

<010>	Study Area Code	290583
<015>	Study Area Name	WEST TENNESSEE TEL
<020>	Program Year	2015
<030>	Contact Name: Person USAC should contact with questions about this data	Veronica Martin
<035>	Contact Telephone Number: Number of the person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address: Email of the person identified in data line <030>	FilingsRAD@tec.com

<b>ANNUAL REPORTING FOR ALL CARRIERS</b>	54.313	54.422
	Completion Required	Completion Required

			(check box when complete)	
<100>	Service Quality Improvement Reporting	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<200>	Outage Reporting (voice)	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<210>	<input checked="" type="checkbox"/> <-- check box if no outages to report		<input checked="" type="checkbox"/>	<input type="checkbox"/>
<300>	Unfulfilled Service Requests (voice)	<input type="text" value="0"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<310>	Detail on Attempts (voice)	<div style="border: 1px solid black; height: 40px; width: 100%;"></div> (attach descriptive document)	<input type="checkbox"/>	<input type="checkbox"/>
<320>	Unfulfilled Service Requests (broadband)	<input type="text" value="0"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<330>	Detail on Attempts (broadband)	<div style="border: 1px solid black; height: 40px; width: 100%;"></div> (attach descriptive document)	<input type="checkbox"/>	<input type="checkbox"/>
<400>	Number of Complaints per 1,000 customers (voice)			
<410>	Fixed	<input type="text" value="0.0"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<420>	Mobile	<input type="text" value="0.0"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<430>	Number of Complaints per 1,000 customers (broadband)		<input checked="" type="checkbox"/>	<input type="checkbox"/>
<440>	Fixed	<input type="text" value="0.0"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<450>	Mobile	<input type="text" value="0.0"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<500>	Service Quality Standards & Consumer Protection Rules Compliance	(check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<510>	<div style="border: 1px solid black; height: 40px; width: 100%;"></div>	(attached descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<600>	Functionality in Emergency Situations	(check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<610>	<div style="border: 1px solid black; height: 40px; width: 100%;"></div>	(attached descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<700>	Company Price Offerings (voice)	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<710>	Company Price Offerings (broadband)	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<800>	Operating Companies and Affiliates	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<900>	Tribal Land Offerings (Y/N)?	(if yes, complete attached worksheet)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<1000>	Voice Services Rate Comparability	(check to indicate certification)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<1010>	<div style="border: 1px solid black; padding: 2px;">290583-TN-1010.pdf</div>	(attach descriptive document)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<1100>	Terrestrial Backhaul (Y/N)?	(if not, check to indicate certification)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<1110>		(complete attached worksheet)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<1200>	Terms and Condition for Lifeline Customers	(complete attached worksheet)	<input type="checkbox"/>	<input checked="" type="checkbox"/>

**Price Cap Carriers, Proceed to Price Cap Additional Documentation Worksheet**

*Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers*

<2000>	(check to indicate certification)	<input type="checkbox"/>	<input type="checkbox"/>
<2005>	(complete attached worksheet)	<input type="checkbox"/>	<input type="checkbox"/>

**Rate of Return Carriers, Proceed to ROR Additional Documentation Worksheet**

<3000>	(check to indicate certification)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<3005>	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input type="checkbox"/>

<b>(100) Service Quality Improvement Reporting Data Collection Form</b>	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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<010> Study Area Code	290583
<015> Study Area Name	WEST TENNESSEE TEL
<020> Program Year	2015
<030> Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035> Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039> Contact Email Address - Email Address of person identified in data line <030>	FilingsRAD@tec.com

<110> Has your company received its ETC certification from the FCC? If your answer to Line <110> is yes, do you have an existing §54.202(a) "5 year plan" filed with the FCC?	(yes / no) <input type="radio"/> <input checked="" type="radio"/>
<111> year plan" filed with the FCC?	(yes / no) <input type="radio"/> <input type="radio"/>

If your answer to Line <111> is yes, then you are required to file a progress report, on line <112> delineating the status of your company's existing § 54.202(a) "5 year plan" on file with the FCC, as it relates to your provision of voice telephony service.

<112> Attach Five-Year Service Quality Improvement Plan or, in subsequent years, your annual progress report filed pursuant to 47 C.F.R. § 54.313(a)(1). If your company is a CETC which only receives frozen support, your progress report is only required to address voice telephony service.

290583-TN-112.pdf

Name of Attached Document

Please check these boxes below to confirm that the attached documents(s), on line 112, contains a progress report on its five-year service quality improvement plan pursuant to § 54.202(a). The information shall be submitted at the wire center level or census block as appropriate.

<113> Maps detailing progress towards meeting plan targets		<input type="checkbox"/>
<114> Report how much universal service (USF) support was received		<input type="checkbox"/>
<115> How (USF) was used to improve service quality		<input type="checkbox"/>
<116> How (USF) was used to improve service coverage		<input type="checkbox"/>
<117> How (USF) was used to improve service capacity		<input type="checkbox"/>
<118> Provide an explanation of network improvement targets not met in the prior calendar year.		<input type="checkbox"/>









**(900) Tribal Lands Reporting  
Data Collection Form**

FCC Form 481  
OMB Control No. 3060-0986/OMB Control No. 3060-0819  
July 2013

<010> Study Area Code	290583
<015> Study Area Name	WEST TENNESSEE TEL
<020> Program Year	2015
<030> Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035> Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039> Contact Email Address - Email Address of person identified in data line <030>	PilingsRAD@ec.com

<910> Tribal Land(s) on which ETC Serves

<920> Tribal Government Engagement Obligation

Name of Attached Document

If your company serves Tribal lands, please select (Yes, No, NA) for each these boxes to confirm the status described on the attached document(s), on line 920, demonstrates coordination with the Tribal government pursuant to § 54.313(a)(9) includes:

- <921> Needs assessment and deployment planning with a focus on Tribal community anchor institutions.
- <922> Feasibility and sustainability planning;
- <923> Marketing services in a culturally sensitive manner;
- <924> Compliance with Rights of way processes
- <925> Compliance with Land Use permitting requirements
- <926> Compliance with Facilities Siting rules
- <927> Compliance with Environmental Review processes
- <928> Compliance with Cultural Preservation review processes
- <929> Compliance with Tribal Business and Licensing requirements.

Select (Yes, No, NA)

<b>(1100) No Terrestrial Backhaul Reporting Data Collection Form</b>	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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<010>	Study Area Code	290563
<015>	Study Area Name	WEST TENNESSEE TEL
<020>	Program Year	2015
<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035>	Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	FilingsRAD@tec.com

<1120> Please check this box to confirm no terrestrial backhaul options exist within the supported area pursuant to § 54.313(G)

<1130> Please check this box to confirm the reporting carrier offers broadband service of at least 1 Mbps downstream and 256 kbps upstream within the supported area pursuant to § 54.313(G)

<b>(1200) Terms and Condition for Lifeline Customers Lifeline Data Collection Form</b>	FCC Form 481
	OMB Control No. 3060-0986/OMB Control No. 3060-0819
	July 2013

<010> Study Area Code	290583
<015> Study Area Name	WEST TENNESSEE TEL
<020> Program Year	2015
<030> Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035> Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039> Contact Email Address - Email Address of person identified in data line <030>	filingsRAD@tec.com

<1210> Terms & Conditions of Voice Telephony Lifeline Plans

Name of Attached Document

<1220> Link to Public Website

HTTP <http://www.tec.com/Texas>

"Please check these boxes below to confirm that the attached document(s), on line 1210, or the website listed, on line 1220, contains the required information pursuant to § 54.422(a)(2) annual reporting for ETCs receiving low-income support, carriers must annually report:

- <1221> Information describing the terms and conditions of any voice telephony service plans offered to Lifeline subscribers,
- <1222> Details on the number of minutes provided as part of the plan,
- <1223> Additional charges for toll calls, and rates for each such plan.

<b>(2000) Price Cap Carrier Additional Documentation</b> <b>Data Collection Form</b> <i>Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers</i>	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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<010>	Study Area Code	290583
<015>	Study Area Name	WEST TENNESSEE TEL
<020>	Program Year	2015
<030>	Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035>	Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<039>	Contact Email Address - Email Address of person identified in data line <030>	FilingsRAD@ec.com

CHECK the boxes below to note compliance as a recipient of Incremental Connect America Phase I support, frozen High Cost support, High Cost support to offset access charge reductions, and Connect America Phase II support as set forth in 47 CFR § 54.313(b),(c),(d),(e) the information reported on this form and in the documents attached below is accurate.

- |        |  |                          |
|--------|--|--------------------------|
|        | <b>Incremental Connect America Phase I reporting</b> |                          |
| <2010> | 2nd Year Certification {47 CFR § 54.313(b)(1)}       | <input type="checkbox"/> |
| <2011> | 3rd Year Certification {47 CFR § 54.313(b)(2)}       | <input type="checkbox"/> |
- |        |  |                          |
|--------|--|--------------------------|
|        | <b>Price Cap Carrier Receiving Frozen Support Certification {47 CFR § 54.312(a)}</b> |                          |
| <2012> | 2013 Frozen Support Certification  | <input type="checkbox"/> |
| <2013> | 2014 Frozen Support Certification  | <input type="checkbox"/> |
| <2014> | 2015 Frozen Support Certification  | <input type="checkbox"/> |
| <2015> | 2016 and future Frozen Support Certification   | <input type="checkbox"/> |
- |        |   |                          |
|--------|---|--------------------------|
|        | <b>Price Cap Carrier Connect America ICC Support {47 CFR § 54.313(d)}</b> |                          |
| <2016> | Certification Support Used to Build Broadband                             | <input type="checkbox"/> |
- |        |   |                          |
|--------|---|--------------------------|
|        | <b>Connect America Phase II Reporting {47 CFR § 54.313(e)}</b>  |                          |
| <2017> | 3rd year Broadband Service Certification  | <input type="checkbox"/> |
| <2018> | 5th year Broadband Service Certification  | <input type="checkbox"/> |
| <2019> | Interim Progress Certification  | <input type="checkbox"/> |
| <2020> | Please check the box to confirm that the attached document(s), on line 2021, contains the required information pursuant to § 54.313 (e)(3)(ii), as a recipient of CAF Phase II support shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year. | <input type="checkbox"/> |
- |  |  |  |
|--|--|--|
|  | <b>&lt;2021&gt; Interim Progress Community Anchor Institutions</b> |  |
|--|--|--|

Name of Attached Document Listing Required Information

<b>(3000) Rate Of Return Carrier Additional Documentation</b>	FCC Form 481
<b>Data Collection Form</b>	OMB Control No. 3060-0985/OMB Control No. 3060-0819
	July 2013

<b>&lt;010&gt; Study Area Code</b>	290583
<b>&lt;015&gt; Study Area Name</b>	WEST TENNESSEE TEL
<b>&lt;020&gt; Program Year</b>	2015
<b>&lt;030&gt; Contact Name - Person USAC should contact regarding this data</b>	Veronica Martin
<b>&lt;035&gt; Contact Telephone Number - Number of person identified in data line &lt;030&gt;</b>	6013549070 ext.
<b>&lt;039&gt; Contact Email Address - Email Address of person identified in data line &lt;030&gt;</b>	FilingRAD@tsc.com

CHECK the boxes below to note compliance on its five year service quality plan (pursuant to 47 CFR § 54.202(a)) and, for privately held carriers, ensuring compliance with the financial reporting requirements set forth in 47 CFR § 54.313(f)(2). I further certify that the information reported on this form and in the documents attached below is accurate.

(3010) Progress Report on 5 Year Plan Milestone Certification (47 CFR § 54.313(f)(1)(i))

Name of Attached Document Listing Required Information

(3011) Please check this box to confirm that the attached document(s), on line 3012 contains the required information pursuant to § 54.313 (f)(1)(ii), the carrier shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year.

(3012) Community Anchor Institutions (47 CFR § 54.313(f)(1)(iii))

Name of Attached Document Listing Required Information

(3013) Is your company a Privately Held ROR Carrier (47 CFR § 54.313(f)(2))  (Yes/No)

(3014) If yes, does your company file the RUS annual report  (Yes/No)

Please check these boxes to confirm that the attached document(s), on line 3017, contains the required information pursuant to § 54.313(f)(2) compliance requires:

(3015) Electronic copy of their annual RUS reports (Operating Report for Telecommunications Borrowers)

(3016) Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows

(3017) If the response is yes on line 3014, attach your company's RUS annual report and all required documentation

Name of Attached Document Listing Required Information

(3018) If the response is no on line 3014, Is your company audited?  (Yes/No)

If the response is yes on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains

(3019) Either a copy of their audited financial statement; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications

(3020) Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows

(3021) Management letter issued by the independent certified public accountant that performed the company's financial audit.

If the response is no on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains:

(3022) Copy of their financial statement which has been subject to review by an independent certified public accountant; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers,

(3023) Underlying information subjected to a review by an independent certified public accountant

(3024) Underlying information subjected to an officer certification.

(3025) Document(s) for Balance Sheet, Income Statement and Statement of Cash Flows

(3026) Attach the worksheet listing required information

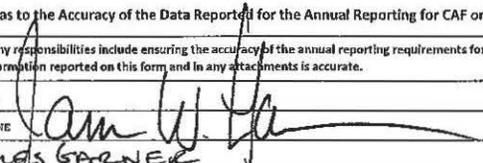
290583-TN-3026 .pdf

Name of Attached Document Listing Required Information

Certification - Reporting Carrier Data Collection Form	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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<010> Study Area Code	290583
<015> Study Area Name	WEST TENNESSEE TEL
<020> Program Year	2015
<030> Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035> Contact Telephone Number - Number of person identified in data line <030>	6013549070 ext.
<035> Contact Email Address - Email Address of person identified in data line <030>	FilingRADatee.com

TO BE COMPLETED BY THE REPORTING CARRIER, IF THE REPORTING CARRIER IS FILING ANNUAL REPORTING ON ITS OWN BEHALF:

Certification of Officer as to the Accuracy of the Data Reported for the Annual Reporting for CAF or LI Recipients	
I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate.	
Name of Reporting Carrier:	WEST TENNESSEE TEL
Signature of Authorized Officer:	CERTIFIED ONLINE  Date 6-27-14
Printed name of Authorized Officer:	JAMES GARNER
Title or position of Authorized Officer:	VICE PRESIDENT OF OPERATIONS
Telephone number of Authorized Officer:	601-354-9070
Study Area Code of Reporting Carrier:	290583 Filing Due Date for this form: 07/01/2014
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

Certification - Agent / Carrier Data Collection Form	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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<010> Study Area Code	290563
<015> Study Area Name	WEST TENNESSEE TEL
<020> Program Year	2015
<030> Contact Name - Person USAC should contact regarding this data	Veronica Martin
<035> Contact Telephone Number - Number of person identified in data line <030>	6013549870 ext.
<039> Contact Email Address - Email Address of person identified in data line <030>	FilingsRAD@ec.com

TO BE COMPLETED BY THE REPORTING CARRIER, IF AN AGENT IS FILING ANNUAL REPORTS ON THE CARRIER'S BEHALF:

Certification of Officer to Authorize an Agent to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I certify that (Name of Agent) _____ is authorized to submit the information reported on behalf of the reporting carrier. I also certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual data reporting requirements provided to the authorized agent; and, to the best of my knowledge, the reports and data provided to the authorized agent is accurate.	
Name of Authorized Agent:	
Name of Reporting Carrier:	
Signature of Authorized Officer:	Date:
Printed name of Authorized Officer:	
Title or position of Authorized Officer:	
Telephone number of Authorized Officer:	
Study Area Code of Reporting Carrier:	Filing Due Date for this form:
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

TO BE COMPLETED BY THE AUTHORIZED AGENT:

Certification of Agent Authorized to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I, as agent for the reporting carrier, certify that I am authorized to submit the annual reports for universal service support recipients on behalf of the reporting carrier; I have provided the data reported herein based on data provided by the reporting carrier; and, to the best of my knowledge, the information reported herein is accurate.	
Name of Reporting Carrier:	
Name of Authorized Agent or Employee of Agent:	
Signature of Authorized Agent or Employee of Agent:	Date:
Printed name of Authorized Agent or Employee of Agent:	
Title or position of Authorized Agent or Employee of Agent:	
Telephone number of Authorized Agent or Employee of Agent:	
Study Area Code of Reporting Carrier:	Filing Due Date for this form:
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

## Attachments







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**Five-Year Network Improvement Plan**  
**For West Tennessee Telephone Company, Inc.**

In its *USF/ICC Transformation Order* and subsequent Orders, the Federal Communications Commission (“FCC” or “Commission”) requires Eligible Telecommunications Carriers (“ETCs”) to submit a five-year build-out plan in a manner consistent with Section 54.202(a)(1)(ii) of the Commission’s Rules by July 1, 2014 and to submit annual progress reports thereafter.<sup>1</sup> Section 54.202(a) (1) (ii) states in part that ETCs are to [s]ubmit a five-year plan that describes with specificity proposed improvements or upgrades to the [ETC’s] network throughout its proposed service area. Each [ETC] shall estimate the area and population that will be served as a result of the improvements . . . .”<sup>2</sup>

In its *March 5, 2013 Order*, the FCC specified that for rate-of-return carriers, the five-year plans “should describe the carrier’s network improvement plan, which should provide greater visibility into current plans to extend broadband service to unserved locations in rate-of-return service territories.”<sup>3</sup> West Tennessee Telephone Company,

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<sup>1</sup> See *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 a Unified Intercarrier Compensation Regime; Federal-State Joint Board on Universal Service; Lifeline and Link-Up; Universal Service Reform—Mobility Fund*; WC Docket Nos. 10-90, 07-135, 05-337, 03-109, CC Docket Nos. 01-92, 96-45, GN Docket No. 09-51, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-61 (rel. Nov. 18, 2011) (*USF/ICC Transformation Order*) at Para. 587; *pets. for review pending sub nom. In re: FCC 11-161*, No. 11-9900 (10th Cir. filed Dec. 8, 2011); see also *Connect America Fund et al.*, WC Docket 10-90 *et al.*, Order, DA 12-147 (rel. Feb. 12, 2012) at Para. 5 (amending Section 54.313(a)(1) to clarify this requirement); *Connect America Fund et al.*, WC Docket 10-90 *et al.*, Third Order on Reconsideration, FCC 12-52 (rel. May 14, 2012) at Para. 10 (changing the filing deadline for the annual reports from April 1 to July 1); *Connect America Fund et al.*, WC Docket 10-90 *et al.*, Order, DA 13-332 (rel. Mar. 5, 2013) (“*March 5, 2013 Order*”) at Para’s. 4, 6-9. Delaying Five Year Plan until July 1, 2014 see WC Docket No. 10-90, Order, DA 13-1115, Para. 8 (released May 16, 2013).

<sup>2</sup> 47 C.F.R. § 54.202(a) (1) (ii).

<sup>3</sup> *March 5, 2013 Order* at Para. 9 citing Section 54.202(a) (1) (ii).

Inc. (“West Tennessee” or the “Company”) is a rate-of-return carrier ETC and hereby submits its five-year network improvement plan.

**I. The Challenges Faced by the Company in Providing Voice and Broadband to its Rural Service Area**

**A. Description of the Company and its Service Area**

West Tennessee is a Rural LEC that provides services to approximately 2,000 households and businesses in central Tennessee. As a carrier of last resort West Tennessee faces increased hardship recovering cost due to diminishing returns on investment from the *USF/ICC Transformation Order*, as well as the loss of access revenue. Much of the area is rural Tennessee farmland, where there are few customers per square mile. While West Tennessee is the carrier of last resort, cellular and cable carriers may choose to provide service only to more populated towns without providing service to the high cost areas which results in a distinct financial advantage for competition that is further amplified through increased regulatory burdens on rate of return local exchange carriers.

**B. The Exchanges Contained Within the Company’s Study Area**

West Tennessee serves the combined exchange area(s) of:

Atwood	Rutherford
Trezevant	Bradford

**II. The Company Has Used and Will Use Universal Service Support Only For the Intended Purposes**

Section 254(e) of the Communications Act of 1934, as amended requires ETCs to use Universal Service support (“USF”) “only for the provision, maintenance, and

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upgrading of facilities and services for which the support is intended.”<sup>4</sup> Pursuant to Section 54.314 of the FCC’s rules, in order for state-designated ETCs to receive USF for the coming year, states must annually file certifications by October 1 stating that all federal high-cost support provided to such carriers within the state “was used in the preceding calendar year and will be used in the coming calendar year only for the provision, maintenance, and upgrading of facilities and services for which the support is intended.”<sup>5</sup> ETCs not designated by a state must file similar certifications with the FCC.<sup>6</sup>

In its *USF/ICC Transformation Order*, the FCC clarified that prior to making the Section 254(e) certifications, states should conduct a “rigorous examination of the factual information” contained in the annual Section 54.313 reports, of which the five year network improvement plan and annual progress reports are a part, in determining whether they can certify that carriers’ support has been used and will be used only for the purpose for which the support was intended.<sup>7</sup> The FCC said that it would also use the reports to verify certifications filed by ETCs that are not state-designated.<sup>8</sup> In this context, the Commission stated, “[i]n light of the public interest obligations we adopt in this Order, a key component of this [Section 254(e)] certification will now be that support is being used to maintain and extend modern networks capable of providing voice and broadband service.”<sup>9</sup>

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<sup>4</sup> 47 U.S.C. § 254(e).

<sup>5</sup> 47 C.F.R. § 54.314(a).

<sup>6</sup> 47 C.F.R. § 54.314(b).

<sup>7</sup> See *USF/ICC Transformation Order* at Para. 612.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.* (emphasis supplied).

Essentially, under the existing rules and processes, the federal USF received by the Company and other incumbent rural telephone companies are, in fact, an integral part of the recovery of expenditures of rural incumbent local exchange carriers incurred in the provision, maintenance and upgrading of their provision of facilities and services for which the USF is intended. West Tennessee depends upon its receipt and utilization of federal universal service support to provide rural telephone customers with affordable and quality voice and broadband services.

Accordingly, given the critical role the network improvement plan and the progress reports will have in the annual Section 254(e) certification process, West Tennessee's plan will demonstrate not only how the West Tennessee has used and will use USF not only for improvements and upgrades, but also for the provision and maintenance of the facilities and services to which the support was intended.

### **III. The Company's Five-Year Network Improvement Plan**

When the Commission adopted its five-year plan requirements for FCC-designated ETCs in its *2005 ETC Order*, it set forth the following criteria as to how the ETC is to describe with "specificity" the proposed improvements or upgrades to the ETC's network throughout its service area:

(1) how signal quality, coverage, or capacity will improve due to the receipt of high-cost support throughout the area for which the ETC seeks designation; (2) the projected start date and completion date for each improvement and the estimated amount of investment for each project that is funded by high-cost support; (3) the specific geographic areas where the improvements will be made; and (4) the estimated population that will be served as a result of the improvements.<sup>10</sup>

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<sup>10</sup> *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, FCC 05-46 (rel. Mar. 17, 2005) ("*2005 ETC Order*").

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In that order, the FCC clarified that service quality improvements in the five-year plan “do not necessarily require additional construction of network facilities.”<sup>11</sup> Accordingly, the improvements listed in the plan may be projects related to the expansion of the network (one or multiple services), projects related to updating technology to accommodate new services or higher bandwidth or maintenance projects, such as to reduce trouble reports or replace outdated equipment. Additionally, in some cases, the projects may be ones that improve or upgrade the entire network rather than discrete areas within a study area or they may be ones that are ongoing projects that have no specific start and completion dates.

The instructions to the Form 481 state “[r]ecipients may describe where improvements are expected to occur by wire center or census block, as appropriate. To the extent no improvements are planned in specific areas, the five-year plan should so indicate.”<sup>12</sup> The instructions also require that in subsequent annual progress reports which must include the total amount of universal support received must provide this information “broken out separately by the amount spent on capital expenses and the amount spent on operating expenses.”<sup>13</sup> Accordingly, the Company’s five-year plan separately provides both capital expenditures and operating expenses.

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<sup>11</sup> *Id.*

<sup>12</sup> Instructions for Completing FCC Form 481, OMB Control No. 3060-0986 (High-Cost), OMB Control No. 3060-0819 (Low-Income), July 2013, Line 112

<sup>13</sup> Instructions for Completing FCC Form 481, OMB Control No. 3060-0986 (High-Cost), OMB Control No. 3060-0819 (Low-Income), July 2013, Line 112

**A. The Company's Major Network Improvement Projects**

West Tennessee has one major project planned for the next 5 years however there are multiple ongoing maintenance projects. Over the next 5 years West Tennessee intends on upgrading from copper to fiber to the Poplar Springs wire center. In addition to this project there will be several ongoing projects including, transport upgrades, central office power upgrades, building improvements, new computers, new vehicles, battery replacements, test equipment upgrades, other work equipment, outside plant repairs, and broadband expansion and upgrades.

**B. How These Projects Will Improve the Network**

In 2015-2019 West Tennessee has planned projects to expand its fiber network in order to increase speed and reliability of both broadband and traditional telephone services within its network. The major project scheduled in 2016 is a fiber build-out to the Poplar Springs wire center which will increase service reliability and provide greater bandwidth for the estimated 133 residents in the area.

Ongoing projects include transport upgrades that will update antiquated technology which will soon be unsupported throughout the network and help reduce trouble tickets. Several central office power upgrades will help insure network reliability during outages. Various other upgrades during this time include building improvements, new computers, new vehicles, and other work equipment; these will be used to replace outdated equipment and address maintenance issues. West Tennessee requires all batteries be tested regularly to insure reliability of the network under emergency situations, which means regular battery replacement throughout the five years. Routine outside plant upgrade projects will be regarded as the normal course of business for

maintaining plant facilities and the network. Finally there will be various broadband upgrades and central office power upgrades. These projects will help to expand the network and update technology to allow higher broadband internet bandwidth speeds. See Appendix A for a full breakdown including costs of the various projects.

### **C. Part 32 and Yearly Breakdown of Estimated Capital Expenditures Associated with the Projects and Operating Expenses**

Appendix B included herein specifies the projects listed in Appendix A in terms of the Part 32 capital expenditures categories and in terms of the years in which the costs are expected to occur along with depreciation expense associated with the capital expenditures. In a separate section, the projected operating expenses are provided.

### **D. List of Community Anchor Institutions to Which the ETC Currently Provides Service**

Although the FCC's *USF/ICC Transformation Order* only requires listing of community anchor institutions to which the ETC newly began providing service in progress reports, West Tennessee hereby provides the FCC with a list of community anchor institutions to which it currently provides service.<sup>14</sup> The list of community anchor institutions is included herein as Appendix C.

### **F. Determination of Reasonableness**

In its *March 5, 2013 Order*, the Commission stated, "We encourage rate-of-return carriers to explain in their five-year plans what criteria the carrier will use to determine whether a request for broadband is reasonable and how the carrier will decide which

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<sup>14</sup> The FCC has defined community anchor institutions in Section 54.5 of its Rules as "schools, libraries, health care providers, community colleges, other institutions of higher education, and other community support organizations and entities."

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areas are feasible to extend terrestrial broadband service to, and which areas are not feasible to serve with terrestrial technologies, given current funding levels.”<sup>15</sup> West Tennessee hereby responds to the Commission’s invitation and provides the following: West Tennessee maintains a broadband internet service request list. Once the threshold of seven broadband service requests in a given area is achieved, a facilities and demographic study on the area will be generated to determine if the area meets the minimum density for a broadband aggregation device to be deployed.

---

<sup>15</sup> *March 5, 2013 Order* at Para. 10.

Study Area Code 290581  
 Study Area Name West Tennessee Telephone Company, Inc.  
 Company Contact Name Lisa Wigington  
 Contact Telephone Number (601) 354-9070  
 Contact Email Address FillingsRAD@TEC.com

APPENDIX A - PROJECT LIST FOR 2015-2019

Notes from JSI Separations Contact & Company Discussion

Project	Start Date	Completion	Areas	Population(1)	Total Dollars	Notes from JSI Separations Contact & Company Discussion	
						Part 32 Account	Voice, Broadband, Both, etc.
Poplar Springs Fiber Addition	2016	2016	Atwood Exchange Poplar Springs Remote	133	[REDACTED]	2423	Both
Transport Upgrade	2015	2019	All Exchanges	8,982	[REDACTED]	2210	Both
Central Office Power Upgrades	2015	2019	All Exchanges	8,982	[REDACTED]	2212	Both
Building Improvements	2015	2019	All Exchanges	8,982	[REDACTED]	2121	Both
New Computers	2015	2019	All Exchanges	8,982	[REDACTED]	2124	Both
New Vehicles	2015	2019	All Exchanges	8,982	[REDACTED]	2112	Both
Battery Replacement	2015	2019	All Exchanges	8,982	[REDACTED]	2232	Both
Test Equipment Upgrade	2015	2019	All Exchanges	8,982	[REDACTED]	2114	Both
Other Work Equipment	2015	2019	All Exchanges	8,982	[REDACTED]	2114	Both
Routine Outside Plant Upgrade Project	2015	2019	All Exchanges	8,982	[REDACTED]	2423	Both
Broadband Upgrade and Expansions	2015	2019	All Exchanges	8,982	[REDACTED]	2232	Broadband
<b>Totals</b>					\$ [REDACTED]		

Study Area Code 290581  
 Study Area Name West Tennessee Telephone Company, Inc.  
 Company Contact Nam Lisa Wigington  
 Contact Telephone Nur (601) 354-9070  
 Contact Email Address FilingsRAD@TEC.com

**APPENDIX B: 5-Year Proposed Capital Expenditures and Operating Expenses**

(1) Use the chart below to break out the **regulated** portion of the cost/expense on a per-year basis  
 Please note that the 5-Year Plan should include **regulated plant/expenses only**.

Regulated Capital Expenditure (CapEx) Projections							
Account	Description	2015	2016	2017	2018	2019	Total Projected CapEx 2015-2019
2111 & 2121	Land & Building						
2112	Vehicles						
2122-2124	Support Assets						
2210	Switching Equipment						
2232	Circuit Equipment						
2410-2440	Cable & Wire Facilities						
1220	Materials & Supplies						
	Total Capital Expenditures						

Regulated Operating Expenditure (OpEx) Projections							
Account	Operating Expenses	2015	2016	2017	2018	2019	Total Operating Expenses 2015-2019
6110-6120	General Support Maintenance						
6210	Switching Maintenance						
6230	COE Transmission Maintenance						
6410	Cable & Wire Facilities						
6530	Non-Specific (Testing, Plant Op., Engineering)						
6561-2110	General Support Depreciation						
6561-2210	Switching Depreciation						
6561-2230	Circuit Equip Depreciation						
6561-2410	Cable & Wire Depreciation						
6610-6620	Customer Operations						
6711-6720	Corporate Operations						
7240	Ad Valorem Expense						
	Total Operating Expenses						

Note: Cell J20, Total Projected CapEx, should equal Total from Project List (cell G42)

**West Tennessee Telephone Company, Inc. List of Anchor Institutions****APPENDIX C**

AccountName	FullServiceAddress
TENNESSEE ONE-CALL SYSTEM	224 E MAIN ST, BRADFORD, TN 38316
BRADFORD ELEMENTARY SCHOOL	136 HWY 45 S, BRADFORD, TN 38316
BRADFORD ELEMENTARY SCHOOL	136 HWY 45 S, BRADFORD, TN 38316
BRADFORD FAMILY MEDICAL CENTER	163 E MAIN ST, BRADFORD, TN 38316
BRADFORD FIRE DEPT	207 E MAIN ST, BRADFORD, TN 38316
BRADFORD HIGH SCHOOL	136 HWY 45 S, BRADFORD, TN 38316
BRADFORD MEDICAL CENTER	163 E MAIN ST, BRADFORD, TN 38316
BRADFORD MEDICAL CENTER	216 E MAIN ST, BRADFORD, TN 38316
BRADFORD MEDICAL CENTER PC	163 E MAIN ST, BRADFORD, TN 38316
BRADFORD POLICE DEPARTMENT	216 E MAIN ST, BRADFORD, TN 38316
BRADFORD POLICE DEPARTMENT	216 E MAIN ST, BRADFORD, TN 38316
BRADFORD POLICE DEPT	216 E MAIN ST, BRADFORD, TN 38316
BRADFORD SCHOOL CAFETERIA	136 HWY 45 S, BRADFORD, TN 38316
BRADFORD SENIOR CITIZENS CENTER	168 E MAIN ST, BRADFORD, TN 38316
BRADFORD SPECIAL SCHOOL DISTRICT	136 HWY 45 S, BRADFORD, TN 38316
BRADFORD SPECIAL SCHOOL DISTRICT	106 W FRONT ST, BRADFORD, TN 38316
BRADFORD SPECIAL SCHOOL DISTRICT	124 W COLLEGE ST, BRADFORD, TN 38316
BRADFORD SPECIAL SCHOOL DISTRICT	136 HWY 45 S, BRADFORD, TN 38316
BRADFORD WATER DEPARTMENT	126 W FRONT ST, BRADFORD, TN 38316
CARROLL COUNTY E911	PO BOX 523, HUNTINGDON, TN 38344
CARROLL COUNTY ELECTRIC DEPARTMENT	6304 MAIN ST E, TREZEVANT, TN 38258
CITY HALL	216 E MAIN ST, BRADFORD, TN 38316
CITY HALL	207 E MAIN ST, BRADFORD, TN 38316
CITY HALL	216 E MAIN ST, BRADFORD, TN 38316
CITY OF ATWOOD	45 BACK ST, ATWOOD, TN 38220
CITY OF ATWOOD	45 BACK ST, ATWOOD, TN 38220
CITY OF BRADFORD AMBULANCE	207 E MAIN ST, BRADFORD, TN 38316
ENA	1101 MCGAVOCK ST 7315020001, NASHVILLE, TN 37203
GIBSON COUNTY BOARD OF EDUCATION	108 W KNOX ST, RUTHERFORD, TN 38369
GIBSON COUNTY E911	PO BOX 146, DYER, TN 38330
GIBSON COUNTY EMS	207 E MAIN ST, BRADFORD, TN 38316
GIBSON COUNTY OFFICE ON AGING	168 E MAIN ST, BRADFORD, TN 38316
GIBSON COUNTY OFFICE ON AGING	168 E MAIN ST, BRADFORD, TN 38316
HENRY COUNTY E911	PO BOX 1452, PARIS, TN 38242
NORTHWEST RURAL TRANSPORTATION	168 E MAIN ST, BRADFORD, TN 38316
NORTHWEST TENN DEVELOPEMENT DIST	168 E MAIN ST, BRADFORD, TN 38316
RUTHERFORD CITY HALL	101 W MAIN ST, RUTHERFORD, TN 38369
RUTHERFORD CITY HALL	102 W MAIN ST, RUTHERFORD, TN 38369
RUTHERFORD CITY HALL	206 E MAIN ST, RUTHERFORD, TN 38369
RUTHERFORD CITY HALL	219 N TRENTON ST, RUTHERFORD, TN 38369
RUTHERFORD CITY HALL	618 S TRENTON ST, RUTHERFORD, TN 38369
RUTHERFORD ELEMENTARY SCHOOL	108 W KNOX ST, RUTHERFORD, TN 38369
RUTHERFORD MEDICAL CLINIC	104 E MAIN ST, RUTHERFORD, TN 38369
RUTHERFORD MEDICAL CLINIC	104 E MAIN ST, RUTHERFORD, TN 38369
RUTHERFORD WATER PLANT	122 S CARROLL ST, RUTHERFORD, TN 38369
TENNESSEE VALLEY AUTHORITY	870 REPUBLICAN GROVE RD, TREZEVANT, TN 38258
TREZEVANT CITY HALL	5545 MAIN ST E, TREZEVANT, TN 38258
TREZEVANT CITY HALL	5560 BROAD ST N, TREZEVANT, TN 38258
TREZEVANT FIRE DEPARTMENT	5365 MAIN ST W, TREZEVANT, TN 38258
U S POSTAL SERVICE	107 E MAIN ST, RUTHERFORD, TN 38369
U S POSTAL SERVICE	107 E MAIN ST, RUTHERFORD, TN 38369
U S POSTAL SERVICE	134 E MAIN ST, BRADFORD, TN 38316
U S POSTAL SERVICE	1570 MAIN ST E, ATWOOD, TN 38220
U S POSTAL SERVICE	26 IDLEWILD-HOLLYLEAF RD, BRADFORD, TN 38316
U S POSTAL SERVICE	5580 BROAD ST N, TREZEVANT, TN 38258
U S POSTAL SERVICE	134 E MAIN ST, BRADFORD, TN 38316
U S POSTAL SERVICE	107 E MAIN ST, RUTHERFORD, TN 38369
UNITED WAY OF METRO NASHVILLE MR DOUG FLUEGEL	224 E MAIN ST, RUTHERFORD, TN 38369
WEST CARROLL HIGH SCHOOL	760 HIGHWAY 77, ATWOOD, TN 38220
WEST CARROLL MEDICAL CLINIC	45 HURT ST, TREZEVANT, TN 38258

290583-TN-112

WEST CARROLL MIDDLE SCHOOL  
WEST CARROLL SPECIAL SCHOOL DISTRICT  
WEST TENNESSEE PUBLIC TELEVISION INC

100 HARBOR ST, TREZEVANT, TN 38258  
1415 HIGHWAY 77, ATWOOD, TN 38220  
1864 BROOKS RD, ATWOOD, TN 38220

**West Tennessee Telephone Company, Inc.'s demonstration of complying with applicable service quality standards and consumer protection rules:**

In establishing this certification in its *2005 ETC Order*,<sup>1</sup> the FCC found that an ETC must make “a specific commitment to objective measures to protect consumers.”<sup>2</sup> The Commission found that for wireless ETCs, compliance with CTIA’s Consumer Code for Wireless Service would satisfy this requirement” and that the sufficiency of other commitments would be considered on a case-by-case basis.<sup>3</sup> In this context, the FCC stated, “to the extent a wireline or wireless ETC applicant is subject to consumer protection obligations under state law, compliance with such laws may meet our requirement.”<sup>4</sup>

West Tennessee Telephone Company, Inc. (“Company”) hereby certifies that it is complying with applicable service quality standards and consumer protection rules. The Company is subject to consumer protection obligations under state law. These obligations include, but are not limited to, the following: (1) filing a Local Exchange Tariff pursuant to the Rules of Tennessee Regulatory Authority, Chapter 1220-4-1-.03 and the Tennessee Code Annotated, Title 65, Chapter 5, Part 1, §65-5-102, which disclose rates, terms and conditions of service to customers; (2) adherence to state consumer protection requirements governing telephone providers which require

<sup>1</sup> *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, FCC 05-46 (rel. Mar. 17, 2005) (“*2005 ETC Order*”).

<sup>2</sup> *Id.* at para. 28.

<sup>3</sup> *Id.* The FCC noted that under the CTIA Consumer Code, wireless carriers agree to: “(1) disclose rates and terms of service to customers; (2) make available maps showing where service is generally available; (3) provide contract terms to customers and confirm changes in service; (4) allow a trial period for new service; (5) provide specific disclosures in advertising; (6) separately identify carrier charges from taxes on billing statements; (7) provide customers the right to terminate service for changes to contract terms; (8) provide ready access to customer service; (9) promptly respond to consumer inquiries and complaints received from government agencies; and (10) abide by policies for protection of consumer privacy.” *Id.* at n. 71.

<sup>4</sup> *Id.* at n. 72.

implementation of Basic Utility Obligations in accordance with the Rules of Tennessee Regulatory Authority, Chapter 1220-4-2-.29, Consumer Safeguards as identified in the Rules of Tennessee Regulatory Authority, Chapter 1220-4-2-.55, anti-slamming procedures as required in the Rules of Tennessee Regulatory Authority, Chapter 1220-4-2-.56; (3) truth-in-billing requirements in accordance with the Rules of Tennessee Regulatory Authority, Chapter 1220-4-2-.58; and (4) CPNI, Red Flag Rules and other applicable federal and state requirements governing the protection of customers' privacy.

## **West Tennessee Telephone Company, Inc.'s Ability to Function in Emergency**

### **Situations**

West Tennessee Telephone Company, Inc. ("Company") hereby certifies that it is able to function in emergency situations as set forth in Code of Federal Regulations, Title 47, Part 54, Subpart C, §54.202(a)(2)<sup>1</sup> and Rules of the Tennessee Regulatory Authority, Chapter 1220-4-2. The Company's network is designed to remain functional in emergency situations without an external power source, is able to reroute traffic around damaged facilities, and is capable of managing traffic spikes resulting from emergency situations as required by Section 54.202(a)(2). The Company can change call routing translations as needed to reroute traffic around damaged facilities within company exchanges. Changing call routing translations will also allow the Company to manage traffic spikes throughout its network, as emergency situations require. The Company does not have an alternate path of egress and therefore is reliant on a single meetpoint for broadband and voice network availability outside the local exchange carrier's boundary.

If the Company is unable to route E911 traffic through traditional means during an emergency situation there is a temporary plan in place to ensure 911 functionality. The Company will notify the Bradford Police Department and E911 calls will be rerouted to the Bradford Police Department where members of the police department will be dispatched.

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<sup>1</sup> Section 54.202(a)(2) requires ETCs that are designated by the Commission to "demonstrate its ability to remain functional in emergency situations, including a demonstration that it has a reasonable amount of back-up power to ensure functionality without an external power source, is able to reroute traffic around damaged facilities, and is capable of managing traffic spikes resulting from emergency situations."

In accordance with the Rules of Tennessee Regulatory Authority, Chapter 1220-4-2, 1220-4-2-.23 Emergency Operation, the Company's central offices have adequate provision for emergency power. Specifically, each central office building is supplied with standby generators and battery back-up that enable the central office to keep running until power is restored so long as fuel is available, or until system changes are made to reroute traffic.

**Voice Services Rate Comparability****West Tennessee Telephone Company, Inc.'s calculation for rate floor certification:**

West Tennessee Telephone Company, Inc. ("West Tennessee") certifies that its pricing of fixed voice services is no more than two standard deviations above the applicable national average urban rate floor for voice services. West Tennessee calculates the average local voice rate using the following formula:

Local Rate + State SLC + State USF + Mandatory EAS

The local rate for West Tennessee's customers is \$14.00, there is no state SLC or USF and no mandatory EAS. Based on the formula above, West Tennessee's residential rates are \$14.00, well below the threshold of \$46.96 set by the Wireline Competition Bureau.

**WEST TENNESSEE TELEPHONE COMPANY, INC.**  
(A wholly-owned subsidiary of Telephone Electronics Corporation)

**FINANCIAL STATEMENTS TOGETHER WITH  
INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2013 AND 2012**

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John L. Luffey, MBA, CPA (1963-2002)  
Francis I. Huffman, CPA  
Philip A. Ragsdale, CPA  
David Ray Soignier, CPA, MBA

# LUFFEY, HUFFMAN, RAGSDALE & SOIGNIER

(A PROFESSIONAL ACCOUNTING CORPORATION)  
CERTIFIED PUBLIC ACCOUNTANTS

John Herman, CPA  
Lynn Andries, CPA  
Esther Atteberry, CPA  
Lori Woodard, MBA, CPA

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
West Tennessee Telephone Company, Inc.  
Bradford, Tennessee

### Report on the Financial Statements

We have audited the accompanying financial statements of West Tennessee Telephone Company, Inc. (a wholly-owned subsidiary of Telephone Electronics Corporation – the Company), which comprise the balance sheets as of December 31, 2013 and 2012 and the related statements of operations, changes in stockholder'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.

#### *Auditors' 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 the Company as of December 31, 2013 and 2012, 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.

*Steffens, Huffman, Reynolds, & Srinivas*

(A Professional Accounting Corporation)

April 30, 2014

**WEST TENNESSEE TELEPHONE COMPANY, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2013 AND 2012**

Assets		
	2013	2012
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 2)	[REDACTED]	[REDACTED]
Accounts receivable		
Customers, less allowance for doubtful accounts of [REDACTED] respectively	[REDACTED]	[REDACTED]
Toll settlements	[REDACTED]	[REDACTED]
Affiliates (Note 2)	[REDACTED]	[REDACTED]
Other	[REDACTED]	[REDACTED]
Materials and supplies	[REDACTED]	[REDACTED]
Prepayments	[REDACTED]	[REDACTED]
<b>NONCURRENT ASSETS</b>		
Investments (Note 4)	[REDACTED]	[REDACTED]
Deferred tax assets (Note 7)	[REDACTED]	[REDACTED]
Deferred land lease costs	[REDACTED]	[REDACTED]
<b>PROPERTY, PLANT AND EQUIPMENT (Note 5)</b>		
Regulated communications	[REDACTED]	[REDACTED]
Nonregulated communications	[REDACTED]	[REDACTED]
Accumulated depreciation	[REDACTED]	[REDACTED]
<b>TOTAL ASSETS</b>	[REDACTED]	[REDACTED]

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

**WEST TENNESSEE TELEPHONE COMPANY, INC.**  
**BALANCE SHEETS**  
**DECEMBER 31, 2013 AND 2012**

**Liabilities and Stockholder's Equity**

	<u>2013</u>	<u>2012</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable		
Trade		
Toll settlements		
Other		
Advance billings and customer deposits		
Accrued taxes		
Other accrued liabilities		
<b>PAYABLES TO AFFILIATE (Note 2)</b>		
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>	-	-
<b>STOCKHOLDER'S EQUITY</b>		
Common stock, par value		
_____ shares authorized, _____ shares		
issued and outstanding		
Retained earnings		
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>		

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

**WEST TENNESSEE TELEPHONE COMPANY, INC.  
STATEMENTS OF STOCKHOLDER'S EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

<u>Common Shares Outstanding</u>		<u>Total Stockholder's Equity</u>	<u>Common Stock</u>	<u>Retained Earnings</u>
1,350	<b>BALANCES,</b> December 31, 2011	[REDACTED]		
-	Net loss	[REDACTED]		
1,350	<b>BALANCES,</b> December 31, 2012	[REDACTED]		
-	Net loss	[REDACTED]		
<u>1,350</u>	<b>BALANCES,</b> December 31, 2013	[REDACTED]		

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



**WEST TENNESSEE TELEPHONE COMPANY, INC.**  
**STATEMENTS OF OPERATIONS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b><u>NONREGULATED COMMUNICATIONS OPERATIONS</u></b>		
REVENUES (Note 1)	████████████████████	████████████████████
COST OF REVENUES	████████████████████	████████████████████
Gross profit	████████████████████	████████████████████
<b>OPERATING EXPENSES</b>		
General operating expenses	████████████████████	████████████████████
Depreciation (Note 5)	████████████████████	████████████████████
Operating income	████████████████████	████████████████████
<b>NONOPERATING INCOME (EXPENSE)</b>		
Loss on disposition of assets	████████████████████	████████████████████
Other income - net	████████████████████	████████████████████
Income before income taxes	████████████████████	████████████████████
<b>INCOME TAXES (Note 7)</b>	████████████████████	████████████████████
Income from nonregulated communications operations	████████████████████	████████████████████
Net loss	\$ ██████████████████	\$ ██████████████████

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

**WEST TENNESSEE TELEPHONE COMPANY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING ACTIVITIES:</b>		
Net loss	[REDACTED]	[REDACTED]
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation (Note 5)	[REDACTED]	[REDACTED]
Provision for losses on Accounts receivable - Customers	[REDACTED]	[REDACTED]
Provision for losses on Toll settlements	[REDACTED]	[REDACTED]
Gain on sale of regulated communications plant	[REDACTED]	[REDACTED]
Loss on disposition of nonregulated communications plant	[REDACTED]	[REDACTED]
Provision for inventory obsolescence	[REDACTED]	[REDACTED]
Changes in assets and liabilities	[REDACTED]	[REDACTED]
Net cash provided by operating activities	[REDACTED]	[REDACTED]
<b>INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	[REDACTED]	[REDACTED]
Net removal costs on regulated communications plant retirements	[REDACTED]	[REDACTED]
Proceeds from sale of regulated communications plant	[REDACTED]	[REDACTED]
Net cash used for investing activities	[REDACTED]	[REDACTED]
<b>FINANCING ACTIVITIES</b>	-	-
Net increase (decrease) in cash and cash equivalents	[REDACTED]	[REDACTED]
Cash and cash equivalents at beginning of year	[REDACTED]	[REDACTED]
Cash and cash equivalents at end of year	\$ [REDACTED]	[REDACTED]

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

**WEST TENNESSEE TELEPHONE COMPANY, INC.**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

	2013	2012
<b>Changes in assets and liabilities:</b>		
Accounts receivable		
Customers		
Affiliates (Note 2)		
Other		
Materials and supplies		
Prepayments		
Deferred land lease costs		
Other noncurrent assets		
Accounts receivable/Accounts payable - Toll settlements		
Accounts payable		
Trade		
Other		
Advance billings and customer deposits		
Accrued taxes		
Other accrued liabilities		

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

**Cash paid during the year for:**

Interest, primarily for customer deposits

Income taxes

**Noncash investing and financing activities:**

Retirements of regulated communications plant at original cost

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

**WEST TENNESSEE TELEPHONE COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013 AND 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**General**

West Tennessee Telephone Company, Inc. (the Company) is a wholly-owned subsidiary of Telephone Electronics Corporation (TEC).

**Nature of Operations**

The Company's principal line of business is the provision of a broad range of communications services to business and residential customers located primarily in western Tennessee. The Company views, manages and evaluates the results of its operations from the various communications services as one company, and therefore, has identified one reporting segment as it relates to providing segment information.

**Regulatory Accounting**

The Company follows the accounting for regulated enterprises prescribed by Accounting Standards Codification (ASC) 980, "*Regulated Operations*", including certain accounting practices prescribed by the Federal Communications Commission (FCC) and the Tennessee Regulatory Authority (TRA). The standard system of accounts for the Company is the FCC's Part 32 Uniform System of Accounts. This accounting recognizes the economic effects of rate regulation by recording costs and a return on investment; as such, amounts are recovered through rates authorized by regulatory authorities. Accordingly, ASC 980 requires the Company to depreciate regulated communications plant over the useful lives approved by regulators, which could be different than the estimated useful lives that would otherwise be determined by management. Criteria that would give rise to the discontinuance of accounting in accordance with ASC 980 include increasing competition which may restrict the ability of the Company to establish prices that allow it to recover specific costs and significant changes in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. The Company periodically reviews the criteria to determine whether the continued application of ASC 980 is appropriate.

The Company is subject to reviews and audits by regulatory agencies. There were no reviews or audits during 2013 and 2012.

**Revenue Recognition**

Revenue is recognized when evidence of an arrangement exists, the earnings process is complete and collection is reasonably assured. The Company's revenues are primarily derived from: local calling services, interstate and intrastate access revenues (including pooled revenues), Connect America Fund (CAF) support, Universal Service Fund (USF) support, Internet and data services, long distance services and other miscellaneous services.

The Company markets competitive service bundles which may include multiple deliverables. The Company offers an unlimited statewide calling bundle and an unlimited nationwide calling bundle that consist of voice services, calling features and long distance. Revenues are allocated to the separate units based on their fair values.

Substantially all recurring non-usage sensitive service revenues, including service bundles, are billed in advance and deferred until earned. The Company records revenue billed in advance as advance billings. Non-recurring and usage sensitive revenues are billed in arrears and recognized when earned.

As the result of a new tariff filed with the TRA in March 2013, the Company increased its residential local service rates to \$14 from the existing rate of \$10 effective April 1, 2013, and increased its business local service rates to \$24 from the existing rate of \$5.46 effective May 1, 2013. Also, in February 2012, the Company filed a tariff with the TRA to increase its residential local service rates to \$10 from the existing rate of \$1.11 effective April 1, 2012. As the result of the 2012 tariff filing, the Company reduced its intrastate access rates to the level of its interstate rates effective April 1, 2012. Due to the reduction in its intrastate access rates, the Company has fully implemented the intrastate access rate reduction required by certain Tennessee legislation enacted during 2011, as well as having implemented certain of the required intercarrier compensation changes discussed below.

Network access and miscellaneous revenue is derived from several sources, including CAF support, USF support, interstate and intrastate access revenues, as well as intrastate long distance revenues, and is detailed as follows:

	<u>2013</u>	<u>2012</u>
CAF support		
USF support		
Interstate/intrastate access		
Intrastate long distance		
Directory services		
Miscellaneous		
Uncollectible		

Revenue for interstate access services is received through tariffed access charges filed by the National Exchange Carrier Association (NECA) with the FCC on behalf of the NECA member companies. These access charges are billed by the Company to interstate interexchange carriers and reported to NECA to be pooled with like-revenues from all NECA member companies. A portion of the pooled access charge revenues are distributed to the Company based upon its actual cost of providing interstate access service, plus a return on the investment dedicated to providing that service. Distributions from these pools can change relative to changes made to expenses, plant investment, or rate of return. Intrastate revenue is derived from tariffed access charges as filed with the TRA. These access charges are billed to the interexchange carriers and payments are retained by the Company. During 2013, the Company recorded toll settlement adjustments of [REDACTED] related to an increase of prior years intrastate and interstate access costs and during 2012, recorded toll settlement adjustments of [REDACTED] related to a reduction of prior years intrastate and interstate access costs, which are reflected within "Other income (expense) - net" on the accompanying statements of operations. Estimated interstate revenues are initially recorded based on cost studies which require final approval by NECA and the FCC. It is believed that the recorded amounts in 2013 approximate the final amounts which will be determined when pool cost studies are finalized; however, these estimates are subject to adjustment in future accounting periods as additional operational information becomes available. The Company recognized a [REDACTED] in revenue in the amount of [REDACTED] during 2013 as a result of the 2012 pool being finalized. During 2012, the Company recognized additional revenue in the amount of [REDACTED] as a result of the 2011 pool being finalized. Additionally, the Company reversed the 2010 NECA overearnings accrual during 2012 which resulted in additional revenue of [REDACTED]

The FCC has issued a Report and Order and Further Notice of Proposed Rulemaking ("Reform Order"). The Reform Order contains comprehensive rules reforming all forms of intercarrier compensation and implements a new support mechanism for the deployment of broadband services. Generally, the intercarrier compensation reform outlines a path toward a "bill & keep" method where there is no compensation for termination of traffic received from another carrier. The transition to this method includes numerous steps depending on the type of traffic exchanged. As required by the Reform Order effective July 1, 2012, the Company eliminated terminating access charge billings and expenses related to the exchange of IntraMTA traffic with cellular carriers. Also on July 1, 2012, the Company began receiving CAF support, a support mechanism designed to replace some of the Company's lost access revenue during the transition period outlined in the Reform Order. Beginning in July 2014, the Company's terminating access and reciprocal compensation rates will be reduced over 7 years to "bill & keep".

The High Cost Loop Fund (HCL) is a subcomponent of the USF and is available to rural incumbent carriers to support the high cost of their operations in rural markets. The HCL support is based upon the Company's average cost per loop compared to the national average

cost per loop. The Company ceased receiving HCL support in 2013 and received HCL support of [REDACTED] during 2012 (see Note 10).

The Company recognizes directory services revenue over the subscription period of the corresponding directory. Directory services are normally billed under contract.

Nonregulated communications revenues are derived primarily from Internet and data services, long distance services and inside wire maintenance (ISW Maintenance) and are detailed as follows:

	<u>2013</u>	<u>2012</u>
Internet and data services	[REDACTED]	
Interstate/international long distance		
ISW Maintenance		
Miscellaneous		
Uncollectible		

Receivables for network access revenues are reflected (net of payables) as "Accounts payable - Toll settlements" for 2013 and as "Accounts receivable - Toll settlements," for 2012 on the accompanying balance sheets.

**Property, Plant and Depreciation**

Regulated communications plant is stated substantially at original cost of construction and includes indirect costs consisting of payroll taxes, pensions and other fringe benefits, and supervision salaries. Net composite interest charges on borrowed and equity funds used to finance construction are capitalized in the same manner as construction labor and material costs. Interest is capitalized to the extent allowed by regulatory agencies. No interest was capitalized in 2013 or 2012.

Generally, for regulated communications plant, normal asset retirements are charged against accumulated depreciation along with the cost of removal, less salvage, with no gain or loss recognized. The unrecovered costs of regulated communications plant removed substantially in advance of the expected service life of the plant (extraordinary retirements) are deferred and amortized over a period of years specified by the appropriate regulatory commission. There were no extraordinary retirement balances as of December 31, 2013 and 2012.

Depreciation of regulated communications plant is provided on the straight-line method, using class and overall composite rates subject to approval by the TRA.

When nonregulated communications plant is sold or retired, the original cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations. Depreciation on nonregulated communications plant is determined using the straight-line method for financial reporting purposes.

Expenditures for improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs to all property, plant and equipment, as well as replacement of minor items, are charged to maintenance expense as incurred.

### **Materials and Supplies**

The Company maintains an inventory of telephones, cable, modems and equipment repair parts as well as maintaining an inventory for resale of telephones and computer accessories. Materials and supplies are stated at the lower of cost or market value. Cost is determined using the moving average method of valuation. The Company reviews inventory on an annual basis for obsolescence and records charges based upon various factors, including the age of the inventory and technological advances. The Company has provided a reserve for obsolete inventory of [REDACTED] and [REDACTED] at December 31, 2013 and 2012, respectively.

### **Income Taxes**

The Company is included in the consolidated federal income tax return of TEC. For financial reporting purposes, income taxes are generally calculated and settled as though the Company had prepared a separate tax return except that the statutory income tax rate for TEC is applied.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and their respective tax bases and operating loss and tax credit carryforwards.

To the extent current year income tax accruals are paid or offset by other transactions with TEC, they are considered as cash paid for income taxes.

Interest and penalties related to income tax matters are recognized in Nonoperating Income (Expense). During 2013 and 2012, the Company had no significant amounts recorded for interest and penalties.

The Company is subject to income tax examinations by the IRS and the Tennessee Department of Revenue; however, there are currently no examinations in progress for any tax periods. Management believes the Company is no longer subject to income tax examinations for years prior to 2010.

**Recently Issued Accounting Pronouncements**

During 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) ASU 2013-01 through ASU 2013-12. Except for ASU 2013-11, which is discussed below, these ASUs primarily provide technical corrections to existing guidance, relate to specialized industries or relate to accounting issues that are not applicable to the Company. Accordingly, these ASUs will not have a material impact on the Company's financial position or results of operations.

In July 2013, the FASB issued ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, which is designed to reduce diversity in practice of financial statement presentation. This new guidance becomes effective for the Company on January 1, 2014 and the Company does not expect it to have a material impact on its financial position or results of operations.

**Cash, Cash Equivalents and Cash Investments**

The Company considers highly liquid investments (including the Company's interest in a consolidated cash management account maintained by a subsidiary of TEC (see Note 2)) with an original maturity of three months or less to be cash equivalents. Certificates of deposit with an original maturity greater than three months, but less than or equal to one year are considered to be cash investments.

**Disclosures About Concentrations**

The Company is subject to credit risk primarily through cash and cash equivalent balances and trade receivables.

The Company's cash and cash equivalents are primarily invested in a master cash management pool with other TEC affiliates (see Note 2). The overall pooled cash balances are currently invested in mutual funds, consisting primarily of U.S. government agency and treasury securities, as well as overnight repurchase agreements. The risk of loss on such investments is remote.

The Company believes that the concentration of credit risk with respect to trade receivables is principally related to receivables due from other interexchange carriers for network access revenues, which are reflected within "Accounts payable – Toll settlements" for 2013 and "Accounts receivable – Toll settlements" for 2012, and the amounts due from underlying customers for local, internet and data services which are reflected in "Accounts receivable - Customers" on the accompanying balance sheets. Overall, the Company believes that such credit risk is minimized because charges for local, internet and data services are typically billed in advance of the actual communications services being rendered, and charges for toll services

provided by long distance carriers other than the Company and not collected from the Company's underlying customers are recoverable from the associated long distance carriers.

#### **Accounts Receivable and Allowance for Doubtful Accounts**

The Company extends credit to its business and residential customers generally on an unsecured basis. Service interruption is the primary vehicle for controlling losses. Trade and toll settlement receivables are accounted for at cost less the reserve for uncollectible accounts. The allowance for doubtful accounts on trade receivables is computed by management and is the Company's best estimate for the amount of probable losses on the Company's existing accounts receivable. The allowance for doubtful accounts is calculated excluding the long distance portion of the receivable, for carriers other than the Company, due to the fact that this portion is recoverable in full from the associated long distance carrier. The allowance for doubtful accounts for toll settlements is calculated using the specific identification method whereby management assesses a carrier's ability to meet its current financial obligations to the Company. Management's assessment includes the overall length of time the receivable has been past due, historical collection experience, and other factors. As of December 31, 2013 and 2012, the Company has provided a reserve for delinquent toll settlements of [REDACTED] and [REDACTED] respectively.

Customers are typically billed on the 1<sup>st</sup> of every month and the accounts are considered delinquent if not paid in full by the 15<sup>th</sup> of the month. Late fees are billed at the tariffed rate filed with the TRA and are recorded as income when billed. Customer accounts are typically disconnected if payment is not received by the 25<sup>th</sup> of the respective month. Normally, uncollectible trade receivables are written off against the allowance for doubtful accounts sixty days after the date of disconnection. Subsequent recoveries of customer receivables are recognized as income in the period such amounts are actually received.

#### **Advertising**

Costs incurred for producing and communicating advertising are expensed as incurred.

#### **Taxes Collected from Customers and Remitted to Governmental Authorities**

The Company records taxes billed to its customers and remitted to governmental authorities on a net basis within a liability account.

#### **Accounting Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) 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. The estimates are reviewed periodically and, as adjustments become necessary, they are reported in the earnings of the Company in the period in which they become known.

#### **Deferred Land Lease Costs**

Lump sum payments to acquire long-term land leases are capitalized and amortized on the straight-line method over the terms of the underlying leases. The related expense is reflected within "Plant operations" on the accompanying statements of operations.

#### **Investments**

Investments in nonconsolidated companies in which the Company has a 20% to 50% interest or otherwise has the ability to exercise significant influence over the operating and financial policies are accounted for using the equity method. Investments in which there is no significant influence (normally less than a 20% ownership) are accounted for under the cost method of accounting.

To determine if an impairment of an investment exists, the Company monitors and evaluates the financial performance of the business in which it invests and compares the carrying value of the investee to quoted market prices (if available), or the fair values of similar investments, which in certain instances, is based on traditional valuation models utilizing multiples of cash flows. When circumstances indicate that a decline in the fair value of the investment has occurred and the decline is other than temporary, the Company records the decline in value as a realized impairment loss and a reduction in the cost of the investment.

#### **Subsequent Events**

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through April 30, 2014, which is the date the financial statements were available to be issued.

2. **AFFILIATED TRANSACTIONS**

In the normal course of operations, the Company receives and provides certain services or engages in transactions with TEC and/or certain subsidiaries of TEC. The significant services and transactions with affiliated companies not discussed elsewhere are summarized as follows:

	<u>2013</u>	<u>2012</u>
Amounts incurred for assistance with billing and related services, provided by subsidiaries of TEC	██████████	██████████
Amounts incurred for executive, managerial, technical, accounting, insurance, marketing, legal, service mark licensing, regulatory matters, revenue assurance, equipment purchases and other miscellaneous services provided by TEC	██████████	██████████
Amounts incurred for network transmission, network access, equipment and network maintenance, Internet bandwidth, equipment purchases and other miscellaneous services provided by subsidiaries of TEC	██████████	██████████

The net balances due (to) from affiliated companies are reflected in the financial statements as follows:

	<u>2013</u>	<u>2012</u>
Accounts receivable - Affiliates	██████████	\$ ██████████
Payables to Affiliate	██████████	██████████
Amounts included in:		
Accounts receivable - Toll settlements	██████████	██████████
Accounts payable - Trade	██████████	██████████
	<u>\$ ██████████</u>	<u>\$ ██████████</u>

The following is a detail of the composition of the net balance due (to) from affiliates:

	<u>2013</u>	<u>2012</u>
TEC	\$ ██████████	\$ ██████████
TEC Services, Inc.	██████████	██████████
LecNet, Inc.	██████████	██████████
TEC Services of Louisiana, Inc.	██████████	██████████
Peoples Telephone Company	██████████	██████████
Crockett Telephone Company, Inc.	██████████	██████████
TEC of Jackson, Inc.	██████████	██████████
ComNet, Inc.	██████████	██████████
Roanoke Telephone Company, Inc.	██████████	██████████
	<u>\$ ██████████</u>	<u>\$ ██████████</u>

The Company participates in a master cash management pool with other TEC affiliates administered by Regions Bank. The Company's main operating and payroll accounts draw from and are funded by an investment account maintained by another subsidiary of TEC. The Company receives an allocation of earnings and fees on the investment account on a monthly

basis. The Company's share of the investment account is reflected in "Cash and cash equivalents" on the accompanying balance sheets and amounted to [REDACTED] and [REDACTED] for 2013 and 2012, respectively.

A loan agreement of TEC with the Rural Telephone Finance Cooperative (RTFC) contains certain restrictions which pertain to the Company, including restrictions on incurring additional indebtedness and transactions involving the Company's capital stock.

**3. RELATED PARTY TRANSACTIONS**

During 2013 and 2012, the Company engaged in transactions with entities in which there is an ownership or involvement by an officer and director. The significant transactions are summarized as follows:

	<u>2013</u>	<u>2012</u>
Amounts incurred for engineering and other related services provided by a company owned or controlled by an officer and director of the Company	[REDACTED]	[REDACTED]

Amounts payable to related parties at December 31, 2013 and 2012 were [REDACTED] and [REDACTED] respectively. These amounts are reflected in "Accounts payable - Trade" on the accompanying balance sheets.

**4. INVESTMENTS**

Investments consist of:

	<u>2013</u>	<u>2012</u>
RTFC	[REDACTED]	[REDACTED]

The Company's investment in RTFC is carried at historical cost due to no readily determinable fair market values for such instruments being available. The RTFC investment is comprised of patronage certificates that represent ownership in RTFC. This investment is being redeemed on an ongoing basis.

5. **PROPERTY, PLANT AND EQUIPMENT**

The major classes of property, plant and equipment and their respective depreciation rates are as follows:

	<u>Annual Rate Range</u>	<u>Asset Balance</u>	
		<u>2013</u>	<u>2012</u>
<b>Regulated communications</b>			
Land			
Buildings			
Vehicles and other work equipment			
Furniture and office equipment			
Central office equipment			
Circuit equipment			
Poles			
Cable, lines and wire			
Other			
Total regulated communications plant in service			
Regulated communications plant under construction			
Total regulated communications plant			
<b>Nonregulated communications</b>			

Depreciation expense for property, plant and equipment amounted to [REDACTED] and [REDACTED], in 2013 and 2012, respectively. The composite depreciation rate for regulated communications property, plant and equipment was [REDACTED] for 2013 and [REDACTED] for 2012.

6. **LEASES**

The Company incurs pole rent expense under the terms of cancellable joint use pole rental agreements and pole attachment license agreements. Pole rent expense incurred under these agreements amounted to [REDACTED] and [REDACTED] for 2013 and 2012, respectively. Under the terms of the joint use pole rental agreements the Company recorded pole rental revenue in the amount of [REDACTED] during 2013 and [REDACTED] during 2012, which is included in "Network access and miscellaneous" on the accompanying statements of operations.

The Company also leases land and other items under cancellable operating leases. Rent expense under these agreements amounted to [REDACTED] and [REDACTED] for 2013 and 2012, respectively.

7. INCOME TAXES

[REDACTED]

	2013		2012	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Computed "expected" federal income tax benefit	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Change in valuation allowance on net deferred tax assets	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other - net	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Actual income tax benefit	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

The tax effects of the temporary differences that gave rise to the [REDACTED] at December 31, 2013 and 2012, are as follows:

	2013	2012
Federal net operating loss carryforwards	[REDACTED]	[REDACTED]
State net operating loss carryforwards	[REDACTED]	[REDACTED]
Alternative minimum tax credit carryforward	[REDACTED]	[REDACTED]
Accounts receivable allowance	[REDACTED]	[REDACTED]
Inventory valuation reserve	[REDACTED]	[REDACTED]
Gross deferred tax assets	[REDACTED]	[REDACTED]
Valuation allowance	[REDACTED]	[REDACTED]
Total deferred tax assets	[REDACTED]	[REDACTED]
Property, plant and equipment, primarily due to depreciation	[REDACTED]	[REDACTED]
Total deferred tax liabilities	[REDACTED]	[REDACTED]
Net deferred tax assets	[REDACTED]	[REDACTED]

Deferred taxes are included in the financial statements as follows:

	2013	2012
Deferred tax assets - noncurrent	[REDACTED]	[REDACTED]

[REDACTED]

Company will not be able to realize the benefits of all or a portion of the deferred tax assets in future periods.

At December 31, 2013, there were federal [REDACTED]  
will expire between 2023 and 2033. Also, at December 31, 2013, [REDACTED]  
[REDACTED]  
[REDACTED]

## 8. EMPLOYEE BENEFIT PLANS

### Employee Stock Ownership Plan (ESOP)

TEC sponsors an ESOP that covers substantially all employees with one year or more of service with a participating company. Participating companies include TEC and its subsidiaries (including the Company). This plan is funded by participating company contributions determined annually by TEC's Board of Directors. [REDACTED] \$1,000,000  
2013 [REDACTED]

### Employee 401(k) Plan

The Company is included in the Telephone Electronics Corporation and Associated Companies 401(k) Plan (the 401(k) Plan). Participating employees may contribute a portion of their compensation to the 401(k) Plan, and the Company, at its discretion, makes matching contributions based on the employee's contribution. Participation in the 401(k) Plan is open to employees who have attained the age of 21 and completed one year of service (as defined under the 401(k) Plan). Currently, the Company makes safe harbor matching contributions of 100% of the first 3% of employee compensation contributed to the 401(k) Plan and 50% of the next 2% of employee compensation contributed to the 401(k) Plan. [REDACTED]  
[REDACTED]

## 9. COMMITMENTS AND CONTINGENCIES

Construction expenditures and other investments in property, plant and equipment are currently estimated to be [REDACTED] during 2014; however, this estimate may be revised for changes in funding availability.

## 10. CONCENTRATIONS, RISKS AND UNCERTAINTIES

The Company's business is conducted primarily in western Tennessee and, accordingly, is dependent upon the general economic conditions of this region. Although the Company's performance is affected by the general conditions of the economy, not all of its services are equally affected. There can be no assurance that future economic conditions in this region will not impact demand for services, which may impact the Company's business, operating revenues and cash flows.

The Company also faces certain inherent risks that its service area can experience significant weather events which have the potential to physically damage its overall telecommunications infrastructure. Such disruptions may cause interruptions in service or reduced capacity for customers on a short-term basis and cause the Company to incur certain non-recurring expenses which may or may not be recoverable under the provisions of insurance policies.

The Company faces potential competition from wireless carriers, competitive local exchange carriers and other providers of telecommunications and information services. Certain competitors benefit from financial, personnel, marketing and other resources that are significantly greater than the Company's available resources. These competitors may provide services competitive with products and services the Company provides or intends to provide. However, as a "rural telephone company", the Company is currently exempt from the obligation to lease network elements in an unbundled manner to competitive local exchange carriers and to comply with certain other requirements applicable to larger incumbent local exchange carriers. This relief may be lost if certain actions are taken by competitors or regulatory bodies.

Approximately 49% and 52% of the Company's total combined revenues for the years ended December 31, 2013 and 2012 were derived from network access charges, USF support and CAF support. The interstate network access rates that the Company can charge are regulated by the FCC, and the intrastate network access rates are regulated by the TRA. Those rates may change from time to time. The Company received HCL support which supported the high cost of its operations in rural markets. The HCL support was based upon the Company's average cost per loop compared to the national average cost per loop.

In early 2010, the FCC released its new National Broadband Plan (the Broadband Plan). The Broadband Plan is the FCC's framework to develop a comprehensive plan over the next decade for broadband deployment, intercarrier compensation reform and regulatory reform initiatives, such as reformation of the USF HCL. The Reform Order addressed both intercarrier compensation as well as USF support issues. The Reform Order was accompanied by a Further Notice of Proposed Rulemaking seeking comment on a range of follow up proposals. The Reform Order is also the subject of numerous Petitions for Reconsideration, which ask the FCC to reconsider portions of its decision, and is the subject of numerous judicial appeals. The

Company cannot predict the outcome of any future rulemaking, reconsideration and legal challenges and as a consequence, the impacts these may have on the Company; however, the Reform Order may have a negative impact on the Company's revenues.

The Reform Order establishes a \$2 billion fund that is intended to maintain existing levels of support in the aggregate while at the same time transitioning support mechanisms so that, over time, rate of return carriers receive support for the deployment of wireline broadband facilities principally through the CAF rather than through the intercarrier compensation regime. To effectuate the first phase of this effort, the Reform Order established benchmarks that limit certain reimbursable capital and operating expenses for determining HCL support; reduces HCL support on a dollar-for-dollar basis where a carrier's local rates are set below a specified urban local rate floor; phases out safety net additive support; eliminates local switching support; eliminates support for service areas that overlap with the service areas of others; and imposes a \$250 absolute cap on per line support. Although the Reform Order is intended to permit rate of return carriers to recover any lost support through the explicit support mechanism in the CAF, it remains unclear whether the CAF will provide the Company with the same level of support over time that the Company currently receives.

#### **11. SUBSEQUENT EVENTS**

In April 2014, the Company received a notice from NECA regarding potential excess CAF support received for the period July 2012 – June 2013. Based on the notice, the Company calculates that the potential excess CAF support amounts to approximately [REDACTED] for 2012 and [REDACTED] for 2013. Management of the Company disagrees with NECA's position asserted in the notice and has filed a dispute with NECA. The final outcome of this matter is not predictable and, accordingly, the financial statements contain no adjustments for the outcome of this uncertainty.