



NoaNet Staff
August 5, 2009

NoaNet has 25 full-time equivalent employees. Greg Marney and Dave Spencer are Chief Executive Officer and Treasurer/Chief Operating Officer, respectively. NoaNet was founded in February 2000. The following are NoaNet's key staff members:

Greg L. Marney, Chief Executive Officer. Greg Marney has 30 years of experience in the electric utility industry and 10 years experience in the telecommunications industry. Mr. Marney worked for Douglas PUD for 30 years, and retired from Douglas PUD as Assistant Manager/Distribution System Superintendent. He held the positions of Acting Treasurer and Purchasing Agent during his tenure at Douglas. Mr. Marney was selected as NoaNet's CEO at its organizational Board meeting in February, 2000. Mr. Marney earned a B.S. degree in Business Administration from Central Washington University.

David H. Spencer, Chief Operating Officer/Treasurer. Prior to joining NoaNet in 2000, Mr. Spencer worked for POWER Engineers, Hailey, Idaho, an engineering, consulting and management firm focusing on information technology and telecommunications. Prior to his work with POWER, Mr. Spencer was the owner and Chief Executive Officer of an information technology company in Boise, Idaho. Mr. Spencer earned a B.S. in Physics from the College of Idaho and a masters' degree in Operations Research from Oregon State University.

William R. Kopp, Chief Technical Officer. William Kopp's experience in telecommunications prior to joining NoaNet is 2000 includes work as an intern at Amoco Mineral from 1981 through 1984, as a Sales Engineering and Project Manager designing and implementing large scale telecommunications systems at the ROLM Corporation (during which time the company was acquired first by IBM and then jointly by IBM and Siemens) and as a Senior Information Technology Consultant at POWER Engineers. Mr. Kopp earned a degree in Digital Electronics from Boise State University in 1984.

Mike Henson, Information Security Officer/Operations Director. Prior to joining NoaNet in 2001, Mr. Henson worked for Netigy Corporation, Sunnyvale, CA, an engineering, consulting and management firm focusing on information technology and telecommunications. Prior to his work with Netigy Corporation, Mr. Henson was the technical manager for the western region telecommunications and utilities for the Oracle Corporation in Redwood City, CA. Mr. Henson



majored in Chemistry and Mathematics with a concentration in Physics at the University of South Alabama.

Nick Guy: Principal Network Architect CCNP,MCSE,CCIE(w). Prior to joining NoaNet in 2004, Mr. Guy managed Network Operations for Semaphore Corporation, a business oriented Internet and Application Service Provider that provided fully managed private networks and consulting services. Previously Mr. Guy ran Network Operations for Northwest Link, an ISP with 50,000 subscribers. Mr. Guy also spend 15 years working with people with disabilities. Mr. Guy's early college experience in mechanical engineering and liberal arts has been augmented with various networking certifications from Microsoft and Cisco.

Tom Villani, Service Providers Executive. Mr. Villani joined the team of a small Internet Service Provider (ISP) in early 1995 and helped develop it into a three-state regional service. Primary focus has been on business-to-business services for more than six years, with a focus on dedicated Internet access and relations with large organizations. Besides Internet broadband sales, the work history includes five years as a contract administrator for military projects as well as owning a successful small business. Mr. Villani holds a BS degree from Willamette University.

ATTACHMENT E - PROJECT PLAN (KEY PHASES AND MILESTONES TO DEMONSTRATE DEGREE OF COMPLETION)

- Use the following table to list the major network build-out phases and milestones that can demonstrate that your entire project will be substantially complete by the end of Year 2 and fully complete by the end of Year 3. This is to be done at the aggregate level (combining all proposed funded service areas.)
- Indicate how the milestones listed below will demonstrate these completion objectives. The applicant should consider such project areas as: a) network design; b) securing all relevant licenses and agreements; c) site preparation; d) equipment procurement; e) inside plant deployment; f) outside plant deployment; g) equipment deployment; h) network testing; i) network complete and operational. The applicant may provide any other milestones that it believes showcase progress.
- Project inception (Year 0) starts at the date when the applicant receives notice that the project has been approved for funding.
- In the table, provide any information (e.g., facts, analysis) to: a) demonstrate the reasonableness of these milestones; b) substantiate the ability to reach the milestones by the quarters indicated.
- On a separate sheet, describe the key challenges, if any, to a timely completion of the project, including any applicable mitigation plans.

Time Period	Quarter	List All Relevant Milestones	Support for Reasonableness/Data Points
Year 0	-	• Prepare Designs; Start ROW Procurement	• Professional Services for Implementation Preparation
Year 1	Qtr. 1	• Obtain Work Vehicles; Continuous ROW Procurement; Start OSP Construction;	• Professional Services for Implementation; Four (4) OSP Construction crews working Concurrently
	Qtr. 2	• Continuous ROW Procurement; Continuous OSP Construction; Start Layer 2 Access Equipment Installation	• Professional Services for Implementation; Four (4) OSP Construction crews working Concurrently; One (1) Layer 2 Installation Crew
	Qtr. 3	• Continuous ROW Procurement; Continuous OSP Construction; Continuous Layer 2 Access Equipment Installation; Start Optical Transport Installation	• Professional Services for Implementation; Four (4) OSP Construction crews working Concurrently; One (1) Layer 2 Installation Crew
	Qtr. 4	• Continuous ROW Procurement; Continuous OSP Construction; Continuous Optical Transport Installation; Continuous Layer 2 Access Equipment Installation	• Professional Services for Implementation; Four (4) OSP Construction crews working Concurrently; One (1) Layer 2 Installation Crew; One (1) Optical Transport Installation Crew
Year 2	Qtr. 1	• Continuous ROW Procurement; Continuous OSP Construction; Continuous Optical Transport Installation; Continuous Layer 2 Access Equipment Installation	• Professional Services for Implementation; Four (4) OSP Construction crews working Concurrently; One (1) Layer 2 Installation Crew; One (1) Optical Transport Installation Crew

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	Qtr. 2	• Continuous ROW Procurement; Continuous OSP Construction; Continuous Optical Transport Installation; Continuous Layer 2 Access Equipment Installation; Start Layer 3 Equipment applications	• Professional Services for Implementation; Four (4) OSP Construction crews working Concurrently; One (1) Layer 2 Installation Crew; One (1) Optical Transport Installation Crew; One (1) Ancillary Equipment Installation Crew
	Qtr. 3	• Continuous ROW Procurement; Continuous OSP Construction; Continuous Optical Transport Installation; Continuous Layer 2 Access Equipment Installation; Continuous Layer 3 Equipment Applications • Projects Substantially Complete	• Professional Services for Implementation; Four (4) OSP Construction crews working Concurrently; One (1) Layer 2 Installation Crew; One (1) Optical Transport Installation Crew; One (1) Ancillary Equipment Installation Crew
	Qtr. 4	• Continuous ROW Procurement; Continuous OSP Construction; Continuous Optical Transport Installation; Continuous Layer 2 Access Equipment Installation; Continuous Layer 3 Equipment Applications • Projects Substantially Complete	• Professional Services for Implementation; Three (3) OSP Construction crews working Concurrently; One (1) Layer 2 Installation Crew; One (1) Optical Transport Installation Crew; One (1) Ancillary Equipment Installation Crew
Year 3	Qtr. 1	• Continuous ROW Procurement; Continuous OSP Construction; Continuous Optical Transport Installation; Continuous Layer 2 Access Equipment Installation; Continuous Layer 3 Equipment Applications • Projects Substantially Complete	• Professional Services for Implementation; Five (5) OSP Construction crews working Concurrently; One (1) Layer 2 Installation Crew; One (1) Optical Transport Installation Crew; One (1) Ancillary Equipment Installation Crew
	Qtr. 2	• Continuous ROW Procurement; Continuous OSP Construction; Continuous Optical Transport Installation; Continuous Layer 2 Access Equipment Installation; Continuous Layer 3 Equipment Applications; Land Acquisition; Start Pre-Fab Building Installations; Start Tower Construction; Start MW Transport Equipment Installation	• Professional Services for Implementation; Four (4) OSP Construction crews working Concurrently; One (1) Layer 2 Installation Crew; One (1) Optical Transport Installation Crew; One (1) Ancillary Equipment Installation Crew; One (1) Pre-Fab Building Crew; One (1) Tower Crew; One (1) MW Transport Equipment Installation Crew
	Qtr. 3	• Complete OSP Construction; Complete Optical Transport Installation; Complete Layer 2 Access Equipment Installation; Complete Layer 3 Equipment Applications; Complete Pre-Fab Building Installations; Complete Tower Construction; Complete MW Transport Equipment Installation	• Professional Services for Implementation; Two (2) OSP Construction crews working Concurrently; One (1) Layer 2 Installation Crew; One (1) Optical Transport Installation Crew; One (1) Ancillary Equipment Installation Crew; One (1) Pre-Fab Building Crew; One (1) Tower Crew; One (1) MW Transport Equipment Installation Crew
	Qtr. 4	• OSP Projects Closeout; Professional Services Closeout; Equipment Projects Closeout • Projects Complete	• Professional Services for Post Implementation Activities

Northwest Open Access Network

Per the Rural Utilities Service Broadband Initiative Program Application Guide, Attachment E, the following is a brief narrative of the anticipated implementation activities of Northwest Open Access Network (NoaNet).

1. Northwest Open Access Network (NoaNet) is an open access wholesale broadband provider and the projects proposed are solely “Middle Mile” projects.
2. NoaNet is an existing provider in Washington and Oregon and wishes to extend their network to more rural providers by placing fiber transport facilities throughout the state of Washington.
3. NoaNet proposes to place approximately 359 route miles of buried fiber cable and approximately 471 route miles of aerial fiber cable using between three (3) and five (5) construction crews working concurrently.
4. NoaNet proposes to establish a microwave transport route between three (3) sites where it is not economically feasible to place fiber.
5. The fiber facilities to be placed include fiber optic cable and optical transport equipment.
6. The microwave facilities to be placed include towers, antennas, buildings, and microwave transport equipment.
7. NoaNet has already received land for two (2) of the microwave sites and plans to acquire the land for the third microwave site.
8. NoaNet proposes to install Layer 2 Access Equipment.
9. NoaNet proposes to install applications for the Layer 3 deployment.
10. NoaNet proposes to purchase work vehicles to aid in the construction of their expanded network.
11. A timeline has been prepared that indicates progress of 0.60 mainline route miles per day per construction crew for rural buried construction and 0.25 route miles per day per construction crew for urban buried construction.
12. The timeline indicates progress of 0.25 route miles per day per construction crew for aerial construction, which included time for pole surveys and make ready work.

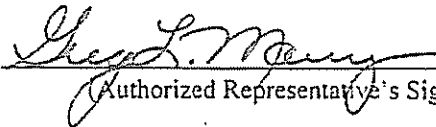
13. The timeline indicates Washington State sales tax and Washington State excise tax to be dispersed evenly throughout the life of the project.
14. The timeline indicates construction to be substantially completed by Year 2 – Q3, and to be fully completed by Year 3 – Q4.
15. We believe this is a reasonable timeline provided material is readily available and there are no significant delays due to bad weather.

Network Design and Implementation Plan Certification (to be complete for projects requesting more than \$1 million in federal assistance)

U.S. Department of Agriculture and U.S. Department of Commerce
BIP and BTOP Program

We the undersigned, certify that the proposed broadband system will work as described in the System Design and Network Diagram sections, and can deliver the proposed services outlined in the Service Offerings Section. Moreover, the system, as designed, can meet the proposed build-out timeframe based on the resources designated in Project Viability Section, and will be substantially complete in two years, and complete within three years.

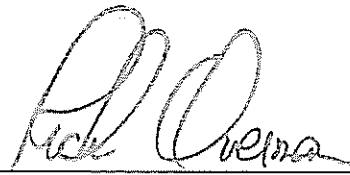
8/18/2009
(Date)


(Authorized Representative's Signature)

GREG L. MARNEY
Name:

CHIEF EXECUTIVE OFFICER
Title:

August 18, 2009
(Date)


(Certifying Engineer's Signature)

William R. Overman
Name:

Executive Vice President
Title:

CHR Reference Number: 2009245505614

**CERTIFICATION REGARDING LOBBYING
LOWER TIER COVERED TRANSACTIONS**

(REV 12-04)

Applicants should review the instructions for certification included in the regulations before completing this form. Signature on this form provides for compliance with certification requirements under 15 CFR Part 28, "New Restrictions on Lobbying."

LOBBYING As required by Section 1352, Title 31 of the U.S. Code, and implemented at 15 CFR Part 28, for persons entering into a grant, cooperative agreement or contract over \$100,000 or a loan or loan guarantee over \$150,000 as defined at 15 CFR Part 28, Sections 28.105 and 28.110, the applicant certifies that to the best of his or her knowledge and belief, that:

(1) No Federal appropriated funds have been paid or will be paid, by or on behalf of the undersigned, to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress in connection with the awarding of any Federal contract, the making of any Federal grant, the making of any Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any Federal contract, grant, loan, or cooperative agreement.

(2) If any funds other than Federal appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a member of Congress in connection with this Federal contract, grant, loan, or cooperative agreement, the undersigned shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions.

(3) The undersigned shall require that the language of this certification be included in the award documents for all subawards at all tiers (including subcontracts, subgrants, and contracts under grants, loans, and cooperative agreements) and that all subrecipients shall certify and disclose accordingly.

This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required certification shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure occurring on or before October 23, 1996, and of not less than \$11,000 and not more than \$110,000 for each such failure occurring after October 23, 1996.

As the duly authorized representative of the applicant, I hereby certify that the applicant will comply with the above applicable certification.

NAME OF APPLICANT

AWARD NUMBER AND/OR PROJECT NAME

There is no need to return this signed form to BTOP.

PRINTED NAME AND TITLE OF AUTHORIZED REPRESENTATIVE

SIGNATURE

DATE

Attachment B – Proposed Middle Mile Service Offerings

Please complete the table below describing the service offerings that will be available indicating the bandwidth packages, the distance band (length of the network section) or point-to-point (geographical end points) of the specific package, the minimum peak load bandwidth that is available on the route, and the monthly or yearly pricing for the services. The chart may be adapted to adequately describe the service offerings of the project as long as the information described is included. If different packages will be available based on the area that will be receiving the benefits, then separate charts should be developed indicating which are the services for each area.

Service Offering	Point of Presence *	Minimum Peak Load Network Bandwidth Capacity (Mbps)	Monthly/ Yearly Pricing (\$)	Other
10G/1G/100Mbps	Neah Bay to Port Angeles	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Forks to Joyce	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Joyce to Ramapo	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Ramapo to Port Angeles	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Sequim to Blyn	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Sequim to Duckabush	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Duckabush to Shelton	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Kamilche to McCleary	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Raymond to Nemah	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Nemah to Naselle	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Naselle to Rosburg	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Rosburg to Skamokawa	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Skamokawa to Lexington	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Washougal to Prindle	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Prindle to North Bonneville	100Mbps		Upgradable to 10G
10G/1G/100Mbps	North Bonneville to	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Stevenson to Cook	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Cook to Willard	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Cook to White Salmon	100Mbps		Upgradable to 10G
10G/1G/100Mbps	White Salmon to Snowden	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Snowden to Appleton	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Glenwood to Goldendale	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Goldendale to Ponderosa Park	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Deming to Wickersham	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Wickersham to Covington	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Covington to S Cle Elum	100Mbps		Upgradable to 10G
10G/1G/100Mbps	S Cle Elum to Liberty	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Liberty to Moxee's Corner	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Moxee to E Naches	100Mbps		Upgradable to 10G
10G/1G/100Mbps	E Naches to Sunnyside	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Sunnyside to Lichty	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Lichty to Grandview	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Moxee to Midway	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Midway to Franklin	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Franklin to Connell	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Connell to Kahlotus	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Franklin to Walula	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Walula to Walla Walla	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Walla Walla to Dixie	100Mbps		Upgradable to 10G

10G/1G/100Mbps	Dixie to Dayton	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Dayton to Dodge	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Dodge to Pomeroy	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Pomeroy to Silcott	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Silcott to Clarkston	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Clarkston to Asotin	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Clarkston to Uniontown	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Uniontown to Pullman	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Pullman to Albion	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Albion to Colfax	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Pullman to Garfield	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Garfield to Spangle	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Spangle to Spokane	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Othello to Sage Hills	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Sage Hills to Warden	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Moses Lake to Schrag	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Schrag to Ritzville	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Wilson Creek to Odessa	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Spokane to Creston	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Creston to Reardan	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Davenport to Harrington	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Creston to Wilbur	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Spokane to Nine Mile Falls	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Chehalis to Mary's Corner	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Mary's Corner to Salkum	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Salkum to Mossyrock	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Mossyrock to Morton	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Morton to Glenoma	100Mbps		Upgradable to 10G
10G/1G/100Mbps	Glenoma to Randle	100Mbps		Upgradable to 10G

ATTACHMENT C – COMPETITOR TABLE – MIDDLE MILE

Existing Middle Mile Broadband Service Providers and Services Offered: Please complete a table describing the competing middle mile providers’ broadband service offerings being advertised in the last mile service areas associated with the proposed middle mile project. **For BIP**, please provide this information for each census designated community within each last mile service area. For each competitor, explain the following: a) technology; b) service tiers; c) point-to-point of the competitor’s service offering; d) speed; and e) pricing. Include any other comments to explain your findings if necessary.

Washington State							
Service Area	Middle Mile Services Provider	Technology Platform	Service Tier	Point-to-Point	Minimum Peak Load Network Bandwidth Capacity	Pricing	Other Comments
Neah Bay to Port Angeles	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Forks to Joyce	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Joyce to Ramapo	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Ramapo to Port Angeles	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Sequim to Blyn	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Sequim to Duckabush	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Duckabush to Shelton	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Kamilche to McCleary	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Raymond to Nemah	CenturyTel		Entry Level Plan				
		POTS	Highest Speed Plan	T-1, 1.554Mb			Limited private line service available none advertised.
Nemah to Naselle	CenturyTel		Entry Level Plan				
		POTS	Highest Speed Plan	T-1, 1.554Mb			Limited private line service available none advertised.
Naselle to Rosburg	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Rosburg to Skamokawa	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment

Castle Rock, WA	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Skamokawa to Lexington	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Washougal River Road to Prindle	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Prindle to North Bonneville	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
North Bonneville to Stevenson	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Stevenson to Cook	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Cook to Willard	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Cook to White Salmon	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
White Salmon to Snowden	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Snowden to Appleton	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Glenwood to Goldendale	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Goldendale to Ponderosa Park	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Deming to Wickersham	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Wickersham to Covington	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Covington to S Cle Elum	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
S Cle Elum to Liberty	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Liberty to Moxee	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Moxee to E Naches	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
E Naches to Sunnyside	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment

Sunnyside to Lichty	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Lichty to Grandview	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Moxee to Midway	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Midway to Franklin	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Franklin to Connell	CenturyTel	TDM	Entry Level Plan	T-1, 1.554Mb		Tariff	
		ethernet	Highest Speed Plan	100Mb		\$2,300	
Connell to Kahlotus	CenturyTel	TDM	Entry Level Plan	T-1, 1.554Mb		Tariff	
		ethernet	Highest Speed Plan	100Mb		\$2,300	
Franklin to Wallula	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Wallula to Walla Walla	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Walla Walla to Dixie	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Dixie to Dayton	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Dayton to Dodge	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Dodge to Pomeroy	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Pomeroy to Silcott	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Silcott to Clarkston	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Clarkston to Asotin	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Clarkston to Uniontown	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Uniontown to Pullman	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Pullman to Albion	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Albion to Colfax	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment

Pullman to Garfield	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Garfield to Spangle	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Spangle to Spokane	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Othello to Sage Hills	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Sage Hills to Warden	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Moses Lake to Schrag	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Schrag to Ritzville	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Wilson Creek to Odessa	CenturyTel	TDM	Entry Level Plan	T-1, 1.554Mb		Tariff	
		ethernet	Highest Speed Plan	100Mb		\$850	
Spokane to N. Creston	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
N. Creston to Reardan	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Davenport to Harrington	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
N. Creston to Wilbur	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment
Spokane to Nine Mile Falls	None		Entry Level Plan				There are no providers advertising or offering hi-cap service on this segment



INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northwest Open Access Network

We have audited the accompanying statements of net assets of Northwest Open Access Network (NoaNet) as of December 31, 2006 and 2005 and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of NoaNet's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Open Access Network as of December 31, 2006 and 2005 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.

The audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP
Vancouver, Washington
June 11, 2007

NORTHWEST OPEN ACCESS NETWORK MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is designed to provide an overview of NoaNet's financial activities for the years ended December 31, 2006 and 2005. This supplementary information should be read in conjunction with NoaNet's financial statements.

NoaNet is a non-profit mutual corporation incorporated on February 7, 2000 in the State of Washington. Its members include twelve public utility districts and a joint operating agency, all of which are municipal corporations of the State. NoaNet is a registered Competitive Local Exchange Carrier (CLEC) in Washington and Oregon.

NoaNet is a wholesaler of communication transport services and provides open access, cost-based, high-speed broadband to underserved areas over its fiber optic network.

The Network

NoaNet's fiber optic network reaches to most regions in the State of Washington and travels primarily over facilities of the Bonneville Power Administration. In addition to the network facilities in Washington, NoaNet has facilities that transit Idaho as well as nodes in Montana and Oregon, with an undersea connection to Alaska.

Financial Summary and Analysis

During 2006 and 2005, NoaNet's operating revenues increased approximately 7% and 37%, respectively, resulting in positive EBITDA and operating cash flow at year end. The long-term debt service was paid by its members and several former members pursuant to a repayment agreement. In addition, four members made capital contributions totaling \$425,000 and \$775,000 in 2006 and 2005, respectively, in exchange for a greater percentage interest in NoaNet.

During 2006, NoaNet established the High Capacity Network (HCN) System in connection with an Indefeasible Right of Use agreement to provide communication transport capacity entered into with a specific customer. This agreement resulted in a contract receivable and deferred revenue of \$19 million at December 31, 2006.

Selected Financial Data

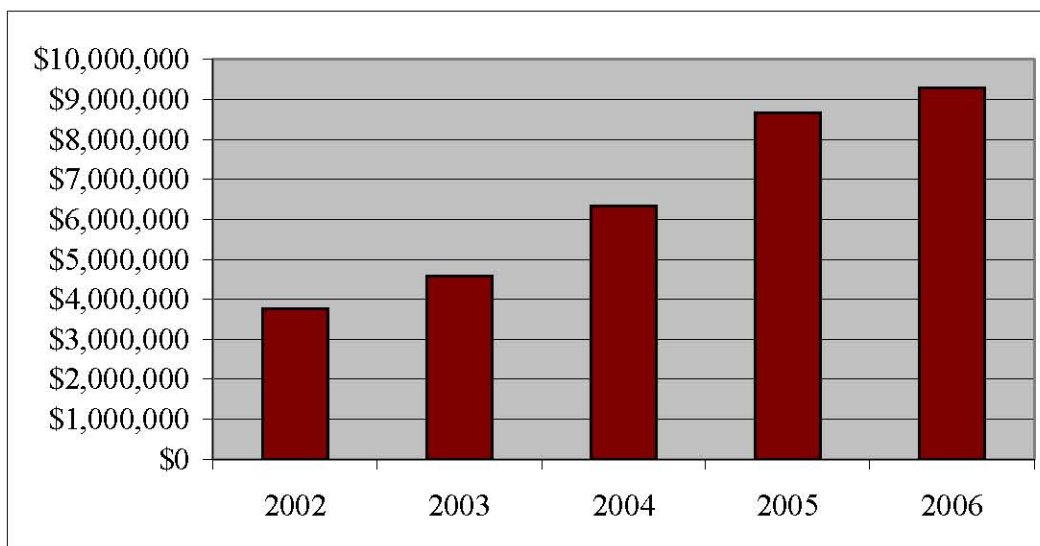
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 9,296,582	\$ 8,670,021	\$ 6,337,028
Operating expenses	(9,722,970)	(10,087,335)	(8,922,982)
Other expense, net	<u>(1,620,135)</u>	<u>(1,656,997)</u>	<u>(1,725,474)</u>
Change in net assets	(2,046,523)	(3,074,311)	(4,311,428)
Member payments	<u>3,497,542</u>	<u>3,864,897</u>	<u>3,122,802</u>
Change in net assets, net of member payments	<u>\$ 1,451,019</u>	<u>\$ 790,586</u>	<u>\$ (1,188,626)</u>

**NORTHWEST OPEN ACCESS NETWORK
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Selected Financial Data

	2006	2005	2004
Net property and equipment	\$ 10,354,323	\$ 7,273,529	\$ 8,597,789
Other assets	24,048,884	4,797,542	4,845,205
Total assets	\$ 34,403,207	\$ 12,071,071	\$ 13,442,994
Long-term liabilities, net of current portion	\$ 41,245,234	\$ 22,809,616	\$ 24,560,384
Other liabilities	6,973,955	4,528,456	4,940,197
Total liabilities	48,219,189	27,338,072	29,500,581
Invested in capital assets, net of related debt	(7,141,902)	(7,179,338)	(6,709,751)
Restricted	1,539,584	1,539,584	1,539,500
Unrestricted	(8,213,664)	(9,627,247)	(10,887,336)
Total net assets	(13,815,982)	(15,267,001)	(16,057,587)
Total liabilities and net assets	\$ 34,403,207	\$ 12,071,071	\$ 13,442,994

Operating Revenues



The 2006 and 2005 revenue growth is the result of expanded services to members, including network coordinated services, and new agreements with major wholesale customers.

NORTHWEST OPEN ACCESS NETWORK MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Activity

At December 31, 2006 and 2005, NoaNet had \$22.2 and \$18.1 million, respectively, invested in the network infrastructure, an increase from the prior year of 22% and 7%, respectively. The network book value, net of depreciation, amounted to \$10.4 million for 2006 and \$7.3 million for 2005. The capital expenditures include network expansion for new transport agreements and network upgrades.

At December 31, 2006 and 2005, NoaNet had \$27.2 and \$24.8 million in debt outstanding, respectively. In 2006 NoaNet established a \$5 million non-revolving line of credit drawing \$4.5 million in order to finance capital expenditures and made debt principal payments totaling \$2.1 million. In 2005 NoaNet drew \$250,000 on the 2003 line of credit in order to finance capital expenditures and network upgrades and made debt principal payments totaling \$1.7 million.

Economic Outlook

During 2006 and 2005, the general economic climate for broadband in the underserved areas of the state of Washington was favorable. As the economy for the nation and state stabilized, there was increasing demand for broadband access in underserved regions. The broadband access has been a contributor to help diversify and enhance local economies. Agreements with major telecommunication providers resulted in award of significant contracts with the State of Washington and others. This has extended high-speed broadband into the rural areas of the state for distance learning, e-government, telemedicine and other public benefit purposes. Implementation and expansion of new services to more communities through these contracts continues the growth of the network footprint throughout the State of Washington.

**NORTHWEST OPEN ACCESS NETWORK
STATEMENT OF NET ASSETS**

ASSETS

	DECEMBER 31,	
	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 773,884	\$ 1,115,840
Receivables		
Accounts receivable, net	1,487,198	1,106,822
Interest receivable	6,296	4,813
Current portion of HCN contract receivable	12,543,000	-
Prepaid expenses	888,594	657,884
	<u>15,698,972</u>	<u>2,885,359</u>
PROPERTY AND EQUIPMENT		
Equipment	15,904,943	12,185,972
Structures	6,254,682	5,955,689
	<u>22,159,625</u>	<u>18,141,661</u>
Less accumulated depreciation	11,805,302	10,868,132
	<u>10,354,323</u>	<u>7,273,529</u>
OTHER ASSETS		
Bond reserve restricted investments	1,539,584	1,539,584
Unamortized bond issuance costs	311,328	372,599
HCN contract receivable, net of current portion	6,499,000	-
	<u>8,349,912</u>	<u>1,912,183</u>
Total other assets	<u>8,349,912</u>	<u>1,912,183</u>
Total assets	<u>\$ 34,403,207</u>	<u>\$ 12,071,071</u>

**NORTHWEST OPEN ACCESS NETWORK
STATEMENT OF NET ASSETS**

LIABILITIES AND NET ASSETS

	DECEMBER 31,	
	2006	2005
CURRENT LIABILITIES		
Accounts payable	\$ 206,513	\$ 211,116
Accrued payroll liabilities	385,120	289,721
Accrued pension payable	967,293	1,299,024
Accrued interest payable	121,943	142,382
Deferred revenue and other accrued liabilities	321,320	585,444
Current portion of HCN deferred revenue	1,904,200	-
Current portion of note payable	1,457,566	480,769
Current portion of revenue bonds	1,610,000	1,520,000
	<u>6,973,955</u>	<u>4,528,456</u>
 LONG-TERM LIABILITIES, net of current portion		
Notes payable	4,042,434	1,134,616
Revenue bonds	20,065,000	21,675,000
HCN deferred revenue	17,137,800	-
	<u>41,245,234</u>	<u>22,809,616</u>
	<u>48,219,189</u>	<u>27,338,072</u>
 NET ASSETS		
Invested in capital assets, net of related debt	(7,141,902)	(7,179,338)
Restricted	1,539,584	1,539,584
Unrestricted	(8,213,664)	(9,627,247)
	<u>(13,815,982)</u>	<u>(15,267,001)</u>
	<u>\$ 34,403,207</u>	<u>\$ 12,071,071</u>

NORTHWEST OPEN ACCESS NETWORK
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

	<u>YEAR ENDED DECEMBER 31,</u>	
	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Regional service providers	\$ 6,599,856	\$ 5,926,704
Local service providers	760,534	749,230
Access revenues	736,054	519,335
Network coordinated services	556,840	997,929
Non-recurring charges	643,298	476,823
	<hr/>	<hr/>
Total operating revenues	9,296,582	8,670,021
OPERATING EXPENSES	<hr/>	<hr/>
	9,722,970	10,087,335
OPERATING LOSS	<hr/>	<hr/>
	(426,388)	(1,417,314)
OTHER INCOME (EXPENSE)		
Interest income	117,334	72,182
Interest expense	(1,738,986)	(1,731,193)
Other income	1,517	2,014
	<hr/>	<hr/>
Total other expense	(1,620,135)	(1,656,997)
CHANGE IN NET ASSETS	(2,046,523)	(3,074,311)
NET ASSETS, beginning of year	(15,267,001)	(16,057,587)
MEMBER PAYMENTS	<hr/>	<hr/>
	3,497,542	3,864,897
NET ASSETS, end of year	<hr/>	<hr/>
	\$ (13,815,982)	\$ (15,267,001)

**NORTHWEST OPEN ACCESS NETWORK
STATEMENT OF CASH FLOWS**

	YEAR ENDED DECEMBER 31,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from customers	\$ 8,652,082	\$ 7,966,296
Cash paid to suppliers	(6,074,922)	(5,129,350)
Cash paid to employees	(1,899,965)	(1,893,603)
Taxes paid	(281,921)	(264,116)
	<u>395,274</u>	<u>679,227</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net activity on investments	-	(84)
Net purchase of property and equipment	(4,957,330)	(1,261,107)
Other income	1,517	2,014
Interest received	115,851	71,079
	<u>(4,839,962)</u>	<u>(1,188,098)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on notes payable	4,500,000	250,000
Payments on notes payable	(615,385)	(307,692)
Payments on bonds	(1,520,000)	(1,440,000)
Interest paid	(1,759,425)	(1,731,193)
Member payments	3,497,542	3,864,897
	<u>4,102,732</u>	<u>636,012</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(341,956)	127,141
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,115,840</u>	<u>988,699</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 773,884</u>	<u>\$ 1,115,840</u>

**NORTHWEST OPEN ACCESS NETWORK
STATEMENT OF CASH FLOWS**

Reconciliation of operating loss to net cash from operating activities:

	<u>YEAR ENDED DECEMBER 31,</u>	
	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (426,388)	\$ (1,417,314)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation and amortization	1,937,807	2,646,637
Change in assets and liabilities		
Accounts receivable	(380,376)	147,840
HCN contract receivable	(19,042,000)	-
Prepaid expenses	(230,710)	(33,119)
Accounts payable	(4,603)	(27,695)
Accrued liabilities	(236,332)	214,443
Deferred revenue and other accrued liabilities	(264,124)	(851,565)
HCN deferred revenue	19,042,000	-
	<u>\$ 395,274</u>	<u>\$ 679,227</u>
Net cash from operating activities	<u>\$ 395,274</u>	<u>\$ 679,227</u>

Note 1 - Nature of Organization and Operations

Northwest Open Access Network (NoaNet), a Washington non-profit mutual corporation, was incorporated in February 2000. NoaNet consists of the Telecommunications System and, beginning in 2006, the High Capacity Network (HCN) System.

The Telecommunications System provides a broadband communications backbone, primarily over public benefit fibers licensed from Bonneville Power Administration (See Note 8), throughout Washington State for assisting its members in providing high speed telecommunication services to customers and in the efficient management of load, conservation and acquisition of electric energy as well as other purposes. In addition, the Telecommunications System conducts business on a wholesale basis with unrelated commercial and government entities. The fiber optic network began commercial operation in January 2001.

The HCN System was formed in connection with an Indefeasible Right of Use agreement to provide communication transport capacity entered into with a specific customer (See Note 11). At December 31, 2006 the assets and liabilities of the HCN System are included for financial reporting purposes with the Telecommunications System and are identified as HCN.

NoaNet is governed by a board of directors consisting of seven persons selected from the thirteen members. NoaNet's members consist of Washington Public Utility Districts and Energy Northwest, a joint operating agency.

Note 2 - Summary of Significant Accounting Policies

Reporting entity - In evaluating how to define NoaNet, for financial reporting purposes, management has considered NoaNet's financial reporting entity. The financial reporting entity consists of NoaNet and component units. Component units are legally separate organizations for which NoaNet is financially accountable and other organizations for which NoaNet is not accountable but for which the nature and significance of their relationship with NoaNet are such that the exclusion would cause NoaNet's financial statements to be misleading or incomplete. Based upon this criterion, NoaNet has no component units.

Basis of accounting and presentation - The financial statements of NoaNet have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. NoaNet has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements and opinions conflict with or contradict GASB pronouncements. As allowed under GASB No. 20, NoaNet has elected to apply all applicable FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash equivalents - NoaNet considers all highly liquid investment securities with a maturity of three months or less to be cash equivalents (See Note 3).

Accounts receivable - Accounts receivable are recorded when invoices are issued and written off when they are determined to be uncollectible. Credit is extended to customers generally without collateral requirements. The allowance for doubtful accounts is estimated based on NoaNet's historical losses, review of specific problem accounts, existing economic conditions and the financial stability of its customers. Generally, NoaNet considers accounts receivable past due after 30 days. The allowance for doubtful accounts was \$30,000 at December 31, 2006 and 2005.

Property and equipment - Property and equipment are stated at cost (See Note 5). Cost includes contracted services, direct labor and materials, interest capitalized during construction and indirect charges for engineering, supervision and other similar overhead items. Expenditures for normal repairs and maintenance are charged to operations as incurred; renewals, replacements and betterments are capitalized. NoaNet has provided for depreciation using the straight-line method over the estimated useful lives of the assets ranging from five to twenty years. Depreciation expense for the years ended December 31, 2006 and 2005 was \$1,876,233 and \$2,585,063, respectively.

Fiber optic network assets include rights of way, conduit, fiber, shelters and point of presence racks. Operating equipment includes network equipment and other equipment necessary to operate the network.

NoaNet's policy is to depreciate and amortize its long-lived assets over their remaining useful life and to write-down such assets if the net carrying value is not recoverable from future cash flows. The assessment as to whether a write down is required is based on NoaNet's estimates of future cash flows and NoaNet's assumptions about the use of the assets.

Unamortized bond issuance costs - Bond issuance costs relating to the revenue bonds are amortized by the effective interest method over the life of the bond issue using a weighted average of the face amount of bonds outstanding. Amortization expense was \$61,574 for both the years ended December 31, 2006 and 2005.

Compensated absences - NoaNet accrues accumulated unpaid vacation benefits as the obligation is incurred. The accrued liability for unpaid vacation leave at December 31, 2006 and 2005 was \$383,718 and \$286,617, respectively.

Deferred revenue - Deferred revenue represents revenues from an indefeasible right of use (IRU) agreement and prepaid communication transport service revenue, which are amortized to operating revenue in equal monthly installments over the term of the agreements (See Note 11).

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue recognition - Revenue is recognized over the period the service is provided based upon port readings of traffic (megabytes of data) and billed at the ninety-fifth percentile to account for anomalies or by contractual agreements. Non-recurring charges consist of connection fees and project management services and are recognized when the service is established.

IRU agreements are accounted for as operating leases or service arrangements depending on whether the customer has the exclusive right to use the assets. Revenue is recognized on both operating leases and service arrangements on a straight-line basis over the term of the contract.

Net assets - Net assets consist of the following components:

- **Invested in capital assets, net of related debt** - This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and notes that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** - This component of net assets consists of net assets on which constraints are placed as to their use.
- **Unrestricted** - This component of net assets consists primarily of cumulative operating losses, member payments and bonds used to finance operating activities.

Marketing expense - Marketing costs are expensed as incurred. Total marketing expense was \$1,002,508 and \$896,090 for the years ended December 31, 2006 and 2005, respectively.

Income taxes - NoaNet is a non-profit mutual corporation exempt from federal income taxes because any income accrues to the members, which are political subdivisions of the State of Washington.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Reclassifications - Certain 2005 balances have been reclassified to conform to 2006 presentation.

Note 3 - Cash and Investments

NoaNet maintains cash and investments in fund accounts in accordance with bond resolutions and Board authorization. Description of these fund account types are as follows:

Revenue Fund - Used to account for cash and investments set aside for short-term investments as designated by the Board.

Bond Reserve Fund - Used to account for restricted cash and investments required under the Bond Indenture of Trust for future payment of principal and interest on debt.

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 3 - Cash and Investments (Continued)

As of December 31, 2006, NoaNet held the following cash and investments:

Investment Type	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Cash	\$ 273,884	-	11.8%
Money Market	500,000	0.082	21.6%
U.S. Agency Securities	1,539,584	1.896	66.6%
Total cash and cash equivalents and bond reserve investments	\$ 2,313,468		100.0%

As of December 31, 2005, NoaNet held the following cash and investments:

Investment Type	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Cash	\$ 266,175	-	10.0%
Money Market	849,665	0.078	32.0%
U.S. Agency Securities	1,539,584	1.896	58.0%
Total cash and cash equivalents and bond reserve investments	\$ 2,655,424		100.0%

The “weighted average maturity in years” calculation assumes that all investments are held until maturity.

Interest Rate Risk

NoaNet does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk

Custodial credit risk is that, in the event of the failure of the counterparty, NoaNet will not be able to recover the value of its investments that are in possession of an outside party.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized. NoaNet’s deposits are held with financial institutions and are comprised of non-interest bearing accounts. The total bank balance, as recorded in bank records at December 31, 2006, was \$824,708. Of the bank balance, \$100,000 was covered by federal depository insurance.

Note 3 - Cash and Investments (Continued)

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agency. The money market investment consists of certificates of deposit and banker acceptances. These are held in NoaNet's name by the counterparty. The U.S Agency Securities consist of Freddie Mac Global Notes and are registered in the name of NoaNet.

NoaNet's financial policies limit its investments to relatively low risk instruments that are either backed by the U.S. government or federal depository insurance funds. Authorized investments include deposits with bank branches located within the State of Washington, direct obligations of the U.S. government and its agencies, bonds of the State of Washington or local governments, money market funds of reputable Washington State banks and repurchase agreements with direct U.S. government obligations as collateral.

Concentration of Credit Risk

Concentration of credit risk is the risk that, when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. NoaNet has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and investments.

Note 4 - Status of Operations

In 2000, NoaNet was organized to serve a unique niche in the telecommunications industry focusing on delivery of fiber optic based broadband access to underserved areas primarily in rural parts of Washington State. Today member networks have been built such that NoaNet's footprint extends into many rural counties in the State. The operating platform is open access and services reflect cost based pricing as NoaNet is organized as a non-profit entity. NoaNet has continued to expand its offerings to include network coordinated services to its members such as network element monitoring, operations, sales and administrative services.

NoaNet's operating revenues increased 7% during 2006, resulting in positive operating cash flows and EBITDA. Continued increases in sales are projected (but not guaranteed) as a result of ongoing and expanded marketing and sales activities, some in coordination with NoaNet members and others (See Note 11).

NoaNet's thirteen members are committed both philosophically and financially to support NoaNet through the transition from start-up to an on-going wholesale telecommunications service provider. Pursuant to a repayment agreement, the members and several former members are responsible for debt service payments on NoaNet's Revenue Bonds to the extent NoaNet does not have sufficient funds to make those payments after paying or providing for cost of maintenance and operations. The members also provide operating assessments approved by the Board. Member payments are accounted for as an increase to unrestricted net assets. Payments by members and former members were approximately \$3.1 million in both 2006 and 2005, and authorized payments for 2007 are expected to be approximately \$3 million.

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 4 - Status of Operations (Continued)

NoaNet believes it is favorably positioned considering the nature of the rural markets it serves and its members' continuing support and commitment to providing broadband to underserved regions of the State.

Note 5 - Property and Equipment

A summary of the balances and changes in property and equipment are as follows:

	2005	Additions	Retirements/ Other	2006
	<u>2005</u>	<u>Additions</u>	<u>Retirements/ Other</u>	<u>2006</u>
Equipment	\$ 12,185,972	\$ 4,658,034	\$ 939,063	\$ 15,904,943
Structures	5,955,689	298,993	-	6,254,682
	<u>18,141,661</u>	<u>4,957,027</u>	<u>939,063</u>	<u>22,159,625</u>
Total property and equipment	18,141,661	4,957,027	939,063	22,159,625
Less accumulated depreciation	<u>10,868,132</u>	<u>1,876,233</u>	<u>939,063</u>	<u>11,805,302</u>
Net property and equipment	<u>\$ 7,273,529</u>			<u>\$ 10,354,323</u>

Indefeasible Right of Use Agreement

Certain of NoaNet's assets support an operating lease (See Note 11). At December 31, 2006, such assets amounted to approximately \$5.5 million.

Note 6 - Note Payable

In 2006 NoaNet established a \$5 million non-revolving line of credit with a commercial lender in order to finance capital expenditures. Draws on the line had to be made prior to December 1, 2006. The principal amount outstanding on the line of credit was \$4,500,000 at December 31, 2006. The note is due in two quarterly installments of interest only and then eighteen quarterly installments of principal and interest commencing September 1, 2006. The note shall bear interest at either the prime rate less .35% or the LIBOR rate plus 2.35%. Rate options are determined by NoaNet. As of December 31, 2006, NoaNet has selected the prime rate less .35%. The line matures on June 1, 2011, is collateralized by NoaNet's net revenues and is in a junior lien position to the Telecommunications Network Revenue Bonds (See Note 7).

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 6 - Note Payable (Continued)

In 2003 NoaNet established a \$5 million non-revolving line of credit with a commercial lender in order to finance capital expenditures and network upgrades. The initial principal amount available, drawn during 2003, was \$1,000,000. The principal amount available to be drawn increased in \$1,000,000 increments (Tranche) each year until December 1, 2005 and was based upon certain revenue targets. During 2006 and 2005, \$0 and \$250,000 was drawn, respectively. The principal amount outstanding on the line of credit was \$1,000,000 and \$1,615,385 at December 31, 2006 and 2005, respectively. The outstanding principal balance on each Tranche shall be payable in thirteen equal quarterly installments commencing eighteen months after the date an amount is first drawn on such Tranche. Each Tranche shall bear interest at either the prime rate or the LIBOR rate plus 2.0%. Rate options are determined by NoaNet. As of December 31, 2006, NoaNet has selected the LIBOR rate plus 2.0%. The line matures on March 31, 2009, is collateralized by NoaNet's net revenues and is in a junior lien position to the Telecommunications Network Revenue Bonds (See Note 7).

NoaNet covenants that it shall assess its members for their percentage share of principal and interest on the notes to the extent that NoaNet does not have sufficient funds to pay the notes after paying or providing for cost of maintenance and operations of NoaNet and after providing for the payment of principal and interest on NoaNet's outstanding Telecommunications Network Revenue Bonds (2001). NoaNet is also subject to certain financial and non-financial covenants.

Scheduled debt service payments are as follows:

2007	\$ 1,457,566
2008	1,232,027
2009	1,093,576
2010	1,117,064
2011	<u>599,767</u>
	<u>\$ 5,500,000</u>

The prime rate and LIBOR rate as of December 31, 2006 was 8.25% and 5.32%, respectively.

Note 7 - Telecommunications Network Revenue Bonds, 2001 (Taxable)

On July 15, 2001, NoaNet issued at par \$27,000,000 in Telecommunications Network Revenue Bonds. Interest on the bonds is payable semi-annually each June 1 and December 1. Principal of the bonds is payable annually on December 1; from December 1, 2003 through December 1, 2011 for the Serial Bonds; and December 1, 2016 for the Term Bonds. The Term Bonds have annual principal sinking fund requirements beginning December 1, 2012.

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 7 - Telecommunications Network Revenue Bonds, 2001 (Taxable) (Continued)

The members and several former members have entered into a Repayment Agreement under which they are responsible for debt payments to the extent NoaNet does not have sufficient funds to make those payments after paying or providing for cost of maintenance and operations.

	<u>2006</u>	<u>2005</u>
Serial bonds due through 2011 (interest from 5.05% to 6.44%)	\$ 9,100,000	\$ 10,620,000
7.09% term bonds due 2016	<u>12,575,000</u>	<u>12,575,000</u>
Total revenue bonds	21,675,000	23,195,000
Less current portion of revenue bonds	<u>1,610,000</u>	<u>1,520,000</u>
Long-term portion of revenue bonds	<u>\$ 20,065,000</u>	<u>\$ 21,675,000</u>

Scheduled debt service payments for principal, interest and principal maturities are as follows:

	<u>Sinking Funds</u>			<u>Principal Maturities</u>
	<u>Interest</u>	<u>Principal</u>	<u>Total</u>	
2007	\$ 1,463,318	\$ 1,610,000	\$ 3,073,318	\$ 1,610,000
2008	1,366,718	1,705,000	3,071,718	1,705,000
2009	1,261,349	1,810,000	3,071,349	1,810,000
2010	1,146,595	1,925,000	3,071,595	1,925,000
2011	1,023,588	2,050,000	3,073,588	2,050,000
2012 - 2016	<u>2,796,296</u>	<u>12,575,000</u>	<u>15,371,296</u>	<u>12,575,000</u>
	<u>\$ 9,057,864</u>	<u>\$ 21,675,000</u>	<u>\$ 30,732,864</u>	<u>\$ 21,675,000</u>

The Bond resolution requires the establishment and maintenance of bond proceeds, interest and reserve fund accounts, the purpose of which is to provide additional security as well as scheduled debt service payments. The reserve fund is to be maintained throughout the term of the bonds, in investments as permitted by the Board resolution.

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 7 - Telecommunications Network Revenue Bonds, 2001 (Taxable) (Continued)

During the year ended December 31, 2006, the following changes occurred in bonds payable:

	<u>2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>2006</u>	<u>Due Within One Year</u>
Revenue Bonds	<u>\$ 23,195,000</u>	<u>\$ -</u>	<u>\$ 1,520,000</u>	<u>\$ 21,675,000</u>	<u>\$ 1,610,000</u>

Note 8 - Operating Leases and License

NoaNet maintains a long-term operating lease agreement with Bonneville Power Administration (BPA) to lease property for the placement of regenerator huts and appurtenant cables, vaults and devices. NoaNet also maintains a long-term license agreement with BPA to access four public benefit fibers along a 1,279 mile route in the Pacific Northwest. This license includes annual fiber fees and maintenance charges. The BPA agreements will expire in 2019 unless extended by mutual agreement. Expense incurred under these agreements was \$983,215 and \$810,997 for the years ended December 31, 2006 and 2005, respectively.

In addition, NoaNet maintains several agreements with telecommunication providers for connectivity, dark fiber, equipment rooms and transport services, which require payment of monthly charges based upon usage or fixed fee arrangements. Certain leases include renewal options and additional monthly charges may be incurred for the use of capacity above the amounts contracted in the agreements. Expenses incurred under these agreements were \$3,103,685 and \$2,713,551 for the years ended December 31, 2006 and 2005, respectively.

Future minimum payments for the above leases and license are as follows:

2007	\$ 1,088,990
2008	1,213,694
2009	1,283,022
2010	1,348,862
2011	1,348,862
2012-2016	6,744,310
2017-2021	<u>3,776,278</u>
	<u>\$ 16,804,018</u>

During 2004, NoaNet entered into a three-year triple net facility lease with an option to renew for its network operations center. The monthly rent was \$1,058. In 2006 the lease was amended for new space with a term of five years and a minimum monthly rent of \$2,771.

NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS

Note 9 - Retirement Plans

Defined Benefit Plan

NoaNet maintains a single-employer defined benefit pension plan covering all eligible employees that is funded by required contributions from NoaNet. Annual contributions are based upon actuarial calculations (the most recent actuarial valuation was January 1, 2006). Following is the summary of plan information for the years ended December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Projected benefit obligation at December 31	\$ 2,669,980	\$ 2,469,452
Fair value of plan assets at December 31	<u>1,465,515</u>	<u>1,162,416</u>
Under funded amount	<u>\$ 1,204,465</u>	<u>\$ 1,307,036</u>
Accumulated benefit obligation	<u>\$ 2,432,808</u>	<u>\$ 2,461,440</u>
Accrued benefit cost recognized in the statement of net assets	<u>\$ 967,293</u>	<u>\$ 1,299,024</u>
	<u>2006</u>	<u>2005</u>
Actuarial assumptions as of December 31		
Discount rate	6.00%	5.75%
Expected return on plan assets	6.00%	5.75%
Rate of compensation increase	4.00%	5.00%
Pension benefits as of December 31		
Benefit cost	\$ 333,727	\$ 235,669
Employer contribution	508,072	153,407
Benefits paid	265,891	-
Benefits expected to be paid for the years ending December 31:		
2007	\$ 7,170	
2008	7,114	
2009	29,894	
2010	67,566	
2011	67,974	
2012-2016	<u>534,765</u>	
	<u>\$ 714,483</u>	

Note 9 - Retirement Plans (Continued)

Benefits are paid at normal retirement normally in the form of a single life annuity and fully vest at six years of vesting service. Benefits may also be paid at death, disability and termination. Benefits are calculated at 2% of average monthly compensation times years of benefit service after May 1, 2004 plus benefits accrued prior to May 1, 2004. There were no substantive commitments for benefits other than as stated in the Plan. There are no significant liabilities other than for benefits. Plan assets are invested in certificates of deposit. Beginning in 2007, NoaNet may be required to recognize the under funded amount which would increase the liability recorded in the statement of net assets. Further information about the Plan may be requested from NoaNet Financial Center 111 Devereese Road, Chehalis, WA 98532.

In January 2003 certain employees were transferred to NoaNet Oregon, a prior affiliate of NoaNet. The Plan was amended to freeze the benefits for these employees of NoaNet Oregon. However, additional years of service under NoaNet Oregon will be considered in the calculation of vesting.

Defined Contribution Plan

NoaNet sponsors a deferred compensation plan (Internal Revenue Code Section 457) for all eligible employees. The plan is entirely funded by voluntary employee contributions. All plan assets are held in trust for the exclusive benefit of participants and their beneficiaries.

Note 10 - Self-Insurance

NoaNet, along with seventeen Public Utility Districts, is a member of Public Utility Risk Management Services (PURMS), a joint self-insurance pool (Fund). NoaNet participates in the liability, property and health and welfare pools.

The Fund provides liability insurance coverage for its participating members and their employees under an agreement entitled PURMS Joint Self-Insurance Agreement (SIA), amended and restated as of December 1, 2005. The SIA has a self-insured retention of \$1,000,000 per occurrence. The Fund also maintains \$35 million of excess liability insurance for its participating members. The liability pool is financed through participating member assessments. Assessments are levied to replenish the liability pool to its designated risk pool balance, \$2 million for 2006.

The Fund provides property insurance coverage for its participating members under the SIA. The SIA has a self-insured retention of \$250,000 per property loss. The Fund also maintains \$150 million of excess property insurance for its participating members. The property pool is financed through participating member assessments. Assessments are levied to replenish the property pool to its designated risk pool balance, \$750,000 for 2006.

As of December 31, 2006, the Fund's legal counsel advised management the Fund's liability pool had 216 known incidents and unresolved claims, the total dollar value of which is unknown but is estimated by the Fund to be \$854,436. The Fund's property pool had 28 known property claims pending, the total dollar value of which is unknown but is estimated by the Fund to be \$258,960.

NORTHWEST OPEN ACCESS NETWORK NOTES TO FINANCIAL STATEMENTS

Note 10 - Self-Insurance (Continued)

The Fund provides health and welfare insurance benefits for the employees of participating members under the SIA and the terms of each member's respective coverage booklet provided to its employees. The health and welfare pool maintains reserves approximately equal to the total of 2.5 times the amount of each participating member's historical average monthly health and welfare claims experience. By amendment to the SIA on December 1, 2005, the reserve may be established from time to time by majority vote of the Board at no lower than 2.5 and no greater than 3 times the historical average. Each month, members are assessed for the preceding month's claims for member's employees and their dependents as well as shared health and welfare costs. Shared costs consist of administrative expenses, premiums for stop-loss insurance, preferred provider charges and shared claims. Claims become shared when they exceed certain stop-loss levels. The Fund maintains excess stop-loss insurance with a commercial carrier in the aggregate amount of \$8,200,000 with an individual stop-loss of \$150,000 per insured. As of December 31, 2006, there were no open outstanding claims. However, it is estimated that the total incurred but not reported (IBNR) claims were \$400,768.

The Fund's ultimate solvency is determined by its ability to cover claims through the combination of designated reserve pools, assessments and the excess insurance policies. No provision has been included in the accompanying financial statements for known or unknown outstanding claims.

Note 11 - Regional Service Provider Transport Services

Primary Transport Services

NoaNet serves as the primary transport provider for a major telecommunications company in the State of Washington to carry traffic for a number of schools and public agencies to several sites in rural areas of the State. This contract began in 2003 and has a term of five years. Rates are based upon the level of traffic. Revenue for the years ended December 31, 2006 and 2005 was \$2,668,331 and \$2,400,987, respectively.

Advanced Transport Services

NoaNet serves as the backbone transport provider for another major telecommunications company in the State of Washington to carry advanced services for a number of schools and public agencies to several sites in rural areas of the State. This program was implemented in 2004 and extends for four years. Rates are based upon the level of traffic. Revenue for the years ended December 31, 2006 and 2005 was \$921,100 and \$455,920, respectively.

Warrenton-Westin Project

In 2004 NoaNet contracted with a major telecommunications company in the State of Alaska to construct, maintain and operate a network extending from Warrenton, OR to the Westin Building in Seattle, WA. The equipment is owned by the telecommunications company and at the end of five years the equipment can be purchased by NoaNet for a nominal amount. Over the course of the five years, NoaNet will maintain and operate the network. Revenue for each of the years ended December 31, 2006 and 2005 was \$278,420.

Note 11 - Regional Service Provider Transport Services (Continued)

CTC Project

In 2006 NoaNet contracted with a major customer as a primary transport provider. The contract has a term of ten years. Revenue for the year ended December 31, 2006 was \$86,880.

HCN Project

In November 2006 NoaNet entered into a 10-year Indefeasible Right of Use (IRU) agreement with a major customer to provide communication transport capacity. Amounts received under the IRU agreement are to be placed in a special fund (the High Capacity Network Fund) and drawn in accordance with an established schedule and as otherwise permitted under the IRU agreement. The IRU agreement is being accounted for as an operating lease and is reflected in the accompanying statement of net assets as a contract receivable and deferred revenue. Revenue will be recognized on a straight-line basis over the 10-year term of the agreement beginning in the first quarter of 2007. The following is the schedule of amounts to be received under the agreement:

2007	\$ 12,543,000
2008	4,059,000
2009	<u>2,440,000</u>
	<u><u>\$ 19,042,000</u></u>

At December 31, 2006 NoaNet had committed to approximately \$3.2 million in capital expenditures related to this agreement and other capacity upgrades. In addition, in 2007 NoaNet entered into other agreements in order to meet its obligations under this agreement.

Note 12 - Related Party Transactions

As indicated in Note 1, NoaNet provides communication transport and related services to its members. Accounts receivable from members at December 31, 2006 and 2005 were \$202,720 and \$156,828, respectively, and revenue for both years ended December 31, 2006 and 2005 was approximately \$1,200,000.

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 13 - Legal Matters

In December 2006 a customer of NoaNet filed a lawsuit against NoaNet alleging breach of contract relating to an alleged wrongful termination of certain services NoaNet was providing. The complaint requests service to be restored and also requests unspecified money damages for alleged interference with the customer's business relationships. NoaNet has filed an answer, affirmative defenses and counterclaims. The customer has answered and asserted affirmative defenses to NoaNet's counterclaims. A trial date has been set for June 2008.

In February 2007 several individuals and internet service providers sued a member of NoaNet and NoaNet alleging violation of federal antitrust laws and the Washington Consumer Protection Act and that NoaNet's formation and financing were *ultra vires* and without legal authority and in violation of the Washington State constitutional prohibition against gifts of public funds and lending of credit to a private party. The lawsuit sought to prevent NoaNet from providing any further telecommunication services within the state of Washington and unspecified money damages. NoaNet vigorously defended this lawsuit and filed a motion for summary judgment. The plaintiffs then dismissed the lawsuit in May 2007, without prejudice to refile at a later date. Whether or not the lawsuit will be refiled cannot be predicted at this time.

In March 2007 NoaNet sued one of its customers for breach of contract for early termination of services. The suit seeks \$436,326 in damages plus interest, attorneys' fees and costs. The case is set for trial in September 2008. In response, the customer has asserted counterclaims alleging that NoaNet breached its obligations in performing the services under the contract between the parties. The customer alleges that it spent significant sums on alternative services necessary to provide the services promised by NoaNet and that the amount of its expenditures and losses exceeds NoaNet's claim. The customer claims an unspecified amount of damages on its counterclaims. NoaNet has filed an answer and affirmative defenses to the customer's counterclaims.

The outcome of these matters cannot be predicted at this time. Accordingly, no provision has been included in the accompanying financial statements.

SUPPLEMENTAL INFORMATION

**NORTHWEST OPEN ACCESS NETWORK
SCHEDULE OF OPERATING EXPENSES**

	<u>YEAR ENDED DECEMBER 31,</u>	
	<u>2006</u>	<u>2005</u>
Fiber optic and related licenses and leases	\$ 4,086,900	\$ 3,524,548
Depreciation and amortization	1,937,807	2,646,637
Network support expense	1,312,937	1,436,947
Marketing and member services	1,264,954	1,225,059
Administrative salaries	280,514	343,274
Taxes and licenses	281,921	264,116
Professional fees	168,367	241,233
General and administrative	247,537	238,068
Insurance	72,896	63,806
Automobile expense	60,172	57,091
Bad debt expense	8,965	46,556
	<u>\$ 9,722,970</u>	<u>\$ 10,087,335</u>



INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northwest Open Access Network

We have audited the accompanying balance sheets of Northwest Open Access Network (NoaNet) as of December 31, 2008 and 2007 and the related statements of operations and changes in net deficit and cash flows for the years then ended. These financial statements are the responsibility of NoaNet's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwest Open Access Network as of December 31, 2008 and 2007 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.

The audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP

Portland, Oregon
June 2, 2009

NORTHWEST OPEN ACCESS NETWORK MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is designed to provide an overview of NoaNet's financial activities for the years ended December 31, 2008 and 2007. This supplementary information should be read in conjunction with NoaNet's financial statements and notes to financial statements.

NoaNet is a non-profit mutual corporation incorporated on February 7, 2000 in the State of Washington. Its members include twelve public utility districts and a joint operating agency, all of which are municipal corporations of the State of Washington. NoaNet is a registered Competitive Local Exchange Carrier (CLEC) in Washington and Oregon.

NoaNet is a wholesaler of communication transport services and provides open access, cost-based, high-speed broadband to underserved areas over its fiber optic network.

The Network

NoaNet's fiber optic network reaches to most regions in the State of Washington and travels primarily over facilities of the Bonneville Power Administration. In addition to the network facilities in Washington, NoaNet has facilities that transit Idaho as well as nodes in Montana and Oregon, with an undersea connection to Alaska and Asia.

Financial Summary and Analysis

During 2008 and 2007, NoaNet's operating revenues increased approximately 17% and 35%, respectively, from new customers and expanded services to existing customers resulting in positive operating income, EBITDA and operating cash flow. The long-term debt service was largely paid by its members and several former members pursuant to a repayment agreement.

During 2006, NoaNet established the High Capacity Network (HCN) System in connection with an Indefeasible Right of Use agreement to provide communication transport capacity entered into with a specific customer. This agreement resulted in deferred revenues of \$15.5 and \$17.1 million at December 31, 2008 and 2007, respectively. During 2007, \$16.6 million was collected on the agreement. No amounts were collected on the agreement in 2008.

Selected Financial Data

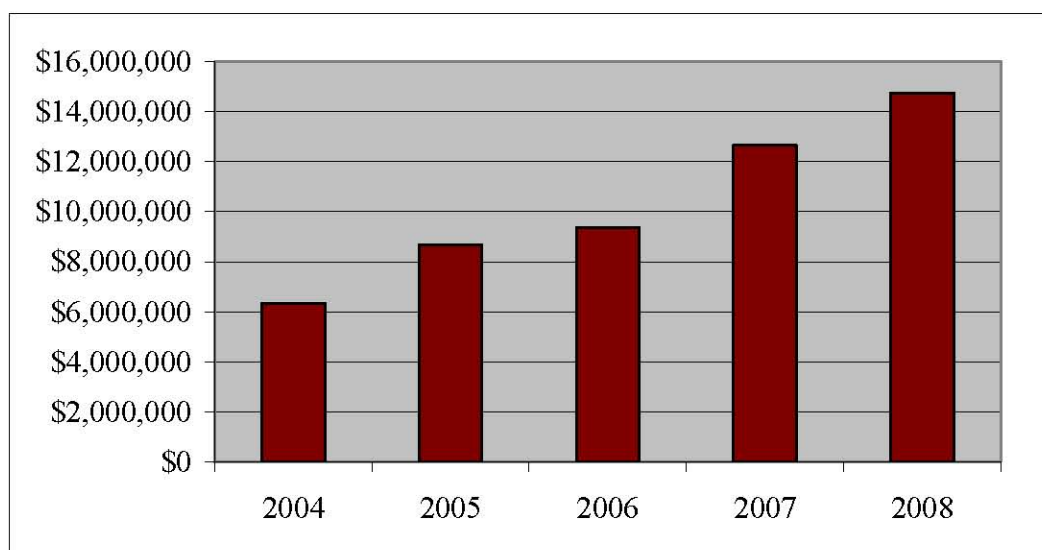
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 14,743,419	\$ 12,641,490	\$ 9,347,973
Operating expenses	(13,720,534)	(12,477,776)	(9,774,361)
Other expense, net	<u>(1,094,797)</u>	<u>(1,368,915)</u>	<u>(1,620,135)</u>
Net loss	(71,912)	(1,205,201)	(2,046,523)
Member payments	<u>2,570,757</u>	<u>3,073,318</u>	<u>3,497,542</u>
Change in net deficit	<u>\$ 2,498,845</u>	<u>\$ 1,868,117</u>	<u>\$ 1,451,019</u>

**NORTHWEST OPEN ACCESS NETWORK
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Selected Financial Data

	2008	2007	2006
Net property and equipment	\$ 13,050,309	\$ 13,287,759	\$ 10,354,323
Other assets	20,342,616	20,135,330	24,048,884
Total assets	\$ 33,392,925	\$ 33,423,089	\$ 34,403,207
Long-term liabilities, net of current portion	\$ 32,895,116	\$ 36,322,967	\$ 41,245,234
Other liabilities	9,946,829	9,047,987	6,973,955
Total liabilities	42,841,945	45,370,954	48,219,189
Invested in capital assets, net of related debt	(1,317,617)	(1,852,232)	(7,141,902)
Restricted	(893,132)	(2,301,117)	1,539,584
Unrestricted	(7,238,271)	(7,794,516)	(8,213,664)
Total net deficit	(9,449,020)	(11,947,865)	(13,815,982)
Total liabilities and net deficit	\$ 33,392,925	\$ 33,423,089	\$ 34,403,207

Operating Revenues



The 2008, 2007 and 2006 revenue growth is the result of expanded services to members, including network coordinated services, and new agreements with major wholesale customers.

NORTHWEST OPEN ACCESS NETWORK MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Activity

At December 31, 2008 and 2007, NoaNet had \$30.3 and \$27.6 million, respectively, invested in the network infrastructure, an increase from the prior year of 10% and 25%, respectively. The network book value, net of depreciation, amounted to \$13.1 million at December 31, 2008 and \$13.3 million at December 31, 2007. The capital expenditures include network expansion for new transport agreements and network upgrades.

At December 31, 2008 and 2007, NoaNet had \$22.6 and \$24.1 million in debt outstanding, respectively. In 2008 and 2007 NoaNet made debt principal payments totaling \$3.0 and \$3.1 million, respectively. In 2008 NoaNet established a \$1.5 million non-revolving line of credit (note payable) drawing the full amount in order to finance capital expenditures.

Economic Outlook

During 2008 and 2007, the general economic climate for broadband in the underserved areas of the state of Washington was favorable resulting in increasing demand for broadband access. The broadband access has been a contributor to help diversify and enhance local economies. Agreements with major telecommunication providers resulted in award of significant contracts with the State of Washington and others. This has extended high-speed broadband into the underserved areas of the state for distance learning, e-government, telemedicine and other public benefit purposes. Implementation and expansion of new services to more communities through these contracts continues the growth of the network footprint throughout the State of Washington. While national economic conditions have worsened, NoaNet did not experience any significant ill effects from the downturn in 2008.

**NORTHWEST OPEN ACCESS NETWORK
BALANCE SHEET**

ASSETS

	DECEMBER 31,	
	2008	2007
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,139,749	\$ -
HCN cash and cash equivalents - Restricted	10,320,579	10,858,399
Receivables		
Accounts receivable, net	2,752,975	3,223,051
Interest receivable	-	142,365
Current portion of HCN contract receivable	2,745,000	-
Prepaid and deferred expenses	1,251,298	1,245,973
	<u>18,209,601</u>	<u>15,469,788</u>
PROPERTY AND EQUIPMENT		
Equipment	23,880,857	21,264,927
Structures	6,399,254	6,342,126
	<u>30,280,111</u>	<u>27,607,053</u>
Less accumulated depreciation	17,229,802	14,319,294
	<u>13,050,309</u>	<u>13,287,759</u>
OTHER ASSETS		
Prepaid IRU agreement	373,375	424,875
Bond reserve restricted investments	1,546,000	1,538,284
Unamortized bond issuance costs	213,640	262,383
HCN contract receivable, net of current portion	-	2,440,000
	<u>2,133,015</u>	<u>4,665,542</u>
Total assets	<u>\$ 33,392,925</u>	<u>\$ 33,423,089</u>

**NORTHWEST OPEN ACCESS NETWORK
BALANCE SHEET**

LIABILITIES AND NET DEFICIT

	DECEMBER 31,	
	2008	2007
CURRENT LIABILITIES		
Book overdraft	\$ -	\$ 18,597
Accounts payable	1,878,301	1,947,346
Accrued payroll liabilities	416,936	408,848
Accrued pension payable	1,799,203	1,308,926
Accrued interest payable	122,022	143,311
Deferred revenue and other accrued liabilities	554,354	306,291
Current portion of HCN deferred revenue	1,938,089	1,904,200
Current portion of notes payable	1,427,924	1,305,468
Current portion of revenue bonds	1,810,000	1,705,000
	9,946,829	9,047,987
LONG-TERM LIABILITIES, net of current portion		
Notes payable	2,778,494	2,729,367
Revenue bonds	16,550,000	18,360,000
HCN deferred revenue	13,566,622	15,233,600
	32,895,116	36,322,967
	42,841,945	45,370,954
NET DEFICIT		
Invested in capital assets, net of related debt	(1,317,617)	(1,852,232)
Restricted	(893,132)	(2,301,117)
Unrestricted	(7,238,271)	(7,794,516)
	(9,449,020)	(11,947,865)
	\$ 33,392,925	\$ 33,423,089

NORTHWEST OPEN ACCESS NETWORK
STATEMENT OF OPERATIONS AND CHANGES IN NET DEFICIT

	YEAR ENDED DECEMBER 31,	
	2008	2007
OPERATING REVENUES		
Regional service providers	\$ 9,818,413	\$ 9,338,647
Local service providers	988,414	774,571
Access revenues	1,955,501	1,319,205
Network coordinated services	634,677	544,188
Non-recurring charges	1,346,414	664,879
	<hr/>	<hr/>
Total operating revenues	14,743,419	12,641,490
OPERATING EXPENSES	<hr/>	<hr/>
	13,720,534	12,477,776
OPERATING INCOME	<hr/>	<hr/>
	1,022,885	163,714
OTHER INCOME (EXPENSE)		
Interest income	313,765	310,843
Interest expense and related amortization	(1,630,164)	(1,979,758)
Other income	221,602	300,000
	<hr/>	<hr/>
Total other expense	(1,094,797)	(1,368,915)
NET LOSS	(71,912)	(1,205,201)
MEMBER PAYMENTS	<hr/>	<hr/>
	2,570,757	3,073,318
CHANGE IN NET DEFICIT	2,498,845	1,868,117
NET DEFICIT, beginning of year	<hr/>	<hr/>
	(11,947,865)	(13,815,982)
NET DEFICIT, end of year	<hr/> <hr/>	<hr/> <hr/>
	\$ (9,449,020)	\$ (11,947,865)

**NORTHWEST OPEN ACCESS NETWORK
STATEMENT OF CASH FLOWS**

	YEAR ENDED DECEMBER 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from customers	\$ 13,523,469	\$ 25,588,408
Cash paid to suppliers	(7,969,212)	(6,498,843)
Cash paid to employees	(2,062,630)	(1,819,291)
Taxes paid	(321,286)	(303,113)
Net cash from operating activities	3,170,341	16,967,161
CASH FLOWS FROM INVESTING ACTIVITIES		
Net activity on investments	(7,716)	1,300
Other income	221,602	300,000
Interest received	456,130	174,774
Net cash from investing activities	670,016	476,074
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Borrowings on note payable	1,500,000	-
Payments on notes payable	(1,328,417)	(1,465,165)
Payments on bonds	(1,705,000)	(1,610,000)
Interest paid	(1,602,710)	(1,909,444)
Net purchase of property and equipment	(2,673,058)	(5,447,429)
Member payments	2,570,757	3,073,318
Net cash from capital and related financing activities	(3,238,428)	(7,358,720)
CHANGE IN CASH AND CASH EQUIVALENTS	601,929	10,084,515
CASH AND CASH EQUIVALENTS, beginning of year	10,858,399	773,884
CASH AND CASH EQUIVALENTS, end of year	\$ 11,460,328	\$ 10,858,399

See accompanying notes.

**NORTHWEST OPEN ACCESS NETWORK
STATEMENT OF CASH FLOWS**

Reconciliation of operating income to net cash from operating activities:

	<u>YEAR ENDED DECEMBER 31,</u>	
	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 1,022,885	\$ 163,714
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	2,910,508	2,513,992
Change in assets and liabilities		
Accounts receivable	470,076	(1,735,853)
HCN contract receivable	(305,000)	16,602,000
Prepaid and deferred expenses	46,175	(782,254)
Accounts payable and book overdraft	(87,642)	1,759,430
Accrued liabilities	498,365	365,361
Deferred revenue and other accrued liabilities	248,063	(15,029)
HCN deferred revenue	(1,633,089)	(1,904,200)
	<u>\$ 3,170,341</u>	<u>\$ 16,967,161</u>
Net cash from operating activities		

Note 1 - Nature of Organization and Operations

Northwest Open Access Network (NoaNet), a Washington non-profit mutual corporation, was incorporated in February 2000. NoaNet consists of the Telecommunications System and, beginning in 2006, the High Capacity Network (HCN) System.

The Telecommunications System provides a broadband communication backbone, primarily over public benefit fibers licensed from Bonneville Power Administration (See Note 8), throughout Washington State for assisting its members in providing high speed telecommunication services to customers and in the efficient management of load, conservation and acquisition of electric energy, as well as other purposes. In addition, the Telecommunications System conducts business on a wholesale basis with unrelated commercial and government entities. The fiber optic network began commercial operation in January 2001.

The HCN System was formed in connection with an Indefeasible Right of Use agreement to provide communication transport capacity entered into with a specific customer (See Note 11). As of December 31, 2008 and 2007, the assets, liabilities, operations and cash flows of the HCN System are included for financial reporting purposes with the Telecommunications System.

NoaNet is governed by a board of directors consisting of seven persons selected from the thirteen members. NoaNet's members consist of Washington Public Utility Districts and Energy Northwest, a joint operating agency.

Note 2 - Summary of Significant Accounting Policies

Reporting entity - In evaluating how to define NoaNet for financial reporting purposes, management has considered NoaNet's financial reporting entity. The financial reporting entity consists of NoaNet and component units. Component units are legally separate organizations for which NoaNet is financially accountable and other organizations for which NoaNet is not accountable but for which the nature and significance of their relationship with NoaNet are such that the exclusion would cause NoaNet's financial statements to be misleading or incomplete. Based upon this criterion, NoaNet has no component units.

Basis of accounting and presentation - The financial statements of NoaNet have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. NoaNet applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements and opinions conflict with or contradict GASB pronouncements. As allowed under GASB No. 20, NoaNet has elected to apply all applicable FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The one exception is for NoaNet's defined benefit retirement plan which is accounted for under FASB pronouncements.

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash equivalents - NoaNet considers all highly liquid investment securities, including restricted, with a maturity of three months or less to be cash equivalents (See Note 3).

Accounts receivable - Accounts receivable are recorded when invoices are issued and written off when they are determined to be uncollectible. Credit is extended to customers generally without collateral requirements. The allowance for doubtful accounts is estimated based on NoaNet's historical losses, review of specific problem accounts, existing economic conditions and the financial stability of its customers. Generally, NoaNet considers accounts receivable past due after 30 days. The allowance for doubtful accounts was \$30,000 at December 31, 2008 and 2007.

Property and equipment - Property and equipment are stated at cost (See Note 5). Cost includes contracted services, direct labor and materials, interest capitalized during construction and indirect charges for engineering, supervision and other overhead items. Expenditures for normal repairs and maintenance are charged to operations as incurred; renewals, replacements and betterments are capitalized. NoaNet has provided for depreciation using the straight-line method over the estimated useful lives of the assets ranging from five to twenty years. Depreciation expense for the years ended December 31, 2008 and 2007 was \$2,910,508 and \$2,513,992, respectively.

Fiber optic network assets include rights of way, conduit, fiber, shelters and point of presence racks. Operating equipment includes network equipment and other equipment necessary to operate the network.

NoaNet's policy is to depreciate its long-lived assets over their remaining useful life and to write-down such assets if the net carrying value is not recoverable from future cash flows. The assessment as to whether a write-down is required is based on NoaNet's estimates of future cash flows and NoaNet's assumptions about the use of assets. There were no write-downs in 2008 or 2007.

Prepaid IRU - In 2007 NoaNet's HCN System entered into a 10-year Indefeasible Right of Use (IRU) agreement that is being amortized to expense on a straight-line basis over the term of the agreement.

Unamortized bond issuance costs - Bond issuance costs relating to the revenue bonds are amortized over the life of the bond issue using a weighted average of the face amount of bonds outstanding. Amortization expense was \$48,743 and \$48,946 for the years ended December 31, 2008 and 2007, respectively.

Compensated absences - NoaNet accrues accumulated unpaid vacation benefits as the obligation is incurred. The accrued liability for unpaid vacation leave at December 31, 2008 and 2007 was \$416,936 and \$390,838, respectively.

Deferred revenue - Deferred revenue consists of revenues from an indefeasible right of use (IRU) agreement and prepaid communication transport service revenue, which are amortized to operating revenue in equal monthly installments over the term of the agreements (See Note 11).

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue recognition - Revenue is recognized over the period the service is provided based upon port readings of traffic (megabytes of data) and billed at the ninety-fifth percentile to account for anomalies or by contractual agreements. Non-recurring charges consist of connection fees and project management services and are recognized when the service is established.

IRU agreements are accounted for as operating leases or service arrangements depending on whether the customer has the exclusive right to use the assets. Revenue is recognized on both operating leases and service arrangements on a straight-line basis over the term of the contract.

Net assets - Net assets consist of the following components:

- **Invested in capital assets, net of related debt** - This component of net assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and notes that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** - This component of net assets consists of net assets on which constraints are placed as to their use.
- **Unrestricted** - This component of net assets consists primarily of cumulative operating losses, member payments and bonds used to finance operating activities.

Marketing expense - Marketing costs are expensed as incurred. Total marketing expense was \$965,165 and \$986,275 for the years ended December 31, 2008 and 2007, respectively.

Income taxes - NoaNet is a non-profit mutual corporation exempt from federal income taxes because any income accrues to the members, which are political subdivisions of the State of Washington.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Reclassifications - Certain 2007 balances have been reclassified to conform to 2008 presentation.

Note 3 - Cash and Investments

NoaNet maintains cash and investments in fund accounts in accordance with bond resolutions and Board authorization. Description of these fund account types are as follows:

Revenue Fund - Used to account for cash and investments set aside for short-term investments as designated by the Board.

Bond Reserve Fund - Used to account for restricted cash and investments required under the Bond Indenture of Trust for future payment of principal and interest on debt.

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 3 - Cash and Investments (Continued)

HCN Fund - Used to account for restricted cash and investments required under the HCN contract.

As of December 31, 2008, NoaNet held the following cash and investments:

Investment Type	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Cash	\$ 1,139,749	-	8.8%
Local Government Investment Pool	11,866,579	-	91.2%
Total cash and cash equivalents and bond reserve investments	\$ 13,006,328		100.0%

As of December 31, 2007, NoaNet held the following cash and investments:

Investment Type	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Cash	\$ 1,538,284	-	12.4%
Local Government Investment Pool	4,099,399	-	33.1%
Certificate of Deposit	6,759,000	0.08	54.5%
Total cash and cash equivalents and bond reserve investments	\$ 12,396,683		100.0%

The “weighted average maturity in years” calculation assumes that all investments are held until maturity.

Interest Rate Risk

NoaNet does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates. However, investment maturities are generally limited to less than two years and the State Treasurer’s Local Government Investment Pool (LGIP) has a weighted average portfolio maturity of less than 90 days.

Custodial Credit Risk

Custodial credit risk is that, in the event of the failure of the counterparty, NoaNet will not be able to recover the value of its investments that are in possession of an outside party.

In accordance with the Revised Code of Washington, NoaNet bond resolution and NoaNet internal investment policies, all investments are direct obligations of the U.S. Government or its Agencies, deposits in the LGIP, or deposits with financial institutions recognized as qualified public depositories of the State of Washington.

Note 3 - Cash and Investments (Continued)

NoaNet's cash deposits are covered by federal depository insurance or protected against loss by deposit with financial institutions recognized as qualified public depositories of the State of Washington. NoaNet intends to hold time deposits and securities until maturity.

Concentration of Credit Risk

Concentration of credit risk is the risk that, when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. NoaNet has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and investments. NoaNet policies allow the entire portfolio to be invested in direct United States Government guaranteed obligations, in the LGIP or Washington State depositories. The LGIP, a 2a7-like pool as defined by GASB Statement No. 31 and the Securities and Exchange Commission, invests in high quality, short term investments; all LGIP money market securities must be rated A-1 by Standard & Poors Corporation or P1 by Moody's Investor Services, Inc. The LGIP weighted average maturity must not exceed 90 days and no single investment may exceed 762 days in maturity. Withdrawals in excess of \$10 million are available on a one day notice. The LGIP Annual Report is available on the State Treasurer's website at <http://tre.wa.gov/LGIP/lgip.htm>.

Note 4 - Status of Operations

In 2000, NoaNet was organized to serve a unique niche in the telecommunications industry focusing on delivery of fiber optic based broadband access to underserved areas primarily in rural parts of Washington State. Today member networks have been built such that NoaNet's footprint extends into many rural counties in the State. The operating platform is open access and services reflect cost-based pricing as NoaNet is organized as a non-profit entity. NoaNet has continued to expand its offerings to include network coordinated services to its members such as network element monitoring, operations, sales and administrative services.

NoaNet's operating revenues increased 17% during 2008, resulting in positive operating income and cash flows and EBITDA. Continued increases in sales are projected (but not guaranteed) as a result of ongoing and expanded marketing and sales activities, some in coordination with NoaNet members and others (See Note 11).

NoaNet's thirteen members are committed both philosophically and financially to support NoaNet through the transition from a start-up to an on-going wholesale telecommunications service provider. Pursuant to a repayment agreement, the members and several former members are responsible for debt service payments on NoaNet's Revenue Bonds to the extent NoaNet does not have sufficient funds to make those payments after paying or providing for cost of maintenance and operations. The members also provide operating assessments approved by the Board. There were no such operating assessments in 2008 or 2007. Payments by members and former members under repayment agreements were approximately \$2.6 and \$3.1 million in 2008 and 2007, respectively. Authorized payments for 2009 are expected to be approximately \$1.6 million.

NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS

Note 4 - Status of Operations (Continued)

NoaNet believes it is favorably positioned considering the nature of the rural markets it serves and its members' continuing support and commitment to providing broadband to underserved regions of the State.

Note 5 - Property and Equipment

A summary of the balances and changes in property and equipment are as follows:

	<u>2007</u>	<u>Additions</u>	<u>Retirements/ Other</u>	<u>2008</u>
Equipment	\$ 21,264,927	\$ 2,615,930	\$ -	\$ 23,880,857
Structures	<u>6,342,126</u>	<u>57,128</u>	<u>-</u>	<u>6,399,254</u>
Total property and equipment	27,607,053	<u>2,673,058</u>	<u>-</u>	30,280,111
Less accumulated depreciation	<u>14,319,294</u>	<u>2,910,508</u>	<u>-</u>	<u>17,229,802</u>
Net property and equipment	<u>\$ 13,287,759</u>			<u>\$ 13,050,309</u>

Indefeasible Right of Use Agreement

Certain of NoaNet's assets support an indefeasible right of use agreement accounted for as an operating lease (See Note 11). These assets amounted to approximately \$6.5 million at December 31, 2008 and 2007.

Note 6 - Notes Payable

In 2008 NoaNet established a \$1.5 million non-revolving line of credit with a commercial lender in order to finance capital expenditures and network upgrades. The principal amount outstanding on the line of credit was \$1,500,000 at December 31, 2008. The note is due in twenty equal installments commencing February 1, 2009 and bears interest at either the prime rate less 1.0% or the LIBOR rate plus 1.5%. Rate options are determined by NoaNet. At December 31, 2008, NoaNet has selected the prime rate less 1.0%. The line matures on November 1, 2013, is collateralized by NoaNet's net revenues and member guarantees, and is in a junior lien position to the Telecommunications Network Revenue Bonds (See Note 7).

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 6 - Notes Payable (Continued)

In 2006 NoaNet established a \$5 million non-revolving line of credit with a commercial lender in order to finance capital expenditures. The principal amount outstanding on the line of credit was \$2,629,495 and \$3,650,220 at December 31, 2008 and 2007, respectively. The note is due in two quarterly installments of interest only and then eighteen quarterly installments of principal and interest commencing September 1, 2006 and bears interest at either the prime rate less .35% or the LIBOR rate plus 2.35%. Rate options are determined by NoaNet. At December 31, 2008 NoaNet has selected the prime rate less .35%. The line matures on June 1, 2011, is collateralized by NoaNet's net revenues and is in a junior lien position to the Telecommunications Network Revenue Bonds (See Note 7).

In 2003 NoaNet established a \$5 million non-revolving line of credit with a commercial lender in order to finance capital expenditures and network upgrades. The principal amount outstanding on the line of credit was \$76,923 and \$384,615 at December 31, 2008 and 2007, respectively. The note is due in thirteen equal quarterly installments commencing eighteen months after the date an amount is first drawn on each Tranche. Each Tranche bears interest at either the prime rate or the LIBOR rate plus 2.0%. Rate options are determined by NoaNet. At December 31, 2008, NoaNet has selected the LIBOR rate plus 2.0%. The line matured on March 31, 2009.

NoaNet covenants that it shall assess its members for their percentage share of principal and interest on the notes to the extent that NoaNet does not have sufficient funds to pay the notes after paying or providing for cost of maintenance and operations of NoaNet and after providing for the payment of principal and interest on NoaNet's outstanding Telecommunications Network Revenue Bonds (2001). NoaNet is also subject to certain financial and non-financial covenants.

Scheduled debt service payments on principal are as follows:

2009	\$ 1,427,924
2010	1,485,957
2011	617,537
2012	300,000
2013	<u>375,000</u>
	<u>\$ 4,206,418</u>

The prime rate and LIBOR rate as of December 31, 2008 was 3.25% and 2.00%, respectively.

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 7 - Telecommunications Network Revenue Bonds, 2001 (Taxable)

On July 15, 2001, NoaNet issued at par \$27,000,000 in Telecommunications Network Revenue Bonds. Interest on the bonds is payable semi-annually each June 1 and December 1. Principal of the bonds is payable annually on December 1; from December 1, 2003 through December 1, 2011 for the Serial Bonds; and December 1, 2016 for the Term Bonds. The Term Bonds have annual principal sinking fund requirements beginning December 1, 2012.

The members and several former members have entered into a Repayment Agreement under which they are responsible for debt payments to the extent NoaNet does not have sufficient funds to make those payments after paying or providing for cost of maintenance and operations.

	<u>2008</u>	<u>2007</u>
Serial bonds due through 2011 (interest from 6.34% to 6.44%)	\$ 5,785,000	\$ 7,490,000
7.09% term bonds due 2016	<u>12,575,000</u>	<u>12,575,000</u>
Total revenue bonds	18,360,000	20,065,000
Less current portion of revenue bonds	<u>1,810,000</u>	<u>1,705,000</u>
Long-term portion of revenue bonds	<u>\$ 16,550,000</u>	<u>\$ 18,360,000</u>

Scheduled debt service payments for principal and interest and principal maturities are as follows:

	<u>Sinking Funds</u>			<u>Principal Maturities</u>
	<u>Interest</u>	<u>Principal</u>	<u>Total</u>	
2009	\$ 1,261,349	\$ 1,810,000	\$ 3,071,349	\$ 1,810,000
2010	1,146,595	1,925,000	3,071,595	1,925,000
2011	1,023,588	2,050,000	3,073,588	2,050,000
2012	891,568	2,185,000	3,076,568	2,185,000
2013	736,651	2,335,000	3,071,651	2,335,000
2014 - 2016	<u>1,168,078</u>	<u>8,055,000</u>	<u>9,223,078</u>	<u>8,055,000</u>
	<u>\$ 6,227,829</u>	<u>\$ 18,360,000</u>	<u>\$ 24,587,829</u>	<u>\$ 18,360,000</u>

The Bond resolution requires the establishment and maintenance of bond proceeds, interest and reserve fund accounts, the purpose of which are to provide additional security as well as scheduled debt service payments. The reserve fund is to be maintained throughout the term of the bonds, in investments as permitted by the resolution.

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 7 - Telecommunications Network Revenue Bonds, 2001 (Taxable) (Continued)

During the year ended December 31, 2008, the following changes occurred in bonds payable:

	2007	Additions	Reductions	2008	Due Within One Year
Revenue Bonds	\$ 20,065,000	\$ -	\$ 1,705,000	\$ 18,360,000	\$ 1,810,000

Note 8 - Operating Leases and License

NoaNet maintains a long-term operating lease agreement with Bonneville Power Administration (BPA) to lease property for the placement of regenerator huts and appurtenant cables, vaults and devices. NoaNet also maintains a long-term license agreement with BPA to access public benefit fibers and commercial fibers along a 1,279 mile route in the Pacific Northwest. This license includes annual fiber fees and maintenance charges. The BPA agreements will expire in 2019 unless extended by mutual agreement. Expenses incurred under these agreements were \$1,558,625 and \$1,293,521 for the years ended December 31, 2008 and 2007, respectively.

In addition, NoaNet maintains several agreements with telecommunication providers for connectivity, dark fiber, equipment rooms and transport services, which require payment of monthly charges based upon usage or fixed fee arrangements. Certain leases include renewal options and additional monthly charges may be incurred for the use of capacity above the amounts contracted in the agreements. Expenses incurred under these agreements were \$4,710,298 and \$4,324,669 for the years ended December 31, 2008 and 2007, respectively.

Future minimum payments for the above leases and license are as follows:

2009	\$ 1,283,022
2010	1,348,862
2011	1,348,862
2012	1,348,862
2013	1,348,862
2014-2018	6,744,310
2019-2023	1,078,554
	\$ 14,501,334

During 2006, NoaNet entered into a five-year triple net facility lease with an option to renew for its network operations center. The minimum monthly rent is \$2,771.

NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS

Note 9 - Retirement Plans

Defined Benefit Plan

NoaNet maintains a single-employer defined benefit pension plan covering all eligible employees that is funded by required contributions from NoaNet. Annual contributions are based upon actuarial calculations (the most recent actuarial valuation was January 1, 2008). Following is the summary of plan information for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Projected benefit obligation at December 31	\$ 3,490,292	\$ 2,999,663
Fair value of plan assets at December 31	<u>1,691,089</u>	<u>1,690,737</u>
Under-funded amount	<u>\$ 1,799,203</u>	<u>\$ 1,308,926</u>
Accumulated benefit obligation	<u>\$ 3,099,184</u>	<u>\$ 2,680,627</u>
Accrued benefit obligation recognized in the balance sheet	<u>\$ 1,799,203</u>	<u>\$ 1,308,926</u>
	<u>2008</u>	<u>2007</u>
Actuarial assumptions as of December 31		
Discount rate	6.00%	6.00%
Expected return on plan assets	6.00%	6.00%
Rate of compensation increase	4.00%	4.00%
Pension benefits as of December 31		
Benefit cost	\$ 399,348	\$ 367,977
Employer contribution	-	249,000
Benefits paid	-	108,690
Benefits expected to paid for the years ending December 31:		
2009	\$ 7,156	
2010	51,931	
2011	52,667	
2012	53,341	
2013	111,533	
2014-2018	615,794	

Note 9 - Retirement Plans (Continued)

Benefits are paid at normal retirement generally in the form of a single life annuity and fully vest at six years of vesting service. Benefits may also be paid at death, disability and termination. Benefits are calculated at 2% of average monthly compensation times years of benefit service after May 1, 2004 plus benefits accrued prior to May 1, 2004. There were no substantive commitments for benefits other than as stated in the Plan. There are no significant liabilities other than for benefits. Plan assets are invested in certificates of deposit. Further information about the Plan may be requested from NoaNet Headquarters 5802 Overlook Ave NE Tacoma, WA 98422.

In January 2003 certain employees were transferred to NoaNet Oregon, a prior affiliate of NoaNet. The Plan was amended to freeze the benefits for these employees of NoaNet Oregon with additional years of service considered in the calculation of vesting as applicable.

Defined Contribution Plan

NoaNet sponsors a deferred compensation plan (Internal Revenue Code Section 457) for all eligible employees. The plan is entirely funded by voluntary employee contributions. All plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. In 2008 NoaNet started a program of matching contributions. The match is capped annually at \$2,400 per eligible employee. NoaNet made matching contributions in 2008 of \$2,639.

Note 10 - Self-Insurance

NoaNet is a member of the Public Utility Risk Management Services Self-Insurance Fund (PURMS). RCW Chapter 48.62 authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of RCW Chapter 54.16. The liability pool was formed on December 31, 1976 when certain PUDs in the State of Washington joined together by signing the Self Insurance Agreement (SIA) to pool their self-insured losses and jointly purchase insurance and administrative services. Nineteen members currently belong to PURMS.

Additional pools for property and health and welfare coverage were added in March 1997 and April 2000, respectively, under the same SIA and with the same membership. Each member elects the pools in which they participate. NoaNet has elected to participate in all three pools.

Members of each pool are assessed to maintain the designated self-insured retention. After termination, a member is still responsible for their share of contributions to the pools for any unresolved, unreported, and in-process claims for the period they were a signatory to the agreement. The pools are fully funded by its current and former members. Claims are filed by members with the Administrator, Pacific Underwriters, Seattle, WA, which has been contracted to perform claims adjustment and loss prevention services.

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 10 - Self-Insurance (Continued)

The pools are governed by a Board of Directors which is comprised of one designated representative from each participating member. The Administrator and an elected Administrative Committee are responsible for conducting the business affairs of the pools.

Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

A description of each pool follows:

Liability Pool

The Liability Pool has a \$1 million self-insured retention with \$2 million of reserves, increasing to \$3 million over the next three years. In addition, the Fund purchases \$60 million of excess general liability insurance and \$10 million of professional liability insurance over the \$1 million retention. The Fund also purchases \$35 million in directors and officers liability coverage with a retention of \$500,000. The deductible is \$250.

Property Pool

The majority of the property in the Property Pool has a \$250,000 self-insured retention. Certain classes of property have higher retention requirements up to \$750,000. Reserves for the Property Pool are set at \$750,000. In addition, the Fund purchases \$150 million of excess insurance over the \$250,000 (or higher) retention level. The deductible varies but for most classes of property it is \$250.

Health & Welfare Pool

The Health & Welfare Risk Pool (H&W Pool) provides health and welfare insurance for NoaNet employees and dependants in accordance with the terms of the self insurance agreement (SIA) and the terms of each member's respective coverage booklet, provided to employees.

The H&W Pool maintains reserves approximately equal to the sum of three times the amount of each member's historical average monthly H&W claims. The H&W Pool's ongoing operations are financed through monthly assessments of its participating members. Under such assessments, each member of the H&W Pool pays the Pool the cost the Pool incurred during the preceding month for H&W claims for member employee coverage as well as the member's share, determined under the H&W Pool general assessment formula, of shared H&W costs.

Shared H&W costs include administrative expenses incurred by the Pool, premiums for stop-loss insurance, PPO charges and shared H&W claims. A H&W claim becomes a "shared" expense when and to the extent the cost of the claim exceeds the stop-loss point applicable to a particular member's employee or when the cost of the claim makes the total amount a particular member has paid towards the claims of its employees exceed the stop-loss point applicable to that member.

All stop-loss points are determined for each member and its employees pursuant to the H&W Pool general assessment formula. During 2008 and 2007 PURMS maintained stop-loss insurance with a commercial carrier in the aggregate amounts of \$180,000 and \$170,000, respectively, per insured.

Note 11 - Regional Service Provider Transport Services

Primary Transport Services

NoaNet serves as the primary transport provider for a major telecommunications company in the State of Washington to carry traffic for a number of schools and public agencies to several sites in rural areas of the State. This contract began in 2003 and had a term of four years. The contract was renewed for an additional two years in 2007. Rates are based upon the level of traffic. Revenue for the years ended December 31, 2008 and 2007 was \$1,681,772 and \$2,439,035, respectively.

Advanced Transport Services

NoaNet serves as the backbone transport provider for another major telecommunications company in the State of Washington to carry advanced services for a number of schools and public agencies to several sites in rural areas of the State. This program was implemented in 2004 and is extending and expanding beyond the original terms and duration of the agreement. Rates are based upon the level of traffic. Revenue for the years ended December 31, 2008 and 2007 was \$2,815,415 and \$1,906,809, respectively.

Warrenton-Westin Project

In 2004 NoaNet contracted with a major telecommunications company in the State of Alaska to construct, maintain and operate a network extending from Warrenton, OR to the Westin Building in Seattle, WA. The equipment is owned by the telecommunications company and at the end of five years the equipment can be purchased by NoaNet for a nominal amount. Over the course of the five years, NoaNet maintains and operates the network. Revenue for the years ended December 31, 2008 and 2007 was \$278,420 and \$282,287, respectively.

CTC Project

In 2006 NoaNet contracted with a major customer as a primary transport provider. The contract has a term of ten years. Revenue for the years ended December 31, 2008 and 2007 was \$1,638,733 and \$1,168,786, respectively.

HCN Project

In 2006 NoaNet entered into a 10-year Indefeasible Right of Use (IRU) agreement with a major customer to provide communication transport capacity. Amounts received under the IRU agreement are to be placed in a special fund (the High Capacity Network Fund) and drawn in accordance with an established schedule and as otherwise permitted under the IRU agreement. The IRU agreement is being accounted for as an operating lease and is reflected in the accompanying balance sheet as a contract receivable and deferred revenue. Revenue is being recognized on a straight-line basis over the 10-year term of the agreement beginning in 2007 (\$1.9 million annually). The following is the schedule of remaining amounts to be received under the agreement:

2009	<u>\$ 2,745,000</u>
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**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 11 - Regional Service Provider Transport Services (Continued)

Revenue Concentration

During the years ended December 31, 2008 and 2007, NoaNet had sales to customers who individually accounted for greater than 10% of operating revenue. Sales to four customers totaled 53% and 60% of operating revenue for 2008 and 2007, respectively.

Note 12 - Related Party Transactions

As indicated in Note 1, NoaNet provides communication transport and related services to its members. Accounts receivable from members at December 31, 2008 and 2007 were approximately \$289,000 and \$300,000, respectively, and revenue for the years ended December 31, 2008 and 2007 was approximately \$2,300,000 and \$1,300,000, respectively.

SUPPLEMENTAL INFORMATION

**NORTHWEST OPEN ACCESS NETWORK
SCHEDULE OF OPERATING EXPENSES**

	<u>YEAR ENDED DECEMBER 31,</u>	
	<u>2008</u>	<u>2007</u>
Fiber optic and related licenses and leases	\$ 6,268,923	\$ 5,618,190
Depreciation	2,910,508	2,513,992
Network support and operations center	1,619,910	1,795,338
Marketing and member services	1,213,467	1,242,471
General and administrative	603,225	489,101
Administrative salaries	406,952	268,824
Taxes and licenses	321,286	303,113
Special projects	207,876	74,834
Professional fees	168,183	171,913
Bad debt expense	204	-
	<u>\$ 13,720,534</u>	<u>\$ 12,477,776</u>

Donald S. Cohen
Direct: (206) 676-7531
E-mail: dcohen@gth-law.com

August 12, 2009

Assistant Secretary
National Telecommunications and Information Administration
U.S. Department of Commerce
Washington, D.C. 20230

Re: Northwest Open Access Network

Dear Sir:

We are general counsel for Northwest Open Access Network (the "Applicant"). In such capacity, we acted as counsel to the Applicant in connection with its ability to apply to the Broadband Technology Opportunities Program ("BTOP"), as referenced in the Notice of Funds Availability ("NOFA").

We are of the opinion that:

(a) The Applicant is a duly organized and existing nonprofit mutual corporation under the laws of the State of Washington.

(b) The Applicant has corporate power: (1) to execute and deliver the type of grant agreement described in the NOFA; and (2) to perform all acts required to be done by it under the type of grant agreement described in the NOFA.

(c) No legal proceedings have been instituted or are pending against the Applicant, the outcome of which would adversely affect the Applicant's ability to perform the duties under the type of grant agreement described in the NOFA, and there are no judgments against the Applicant which would adversely affect the Applicant's ability to perform the duties under the type of grant agreement described under the NOFA.

The opinions expressed above are subject to and qualified by the following:

Reply to:

Seattle Office
600 University, Suite 2100 (206) 676-7500
Seattle, WA 98101 (206) 676-7575 (fax)

Tacoma Office
1201 Pacific Ave., Suite 2100 (253) 620-6500
Tacoma, WA 98402 (253) 620-6565 (fax)

(a) We have not reviewed the actual BTOP grant agreement, which, to the best of our knowledge, was not available at the time this legal opinion was executed.

(b) We have assumed that all factual representations, warranties, covenants, recitals, and facts set forth in the Applicant's submission are accurate, current, and complete, and we have not undertaken to independently verify their accuracy; provided, however, that we have no actual current knowledge that any of the foregoing are inaccurate in any material respect.

(c) We are admitted to practice in the State of Washington, and the foregoing opinions are limited to the internal laws of the State of Washington. We express no opinion as to the laws of any other jurisdiction.

(d) We express no opinion other than those expressly set forth herein. We assume no obligation to supplement these opinions if any applicable laws change after the date hereof, or if we become aware of any facts or information after the date hereof that might change the opinions expressed herein.

Sincerely,

A handwritten signature in black ink, appearing to read "Donald S. Cohen", with a long horizontal flourish extending to the right.

Donald S. Cohen

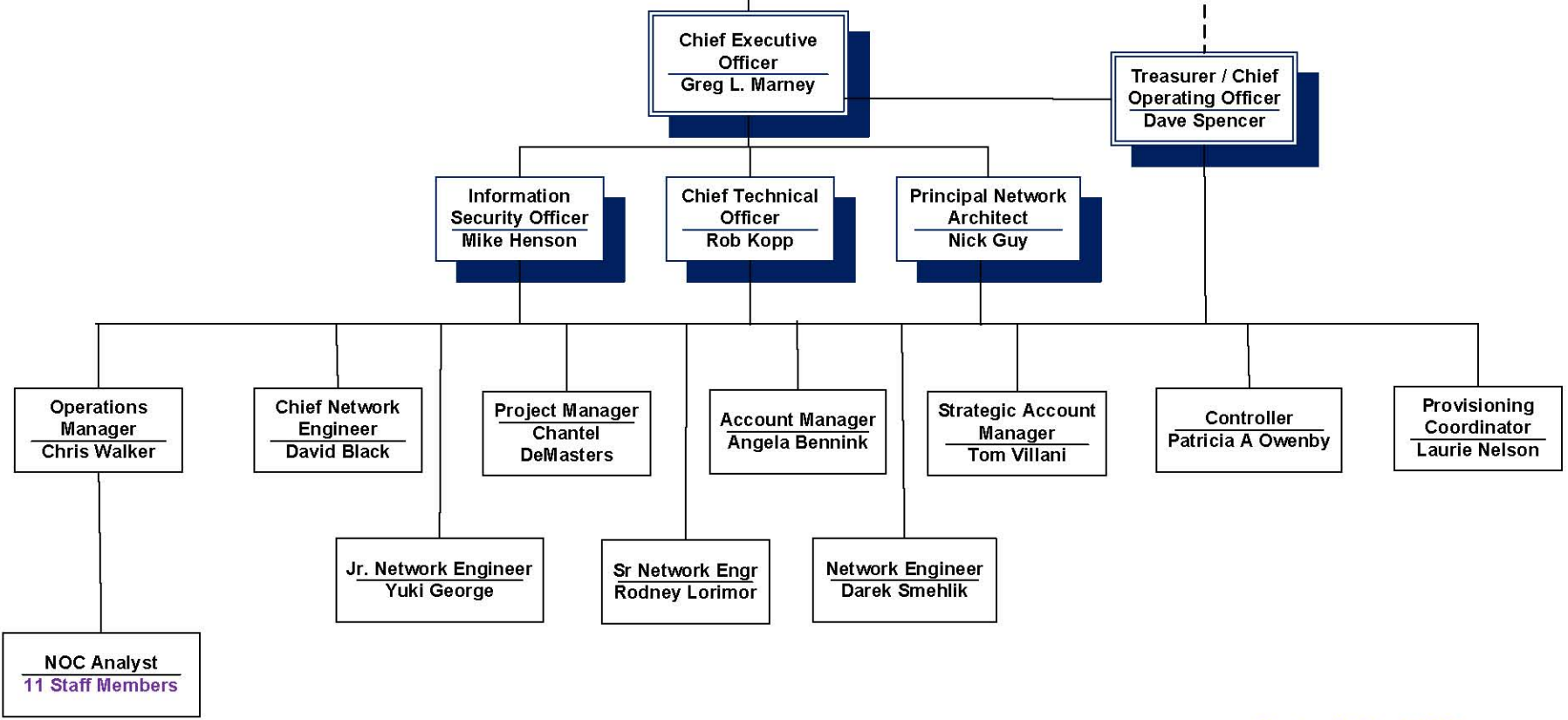
DSC:kha

cc: Greg L. Marney
Chief Executive Officer
Northwest Open Access Network



NoaNet Members
 Benton PUD; Chelan PUD; Clallam PUD; Douglas PUD; Energy Northwest; Franklin PUD; Grant PUD;
 Jefferson PUD; Kitsap PUD; Mason #3 PUD; Okanogan PUD; Pacific PUD; Pend Oreille PUD

NoaNet Board
 Fred Mitchell - President;; Dave Siburg - Vice President; John Smith - Secretary;
 Doug Miller - Director; Ernie Bolz - Director; John Jordan - Director; Warren Miller - Director



DETAIL OF PROJECT COSTS

PLEASE COMPLETE THE TABLE BELOW FOR THE DIFFERENT CATEGORIES OF EQUIPMENT THAT WILL BE REQUIRED FOR COMPLETING THE PROJECT. EACH CATEGORY SHOULD BE BROKEN DOWN TO THE APPROPRIATE LEVEL FOR IDENTIFYING

UNIT COST

SERVICE AREA or COMMON NETWORK FACILITIES:	Eligibility (Yes/No)	Unit Cost	No. of Units	Total Cost	Support of Reasonableness
NETWORK & ACCESS EQUIPMENT					
Switching					
Routing					
Transport	Optical Transport	Yes			Costs obtained from similar projects
	Microwave Transport	Yes			Costs obtained from similar projects
Access	Layer 2 Access Equipment	Yes			Costs obtained from similar projects
Other	Equipment Applications	Yes			Costs obtained from similar projects
OUTSIDE PLANT					
Cables	Fiber Cable Costs	Yes			Costs derived from similar projects
Conduits - Underground Construction	Underground Construction	Yes			Costs derived from similar projects
Ducts					
Poles and Aerial Constr	Aerial Construction	Yes			Costs derived from similar projects
Towers	MW Towers	Yes			Costs derived from similar projects
Repeaters					

DETAIL OF PROJECT COSTS

SERVICE AREA or COMMON NETWORK FACILITIES:	Eligibility (Yes/No)	Unit Cost	No. of Units	Total Cost	Support of Reasonableness
NETWORK & ACCESS EQUIPMENT					
Other					
BUILDINGS					
New Construction					
Pre-Fab Huts	Pre-Fab Huts	Yes			Costs derived from similar projects
Improvements & Renovation					
Other	Land	Yes			Costs derived from similar projects
CUSTOMER PREMISE EQUIPMENT					
Modems					
Set Top Boxes					
Inside Wiring					
Other					

BILLING SUPPORT AND OPERATIONS SUPPORT SYSTEMS					
Billing Support Systems					
Customer Care Systems					
Other Support					

DETAIL OF PROJECT COSTS

SERVICE AREA or COMMON NETWORK FACILITIES:	Eligibility (Yes/No)	Unit Cost	No. of Units	Total Cost	Support of Reasonableness
OPERATING EQUIPMENT					
Vehicles	Work Equipment	Yes			Costs derived from similar projects
Office Equipment/ Furniture					
Other	WA State Business & Occupation Tax	Yes			Costs derived from similar projects
PROFESSIONAL SERVICES					
Engineering Design	Engineering	Yes			Costs from similar projects
Project Management	Project Management	Yes			Costs from similar projects
Consulting					
Other	ROW Procurement	Yes			Costs derived from similar projects
TESTING					
Network Elements					
IT System Elements					
User Devices					
Test Generators					
Lab Furnishings					
Servers/ Computers					

DETAIL OF PROJECT COSTS

SERVICE AREA or COMMON NETWORK FACILITIES:	Eligibility (Yes/No)	Unit Cost	No. of Units	Total Cost	Support of Reasonableness
OTHER UPFRONT COSTS					
Site Preparation					
Other					