



A Tradition of Excellence Since 1896

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Phone (530) 467-6000 • Fax (530) 467-6401

JULY 2, 2012 REPORT

Date: June 18, 2012

Via Electronic Comment Filing System (ECFS)

Re: WC Docket No. 10-90, Annual 54.313(a)(2) through (6); (f)(2) and (h) Report of High-Cost Recipient

Dear Ms. Dortch:

Enclosed herein is the annual report for Siskiyou Telephone Company, Study Area Code 542339 pursuant to §54.313 of the Commission's rules.

Please contact me with any questions at:

Phone: 530-467-6171
Email: jtlowers@sisqtel.net

Sincerely,

James T. Lowers
President

Enclosure

Copies to:

Karen Majcher
Vice President-High Cost and Low Income Division
Universal Service Administrative Company
2000 L Street NW, Suite 200
Washington, DC 20036

Chief, Communications Div.
California PUC
505 Van Ness Ave., Room 3203
San Francisco, CA 94102-3298

SISKIYOU TELEPHONE COMPANY

2012 Annual 54.313 Report of High-Cost Recipient

Certifications

In compliance with the following regulations, Siskiyou Telephone Company, by James T. Lowers its president hereby certifies, subject to the penalties for false statements imposed under 18 U.S.C. § 1001, that:

54.313(a)

47 CFR § 54.202(a)(1)(i) – It will make reasonable efforts to comply with the service requirements applicable to the support it receives, specifically:

High Cost Loop Support – the services listed and defined in 47 CFR § 54.101(a).

Lifeline Support – the three criteria set forth in 47 CFR § 54.401(a).

Interstate Common Line Support – the filings required in 47 CFR § 54.903 and the certification required in 47 CFR § 54.

47 CFR § 54.313(a)(5) – It will make reasonable efforts to comply with applicable service quality standards contained in California Public Utilities Commission General Order 133-C (Rules Governing Telecommunications Services – Service Quality), California Public Utilities Commission General Order 168 (Market Rules to Empower Consumers and to prevent Fraud – Consumer Protection), and related orders of the California Public Utilities Commission, and consumer protection rules as defined in 47 CFR Part 64 Subpart U, Customer Proprietary Network Information and the Federal Trade Commission Red Flag rules to prevent identity theft. (See also Page 3.)

47 CFR § 54.313(a)(6) – It will make reasonable efforts to function in emergency situations as set forth in 47 CFR §54.202(a)(2). (See also Pages 4-7.)

Certified by: James T. Lowers
Signature

James T. Lowers
Printed Name

President
Title

SISKIYOU TELEPHONE COMPANY

2012 Annual 54.313 Report of High-Cost Recipient

54.313(a)(2) Detailed Information on any Outage in 2011

Siskiyou Telephone Company is a state-certified ETC and we collect detailed information on service outages for the California PUC. Please see attached report to California PUC.

An outage is a significant degradation in the ability of an end user to establish and maintain a channel of communications as a result of failure or degradation in the performance of a communications provider's network of at least 30 minutes in Siskiyou Telephone Company's service area.

An outage affected at least ten percent of the end users in the service area. NO

An outage that potentially affects a 911 special facility occurs whenever:

(1) There is a loss of communications to PSAP(s) potentially affecting at least 900,000 user-minutes and: The failure is neither at the PSAP(s) nor on the premises of the PSAP(s); no reroute for all end users was available; and the outage lasts 30 minutes or more; or

(2) There is a loss of 911 call processing capabilities in one or more E-911 tandems/selective routers for at least 30 minutes duration; or

(3) One or more end-office or MSC switches or host/remote clusters is isolated from 911 service for at least 30 minutes and potentially affects at least 900,000 user-minutes; or

(4) There is a loss of ANI/ALI (associated name and location information) and/or a failure of location determination equipment, including Phase II equipment, for at least 30 minutes and potentially affecting at least 900,000 user-minutes (provided that the ANI/ALI or location determination equipment was then currently deployed and in use, and the failure is neither at the PSAP(s) or on the premises of the PSAP(s)).

An outage affected a 911 special facility in the service area. NO

Information on each outage included in the above:

(A) The date and time of onset of the outage – N/A

(B) A brief description of the outage and its resolution – N/A

(C) The particular services affected – N/A

(D) The geographic areas affected by the outage – N/A

(E) Steps taken to prevent a similar situation in the future – N/A

(F) The number of customers affected – N/A

SISKIYOU TELEPHONE COMPANY

2012 Annual 54.313 Report of High-Cost Recipient

Miscellaneous Information

Siskiyou Telephone Company is a state-certified ETC and we collect the following information for the California PUC.

54.313(a)(3) The number of requests for service from potential customers within the recipient's service areas that were unfulfilled during the prior calendar year – **NONE.** Siskiyou Telephone Company attempted to provide service to those potential customers by **N/A.**

54.313(a)(4) The number of complaints per 1,000 connections in 2011 – **No formal complaints with FCC. Siskiyou Trouble Tickets = 31.88/1000 for the year 2011.**

54.313(a)(5) Satisfaction of Consumer Protection and Service Quality Standards

Consumer Protection

Siskiyou Telephone Company complies with the requirements of 47 CFR Part 64 Subpart U, Customer Proprietary Network Information and the Federal Trade Commission Red Flag rules to prevent identity theft. A manual for each of those programs is in place and is part of the employees' handbook. Employee training is conducted annually and new hires are instructed on the programs as required by their job functions.

Service Quality Standards

Siskiyou Telephone Company complies with the service standards of the State of California as promulgated in California Public Utilities Commission General Order 133-C (Rules Governing Telecommunications Services – Service Quality), California Public Utilities Commission General Order 168 (Market Rules to Empower Consumers and to Prevent Fraud – Consumer Protection), and related orders of the California Public Utilities Commission.

SISKIYOU TELEPHONE COMPANY

2012 Annual 54.313 Report of High-Cost Recipient

54.313(a)(6) Ability to Remain Functional in Emergency Situations

Back-up Power

Siskiyou Telephone Company has the following back-up power capabilities:

Headquarters Gen.300 kw Diesel 1000 Gal. UPS 30 min.

Switches – stand alone

Etna	Gen.35 kw	Propane	577 Gal.	Batt. 1220 AH
Fort Jones	Gen.180 kw	Diesel	1000 Gal.	Batt. 2110 AH
Hamburg	Gen.20 kw	Propane	495 Gal.	Batt. 1220 AH
Happy Camp	Gen.35 kw	Propane	990 Gal.	Batt. 1220 AH
Oak Knoll	Gen.20 kw	Propane	500 Gal.	Batt. 1220 AH
Sawyers Bar	Gen.12 kw	Propane	500 Gal.	Batt. 440 AH
Somes Bar	Gen.20 kw	Propane	994 Gal.	Batt. 1220 AH

Remote Central Offices – NONE.

Subscriber Carrier Nodes

Cecilville				Batt. 200AH Pwr.Pr.
China Gulch				Batt 38 AH Pwr.Pr.
Crapo Creek				Batt. 38 AH Pwr.Pr.
Cronan Gulch				Batt. 38 AH Pwr.Pr.
Dave Meyer Hill	Gen.12 kw	Propane		Batt. 680 AH Solar
Eddy Gulch				Batt. 100 AH Solar
Forks of Salmon	Gen 7.5 kw	Propane		Batt. 100 AH Pwr.Pr./Solar
Rush Creek				Batt. 100 AH Solar
Taylor Creek	Gen.4.5 kw	Gasoline		Batt 200 AH Solar
Missouri Bar				Batt. 38 AH Pwr.Pr.
Dona Creek				Batt. 38 AH Pwr.Pr.
Dutch Creek				Batt. 38 AH Pwr.Pr.
Fisher				Batt. 38 AH Pwr.Pr.
McKinney Creek				Batt. 38 AH Pwr.Pr.
Black Bridge				Batt. 38 AH Pwr.Pr.
Callahan	Fuel Cell	Hydrogen	6 Cyl.	Batt 344 AH
Dredger Camp				Batt. 38 AH Pwr.Pr.

Subscriber Carrier Nodes – (Continued)

French Creek	Fuel Cell	Hydrogen	6 Cyl.	Batt 100 AH
Forest Lane				Batt 38 AH Pwr.Pr.
Fay Lane				Batt 38 AH Pwr.Pr.
JH Ranch				Batt 38 AH Pwr.Pr.
Masterson				Batt 38 AH Pwr.Pr.
Pines	Fuel Cell	Hydrogen	6 Cyl.	Batt 344 AH
S. Kidder Creek				Batt 38 AH Pwr.Pr.
Young's Dam				Batt 38 AH Pwr.Pr.
Airport				Batt 38 AH Pwr.Pr.
Boulder Creek				Batt 38 AH Pwr.Pr.
Chaparral				Batt. 38 AH Pwr.Pr.
Charity Mission				Batt. 38 AH Pwr.Pr.
Deadwood				Batt. 38 AH Pwr.Pr.
Duzel				Batt. 38 AH Pwr.Pr.
Greenview	Generator	Propane	172 Gal.	Batt 344 AH
Hungry Hollow				Batt. 38 AH Pwr.Pr.
Hurd's Gulch				Batt. 38 AH Pwr.Pr.
Indian Creek				Batt. 38 AH Pwr.Pr.
Meamber Creek				Batt. 38 AH Pwr.Pr.
McAdams Creek				Batt. 38 AH Pwr.Pr.
Meamber	Generator	Propane	250 Gal.	Batt 344 AH
Mugginsville				Batt. 38 AH Pwr.Pr.
N. Kidder Creek				Batt. 38 AH Pwr.Pr.
Oro Fino				Batt. 38 AH Pwr.Pr.
Rickey Lane				Batt. 38 AH Pwr.Pr.
Rattlesnake				Batt. 38 AH Pwr.Pr.
Tyler Gulch				Batt. 38 AH Pwr.Pr.
W. Moffett Creek				Batt. 38 AH Pwr.Pr.
Bark Shanty				Batt. 38 AH Pwr.Pr.
Oak Bottom				Batt. 38 AH Pwr.Pr.
Marble Mt. Ranch				Batt. 38 AH Pwr.Pr.
Teneyke				Batt. 38 AH Pwr.Pr.
TiBar				Batt. 38 AH Pwr.Pr.
Benjamin Creek				Batt. 38 AH Pwr.Pr.
Clear Creek				Batt. 100 AH Pwr.Pr.
Dolittle				Batt 38 AH Pwr.Pr.
Indian Creek				Batt. 38 AH Pwr.Pr.
Woods Bar				Batt. 38 AH Pwr.Pr.
Fort Goff				Batt. 38 AH Pwr.Pr.
Horse Creek				Batt. 38 AH Pwr.Pr.
Scott Bar				Batt. 38 AH Pwr.Pr.

Subscriber Carrier Nodes – (Continued)

Seiad	Generator	Propane	288 Gal.	Batt. 300 AH	
Seiad Creek				Batt. 38 AH	Pwr.Pr.
Sunny Slope	Fuel Cell	Hydrogen	6 Cyl.	Batt. 38 AH	Pwr.Pr.
Thompson Creek				Batt. 38 AH	Pwr.Pr.
W. Horse Creek				Batt. 38 AH	Pwr.Pr.

Network Interface Devices (NIDs)

Siskiyou Telephone Company has 3,957 access lines with metallic (copper) connections to the Central Office, and their NIDs are powered from the Central Office. Most Siskiyou Telephone Company's customers with fiber optic access lines also have a metallic (copper) connection to the central office, and their NIDs are powered by the copper connection from protected power supplied by either the central office or a subscriber carrier node. Only three of Siskiyou Telephone Company's NIDs are battery powered in case of emergency at this time.

Ability to Reroute Traffic Around Damaged Facilities:

A. Toll Trunking to the AT&T Access Tandem in Redding

Siskiyou Telephone Company has two routes from its Fort Jones tandem to the AT&T Tandem in Redding. One is a fiber optic route between Fort Jones and Redding. The other route is a microwave route between Fort Jones and Redding.

B. 911-Trunks to the AT&T Selective Router in Redding

Siskiyou Telephone Company has two 911 trunks from each of its 7 exchanges to its Fort Jones tandem, and from there the trunks follow separate paths to the AT&T selective router in Redding. One path is Siskiyou's microwave route to Redding, and the other path is Siskiyou's fiber route to Redding. The AT&T exchanges in Siskiyou County also use Siskiyou's microwave route to Redding as their 911 backup route.

C. Internet Traffic to the Internet Backbone

Siskiyou Telephone Company has two diverse paths to the internet backbone from its meet point in Yreka, CA. One path goes north to Klamath Falls, Oregon, and the other path goes south to Stockton, CA.

D. Inter-Office Trunking Within Siskiyou Telephone Company's Exchange Area

The following projects have been completed or planned to provide diverse routing between Siskiyou Telephone's tandem switch in Fort Jones and its subsidiary switches in our other 6 exchanges: (Please also see drawing following page 8.)

1. Fort Jones to Etna
Siskiyou Telephone Company has built redundant fiber optic facilities between Fort Jones and Etna using a diverse route. Siskiyou also has a microwave route between Fort Jones and Etna.
2. Fort Jones to Hamburg
Siskiyou Telephone has plans to build the last segment of a fiber route between Fort Jones and Hamburg in 2013. This will allow traffic to be split between the new fiber route and the existing microwave route.
3. Fort Jones to Happy Camp
Siskiyou has plans to build the last segment of a fiber route between Fort Jones and Happy Camp in 2015. This will allow traffic to be split between the new fiber route and the existing microwave route.
4. Fort Jones to Oak Knoll
Siskiyou has plans to build the last segment of a fiber route between Fort Jones and Oak Knoll in 2017. This will allow traffic to be split between the new fiber route and the existing microwave route.
5. Fort Jones to Sawyers Bar
Siskiyou has plans to build the last segment of a fiber route between Fort Jones and Sawyers Bar in 2019/2020. This will allow traffic to be split between the new fiber route and the existing microwave route.
6. Fort Jones to Somes Bar
Siskiyou has plans to build the last segment of a fiber route between Fort Jones and Sawyers Bar in 2021. This will allow traffic to be split between the new fiber route and the existing microwave route.

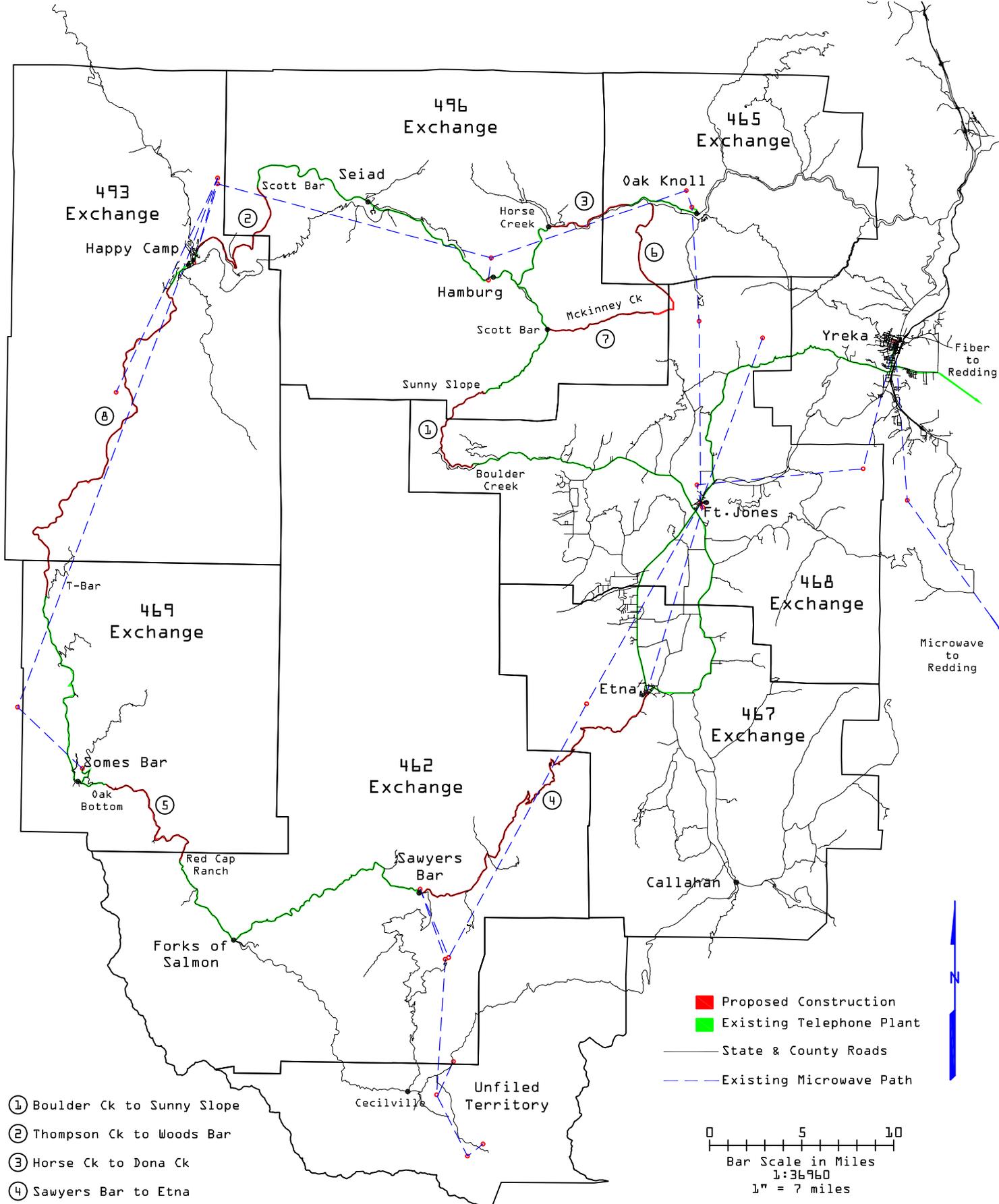
To complete a true fiber optic ring and provide the ultimate in reliability, it will be necessary to construct two more fiber segments:

7. Oak Knoll to Scott Bar
8. Happy Camp to Somes Bar.

Oak Knoll to Scott Bar has been tentatively scheduled for 2027, but Happy Camp to Somes Bar is so expensive we haven't scheduled it yet. Virtually all of our routes go through steep mountain canyons involve rock sawing, hard rock drilling, and even mandatory concrete slurry backfill in some cases, so they are extremely expensive.

Capability to Manage Traffic Spikes Resulting From Emergency Situations

Siskiyou Telephone Company has 3,957 access lines, tandem switching capacity of 2,688 simultaneous outgoing/incoming calls, and transport capacity for 649 simultaneous toll calls. Siskiyou Telephone Company takes no responsibility for the capabilities of interconnected networks to manage traffic spikes resulting from emergency situations, but will continue its best efforts for its networks during such events.



- ① Boulder Ck to Sunny Slope
- ② Thompson Ck to Woods Bar
- ③ Horse Ck to Dona Ck
- ④ Sawyers Bar to Etna
- ⑤ Oak Bottom to Red Cap Ranch
- ⑥ Walker Ck to McKinney Ck
- ⑦ McKinney Ck to Scott Bar
- ⑧ Benjamin Ck to T-Bar



SISKIYOU TELEPHONE COMPANY

2012 Annual 54.313 Report of High-Cost Recipient

54.313(f)(2) Audited Financial Report

Siskiyou Telephone Company's audited financial statements for the calendar year 2011 are attached at the end of this report.

2012 Annual 54.313 Report of High-Cost Recipient

54.313(h) Additional Voice Rate Data

Voice Rate Data

Residential Local Service Rate	\$20.25
State Subscriber Line Charges	\$0.00
State Universal Service Fee – CHCF-A Fund (0.4%)	\$.08
Mandatory EAS Charges	None
Total State rates and fees	\$20.33

Rates below the local urban rate floor of \$10.00 in 2011: NONE

Report prepared by Jim Lowers, President
530-467-6171
jtlowers@sisqtel.net

California Public Utilities Commission
Service Quality Standards Reporting
General Order No. 133-C

Company Name: Total Exchan Wire Center Siskiyou Telephone U#: 1017-C Report Year: 2011

Reporting Unit Type: Reporting Unit Name: COMPANY

Measurement (Compile monthly, file quarterly)	Date filed (05/15/yy)			Date filed (08/15/yy)			Date filed (11/15/yy)			Date filed (02/15/yy)		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Installation Interval Min. standard = 5 bus. days	30.09	32.61	59.20	56.02	54.18	42.85	40.05	30.00	28.27	38.70	31.72	26.08
Total # of business days	28	36	54	59	56	66	41	40	38	43	48	36
Avg. # of business days	1.07	0.91	1.10	0.95	0.97	0.65	0.98	0.75	0.74	0.90	0.66	0.72
Installation Commitment Min. standard = 95% commitment met	30	39	59	62	66	68	48	45	38	47	48	46
Total # of installation commitments	30	39	59	62	66	68	48	45	38	47	48	46
Total # of installation commitment met	0	0	0	0	1	0	0	0	0	0	0	0
% of commitment met	100%	100%	100%	100%	98%	100%	100%	100%	100%	100%	100%	100%
Customer Trouble Report												
6% (6 per 100 working lines for units w/ ≥ 3,000 lines)												
8% (8 per 100 working lines for units w/ 1,001 - 2,999 lines)												
10% (10 per 100 working lines for units w/ ≤ 1,000 lines)												
Out of Service Report Min. standard = 90% within 24 hrs	5222	5222	5229	5237	5251	5255	5286	5222	5243	5235	5238	5244
Total # of working lines	15	5	17	11	22	11	16	15	16	17	12	10
Total # of trouble reports	0.29%	0.10%	0.33%	0.21%	0.42%	0.21%	0.30%	0.29%	0.31%	0.32%	0.23%	0.19%
% of trouble reports	10	2	12	8	15	8	11	17	13	12	11	7
Total # of outage report tickets	9	2	12	8	14	8	11	17	13	12	11	7
Total # of repair tickets restored in ≤ 24hrs	90%	100%	100%	100%	93%	100%	100%	100%	100%	100%	100%	100%
% of repair tickets restored ≤ 24 Hours	79:46	04:00	54:27	60:11	57:31	20:49	44:32	57:25	14:28	16:58	25:56	26:26
Sum of the duration of all outages (hh:mm)	7:58	2:00	4:32	7:31	3:50	2:36	4:02	3:22	1:06	1:24	2:21	3:46
Avg. outage duration (hh:mm)												

Quarterly, file annually on February 15)	1st Quarter			2nd Quarter			3rd Quarter			4th Quarter		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Answer Time (Trouble Reports "TR", Billing & Non-Billing) Min. standard = 80% of calls ≤ 60 seconds to reach live agent (w/ a menu option to reach live agent)												
Total # of calls for TR, Billing & Non-Billing												
Total # of call seconds to reach live agent												
% ≤ 60 seconds												

Primary Utility Contact Information Name: Tim Edwards Phone: 530-467-6143 Email: times@sigtel.net

Date Adopted: 7/28/09
Date Revised: 12/08/09 (Corrects typographical errors)
Date Revised: 05/04/10 (Added new lines and changed terms to reflect requirements of G.O. 133-C)

of complaints per 1,000 Connections
167 / (5238 / 1000) = 31.88
167 Total trouble Reports
5238 Avg. # working lines



Report of Independent Auditors
and Financial Statements
The Siskiyou Telephone Company

December 31, 2011 and 2010

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors

The Siskiyou Telephone Company

We have audited the accompanying balance sheets of The Siskiyou Telephone Company (a wholly-owned subsidiary of Siskiyou Communications, Inc.) as of December 31, 2011 and 2010, and the related statements of income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Siskiyou Telephone Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Stockton, California

May 15, 2011

BALANCE SHEETS

THE SISKIYOU TELEPHONE COMPANY
BALANCE SHEETS

ASSETS

	DECEMBER 31,	
	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,703,118	\$ 4,543,303
Telecommunications accounts receivable	280,933	280,219
Settlement and access accounts receivable	6,933,773	254,014
Other accounts receivable	147,883	171,113
Accounts receivable – affiliated companies	2,408	16,766
Materials and supplies	1,292,057	1,217,721
Other prepayments	140,018	138,870
Prepaid income taxes	-	450,000
Deferred income taxes	<u>524,096</u>	<u>1,017,909</u>
Total current assets	<u>16,024,286</u>	<u>8,089,915</u>
NONCURRENT ASSETS		
Investments	<u>86,385</u>	<u>245,695</u>
PROPERTY, PLANT, AND EQUIPMENT		
Telecommunications plant in service	81,001,146	74,924,127
Plant under construction	1,697,351	2,148,115
Nonregulated plant in service	<u>744,186</u>	<u>746,137</u>
	83,442,683	77,818,379
Less accumulated depreciation	<u>34,170,151</u>	<u>31,245,077</u>
Net property, plant, and equipment	<u>49,272,532</u>	<u>46,573,302</u>
	<u>\$ 65,383,203</u>	<u>\$ 54,908,912</u>

THE SISKIYOU TELEPHONE COMPANY
BALANCE SHEETS

LIABILITIES AND STOCKHOLDER'S EQUITY

	DECEMBER 31,	
	2011	2010
CURRENT LIABILITIES		
Accounts payable	\$ 916,475	\$ 1,417,309
Accrued employee absences	175,992	177,943
Income taxes payable	1,034,859	-
Total current liabilities	2,127,326	1,595,252
OTHER LIABILITIES		
Deferred income taxes	4,532,478	2,089,913
STOCKHOLDER'S EQUITY		
Preferred stock, Class "A" authorized 39,400 shares, \$50 par value:		
Issued and outstanding 8,360 shares	418,000	418,000
Common stock, authorized 2,000 shares, \$5 par value:		
Issued and outstanding 2,000 shares	10,000	10,000
Additional paid-in capital	10,906,957	10,906,957
Retained earnings	47,388,442	39,888,790
Total stockholder's equity	58,723,399	51,223,747
	\$ 65,383,203	\$ 54,908,912

THE SISKIYOU TELEPHONE COMPANY
STATEMENTS OF INCOME AND RETAINED EARNINGS

	YEARS ENDED DECEMBER 31,	
	2011	2010
OPERATING REVENUES		
Local network services	\$ 1,215,570	\$ 1,088,605
Interstate access services	3,867,842	3,329,595
State access services	759,871	793,224
Federal universal and state high cost fund support	12,024,967	10,145,460
Nonregulated services	1,303,360	1,242,723
Miscellaneous	200,545	186,842
Uncollectibles	(50,819)	6,275
Total operating revenues	<u>19,321,336</u>	<u>16,792,724</u>
OPERATING EXPENSES		
Plant specific operations	2,381,123	2,242,838
Plant nonspecific operations	1,267,964	1,134,246
Customer operations	779,966	675,456
Corporate operations	2,249,037	2,712,507
Depreciation and amortization	4,136,521	3,719,208
Nonregulated operations	1,046,912	952,568
Property and other taxes	472,707	427,584
Total operating expenses	<u>12,334,230</u>	<u>11,864,407</u>
OPERATING INCOME	<u>6,987,106</u>	<u>4,928,317</u>
OTHER INCOME		
Interest and dividend income	39,865	63,630
Rural Telephone Bank income (loss)	5,563,428	(5,598,428)
Nonoperating expense, net	(83,453)	2,412
Total other income	<u>5,519,840</u>	<u>(5,532,386)</u>
INCOME BEFORE INCOME TAXES	12,506,946	(604,069)
Provision (benefit) for income taxes	4,863,259	(338,803)
NET INCOME (LOSS)	7,643,687	(265,266)
RETAINED EARNINGS, beginning of year	39,888,790	40,298,091
Dividends on preferred stock	(24,035)	(24,035)
Dividends on common stock	(120,000)	(120,000)
RETAINED EARNINGS, end of year	<u>\$ 47,388,442</u>	<u>\$ 39,888,790</u>

STATEMENTS OF CASH FLOWS

THE SISKIYOU TELEPHONE COMPANY
STATEMENTS OF CASH FLOWS

	<u>YEARS ENDED DECEMBER 31,</u>	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and settlements	\$ 18,203,378	\$ 12,639,146
Cash paid to vendors, suppliers, and employees	(8,775,978)	(7,226,203)
Interest and dividends received	39,865	63,630
Income taxes paid	(442,022)	(614,919)
	<u>9,025,243</u>	<u>4,861,654</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Accounts receivable – affiliated companies, net	14,358	(2,876)
Purchase of investment	-	(25,659)
Proceeds from sale of investment	100,000	-
Construction and acquisition of plant	(7,072,864)	(8,515,082)
Salvage, net of cost of removal	237,113	346,524
	<u>(6,721,393)</u>	<u>(8,197,093)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(144,035)	(144,035)
	<u>(144,035)</u>	<u>(144,035)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,159,815	(3,479,474)
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,543,303</u>	<u>8,022,777</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,703,118</u>	<u>\$ 4,543,303</u>

THE SISKIYOU TELEPHONE COMPANY
STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,	
	2011	2010
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	\$ 7,643,687	\$ (265,266)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	4,136,521	3,719,208
Deferred income taxes	2,936,378	616,913
Equity earnings in CVIN Limited Liability Company	26,654	(9,051)
Loss on sale of investment	44,068	-
Noncash patronage dividends	(11,412)	-
Increase (decrease) in cash due to changes in assets and liabilities:		
Telecommunications accounts receivable	(714)	(26,607)
Settlement and access accounts receivable	(6,679,759)	1,034,251
Other accounts receivable	23,230	443,845
Materials and supplies	(74,336)	(31,983)
Other prepayments	(1,148)	36,982
Accounts payable	(500,834)	908,796
Accrued employee absences	(1,951)	5,201
Other current liabilities	-	-
Prepaid/accrued income taxes payable	1,484,859	(1,570,635)
Total adjustments	1,381,556	5,126,920
NET CASH FROM OPERATING ACTIVITIES	\$ 9,025,243	\$ 4,861,654

THE SISKIYOU TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of operations – The Siskiyou Telephone Company (the Company) is a wholly-owned subsidiary of Siskiyou Communications, Inc. The Company provides telephone service in its franchised territory of Siskiyou and Humboldt Counties and is subject to the Rules and Regulations of the California Public Utilities Commission (CPUC) and the Federal Communications Commission (FCC).

Accounting policies – The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to regulated public utilities. The accounting records of the Company are maintained in accordance with the uniform system of accounts prescribed by the FCC and adopted by the CPUC. Such accounting principles are consistent in all material respects with accounting prescribed by the FCC.

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

Cash and cash equivalents – For purposes of the statement of cash flows, the Company classifies as cash equivalents all highly liquid investments with maturities of three months or less.

Accounts receivable valuation – The Company reviews the collectibility of accounts receivable annually based on an analysis of outstanding receivables, historical collection information, and existing economic conditions. Receivables from subscribers are due 30 days after issuance of the subscriber bill. Receivables from other exchange carriers are typically outstanding from 30 to 60 days before payment is received. Delinquent accounts are charged to uncollectible expense when it is determined that the account will not be collected. Due to the immaterial nature of the Company's uncollectible accounts, an allowance for uncollectible accounts is not deemed necessary, and the result of this method does not materially differ from accounting principles generally accepted in the United States of America.

Materials and supplies – Materials and supplies inventory is valued at the lower of cost or market. Cost is determined by the average cost method.

Property, plant, and equipment – Property, plant, and equipment are stated at original cost. The cost of additions and substantial betterments of property, plant, and equipment is capitalized. The cost of maintenance and repairs is charged to operating expenses. The Company records income as an allowance for funds used during construction and capitalizes as a cost of construction the cost of financing large construction projects spanning a period greater than two months. The Company uses a weighted-average interest rate based on total Company long-term debt.

In accordance with composite group depreciation methodology, when a portion of the Company's depreciable property, plant, and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation.

THE SISKIYOU TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant, and equipment (continued) – Depreciation of the Company's nonregulated plant is provided by the straight-line method over the estimated useful lives of the assets. Upon retirement, sale, or other disposition of nonregulated investments, the cost and related accumulated depreciation are removed from the related accounts and the resulting gains or losses are included in operations.

Revenue recognition – Monthly service plan revenues derived from local service are billed one month in advance, but recognized in the month that service is provided. Usage-sensitive revenues such as access (revenues earned from originating/terminating long distance calls) are generally billed as a per minute charge and are billed in arrears and recognized in the month the service is provided.

Interstate access revenues also include settlements based on the Company's participation in the revenue pools administered by the National Exchange Carrier Association (NECA). These revenues are determined by annual separations and interstate access cost studies. Revenues for the current year are based on estimates prior to the submission of the cost study reporting actual results of operations. Additionally, the studies are subject to a 24-month pool earnings adjustment period and a review of the study by NECA. There was an insignificant revenue impact in 2011 and 2010 for adjustments related to prior year differences between the recorded estimates and actual revenues. Furthermore, management does not anticipate that 2011 and 2010 recorded revenues will require significant adjustments in future years.

The Company's federal universal service support and state high cost fund support revenue is intended to compensate the Company for the high cost of providing rural telephone service. Federal universal service support revenues include funds received for the high cost loop support, interstate common line support, local switching support, and other miscellaneous programs. These support revenues are based on the Company's relative level of operating expense and plant investment. The California High Cost Fund-A (CHCF-A) support is subject to renewal every four years by the California legislature. Legislation to extend the CHCF-A program to January 1, 2013, was adopted in September 2008.

Regulation – The Company's services are subject to rate regulation as follows:

- Local telephone and intrastate access revenues are regulated by the CPUC
- Interstate access revenues are regulated by the FCC through its regulation of rates and settlements procedures as administered by NECA
- Universal service revenues are administered by the Universal Service Administrative Company (USAC) based on rules established by the FCC
- State High Cost Fund revenues are administered by the CPUC based on rules established by the state of California

Nonregulated services consists of internet services and other incidental Nonregulated revenues. Miscellaneous includes revenues from directory, billing and collection, rents and other incidental services.

Nonregulated expenses and nonregulated plant are directly attributable to nonregulated services. All other operating expenses and telecommunications plant are related primarily to regulated revenues. However, some of these costs jointly relate to regulated and nonregulated services.

THE SISKIYOU TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Regulation (continued) – For settlement, universal service support, rate case, and other regulatory purposes, the portion of these common costs related to nonregulated activities are removed in accordance with Part 64 of the FCC rules in order to ensure that regulated revenues are based on costs of providing regulated services.

In October 2011, the FCC issued an order reforming Inter-carrier Compensation and Universal Service (USF) mechanisms and issued a Further Notice of Proposed Rulemaking (FNPRM) on long-term USF reform and transition timing. The order and FNPRM introduce caps on capital expenditure and operating expenses recoverable from the USF, and significantly reduce carrier access rates over an extended transition period. Management is monitoring the impact of the reform, but the current order does not appear to have a significant impact on future revenues. This evaluation is subject to change as the FNPRM has not been finalized, and the reform order is being challenged in court.

In November 2010, the CPUC approved the Company's general rate case that was effective in 2011. The approval of the rate case enables the Company to earn an authorized intrastate rate of return of 10% and draw CHCF-A support.

Income taxes – Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is more likely than not that some or all of its deferred tax assets will not be realized. The Company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary.

The Company records uncertain tax positions if the likelihood that the position will be sustained upon examination is less than 50%. As of December 31, 2011 and 2010, the Company had no accrued amounts related to uncertain tax positions. The Company does not have any entity level uncertain tax positions and is no longer subject to examinations by tax authorities for the years before 2008 for its federal filings and 2007 for its California filings.

Taxes imposed by governmental authorities - The Company is subject to taxes assessed by various governmental authorities on many different types of revenue transactions with its customers. These specific taxes are charged to and collected from the Company's customers and subsequently remitted to the appropriate taxing authority. The taxes are accounted for on a net basis and excluded from revenues.

Concentrations of risk – At various times throughout the year, the cash balances on deposit with financial institutions exceeded federally insured limits. A possible loss exists for those amounts in excess of \$250,000. The Company minimizes this risk by utilizing numerous financial institutions for deposits of cash funds.

In 2011 the Company received \$7,817,625 from the Federal Universal Service Fund and \$4,207,342 from the California High Cost Fund-A (CHCF-A). In 2010, the Company received \$6,628,053 from the Federal Universal Service Fund and \$3,517,407 from the CHCF-A. These amounts represent 62% and 60% of the Company's operating revenues for 2011 and 2010, respectively.

THE SISKIYOU TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date and before the financial statements are available to be issued. The Company has evaluated subsequent events through May 15, 2012, which is the date the financial statements are available to be issued.

Reclassifications – Certain reclassifications have been made to the prior year's balances in order for them to be in conformity with the current year and had no affect on the prior year's net loss or retained earnings as previously reported.

NOTE 2 – SETTLEMENT AND ACCESS ACCOUNTS RECEIVABLE

Settlement and access accounts receivable at December 31 consist of the following:

	2011	2010
AT&T Communications	\$ 180,828	\$ 164,571
NECA	754,386	(354,035)
California High Cost Fund	350,476	423,345
California Public Utilities Commission - RTB (see Note 9)	5,563,428	-
Other	84,655	20,133
	\$ 6,933,773	\$ 254,014

NOTE 3 – INVESTMENTS

Investments at December 31 consist of the following:

	2011	2010
CVIN Limited Liability Company	\$ -	\$ 170,722
NRTC patronage capital credits	86,385	74,973
	\$ 86,385	\$ 245,695

The investment in CVIN Limited Liability Company is recorded on the equity method. During 2011, the Company sold its investment in CVIN and recorded a loss of \$44,068.

THE SISKIYOU TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT

Major classes of property, plant, and equipment:

	Depreciable Life in Years	Plant Account	Accumulated Depreciation	2011 Net Balance	2010 Net Balance
Regulated plant in service:					
Land	n/a	\$ 390,536	\$ -	\$ 390,536	\$ 384,535
General support	5 to 56	9,912,912	7,246,353	2,666,559	2,863,588
Central office	7 to 10	11,470,816	6,791,656	4,679,160	5,356,191
Cable and wire facilities	17 to 60	59,226,882	19,460,524	39,766,358	35,692,622
		81,001,146	33,498,533	47,502,613	44,296,936
Regulated plant under construction	n/a	1,697,351	-	1,697,351	2,148,115
Nonregulated plant in service	6 to 14	744,186	671,618	72,568	128,251
		<u>\$ 83,442,683</u>	<u>\$ 34,170,151</u>	<u>\$ 49,272,532</u>	<u>\$ 46,573,302</u>

NOTE 5 – EMPLOYEE BENEFITS

The Company has a defined benefit pension plan (the Plan) in effect for its employees. This Plan is part of the industry-wide retirement and security program administered by the National Telephone Cooperative Association (NTCA). It is a multi-employer plan that constitutes a “master plan” for purposes of Revenue Procedure 84-23, 1984-1 C.B. 457. It covers many full-time employees of NTCA, its affiliates, and its member organizations who have adopted the Plan.

The Plan is funded through employer contributions at 6.1% of eligible salary. These contributions, plus earnings that accumulate tax-free in the program’s unallocated trust fund, are sufficient to fund the Plan’s past and future service costs on an ongoing basis. The Company contributed \$259,363 and \$266,029 to the Plan for the years ended December 31, 2011 and 2010, respectively.

The Company also has an NTCA Savings Plan, which is a 401(k)-type savings plan. The Company matches up to 5% of the employee’s contributions. The Company contributed \$165,248 and \$173,491 to the Plan for the years ended December 31, 2011 and 2010, respectively.

NOTE 6 – COMMON STOCK AND RETAINED EARNINGS

Each share of 5.75% cumulative Class “A” preferred stock has ten votes and has preference over common stock to the extent of dividends in arrears. The Class “A” preferred stock is subject to optional redemption at \$53 per share.

THE SISKIYOU TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

NOTE 7 – INCOME TAXES

The provision (benefit) for income taxes is as follows for the year ended December 31, 2011:

	<u>2011</u>	<u>2010</u>
Current expense:		
Federal	\$ 864,365	\$ 1,573
State	1,062,516	(43,740)
Deferred expense:		
Federal	2,887,872	(245,452)
State	<u>48,506</u>	<u>(51,184)</u>
	<u>\$ 4,863,259</u>	<u>\$ (338,803)</u>

The Company computes and records federal income and California franchise taxes on a separate return basis, but files a consolidated tax return with its parent, Siskiyou Communications, Inc.

The Company's effective income tax rate varies from the current federal tax rate primarily because of state franchise tax net of federal benefit and book to tax adjustments.

The components of the net deferred tax assets (liabilities) at December 31 consist of the following:

	<u>2011</u>	<u>2010</u>
Deferred tax liabilities:		
Property – accelerated depreciation	<u>\$ (4,532,478)</u>	<u>\$ (2,089,913)</u>
Deferred tax assets:		
Federal deferral of state franchise tax	386,418	(17,402)
Net operating loss carryforward	-	964,273
Other	<u>137,678</u>	<u>71,038</u>
Total deferred tax assets	<u>524,096</u>	<u>1,017,909</u>
Net deferred tax (liability)	<u>\$ (4,008,382)</u>	<u>\$ (1,072,004)</u>

THE SISKIYOU TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – RELATED PARTY TRANSACTIONS

The Company provides various services to its affiliates: Siskiyou Communications, Inc., Siskiyou Cablevision, Inc., Siskiyou Sites, Inc., and Siskiyou Long Distance Company. The Company bills each affiliate monthly for payroll, overheads, insurance, materials transfers, and various other shared services. Amounts billed for the 12 months ended December 31, 2011 and 2010, were \$53,681 and \$126,716, respectively. Amounts due from these billings are shown on the balance sheet as accounts receivable – affiliated companies.

Siskiyou Communications, Inc., the parent company of The Siskiyou Telephone Company, pays income taxes for all of its affiliates during the year and is subsequently reimbursed by each company.

NOTE 9 – RURAL TELEPHONE BANK INCOME AND LOSS

The Company owned stock in the Rural Telephone Bank (RTB), which was dissolved in 2006. The stock was acquired through the participation in the government loan programs specifically set up for the industry and administered by the RTB. The process and terms to implement the dissolution of RTB were established in the budget for fiscal year 2006 for the United States of America. The dissolution was completed in 2007 and the company recognized a gain on dissolution in its 2007 financial statements. In 2010, the CPUC issued its final decision that the proceeds from RTB should benefit the ratepayers of California and ordered the Company to return most of the gain previously recognized to the CPUC. The 2010 loss recognized of \$5,598,428 represents the amount the CPUC believed belonged to the ratepayers.

On July 5, 2011 the Fifth District Court Appeal annulled the RTB decision as brought by the CPUC. The CPUC then sought to rehear the case at the Appeals' level which was denied. Thereafter, the CPUC petitioned the California State Supreme Court to challenge the Appeals' court decision and was also denied. Per the Courts decisions, the amounts previously paid to CPUC are to be returned to the Company. In March 2012 the CPUC issued a ruling to initiate the process of returning the funds paid by the Company under the now annulled Commission Decisions (D.) 10-06-029 and 10-10-036, per the opinions issued by the Court of Appeal for the State of California, Fifth Appellate District. The first phase of this process is scheduled to take place within 30 days and the pending return of funds to the Company will occur as soon as practical. As a result, the Company has recorded a gain of \$5,563,428 in 2011.