable income or carried forward to offset future taxable income, depending on the taxing jurisdiction. Federal net operating losses may be carried back to offset prior taxable income for a period not exceeding two years. Federal net operating losses not carried back may be carried forward to offset future taxable income for a period not exceeding 20 years. The states of Arizona and New Mexico only provide for net operating losses to be carried forward for a period not exceeding five years. At December 31, 2012, the Company has been allocated federal net operating loss carryovers of \$2,392,887, which begin to expire in the year 2027. The Company also has been allocated Arizona and New Mexico net operating loss carryovers of \$3,780,783 and \$3,630,466, respectively, which begin to expire in the year 2013.

VALLEY CONNECTIONS, L.L.C.

NOTES FINANCIAL STATEMENTS

The Company follows the asset and liability method for accounting for income taxes. The objective of the asset and liability method is to establish deferred tax assets and liabilities for the temporary difference between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

Deferred income taxes result from transactions which enter into the determination of taxable income in different periods than recorded for financial reporting purposes. At December 31, 2012 and 2011, the Company's principal sources of deferred federal and state income taxes are due to (1) differences in depreciation on assets for tax purposes, (2) amortization of start up costs for tax purposes and (3) federal and state net operating loss carryovers. Based on available information, management believes that it is more likely than not that the federal deferred tax assets resulting from the net operating loss carryover will be utilized. However, due to the shorter carryover period for state net operating losses, management believes that it is more likely than not that the state deferred tax assets resulting from state net operating loss carryovers will not be utilized prior to such carryovers expiring. Therefore, a valuation allowance has been recorded for the respective state deferred tax assets at December 31, 2012. The valuation allowance is an estimate and decisions made by management in the near term may impact this valuation.

The components of the deferred tax asset (liability) recognized in the financial statements are as follows:

	December 31,	
	2012	2011
<u>Net Noncurrent Deferred Income Taxes</u>		
<u>Federal</u>		
Deferred Tax Asset (Liability)	\$ (67,325)	\$ 729,058
<u>State</u>		
Deferred State Tax Asset	\$ 573,324	\$ 443,364
Deferred State Tax Liabilities	(181,281)	(147,409)
	\$ 392,043	\$ 295,955
Less: Valuation Allowance	(573,481)	(443,364)
	\$ (181,438)	\$ (147,409)
Total Net Noncurrent Deferred Tax Asset (Liability)	\$ (248,763)	\$ 581,649

VALLEY CONNECTIONS, L.L.C.

NOTES FINANCIAL STATEMENTS

Income taxes are provided for tax effects of transactions reported in the financial statements and consist of taxes due plus deferred taxes related to the accelerated depreciation and net operating loss carryovers. The components of income tax benefit (expense) are as follows:

	December 31,	
	<u>2012</u>	<u>2011</u>
<u>Federal</u>		
Current Benefit	\$ 1,175,553	\$ 218,159
Deferred Benefit (Expense)	(1,061,534)	525,208
Deferred Benefit (Expense) of Operating Loss Carryovers	<u>265,151</u>	<u>(360,631)</u>
	<u>\$ 379,170</u>	<u>\$ 382,736</u>
<u>State</u>		
Current Benefit	\$ 243,994	\$ 39,587
Deferred Expense	(34,029)	(41,587)
Deferred Benefit of Operating Loss Carryovers	109,243	72,747
Deferred Expense - Change in Valuation Allowance	<u>(109,243)</u>	<u>(72,747)</u>
	<u>\$ 209,965</u>	<u>\$ (2,000)</u>
Total Provision for Federal and State Income Taxes	<u>\$ 589,135</u>	<u>\$ 380,736</u>

The Company has adopted the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The Company determined that it is more likely than not that its tax positions will be sustained upon examination by The Internal Revenue Service (IRS) or other State taxing authority, and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Company files income tax returns in the U.S. federal jurisdiction, and the states of Arizona and New Mexico. The Company is no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2009, and state taxing authorities for years before 2008.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2012 and 2011.

VALLEY CONNECTIONS, L.L.C.

NOTES FINANCIAL STATEMENTS

6. Employee Benefits

Pension Benefits

The parent company, Valley Telephone Cooperative, Inc., provides pension benefits through the National Telecommunications Cooperative Association (NTCA) Retirement and Security Plan and Savings Plan. The pension cost resulting from the allocation of common (shared) employee time for the years ended December 31, 2012 and 2011, was \$200,873 and \$91,024, respectively.

Post-retirement Benefits other than Pensions

The parent company, Valley Telephone Cooperative, Inc., administers a post-retirement benefit plan providing medical insurance and other benefits for eligible employees. The total periodic post-retirement benefit cost resulting from the allocation of common (shared) employee time amounted to \$18,483 and \$11,438 for the years ended December 31, 2012 and 2011, respectively.

Self-Insurance Medical Benefits

The parent company, Valley Telephone Cooperative, Inc., has established a self-insurance program covering medical benefits for substantially all of its employees. The Cooperative limits its losses through the use of stop-loss policies from re-insurers. The total cost resulting from the allocation of common (shared) employee time amounted to \$320,202 and \$173,252 for the years ended December 31, 2012 and 2011, respectively.

7. Litigation, Commitments, and Contingencies

There is no pending litigation against the Company which is expected to have a material effect on the financial statements.

8. Subsequent Events

The Company's management has evaluated subsequent events through March 12, 2013, the date which the financial statements were available for issue. There were no subsequent events identified that would require adjustment to, or disclosures in, the financial statements.

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION**

Board of Directors
Valley Connections, L.L.C.
Willcox, Arizona

We have audited the financial statements of Valley Connections, L.L.C. as of and for the years ended December 31, 2012 and 2011, and our report thereon dated March 12, 2013, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of telecommunications plant, accumulated provision for depreciation, and RUS mortgage notes are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subject to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

March 12, 2013