

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

In the Matter of:

OCT 11 2007

NOTICE OF INTENT OF NORTH)
CENTRAL TELEPHONE)
COOPERATIVE CORPORATION)
TO FILE RATE APPLICATION)

PUBLIC SERVICE
COMMISSION

Case No. 2007-00162

Applicant North Central Telephone Cooperative Corporation ("North Central"), by counsel, and pursuant to KRS 278.180, 807 KAR 5:001 §§ 8 and 10, and 807 KAR 5:011 §§ 6 and 9, applies for authority to adjust its rates and charges for basic local exchange service and gives notice of its intention to increase the same rates and charges effective November 12, 2007. In support of its application, North Central states as follows.

1. The full name and post office address of North Central is North Central Telephone Cooperative Corporation, P.O. Box 70, 872 Highway 52 Bypass East, Lafayette, Tennessee 37083. Pursuant to KRS 278.180, 807 KAR 5:001 §§ 8 and 10, and 807 KAR 5:011 §§ 6 and 9, North Central applies for authority to adjust its rates and charges for basic local exchange service effective November 12, 2007.

2. North Central is a rural incumbent local exchange carrier serving essentially all of the rural areas in Allen County, Kentucky. North Central has approximately 5,200 residential customers and 488 business customers in Kentucky. North Central also has approximately 13,652 residential customers and 2,327 business customers in Tennessee.

3. North Central requires an adjustment in its rates and charges for basic local exchange service because the company's expenses are growing at a faster pace than its revenues, and the company has not increased its basic rates since 1984. Competition from wireless, cable TV providers and the Internet itself draw demand away from the public switched network, placing

pressure on the company's traditional retail service revenues. As North Central's financial reports demonstrate, the company can no longer sustain itself at its current service rates. Its historic and projected financials clearly show that absent a rate increase it will lack the funds necessary to survive long term.

4. North Central's annual reports, including the annual report for calendar year 2006, are on file with the Commission in accordance with 807 KAR 5:006 § 3(1).

5. A certified copy of North Central's articles of incorporation and all amendments thereto, as well as a certificate of authorization dated September 17, 2007, were recently filed in *In the matter of: The Application of North Central Telephone Cooperative Corporation for a Certificate of Public Convenience and Necessity for the Construction of Fiber Optic Cable in Allen County, Kentucky*, Case No. 2007-00432.

7. North Central does not operate under an assumed name, and therefore no certificate of assumed name is required pursuant to KRS 365.015.

6. North Central's proposed tariff, in a form complying with 807 KAR 5:011, is attached hereto as Exhibit 1. The proposed effective date is November 12, 2007, thirty-two (32) days from the date this application is being filed.

7. North Central's proposed tariff changes are shown in the tariff attached hereto as Exhibit 1 by the following means: (i) additions are indicated in bold; and (ii) deletions are indicated by strikethrough.

8. Customer notice has been given in compliance with 807 KAR 5:001 § 10(3)-(4). A copy of this notice is attached hereto as Exhibit 2.

9. On April 24, 2007, North Central filed with the Public Service Commission of the Commonwealth of Kentucky (the "Commission") written notice of its intent to file this application.

(See First Amended Advance Notice of Intent to File Rate Application attached as Exhibit 3.) North Central reiterated its intention to file this application by letter dated August 6, 2007, a copy of which is attached hereto as Exhibit 4. As indicated in both notices, North Central's application is supported by a fully-forecasted test period. As further indicated therein, North Central provided the Attorney General for the Commonwealth of Kentucky, Utility Intervention and Rate Division, with a copy of both notices.

10. Pursuant to 807 KAR 5:001, section 10(8)(a), charts containing financial data for the forecasted period presented as pro forma adjustments to the base period are attached as Exhibit 5. In accordance with 807 KAR 5:001, section 10(8)(b), forecasted adjustments are limited to the twelve (12) months immediately following the suspension period. Additionally, capitalization and net investment rate base are based on a thirteen (13) month average for the forecasted period pursuant to 807 KAR 5:001, section 10(8)(c).

11. Pursuant to 807 KAR 5:001, section 10(9)(a), attached is prepared testimony supporting North Central's application. The testimony of F. Thomas Rowland, President and CEO of North Central, is attached as Exhibit 6. Mr. Rowland's testimony explains why North Central seeks a rate increase, and addresses North Central's existing programs to achieve improvements in efficiency and productivity.

12. In addition to Mr. Rowland's testimony, North Central's application is supported by the testimony of Gentry B. Underhill, Jr. (attached as Exhibit 7) and Thomas M. Strait (attached as Exhibit 8). Mr. Underhill and his firm, Totherow, Haile, and Welch, serve as North Central's outside auditor. Mr. Underhill's testimony addresses North Central's present earnings levels and revenue requirement. Mr. Strait is a principal in the public utility consulting firm of Washington.

Utility Group, LLC. His testimony addresses North Central's financial condition as reflected by various financial measures including Times Interest Earned Ratio ("TIER").

13. As more fully explained in North Central's request for waiver of certain filing requirements filed contemporaneously with this application, North Central seeks a waiver of the requirement to file a capital construction budget containing a three-year forecast of construction expenditures. North Central does not normally maintain a capital construction budget containing a three-year forecast. Attached hereto as Exhibit 9, however, is North Central's capital construction budget for 2007. In addition, financial data regarding North Central's pending capital construction project to deploy fiber optic cable in Allen County, Kentucky is appended to North Central's application for a certificate of public convenience and necessity recently filed in Case No. 2007-00432.

14. North Central prepared the financial data for the forecast period (attached as Exhibit 5) using the company's actual revenue and expenditures for calendar year 2006 and year-to-date 2007 reflecting known or anticipated adjustments in revenues and expenses. The company then projected a \$3.00 residential and \$5.00 business rate increase applied across its average anticipated lines for the forecasted period.

15. In accordance with 807 KAR 5:001, section 10(9)(d), annual and monthly budgets for the twelve months preceding the filing of this application, base period and forecasted period are attached hereto. Annual and monthly budgets for the twelve months preceding the filing of this application and the base period are attached as Exhibit 10. The annual and monthly budget for the forecasted year is attached as Exhibit 5.

16. In accordance with 807 KAR 5:001, section 10(9)(e), an attestation signed by F.

~~Thomas Rowland, President and CEO of North Central, is attached as Exhibit 11.~~

17. As more fully explained in North Central's request for waiver of certain filing requirements filed contemporaneously with this application, North Central seeks a waiver of the requirement found in 807 KAR 5:001, section 10(9)(f) to provide information regarding each major construction project that constitutes five percent (5%) or more of North Central's annual construction budget. The only construction project that falls within this category is North Central's plan to deploy fiber optic cable in Allen County, Kentucky. Detailed information regarding the project, including estimated construction dates and costs, were provided by North Central to the Commission in *In the matter of: The Application of North Central Telephone Cooperative Corporation for a Certificate of Public Convenience and Necessity for the Construction of Fiber Optic Cable in Allen County, Kentucky*, Case No. 2007-00432.

18. As more fully explained in North Central's request for waiver of certain filing requirements filed contemporaneously with this application, North Central seeks a waiver of the requirement found in 807 KAR 5:001, section 10(9)(g) to provide information regarding all construction projects that constitute five percent (5%) or less of North Central's annual construction budget. All of the planned construction projects for Allen County, Kentucky relate to the fiber deployment described in paragraph 17 above.

19. As explained in paragraph 13 above, and more fully explained in North Central's request for waiver of certain filing requirements filed contemporaneously with this application, North Central seeks a waiver of the requirement to file a capital construction budget containing a three-year forecast of construction expenditures. North Central maintains an annual construction budget only. It does not normally maintain a capital construction budget containing a three-year forecast. Therefore, North Central also seeks a waiver of the requirement found in 807 KAR 5:001, ~~section 10(9)(h) to provide financial forecasts for each of the three forecasted years included in the~~

capital construction budget. Moreover, North Central states that detailed information regarding North Central's pending deployment of fiber optic cable in Allen County has already been filed with the Commission in *In the matter of: The Application of North Central Telephone Cooperative Corporation for a Certificate of Public Convenience and Necessity for the Construction of Fiber Optic Cable in Allen County, Kentucky*, Case No. 2007-00432. In addition, detailed annual and monthly budgets for the base period and forecasted period are attached hereto as Exhibits 5 and 10.

20. The requirement found in 807 KAR 5:001, Section 10(9)(i) that the applicant submit the most recent Federal Communications Commission ("FCC") audit report is inapplicable to North Central. North Central has not been subject to an FCC audit and therefore does not have a FCC audit report to submit to the Commission.

21. The requirement found in 807 KAR 5:001, Section 10(9)(j) that the applicant submit the prospectuses of the most recent stock or bond offerings is inapplicable to North Central. North Central is a cooperative owned by its members.

22. Pursuant to 807 KAR 5:001, Section 10(9)(k), applicants are required to submit the Automated Reporting Management Information System ("ARMIS") Report and PSC Form T. North Central is not an ARMIS reporting company; therefore, the requirement to submit an ARMIS Report is inapplicable to North Central. North Central's most recent PSC Form T, filed electronically with the Commission on March 30, 2007, is attached hereto as Exhibit 12.

23. In accordance with 807 KAR 5:001, Section 10(9)(l), North Central's most recent annual report to its members and statistical supplements for the most recent five years prior to the filing date of this application are attached hereto as Exhibit 13.

24. In accordance with 807 KAR 5:001, Section 10(9)(m), North Central's current chart of accounts is attached hereto as Exhibit 14.

25. In accordance with 807 KAR 5:001, Section 10(9)(n), North Central's most recent twelve months of monthly managerial reports providing financial results of operations in comparison to forecast are attached as Exhibit 15.

26. In accordance with 807 KAR 5:001, Section 10(9)(o), complete monthly budget variance reports for the twelve months prior to base period and each month of base period to date are attached hereto as Exhibit 15. The monthly budget variance reports are presented to the Board of Directors at the monthly meetings and therefore serve as the monthly managerial reports as indicated in paragraph 25 above. Given the monthly budget variance reports are presented during the Board of Directors' meetings, the reports do not contain narrative explanations as any necessary explanations are presented orally.

27. The requirement found in 807 KAR 5:001, Section 10(9)(p) that the applicant submit the Securities and Exchange Commission's annual report for the most recent two years, Form 10-Ks and any Form 8-Ks issued during the prior two years, and any Form 10-Qs issued during the past six quarters is inapplicable to North Central. North Central is a cooperative owned by its members.

28. In accordance with 807 KAR 5:001, Section 10(9)(q), North Central's most recent independent auditor's report is attached as Exhibit 16.

29. As North Central is a cooperative, it does not have quarterly reports to stockholders to submit to the Commission. North Central's annual reports for 2002 – 2006 are attached as Exhibit 13, however.

30. In accordance with 807 KAR 5:001, Section 10(9)(s), a summary of North Central's most recent depreciation study, inclusive of depreciation rates for the current and base periods, is attached as Exhibit 17.

31. North Central used readily-available commercial computer software to develop schedules and work papers associated with this application. North Central and its consultants state that they utilized Microsoft Office 2003 and Acrobat Writer 7.0 to prepare this application, the written notices of same to the Commission, and the witness testimony and exhibits. Accounting and billing data used to populate the exhibits is pulled from the company's end user and CABS billing and accounting program "CommSoft Classic" run on North Central's A/S 400.

32. North Central did not have any amounts charged or allocated to it by an affiliate or general or home office, nor did it pay any monies to an affiliate or general or home office during the base period or during the previous three calendar years. Therefore, the requirement found in 807 KAR 5:001, Section 10(9)(u) is inapplicable.

33. North Central has fewer than 50,000 access lines; therefore, in accordance with 807 KAR 5:001, Section 10(9)(w) it is not required to file cost of service studies.

34. As more fully explained in North Central's request for waiver of certain filing requirements filed contemporaneously with this application, North Central seeks a waiver of the requirements found in 807 KAR 5:001, Section 10(10)(a) – (e), all of which concern filing jurisdictional summaries of financial data for the base and forecasted periods. North Central does not establish its access rates on a forecasted basis. North Central is a member of the National Exchange Carrier Association ("NECA") which prepares forecasts. In addition, North Central states that comparable financial data is attached to this application in Exhibit 5 (financial data for the forecasted period), Exhibit 10 (annual and monthly budgets for the twelve months preceding filing date and for the base period), Exhibit 13 (annual reports), Exhibit 15 (complete monthly budget variance reports for the twelve months prior to base period and the base period), Exhibit 16 (independent auditor's report) and Exhibit 18 (FCC Part 36 study for 2006).

35. As more fully explained in North Central's request for waiver of certain filing requirements filed contemporaneously with this application, North Central seeks a waiver of the requirement found in 807 KAR 5:001, Section 10(10)(f) to submit summary schedules for both base and forecasted periods of "organization membership dues; initiation fees; expenditures at country clubs; charitable contributions; marketing, sales, and advertising expenditures; professional service expenses; civic and political activity expenses; expenditures for employee parties and outings; employee gift expenses; and rate case expenses." North Central does not typically prepare forecasts of this nature in its normal course of business, nor does it typically track these expenses. North Central states, however, that a summary of the expenditures listed above for the base period to date is attached as Exhibit 19.

36. In accordance with 807 KAR 5:001, Section 10(10)(g), North Central's analysis of payroll costs including employee benefits, payroll taxes, straight time and overtime hours, and executive compensation by title for 2006 and 2007 to date is attached as Exhibit 20. Additionally, an analysis of employee positions and functions may be found in the testimony of Gentry B. Underhill, Jr. attached as Exhibit 7.

37. As more fully explained in North Central's request for waiver of certain filing requirements filed contemporaneously with this application, North Central seeks a waiver of the requirement found in 807 KAR 5:001, Section 10(10)(h) to provide the Commission with a computation of the gross revenue conversion factor for the forecasted period. North Central does not calculate or otherwise utilize a gross revenue factor in its normal course of business. Comparable information, however, is provided in the revenue requirement testimony of Gentry B. Underhill, Jr. (attached as Exhibit 7) and the TIER testimony of Thomas M. Strait (attached as Exhibit 8).

38. As more fully explained in North Central's request for waiver of certain filing requirements filed contemporaneously with this application, North Central seeks a waiver of the requirement found in 807 KAR 5:001, Section 10(10)(i) to provide comparative income statements, revenue statistics and sales statistics for the five calendar years preceding the date of filing of this application, the base period, the forecast period and two calendar years beyond the forecast period. North Central states that comparable information may be found elsewhere in this application. North Central's audited financial statements for 1997 through 2005 are attached as Exhibit 21. Each statement provides comparative income statements and revenue statistics. The audited financial statement for 2006 is North Central's most recent independent auditor report and is attached as Exhibit 16. Comparable financial data regarding income and revenue for the base period and forecast period may be found in Exhibit 5 (*financial data for the forecast period*) and Exhibit 10 (*annual and monthly budget for the base period*). North Central states it would be unduly burdensome to prepare comparative income statements for two calendar years beyond the forecast period.

39. As more fully explained in North Central's request for waiver of certain filing requirements filed contemporaneously with this application, North Central seeks a waiver of the requirement found in 807 KAR 5:001, Section 10(10)(j) to provide a cost of capital summary for both the base and forecasted period. North Central's preparation of cost of capital summaries is limited to its audited financial statements that provide a borrowing summary reflecting cost of capital. The audited financial statements are attached as Exhibit 21. Further explanation of the cost of capital is provided in Thomas M. Strait's testimony attached as Exhibit 8.

40. In accordance with 807 KAR 5:001, Section 10(10)(k), attached as Exhibit 21 are ~~North Central's audited financial statements for 1997 through 2005 containing comparative financial~~

data and earnings measures. The audited financial statement for 2006, North Central's most recent independent auditor report, is attached as Exhibit 16. Comparable financial data for the base period and forecast period may be found in Exhibit 5 (financial data for the forecast period) and Exhibit 10 (annual and monthly budget for the base period).

41. In accordance with 807 KAR 5:001, Section 10(10)(l), North Central states that it proposes to raise its basic rate for residential service from \$11.90 to \$14.90, and its basic rate for business service from \$18.03 to \$23.03. A detailed explanation for the rate increase is contained in the testimony of F. Thomas Rowland attached as Exhibit 6.

42. In accordance with 807 KAR 5:001, Section 10(10)(m), North Central's revenue summary for both base and forecasted periods including a billing analysis for all customer classes is attached as Exhibit 22.

43. In accordance with 807 KAR 5:001, Section 10(10)(n), North Central's bill comparison under present and proposed rates for all customer classes is included in Exhibit 22.

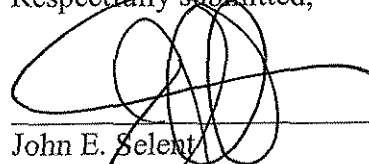
44. In accordance with 807 KAR 5:001, Section 10(3)(a), North Central states that it seeks a \$3.00 increase in its basic residential rates. This represents approximately a twenty-five percent (25%) increase in residential rates. North Central also seeks a \$5.00 increase in its basic business rates. This represents approximately a twenty-eight percent (28%) increase in business rates.

45. In accordance with 807 KAR 5:001, Section 10(3)(b), North Central states that the present and proposed rates for each customer class to which the change would apply are reflected in the proposed tariff attached as Exhibit 1.

46. In accordance with 807 KAR 5:001, Section 10(3)(d), North Central states that typical residential and business access lines will experience a rate increase of 9.8% and 14.9%, respectively.

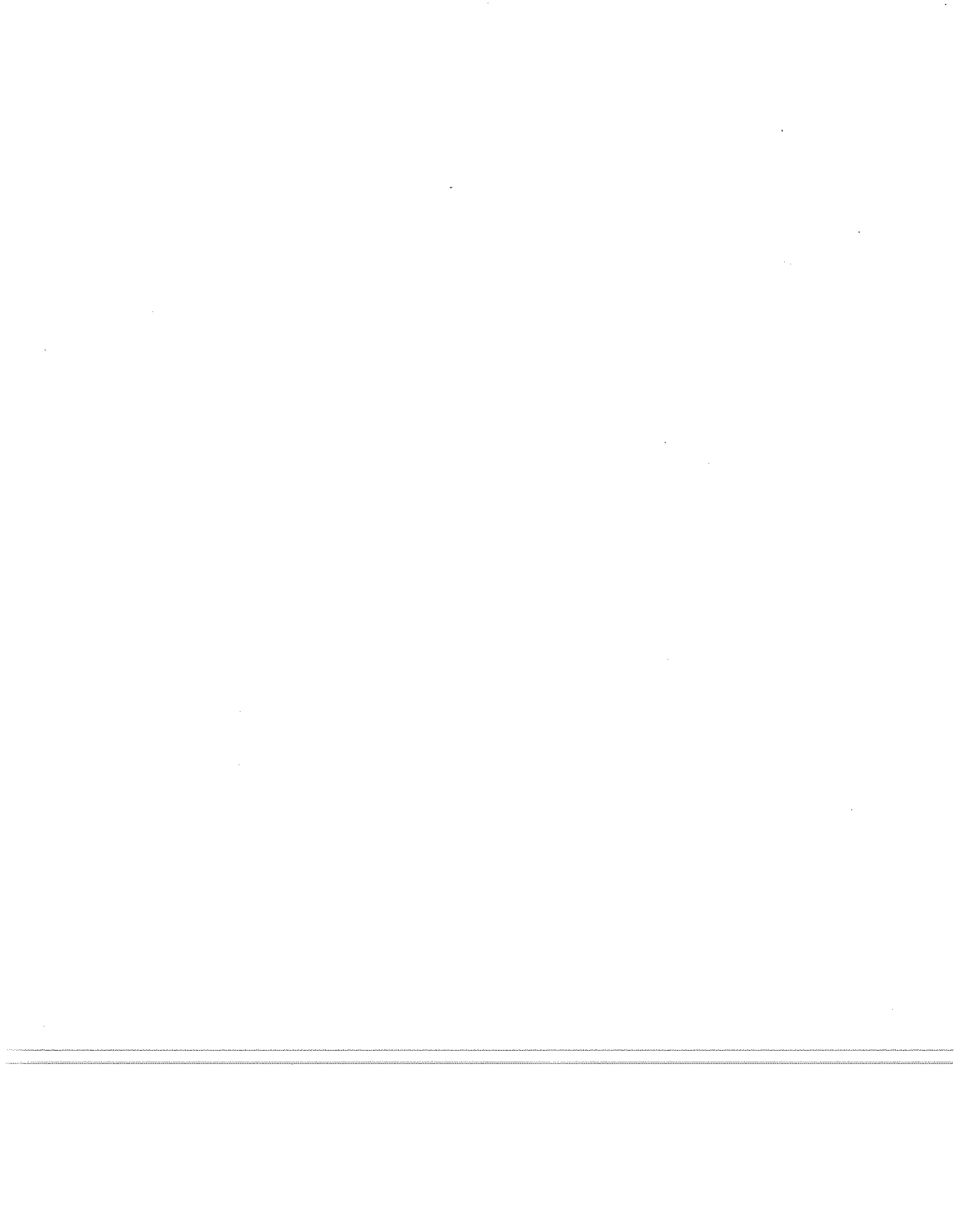
47. In accordance with 807 KAR 5:001, Section 10(4), and as stated in paragraph 8 above, a copy of the notice provided to the public regarding the proposed rate increase is attached as Exhibit 2.

Respectfully submitted,



John E. Selem
Holly C. Wallace
Edward T. Depp
DINSMORE & SHOHL LLP
1400 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202
Phone: (502) 540-2300
Fax: (502) 585-2207
*Counsel to North Central Telephone
Cooperative Corporation*

125886v1



BASIC LOCAL EXCHANGE SERVICE (Cont'd)

C.2 Local Calling Areas

C.2.1 General

The rates in this Tariff entitle callers to receive local calling (i.e., toll-free) to the local calling areas indicated in Section C.2.2, below. Calls to areas not listed in Section C.2.2 will be subject to applicable long distance charges by the long distance provider.

C.2.2 List of Local Calling Exchanges

Exchange (NPA is 615 unless otherwise noted)

Hillsdale (633)
Westmoreland (644)
Green Grove (655)
Lafayette (666,688)
Pleasant Shade (677)
Red Boiling Springs (699)
Defeated (774)
Bethpage (841)
Oakgrove (888)
Scottsville Rural (270-618, 270-622)

In addition to local calling to all North Central exchanges subscribers in these exchanges will receive local calling to any exchange within the subscriber's county.

C.3 Local Exchange Rates

Rates do not include a charge for instrument or other customer premises equipment. Rates for additional services, including installation charges, are shown elsewhere in this Tariff.

		<u>Monthly Rate</u>	
1.	Residential Service	\$11.90 \$14.90	(I)
2.	Business Service	\$18.03 \$23.03	(I)

Issue Date: October 11, 2007

Effective Date: November 12, 2007

Issued By: _____

E. Thomas Rowland, President / CEO

BASIC LOCAL EXCHANGE SERVICE (Cont'd)

C.8 Exchange Trunk Service

C.8.1 Description

Exchange Trunk Service provides a Customer with a single, voice-grade, analog telephonic communications channel that can be used to place or receive one call at a time. Exchange Trunks are provided for connection of Customer-provided private branch exchanges (PBX) to the public switched telecommunications network. Each Trunk is provided with touch-tone signaling.

C.8.2 Tie Lines

Tie Lines to connect two manual switchboards or the switching equipment of two dial systems, or to connect a manual board with a dial unit are furnished at the rates specified in Section K.3 of this Tariff for Off-Premise extension rates.

C.8.3 Monthly Service Rates

Rates do not include a charge for instrument or other customer premises equipment. Rates for additional services shown elsewhere in this Tariff.

	<u>Monthly Rate</u>	
Per Trunk	\$18.03	\$23.03 (I)

Issue Date: October 11, 2007

Effective Date: November 12, 2007

Issued By: *F. Thomas Rowland*

F. Thomas Rowland, President / CEO

PUBLIC TELEPHONE SERVICE (Cont'd)

G.3 Rates and Charges (a)(b)(c)

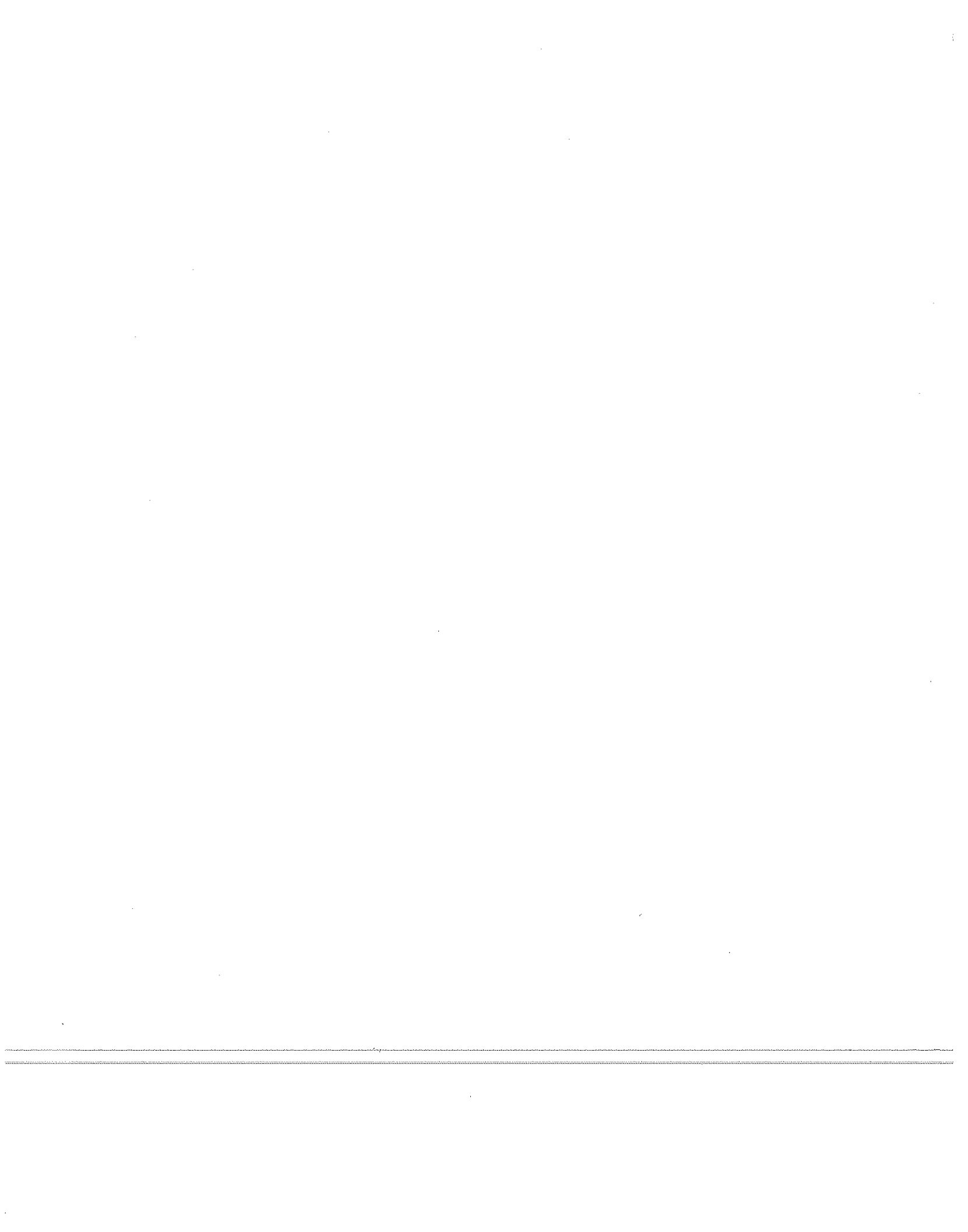
	<u>Monthly Rate</u>
1. Public Telephone Access Line, per Access Line	\$18.03 \$23.03 (I)
2. Coin Supervision Additive Service	\$ 0.50

- (a) Service charges are applied on the same basis as apply for individual business line service.
- (b) The subscriber is responsible for Directory Assistance service charges equivalent to those billed on business individual line service.
- (c) Charges for call screening and/or toll restrictions shall be in concurrence with BellSouth General Subscriber Services Tariff.

Issue Date: October 11, 2007

Effective Date: November 12, 2007

Issued By: F. Thomas Rowland
F. Thomas Rowland, President / CEO



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(270) 781-9944 or
Free (888) 720-2828
Fax (270) 782-2506
EOE

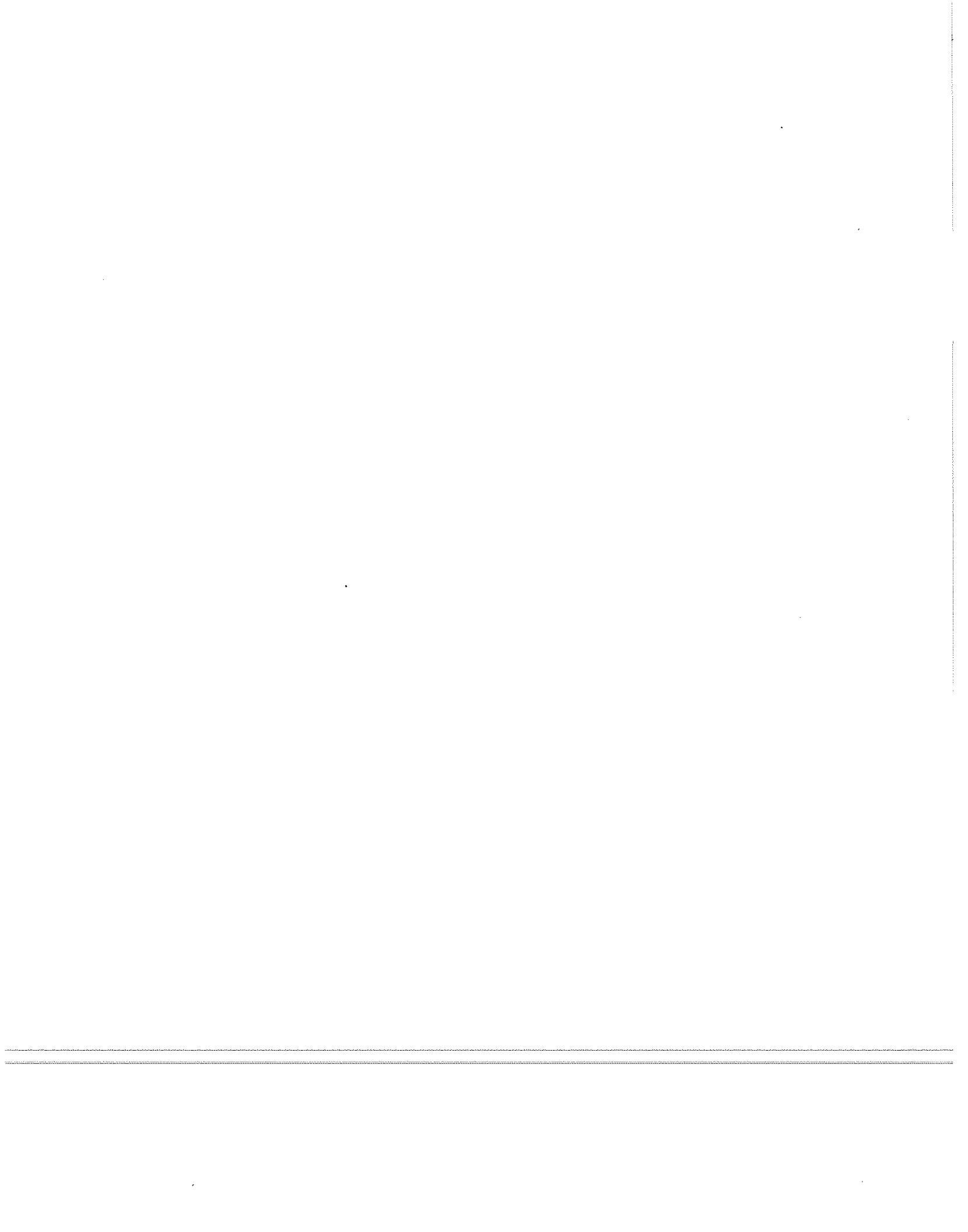
A full version of all applications and documents will be on file for review for a period of 14 days in the Office of the Community Planner. Any comments should be directed to the Office of the Community Planner, P.O. Box 736, 201 W. Main Street, Scottsville, Ky. 42164 or call (270) 237-4180.

**PUBLIC NOTICE OF RATE APPLICATION AND
TARIFF REVISION FILING TO SUBSCRIBERS OF
NORTH CENTRAL TELEPHONE COOPERATIVE
CORPORATION**

Notice is hereby given that on October 11, 2007, North Central Telephone Cooperative Corporation will file with the Public Service Commission of the Commonwealth of Kentucky (the "Commission"), for approval, a rate application proposing to revise its local service tariff, Kentucky PSC Tariff No. 3. Pursuant to this notice its rate application and proposed tariff rate revisions, North Central Telephone Cooperative Corporation is requesting to increase its basic residential subscriber rate by \$3.00 per month, from \$11.90 per month to \$14.90 per month (an increase of 25.2%), and its basic business subscriber rate by \$5.00 per month, from \$18.03 per month to \$23.03 per month (an increase of 27.7%).

If approved by the Commission, the proposed revision will have the effect of increasing basic residential subscriber bills by \$3.00 per month and basic business subscriber bills by \$5.00 per month. The rates contained in this notice are the rates proposed by North Central Telephone Cooperative Corporation.

However, the Public Service Commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for customers other than the rates included in this notice. Any corporation, association, body politic or person may request leave to intervene by motion within thirty (30) days after notice of the proposed rate changes are given. The motion shall be submitted to the Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40602, and it shall set forth the grounds for the request, including the status and interest of the party. Intervention may be granted beyond the thirty (30) day period for good cause shown. Any person who has been granted intervention by the Commission may obtain copies of the rate application and other filings made by North Central Telephone Cooperative Corporation by contacting it at 1630 Bowling Green Road, Scottsville, Kentucky 42164 (270-622-7500). Any person may also examine the rate application, related testimony, and any other filings made by North Central Telephone Cooperative Corporation during normal business hours at the main office of North Central Telephone Cooperative Corporation, 872 Highway 52 Bypass East, Lafayette, Tennessee 37083 (615-666-2151) or at the office of the Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601 (502-584-3940). (403tc)



John E. Selent
502-540-2315
john.selent@dinslaw.com

April 24, 2007

RECEIVED
APR 25 2007
PUBLIC SERVICE
COMMISSION

VIA U.S. MAIL

Hon. Beth O'Donnell
Executive Director
Public Service Commission
of the Commonwealth of Kentucky
211 Sower Blvd.
P. O. Box 615
Frankfort, KY 40601

**Re: North Central Telephone Cooperative Corporation, Inc.;
First Amended Advance Notice of Intent to File Rate Application
Pursuant to 807 KAR 5:001 § 10(2) and 807 KAR 5:011 §8(1)**

Dear Ms. O'Donnell:

Case No. 2007-00167

We are legal counsel to North Central Telephone Cooperative Corporation, Inc. ("North Central").

In that capacity, we have been requested to advise you, pursuant to 807 KAR 5:001 § 10(2) and 807 KAR 5:011 § 8(1), that not sooner than four weeks after today's date, North Central will file a rate application with the Public Service Commission of the Commonwealth of Kentucky with respect to its business and residential rates. The rate application will be supported by a fully forecasted test period.

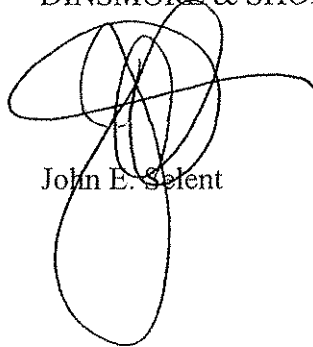
We are presently in the process of preparing that application and otherwise reviewing the administrative regulations and statutes applicable to such an application. Once this application is completed, we will file it with the Public Service Commission of the Commonwealth of Kentucky not sooner than the date allowed by the above-referenced regulation.

A copy of this notice is being served simultaneously herewith upon the Attorney General of the Commonwealth of Kentucky, Utility Intervention and Rate Division.

Thank you, and if you have any questions, please call me.

Very truly yours,

DINSMORE & SHOHL LLP

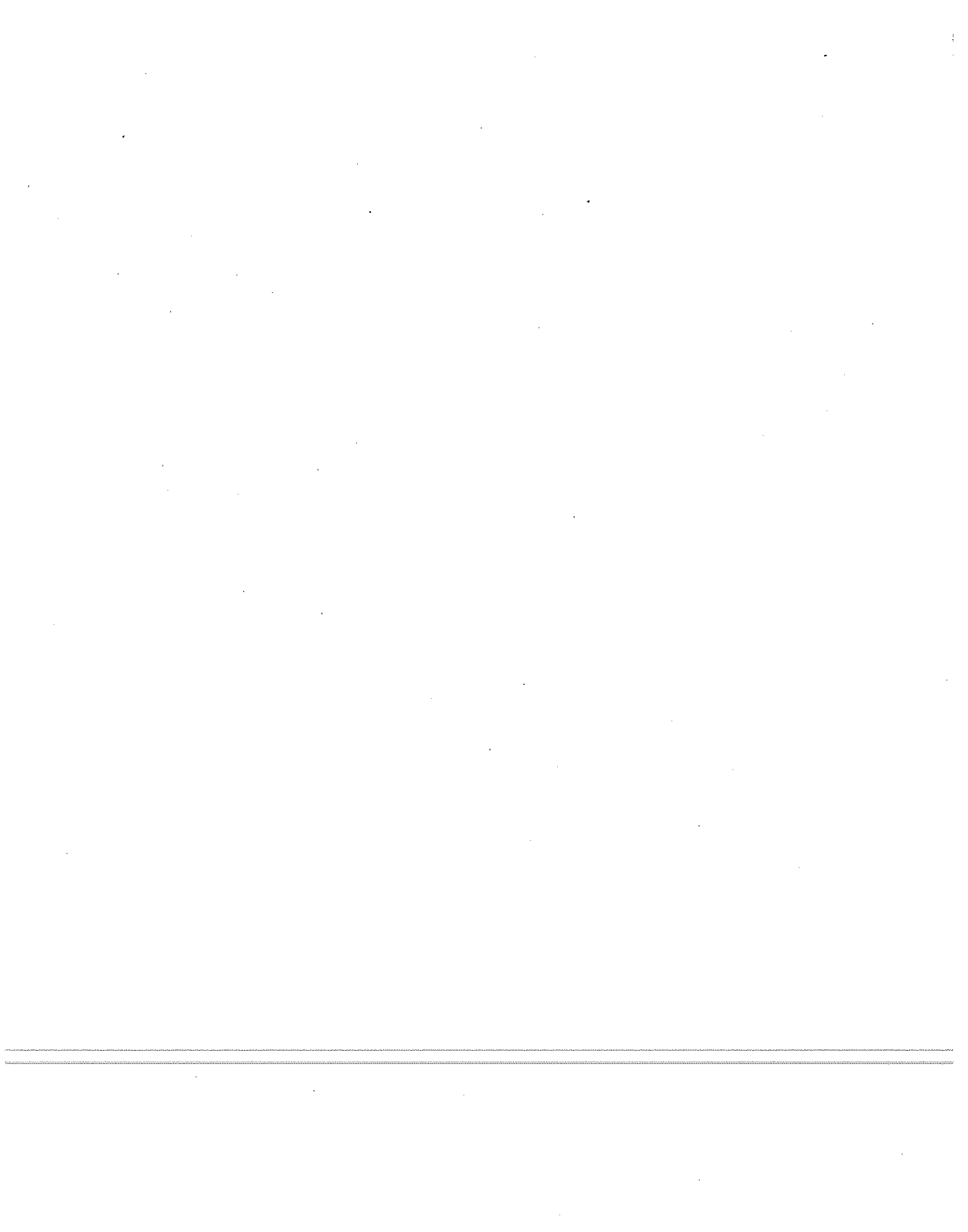
A handwritten signature in black ink, appearing to read "John E. Selent", is written over the printed name. The signature is highly stylized and somewhat illegible.

John E. Selent

JES/bmt
Enclosure

cc: Attorney General of the Commonwealth of Kentucky,
Utility Intervention and Rate Division
David S. Samford, Esq.
Amy E. Dougherty, Esq.

120097v1
21542-1



Dinsmore & Shohl LLP
ATTORNEYS

John E. Selent
502-540-2315
john.selent@dinslaw.com

RECEIVED

AUG 06 2007
PUBLIC SERVICE
COMMISSION

August 6, 2007

VIA HAND DELIVERY

Hon. Beth O'Donnell
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

**Re: *Rate Application of North Central Telephone Cooperative Corporation
Pursuant to 807 KAR5:011, §8(1); Case No. 2007-00162***

Dear Ms. O'Donnell:

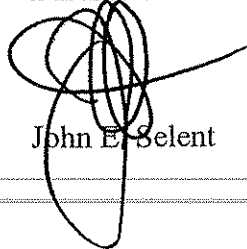
Pursuant to the July 27, 2007 order of the Public Service Commission of the Commonwealth of Kentucky (the "Commission") in the above-referenced matter, North Central Telephone Cooperative Corporation ("North Central") hereby notifies the Commission that it wishes to retract its prior withdrawal of the First Amended Advanced Notice of Intent to File Rate Application.

That is, North Central wishes its prior notice to file a rate application with respect to its business and residential rates (utilizing a fully-forecasted test period) to be pending before the Commission.

Thank you, and if you have any questions, please call us.

Sincerely,

DINSMORE & SHOHL LLP

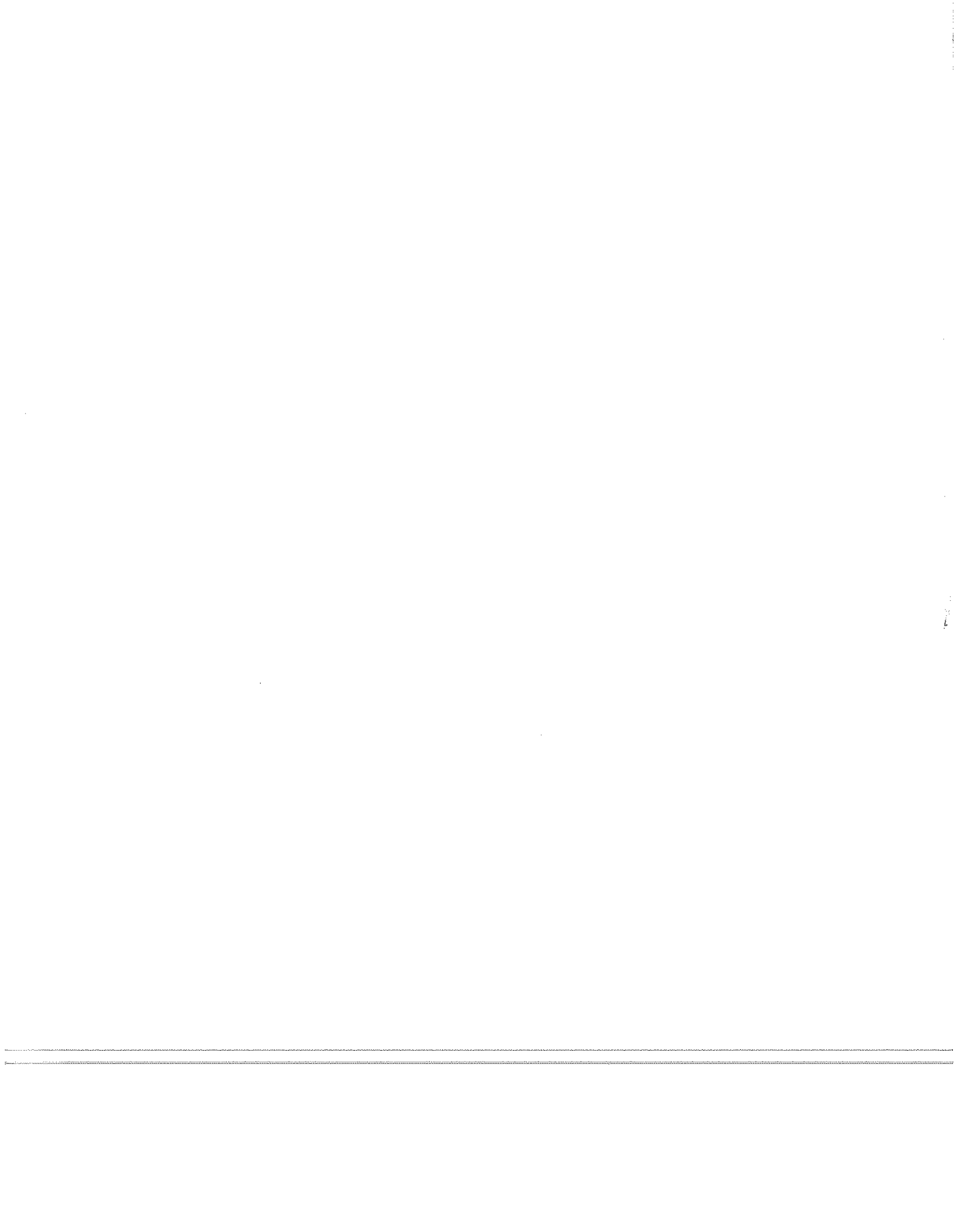

John E. Selent

ETD/lb

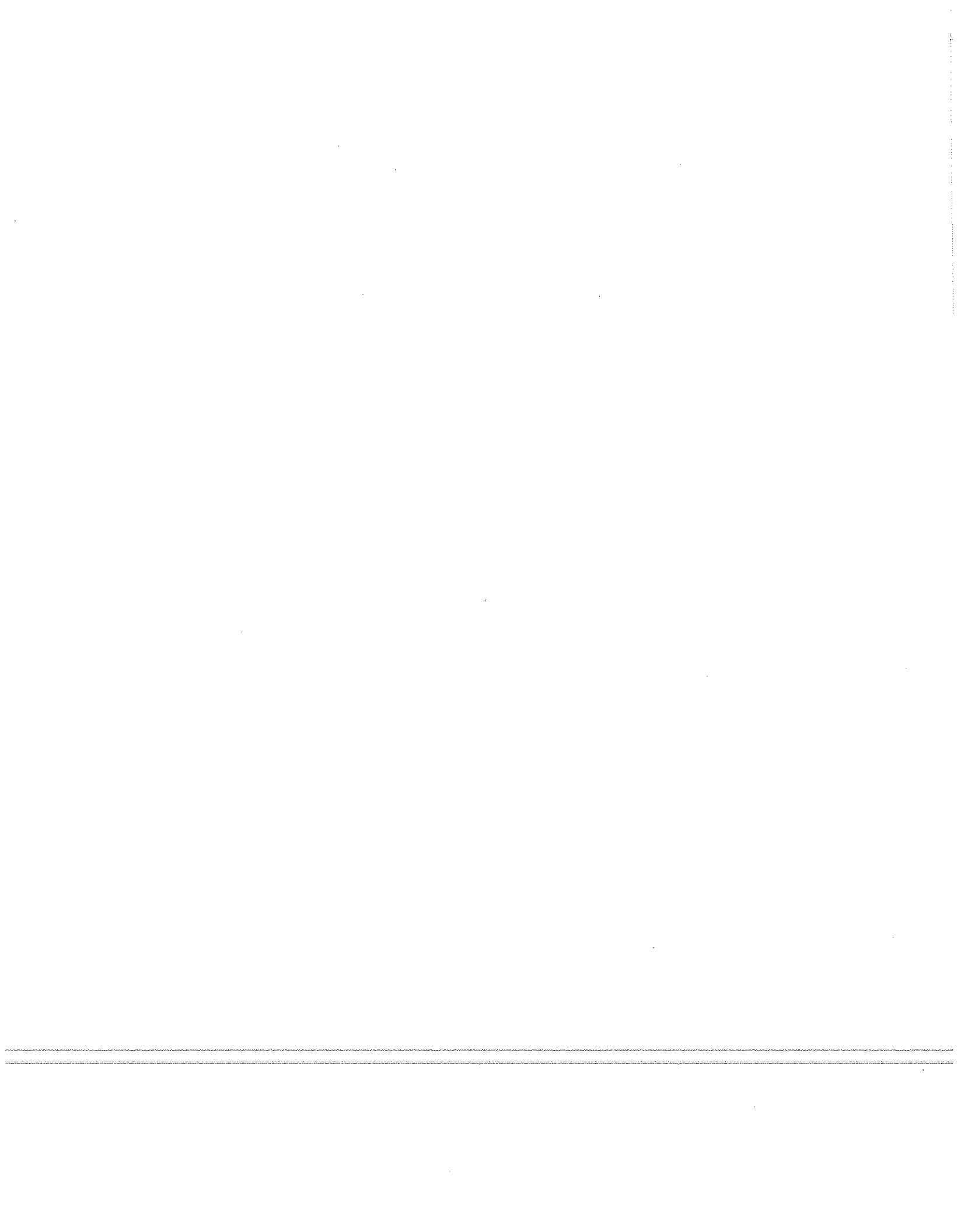
1400 PNC Plaza, 500 West Jefferson Street Louisville, KY 40202
502.540.2300 502.585.2207 fax www.dinslaw.com

Hon. Beth O'Donnell
August 6, 2007
Page 2 of 2

cc: Attorney General of the Commonwealth of Kentucky,
Utility Intervention and Rate Division
David S. Sanford, Esq.
Amy E. Dougherty, Esq.
Edward T. Depp, Esq.
Holly C. Wallace, Esq.



67280	OTHER EXPENSE	\$41,743	\$41,743	\$41,743	\$41,743	\$41,743	\$41,743	\$41,743	\$41,743	\$41,743	\$41,743	\$41,743	\$41,743	\$41,743	\$41,743	\$41,743	\$41,743	\$41,743	\$709,624
67281	ACCIDENT AND DAMAGE	\$95	\$95	\$95	\$95	\$95	\$95	\$95	\$95	\$95	\$95	\$95	\$95	\$95	\$95	\$95	\$95	\$95	\$1,617
67282	CO-OP DUES	\$6,052	\$6,052	\$6,052	\$6,052	\$6,052	\$6,052	\$6,052	\$6,052	\$6,052	\$6,052	\$6,052	\$6,052	\$6,052	\$6,052	\$6,052	\$6,052	\$6,052	\$102,885
67283	ANNUAL MEETING EXP	\$623	\$623	\$623	\$623	\$623	\$623	\$623	\$623	\$623	\$623	\$45,623	\$15,623	\$623	\$623	\$623	\$623	\$623	\$70,599
67284	CONVENTION/MTG EXP	\$4,332	\$4,332	\$4,332	\$4,332	\$4,332	\$4,332	\$4,332	\$4,332	\$4,332	\$4,332	\$4,332	\$4,332	\$4,332	\$4,332	\$4,332	\$4,332	\$4,332	\$73,647
7230	PROPERTY TAX	\$40,943	\$40,943	\$40,943	\$40,943	\$40,943	\$40,943	\$40,943	\$40,943	\$40,943	\$40,943	\$40,943	\$40,943	\$40,943	\$40,943	\$40,943	\$40,943	\$40,943	\$696,023
72401	KY GROSS RECEIPTS TAX	\$3,161	\$3,161	\$3,161	\$3,161	\$3,161	\$3,161	\$3,161	\$3,161	\$3,161	\$3,161	\$3,161	\$3,161	\$3,161	\$3,161	\$3,161	\$3,161	\$3,161	\$53,737
7510	INT. LONG TER. DEBT	\$97,940	\$104,190	\$111,931	\$111,931	\$115,056	\$122,797	\$122,797	\$125,922	\$133,663	\$133,663	\$141,404	\$141,404	\$141,404	\$147,654	\$155,395	\$155,395	\$155,395	\$2,217,945
7540	INT. ON DEPOSITS	\$2,176	\$2,176	\$2,176	\$2,176	\$2,176	\$2,176	\$2,176	\$2,176	\$2,176	\$2,176	\$2,176	\$2,176	\$2,176	\$2,176	\$2,176	\$2,176	\$2,176	\$36,999
TOTAL REGULATED EXPENSE		\$1,505,556	\$1,511,806	\$1,519,547	\$1,532,443	\$1,535,568	\$1,543,309	\$1,536,179	\$1,539,304	\$1,607,045	\$1,547,045	\$1,599,786	\$1,569,786	\$1,554,786	\$1,569,374	\$1,577,115	\$1,577,115	\$1,577,115	\$26,402,880
NET REGULATED INCOME		(\$56,598)	(\$61,358)	(\$67,579)	(\$78,924)	(\$80,468)	(\$86,596)	(\$77,821)	(\$79,268)	(\$145,297)	(\$83,552)	(\$134,512)	(\$102,695)	(\$85,843)	(\$98,540)	(\$104,354)	(\$102,388)	(\$100,382)	(\$1,546,173)
TOTAL NONREGULATED REV		\$60,341	\$60,341	\$60,341	\$60,341	\$60,341	\$60,341	\$60,341	\$60,341	\$60,341	\$60,341	\$60,341	\$60,341	\$60,341	\$60,341	\$60,341	\$60,341	\$60,341	\$1,025,795
TOTAL NONREGULATED EX		\$90,260	\$90,260	\$90,260	\$90,260	\$90,260	\$90,260	\$90,260	\$90,260	\$90,260	\$90,260	\$90,260	\$90,260	\$90,260	\$90,260	\$90,260	\$90,260	\$90,260	\$1,534,423
NET NONREG OPERATING INC		(\$29,919)	(\$29,919)	(\$29,919)	(\$29,919)	(\$29,919)	(\$29,919)	(\$29,919)	(\$29,919)	(\$29,919)	(\$29,919)	(\$29,919)	(\$29,919)	(\$29,919)	(\$29,919)	(\$29,919)	(\$29,919)	(\$29,919)	(\$508,628)
NONOPERATING INCOME (EXP)		\$1,727	\$1,727	\$1,727	\$1,727	\$1,727	\$1,727	\$1,727	\$1,727	\$1,727	\$1,727	\$1,727	\$1,727	\$1,727	\$1,727	\$1,727	\$1,727	\$1,727	\$29,359
INTEREST/DIVIDEND/AFUDC INC		\$22,647	\$22,647	\$22,647	\$22,647	\$22,647	\$22,647	\$22,647	\$22,647	\$22,647	\$22,647	\$22,647	\$22,647	\$22,647	\$22,647	\$22,647	\$22,647	\$22,647	\$385,006
NONREGULATED INCOME (EXP)		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL OTHER INCOME		\$24,374	\$24,374	\$24,374	\$24,374	\$24,374	\$24,374	\$24,374	\$24,374	\$24,374	\$24,374	\$24,374	\$24,374	\$24,374	\$24,374	\$24,374	\$24,374	\$24,374	\$414,365
PROJECTED NET MARGIN		(\$62,142)	(\$66,902)	(\$73,124)	(\$84,469)	(\$86,012)	(\$92,141)	(\$83,366)	(\$84,813)	(\$150,842)	(\$89,096)	(\$140,057)	(\$108,240)	(\$91,388)	(\$104,085)	(\$109,899)	(\$107,933)	(\$105,927)	(\$1,640,436)



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF INTENT OF NORTH CENTRAL)
TELEPHONE COOPERATIVE CORPORATION)
TO FILE RATE APPLICATION)

CASE NO. 2007-00162

PREFILED DIRECT TESTIMONY

OF

F. THOMAS ROWLAND

ON BEHALF OF

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

October 11, 2007

Counsel to Applicant:

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PREFILED DIRECT TESTIMONY OF F. THOMAS ROWLAND

I. INTRODUCTION

Q.1. PLEASE STATE YOUR FULL NAME, PLACE OF EMPLOYMENT AND BUSINESS ADDRESS.

A.1. My name is F. Thomas Rowland and I am the President and CEO of North Central Telephone Cooperative Corporation ("North Central"), P.O. Box 70, 872 Highway 52 Bypass East, Lafayette TN 37083.

Q.2. HOW LONG HAVE YOU BEEN THE PRESIDENT AND CEO OF NORTH CENTRAL?

A.2. I have been the President and CEO of North Central for the past twenty-three years.

Q.3. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES AS PRESIDENT AND CEO?

A.3. I am responsible for working with the Board of Directors to develop and implement the strategic and operational objectives of the cooperative. In that capacity I have direct responsibility for the day-to-day operations of North Central.

Q.4. HOW LONG HAVE YOU WORKED IN THE RURAL TELEPHONE INDUSTRY?

A.4. I have approximately 38 years of experience in the rural telephone industry. Prior to serving as the President and CEO of North Central for twenty-three years, I served for five years as the General Manager of another rural telephone company.

In addition, I have served on various boards and committees of national telecom organizations including serving for two years as Chairman of the Board of the

National Rural Telecommunications Cooperative. I am a past president and member of the Board of Directors of the Rural Telephone Finance Cooperative, and presently I am serving as President of the Board of Directors of the National Telecommunications Cooperative Association.

Q.5. WHAT AREA IN SOUTH-CENTRAL KENTUCKY DOES NORTH CENTRAL SERVE?

A.5. North Central serves all of the rural exchanges in Allen County.

Q.6. HOW MANY SUBSCRIBERS DOES NORTH CENTRAL HAVE?

A.6. It has approximately 5,200 residential customers and 488 business customers in Kentucky. North Central also has approximately 13,652 residential customers and 2,327 business customers in Tennessee.

Q.7. IS NORTH CENTRAL A COOPERATIVE AND WHAT DOES THAT MEAN?

A.7. Yes, North Central is a cooperative. This means that North Central's rate-paying customers are also its owners with the voting power to control the election of the Board of Directors who make the operational and business decisions of the company. I answer to this Board of Directors. Thus, the business decisions of the company are in effect the decisions of the member-owners.

Q.8. WHAT TELECOMMUNICATION SERVICES DOES NORTH CENTRAL PROVIDE TO ITS SUBSCRIBERS?

A.8. It provides local exchange carrier telephone and broadband services to its retail customers.

II. THE RATE APPLICATION

Q.9. IN THIS CASE, NORTH CENTRAL IS SEEKING AN INCREASE IN ITS BASIC RATES, CORRECT?

A.9. Correct.

Q.10. HOW MUCH OF A RATE INCREASE IS NORTH CENTRAL SEEKING?

Q.10. North Central is seeking to increase existing residential rates by \$3.00/line and existing business rates by \$5.00/line.

Q.11. WHEN DID NORTH CENTRAL LAST INCREASE ITS RESIDENTIAL AND BUSINESS RATES?

A.11. North Central has not increased its basic rates since 1984.

Q.12 IS NORTH CENTRAL SEEKING THIS SAME RATE INCREASE IN TENNESSEE?

A.12 North Central is not regulated by the Tennessee Regulatory Authority ("TRA"); therefore, the TRA does not establish North Central's rates. The State of Tennessee considers cooperatives, such as North Central, to be regulated by their member/owners. North Central's members elect the Board of Directors which is responsible for determining the range of services North Central will provide, as well as the rates for those services. Therefore, by virtue of their voting power, the member/owners indirectly establish the rates that they will pay for North Central's services. Nonetheless, it is North Central's policy to maintain uniform rates in Kentucky and Tennessee; thus, the rates approved by this Commission will be implemented in both Kentucky and Tennessee.

Q.13. WHY IS THE COMPANY SEEKING A RATE INCREASE?

A.13. Quite simply, the company's expenses are growing at a faster pace than its revenues. Competition from wireless, cable TV providers and the Internet itself are drawing demand away from the public switched network. Our own advanced data services cannibalize our traditional voice services as customers migrate to broadband to realize increasingly greater levels of bandwidth. These losses put pressure not only on our traditional retail service revenues but on our carrier access revenues as well.

I have an obligation to our members to take the steps necessary to insure the company remains a viable service provider for the foreseeable future. Doing so, however, has a cost. As North Central's financial reports will show, the company can no longer sustain itself at its current service rates. Its historic and projected financials clearly show that absent a rate increase it will lack the funds necessary to survive long term.

Q.14. PLEASE DESCRIBE THE COMPETITIVE CONTEXT IN WHICH NORTH CENTRAL SEEKS A RATE INCREASE.

A.14. North Central, like many cooperative telephone companies, is facing unprecedented assault from alternative providers of the company's core business, telecommunications. These companies, including video and wireless providers, are meeting growing customer demand for advanced services with state-of-the-art network deployments. To our competitors, traditional voice communications becomes a simple value-added product to a full complement of "super pipe" services. In this environment, a telephone company that (i) limits itself to only those services supported on traditional copper plant, and (ii) fails to provide the

highest level of customer service, almost certainly guarantees its own obsolescence. North Central is not unique in this regard, and the industry is roiled by the dramatic shift in the traditional service market.

Q.15. HOW IS NORTH CENTRAL ADDRESSING THIS SHIFT IN THE TRADITIONAL SERVICE MARKET?

A.15. In recognition of the changing environment in which we operate, North Central is continuing to press its employees to distinguish themselves with the highest level of customer service. In addition, in September 2003 North Central received funding from the Rural Utility Service ("RUS") in the amount of \$22,307,000.00 and the Rural Telephone Bank ("RTB") in the amount of \$12,985,350.00 to replace North Central's copper plant in Tennessee and Kentucky with fiber optic cable. Approximately \$14,740,000 will be used to deploy fiber in Allen County, Kentucky. Initially filed under the agency's broadband loan program, this funding will permit North Central to deploy a hybrid copper-fiber network which, upon completion, will allow us to provide all of our members with broadband capability at bandwidths that meet their seemingly insatiable demand for such services.

Q.16. WHAT CRITERIA DID RUS USE IN PROCESSING THE LOAN APPLICATION?

A.16. Prior to making its RUS loan application, North Central conducted extensive customer surveys to evaluate the demand for broadband services. Customers were asked not only whether they wanted broadband services but also whether there were providers in their market capable of adequately meeting this

demand. Lastly, they were asked how such service would influence their buying decisions.

Q.17. WHAT CONCLUSION DID NORTH CENTRAL DRAW FROM THIS MARKET RESEARCH?

A.17. The market research revealed that North Central has a large untapped broadband market. It was clear that there was a significant demand for such services. More importantly, the survey respondents overwhelmingly cited North Central as their preferred provider for broadband services. The survey results reflected our proven history of better service quality as well as our long-standing commitment to the local community. When asked about how broadband services would influence their spending habits, respondents who expressed a desire to purchase broadband services reported a higher average revenue per user (ARPU) than those who showed little or no interest in broadband.

Based on projected demand, forecasted ARPU, and the loyalty of our subscribers to North Central, we concluded that the deployment of the hybrid copper-fiber network was simply good business sense.

Q.18. AREN'T YOU ALREADY MEETING BROADBAND DEMAND?

A.18. In the past 20 years, acceptable market demand for data speeds has gone from a 9600 baud dial-up connection in 1984 to today where it is not uncommon for companies to routinely offer broadband capability at speeds in excess of 3Meg. Even at these speeds, the consumer demand for even greater speeds continues to grow; current speeds will be as ineffective at meeting future broadband demand as

1984 dial-up speeds would be today. Very soon, broadband requirements will be

well beyond the level the company will be capable of meeting with its existing infrastructure. Meeting current broadband requirements today is neither a responsible nor effective long-term business plan. Meeting consumer needs for the next 10, 20, or 50 year planning horizon is, however.

Q.19. IN THE PAST, COPPER HAS BEEN FULLY CAPABLE OF PROVIDING YOUR CUSTOMERS WITH ENOUGH BANDWIDTH. WHAT IS DIFFERENT TODAY?

A.19. Our network is trying to serve an unquenchable thirst for information. Simply put, today's networks are asking for more than copper can provide. Many copper-based networks, including our own, are reaching the limits of their bandwidth capacity. These limitations translate to slower speeds or, in many cases, no broadband capability at all. Fiber, by comparison, can meet the demand for increased bandwidth at higher speeds without requiring expensive and time-consuming installations of new cable.

Q.20. SHOULDN'T THOSE BROADBAND SERVICES PAY FOR THEMSELVES?

A.20. Ultimately, the services the company provides over its hybrid copper-fiber network will pay for the network. Realistically, however, waiting until demand has fully materialized before we deploy our network means losing the customer – *our customer* – to alternative providers who are or will be able and willing to satisfy the demand as soon as it arrives.

Q.21. WHAT IMPORTANCE DOES BROADBAND SERVE TO THE COMMUNITY?

A.21. Broadband is critical to the economic and social development of our communities.

The Scottsville Rural exchange, which we serve, is rural and economically depressed. Household incomes are a third lower in Scottsville/Allen County than in the rest of the Commonwealth. Moreover, employment decreased 19% between 2000 and 2005.

Nonetheless, there are signs of development. With the expansion of U.S. Route 231 between Scottsville and Bowling Green, there is an opportunity for economic development in Allen County. Realistically, however, new businesses will not develop in the county without access to broadband. As Governor Fletcher recognized when he introduced his *Prescription for Innovation* plan in 2004, broadband is critical to economic development. *Prescription for Innovation* is a comprehensive plan to accelerate technology growth particularly in the areas of broadband service and technology adoption. Implemented in part through partnership with ConnectKentucky, the Commonwealth has strived to support communities and enhance economic development through the deployment of advanced technologies such as fiber networks.

Q.22. OTHER THAN BROADBAND, HOW DOES A FIBER DEPLOYMENT BENEFIT YOUR VOICE CUSTOMERS?

A.22. There are both operational advantages, including improvements in efficiency and productivity, and network security advantages to deploying a hybrid copper-fiber network.

Q.23. PLEASE EXPLAIN THE OPERATIONAL ADVANTAGES, PARTICULARLY WITH REGARD TO IMPROVEMENTS IN EFFICIENCY AND PRODUCTIVITY.

A.23 Responsiveness to subscribers and maintenance costs improve through the deployment of fiber. Unlike copper networks that are highly sensitive to distance limitations, hybrid copper-fiber networks are able to transmit larger speeds of data over much longer distances. By doing so, our equipment needs decrease with fiber. Since equipment failure is a significant maintenance cost, maintenance expenses decrease with fiber technology. The testing and restoration of service also improves with fiber. In a copper environment, technicians must trouble shoot a variety of possible issues including interference from other devices to isolate and resolve service reports. This increases the time required to restore service and increases the margin of error in correctly identifying and resolving such problems. Compared to copper, fiber testing is more efficient and customer issues can be more quickly and accurately resolved.

While Verizon's scale of service is certainly much bigger than that of North Central, *The Washington Post* recently reported that Verizon expects to save about \$1 billion a year by 2010 by moving more of its business to a fiber-optic network specifically because fiber is cheaper to maintain than copper.

Q.24. WHAT ARE THE NETWORK SECURITY ADVANTAGES?

A.24. In today's environment, security has become a growing concern for our customers. Our business customers, in particular, deal with confidential data and rely heavily on North Central to ensure the integrity of our voice and data

network. Fiber transmits light rather than electricity, and I understand that this makes a fiber network harder to illegally tap as compared to a copper network.

Q.25. LET'S TURN BACK TO THE SIZE OF THE RATE INCREASE NORTH CENTRAL SEEKS. IS THE RATE INCREASE YOU ARE REQUESTING EXCESSIVE?

A.25. No. Our basic rates have been unchanged since 1984. Even with the increase we seek, typical residential and business access lines will experience a rate increase of 9.8% and 14.9%, respectively. Moreover, our financial performance warrants such an increase. Our experts will testify that in their professional opinions our ability to remain a viable provider of services to our members is compromised without the proposed rate increase. In addition, even with this rate increase, our proposed service rates will remain within levels charged by other providers including companies with larger and more urban customer bases.

Q.26. HAVE YOU TRIED TO CUT OTHER COSTS TO AVOID A RATE INCREASE?

A.26. Yes. However, the two largest costs incurred by the company are network infrastructure deployment and labor. Both of these costs are vital to the company's ability to provide state-of-the-art quality service to our customers. While we have reallocated resources to meet changing business needs and constantly strive to contain costs, the company cannot mathematically reduce expenses enough to avoid a rate increase and continue to be a viable service provider in the market.

Q.27. HAVE YOU CONSIDERED OTHER REVENUE SOURCES?

A.27. Yes. North Central does not undertake this rate request lightly. Before filing this application, we took a number of steps to improve our overall financial situation. In 2005, we introduced service bundling to encourage subscribers to purchase additional services and features. In 2006, we returned to the NECA pool for DSL services to capitalize on modest advantages in the pooling support flows due to a change in Part 69 rules. In January, 2007 we raised rates for non-basic services, including custom-calling and directory listing services. Despite these changes, North Central still finds it lacks the additional revenue it requires and has no choice but to raise its basic service rates.

Q. 28. DOES THIS CONCLUDE YOUR TESTIMONY?

A. 28. Yes.

Respectfully submitted,



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**COUNSEL TO NORTH CENTRAL
TELEPHONE COOPERATIVE
CORPORATION**



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF INTENT OF NORTH CENTRAL)
TELEPHONE COOPERATIVE CORPORATION)
TO FILE RATE APPLICATION)

CASE NO. 2007-00162

PREFILED DIRECT TESTIMONY

OF

GENTRY B. UNDERHILL, JR.

ON BEHALF OF

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

October 11, 2007

Counsel to Applicant:

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PREFILED DIRECT TESTIMONY OF GENTRY B. UNDERHILL, JR.

I. INTRODUCTION

Q.1. PLEASE STATE YOUR FULL NAME, PLACE OF EMPLOYMENT AND BUSINESS ADDRESS.

A.1. My name is Gentry B. Underhill, Jr. I am a partner with the accounting firm of Totherow Haile & Welch, CPAs, PLLC, 2355 South Chancery Street McMinnville, Tennessee 37110.

Q.2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A.2. I graduated from Middle Tennessee State University with a Bachelor's degree in business administration with an emphasis in accounting in 1979. I joined Totherow, Haile, and Welch in January 1984, and for the past twenty-one years I have worked primarily with utility companies including telephone and electric cooperatives, cellular telephone companies, and long distance resale companies. I am currently the partner responsible for Totherow, Haile & Welch's utility clients. As mentioned above, I began my career with Totherow, Haile & Welch, PLLC in 1984. Initially, my role with the firm's utility clients was that of a junior accountant. As my experience increased, so did my responsibilities. The various areas in which I have assisted our utility client's includes but is not limited to audits of financial statements, federal and state income tax issues, depreciation studies, cost separations, inventory controls, investment analysis, and the conversion from Part 31 to Part 32.

Q.3 WHAT IS YOUR ASSOCIATION WITH NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION ("NORTH CENTRAL" OR THE "COOPERATIVE")?

A.3. Since 1982, our firm has served as North Central's outside auditor. I have worked with North Central since 1986. I am currently the partner responsible for audit of North Central's financial statements. The Cooperative completes an audit of its financial statements on an annual basis in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. In addition to the company's audit, I am responsible for the preparation of their federal and state income tax filings. Most recently, on January 26, 2007 our firm completed the audit of North Central's financial records for calendar year 2006.

Q.4. NORTH CENTRAL PROVIDES SERVICE IN TENNESSEE AND KENTUCKY, IS THAT CORRECT?

A.4. Yes.

Q.5. DO YOU PREPARE SEPARATE STATEMENTS FOR THE COMPANY'S OPERATIONS IN TENNESSEE AND KENTUCKY?

A.5. No. North Central maintains its general ledger in accordance with Part 32. Part 32 does not require any separation between the exchanges of the Cooperative. The accumulation of the accounting data is recorded for both Tennessee and Kentucky in the same general ledger accounts. Therefore, I audit the company's financial records for its operations in Tennessee and Kentucky as one company.

As I understand it, the cost studies North Central files with the National Exchange Carrier Association ("NECA") are similarly combined.

II. THE RATE APPLICATION

Q.6. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A.6. The purpose of my testimony is to address North Central's present earnings levels and revenue requirement.

Q.7. GENERALLY SPEAKING, WHAT IS NORTH CENTRAL'S PRESENT EARNINGS LEVEL?

A.7. The audit I performed for calendar year 2006 reveals that North Central's regulated services had an operating loss of \$303,286.

Q.8. IS THIS AN ANOMALY?

A.8. Unfortunately, no. North Central has had a declining income from its regulated operations for the past several years. Based on year to date 2007 and budgeted 2008 and 2009 financials, the company is trending toward continuous operating losses.

Q.9. WHAT IS THE REASON FOR NORTH CENTRAL'S NEGATIVE OPERATING INCOME?

A.9. In short, North Central's expenses are growing at a steady pace, while its revenues, which showed tremendous growth in the 1990's due primarily to access line growth from the Internet, have been level or declining since 2001.

Q.10. ARE THERE SPECIFIC SOURCES OF REVENUE THAT ARE IN DECLINE?

A.10. While revenue reductions have occurred across the board, the single largest loss is in access revenues, which are monies paid to North Central by other communications companies, including interexchange and wireless carriers, for access to North Central's facilities and end users. This decline is due to loss in demand as customers migrate to cellular and Internet services for completion of calls previously carried as access on the North Central network as well as from reductions in compensation paid to North Central by those same providers. These two go hand in hand in my opinion.

Q.11. WHAT DOES THIS SUGGEST TO YOU?

A.11. This suggests that North Central's business—the provision of regulated telephone access line service—has shrunk over the past five years. The territory North Central serves is actually experiencing a small population growth. Yet despite this growth, the company is experiencing a decline in local access lines. The decline in local access lines results in revenue declines in both regulated and non-regulated income sources. I believe this decline is the result of North Central's customers having additional options for telecommunications services. Because North Central's customers have these choices, North Central's growth opportunity as it currently stands is severely limited.

Q.12. IF THE COMPANY'S ACCESS LINES ARE DECLINING SHOULDN'T ITS EXPENSES SHOW A COMMENSURATE REDUCTION?

A.12. No, not in this type of business. While there may be some correlation between demand and expenses, the cost of providing telephone service is not directly correlated to volume of services.

The vast majority of North Central's investments are in the outside plant and central office equipment which are necessary for North Central to provide its members with telecommunications services. The majority of expenses incurred in maintaining this network are fixed. When a customer disconnects a service or leaves the network altogether the company experiences little or no incremental cost savings.

III. NORTH CENTRAL'S REVENUE REQUIREMENT

Q.13. IN ADDITION TO ADDRESSING NORTH CENTRAL'S EARNINGS LEVELS, YOU STATED THAT YOU WILL ADDRESS THE COMPANY'S REVENUE REQUIREMENT. WHAT IS THE DEFINITION OF REVENUE REQUIREMENT AS USED IN YOUR TESTIMONY TODAY?

A.13. As I use the term "revenue requirement," it means the amount of income required by North Central to cover its operational expenses, including depreciation, as well as fixed expenses associated with interest on debt.

Q.14. IS THIS A STANDARD DEFINITION OF REVENUE REQUIREMENT?

A.14. Yes, I believe so. In non-regulated business, revenue requirement also includes a component of profit. For regulated telephone companies, however, profit is generally expressed as rate of return on investment.

Q.15. WHAT IS NORTH CENTRAL'S REVENUE REQUIREMENT?

A.15. North Central's revenue requirement will vary based on the period for which it is calculated. Based on its 2006 audited results, to simply cover its expenses – with

no component of rate of return – North Central's revenue requirement is

\$17,430,213. This is the minimum required for the Cooperative to continue to provide the services that its customers expect and to continue to keep its plant facilities updated and maintained. This consists of operational expenses, fixed expenses associated with interest, depreciation and taxes. Again, however, this calculation includes no provision for rate of return.

Q.16. PLEASE IDENTIFY THE OPERATIONAL EXPENSES INCLUDED IN NORTH CENTRAL'S REVENUE REQUIREMENT.

A.16. North Central's operating expenses as of December 31, 2006 totaled \$11,214,614. This amount consists of expenses associated with specific and non-specific plant operations, customer operations, corporate operations, and operating taxes.

Q.17. COULD YOU PLEASE PROVIDE SOME EXAMPLES OF OPERATIONAL EXPENSES?

A.17. Yes. Part 32 states that expenses recorded in the "plant specific operations" expense accounts are to reflect the cost associated with the plant accounts. An example of this would be maintenance on an existing utility pole. The pole is recorded in account 2411 and the expense related to the maintenance of that pole is recorded in account 6411. Expenses recorded in the "plant nonspecific operations" accounts consist of expenses related to general operations of the plant. An example of this would be the cost of electric power to operate the plant network. Expenses to be recorded in the "customer operations" and "corporate operations" accounts reflect the costs of, or associated with, functions performed by people, for people. Customer operations expenses relate to expenses incurred for the benefit of North Central's customers including its marketing efforts. Corporate

operations expenses include general and administrative expense and other corporate expenses.

Q.18. WHAT IS THE PRIMARY DRIVER BEHIND THESE EXPENSES?

A.18. North Central is a service business. As such, its single largest operating expense is labor. Of its \$11,214,614 operating expense, the overwhelming majority, \$9,941,864, is regulated labor and benefits and associated payroll-related taxes.

Q.19. HOW MANY EMPLOYEES DOES THE COMPANY HAVE?

A.19. As of September 15, 2007 North Central had 106 employees. Of these, eighty-three are craft workers who are members of the Communications Workers of America, and all but five work full-time. The remaining twenty-three are non-union employees involved primarily in supervisory and management roles.

Q.20. WHAT FUNCTIONS DO THE EMPLOYEES PERFORM?

A.20. All but eight of the union employees are employed in some aspect of customer service and network maintenance and construction. Twenty-seven employees are cable, line, or central office technicians. Fourteen are customer service representatives, five are dispatch clerks, and six provide engineering support services. The eight craft workers not employed in network maintenance or customer service provide billing support or perform cashier functions for the company.

Q.21. WHAT ROLES DO NORTH CENTRAL'S MANAGEMENT EMPLOYEES PERFORM?

A.21. Approximately half of management provides direct supervision of union workers. The remainder is involved in accounting and data processing, human resources, or management.

Q.22. BASED ON YOUR EXPERIENCE, DOES THE COMPANY APPEAR TO HAVE AN APPROPRIATE NUMBER OF EMPLOYEES?

A.22. As I understand it, North Central relies on two sources to bench line its employment levels, the National Telecommunications Cooperative Association and the U.S. Telephone Association. Based on its size and rural location, North Central appears to maintain an appropriate staffing level.

Q.23. IN ADDITION TO OPERATING EXPENSES, WHAT OTHER EXPENSES ASSOCIATED WITH THE REVENUE REQUIREMENT DOES THE COMPANY HAVE?

A.23. In addition to its operating expenses, North Central incurs costs in deploying its network. Those costs are reflected through the depreciation of the asset and, if the company requires financing, in interest paid to the Rural Utility Service ("RUS") and the Rural Telephone Bank ("RTB").

Q.24. IS INTEREST AN APPROPRIATE COMPONENT OF THE REVENUE REQUIREMENT?

A.24. Absolutely. Companies borrow money as part of their normal business practices. The cost of borrowing – interest expense – is a normal business expense and the company's revenue must recover this expense as it would any other.

Q.25. WHAT IS THE COMPANY'S INTEREST EXPENSE FOR 2006?

A. The Company incurred interest expense in the amount of \$976,478 for the year ending December 31, 2006. Of this amount, \$120,300 was capitalized to the telecommunications plant in service as required by the FCC.

Q.26. IS THIS INCLUDED IN THE OPERATING INCOME YOU PREVIOUSLY DISCUSSED?

A.26. No, the \$303,286 operating loss in 2006 that I referred to in question 7 is based on operating income and does not include the additional fixed expenses associated with interest.

Q.27. DO YOU BELIEVE THE COMPANY'S INTEREST LEVEL IS APPROPRIATE?

A.27. Yes. Due to the fact that North Central serves the rural areas of Tennessee and Kentucky, it is able to borrow from Rural Utility Services (RUS) and Rural Telephone Bank (RTB) at very attractive interest rates. RUS obtains funds through the U.S. Department of Agriculture. These funds generally have interest rates that are well below the prime lending rate offered by other financial institutions. This has enabled the Cooperative to manage its interest expense.

Q.28. YOU MENTIONED DEPRECIATION. HOW MUCH DEPRECIATION IS INCLUDED IN THE COMPANY'S REVENUE REQUIREMENT?

A.28. For the year ending December 31, 2006, depreciation expense amounted to \$5,339,421.

Q.29. DEPRECIATION IS A NON-CASH ITEM, WHY IS IT APPROPRIATE TO INCLUDE DEPRECIATION IN ESTABLISHING A REVENUE REQUIREMENT?

A.29. The company has spent money – either its own internal funds or borrowed funds – to place plant and equipment into service. Payment for those assets must be recovered over the life of the asset. Depreciation expense, while not a cash expense, is a systematic method of recovering the cost of an asset through a charge against future earnings. It is also a method to recognize the decline in value of an asset through expected wear and tear generated by normal usage.

Q.30. YOU HAVE STATED THAT NORTH CENTRAL'S REVENUE REQUIREMENT IS \$17,430,213. IS NORTH CENTRAL'S REVENUE SUFFICIENT TO SATISFY ITS REVENUE REQUIREMENT?

A.30. No, there is a shortfall of \$1,179,464 between North Central's revenue and its revenue requirement.

Q.31 HOW MUCH OF A RATE INCREASE WOULD NORTH CENTRAL REQUIRE TO MEET ITS REVENUE REQUIREMENT?

A.31. Based on simple arithmetic, North Central's residential and business rates would need to increase by 35% to satisfy its revenue requirement.

Q.32 WHY ISN'T NORTH CENTRAL REQUESTING A 35% RATE INCREASE?

A.32 North Central is a cooperative membership operating in a competitive telecommunications environment. The cooperative's board and management are well aware that its rates must align with the market for the services it provides.

Q.33 WHAT RATE INCREASE IS THE COMPANY PROPOSING?

A.33 North Central has concluded that it can raise rates approximately 25% and remain comparably priced to other providers in the markets it serves. Accordingly, they have proposed a residential and business rate increase of \$3 and \$5, respectively.

Q.34. COULD NORTH CENTRAL RAISE OTHER REVENUES TO RECOVER THE SHORTFALL?

A.34. No. The vast majority of North Central's revenues originate from the provision of local services to retail end user customers and access services to the inter-exchange market. Interstate access rates are set at an FCC authorized rate of return. The company quite simply cannot turn to that jurisdiction to seek additional funds to off-set its state / local revenue shortfalls.

Q.35. WHY NOT MODIFY STATE ACCESS RATES?

A.35. Kentucky access rates, inclusive of the non-traffic sensitive rate element, are already substantially higher than rates for similar interstate services. While state access rates are generally higher than interstate rates, even compared to other states, Kentucky rates are higher. As I understand it, North Central is under tremendous pressure from the carrier market to reduce rates. Raising state access rates to offset losses driven by the retail service market does not make economic sense.

Q.36. ARE YOU AWARE THAT THE COMPANY HAS REQUESTED A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY ("CPCN") TO PERFORM A FIBER TO THE HOME CONSTRUCTION PROJECT?

A.36. Yes.

Q.37. HOW MUCH DOES THAT PROJECT IMPACT THE COMPANY'S REVENUE REQUIREMENT?

A.37. Overall, by the end of calendar year 2008, I anticipate that the additional depreciation and interest expense associated with the fiber project will add approximately \$60K per month to depreciation and expenses.

Q.38 DOES THE COMPANY ANTICIPATE THIS ENTIRE AMOUNT TO COME FROM ITS RETAIL RESIDENTIAL AND BUSINESS RATE PAYERS?

A.38 Not entirely. A portion of this fiber construction will be allocated to the interstate jurisdiction and the company will receive higher settlements from NECA as the project goes into service. By year end 2008, we anticipate an increase of annual settled revenues of approximately \$394K. Universal Service support to the company, which unfortunately won't be recognized until 2010, also increases by some \$325K per year.

We do, however, anticipate that some of the network will be funded by the addition of broadband services as discussed in the CPCN application. As we increase the services provided and the charges associated with those services, the network will eventually reach a point where it proves itself economically.

Additionally, the company anticipates that some of its maintenance expenditures will improve with the completion of the project. Since revenue requirement is related to expenses, as North Central is able to reduce its expenses, the reduction

takes pressure off the company's revenue requirement that would be funded through rate increases.

Q.39. IF THE COMMISSION DENIED THE CPCN AND REFUSED TO ALLOW THE COMPANY TO CONSTRUCT THE FIBER-TO-THE-HOME PROJECT, WOULD THAT NEGATE THE NEED FOR A RATE INCREASE?

A.39. No, it would not. As I have already discussed, based on its current known and historical revenues and expenses, the company requires a rate increase regardless of this project.

Q.40. WOULD DENYING THE REQUEST AT LEAST REDUCE THE SIZE OF THE REQUESTED RATE INCREASE?

A.40. No. Currently North Central is not meeting the required revenue requirement. It is my understanding that this rate increase will only satisfy the current revenue deficiency and the future budgeted amounts.

Q.41. GIVEN THE SIZE OF THIS RATE INCREASE AND THE COMPANY'S OVERALL FINANCIAL OUTLOOK, WOULDN'T THE COMPANY BE MORE PRUDENT TO AVOID SPENDING THE AMOUNT OF MONEY CONTEMPLATED IN THE CPCN?

A.41. I can only speak to the accounting of the company's revenues and expenses and their projected impact on earnings. I can, however, point out that in the telecommunications industry technologies change continuously. If a company does not continue to invest in its plant and its employees, it will not survive in future years. As I have already mentioned, the company's revenues are declining

at a steady rate. Given the environment all telecommunication companies are operating in, prolonging this expansion of North Central's plant in service will not strengthen the company's ability to provide telecommunication services in rural areas.

Q. 42. DOES THIS CONCLUDE YOUR TESTIMONY?

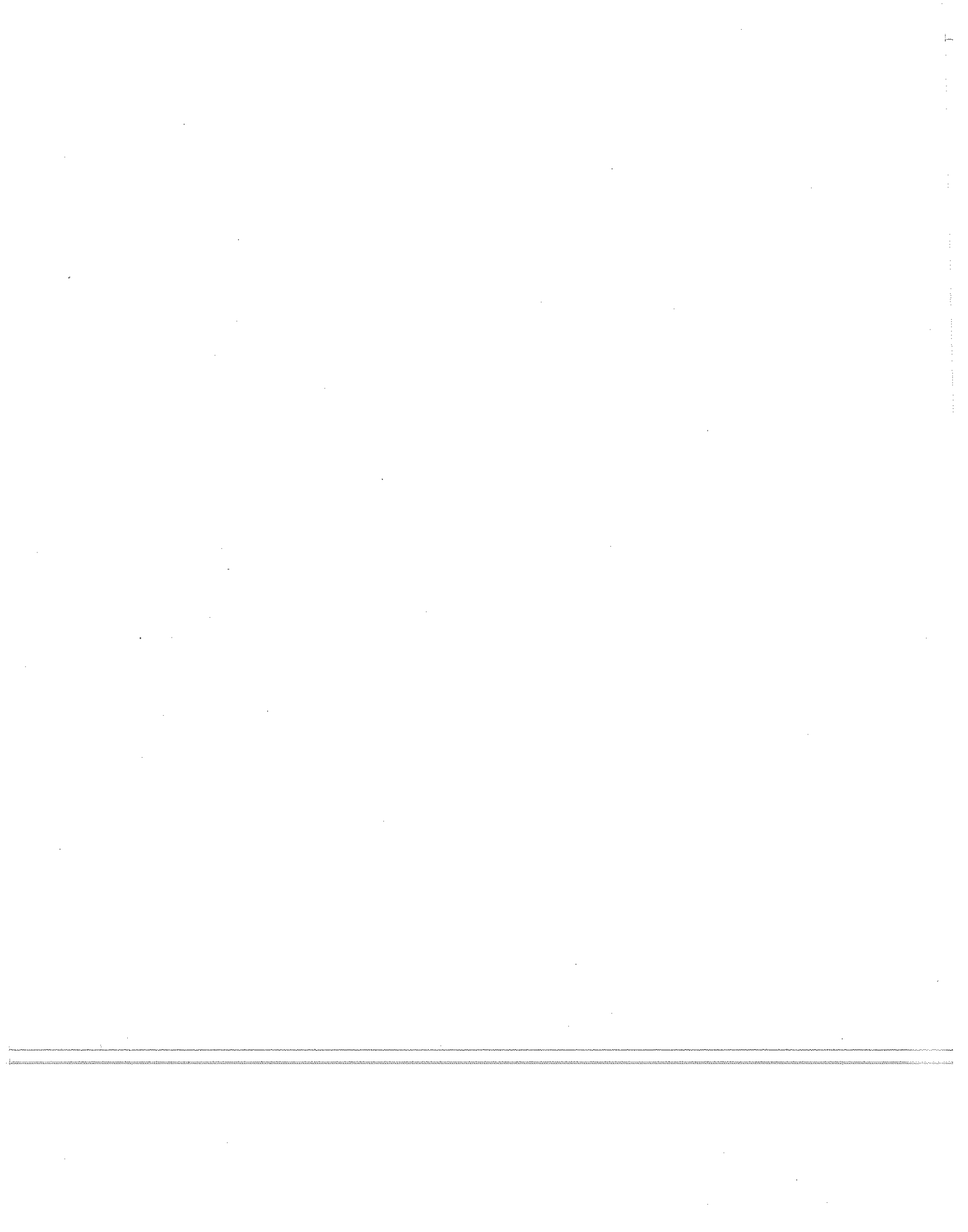
A. 42. Yes.

Respectfully submitted,



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**COUNSEL TO NORTH CENTRAL
TELEPHONE COOPERATIVE
CORPORATION**



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF INTENT OF NORTH CENTRAL)
TELEPHONE COOPERATIVE CORPORATION) CASE NO. 2007-00162
TO FILE RATE APPLICATION)

PREFILED DIRECT TESTIMONY

OF

THOMAS M. STRAIT

ON BEHALF OF

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

October 11, 2007

Counsel to Applicant:

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PREFILED DIRECT TESTIMONY OF THOMAS M. STRAIT

I. INTRODUCTION

Q.1. PLEASE STATE YOUR FULL NAME, PLACE OF EMPLOYMENT AND BUSINESS ADDRESS.

A1. My name is Thomas M. Strait. My business address is 2154 Wisconsin Avenue, N.W., Washington, D.C. 20007.

Q.2. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR RELATIONSHIP TO NCTC?

A2. I am a principal in the Washington Utility Group, LLC which is a public utility consulting firm. North Central Telephone Cooperative ("NCTC" or the "Cooperative") has retained me to discuss general cooperative operating principles applicable to telephone cooperatives, the manner in which such entities are generally financed, and NCTC's specific need for tariff increases to ensure compliance with its mortgage covenants and preserve financial integrity.

Q.3. PLEASE PROVIDE YOUR PROFESSIONAL AND EDUCATIONAL QUALIFICATIONS.

A3. In 1973 I received a B.S. from the United States Naval Academy at Annapolis, Maryland where my education specialized in naval engineering and analytical management. Following service as an officer in the U.S. Marine Corps, I completed a M.B.A. in 1981 with a concentration in finance and accounting from the American University in Washington, D.C.

~~I successfully completed the examinations for certification as a public accountant~~

in 1982 and began my career as a tax accountant in the Washington, D.C. office

of Deloitte, Haskins & Sells. Following several years of corporate tax practice with that firm, I joined the Ernst & Whinney Utility Consulting Group (later Ernst & Young) also located in Washington, D.C. There, I focused on income tax, finance and accounting issues for both investor-owned and cooperatively-operated electric and telephone companies. In 1993, I co-founded the Washington Utility Group, a firm providing accounting, economic, finance and taxation advice to investor-owned, cooperative and municipal utilities.

Over the past 20 years, the large majority of my services has been provided to rural telephone and electric cooperatives providing technical tax services, in general, and advice to bankrupt and financially-troubled cooperatives. Further, I have supported a variety of telephone and electric cooperatives in strategic financial planning for their capital credit allocation, redemption, and discounting policies. Finally, I have in the past testified before federal courts and a variety of public service commissions regarding cooperative operations, finance and income taxation matters.

My curriculum vitae are attached as Exhibit A.

Q4. PLEASE SUMMARIZE THE SUBSTANCE OF THE TESTIMONY YOU ARE PRESENTING.

A.4. The intent of my testimony here is to generally describe the unique framework in which cooperative telephone companies operate as that relates to determining their revenue requirement. I will show how non-profit, "operation at cost" principles specifically apply to NCTC and how those principles impact the member-customers. Further, I will explain why compliance with interest

coverage requirements to the NCTC's principal lender is crucial. I will conclude that to meet its financial obligations NCTC requires the rate increase requested by Mr. Rowland on behalf of the Board of Directors.

Q.5. HOW IS NORTH CENTRAL INCORPORATED?

A.5. NCTC is organized as a cooperative pursuant to Tennessee statutes. It is also subject to KRS 279.500. Both Tennessee and Kentucky statutes require NCTC to operate as a telephone cooperative following non-profit principles.

Q.6. HOW ARE TELEPHONE COOPERATIVES DIFFERENT FROM OTHER CORPORATIONS?

A.6. Historically, telephone cooperatives were formed in rural areas which were not served by large investor-owned telephone companies. The investor-owned companies did not want to serve customers in rural areas because they could not make money. Confronted with these circumstances, individual leaders in rural communities began organizing mutual self-help cooperatives. In the early days, farmers and other citizens invested their own money, bought poles and wire, planted those poles, and bought the "central office" equipment necessary to activate the network. Eventually, there were state statutes providing for the organization and operation of telephone cooperatives.

With that as a background, telephone cooperatives compliant with Tennessee and Kentucky statutes must operate as non-profit business with respect to their members. NCTC's members are the actual telephone customers of the regulated telephone business. As opposed to other for-profit telephone companies that the

Kentucky Public Service Commission regulates, NCTC has no profit motive with regard to its members-customers.

Q.7. HOW DOES ONE BECOME A MEMBER OF NCTC?

A.7. In accordance with Article I, Section 1 of NCTC Bylaws, any customer, upon receipt of telecommunications and communications service, instantaneously becomes a member of the Cooperative.

Q.8. DOES THIS RULE APPLY TO CUSTOMERS OF NCTC'S NON-REGULATED AFFILIATE?

A.8. No, it does not. The rule only applies to the Cooperative's active telecommunications and communication ratepayers.

Q.9. WHAT ARE THE RIGHTS AND PRIVILEGES OF BEING A NCTC MEMBER?

A.9. Each member has a contractual right to receive service at cost, to have any amount collected in excess of cost allocated back to them, to have one vote in all matters taken before NCTC general meetings, to have one vote in the board of director elections, and to receive a pro rata distribution of any remaining amounts in the event of liquidation of NCTC.

Q.10. DOES EACH CUSTOMER SUBJECT TO THE PROPOSED RATE INCREASE HAVE A VOTE IN THE AFFAIRS OF NCTC?

A.10. Yes, and a vote for the Board of Directors.

Q.11. IF NCTC MUST ADHERE TO OPERATION AT COST WITH RESPECT TO ITS MEMBERS, WHY DOES IT HAVE TO COLLECT ANY MARGIN

ABOVE ITS COST?

Q.11. The “cost principle” does not mean that telephone cooperatives should or can operate without earnings. A telephone cooperative must earn sufficient margins to satisfy lending institutions’ financial performance covenants and to maintain a reasonable equity level. Lenders have minimum Times Interest Earned Ratios (“TIER”) written into the terms of applicable loan documents. The TIER is calculated by adding operating income, long-term debt interest and federal income taxes and dividing that sum by long-term debt interest. It is the responsibility of a cooperative’s management and board of directors to ensure that the loan covenants are maintained and the financial integrity of the organization is assured.

Q.12. WHAT DOES THE TIER CALCULATION TELL LENDERS ABOUT THE FINANCIAL CONDITION OF THE COOPERATIVE?

A.12. The TIER calculation tells lenders how the cooperative’s operating margin compares to its long-term interest obligation. A TIER of 1.00 indicates that the borrower is *just* meeting its long-term debt and federal income tax expense. A TIER below 1.00 indicates that the borrower is not recovering even its debt costs. In sum, TIER is a measure of financial health.

Q.13. WHAT ARE THE OPERATING REQUIREMENTS MANDATED BY NCTC’S BYLAWS?

A.13. Article VII of NCTC’s Bylaws generally dictates non-profit operation. Section 7.1 of that Article states that NCTC shall at all times be operated on a cooperative non-profit cost basis for the mutual benefit of its patrons. Further, it prohibits interest or dividends being paid on any capital furnished by patrons.

Q.14. WHEN THE BYLAWS SPEAK OF “PATRONS” TO WHOM DOES IT REFER?

A.14. “Patrons” of cooperative organizations are any customers entitled to receive capital credits. The Bylaws’ use of the term “patrons” refers only to the members of the Cooperative.

Q.15. HOW DOES NCTC ACHIEVE “COST” OPERATIONS?

A.15. Pursuant to Section 7.2 of its Bylaws, NCTC must account for all amounts collected in excess of cost from its member-patrons and allocate those margins as capital credits to those members based on their participation in the Cooperative. By doing so NCTC achieves cost operation.

Q.16. DOES NCTC ACTUALLY PAY THE CAPITAL CREDITS IN THE YEAR THAT IT RECEIVES THE AMOUNTS?

A.16. No. The Cooperative allocates the operating margins to patrons but does not immediately pay those amounts back.

Q.17. ARE CAPITAL CREDITS TREATED AS DEBT OR EQUITY?

A.17. Capital credits are equity and form the equity foundation for NCTC.

Q.18. WHY DOES NCTC RETAIN CAPITAL CREDITS?

A.18. The Cooperative has to operate in this manner because no outsider would want to invest in equity instruments that pay no interest or dividends and have no potential for capital appreciation.

Q.19. DOES THE COOPERATIVE EVER RETURN THESE CAPITAL CREDITS?

A.19. In accordance with Section 7.2 of the Bylaws, NCTC's Board of Directors is authorized to redeem such credits on such method and timing as the Board may decide so long as the redemption will not impair the financial integrity of the organization.

Q.20. WHAT IS THE CURRENT REDEMPTION CYCLE OF NCTC?

A.20. NCTC has redeemed a portion of 1988 capital credit allocations and all allocations before that date. This puts them near a 20-year redemption cycle. As I understand it, the Cooperative is considering whether it can declare any capital credits this year due to financial constraints.

Q.21. IN YOUR EXPERIENCE IS NORTH CENTRAL'S REDEMPTION CYCLE SLOWER THAN AVERAGE?

A.21. Yes it is. The average redemption cycle nationwide is approximately 13.5 years.

Q.22. WHY DO YOU THINK NCTC'S REDEMPTION CYCLE IS SLOWER THAN THE NATIONAL AVERAGE FOR ALL TELEPHONE COOPERATIVES?

A.22. I think the Cooperative's slower redemption cycle is attributable to a combination of a major infrastructure improvement and sub-par regulatory earnings.

Q.23. WHO IS ULTIMATELY RESPONSIBLE FOR APPROVING BUDGETS AND LOAN APPLICATIONS OF NCTC?

A.23. Based on the recommendation of management, NCTC's democratically-elected Board of Directors is responsible for approving all budgets and all loan applications of the Cooperative.

Q.24. HOW DO MANAGEMENT AND THE BOARD DECIDE THE AMOUNT OF CAPITAL THAT THE COOPERATIVE REQUIRES?

A.24. After approval of the budget, management and the Board determine the amount of new capital that will be required to fund the agreed upon projects.

Q.25. WHERE DOES NCTC OBTAIN THE NEEDED CAPITAL?

A.25. To finance new capital projects NCTC uses a combination of internally-generated funds contributed by its members via capital credits and debt principally obtained from the Rural Utility Service ("RUS").

Q.26. DOES RUS IMPOSE ANY MINIMUM FINANCIAL MEASURES AS A CONDITION OF ITS LOAN?

A.26. RUS imposes financial integrity covenants in any loan that it makes. One of the most familiar measures is the TIER. In a letter of September 26, 2003 RUS directed NCTC to maintain a minimum TIER of 1.0 through December 31, 2007 and a minimum TIER of at least 1.42 thereafter.

Q.27. DOES RUS IMPOSE ANY OTHER FINANCIAL MEASURES AS A CONDITION OF THE LOAN?

A.27. RUS requires borrowers' total equity to exceed 35 percent before capital credit redemptions may occur. At equity levels below that figure a cooperative's ability to redeem capital credits will be extremely limited.

Q.28. WHY DOES RUS CARE ABOUT THE AMOUNT OF EQUITY THAT NCTC MAINTAINS?

A.28. Greater amounts of borrower equity reduce the financial risk to RUS of borrower default on the loan.

Q.29. HAS RUS EVER HAD TO WRITE-OFF SOME OR ALL OF A TELEPHONE LOAN?

A.29. Yes. The federal government wrote-off substantial amounts of debt of a Tennessee telephone cooperative in 2006.

Q.30. IS THERE ANY RULE OF THUMB FOR EQUITY LEVEL IN THE TELECOMMUNICATIONS INDUSTRY?

A.30. Generally, equity of 40 to 60 percent is regarded as the optimum range to minimize the overall cost of capital.

Q.31. WHAT IS THE EQUITY NORM FOR TELEPHONE COOPERATIVES ACROSS THE COUNTRY?

A.31. On average, telephone cooperatives across the country had approximately 65 percent equity for 2005.¹

Q.32. WHAT WAS NCTC'S EQUITY LEVEL IN 2006?

A.32. It was 50 percent.

Q.33. HAVE YOU REVIEWED THE QUARTERLY FILINGS OF NCTC MADE TO THE KENTUCKY PUBLIC SERVICE COMMISSION REGARDING ITS TIER CALCULATIONS FOR THE PAST THREE YEARS?

A.33. Yes I have.

Q.34. WHAT WERE YOUR FINDINGS?

A.34. I found that NCTC's regulated margins have been deteriorating in recent years due to the costs associated with critically required plant investments as well as escalating labor rates. In its 4th quarter 2004 PSC filing the Cooperative reported

¹ Statistical data obtained from the National Telecommunications Cooperative Association 2007 Regional Director's Conference.

operating income of \$1,028,127 and TIER of 2.02. In 4th quarter 2005, operating income declined to \$925,552 and TIER was reported as 2.00. In its December 2006 filing, NCTC reported an operating loss of \$262,788 and TIER of 0.74. These results are consistent with annual audited statements prepared by the Cooperative's auditing firm for the same periods.

Q.35. WHAT IS THE IMPLICATION OF NCTC HAVING A TIER OF LESS THAN 1.00 ON ITS OPERATING INCOME?

A.35. As I indicated earlier, with a TIER of 0.74 NCTC is not recovering long-term interest costs on the regulated plant at current levels of revenue.

Q.36. HAVE YOU HAD THE OPPORTUNITY TO CONSIDER ANY OF THE NCTC INFORMATION FILED WITH THE PSC FOR THE CURRENT YEAR?

A.36. Yes. I reviewed the information NCTC filed with the Kentucky PSC for the first and second quarters of 2007.

Q.37. WHAT HAVE BEEN THE RESULTS SO FAR IN THIS CURRENT YEAR?

A.37. The first quarter filing with the Commission considers the first three months of 2007 and the last nine months of 2006 and the second quarter filing reflects the twelve-month historical period ending June 2007. Basically, the results are unchanged. The TIER computation for first quarter 2007 and second quarter 2007 resulted in TIERS of 0.77 and 0.72, respectively. The regulated business is still paying more in interest expense than it collects in revenue.

Q.38. IF THESE RATES ARE NOT CHANGED WHO WILL SUFFER?

A.38. If this trend persists, the financial integrity of NCTC will be adversely affected by its regulated operations. The consequence of any financial degradation will be to its owners – the member-patrons. If the Cooperative were to violate the TIER covenant of its RUS mortgage, the government would likely refuse to allow redemption of the members' previously allocated capital credits until the overall TIER was restored to at least 1.42.

Q.39. WHAT IS YOUR UNDERSTANDING OF HOW OPERATING RESULTS WILL CHANGE IF THE RATES REQUESTED ARE APPROVED?

A.39. I understand that the total revenue increase proposed is \$856,692 with \$215,688 of that increase from NCTC's Kentucky membership. The increase will result in the Cooperative earning a TIER on the rate regulated plant in 2007 of 1.60. However, based on projections for 2008 the TIER based on regulated income will very likely be below 1.40.

Q.40. HAVE YOU CONSIDERED HOW NCTC REGULATED OPERATING INCOME TIER FOR 2006 COMPARES TO PUBLICLY TRADED COMPANIES?

A.40. Yes I have. I began with 2006 operating income and TIER data for 24 publicly traded telecommunications companies listed on the various national stock exchanges. Next, I excluded the top six companies that had over one billion dollars in operating income. From that remaining pool of companies, I compared those results to that of NCTC reported to the Kentucky PSC. The details of that analysis are attached as Exhibit B.

Q.41. WHICH COMPANIES DID YOU EXCLUDE FROM THE ANALYSIS?

A.41. I excluded Windstream, TDS, Embarq, Qwest, Verizon and AT&T.

Q.42. WHY DID YOU EXCLUDE THOSE LARGE COMPANIES FROM THE ANALYSIS?

A.42. It was my opinion that the results of the largest telecommunications companies in the country – which bear little resemblance to North Central Telephone Cooperative – would skew the findings.

Q.43. WHAT WERE THE RESULTS OF YOUR ANALYSIS?

A.43. As can be seen from that chart on Exhibit B-2, the TIER results vary substantially among the companies. The range of TIER statistics is 17.79 to -5.52. The mean among this group is 2.96 and the median is 1.78.²

Q.44. WHAT INFERENCES CAN YOU DRAW COMPARING THE SMALLER PUBLICLY-TRADED TELECOMMUNICATIONS COMPANIES TO NCTC?

A.44. First, comparing NCTC to the remaining 18 publicly-traded companies, the Cooperative would have the second lowest TIER of the group of 19. Second, even with the requested rate increase NCTC would be ranked in the bottom half of select companies.

Q.45. WHAT WOULD BE THE IMPLICATION FROM A FINANCIAL PERSPECTIVE OF NCTC NOT RECEIVING RATE INCREASES AT THE LEVELS REQUESTED BY MR. ROWLAND?

A.45. It is my view that any “half-measure” rate increase would be inappropriate. The Cooperative has not had a rate increase in over 20 years. It is not recovering its

² Note: “Mean” refers to the statistical average of the data; “median” refers to the middle number in a series of numbers.

interest costs on its regulated business. Having reviewed their expense trends and labor levels, I believe that the Management and Board of Directors have taken every reasonable action to contain costs. If NCTC does not get necessary rate increases the Cooperative's access to capital could become extremely limited. It has to be remembered that the ratepayers are also the member-owners; the Board of Directors elected by those ratepayers has approved this proposed increase.

Q.46. HOW DO YOU THINK THIS INCREASE SHOULD BE VIEWED COMPARED TO THE ACHIEVED TIER RESULTS FOR SMALLER PUBLICLY-TRADED TELECOMMUNICATIONS COMPANIES?

A.46. It is my opinion the rate increase requested by the Cooperative is modest and compares very favorably to other companies in the industry.

Q. 47. DOES THIS CONCLUDE YOUR TESTIMONY?

A.47. Yes it does.

Respectfully submitted,



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**COUNSEL TO NORTH CENTRAL
TELEPHONE COOPERATIVE
CORPORATION**

EXHIBIT A

THOMAS M. STRAIT

Thomas M. Strait, one of the founders of the Washington Utility Group, specializes in the areas of utility taxation and finance.

In 1973 he received a B.S. from the United States Naval Academy at Annapolis, Maryland where his education specialized in naval engineering and analytical management. Following service as an officer in the U.S. Marine Corps, Mr. Strait completed a M.B.A. in 1981 with a concentration in finance and accounting from the American University in Washington, D.C.

Mr. Strait successfully completed the examinations for certification as a public accountant in 1982 and began my career as a tax accountant in the Washington, D.C. office of Deloitte, Haskins & Sells. Following several years of corporate tax practice with that firm, he joined the Ernst & Whinney Utility Consulting Group (later Ernst & Young) also located in Washington, D.C. There, Mr. Strait focused on income tax and finance issues for both investor-owned and cooperatively operated electric and telephone companies. In 1993, he co-founded the Washington Utility Group, a firm providing accounting, economic, finance and taxation advice to investor-owned, cooperative and municipal utilities.

Through the course of his career he has represented utilities of all types before the Internal Revenue Service ("IRS"). However, over the past 24 years a large majority of his services have been provided to rural electric and telephone cooperatives. He has provided cooperatives fundamental tax planning, representation in tax audits, preparation of technical advice and letter ruling requests for submission to the IRS National Office, and advice to bankrupt and financially troubled cooperatives. Further, Mr. Strait has supported a variety of electric and telephone cooperatives in strategic financial planning for their capital credit allocation, redemption, and discounting policies.

He has provided service to the National Rural Electric Cooperative Association ("NRECA") and the National Telephone Cooperative Association ("NTCA"), and remains engaged by both at the present time. For each of those trade associations he has provided representation before the Staff of the Joint Committee on Taxation of the U.S. Congress.

For NRECA he has appeared before the Chairman of the Small Business Subcommittee for the House of Representatives to testify regarding taxation of propane companies operated by cooperatives, regular corporations, and Master Limited Partnerships. Further, he has prepared numerous income tax studies and evaluation of electric cooperative issues.

For NTCA Mr. Strait has represented the telephone cooperative industry before the taxation staff of the U.S. Treasury Department, addressing ongoing income tax issues and

participating in the “scoring” of proposed tax law changes in the Internal Revenue Code affecting telephone cooperatives. “Scoring” is the estimation of the revenue impact of a particular tax law change to the U.S. Treasury.

Mr. Strait has also drafted proposed tax legislation or reviewed drafts prepared by the trade associations in the 1992, 1996, 1998 and 2004 Tax Acts.

In 2006 he presented cooperative income taxation courses for both NTCA and NRECA, and periodically is the instructor of the Introductory and the Advanced Cooperative Taxation Courses offered by the accounting firm of Moss Adams LLP. Further, he presented in 2006 cooperative income tax courses for the National Rural Utilities Cooperative Finance Corporation (CFC), state-wide cooperative associations and private clients.

Mr. Strait has been published in the quarterly journal of the National Society of Accountants for Cooperatives several times, and in the past has won the annual award for best cooperative taxation article.

Finally, Mr. Strait was one of two outside tax advisors to the Capital Credits Task Force sponsored by NRECA and CFC which was chartered to study capital credit policies used by electric cooperative across the country and make recommendations to the industry. The Task Force Report was published in January 2005.

Testimony Presented

Mr. Strait has presented expert testimony in the following jurisdictions:

Federal District Court for Southern Illinois - *GenMar Inc. v. Clay Electric Cooperative*, 1988, income tax testimony.

Pennsylvania Public Service Commission - *Toll Brothers Construction Company v. United Water Company*, 1993, income tax testimony.

New York Public Service Commission - *St. Lawrence Gas Company*, 1997, cost of service and accounting testimony before the PSC.

Maryland Public Service Commission - *Choptank Electric Cooperative*, 1998, code of conduct accounting testimony before the PSC Case No. 8747

Maryland Public Service Commission - *Choptank Electric Cooperative and Southern Maryland Electric Cooperative*, 2002, testified as to why the respective cooperatives conduct did not violate the PSC rules Case No. 8899

Regulatory Commission of Alaska - *Homer Electric Cooperative v. Chugach Electric Cooperative*, 2002, testimony on cooperative principles.
Re: TA 226-8, Case U-01-108.

Regulatory Commission of Alaska – *Matanuska Telephone v. GCI*, 2005,
testimony on cooperative tax principles. Re: TA U-05-046.

EXHIBIT B

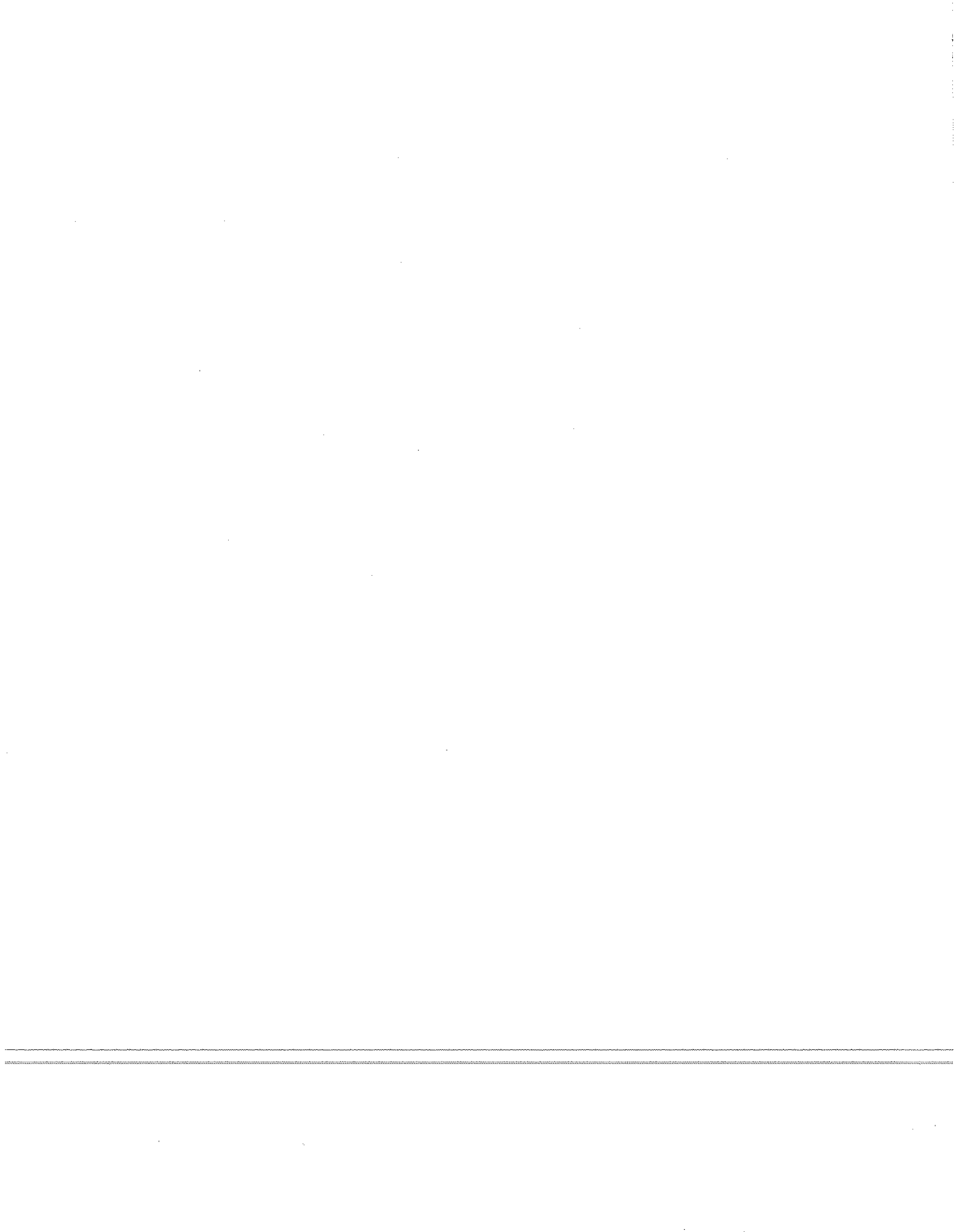
**COMPILATION OF TIER STATISTICS FOR SELECT
PUBLICLY TRADED TELECOMMUNICATIONS COMPANIES**

TELEPHONE ANALYSIS: 2006 Times Interest Earned Ratios (TIER)

Amounts in \$m, except as otherwise indicated

	New Ulm OTC:NULM	Warwick Valley NSDQ:WVWV	Otelco AMEX:OTT	North Pittsburgh NSDQ:NPSI	HickoryTech NSDQ:HTCO	D&E Comm NSDQ:DECC	Shenandoah Telecomm. NSDQ:SHEN	CT Comm NSDQ:CTCI
Operating income - 2006	3.4	(3.8)	19.8	24.9	15.8	22.5	21.2	24.3
Interest expense - 2006	0.8	0.7	20.1	1.4	7.4	15.3	2.4	3.3
Tier ratio - 2006	4.15	(5.52)	0.99	17.79	2.15	1.47	8.96	7.43
	SureWest Comm. NSDQ:SURW	Iowa Telecom NYSE:IWA	FairPoint Comm. NYSE:FRP	Hawaiian Telecom BOND:HTEL	Consolidated Comm. NSDQ:CNSL	Alaska Comm. NSDQ:ALSK	NTELOS NSDQ:NTLS	Cincinnati Bell NYSE:CBB
Operating income - 2006	6.9	77.7	61.4	(23.2)	49.3	51.0	60.6	312.5
Interest expense - 2006	6.9	31.7	39.7	115.8	43.9	31.1	59.9	162.1
Tier ratio - 2006	1.00	2.45	1.55	(0.20)	1.12	1.64	1.01	1.93
	Citizens Comm. NYSE:CZN	CenturyTel NYSE:CTL						
Operating income - 2006	644.5	665.5						
Interest expense - 2006	336.4	196.0						
Tier ratio - 2006	1.92	3.40						

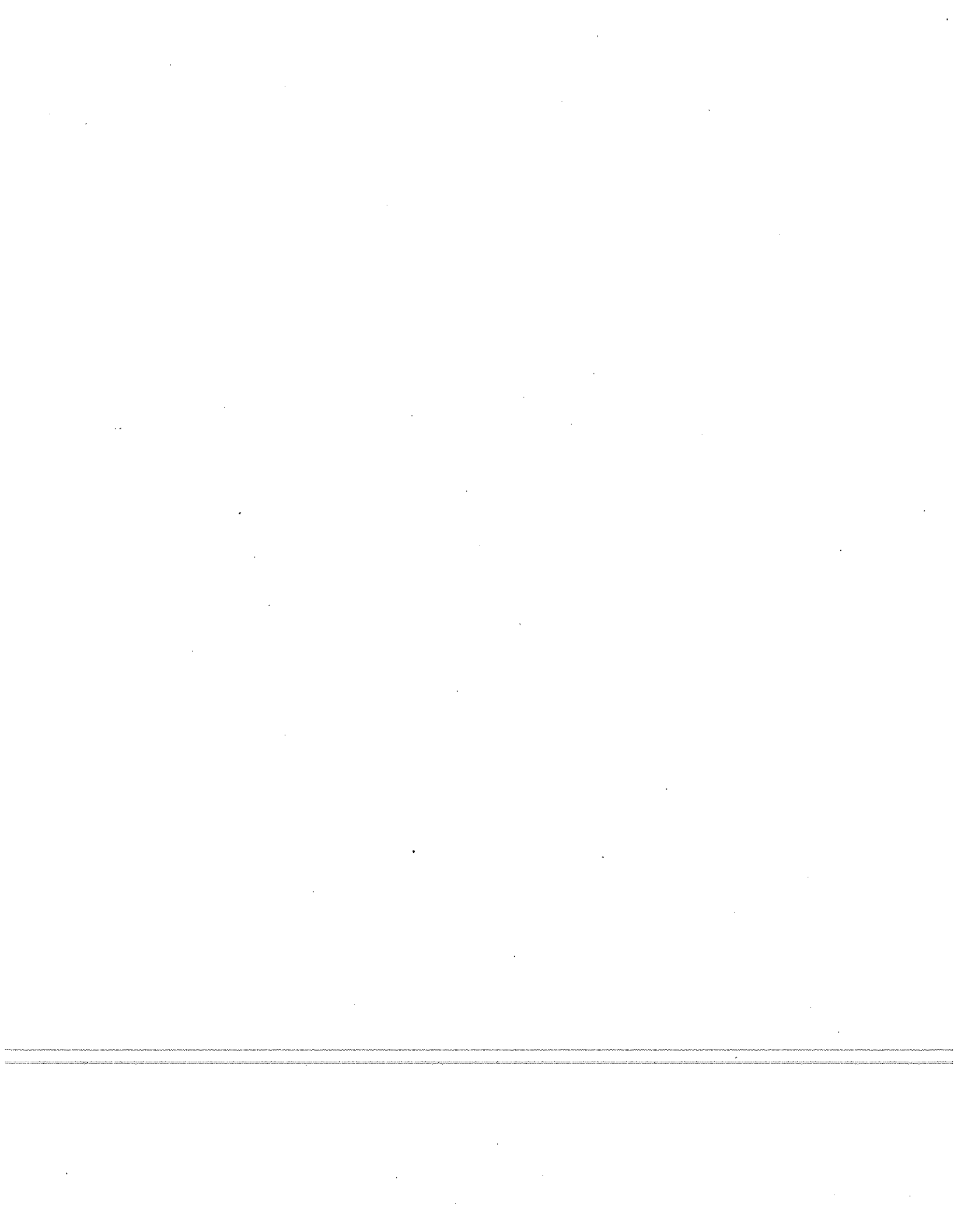
Mean 2.96
Median 1.78



NORTH CENTRAL TELEPHONE COOPERATIVE
2007 CAPITAL ADDITIONS AND REPLACEMENTS

DEPARTMENT / CATEGORY	1ST QUARTER		2ND QUARTER		3RD QUARTER		4TH QUARTER	
	DESCRIPTION	AMOUNT	DESCRIPTION	AMOUNT	DESCRIPTION	AMOUNT	DESCRIPTION	AMOUNT
CENTRAL OFFICE	PURCHASE/INSTALL VIDEO EQUIP- PHASE III - LAFAYETTE	652,669.00 (RUS)	-	-	PURCHASE/INSTALL VIDEO EQUIP- SCOTTSVILLE	\$941,025.00 (RUS)	PURCHASE/INSTALL VIDEO EQUIP- SCOTTSVILLE	-
	PURCHASE/INSTALL FIBER OPTIC EQUIP- RBS/PLEASANT SHADE/HILLSDALE	\$86,250.00 (RUS)	PURCHASE/INSTALL SOFTSWICH LAFAYETTE HOST	\$862,500.00 (RUS)	PURCHASE/INSTALL VIDEO EQUIP- RED BOILING SPRINGS	\$615,359.00 (RUS)		-
	PURCHASE/INSTALL CALEA UPGRADE	\$285,000.00 (A)	PURCHASE/INSTALL NRTC VIDEO NETWORK	\$345,000.00 (RUS)	-	-		-
		-	PURCHASE/INSTALL MPEG4 VIDEO UPGRAD	\$833,750.00 (RUS)	-	-		-
	PURCHASE GATEWAY VIDEO EQ- LAFAYETTE PHASE III	\$232,400.00 (RUS)	-	-	PURCHASE GATEWAY VIDEO EQUIP- SCOTTSVILLE/RED BOILING SPRINGS	\$651,200.00 (RUS)	PURCHASE GATEWAY VIDEO EQUIP- SCOTTSVILLE	-
	PURCHASE ROUTER AND NETWORK EQUIPM	\$20,000.00 (A)	PURCHASE ROUTER AND NETWORK EQUIPM	\$20,000.00 (A)	PURCHASE ROUTER AND NETWORK EQUIPM	\$20,000.00 (A)	PURCHASE ROUTER AND NETWORK EQUIPM	-
	PURCHASE/INSTALL DC POWER PLANT EXPA LAFAYETTE HOST	\$30,000.00 (A)	PURCHASE/INSTALL DC POWER PLANT EXP SCOTTSVILLE	\$33,000.00 (A)	PURCHASE/INSTALL DC POWER PLANT EXP GALEN REMOTE	\$22,000.00 (A)	PURCHASE/INSTALL DC POWER PLANT EXP KEYSTONE REMOTE	-
	PURCHASE DSL MODEMS/DSLAMS- VARIOUS LOCATIONS	\$43,000.00 (A)	PURCHASE DSL MODEMS/DSLAMS- VARIOUS LOCATIONS	\$45,000.00 (A)	PURCHASE DSL MODEMS/DSLAMS- VARIOUS LOCATIONS	\$45,000.00 (A)	PURCHASE DSL MODEMS/DSLAMS- VARIOUS LOCATIONS	-
	PURCHASE KEY/PBX EQUIP- ALL EXCHANGES	\$30,000.00 (A)	PURCHASE KEY/PBX EQUIP- ALL EXCHANGES	\$30,000.00 (A)	PURCHASE KEY/PBX EQUIP- ALL EXCHANGES	\$30,000.00 (A)	PURCHASE KEY/PBX EQUIP- ALL EXCHANGES	-
	PURCHASE/INSTALL CONFERENCE CALLING EQUIP FOR AP BOX-LAFAYETTE HOST	\$12,000.00 (A)	PURCHASE/INSTALL NEW SYSTEM CLOCK LAFAYETTE	\$50,000.00 (A)	-	-	-	-
	PURCHASE MISC EQUIP/PC'S FOR COE TECHNICIANS	\$10,000.00 (R)	PURCHASE MISC EQUIP/PC'S FOR COE TECHNICIANS	\$10,000.00 (R)	PURCHASE MISC EQUIP/PC'S FOR COE TECHNICIANS	\$10,000.00 (R)	PURCHASE MISC EQUIP/PC'S FOR COE TECHNICIANS	-
CUSTOMER SERVICE	REDESIGN FRONT LOBBY FOR CABLE TV MARKETING	\$25,000.00 (A)	-	-	-	-	-	-
ENGINEERING	LADD ENGINEERING (CONSULTING FEES)	\$250,000.00 (RUS)	LADD ENGINEERING (CONSULTING FEES)	\$250,000.00 (RUS)	LADD ENGINEERING (CONSULTING FEES)	\$250,000.00 (RUS)	LADD ENGINEERING (CONSULTING FEES)	-
	OUTSIDE PLANT CONTRACTS	\$1,500,000.00 (RUS)	OUTSIDE PLANT CONTRACTS	\$1,500,000.00 (RUS)	OUTSIDE PLANT CONTRACTS	\$1,500,000.00 (RUS)	OUTSIDE PLANT CONTRACTS	-
	OUTSIDE PLANT WORK ORDERS	\$742,500.00 (A)	OUTSIDE PLANT WORK ORDERS	\$742,500.00 (A)	OUTSIDE PLANT WORK ORDERS	\$742,500.00 (A)	OUTSIDE PLANT WORK ORDERS	-
	PURCHASE GPS MEASURING EQUIPMENT	\$12,000.00 (A)	PURCHASE PLOTTER	\$6,000.00 (R)	-	-	-	-
HUMAN RESOURCES	ADD PROJECTOR FOR SAFETY TRAINING	\$1,100.00 (A)	-	-	-	-	-	-
OUTSIDE PLANT	PURCHASE TEST EQUIPMENT	\$5,000.00 (A)	PURCHASE TEST EQUIPMENT	\$5,000.00 (A)	PURCHASE TEST EQUIPMENT	\$10,000.00 (A)	PURCHASE TEST EQUIPMENT	-
	PURCHASE MISC TOOLS	\$5,000.00 (A)	PURCHASE MISC TOOLS	\$5,000.00 (A)	PURCHASE MISC TOOLS	\$5,000.00 (A)	PURCHASE MISC TOOLS	-
	MISC BUILDING MODIFICATION	\$7,000.00 (A)	MISC BUILDING MODIFICATION	\$7,000.00 (A)	MISC BUILDING MODIFICATION	\$7,000.00 (A)	MISC BUILDING MODIFICATION	-

	-	-	REPAIR/REPLACE FENCE-LAF. OFFICE	\$5,000.00	(R)	UPGRADE FIRE SYSTEM-LAFAYETTE OFFICE AND WAREHOUSE	\$7,312.00	(A)	-
	-	-	REPLACE 2 -1/2 TON TRUCK FOR INSTALLER	\$32,000.00	(R)		-		-
	-	-	REPLACE 1 -3/4 TON TRUCK FOR CONSTRUCT CREW	\$18,500.00	(R)		-		-
	-	-		-			-		REPLACE 1 BUCKET TR
	-	-	REPLACE FUEL TANKS (3)	\$8,000.00	(R)		-		CABLE TECHNICIAN
PROGRAMMING			REPLACE AS400 SERVER AND SOFTWARE	\$100,000.00	(R)		-		-
			REPLACE ETI CABLEBRIDGE HARDWARE AND SOFTWARE	\$11,000.00	(R)		-		-
			REPLACE FIREWALL FOR NCTC INTERNET	\$6,500.00	(R)		-		-
			REPLACE PCs IN ACCOUNTING AND BILLING	\$3,000.00	(R)	REPLACE PCs IN ACCOUNTING AND BILLING	\$3,000.00	(R)	-
				-		ADD IBM EMAIL SERVER FOR NCTC INTEROF USE-HARDWARE AND SOFTWARE	\$12,000.00	(A)	-
				<u>\$4,063,919.00</u>			<u>\$4,831,750.00</u>		<u>\$4,880,396.00</u>
	(A)			\$1,221,600.00			\$951,500.00		\$909,812.00
	(R)			\$121,000.00			\$89,000.00		\$13,000.00
	(RUS)			\$2,721,319.00			\$3,791,250.00		\$3,957,584.00
				<u>\$4,063,919.00</u>			<u>\$4,831,750.00</u>		<u>\$4,880,396.00</u>



BUDGET FOR
NORTH CENTRAL TELEPHONE COOP., INC.
OCTOBER 2006 THROUGH SEPTEMBER 2007

	OCT 2006	NOV 2006	DEC 2006	1ST QTR	JAN 2007	FEB 2007	MAR 2007	2ND QTR	SIX MONTH	APR 2007
ACCESS LINES (4)	21970	21960	21889		21874	21845	21866			21980
5001 SUB. STA. REVENUE	\$359,203	\$359,039	\$357,878	\$1,076,120	\$359,829	\$359,352	\$359,697	\$1,078,878	\$2,154,998	\$361,572
PROJECTED RATE INCREASES (7)	0	0	0	\$0	\$0	\$70,387	\$70,387	\$140,774	\$140,774	\$70,387
5081 END USER ACCESS	\$162,575	\$162,501	\$161,976	\$487,052	\$167,337	\$167,115	\$167,276	\$501,728	\$988,780	\$168,148
5082 ACCESS REV-SWITCHED	\$268,468	\$268,346	\$267,478	\$804,292	\$201,985	\$201,718	\$201,911	\$605,615	\$1,409,907	\$202,964
5083 ACCESS REV-I/S SPEC	\$43,280	\$43,260	\$43,121	\$129,661	\$50,092	\$50,025	\$50,073	\$150,180	\$279,851	\$50,334
5083.1 DSL -TRANSPORT FROM NCC	\$165,966	\$172,663	\$179,361	\$517,989	\$88,006	\$90,188	\$92,177	\$270,371	\$788,360	\$94,067
5100 ACCESS REV-TOLLS	\$309,332	\$309,191	\$308,191	\$926,714	\$307,613	\$307,238	\$307,510	\$922,361	\$1,849,075	\$308,983
5111 ACCESS REV-WATS LINES	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5122 ACCESS REV-IXC CARR	\$16,038	\$16,030	\$15,979	\$48,047	\$13,562	\$13,544	\$13,557	\$40,663	\$88,710	\$13,628
5230 DIRECTORY REV.	\$17,576	\$17,568	\$17,511	\$52,655	\$19,030	\$19,005	\$19,023	\$57,058	\$109,713	\$19,123
5261 MISC. REVENUE	\$140,802	\$140,737	\$140,276	\$421,815	\$152,244	\$152,042	\$152,188	\$456,474	\$878,289	\$152,981
5264 LATE PAYMENT FEES	\$6,811	\$6,807	\$6,785	\$20,403	\$7,000	\$6,990	\$6,997	\$20,987	\$41,390	\$7,034
5270 INTERSTATE B & C REV	\$2,636	\$2,635	\$2,627	\$7,998	\$2,187	\$2,185	\$2,187	\$6,559	\$14,457	\$2,198
5270.1 INTRASTATE B & C REV	\$8,788	\$8,784	\$8,755	\$26,327	\$8,093	\$8,083	\$8,090	\$24,266	\$50,593	\$8,133
5301 UNCOLLECT. REV.	(\$2,856)	(\$2,856)	(\$2,846)	(\$8,557)	(\$2,625)	(\$2,621)	(\$2,624)	(\$7,870)	(\$16,427)	(\$2,638)
TOTAL REGULATED REVENUE	\$1,498,619	\$1,504,706	\$1,507,092	\$4,510,416	\$1,374,353	\$1,445,251	\$1,448,450	\$4,268,054	\$8,778,470	\$1,456,915
6121 LAND AND BLDG. EXP.	\$23,929	\$23,918	\$23,842	\$71,688	\$22,988	\$22,957	\$25,000	\$70,946	\$142,634	\$23,102
6123 OFFICE EQUIP EXP	\$846	\$846	\$843	\$2,536	\$1,055	\$1,053	\$1,264	\$3,372	\$5,908	\$1,060
6124 GEN PURP COMPUTER EXP	\$8,129	\$8,125	\$8,099	\$24,353	\$6,562	\$6,564	\$6,560	\$19,676	\$44,029	\$6,594
6212 REPAIR DIGITAL	\$80,897	\$80,861	\$80,600	\$242,358	\$83,884	\$83,772	\$95,337	\$262,993	\$505,352	\$84,292
62151 REPAIR TOLL-EAS	\$217	\$217	\$217	\$652	\$0	\$0	\$0	\$0	\$652	\$0
62152 REPAIR SUB CARRIER	\$1,059	\$1,059	\$1,059	\$3,176	\$843	\$843	\$1,027	\$2,714	\$5,890	\$843
6231 REPAIR OF MOBILE PHONE	\$7,214	\$7,583	\$7,952	\$22,749	\$208	\$208	\$208	\$624	\$2,373	\$208
6232 BROADBAND EXPENSE	\$72,603	\$72,603	\$72,603	\$217,810	\$5,699	\$5,699	\$5,699	\$17,097	\$234,907	\$5,699
6411 POLE EXPENSE	\$27,828	\$27,828	\$27,828	\$83,483	\$57,092	\$57,092	\$60,399	\$174,583	\$258,066	\$57,092
6421 REPAIR AERIAL CABLE	\$13,054	\$13,054	\$13,054	\$39,161	\$22,777	\$22,777	\$28,101	\$73,654	\$112,816	\$22,777
6421.1 REC/DISC DROP	\$25,483	\$25,483	\$25,483	\$76,450	\$11,546	\$11,546	\$13,910	\$37,002	\$113,452	\$11,546
6421.2 REPAIR DROP/PROTECTOR	\$648	\$648	\$646	\$1,943	\$23,786	\$23,786	\$28,406	\$75,978	\$77,920	\$23,786
6421.3 REPAIR-FIBER OPTIC	\$28,763	\$28,763	\$28,763	\$86,289	\$2,130	\$2,128	\$2,474	\$6,731	\$93,021	\$2,141
6423 REPAIR BURIED CABLE	\$2,689	\$2,688	\$2,679	\$8,056	\$26,257	\$26,220	\$26,247	\$78,725	\$96,781	\$26,390
6431 REPAIR AERIAL WIRE	\$200	\$200	\$199	\$600	\$2,546	\$2,542	\$2,927	\$8,016	\$8,616	\$2,559
6512 SUPPLY EXPENSE	\$16,038	\$16,030	\$15,979	\$48,047	\$421	\$420	\$494	\$1,335	\$49,382	\$423
6531 POWER-UTILITIES	\$4,833	\$4,831	\$4,815	\$14,479	\$19,249	\$19,224	\$19,242	\$57,715	\$72,194	\$19,342
6532 TRAFFIC/OPERATOR EXP	\$30,857	\$30,843	\$30,745	\$92,446	\$3,937	\$3,932	\$3,936	\$11,805	\$104,251	\$3,956
6533 TEST DESK	\$16,408	\$16,400	\$16,348	\$49,155	\$29,780	\$29,719	\$35,834	\$95,312	\$144,467	\$29,910
6533.1 TEST DESK COE	\$5,364	\$5,362	\$5,345	\$16,070	\$20,039	\$20,011	\$24,779	\$64,828	\$80,898	\$20,141
6533.2 TEST DESK CABLE	\$58,011	\$57,985	\$57,800	\$173,796	\$4,190	\$4,184	\$5,098	\$13,473	\$187,269	\$4,211
6535 ENGINEERING EXPENSE	\$38,227	\$38,210	\$38,086	\$114,523	\$59,145	\$59,062	\$73,920	\$192,126	\$306,649	\$59,446
6540 INTEREXCHANGE ACCESS	\$472,297	\$475,297	\$478,297	\$1,425,890	\$34,561	\$34,515	\$34,548	\$103,624	\$1,529,514	\$34,729
6561 DEPRECIATION EXPENSE	\$6,727	\$6,727	\$6,727	\$20,181	\$452,186	\$452,186	\$452,186	\$1,356,557	\$1,376,738	\$452,186
6610 MARKETING EXPENSE (6)	\$5,710	\$5,710	\$5,710	\$17,129	\$1,263	\$1,263	\$1,544	\$4,070	\$21,199	\$1,263
6613 ADVERTISING	\$236	\$236	\$236	\$707	\$2,787	\$2,787	\$2,787	\$8,360	\$9,066	\$2,787
6621 OTHER TRAFFIC EXP	\$18,214	\$18,214	\$18,214	\$54,641	\$229	\$229	\$229	\$686	\$55,327	\$229
6622 DIRECTORY EXPENSE	\$164,878	\$164,878	\$164,878	\$494,635	\$14,174	\$14,174	\$14,946	\$43,294	\$537,929	\$14,174
6623 COMMERCIAL DEPARTMENT	\$22,517	\$22,517	\$22,517	\$67,550	\$157,314	\$157,314	\$186,066	\$500,694	\$568,244	\$157,314
6722 EXTERNAL RELATIONS	\$25,532	\$25,532	\$25,532	\$76,597	\$23,746	\$23,746	\$25,338	\$72,830	\$149,427	\$23,746
6711 EXECUTIVE DEPARTMENT	\$16,365	\$16,365	\$16,365	\$49,094	\$28,942	\$28,942	\$36,043	\$93,927	\$143,022	\$28,942
6711.1 DIRECTOR FEE/TRAVEL	\$26,212	\$26,212	\$26,212	\$78,636	\$18,450	\$18,450	\$18,450	\$55,351	\$133,987	\$18,450
6721 ACCOUNTING/FINANCE	\$18,474	\$18,474	\$18,474	\$55,423	\$34,476	\$34,476	\$40,884	\$109,836	\$165,259	\$34,476
6723 HUMAN RESOURCES	\$12,439	\$12,439	\$12,439	\$37,316	\$16,829	\$16,829	\$21,062	\$54,720	\$92,036	\$16,829
6724 COMPUTER INFO. MGT	\$4,540	\$4,540	\$4,540	\$13,621	\$11,120	\$11,120	\$12,433	\$34,673	\$48,295	\$11,120
6725 LEGAL EXPENSE	\$6,348	\$6,348	\$6,348	\$19,043	\$8,631	\$8,631	\$8,631	\$25,893	\$44,936	\$8,631
6726 PROCUREMENT EXPENSE	\$13,506	\$13,506	\$13,506	\$40,517	\$6,928	\$6,928	\$6,468	\$22,324	\$62,840	\$6,928
6728 INSURANCE BLDG./EQ	\$39,127	\$39,127	\$39,127	\$117,381	\$11,895	\$11,895	\$11,895	\$35,684	\$153,065	\$11,895
6728.0 OTHER EXPENSE	\$0	\$0	\$0	\$0	\$32,803	\$32,803	\$32,803	\$98,410	\$98,410	\$32,803
6728.1 ACCIDENT AND DAMAGE	\$3,909	\$3,909	\$3,909	\$11,728	\$0	\$0	\$0	\$0	\$11,728	\$0
6728.2 CO-OP DUES	\$20,000	\$45,000	\$15,000	\$80,000	\$5,297	\$5,297	\$5,297	\$15,890	\$95,890	\$5,297
6728.3 ANNUAL MEETING EXP	\$8,445	\$8,445	\$8,445	\$25,335	\$0	\$0	\$0	\$0	\$25,335	\$0
6728.4 CONVENTION/MTG EXP	\$0	\$0	\$0	\$0	\$5,314	\$5,314	\$5,579	\$16,207	\$16,207	\$5,314
7230 PROPERTY TAX	\$36,789	\$36,789	\$36,789	\$110,368	\$39,750	\$39,750	\$39,750	\$119,250	\$229,618	\$39,750
7240.1 KY GROSS RECEIPTS TAX	\$0	\$0	\$0	\$0	\$2,399	\$2,399	\$2,399	\$7,197	\$7,197	\$2,399
7510 INT. LONG TER. DEBT	\$102,356	\$102,249	\$102,142	\$306,748	\$92,451	\$94,951	\$97,451	\$284,854	\$591,602	\$99,951
7540 INT. ON DEPOSITS	\$2,418	\$2,418	\$2,418	\$7,254	\$1,617	\$1,617	\$1,617	\$4,852	\$12,106	\$1,617
TOTAL REGULATED EXPENSE	\$1,490,336	\$1,518,469	\$1,490,810	\$4,499,615	\$1,407,276	\$1,409,345	\$1,521,266	\$4,337,886	\$8,837,502	\$1,416,348
NET REGULATED INCOME	\$8,282	(\$13,763)	\$16,281	\$10,800	(\$32,922)	\$35,906	(\$72,817)	(\$69,833)	(\$59,032)	\$40,567
TOTAL NONREGULATED REV	\$63,550	\$63,550	\$63,550	\$190,649	\$59,149	\$59,149	\$59,149	\$177,448	\$368,097	\$59,149
TOTAL NONREGULATED EX	\$62,289	\$62,289	\$62,289	\$186,867	\$66,038	\$66,038	\$66,038	\$198,113	\$384,980	\$66,038
NET NONREG OPERATING INC	\$1,260	\$1,260	\$1,260	\$3,781	(\$6,888)	(\$6,888)	(\$6,888)	(\$20,664)	(\$16,883)	(\$6,888)
NONPERATING INCOME (EXP)	\$2,040	\$2,040	\$2,040	\$6,120	\$1,702	\$1,702	\$1,702	\$5,107	\$11,227	\$1,702
INTEREST/DIVIDEND/AFUDC INC	\$27,706	\$27,706	\$27,706	\$83,117	\$23,462	\$23,462	\$23,462	\$70,386	\$153,504	\$23,462
NONREGULATED INCOME (EXP)	\$0	\$0	\$0	\$0	\$44	\$44	\$44	\$131	\$131	\$44
TOTAL OTHER INCOME	\$29,746	\$29,746	\$29,746	\$89,237	\$25,208	\$25,208	\$25,208	\$75,625	\$164,862	\$25,208
NET MARGIN	\$39,288	\$17,243	\$47,287	\$103,819	(\$14,602)	\$54,227	(\$54,497)	(\$14,872)	\$88,946	\$58,887

		MAY 2007	JUN 2007	3RD QTR	JULY 2007	AUG 2007	SEPT 2007	4TH QTR	YEAR
ACCESS LINES		(4)	21980	21960	21980	21980	21980		
5001	SUB. STA. REVENUE	\$361,572	\$361,243	\$1,084,387	\$360,306	\$359,714	\$358,628	\$1,078,648	\$4,318,033
	PROJECTED RATE INCREASES (7)	\$70,387	\$70,387	\$211,161	\$114,261	\$114,261	\$114,261	\$342,783	\$694,719
5081	END USER ACCESS	\$168,148	\$167,995	\$504,291	\$167,559	\$167,283	\$166,778	\$501,620	\$1,994,691
5082	ACCESS REV-SWITCHED	\$202,964	\$202,779	\$608,708	\$202,253	\$201,920	\$201,311	\$605,485	\$2,624,099
5083	ACCESS REV-I/S SPEC	\$50,334	\$50,289	\$150,957	\$50,158	\$50,076	\$49,924	\$150,158	\$580,966
5083.1	DSL -TRANSPORT FROM NCC	\$96,445	\$98,638	\$289,150	\$100,633	\$103,316	\$105,689	\$309,638	\$1,387,148
5100	ACCESS REV-TOLLS	\$308,983	\$308,724	\$926,690	\$307,988	\$307,523	\$306,670	\$922,181	\$3,697,946
5111	ACCESS REV-WATS LINES	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5122	ACCESS REV-IXC CARR	\$13,628	\$13,615	\$40,871	\$13,580	\$13,558	\$13,517	\$40,655	\$170,236
5230	DIRECTORY REV.	\$19,123	\$19,105	\$57,351	\$19,056	\$19,024	\$18,967	\$57,047	\$224,111
5261	MISC. REVENUE	\$152,981	\$152,842	\$458,804	\$152,445	\$152,195	\$151,736	\$456,376	\$1,793,469
5264	LATE PAYMENT FEES	\$7,034	\$7,027	\$21,095	\$7,009	\$6,997	\$6,976	\$20,982	\$83,467
5270	INTERSTATE B & C REV	\$2,198	\$2,196	\$6,592	\$2,190	\$2,187	\$2,180	\$6,557	\$27,606
5270.1	INTRASTATE B & C REV	\$8,133	\$8,125	\$24,391	\$8,104	\$8,091	\$8,066	\$24,261	\$99,245
5301	UNCOLLECT. REV.	(\$2,638)	(\$2,635)	(\$7,911)	(\$2,628)	(\$2,624)	(\$2,616)	(\$7,868)	(\$32,206)
TOTAL REGULATED REVENUE		\$1,459,293	\$1,460,330	\$4,376,537	\$1,502,915	\$1,503,522	\$1,502,087	\$4,508,523	\$17,663,530
6121	LAND AND BLDG. EXP.	\$23,102	\$23,080	\$69,285	\$26,019	\$28,001	\$25,910	\$79,931	\$291,850
6123	OFFICE EQUIP EXP	\$1,060	\$1,059	\$3,180	\$1,056	\$1,264	\$1,051	\$3,371	\$12,459
6124	GEN PURP COMPUTER EXP	\$6,594	\$6,588	\$19,776	\$6,571	\$6,560	\$6,540	\$19,671	\$83,476
6212	REPAIR DIGITAL	\$84,292	\$84,215	\$252,799	\$83,996	\$85,341	\$83,603	\$262,940	\$1,021,091
62151	REPAIR TOLL-EAS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$652
62152	REPAIR SUB CARRIER	\$843	\$843	\$2,530	\$843	\$1,027	\$843	\$2,714	\$11,134
6231	REPAIR OF MOBILE PHONE	\$208	\$208	\$624	\$208	\$208	\$208	\$624	\$24,621
6232	BROADBAND EXPENSE	\$5,699	\$5,699	\$17,097	\$5,699	\$5,699	\$5,699	\$17,097	\$269,101
6411	POLE EXPENSE	\$57,092	\$57,092	\$171,275	\$56,092	\$59,399	\$56,092	\$171,583	\$600,924
6421	REPAIR AERIAL CABLE	\$22,777	\$22,777	\$68,330	\$22,777	\$28,101	\$22,777	\$73,654	\$254,800
64211	REC/DISC DROP	\$11,546	\$11,546	\$34,638	\$11,546	\$13,910	\$11,546	\$37,002	\$185,092
64212	REPAIR DROP/PROTECTOR	\$23,786	\$23,786	\$71,358	\$23,786	\$28,406	\$23,786	\$75,978	\$225,256
64213	REPAIR-FIBER OPTIC	\$2,141	\$2,139	\$6,420	\$2,133	\$2,474	\$2,123	\$6,729	\$106,170
6423	REPAIR BURIED CABLE	\$26,390	\$26,365	\$79,146	\$26,293	\$32,468	\$26,165	\$84,927	\$250,854
6431	REPAIR AERIAL WIRE	\$2,559	\$2,556	\$7,675	\$2,549	\$2,927	\$2,537	\$8,014	\$24,305
6512	SUPPLY EXPENSE	\$423	\$423	\$1,268	\$421	\$494	\$419	\$1,334	\$51,984
6531	POWER-UTILITIES	\$19,342	\$19,325	\$58,009	\$19,275	\$19,243	\$19,185	\$57,703	\$187,906
6532	TRAFFIC/OPERATOR EXP	\$3,956	\$3,953	\$11,865	\$3,943	\$3,936	\$3,924	\$11,803	\$127,919
6533	TEST DESK	\$29,910	\$29,882	\$89,701	\$29,801	\$35,836	\$29,656	\$95,292	\$329,460
6533.1	TEST DESK COE	\$20,141	\$20,121	\$60,402	\$20,067	\$24,780	\$19,969	\$64,815	\$206,115
6533.2	TEST DESK CABLE	\$4,211	\$4,207	\$12,630	\$4,196	\$5,099	\$4,175	\$13,471	\$213,370
6535	ENGINEERING EXPENSE	\$59,446	\$59,389	\$178,280	\$59,227	\$73,923	\$58,937	\$192,086	\$677,015
6540	INTEREXCHANGE ACCESS	\$34,729	\$34,697	\$104,155	\$34,607	\$34,550	\$34,446	\$103,603	\$1,737,272
6561	DEPRECIATION EXPENSE	\$452,186	\$452,186	\$1,356,557	\$452,186	\$452,186	\$452,186	\$1,356,557	\$4,089,853
6610	MARKETING EXPENSE	(6) \$1,263	\$1,263	\$3,790	\$9,597	\$9,877	\$9,597	\$29,070	\$54,059
6613	ADVERTISING	\$2,787	\$2,787	\$8,360	\$2,787	\$2,787	\$2,787	\$8,360	\$25,785
6621	OTHER TRAFFIC EXP	\$229	\$229	\$686	\$229	\$229	\$229	\$686	\$56,700
6622	DIRECTORY EXPENSE	\$14,174	\$14,174	\$42,523	\$14,174	\$14,946	\$14,174	\$43,294	\$623,746
6623	COMMERCIAL DEPARTMENT	\$157,314	\$157,314	\$471,942	\$157,314	\$186,066	\$157,314	\$500,694	\$1,540,880
6722	EXTERNAL RELATIONS	\$23,746	\$23,746	\$71,238	\$23,746	\$25,338	\$23,746	\$72,830	\$293,496
6711	EXECUTIVE DEPARTMENT	\$28,942	\$28,942	\$86,826	\$28,942	\$36,043	\$28,942	\$93,927	\$323,775
6711.1	DIRECTOR FEE/TRAVEL	\$18,450	\$18,450	\$55,351	\$18,450	\$18,450	\$18,450	\$55,351	\$244,690
6721	ACCOUNTING/FINANCE	\$34,476	\$34,476	\$103,427	\$34,476	\$40,884	\$34,476	\$109,836	\$378,522
6723	HUMAN RESOURCES	\$16,829	\$16,829	\$50,487	\$16,829	\$21,062	\$16,829	\$54,720	\$197,242
6724	COMPUTER INFO. MGT	\$11,120	\$11,120	\$33,361	\$11,120	\$12,433	\$11,120	\$34,673	\$116,329
6725	LEGAL EXPENSE	\$8,631	\$8,631	\$25,893	\$8,631	\$8,631	\$8,631	\$25,893	\$96,722
6726	PROCUREMENT EXPENSE	\$6,928	\$6,928	\$20,783	\$6,928	\$8,468	\$6,928	\$22,324	\$105,947
6728	INSURANCE BLDG./EQ	\$11,895	\$11,895	\$35,684	\$11,895	\$11,895	\$11,895	\$35,684	\$224,432
67280	OTHER EXPENSE	\$32,803	\$32,803	\$98,410	\$32,803	\$33,584	\$32,803	\$99,190	\$296,009
67281	ACCIDENT AND DAMAGE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$11,728
67282	CO-OP DUES	\$5,297	\$5,297	\$15,890	\$5,297	\$5,297	\$5,297	\$15,890	\$127,669
67283	ANNUAL MEETING EXP	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$25,335
67284	CONVENTION/MTG EXP	\$5,314	\$5,314	\$15,942	\$5,314	\$5,579	\$5,314	\$16,207	\$48,356
7230	PROPERTY TAX	\$39,750	\$39,750	\$119,250	\$39,750	\$39,750	\$39,750	\$119,250	\$468,118
7240.1	KY GROSS RECEIPTS TAX	\$2,399	\$2,399	\$7,197	\$2,399	\$2,399	\$2,399	\$7,197	\$21,590
7510	INT. LONG TER. DEBT	\$102,451	\$104,951	\$307,354	\$107,451	\$109,951	\$112,451	\$329,854	\$1,228,810
7540	INT. ON DEPOSITS	\$1,617	\$1,617	\$4,852	\$1,617	\$1,617	\$1,617	\$4,852	\$21,809
TOTAL REGULATED EXPENSE		\$1,418,848	\$1,421,051	\$4,256,246	\$1,433,039	\$1,551,116	\$1,436,525	\$4,420,679	\$17,514,428
NET REGULATED INCOME		\$40,445	\$39,280	\$120,292	\$69,876	(\$47,594)	\$65,562	\$87,844	\$149,103
TOTAL NONREGULATED REV		\$59,149	\$59,149	\$177,448	\$59,149	\$59,149	\$59,149	\$177,448	\$722,994
TOTAL NONREGULATED EX		\$66,038	\$66,038	\$198,113	\$66,038	\$66,038	\$66,038	\$198,113	\$781,205
NET NONREG OPERATING INC		(\$6,888)	(\$6,888)	(\$20,664)	(\$6,888)	(\$6,888)	(\$6,888)	(\$20,664)	(\$58,212)
NONPERATING INCOME (EXP)		\$1,702	\$1,702	\$5,107	\$1,702	\$1,702	\$1,702	\$5,107	\$21,442
INTEREST/DIVIDEND/AFUDC INC		\$23,462	\$23,462	\$70,386	\$23,462	\$23,462	\$23,462	\$70,386	\$294,276
NONREGULATED INCOME (EXP)		\$44	\$44	\$131	\$44	\$44	\$44	\$131	\$393
TOTAL OTHER INCOME		\$25,208	\$25,208	\$75,625	\$25,208	\$25,208	\$25,208	\$75,625	\$316,111
NET MARGIN		\$58,765	\$57,600	\$175,252	\$88,196	(\$29,274)	\$83,883	\$142,804	\$407,003

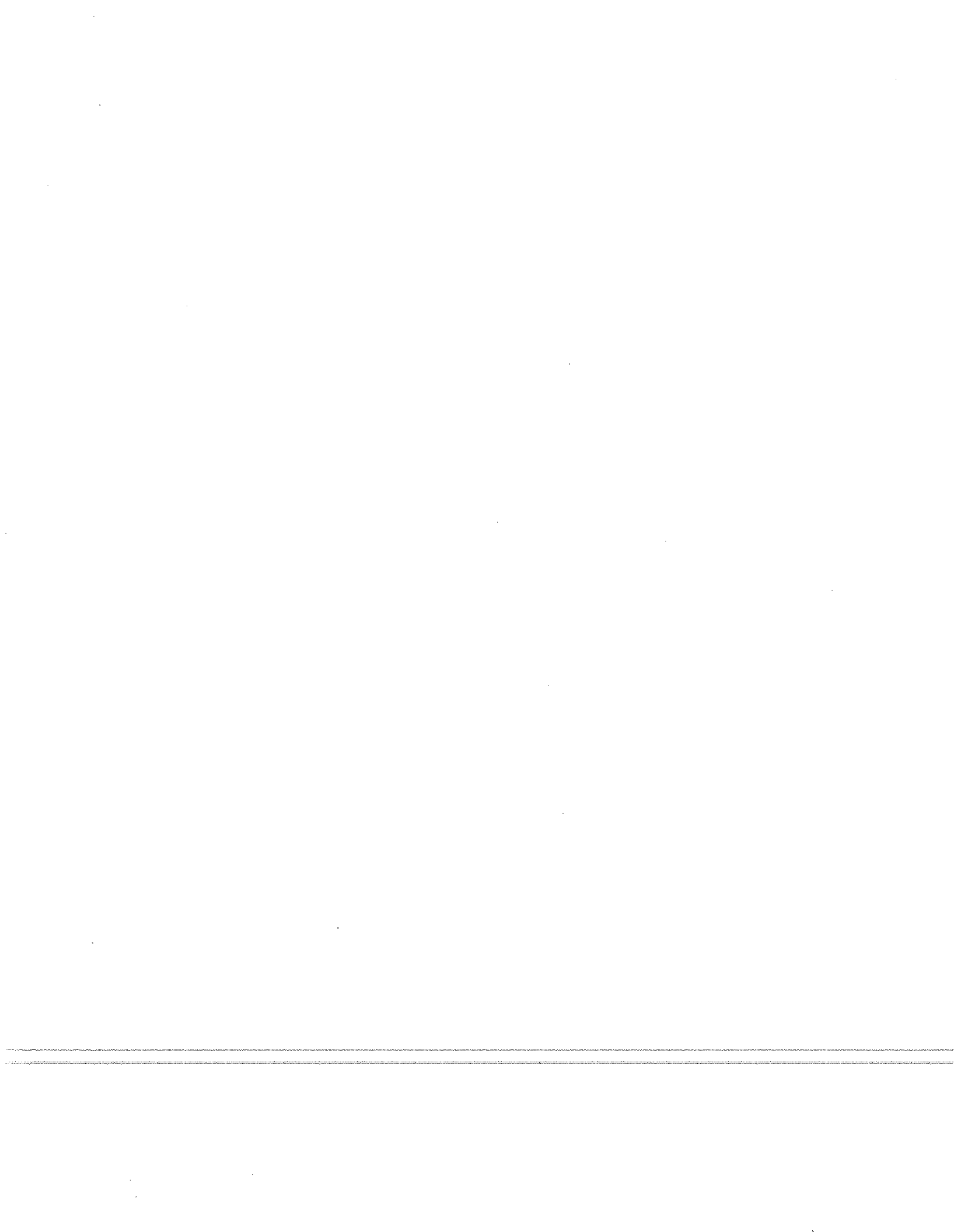
NOTES TO 2007 NORTH CENTRAL TELEPHONE BUDGET:

- (1) MEDICAL EXPENSE ESTIMATED TO DECREASE APPROX 14.1% AND DENTAL EXPENSE INCREASE ESTIMATED AT 11.2% FOR 2007.
- (2) GENERAL INCREASE IN EXPENSE WAS PROJECTED USING AN ANNUAL RATE OF 3.0%.
- (3) WAGE INCREASE OF APPROXIMATELY \$.73 PER HOUR WAS USED.
(AVERAGE RATE OF \$23.50 X 3.0% +/-)
- (4) ACCESS LINE COUNT ESTIMATED TO DECLINE SLIGHTLY WITH A -0.5% DECREASE FOR 2007.
- (5) SPECIAL ACCESS REVENUES INCLUDES TRANSPORT FEES FROM NCC. THE REVENUES ARE ELIMINATED ON A CONSOLIDATED BASIS.
- (6) MARKETING EXPENSE INCLUDES SALARY AND OVERHEAD FOR A MARKETING MANAGER STARTING JULY 2007.
- (7) CALLING FEATURE RATE INCREASES PROJECTED TO BECOME EFFECTIVE FEBRUARY 2007.
LOCAL SERVICE RATE INCREASES PROJECTED TO BE EFFECTIVE JULY 2007.

BUDGET 2007
NORTH CENTRAL TELEPHONE COOP., INC.

		JANUARY	FEBRUARY	MARCH	1ST QTR	APRIL	MAY	JUNE	2ND QTR	SIX MONTH	JULY	AUGUST	SEPT	3RD QTR	OCTOBER	NOVEMBER	DECEMBER	4TH QTR	YEAR
ACCESS LINES	(4)	21874	21845	21866		21980	21960	21960			21903	21867	21801		21773	21707	21715		
5001	SUB. STA. REVENUE	\$359,829	\$359,352	\$359,697	\$1,078,878	\$361,572	\$361,572	\$361,243	\$1,084,387	\$2,163,265	\$360,306	\$359,714	\$358,628	\$1,078,648	\$358,167	\$357,082	\$357,213	\$1,072,462	\$4,314,375
	PROJECTED RATE INCREASES (7)	\$0	\$70,387	\$70,387	\$140,774	\$70,387	\$70,387	\$70,387	\$211,161	\$351,936	\$114,261	\$114,261	\$114,261	\$342,783	\$114,261	\$114,261	\$114,261	\$342,783	\$1,037,502
5081	END USER ACCESS	\$167,337	\$167,115	\$167,276	\$501,728	\$168,148	\$168,148	\$167,995	\$504,291	\$1,006,019	\$167,559	\$167,283	\$166,778	\$501,620	\$166,564	\$166,059	\$166,120	\$498,743	\$2,006,382
5082	ACCESS REV-SWITCHED	\$201,985	\$201,718	\$201,911	\$605,615	\$202,964	\$202,964	\$202,779	\$608,708	\$1,214,322	\$202,253	\$201,920	\$201,311	\$605,485	\$201,053	\$200,444	\$200,517	\$602,014	\$2,421,821
5083	ACCESS REV-IAS SPEC	\$50,092	\$50,025	\$50,073	\$150,190	\$50,334	\$50,334	\$50,289	\$150,957	\$301,147	\$50,158	\$50,076	\$49,924	\$150,158	\$49,860	\$49,709	\$49,728	\$149,297	\$600,602
5083.1	DSL -TRANSPORT FROM NCC	\$88,006	\$90,188	\$92,177	\$270,371	\$94,067	\$96,445	\$98,638	\$289,150	\$559,521	\$100,633	\$103,316	\$105,689	\$309,638	\$107,689	\$109,689	\$111,689	\$329,067	\$1,198,226
5100	ACCESS REV-TOLLS	\$307,613	\$307,238	\$307,510	\$922,361	\$308,983	\$308,983	\$308,724	\$922,690	\$1,849,051	\$307,988	\$307,523	\$306,670	\$922,181	\$306,308	\$305,456	\$305,559	\$917,323	\$3,688,555
5122	ACCESS REV-IXC CARR	\$13,562	\$13,544	\$13,557	\$40,663	\$13,628	\$13,628	\$13,615	\$40,871	\$81,534	\$13,580	\$13,558	\$13,517	\$40,655	\$13,499	\$13,458	\$13,463	\$40,420	\$162,609
5230	DIRECTORY REV.	\$19,030	\$19,005	\$19,023	\$57,058	\$19,123	\$19,123	\$19,105	\$57,351	\$114,409	\$19,056	\$19,024	\$18,967	\$57,047	\$18,943	\$18,885	\$18,892	\$56,720	\$228,176
5261	MISC. REVENUE	\$152,244	\$152,042	\$152,188	\$456,474	\$152,981	\$152,981	\$152,842	\$458,804	\$915,278	\$152,445	\$152,195	\$151,737	\$456,376	\$151,541	\$151,081	\$151,136	\$453,759	\$1,825,413
5264	LATE PAYMENT FEES	\$7,000	\$6,990	\$6,997	\$20,987	\$7,034	\$7,034	\$7,027	\$21,095	\$42,082	\$7,009	\$6,997	\$6,976	\$20,982	\$6,967	\$6,946	\$6,949	\$20,862	\$83,926
5270	INTERSTATE B & C REV	\$2,187	\$2,185	\$2,187	\$6,559	\$2,198	\$2,198	\$2,196	\$6,592	\$13,151	\$2,190	\$2,187	\$2,180	\$6,557	\$2,177	\$2,171	\$2,172	\$6,520	\$26,228
52701	INTRASTATE B & C REV	\$8,093	\$8,083	\$8,090	\$24,266	\$8,133	\$8,133	\$8,125	\$24,391	\$48,657	\$8,104	\$8,091	\$8,066	\$24,261	\$8,056	\$8,032	\$8,035	\$24,123	\$97,041
5301	UNCOLLECT. REV.	(\$2,625)	(\$2,621)	(\$2,624)	(\$7,870)	(\$2,638)	(\$2,638)	(\$2,635)	(\$7,911)	(\$15,781)	(\$2,628)	(\$2,624)	(\$2,616)	(\$7,868)	(\$2,613)	(\$2,605)	(\$2,606)	(\$7,824)	(\$31,473)
TOTAL REGULATED REVENUE		\$1,374,353	\$1,445,251	\$1,448,450	\$4,268,054	\$1,456,915	\$1,459,293	\$1,460,330	\$4,376,537	\$8,644,591	\$1,502,915	\$1,503,522	\$1,502,087	\$4,508,523	\$1,502,472	\$1,500,668	\$1,503,129	\$4,506,269	\$17,659,383
6121	LAND AND BLDG. EXP.	\$22,988	\$22,957	\$25,000	\$70,946	\$23,102	\$23,102	\$23,080	\$69,285	\$140,231	\$26,019	\$28,001	\$25,910	\$79,931	\$25,880	\$25,810	\$25,818	\$77,509	\$297,671
6123	OFFICE EQUIP EXP	\$1,055	\$1,053	\$1,264	\$3,372	\$1,060	\$1,060	\$1,059	\$3,180	\$6,552	\$1,056	\$1,264	\$1,051	\$3,371	\$1,050	\$1,047	\$1,047	\$3,145	\$13,068
6124	GEN PURP COMPUTER EXP	\$6,562	\$6,554	\$6,560	\$19,676	\$6,594	\$6,594	\$6,588	\$19,776	\$39,452	\$6,571	\$6,560	\$6,540	\$19,671	\$6,532	\$6,512	\$6,515	\$19,559	\$78,682
6212	REPAIR DIGITAL	\$83,884	\$83,772	\$95,337	\$262,993	\$84,292	\$84,292	\$84,215	\$252,799	\$515,792	\$83,996	\$95,341	\$83,603	\$262,940	\$83,495	\$83,241	\$83,272	\$250,008	\$1,028,740
62151	REPAIR TOLL-EAS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
62152	REPAIR SUB CARRIER	\$843	\$843	\$1,027	\$2,714	\$843	\$843	\$843	\$2,530	\$5,244	\$843	\$1,027	\$843	\$2,714	\$843	\$843	\$843	\$2,530	\$10,488
6231	REPAIR OF MOBILE PHONE	\$208	\$208	\$208	\$624	\$208	\$208	\$208	\$624	\$1,248	\$208	\$208	\$208	\$624	\$208	\$208	\$208	\$624	\$2,496
6232	BROADBAND EXPENSE	\$5,699	\$5,699	\$5,699	\$17,097	\$5,699	\$5,699	\$5,699	\$17,097	\$34,194	\$5,699	\$5,699	\$5,699	\$17,097	\$5,699	\$5,699	\$5,699	\$17,097	\$68,388
6411	POLE EXPENSE	\$57,092	\$57,092	\$60,399	\$174,583	\$57,092	\$57,092	\$57,092	\$171,275	\$345,858	\$56,092	\$59,399	\$56,092	\$171,583	\$56,092	\$56,092	\$56,092	\$168,275	\$685,716
6421	REPAIR AERIAL CABLE	\$22,777	\$22,777	\$28,101	\$73,654	\$22,777	\$22,777	\$22,777	\$68,330	\$141,984	\$22,777	\$28,101	\$22,777	\$73,654	\$22,777	\$22,777	\$22,777	\$68,330	\$283,968
64211	REC/DISC DROP	\$11,546	\$11,546	\$13,910	\$37,002	\$11,546	\$11,546	\$11,546	\$34,638	\$71,640	\$11,546	\$13,910	\$11,546	\$37,002	\$11,546	\$11,546	\$11,546	\$34,638	\$143,280
64212	REPAIR DROP/PROTECTOR	\$23,786	\$23,786	\$28,406	\$75,978	\$23,786	\$23,786	\$23,786	\$71,358	\$147,336	\$23,786	\$28,406	\$23,786	\$75,978	\$23,786	\$23,786	\$23,786	\$71,358	\$294,672
64213	REPAIR-FIBER OPTIC	\$2,130	\$2,128	\$2,474	\$6,731	\$2,141	\$2,141	\$2,139	\$6,420	\$13,151	\$2,133	\$2,474	\$2,123	\$6,729	\$2,114	\$2,114	\$2,115	\$6,348	\$26,228
6423	REPAIR BURIED CABLE	\$26,257	\$26,220	\$26,247	\$78,725	\$26,390	\$26,390	\$26,365	\$79,146	\$157,871	\$26,293	\$32,468	\$26,165	\$84,927	\$26,129	\$26,046	\$26,056	\$78,232	\$321,030
6431	REPAIR AERIAL WIRE	\$2,546	\$2,542	\$2,927	\$8,016	\$2,559	\$2,559	\$2,556	\$7,675	\$15,691	\$2,549	\$2,927	\$2,537	\$8,014	\$2,534	\$2,526	\$2,527	\$7,588	\$31,293
6512	SUPPLY EXPENSE	\$421	\$420	\$494	\$1,335	\$423	\$423	\$423	\$1,268	\$2,603	\$421	\$494	\$419	\$1,334	\$417	\$417	\$418	\$1,253	\$5,190
6531	POWER-UTILITIES	\$19,249	\$19,224	\$19,242	\$57,715	\$19,342	\$19,342	\$19,325	\$58,009	\$115,724	\$19,275	\$19,243	\$19,185	\$57,703	\$19,160	\$19,102	\$19,109	\$57,371	\$230,798
6532	TRAFFIC/OPERATOR EXP	\$3,937	\$3,932	\$3,936	\$11,805	\$3,956	\$3,956	\$3,953	\$11,865	\$23,670	\$3,943	\$3,936	\$3,924	\$11,803	\$3,919	\$3,907	\$3,909	\$11,735	\$47,208
6533	TEST DESK	\$29,760	\$29,719	\$35,834	\$95,312	\$29,910	\$29,910	\$29,882	\$89,701	\$185,013	\$29,801	\$35,836	\$29,656	\$95,292	\$29,616	\$29,523	\$29,534	\$88,672	\$368,977
65331	TEST DESK COE	\$20,039	\$20,011	\$24,779	\$64,828	\$20,141	\$20,141	\$20,121	\$60,402	\$125,230	\$20,067	\$24,780	\$19,969	\$64,815	\$19,942	\$19,879	\$19,886	\$60,706	\$249,751
65332	TEST DESK CABLE	\$4,190	\$4,184	\$5,098	\$13,473	\$4,211	\$4,211	\$4,207	\$12,630	\$26,103	\$4,196	\$5,099	\$4,175	\$13,471	\$4,170	\$4,157	\$4,158	\$12,486	\$52,060
6535	ENGINEERING EXPENSE	\$59,145	\$59,062	\$73,920	\$192,126	\$59,446	\$59,446	\$59,389	\$178,280	\$370,406	\$59,227	\$73,923	\$58,937	\$192,086	\$58,858	\$58,670	\$58,693	\$176,220	\$738,712
6540	INTERCHANGE ACCESS	\$34,561	\$34,515	\$34,548	\$103,624	\$34,729	\$34,729	\$34,697	\$104,155	\$207,779	\$34,607	\$34,550	\$34,446	\$103,603	\$34,401	\$34,297	\$34,310	\$103,008	\$414,390
6561	DEPRECIATION EXPENSE	\$452,186	\$452,186	\$452,186	\$1,356,557	\$452,186	\$452,186	\$452,186	\$1,356,557	\$2,713,115	\$452,186	\$452,186	\$452,186	\$1,356,557	\$452,186	\$452,186	\$452,186	\$1,356,557	\$5,426,230
6610	MARKETING EXPENSE	\$1,263	\$1,263	\$1,544	\$4,070	\$1,263	\$1,263	\$1,263	\$3,790	\$7,860	\$9,597	\$9,877	\$9,597	\$29,070	\$9,597	\$9,597	\$9,597	\$28,790	\$65,720
6613	ADVERTISING	\$2,787	\$2,787	\$2,787	\$8,360	\$2,787	\$2,787	\$2,787	\$8,360	\$16,719	\$2,787	\$2,787	\$2,787	\$8,360	\$2,787	\$2,787	\$2,787	\$8,360	\$33,438
6621	OTHER TRAFFIC EXP	\$229	\$229	\$229	\$686	\$229	\$229	\$229	\$686	\$1,372	\$229	\$229	\$229	\$686	\$229	\$229	\$229	\$686	\$2,745
6822	DIRECTORY EXPENSE	\$14,174	\$14,174	\$14,946	\$43,294	\$14,174	\$14,174	\$14,174	\$42,523	\$85,817	\$14,174	\$14,946	\$14,174	\$43,294	\$14,174	\$14,174	\$14,174	\$42,523	\$171,634
6623	COMMERCIAL DEPARTMENT	\$157,314	\$157,314	\$186,066	\$500,694	\$157,314	\$157,314	\$157,314	\$471,942	\$972,636	\$157,314	\$186,066	\$157,314	\$500,694	\$157,314	\$157,314	\$157,314	\$471,942	\$1,945,272
6722	EXTERNAL RELATIONS	\$23,746	\$23,746	\$25,338	\$72,830	\$23,746	\$23,746	\$23,746	\$71,238	\$144,069	\$23,746	\$25,338	\$23,746	\$72,830	\$23,746	\$23,746	\$23,746	\$71,238	\$288,137
6711	EXECUTIVE DEPARTMENT	\$28,942	\$28,942	\$36,043	\$93,927	\$28,942	\$28,942	\$28,942	\$86,826	\$180,753	\$28,942	\$36,043	\$28,942	\$93,927	\$28,942	\$28,942	\$28,942	\$86,826	\$361,507
67111	DIRECTOR FEE/TRAVEL	\$18,450	\$18,450	\$18,450	\$55,351	\$18,450	\$18,450	\$18,450	\$55,351	\$110,703	\$18,450	\$18,450	\$18,450	\$55,351	\$18,450	\$18,450	\$18,450	\$55,351	\$221,405
6721	ACCOUNTING/FINANCE	\$34,476	\$34,476	\$40,884	\$109,836	\$34,476	\$34,476	\$34,476	\$103,427	\$213,263	\$34,476	\$40,884	\$34,476	\$109,836	\$34,476	\$34,476	\$34,476	\$103,427	\$426,526
6723	HUMAN RESOURCES	\$16,829	\$16,829	\$21,062	\$54,720	\$16,829	\$16,829	\$16,829	\$50,487	\$105,206	\$16,829	\$21,062	\$16,829	\$54,720	\$16,829	\$16,829	\$16,829	\$50,487	\$210

67280	OTHER EXPENSE	\$32,803	\$32,803	\$32,803	\$98,410	\$32,803	\$32,803	\$32,803	\$98,410	\$196,819	\$32,803	\$33,584	\$32,803	\$99,190	\$32,803	\$32,803	\$32,803	\$98,410	\$394,419
67281	ACCIDENT AND DAMAGE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
67282	CO-OP DUES	\$5,297	\$5,297	\$5,297	\$15,890	\$5,297	\$5,297	\$5,297	\$15,890	\$31,779	\$5,297	\$5,297	\$5,297	\$15,890	\$5,297	\$5,297	\$5,297	\$15,890	\$63,558
67283	ANNUAL MEETING EXP	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$20,000	\$45,000	\$15,000	\$80,000	\$80,000
67284	CONVENTION/MTG EXP	\$5,314	\$5,314	\$5,579	\$16,207	\$5,314	\$5,314	\$5,314	\$15,942	\$32,149	\$5,314	\$5,579	\$5,314	\$16,207	\$5,314	\$5,314	\$5,314	\$15,942	\$64,298
7230	PROPERTY TAX	\$39,750	\$39,750	\$39,750	\$119,250	\$39,750	\$39,750	\$39,750	\$119,250	\$238,500	\$39,750	\$39,750	\$39,750	\$119,250	\$39,750	\$39,750	\$39,750	\$119,250	\$477,000
72401	KY GROSS RECEIPTS TAX	\$2,399	\$2,399	\$2,399	\$7,197	\$2,399	\$2,399	\$2,399	\$7,197	\$14,393	\$2,399	\$2,399	\$2,399	\$7,197	\$2,399	\$2,399	\$2,399	\$7,197	\$28,787
7510	INT. LONG TER. DEBT	\$92,451	\$94,951	\$97,451	\$284,854	\$99,951	\$102,451	\$104,951	\$307,354	\$592,209	\$107,451	\$109,951	\$112,451	\$329,854	\$114,951	\$117,451	\$119,951	\$352,354	\$1,274,417
7540	INT. ON DEPOSITS	\$1,617	\$1,617	\$1,617	\$4,852	\$1,617	\$1,617	\$1,617	\$4,852	\$9,703	\$1,617	\$1,617	\$1,617	\$4,852	\$1,617	\$1,617	\$1,617	\$4,852	\$19,406
TOTAL REGULATED EXPENSE		\$1,407,276	\$1,409,345	\$1,521,266	\$4,337,886	\$1,416,348	\$1,418,848	\$1,421,051	\$4,256,246	\$8,594,132	\$1,433,039	\$1,551,116	\$1,436,525	\$4,420,679	\$1,458,610	\$1,485,133	\$1,457,752	\$4,401,495	\$17,416,306
NET REGULATED INCOME		(\$32,922)	\$35,906	(\$72,817)	(\$69,833)	\$40,567	\$40,445	\$39,280	\$120,292	\$50,459	\$69,876	(\$47,594)	\$65,562	\$87,844	\$43,862	\$15,535	\$45,378	\$104,774	\$243,077
TOTAL NONREGULATED REV		\$59,149	\$59,149	\$59,149	\$177,448	\$59,149	\$59,149	\$59,149	\$177,448	\$354,897	\$59,149	\$59,149	\$59,149	\$177,448	\$59,149	\$59,149	\$59,149	\$177,448	\$709,794
TOTAL NONREGULATED EX		\$66,038	\$66,038	\$66,038	\$198,113	\$66,038	\$66,038	\$66,038	\$198,113	\$396,225	\$66,038	\$66,038	\$66,038	\$198,113	\$66,038	\$66,038	\$66,038	\$198,113	\$792,450
NET NONREG OPERATING INC		(\$6,888)	(\$6,888)	(\$6,888)	(\$20,664)	(\$6,888)	(\$6,888)	(\$6,888)	(\$20,664)	(\$41,328)	(\$6,888)	(\$6,888)	(\$6,888)	(\$20,664)	(\$6,888)	(\$6,888)	(\$6,888)	(\$20,664)	(\$82,657)
NONOPERATING INCOME (EXP)		\$1,702	\$1,702	\$1,702	\$5,107	\$1,702	\$1,702	\$1,702	\$5,107	\$10,215	\$1,702	\$1,702	\$1,702	\$5,107	\$1,702	\$1,702	\$1,702	\$5,107	\$20,429
INTEREST/DIVIDEND/AFUDC INC		\$23,462	\$23,462	\$23,462	\$70,386	\$23,462	\$23,462	\$23,462	\$70,386	\$140,772	\$23,462	\$23,462	\$23,462	\$70,386	\$23,462	\$23,462	\$23,462	\$70,386	\$281,545
NONREGULATED INCOME (EXP)		\$44	\$44	\$44	\$131	\$44	\$44	\$44	\$131	\$262	\$44	\$44	\$44	\$131	\$44	\$44	\$44	\$131	\$525
TOTAL OTHER INCOME		\$25,208	\$25,208	\$25,208	\$75,625	\$25,208	\$25,208	\$25,208	\$75,625	\$151,249	\$25,208	\$25,208	\$25,208	\$75,625	\$25,208	\$25,208	\$25,208	\$75,625	\$302,499
NET MARGIN		(\$14,602)	\$54,227	(\$54,497)	(\$14,872)	\$58,887	\$58,765	\$57,600	\$175,252	\$160,380	\$88,196	(\$29,274)	\$83,883	\$142,804	\$62,182	\$33,855	\$63,698	\$159,735	\$462,919
GROSS CASH FLOW		\$437,584	\$506,412	\$397,689	\$1,341,685	\$511,073	\$510,951	\$509,786	\$1,531,809	\$2,873,495	\$540,382	\$422,912	\$536,068	\$1,499,362	\$514,368	\$486,041	\$515,884	\$1,516,292	\$5,889,149
CAPITAL CREDIT REFUND				\$0	\$0			\$0	\$0	\$0			\$0	\$0		\$0	\$0	\$0	\$0
PRIN. LONG TER. DEBT		\$394,000	\$198,000	\$202,000	\$794,000	\$404,000	\$206,000	\$210,000	\$820,000	\$1,614,000	\$414,000	\$214,000	\$218,000	\$846,000	\$424,000	\$222,000	\$226,000	\$872,000	\$3,332,000
NET CASH FLOW		\$43,584	\$308,412	\$195,689	\$547,685	\$107,073	\$304,951	\$299,786	\$711,809	\$1,259,495	\$126,382	\$208,912	\$318,068	\$653,362	\$90,368	\$264,041	\$289,884	\$644,292	\$2,557,149
CAPITAL REPLACEMENTS					\$121,000				\$89,000	\$210,000			\$13,000				\$85,000	\$308,000	
CAPITAL ADDITIONS					\$1,221,600				\$951,500	\$2,173,100			\$909,812				\$895,500	\$3,978,412	
RUS FUNDED					\$2,721,319				\$3,791,250	\$6,512,569			\$3,957,584				\$4,112,053	\$14,582,206	
CASH AVAILABLE OTHER PURP.					\$1,926,404				\$3,462,559	\$5,388,963			\$3,688,134				\$3,775,845	\$12,852,943	
INVEST. FUND AVAILABLE		\$1,300,000	\$0	\$0	\$1,300,000	\$120,000	\$100,000	\$200,000	\$420,000	\$1,720,000	\$0	\$0	\$0	\$0	\$100,000	\$250,000	\$300,000	\$650,000	\$2,370,000
MISC FUNDS AVAILABLE					\$0				\$0	\$0			\$0				\$0	\$0	\$0
INVEST. FUNDS APPLIED		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
NET INVEST. FUNDS AVAILABLE		\$1,300,000	\$0	\$0	\$1,300,000	\$120,000	\$100,000	\$200,000	\$420,000	\$1,720,000	\$0	\$0	\$0	\$0	\$100,000	\$250,000	\$300,000	\$650,000	\$2,370,000
NET CASH					\$3,226,404				\$3,882,559	\$7,108,963			\$3,688,134				\$4,425,845	\$15,222,943	
TOTAL INVESTMENTS		\$2,370,000																	



COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF INTENT OF NORTH CENTRAL)
TELEPHONE COOPERATIVE CORPORATION) CASE NO. 2007-00162
TO FILE RATE APPLICATION)

** ** *

ATTESTATION OF F. THOMAS ROWLAND

I, F. Thomas Rowland, after being duly cautioned and sworn, hereby state that I am competent to testify as to the following matters and that the following is true and correct to the best of my personal knowledge and belief.

1. I am the President and Chief Executive Officer of North Central Telephone Cooperative Corporation ("North Central"), P.O. Box 70, 872 Highway 52 Bypass East, Lafayette, TN 37083. I have served in this capacity with North Central for the last 23 years and am North Central's chief officer in charge of its Kentucky operations.

2. Pursuant to the requirements set forth in Section 10(9)(e) of 807 KAR 5:001, I hereby attest that, with respect to the forecast provided in satisfaction of Section 10(9)(d) of 807 KAR 5:001:

- a. the forecast is reasonable, reliable, and made in good faith;
 - b. all of the basic assumptions used in the forecast have been identified and justified;
-

c. the forecast contains the same assumptions and methodologies used in the forecast prepared for use by management; and

d. productivity and efficiency gains are included in the forecast.

FURTHER THE AFFIANT SAYETH NOT.



F. THOMAS ROWLAND

COUNTY OF Macon)
STATE OF Tennessee)

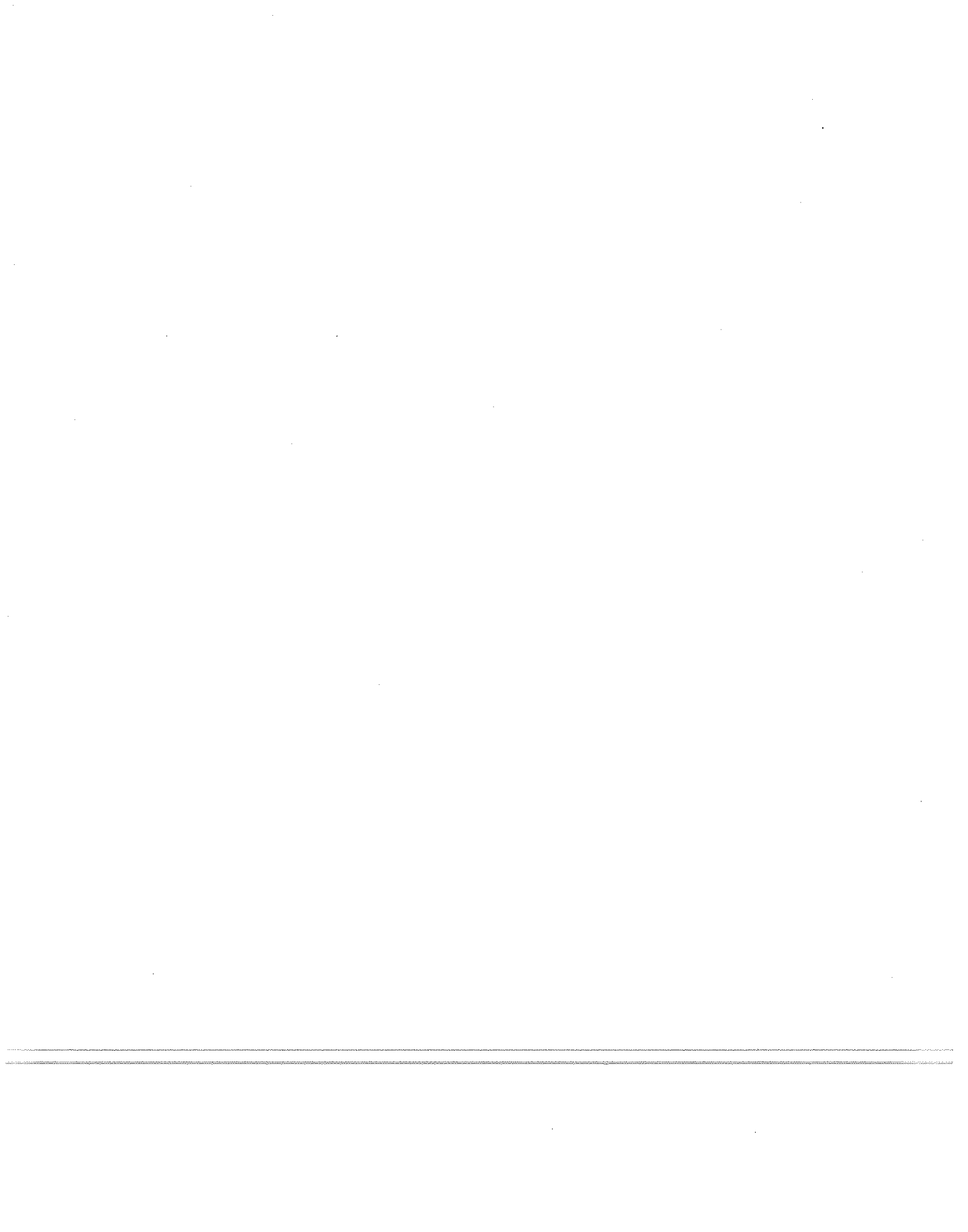
Subscribed and sworn to before me by F. Thomas Rowland, on this 8th day of October, 2007.

My Commission expires: 11-19-07.



NOTARY PUBLIC, STATE AT







March 30, 2007

Commonwealth of Kentucky
Environmental and Public Protection Cabinet
Public Service Commission
211 Sower Blvd.
P O Box 615
Frankfort KY 40602

Dear Sirs:

Enclosed please find the Annual Report Form T for North Central Telephone Cooperative, Inc. and a copy of our year-end audited financial statements for the year ending December 31, 2006. During 1998, North Central formed a subsidiary called North Central Communications. The audited financial statements are shown on a consolidated basis. The balance sheet and income statement for the parent company only was used for the Form T information. Please refer to pages 22-25 of the audited statements for the parent company only information. The Form T for 2006 was filed electronically with the Public Service Commission on March 30, 2007.

If you have any questions, please contact me at (615) 666-2151 or by e-mail at kmarsh@nctc.com.

Sincerely,

A handwritten signature in cursive script that reads "Kim Marsh".

Kim Marsh
Accountant

Enclosures

KENTUCKY PUBLIC SERVICE COMMISSION
REPORT OF GROSS OPERATING REVENUES DERIVED FROM INTRA-KENTUCKY
BUSINESS FOR THE YEAR ENDING DECEMBER 31, 20 06

LOCAL EXCHANGE CARRIERS and COMPETITIVE LOCAL EXCHANGE CARRIERS

Name of Utility Reporting North Central Telephone Cooperative, Inc.

FEIN # (Federal Employer Identification Number)

6 2 - 0 5 1 6 4 3 9

Address of Utility P O Box 70 872 Hwy. 52 By-Pass E

City Lafayette State TN Zip Code 37083

Telephone Number of Utility (615) 666-2151

Fax Number of Utility (if applicable) (615) 666-6118

Officer/Contact Person Kim Marsh Accountant
(Name) (Title)

ASSESSABLE REVENUES OF TELEPHONE UTILITY.....\$ 2,205,689
(to agree with assessable revenues figure on the back of this page)

OATH

State of Tennessee)
) ss.
County of Macon)

F. Thomas Rowland being duly sworn, states that he/she
(Officer)

is President & CEO of the North Central Telephone Cooperative, Inc.
(Official Title) (Utility Reporting)

that the above report of gross revenues is in exact accordance with

North Central Telephone Cooperative, Inc. and that such books accurately show the gross
(Utility Reporting)

revenues of North Central Telephone Coop. Inc., derived from Intra-Kentucky
(Utility Reporting)

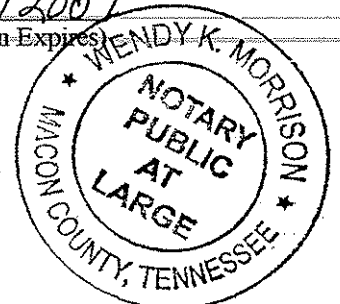
business for the calendar year ending December 31, 20 06

[Signature] President & CEO
(Officer) (Title)

This the 30th day of March, 20 07

Wendy K. Morrison, MACON 12/17/2007
(Notary Public) (County) (Commission Expires)

**NOTE: ANY DIFFERENCE BETWEEN THE AMOUNT OF THE GROSS
REVENUES SHOWN IN THE ANNUAL REPORT AND THE AMOUNT
APPEARING ON THIS STATEMENT MUST BE RECONCILED ON THE
REVERSE OF THIS REPORT**



LOCAL EXCHANGE CARRIERS and COMPETITIVE LOCAL EXCHANGE CARRIERS

TELECOMMUNICATIONS UTILITIES RECONCILIATION FORM

Total Operating Revenues (Schedule VI, page 1 of 5) \$ 4,062,687

Additions:

Intrastate Uncollectibles (Account 5300) \$

Total Additions \$ 4,062,687

Deductions:

Non-Regulated Revenue (Account 5280) \$ 1,103

Interstate Billing/Collection Revenues (Acct 5200) \$ -0-

End User Revenue (Account 5081) \$ 541,287

Interstate Switched Access Revenue (Acct 5082) \$ 1,235,134

Interstate Special Access Revenue (Acct 5083) \$ 79,474

Any Miscellaneous Interstate Revenues
(Explain Below) \$

Total Deductions.....\$ 1,856,998

RECONCILED ASSESSABLE REVENUES \$ 2,205,689

Explanations/Comments: _____

Do Not Write Below This Line

Commonwealth of Kentucky
Public Service Commission

INFORMATION FORM FOR TELEPHONE UTILITIES OPERATING
PURSUANT TO KRS 278.541 through 278.544

Complete Name
of Telephone Utility: North Central Telephone Coop., Inc.

Physical Address
of Principal Office: 872 E. Hwy. 52 Bypass, Lafayette, TN 37083

Name and Title of
Person Responsible for
Answering Consumer
Complaints: Johnny McClanahan
VP Finance + Adm. Services

Telephone Number of
Person Responsible for
Answering Consumer
Complaints: 615-666-2151

In accordance with KRS 278.542 (2), which requires telephone utilities operating pursuant to 2006 KRS 278.541 through KRS 278.544 to file with the Commission certain information, I, Johnny McClanahan, on behalf of North Central Telephone Coop., Inc. do hereby certify that the foregoing information is true and correct to the best of my knowledge, as of this 29th day of March, 2007.

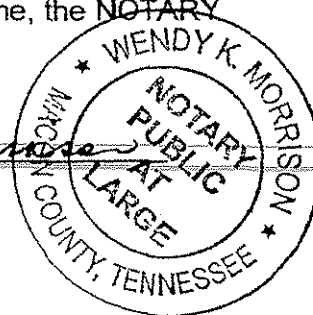
UTILITY: North Central Telephone Coop., Inc.

BY: Johnny McClanahan

STATE OF Tennessee
COUNTY OF Macon

The foregoing was signed, sworn to and acknowledged before me, the NOTARY PUBLIC, on this the 29th day of March, 2007.

Wendy K. Morrison
NOTARY PUBLIC



My Commission Expires: 12/17/2007

ANNUAL REPORT

FORM WT-1

OF

North Central Telephone Cooperative, Inc.

P. O. Box 70
872 Hwy. 52 By Pass E
Lafayette, IN 47903

TO THE

PUBLIC SERVICE COMMISSION

OF THE

COMMONWEALTH OF KENTUCKY

FOR THE YEAR ENDED DECEMBER 31, 1963

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Title Page

Annual Report of Respondent	Name of Respondent	Addr Line 1	Addr Line 2	City	State	ZIP
	North Central Telephone Cooperative Inc.	P O Box 70	872 Hwy. 52 By-Pass E.	Lafayette	TN	37083

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

General Info - Basic Service

Average Bill

For Kentucky Operations Only please furnish

Average Residential Basic Service Monthly Bill

Not Including Taxes/NonRegulated Services

\$11.90

Allen

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006
General Information - Counties

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

General Information - Contact Person

name Address city state Phone

Officer or other Person to whom correspondence should be addressed concerning this report

Name, title, address and telephone number with area code of the person to be contacted concerning this report

F. Thomas Rowland President & CEO

This information is to be kept current by prompt notification to the Commission of any changes until the report for the succeeding year has been submitted.

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

General Info - Principal Payment and Interest Information

	Amount	Yes/No
Amount of Principal Payment During Calendar Year	\$2,680,449.48	Y
Is Principal Current?		Y
Is Interest Current?		N
Has all long-term debt been approved by the Public Service Commission?		N

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

General Info - Services Performed by Independent CPA

Yes/No

A/C/R

Are your financial statements examined by a Certified Public Accountant?

Enter Y for Yes or N for No

Y

If yes, which service is performed?

Enter an X on each appropriate line

Audit

Y

Compilation

Review

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Board of Directors and General Officers - Sched. 1 (Ref Page: 1)

Name	Address	Title	Department	Term Expires	Served Since
William B. Green	Red Bolling Springs, TN 37150	Manager		11/01/2007	02/01/1951
Royce Halliburton	Pleasant Shade, TN 37145	Manager		11/01/2009	01/01/1983
Glen Hardcastle, Jr.	Scottsville, KY 42164	Manager		11/01/2007	11/01/1986
Jerry Kirby	Westmoreland, TN 37186	Manager		11/01/2008	02/01/1977
Randy Harston	Scottsville, KY 42164	Manager		11/01/2009	11/01/1997
Dewey McCall	Dixon Springs, KY 37057	Manager		11/01/2008	11/01/1996
Shelvy Linville	Lafayette, TN 37083	Manager		11/01/2009	11/01/2000
Jon Hesson	Lafayette, TN 37083	Manager		11/01/2008	11/01/2003
Calvin Graves	Belhpape, TN 37148	Manager		11/01/2007	11/01/2004

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Stockholders Sched II (Ref Page: 1)

Name	Address	Shares
Telephone Cooperative		0
One vote per member		0
present at the meeting.		0

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Stockholders Sched II - (cont) (Ref Page: 1)

Enter Total number of stockholders for each class	Class of Stock	Num of Holders	Date compiled	Purpose compiled
with the date and purpose of the compilation	N/A	0		

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006
 Balance Sheet Accounts - Sched III Page 1 (Ref Page: 1)

	Amount (6)
Current Assets	
Cash and Equivalents (1120)	\$7,627,825.00
Receivables (1170)	\$1,221,666.00
Allowance for Doubtful Accounts (1171)	(\$83,923.00)
Inventories (1220)	\$267,837.00
Prepayments (1280)	\$113,719.00
Other Current Assets (1350)	
Non-Regulated Investments (1406)	\$22,918,025.00
Other Noncurrent Assets (1410)	
Deferred Maintenance and Retirements (1438)	
Other Jurisdictional Assets - Net (1500)	\$32,065,149.00
Total Current Assets	

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Balance Sheet Accounts - Sched III Page 2-4 (Ref Page: 2)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Telephone Plant					
Telephone Plant in Service (2001)	\$75,833,554.00	\$5,391,486.00	\$1,368,464.00	\$0.00	\$79,856,576.00
Property Held for Future Telephone Use (2002)					
Tele. Plant Under Construct. - Short Term (2003)	\$7,383,088.00	\$11,909,316.00	\$0.00	(\$5,920,311.00)	\$13,372,093.00
Tele. Plant Under Construct. - Long Term (2004)					
Telephone Plant Adjustment (2005)					
Nonoperating Plant (2006)					
Goodwill (2007)					
Total Telephone Plant	\$83,216,642.00	\$17,300,802.00	\$1,368,464.00	(\$5,920,311.00)	\$93,228,669.00
Land and Support Assets					
Land (2111)	\$735,097.00	\$0.00	\$0.00	\$0.00	\$735,097.00
Motor Vehicles (2112)	\$1,863,927.00	\$2,021.00	\$0.00	\$0.00	\$1,865,948.00
Aircraft (2113)					
Tools and Other Work Equipment (2114)	\$1,009,699.00	\$29,138.00	\$0.00	\$0.00	\$1,038,837.00
Buildings (2121)	\$5,217,280.00	\$138,702.00	\$0.00	\$0.00	\$5,355,982.00
Furniture (2122)	\$239,167.00	\$0.00	\$0.00	\$0.00	\$239,167.00
Office Equipment (2123)	\$467,197.00	\$156,943.00	\$21,049.00	\$0.00	\$603,091.00
General Purpose Computers (2124)	\$1,317,095.00	\$124,755.00	\$0.00	\$0.00	\$1,441,850.00
Total Land and Support Assets	\$10,849,462.00	\$451,559.00	\$21,049.00	\$0.00	\$11,279,972.00
Central Office - Switching					
Non-Digital Switching (2211)					

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006
 Balance Sheet Accounts - Sched III Page 2-4 (Ref Page: 2)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Digital Electronic Switching (2212)	\$10,881,095.00	\$120,832.00	\$0.00	\$0.00	\$11,001,927.00
Total Central Office - Switching	\$10,881,095.00	\$120,832.00	\$0.00	\$0.00	\$11,001,927.00
Total Operator Systems (2220)					
Central Office - Transmission					
Radio Systems (2231)	\$49,153.00	\$0.00	\$0.00	\$0.00	\$49,153.00
Circuit Equipment (2232)	\$10,655,154.00	\$2,185,510.00	\$0.00	\$0.00	\$12,840,664.00
Total Central Office Transmission	\$10,704,307.00	\$2,185,510.00	\$0.00	\$0.00	\$12,889,817.00
Information Origination Termination					
Station Apparatus (2311)		\$0.00	\$0.00	\$0.00	\$0.00
Customer Premise Wire (2321)					
Large PBX (2341)					
Public Telephone Terminal Equipment (2351)					
Other Terminal Equipment (2362)					
Total Information Origin Termination					
Cable and Wire Facilities Assets					
Poles (2411)	\$4,968,361.00	\$462,630.00	\$505,778.00	\$0.00	\$4,925,213.00
Aerial Cable (2421)	\$21,895,947.00	\$1,515,356.00	\$751,627.00	\$0.00	\$22,659,676.00
Underground Cable (2422)	\$438,157.00	\$2,355.00	\$0.00	\$0.00	\$440,512.00
Buried Cable (2423)	\$14,952,817.00	\$603,414.00	\$70,007.00	\$0.00	\$15,486,224.00
Submarine and Deep Sea Cable (2424)					
Intrabuilding Network Cable (2426)					

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Balance Sheet Accounts - Sched III Page 2-4 (Ref Page: 2)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Aerial Wire (2431)	\$935,300.00	\$49,830.00	\$20,003.00	\$0.00	\$965,127.00
Conduit Systems (2441)	\$207,872.00	\$0.00	\$0.00	\$0.00	\$207,872.00
Total Cable and Wire Facilities Assets	\$43,398,454.00	\$2,633,585.00	\$1,347,415.00	\$0.00	\$44,684,624.00
Amortizable Assets					
Amortizable Tangible Assets (2680)					
Capital Leases (2681)					
Leasehold Improvements (2682)					
Total Amortizable Assets	\$236.00	\$0.00	\$0.00	\$0.00	\$236.00
Intangibles (2690)					
Total Tele. Plant in Service 2001	\$75,833,554.00	\$5,391,486.00	\$1,368,464.00	\$0.00	\$79,856,576.00

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Balance Sheet Accounts - Sched III Page 5a (Ref Page: 4)

	Amount
Depreciation and Amortization	
Accumulated Depreciation (3100)	\$46,660,812.00
Accumulated Depreciations - Held for Future Telecom. Use (3200)	
Accumulated Depreciation - Nonoperating (3300)	
Accumulated Amortization - Capitalized Leases (3410)	\$46,660,812.00
Total Depreciation and Amortization	\$46,667,857.00
Net Telephone Plant	\$78,633,006.00
Total Assets	

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Balance Sheet Accounts - Sched III Pages 5-6 (Ref Page: 5)

	Amount
Current Liabilities	
Current Accounts and Notes Payable (4000)	\$1,828,903.00
Customer's Deposits (4040)	\$447,803.00
Income Taxes - Accrued (4070)	
Other Taxes - Accrued (4080)	\$480,070.00
Net Current Deferred Operating Income Taxes (4100)	
Net Current Deferred Nonoperating Income Taxes (4110)	
Other Current Liabilities (4130)	\$7,328,137.00
Total Current Liabilities	\$10,084,913.00
Long Term Debt and Funded Debt (4200)	\$26,673,460.00
Other Liabilities and Deferred Credits	
Other Long Term Liabilities and Deferred Credits (4300)	\$1,217,242.00
Unamortized Operating Investment Tax Credits - Net (4320)	
Unamortized Nonoperating Investment Tax Credits - Net (4330)	
Net Noncurrent Deferred Operating Income Taxes (4340)	
Net Deferred Tax Liability Adjustments (4341)	
Net Noncurrent Deferred Nonoperating Income Taxes (4350)	
Deferred Tax Regulatory Liability (4361)	
Other Jurisdictional Liabilities/Deferred Credits - Net (4370)	
Total Other Liabilities and Deferred Credits	\$1,217,242.00
Capital Stock (4510)	
Additional Paid-In Capital (4520)	
Treasury Stock (4530)	
Other Capital (4540)	
Retained Earnings (4550)	\$40,657,391.00
Total Stockholders' Equity	\$79,633,006.00
Total Liabilities and Stockholder's Equity	

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006
 Balance Sheet Accts - Retained Earnings Sched III pg 5 (Ref Page: 6)

	Amount
Retained Earnings (Beg of Yr)	\$40,772,539.00
Net Income	(\$115,148.00)
Dividends Declared	
Capital Credit Rotations	
Miscellaneous Debits*	
Miscellaneous Credits*	\$40,657,391.00
Retained Earnings (End of Year)	
* Explain any individual item over \$10,000	

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Investments In Affiliated Companies - Sched IV Company names (Ref Page: 1)

Company Name

Associate the name of each company to be entered on Sched. IV with the appropriate column (a - j)

North Central Communications, Inc.

- Column b
- Column c
- Column d
- Column e
- Column f
- Column g
- Column h
- Column i
- Column j

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Investments in Affiliated Companies Sched IV (Ref Page: 1)

All Company Names must be affiliated with a Column on the previous schedule	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Other NonCurrent Assets (1410)									
Equity method									
Beginning Balance	\$19,191,587.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Investments									
Earnings	\$1,629,803.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
(Losses)									
Subtotal (1410)	\$20,821,390.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash and Equivalents (1120)									
Beginning Balance									
Gross Dr.									
Gross (Cr)									
Subtotal (1120)									
Receivables (1170)									
Beginning Balance									
Gross Dr.									
Gross (Cr)									
Subtotal (1170)									
Total Affiliated Companies									

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Investments in NonAffiliated Companies - Sched V Company names (Ref Page: 1)

Company Name

Associate the name of each company to be entered on Sched. IV with the appropriate column (a - j)

None

Column b

Column c

Column d

Column e

Column f

Column g

Column h

Column i

Column j

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Investments in Non Affiliated Companies Sched IV (Ref Page: 1)

	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
All Company								
Names must be affiliated with a Column on the previous schedule								
Other NonCurrent Assets (1410)								
Equity method								
Beginning Balance								
Investments								
Earnings								
(Losses)								
Subtotal (1410)								
Cash and Equivalents (1120)								
Beginning Balance								
Gross Dr.								
Gross (Cr)								
Subtotal (1120)								
Receivables (1170)								
Beginning Balance								
Gross Dr.								
Gross (Cr)								
Subtotal (1170)								
Total Affiliated Companies								

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Income Statement Accounts - Sched VI pg 1 (Ref Page: 1)

Amount (e)

Local Network Service	
Basic Area Revenue (5001)	\$4,346,782.00
Private Line Revenue (5040)	
Other Basic Area Revenue (5060)	
Total Local Network Service Revenues	\$4,346,782.00
Network Access Service Revenues	
End User Revenue (5081)	\$2,015,922.00
Switched Access Revenue (5182)	\$2,715,953.00
Special Access Revenue (5083)	\$1,433,324.00
Total Network Access Revenue	\$6,165,199.00
Long Distance Message Revenue (5100)	\$3,550,205.00
Miscellaneous Revenue (5200)	\$2,075,727.00
Directory Revenue (5230)	\$223,403.00
Non-Regulated Operating Revenue (5280)	
Uncollectible Revenue (5300)	\$110,567.00
TOTAL OPERATING REVENUE	\$16,250,749.00

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006
 Income Statement - Operating Exp - Plant Specific - Sched VI pg 2 (Ref Page: 2)

Total (c)

Plant Specific Operation Expense	
Motor Vehicle Expense (6112)	
Aircraft Expense (6113)	
Tools and Other Work Equipment Expense (6114)	
Total Network Support Expenses	\$279,198.00
Land and Building Expense (6121)	
Furniture and Artworks Expense (6122)	\$12,143.00
Office Equipment Expense (6123)	\$77,689.00
General Purpose Computers Expense (6124)	\$369,030.00
Total Support Expense	\$1,087,164.00
Non-Digital Switching Expense (6211)	
Digital Electronic Expense (6212)	\$1,087,164.00
Total Central Off. Switch. Exp	
Operator System Expense (6220)	\$2,542.00
Radio System Expense (6231)	\$68,091.00
Circuit Equipment Expense (6232)	\$70,633.00
Total Central Off. Trans. Exp.	
Station Apparatus Expense (6311)	
Large PBX Expense (6341)	
Public Tele. Terminal Equipment (6351)	
Other Terminal Equipment Expense (6362)	
Total Info. Org. Term. Equip	\$723,930.00
Poles Expense (6411)	\$675,118.00
Aerial Cable Expense (6421)	
Underground Cable Expense (6422)	\$437,725.00
Buried Cable Expense (6423)	
Submarine and Deep Sea Cable (6424)	

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Income Statement - Operating Exp - Plant Specific - Sched VI pg 2 (Ref Page: 2)

	Total (c)
Intrabuilding Network Cable Expense (6426)	
Aerial Wire Expense (6431)	\$28,904.00
Conduit Systems Expense (6441)	
Total Cable and Wire Expense	\$2,065,677.00
Total Plant Spc. Expense	\$3,592,504.00

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Income Statement - Operating Exp - Plant NonSpecific - Sched VI pg 3 (Ref Page: 3)

Total (e)

Plant NonSpecific Operating Expense	
Plant held for future Telephone use (6511)	\$5,151.00
Provisioning Expense (6512)	\$5,151.00
Total other PPE Expense	\$226,431.00
Power Expense (6531)	\$43,300.00
Network Administration Expense (6532)	\$702,807.00
Testing Expense (6533)	
Plant Operations Administration Expense (6534)	\$847,459.00
Engineering Expense (6535)	\$1,819,997.00
Total Network Ops Expense	\$414,550.00
Access Expense (6540)	\$5,339,421.00
Depreciation Expense - Telecomm Plant In Service (6561)	
Depreciation Expense - Property Held for Future Telecom Use (6562)	
Amortization - Tangible (6563)	
Amortization - Intangible (6564)	
Amortization - Other	\$5,339,421.00
Total Depreciation and Amortization Exp	\$7,576,119.00
Total Plant NonSpecific Expense	
Customer Operations Expense	\$55,000.00
Product Management and Sales (6611)	\$55,000.00
Product Advertising (6613)	\$2,744.00
Total Marketing Expense	\$166,072.00
Call Completion Services (6621)	\$2,040,016.00
Number Services (6622)	\$2,208,832.00
Customer Services (6623)	\$2,718,772.00
Total Services Expense	
General and Administrative (6720)	

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Income Statement - Operating Exp - Plant NonSpecific - Sched VI pg 3 (Ref Page: 3)

Total (c)

Provision for Uncollectible Notes Receivable (6790)	\$2,718,772.00
Total Corp. Oper. Expense	\$99,522.00
Net Operating Revenue	

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006
 Income Statement - Operating Exp - Sched VI pg 4 (Ref Page: 7)
 Amount

Other Operating Income and Expense (7100)	
Operating Taxes	\$402,808.00
Operating Investment Tax Credits Net (7210)	
Operating Federal Income Taxes (7220)	
Operating State and Local Income Taxes (7230)	
Operating Other Taxes (7240)	\$402,808.00
Provision for Deferred Operating Income Tax - Net (7250)	\$1,648,988.00
Total Operating Taxes	\$5,335.00
Nonoperating Income and Expense (7300)	\$996,478.00
Nonoperating Taxes (7400)	
Interest and Related Items (7500)	
Extraordinary Items (7600)	
Jurisdictional Differences and NonRegulated Income	\$107,877.00
Income Effect of Jurisdictional Differences - Net (7910)	\$451,766.00
Nonregulated Net Income (7990)	
Net Income	

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Total Number of Employees - Sched VI (Ref Page: 4)

Total

Total Number of Employees at End of Year	105
Number of Full-Time Employees	101
Number of Part-Time Employees	4

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Total Compensation - Sched VI (Ref Page: 4)

Amount

\$5,717,580.00

Total Compensation for the Year

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Access Lines in Service by Technology Sched VII (Ref Page: 1)

State (a)	Switches (b)	ISDN (c)	Digital (d)	Analog (e)	DS1 (f)	PBX (g)	Centrex (h)	Other (i)
Tennessee	9	0	16,164	0	0	0	0	0
Kentucky	1	0	5,742	0	0	0	0	0
TOTAL	10	0	21,906	0	0	0	0	0

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Access Lines in Service by Customer Sched VIII (Ref Page: 1)

State (a)	B Single (b)	B Mult (c)	Public (d)	Residential (e)	Mobile(f)	Non-Switched (g)	Total (h)
Tennessee	1,886	293	36	13,841	0	108	16,164
Kentucky	410	46	5	5,262	0	19	5,742
TOTAL	2,296	339	41	19,103	0	127	21,906

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Telephone Calls Sched IX (Ref Page: 1)

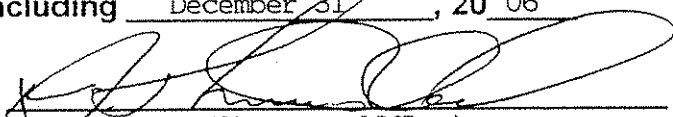
State (a)	Local (b)	Toll (c)	Inter Num (d)	Inter Min (e)	Intra Num (f)	Intra Min (g)	Total Num (h)	Total Min (i)
Tennessee	29,499,300	2,165,976	385,881	2,701,167	65,193	456,351	451,074	3,157,518
Kentucky	10,479,150	183,744	117,909	825,363	221,871	1,553,097	339,780	2,378,460
TOTAL	39,978,450	2,349,720	503,790	3,526,530	287,064	2,009,448	790,854	5,535,978

OATH

State of Tennessee)
Commonwealth of Tennessee) ss:
County of Macon)

I, F. Thomas Rowland, having appeared before the undersigned officer duly authorized to administer oaths and being duly sworn, state under oath that I am President & CEO of North Central Telephone Cooperative, Inc. ("Respondent"); that I have supervision over the books of account and other financial records of the Respondent and have control over the manner in which they are kept; that such books and records have, during the period covered by the foregoing report, been maintained in good faith in accordance with the accounting and other orders of the Public Service Commission of Kentucky; that I have carefully examined the foregoing report and to the best of my knowledge and belief the information contained in this report is, so far as it relates to matters of accounts, in accordance with the said books of account; that all other statements of fact contained in the foregoing report are true; and that the foregoing report is a correct and complete statement of the business and affairs of the Respondent in every respect and manner during the period of time from and including

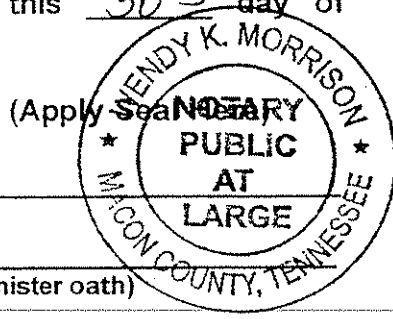
January 1, 20 06, to and including December 31, 20 06


(Signature of Officer)

Subscribed and sworn to before me, a Notary Public, in and for the State and County named in the above this 30th day of March, 20 07

My Commission Expires 12/17/2007

Wendy K. Morrison
(Signature of officer authorized to administer oath)



[Persons making willful false statements in this report may be punished by fine or imprisonment under KRS 523.040 and 523.100.]

Revised 8/02/04

SUPPLEMENT TO
ANNUAL REPORT
KENTUCKY OPERATIONS ONLY

OF

North Central Telephone Cooperative, Inc.
Exact Legal Name of Reporting Utility

P O Box 70

872 Hwy. 52 By-Pass E

Lafayette, TN 37083

(Address of Utility)

TO THE
PUBLIC SERVICE COMMISSION
OF THE
COMMONWEALTH OF KENTUCKY

FOR THE CALENDAR YEAR ENDED DECEMBER 31, 20 06

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Title Page - Kentucky Operations Only

Name of Respondent Addr Line 1 Addr Line 2 City State Zip

North Central Telephone Cooperative, Inc. P O Box 70 872 Hwy. 52 By-Pass E Lafayette TN 37083

Annual Report of
Respondent

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006
General Information - Counties - Kentucky Operations Only

Allen

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

General Information - Contact Person - Kentucky Operations Only

Phone

state

city

Address

name

Officer or other person to whom correspondence should be addressed concerning this report

Name, title, address and telephone number with area code of the person to be contacted concerning this report

F. Thomas Rowland President & CEO

This information is to be kept current by prompt notification to the Commission of any changes until the report for the succeeding year has been submitted.

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

General Info - Principal Payment and Interest Information - Kentucky Operations Only

Yes/No

Amount

**

\$2,680,449.48

Y Y N

Amount of Principal Payment During Calendar Year

Is Principal Current?

Is Interest Current?

Has all long-term debt been approved by the Public Service Commission?

**Total represents total long-term debt payments for the entire company. Unable to separate amounts between Kentucky and Tennessee.

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

General Info - Services Performed by Independent CPA - Kentucky Operations Only

A/C/R

Yes/No

Are your financial statements examined by a Certified Public

Accountant?

Enter Y for Yes or N for No

Y

if yes, which service is performed?

Enter an X on each appropriate line

Y

Audit

Compilation

Review

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006
 Balance Sheet Accounts - Sched III Page 1 - Kentucky Operations Only (Ref Page: 1)
 Amount (c)

Current Assets	
Cash and Equivalents (1120)	
Receivables (1170)	
Allowance for Doubtful Accounts (1171)	
Inventories (1220)	
Prepayments (1280)	
Other Current Assets (1350)	
Non-Regulated Investments (1406)	
Other Noncurrent Assets (1410)	
Deferred Maintenance and Retirements (1438)	
Other Jurisdictional Assets - Net (1500)	
Total Current Assets	

**Please note that 25% of operations are in Kentucky. We cannot separate on the balance sheet.

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Balance Sheet Accounts - Sched III Page 2-4 - Kentucky Operations Only (Ref Page: 2)

End Bal (\$)

Transfer (f)

Retirements (e)

Additions (d)

Beg Bal (c)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (\$)
Telephone Plant					
Telephone Plant in Service (2001)	\$20,751,923.00	\$524,943.00	\$161,739.00	\$0.00	\$21,115,127.00
Property Held for Future Telephone Use (2002)					
Tele. Plant Under Construct. - Short Term (2003)					
Tele. Plant Under Construct. - Long Term (2004)					
Telephone Plant Adjustment (2005)					
Nonoperating Plant (2006)					
Goodwill (2007)	\$20,751,923.00	\$524,943.00	\$161,739.00	\$0.00	\$21,115,127.00
Total Telephone Plant					
Support Assets	\$182,689.00	\$0.00	\$0.00	\$0.00	\$182,689.00
Land (2111)					
Motor Vehicles (2112)					
Aircraft (2113)					
Tools and Other Work Equipment (2114)					
Buildings (2121)	\$1,328,315.00	\$0.00	\$0.00	\$0.00	\$1,328,315.00
Furniture (2122)	\$21,370.00	\$0.00	\$0.00	\$0.00	\$21,370.00
Office Equipment (2123)	\$32,868.00	\$0.00	\$0.00	\$0.00	\$32,868.00
General Purpose Computers (2124)	\$15,149.00	\$85.00	\$0.00	\$0.00	\$15,234.00
Total Support Assets	\$1,580,391.00	\$85.00	\$0.00	\$0.00	\$1,580,476.00
Central Office - Switching					
Non Digital Switching (2211)					

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Balance Sheet Accounts - Sched III Page 2-4 - Kentucky Operations Only (Ref Page: 2)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Digital Electronic Switching (2212)	\$2,262,755.00	\$48.00	\$0.00	\$0.00	\$2,262,803.00
Total Central Office - Switching	\$2,262,755.00	\$48.00	\$0.00	\$0.00	\$2,262,803.00
Total Operator Systems (2220)					
Central Office - Transmission					
Radio Systems (2231)	\$2,921,481.00	\$149,665.00	\$0.00	\$0.00	\$3,071,146.00
Circuit Equipment (2232)	\$2,921,481.00	\$149,665.00	\$0.00	\$0.00	\$3,071,146.00
Total Central Office					
Transmission					
Information Origination					
Termination					
Station Apparatus (2311)					
Customer Premise Wire (2321)					
Large PBX (2341)					
Public Telephone Terminal Equipment (2351)					
Other Terminal Equipment (2362)					
Total Information Origin					
Termination					
Cable and Wire Facilities					
Assets					
Poles (2411)	\$1,439,317.00	\$31,619.00	\$8,149.00	\$0.00	\$1,462,787.00
Aerial Cable (2421)	\$6,362,064.00	\$183,443.00	\$106,707.00	\$0.00	\$6,438,800.00
Underground Cable (2422)	\$10,631.00	\$0.00	\$0.00	\$0.00	\$10,631.00
Buried Cable (2423)	\$5,906,998.00	\$153,617.00	\$44,110.00	\$0.00	\$6,016,505.00
Submarine and Deep Sea Cable (2424)					
Intrabuilding Network Cable (2426)					
3/30/2007					

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Balance Sheet Accounts - Sched III Page 2-4 - Kentucky Operations Only (Ref Page: 2)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Aerial Wire (2431)	\$265,401.00	\$6,466.00	\$2,773.00	\$0.00	\$269,094.00
Conduit Systems (2441)	\$2,885.00	\$0.00	\$0.00	\$0.00	\$2,885.00
Total Cable and Wire Facilities Assets	\$13,987,296.00	\$375,145.00	\$161,739.00	\$0.00	\$14,200,702.00
Amortizable Assets					
Amortizable Tangible Assets (2680)					
Capital Leases (2681)					
Leasehold Improvements (2682)					
Total Amortizable Assets					
Intangibles (2690)	\$20,751,923.00	\$524,943.00	\$161,739.00	\$0.00	\$21,115,127.00
Total Tele. Plant in Service 2001					

Balance Sheet Accounts - Sched III Page 5a - Kentucky Operations Only (Ref Page: 5)

Amount

Depreciation and Amortization	\$15,642,734.00
Accumulated Depreciation (3100)	
Accumulated Depreciations - Plant Held for Future Tele. Use (3200)	
Accumulated Depreciation - Nonoperating (3300)	
Accumulated Amortization - Capitalized Leases (3410)	
Accumulated Amortization - Leasehold Improvements (3420)	
Accumulated Amortization - Intangible (3500)	\$15,642,734.00
Accumulated Amortization - Other (3600)	\$5,472,393.00
Total Depreciation and Amortization	\$5,472,393.00
Net Telephone Plant	
Total Assets	

**The only part to complete on this schedule is the Telephone Plant section and Accumulated Depreciation.
See note on page 39.

Amount

Current Liabilities	
Current Accounts and Notes Payable (4000)	
Customer's Deposits (4040)	
Income Taxes - Accrued (4070)	
Other Taxes - Accrued (4080)	
Net Current Deferred Operating Income Taxes (4100)	
Net Current Deferred Nonoperating Income Taxes (4110)	
Other Current Liabilities (4130)	
Total Current Liabilities	
Long Term Debt and Funded Debt (4200)	
Other Liabilities and Deferred Credits	
Other Long Term Liabilities and Deferred Credits (4300)	
Unamortized Operating Investment Tax Credits - Net (4320)	
Unamortized Nonoperating Investment Tax Credits - Net (4330)	
Net Noncurrent Deferred Operating Income Taxes (4340)	
Net Deferred Tax Liability Adjustments (4341)	
Deferred Tax Regulatory Liability (4361)	
Other Jurisdictional Liabilities/Deferred Credits - Net (4370)	
Total Other Liabilities and Deferred Credits	
Capital Stock (4510)	
Additional Paid-in Capital (4520)	
Treasury Stock (4530)	
Other Capital (4540)	
Retained Earnings (4550)	
Total Stockholders' Equity	
Total Liabilities and Stockholder's Equity	

** See note on page 39.

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006
 Balance Sheet Accts - Retained Earnings Sched III - Kentucky Operations Only (Ref Page: 6)

Amount

Retained Earnings (Beg of Yr)
 Net Income
 Dividends Declared
 Capital Credit Relations
 Miscellaneous Debits*
 Miscellaneous Credits*
 Retained Earnings (End of Year)
 + Explain any individual item over \$10,000

**See note on page 39.

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Income Statement Accounts - Sched VI pg 1 - Kentucky Operations Only (Ref Page: 1)

Amount (e)

Local Network Service	\$1,730,692.00
Basic Area Revenue (5001)	
Private Line Revenue (5040)	
Other Basic Area Revenue (5060)	\$1,730,692.00
Total Local Network Service Revenues	
Network Access/Service Revenues	\$541,287.00
End User Revenue (5081)	\$1,235,134.00
Switched Access Revenue (5182)	\$79,474.00
Special Access Revenue (5083)	\$1,855,895.00
Total Network Access Revenue	\$205,192.00
Long Distance Message Revenue (5100)	\$269,805.00
Miscellaneous Revenue (5200)	\$21,252.00
Directory Revenue (5230)	\$1,103.00
Non-Regulated Operating Revenue (5280)	
Uncollectible Revenue (5300)	\$4,062,687.00 *
TOTAL OPERATING REVENUE	

*Represents 25% of total revenues for Kentucky Operations.

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006
 Income Statement - Operating Exp - Plant Specific - Sched VI pg 2 Kentucky Operations Only (Ref Page: 2)

Total (c)

Plant Specific Operaiton Expense	
Motor Vehicle Expense (6112)	\$69,800.00
Aircraft Expense (6113)	
Tools and Other Work Equipment Expense (6114)	\$3,036.00
Total Network Support Expenses	\$19,422.00
Land and Building Expense (6121)	\$92,258.00
Furniture and Artworks Expense (6122)	
Office Equipment Expense (6123)	
General Purpose Computers Expense (6124)	
Total Support Expense	\$271,791.00
Non-Digital Switching Expense (6211)	\$271,791.00
Digital Electronic Expense (6212)	
Total Central Of. Switch. Exp	
Operator System Expense (6220)	\$636.00
Radio System Expense (6231)	\$17,023.00
Circuit Equipment Expense (6232)	\$17,659.00
Total Central Of. Trans. Exp.	
Station Apparatus Expense (6311)	
Large PBX Expense (6341)	
Public Tele. Terminal Equipment (6361)	
Other Terminal Equipment Expense (6362)	\$180,982.00
Total Info. Org. Term. Equip	\$218,779.00
Poles Expense (6411)	
Aerial Cable Expense (6421)	
Underground Cable Expense (6422)	
Buried Cable Expense (6423)	
Submarine and Deep Sea Cable (6424)	\$109,431.00

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Income Statement - Operating Exp - Plant Specific - Sched VI pg 2 Kentucky Operations Only (Ref Page: 2)

Total (c)

Intrabuilding Network Cable Expense (6426)	\$7,226.00
Aerial Wire Expense (6431)	\$516,418.00
Conduit Systems Expense (6441)	\$898,126.00
Total Cable and Wire Expense	
Total Plant Spc. Expense	

Total (e)

Plant NonSpecific Operating Expense	\$1,288.00
Plant held for future Telephone use (6511)	\$1,288.00
Provisioning Expense (6512)	\$56,607.00
Total other PPE Expense	\$10,825.00
Power Expense (6531)	\$175,702.00
Network Administration Expense (6532)	
Testing Expense (6533)	\$211,865.00
Plant Operations Administration Expense (6534)	\$154,999.00
Engineering Expense (6535)	\$102,888.00
Total Network Ops Expense	\$1,334,855.00
Access Expense (6540)	
Depreciation Expense - Telecomm Plant in Service (6561)	
Depreciation Expense - Property Held for Future Telecom Use (6562)	
Amortization - Tangible (6563)	
Amortization - Intangible (6564)	\$1,334,855.00
Amortization - Other	\$1,894,030.00
Total Depreciation and Amortization Exp	
Total Plant NonSpecific Expense	\$13,750.00
Customer Operations Expense	\$13,750.00
Product Management and Sales (6611)	\$686.00
Product Advertising (6613)	\$41,518.00
Total Marketing Expense	\$510,004.00
Call Completion Services (6621)	\$552,208.00
Number Services (6622)	
Customer Services (6623)	\$679,693.00
Total Services Expense	
General and Administrative (6720)	

Income Statement - Operating Exp - Plant NonSpecific - Sched VI pg 3 Kentucky Operations Only (Ref Page: 3)

Total (c)

Provision for Uncollectible Notes Receivable (6790)

\$679,693.00

Total Corp. Oper. Expense

\$24,880.00 *

Net Operating Revenue

* 25% of Total Operations.

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006
 Income Statement - Operating Exp - Sched VI pg 4 - Kentucky Operations Only (Ref Page: 7)

Amount

Other Operating Income and Expense (7100)	
Operating Taxes	\$17,579.00 **
Operating Investment Tax Credits Net (7210)	
Operating Federal Income Taxes (7220)	
Operating State and Local Income Taxes (7230)	
Operating Other Taxes (7240)	
Provision for Deferred Operating Income Tax - Net (7250)	
Total Operating Taxes	\$24,775.00
Nonoperating Income and Expense (7300)	
Nonoperating Taxes (7400)	
Interest and Related Items (7500)	
Extraordinary Items (7600)	
Jurisdictional Differences and NonRegulated Income	
Income Effect of Jurisdictional Differences - Net (7910)	
Nonregulated Net Income (7990)	\$112,942.00 *
Net Income	

** Represents actual Kentucky taxes paid.

* Represents 25% of net income for Kentucky Operations.

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Total Number of Employees - Sched VI - Kentucky Operations Only (Ref Page: 4)

Total

Total Number of Employees at End of Year

Number of Full-Time Employees

Number of Part-Time Employees

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Total Compensation - Sched VI - Kentucky Operations Only (Ref Page: 4)

Amount

Total Compensation for the Year

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Access Lines in Service by Technology Sched VII - Kentucky Operations Only (Ref Page: 1)

State (a)	Switches (b)	ISDN (c)	Digital (d)	Analog (e)	DS1 (f)	PBX (g)	Centrex (h)	Other (i)
Kentucky	1	0	5,742	0	0	0	0	0
TOTAL	1	0	5,742	0	0	0	0	0

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Access Lines in Service by Customer Sched VIII - Kentucky Operations Only (Ref Page: 1)

State (a)	B Single (b)	B Multi (c)	Public (d)	Residential (e)	Mobile(f)	Non-Switched (g)	Total (h)
Kentucky	410	46	5	5,262	0	19	5,742
TOTAL	410	46	5	5,262	0	19	5,742

12400 North Central Telephone Cooperative, Inc. 01/01/2006 - 12/31/2006

Telephone Calls Sched IX - Kentucky Operations Only (Ref Page: 1)

State (a)	Local (b)	Toll (c)	Inter Num (d)	Inter Min (e)	Intra Num (f)	Intra Min (g)	Total Num (h)	Total Min (i)
Kentucky	10,479,150	183,744	117,909	825,363	221,871	1,553,097	339,780	2,378,460
TOTAL	10,479,150	183,744	117,909	825,363	221,871	1,553,097	339,780	2,378,460

Annual Report of

North Central Telephone Cooperative, Inc.

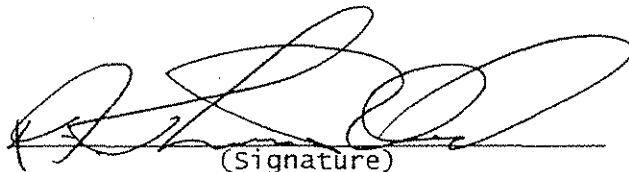
Year Ended

December 31, 2006

SIGNATURE PAGE

I certify that I am the responsible accounting officer of the
North Central Telephone Cooperative, Inc.; that I have
examined the foregoing report; that to the best of my knowledge,
information, and belief, all statements of fact contained in the said
report are true and the said report is a correct statement of the
business and affairs of the above-named respondent in respect to each
and every matter set forth therein during the period from January 1,
2006, to December 31, 2006, inclusive.

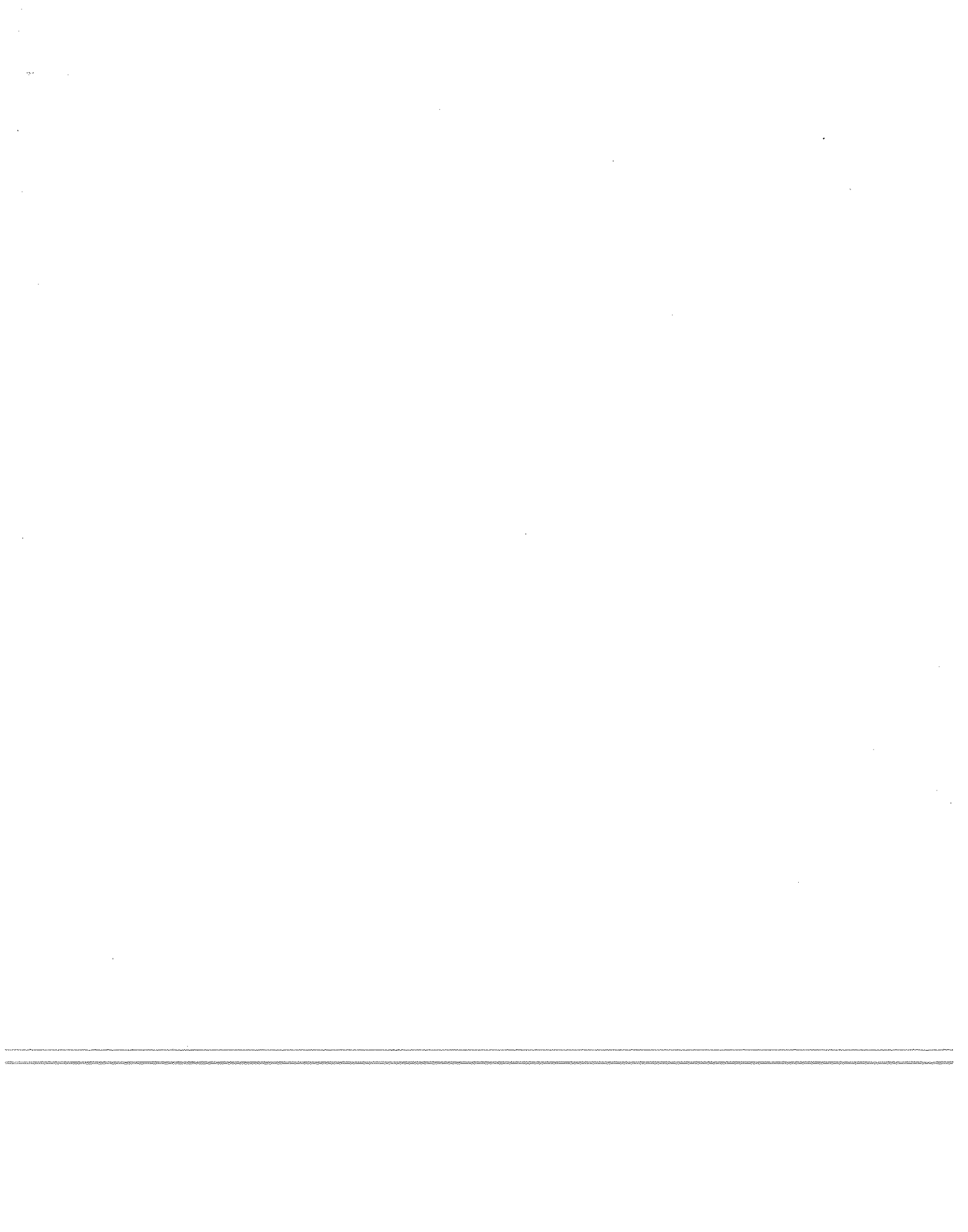
Date 3/29/07


(Signature)

President & CEO

(Title)

(Persons making willful false statements in this report
form can be punished by fine or imprisonment under the
provisions of the U.S. Code, Title 18, Section 1001)



General Ledger key.	Dr T U M Cr p s x	Account Description
1130.1	D A R N	CITIZENS BANK--GENERAL FUND
1130.10	D A R N	CITIZENS BANK--MONEY MKT FUND
1130.110	D A D N	CITIZENS BANK--EMP SAVINGS ACC
1130.12	D A R N	FARMERS NATIONAL--MMM-COOP
1130.13	D A R N	MACON BANK-CAPITAL CREDIT ACCT
1130.2	D A R N	MACON BANK-GENERAL FUND
1130.3	D A R N	CERTIFICATE OF DEPOSITS
1130.31	D A D N	RTFC INVESTMENT
1130.4	D A R N	CUMBERLAND BANK-SAVINGS ACCT
1130.5	D A R N	MACON BANK-MONEY MARKET FUND
1130.6	D A R N	MACON BANK-REA TRUSTEE ACCT
1130.7	D A R N	MACON BANK-GEN PAYROLL FUND
1130.8	D A R N	NCT-TRANSFER OF FUNDS
1130.9	D A R N	QE INVESTMENTS GOV'T FUNDS
1150	D A R N	WORKING FUND
1180	D A R N	DUE FROM CUSTOMERS & AGENTS
1181	D A R N	UNBILLED TOLLS- NCLD/OTHERS
1182	C A R N	RESERVE FOR UNCOLLECTIBLES
1183	D A R N	CABS BILLING RECEIVABLE
1190.1	D A R N	OTHER ACCTS RECEIVABLE-W O
1190.2	D A R N	OTHER ACCTS RECEIVABLE-PCS & M
1190.3	D A D N	FEDERAL EXCISE TAX REFUNDABLE
1190.40	D A D N	NOTES RECEIVABLE
1191	D A R N	ADVANCES TO AFFILIATED COMPANI
1220.1	D A R N	MATERIAL & SUPPLIES--O P
1220.3	D A R N	MATERIAL & SUPPLIES--EXEMPT
1220.43	D A R N	MATERIAL & SUPPLIES--E911
1310.1	D A R N	PREPAID INSURANCE--BLDGS & CON
1310.2	D A R N	PREPAID RETIREMENT-EMPLOYER
1400	D A R N	INVESTMENT-N C COMM-ORIGINAL
1400.1	D A R N	INVESTMENT-N C COMM-EARNINGS
1402.10	D A R N	OTHER INVESTMENTS-MGR LIFE INS
1402.11	D A R N	OTHER INVESTMENTS-RTB STOCKS
1402.12	D A R N	OTHER INVESTMENTS-NECA SERVICE
1406.1	D A R N	OTHER INVESTMENTS-TELEPHONE IN
1406.11	D A D N	SETTOP BOXES-INVENTORY
1406.12	D A D N	SETTOP BOXES-IN SERVICE
1406.12R	C A D N	SETTOP BOXES-DEPREC RESERVE
1406.2	D A R N	LEASED APPARATUS--KS-INVENTORY
1406.4	D A R N	LEASED APPARATUS--KS-IN FIELD
1406.4R	C A R N	LEASED APPARATUS--KS-DEPREC
1406.61	D A D N	DSL INVENTORY
1406.7	D A R N	PAY STATIONS
1406.7R	C A R N	PAY STATIONS-DEPRECIATION
2003	D A R N	TELEPHONE PLANT UNDER CONST-W
2003.1	D A R N	TELEPHONE PLANT UNDER CONST-CO
2111	D A R N	LAND
2112.2	D A R N	TRANSPORTATION EQUIPMENT-HEAVY
2115	D A R N	OTHER WORK EQUIPMENT--GARAGE
2116	D A R N	OTHER WORK EQUIPMENT
2121	D A R N	BUILDINGS
2122	D A R N	FURNITURE
2123.1	D A R N	OFFICE SUPPORT EQUIPMENT
2123.2	D A R N	COMPANY COMMUNICATIONS EQUIPME

General Ledger key.	Dr Cr	T U M p s x	Account Description
2124		D A R N	DATA PROCESSING & COMPUTER EQU
2124.1		D A R N	COMPUTER GRAPHICS ENGINEERING
2212		D A R N	DIGITAL ELECTRONIC SWITCH
2212.2		D A R N	EMERGENCY GENERATORS
2231.1		D A R N	RADIO SYSTEMS-OTHER
2232		D A R N	COE EQUIPMENT SWITCHING/OTHER
2232.1		D A R N	SUBSCRIBER CARRIER SYSTEMS
2232.2		D A R N	DIGITAL SWITCHING UNITS-CONCEN
2232.3		D A R N	DSL EQUIPMENT
2232.4		D A J N	BROADBAND EQUIP-BDT
2232.41		D A D N	BROADBAND EQUIP-SETTOP BOXES
2411		D A R N	POLE LINES
2411.X		D A R N	POLE LINES-REMOVALS
2421.0		D A R N	DROP AND PROTECTORS-IN SERVICE
2421.OX		D A R N	DROP AND PROTECTOR-REMOVALS
2421.1		D A R N	AERIAL CABLE-METALLIC
2421.1X		D A R N	AERIAL CABLE-METALLIC-REMOVALS
2421.2		D A R N	AERIAL CABLE-FIBER OPTIC
2421.2X		D A R N	AERIAL CABLE-FIBER-REMOVALS
2422.1		D A R N	UNDERGROUND CABLE-METALLIC
2422.2		D A R N	UNDERGROUND CABLE-FIBER OPTIC
2422.2X		D A R N	UNDERGROUND CABLE-REMOVALS
2423.1		D A R N	BURIED CABLE-METALLIC
2423.1X		D A R N	BURIED CABLE-REMOVALS
2423.2		D A R N	BURIED CABLE-FIBER OPTIC
2431		D A R N	AERIAL WIRE
2431.X		D A R N	AERIAL WIRE REMOVALS
2441		D A R N	UNDERGROUND CONDUIT
2690		D A R N	FRANCHISE-TELEPHONE
3100.1		C A R N	DEPRECIATION RES-SUB ACT 21
3100.2		C A R N	DEPRECIATION RES-SUB ACT 22
3100.3		C A R N	DEPRECIATION RES-SUB ACT 23
3100.4		C A R N	DEPRECIATION RES-SUB ACT 24
4010		C L R N	ACCTS PAYABLE-OPEN INVOICES
4010.1		C L R N	ACCTS PAYABLE-CARRIERS
4010.10		C L R N	ACCTS PAYABLE-FED EXCISE TAX
4010.11		C L R N	ACCTS PAYABLE-GROUP INS (EMPLO
4010.12		C L R N	ACCTS PAYABLE-EMPLOYEE SAVINGS
4010.13		C L R N	ACCTS PAYABLE-KY DUAL PARTY SU
4010.14		C L R N	ACCTS PAYABLE-NTCA SAVINGS WIT
4010.15		C L R N	ACCTS PAYABLE-NTCA RETR-EE CON
4010.16		C L R N	ACCTS PAYABLE-KY LIFELINE SUPP
4010.17		C L R N	ACCTS PAYABLE-UNCLAIMED CAPITA
4010.2		C L R N	ACCTS PAYABLE-KY SALES TAXES
4010.3		C L R N	ACCTS PAYABLE-TN SALES TAXES
4010.4		C L R N	ACCTS PAYABLE-S S TAXES WITHHE
4010.5		C L R N	ACCTS PAYABLE-FED INCOME TAX W
4010.50		C L R N	ACCTS PAYABLE-NCSS MONITORING
4010.6		C L R N	ACCTS PAYABLE-KY WITHHOLDING T
4010.7		C L R N	ACCTS PAYABLE-OTHER VENDORS
4010.8		C L R N	ACCTS PAYABLE-UNION DUES WITHH
4010.9		C L R N	ACCTS PAYABLE-FEDERAL INCOME T
4010.91		C L R N	ACCTS PAYABLE-E911---ALLEN CO
4010.92		C L R N	ACCTS PAYABLE-E911---CLAY COUN

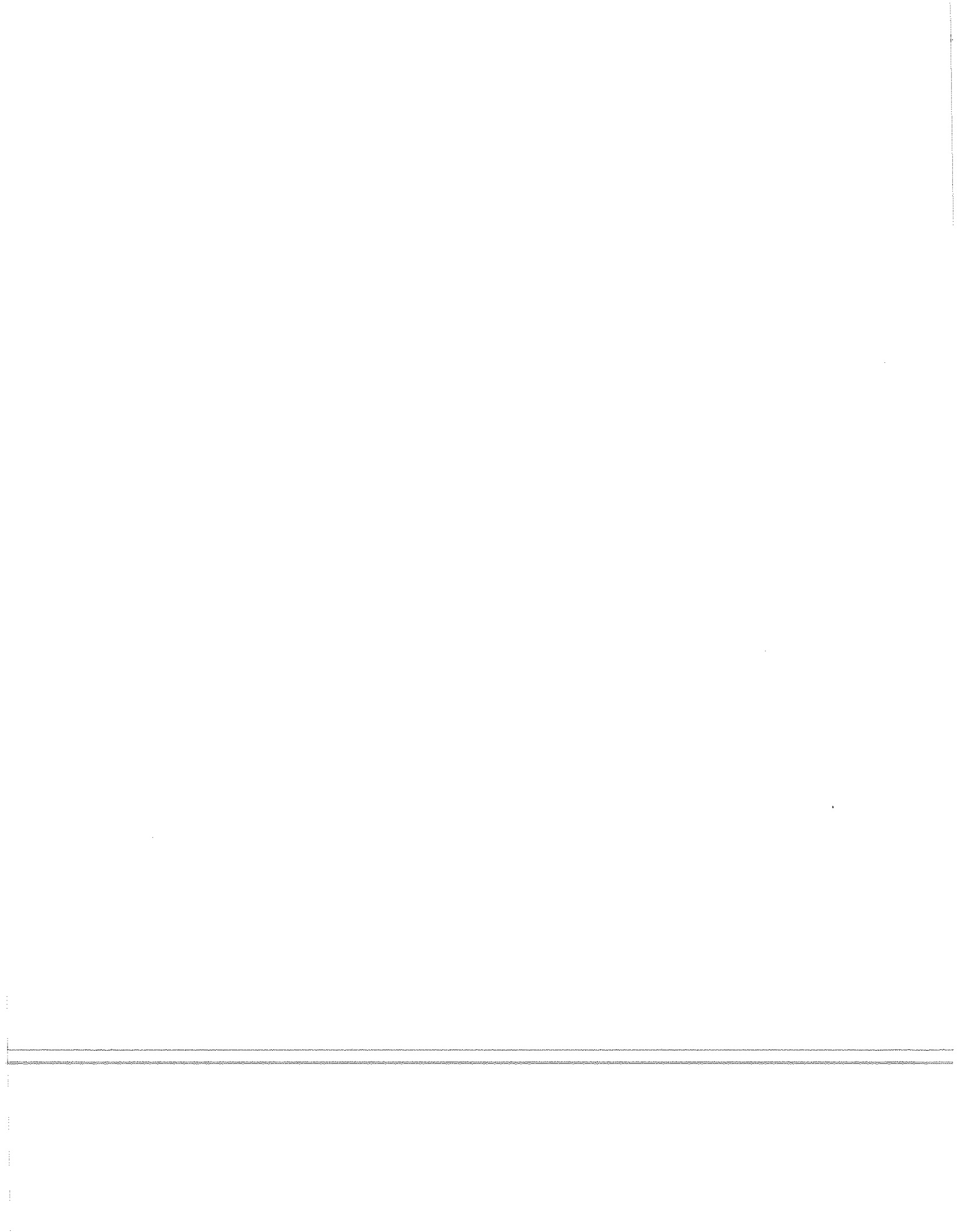
General Ledger key	Dr Cr	T p	U s	M x	Account Description
4010.93	C	L	R	N	ACCTS PAYABLE-E911---MACON COU
4010.94	C	L	R	N	ACCTS PAYABLE-E911---SMITH COU
4010.95	C	L	R	N	ACCTS PAYABLE-E911---SUMNER CO
4010.96	C	L	R	N	ACCTS PAYABLE-E911---TROUSDALE
4030	C	L	R	N	ADVANCE BILLINGS-NCTC
4040	C	L	R	N	CUSTOMERS DEPOSITS
4080.1	C	L	R	N	ACCRUED TAXES-PROPERTY
4080.2	C	L	R	N	ACCRUED TAXES-STATE UNEMPLOYME
4080.3	C	L	R	N	ACCRUED TAXES-U S UNEMPLOYMENT
4100.0	C	L	R	N	OVERH CLEARING ACCOUNT
4100.1	D	L	R	N	AFUDC CLEARING ACCT
4100.2	D	L	D	N	CSUPV CLEARING ACCT-NCTC
4110.9	C	L	R	N	DEFERRED INCOME TAXES PAYABLE
4120	C	L	R	N	ACCRUED ANNUAL & SICK LEAVE
4120.0	C	L	R	N	ACCRUED PAYROLL
4120.10	C	L	R	N	ACCRUED AUDIT EXPENSES
4120.11	C	L	R	N	ACCRUED INSURANCE-EMPLOYER FOR
4120.12	C	L	R	N	ACCRUED INTEREST DEFERRED--REA
4120.7	C	L	R	N	ACCRUED RENTS
4120.8	C	L	R	N	ACCRUED INTEREST--RUS
4120.9	C	L	R	N	ACCRUED INTEREST--CUSTOMER DEP
4270	C	L	R	N	LONG TERM DEBT UNDER NOTE--RUS
4270.2	C	L	R	N	NOTES EXECUTED UNREQUISIT--RUS
4271	C	L	R	N	LONG TERM DEBT UNDER NOTE--RTB
4271.2	C	L	R	N	NOTES EXECUTED UNREQUISIT--RTB
4310	C	L	R	N	LONG TERM LIABILITY - FAS106
4510	C	L	R	N	MEMBERSHIPS ISSUED
4550.2	C	C	R	N	PATRONAGE CAPITAL CREDIT
5001	C	R	R	N	LOCAL SERVICE RENT REVENUE
5081	C	R	R	N	ACCESS REVENUE-END USER
5081.1	C	R	R	N	FUSC CHARGES-TELE SERV
5081.2	C	R	D	N	FUSC CHARGES-DSL SERVICE
5081.3	C	R	R	N	ACCESS REVENUE ISDN PORT CHARG
5082	C	R	R	N	ACCESS REVENUE-SWITCHED
5083	C	R	R	N	ACCESS REVENUE-SPECIAL ACCESS
5083.1	C	R	R	N	ACCESS REVENUE-DSL REVENUE-INT
5083.2	C	R	R	N	ACCESS REVENUE-CLEC CHARGES
5084	C	R	R	N	ACCESS REVENUE-INTRA PRIVATE L
5100	C	R	R	N	ACCESS REVENUE-TOLLS
5100.1	C	R	R	N	ACCESS REVENUE-PREPAID CALLING
5100.2	C	R	R	N	ACCESS REVENUE-OPR ASSIST
5111	C	R	R	N	ACCESS REVENUE-WATS LINES
5122	C	R	R	N	ACCESS REVENUE-INTEREXCHANGE C
5230	C	R	R	N	DIRECTORY REVENUES
5261	C	R	R	N	MISC OPERATING REV
5263	C	R	R	N	LNP COST RECOVERY REVENUE
5264	C	R	R	N	MISC OPERATING REV - LATE FEES
5270	C	R	R	N	INTERSTATE BILL & COLLECTION R
5270.1	C	R	R	N	INTRASTATE BILL & COLLECTION R
5280.11	D	E	D	N	MAINTENANCE CTS-INSTALLATION
5280.12	C	R	D	N	MAINTENANCE CTS-REVENUES
5280.13	D	E	D	N	MAINTENANCE CTS-DEPRECIATION E
5280.20	C	R	D	N	LEASED-KEY & PBX REVENUES
5280.21	D	E	D	N	LEASED-KEY & PBX DEPRECIATION

General Ledger key.	Dr Cr	T p	U s	M x	Account Description	
5280.22	D	E	D	N	LEASED-KEY SYSTEM REPAIRS	
5280.23	D	E	D	N	LEASED-PBX REPAIRS	
5280.24	D	E	D	N	LEASED-G & A EXPENSES	
5280.25	D	E	D	N	LEASED-UNCOLLECTIBLES	
5280.30	C	R	D	N	PAY STATION REVENUE	
5280.31	D	E	D	N	PAY STATION-REPAIR AND MAINT	
5280.32	D	E	D	N	PAY STATION-G & A EXPENSES	
5281.10	C	R	D	N	TELEPHONE-CONTRACT MAINTENANCE	
5281.12	D	E	D	N	TELEPHONE-INSTALLATION COSTS	
5281.13	D	E	D	N	TELEPHONE MAINT-UNCOLLECTIBLES	
5281.14	D	E	D	N	TELEPHONE MAINT-REPAIR SERVICE	
5281.16	D	E	D	N	TELEPHONE MAINT-G & A EXPENSES	
5281.20	C	R	D	N	INSIDE WIRE-REVENUE	
5281.201	C	R	D	N	INSIDE WIRE-DISCOUNT	
5281.21	D	E	D	N	INSIDE WIRE-COSTS	
5281.22	D	E	D	N	INSIDE WIRE-G & A EXPENSES	
5281.30	C	R	D	N	TELEPHONE-REVENUE	
5281.31	D	E	D	N	TELEPHONE-COST OF SALES	
5301	D	E	R	N	UNCOLLECTIBLE OPERATING REVENUE	
6112.001	-1	D	E	R	Y	MOTOR VEHICLE EXP-SALARIES
6112.002	-2	D	E	R	Y	MOTOR VEHICLE EXP-BENEFITS
6112.004	-4	D	E	R	Y	MOTOR VEHICLE EXP-OTHER
6115.001	-1	D	E	R	Y	GARAGE WORK EQUIP EXP-SALARIES
6115.002	-2	D	E	R	Y	GARAGE WORK EQUIP EXP-BENEFITS
6115.004	-4	D	E	R	Y	GARAGE WORK EQUIP EXP-OTHER
6116.001	-1	D	E	R	Y	OTHER WORK EQUIP EXP-SALARIES
6116.002	-2	D	E	R	Y	OTHER WORK EQUIP EXP-BENEFITS
6116.004	-4	D	E	R	Y	OTHER WORK EQUIP EXP-OTHER
6121.001	-1	D	E	R	Y	LAND AND BLDG EXP-SALARIES
6121.002	-2	D	E	R	Y	LAND AND BLDG EXP-BENEFITS
6121.004	-4	D	E	R	Y	LAND AND BLDG EXP-OTHER
6123.001	-1	D	E	R	Y	OFFICE EQUIPMENT EXP-SALARIES
6123.002	-2	D	E	R	Y	OFFICE EQUIPMENT EXP-BENEFITS
6123.004	-4	D	E	R	Y	OFFICE EQUIPMENT EXP-OTHER
6124.001	-1	D	E	R	Y	GEN PURPOSE COMP EXP-SALARIES
6124.002	-2	D	E	R	Y	GEN PURPOSE COMP EXP-BENEFITS
6124.004	-4	D	E	R	Y	GEN PURPOSE COMP EXP-OTHER
6212.001	-1	D	E	R	Y	COE SWITCH REPAIR-SALARIES
6212.002	-2	D	E	R	Y	COE SWITCH REPAIR-BENEFITS
6212.004	-4	D	E	R	Y	COE SWITCH REPAIR-OTHER
6215.101	-1	D	E	R	Y	TRK CARRIER-EAS/TOLL-SALARIES
6215.102	-2	D	E	R	Y	TRUNK REP-EAS/TOLL-BENEFITS
6215.104	-4	D	E	R	Y	TRUNK REP-TOLL/EAS-OTHER
6215.201	-1	D	E	R	Y	SUB CARRIER REPAIR-SALARIES
6215.202	-2	D	E	R	Y	SUB CARRIER REPAIR-BENEFITS
6215.204	-4	D	E	R	Y	SUB CARRIER REPAIR-OTHER
6215.301	-1	D	E	R	Y	SUB CARR REP-DIGITAL-SALARIES
6215.302	-2	D	E	R	Y	SUB CARR REP-DIGITAL-BENEFITS
6215.304	-4	D	E	R	Y	SUB CARR REP-DIGITAL-OTHER
6231.001	-1	D	E	R	Y	STAT EQUIP REP-MOBILE-SALARIES
6231.002	-2	D	E	R	Y	STAT EQUIP REP-MOBILE-BENEFITS
6231.004	-4	D	E	R	Y	STAT EQUIP REP-MOBILE-OTHER
6232.001	-1	D	E	R	Y	BROADBAND/BDT EXPENSE-SALARIES
6232.002	-2	D	E	R	Y	BROADBAND/BDT EXPENSE-BENEFITS

General Ledger key..	Dr	T	U	M	Account Description		
	Cr	p	s	x			
6232.004	-4	D	E	J	Y	BROADBAND/BDT CARRIER SYS EXP	
6411.001	-1	D	E	R	Y	POLES EXPENSE-SALARIES	
6411.002	-2	D	E	R	Y	POLES EXPENSE-BENEFITS	
6411.003	-3	D	E	R	Y	POLES EXPENSE-RENTS	
6411.004	-4	D	E	R	Y	POLES EXPENSE-OTHER	5
6421.001	-1	D	E	R	Y	AERIAL CABLE REPAIR-SALARIES	
6421.002	-2	D	E	R	Y	AERIAL CABLE EXPENSE-BENEFITS	
6421.004	-4	D	E	R	Y	AERIAL CABLE REPAIR-OTHER	2
6421.101	-1	D	E	R	Y	DROP WIRE EXPENSE-SALARIES	
6421.102	-2	D	E	R	Y	DROP WIRE EXPENSE-BENEFITS	
6421.104	-4	D	E	R	Y	DROP WIRE EXPENSE-OTHER	1
6421.201	-1	D	E	R	Y	DROP/PROTECTOR EXP-SALARIES	
6421.202	-2	D	E	R	Y	DROP/PROTECTOR EXP-BENEFITS	
6421.204	-4	D	E	R	Y	DROP/PROTECTOR EXP-OTHER	2
6421.301	-1	D	E	R	Y	AERIAL FIBER REPAIR-MISC	
6421.302	-2	D	E	R	Y	AERIAL FIBER REPAIR-SALARIES	
6421.304	-4	D	E	R	Y	AERIAL FIBER REPAIR-OTHER	
6422.2	-1	D	E	R	Y	FIBER UNDERGROUND-REPAIR	
6423.001	-1	D	E	R	Y	BURIED CABLE REPAIR-SALARIES	
6423.002	-2	D	E	R	Y	BURIED CABLE REPAIR-BENEFITS	
6423.004	-4	D	E	R	Y	BURIED CABLE REPAIR-OTHER	2
6423.201	-1	D	E	R	Y	BURIED FIBER REPAIR-SALARIES	
6423.202	-2	D	E	R	Y	BURIED FIBER REPAIR-BENEFITS	
6423.204	-4	D	E	R	Y	BURIED FIBER REPAIR-OTHER	
6431.001	-1	D	E	R	Y	AERIAL WIRE REPAIR-SALARIES	
6431.002	-2	D	E	R	Y	AERIAL WIRE REPAIR-BENEFITS	
6431.004	-4	D	E	R	Y	AERIAL WIRE REPAIR-OTHER	
6512.001	-1	D	E	R	Y	PROVISION-SUPPLY EXP-SALARIES	
6512.002	-2	D	E	R	Y	PROVISION-SUPPLY EXP-BENEFITS	
6512.004	-4	D	E	R	Y	PROVISION-SUPPLY EXP-OTHER	
6531.004	-4	D	E	R	Y	MAINTAIN POWER-UTILITY-OTHER	1
6532.004	-4	D	E	R	Y	TRAFFIC EXP--OPERATORS-OTHER	
6533.001	-1	D	E	R	Y	TEST DESK WORK-SALARIES	
6533.002	-2	D	E	R	Y	TEST DESK WORK-BENEFITS	
6533.004	-4	D	E	R	Y	TEST DESK WORK-OTHER	2
6533.101	-1	D	E	R	Y	TEST DESK WORK-COE-SALARIES	
6533.102	-2	D	E	R	Y	TEST DESK WORK-COE-BENEFITS	
6533.104	-4	D	E	R	Y	TEST DESK WORK-COE-OTHER	2
6533.201	-1	D	E	R	Y	TEST DESK WORK-CABLE-SALARIES	
6533.202	-2	D	E	R	Y	TEST DESK WORK-CABLE-BENEFITS	
6533.204	-4	D	E	R	Y	TEST DESK WORK-CABLE-OTHER	
6534.001	-1	D	E	R	Y	PLANT SUPV EXPENSE-SALARIES	
6534.002	-2	D	E	R	Y	PLANT SUPV EXPENSE-BENEFITS	
6534.004	-4	D	E	R	Y	PLANT SUPV EXPENSE-OTHER	
6535.001	-1	D	E	R	Y	ENGINEERING EXPENSE-SALARIES	
6535.002	-2	D	E	R	Y	ENGINEERING EXPENSE-BENEFITS	
6535.004	-4	D	E	R	Y	ENGINEERING EXPENSE-OTHER	5
6540.004	-4	D	E	R	Y	IXC ACCESS EXPENSE-OTHER	3
6561.004	-4	D	E	R	Y	DEPRECIATION EXPENSE-OTHER	45
6561.09	-1	D	E	R	Y	DEPRECIATION EXPENSE	
6610.001	-1	D	E	R	Y	MARKETING DEPARTMENT-SALARIES	
6610.002	-2	D	E	R	Y	MARKETING DEPARTMENT-BENEFITS	
6610.004	-4	D	E	R	Y	MARKETING DEPARTMENT-OTHER	
6613.004	-4	D	E	R	Y	ADVERTISING EXP-OTHER	

General Ledger key.	Dr Cr	T U M p s x	Account Description	
6621.004	-4	D E R Y	TRAFFIC EXPENSE-OTHER	
6622.001	-1	D E R Y	DIRECTORY EXPENSE-SALARIES	
6622.002	-2	D E R Y	DIRECTORY EXPENSE-BENEFITS	
6622.004	-4	D E R Y	DIRECTORY EXPENSE-OTHER	1
6623.001	-1	D E R Y	COMMERCIAL DEPT-SALARIES	
6623.002	-2	D E R Y	COMMERCIAL DEPT-BENEFITS	
6623.004	-4	D E R Y	COMMERCIAL DEPT-OTHER	15
6623.091	-1	D E R Y	COMMERCIAL DEPT-REG-SALARIES	
6623.092	-2	D E R Y	COMMERCIAL DEPT-REG-BENEFITS	
6623.094	-4	D E R Y	COMMERCIAL DEPT-REG-OTHER	
6711.001	-1	D E R Y	EXECUTIVE DEPT-SALARIES	
6711.002	-2	D E R Y	EXECUTIVE DEPT-BENEFITS	
6711.004	-4	D E R Y	EXECUTIVE DEPT-OTHER	2
6711.09	-1	D E R Y	EXECUTIVE DEPT	
6711.102	-2	D E R Y	DIRECTORS EXPENSE---BENEFITS	
6711.104	-4	D E R Y	DIRECTORS EXPENSE---FEES/TRAVE	1
6721.001	-1	D E R Y	ACCTS AND FINANCE-SALARIES	
6721.002	-2	D E R Y	ACCTS AND FINANCE-BENEFITS	
6721.004	-4	D E R Y	ACCTS AND FINANCE-OTHER	3
6721.091	-1	D E R Y	ACCTS AND FINANCE-REG-SALARIES	
6721.092	-2	D E R Y	ACCTS AND FINANCE-REG-BENEFITS	
6721.094	-4	D E R Y	ACCTS AND FINANCE-REG-OTHER	
6722.001	-1	D E R Y	EXTERNAL RELATIONS-SALARIES	
6722.002	-2	D E R Y	EXTERNAL RELATIONS-BENEFITS	
6722.004	-4	D E R Y	EXTERNAL RELATIONS-OTHER	20
6722.09	-1	D E R Y	EXTERNAL RELATIONS	
6723.001	-1	D E R Y	HUMAN RESOURCES-SALARIES	
6723.002	-2	D E R Y	HUMAN RESOURCES-BENEFITS	
6723.004	-4	D E R Y	HUMAN RESOURCES-OTHER	16
6724.004	-4	D E R Y	COMPUTER INFO MGT-SOFT-OTHER	11
6724.091	-1	D E R Y	COMP INFO MGT-SOFT-REG-SALARIE	
6724.092	-2	D E R Y	COMP INFO MGT SOFT-REG-BENEFIT	
6724.094	-4	D E R Y	COMP INFO MGT SOFT-REG-OTHER	
6725.004	-4	D E R Y	LAW DEPT-OTHER	6
6725.094	-4	D E R Y	LEGAL FEES-REGULATED-OTHER	
6726.001	-1	D E R Y	PROCUREMENT EXPENSE-SALARIES	
6726.002	-2	D E R Y	PROCUREMENT EXPENSE-BENEFITS	
6726.004	-4	D E R Y	PROCUREMENT EXPENSE-OTHER	6
6728.001	-1	D E R Y	COMMON EXPENSE-SALARIES	
6728.002	-2	D E R Y	COMMON EXPENSE-BENEFITS	
6728.004	-4	D E R Y	COMMON EXPENSE-OTHER	32
6728.09	-4	D E R Y	INSURANCE EXPENSE--REGULATED	
6728.104	-4	D E R Y	ACCIDENTS AND DAMAGES-OTHER	
6728.184	-4	D E R Y	BLDGS/EQUIP INS EXP-OTHER	11
6728.204	-4	D E R Y	CD-OP DUES-OTHER	5
6728.301	-1	D E R Y	ANNUAL MTG EXP-SALARIES	
6728.302	-2	D E R Y	ANNUAL MTG EXP-BENEFITS	
6728.304	-4	D E R Y	ANNUAL MTG EXP-OTHER	
6728.401	-1	D E R Y	CONVENTIONS/MTG EXP-SALARIES	
6728.402	-2	D E R Y	CONVENTIONS/MTG EXP-BENEFITS	
6728.404	-4	D E R Y	CONVENTIONS/MTG EXP-OTHER	5
7150		C R D N	GAIN FROM DISPOSITION OF LAND	
7230		D E R N	OPERATING TAXES-PROPERTY	39
7240		D E R N	OTHER OPERATING TAXES	

General Ledger key..	Dr T U M Cr p s x	Account Description	
7240.1	D E R N	OTHER OP TAXES-KY GROSS RECPTS	
7310	C R R N	DIVIDEND INCOME	
7320	C R R N	INTEREST INCOME	
7321	C R R N	EXCISE TAX REFUNDABLE	
7340	C R R N	ALLOWANCE OF FUNDS USED DURING	
7360	C R D N	RENTAL PROPERTY-INCOME & EXPEN	
7360.1	C R D N	EARNINGS FROM SUBSIDIARY-NCC	
7420	D E R N	NONOPERATING FEDERAL INCOME TA	
7440	D E R N	NONOPERATING OTHER TAXES	
7510	D E R N	INTEREST ON LONG TERM DEBT-REA	10
7540	D E R N	INTEREST ON CUSTOMER DEPOSITS	
7990.01	D E D N	BROADBAND SETTOP BOX-DEP EXP	
7990.50	C R D N	E911-REVENUE	
7990.51	D E D N	E911-COST OF SALES	
7990.6	C R D N	IRIS-SWITCHED ACCESS REVENUE	



NCIC-INCOME STATEMENT FOR MONTH ENDED SEP 30, 2007

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	399,416.75	472,889.00	361,924.17	3,582,054.90	3,936,631.00	3,264,143.34
NETWORK ACCESS SERVICE REVENUE	511,953.86	523,702.00	519,991.12	4,682,260.34	4,647,908.00	4,643,636.89
LONG DISTANCE NETWORK SVC REV	412,220.88	329,187.00	372,215.98	2,518,270.60	2,893,421.00	2,735,565.74
MISCELLANEOUS REVENUE	201,759.37	187,925.00	196,480.84	1,873,456.61	1,698,800.00	1,661,203.30
NONREGULATED OPERATING REVENUE	(10,914.23)	(16,051.15)	(34,278.70)	(124,772.87)	(144,475.35)	(135,987.59)
	1,514,436.63	1,488,651.85	1,416,333.41	12,531,269.58	13,032,284.65	12,168,561.68
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,616.00)	(2,500.00)	(22,500.00)	(23,649.00)	(23,067.43)
TOTAL OPERATING REVENUES	1,511,936.63	1,486,035.85	1,413,833.41	12,508,769.58	13,008,635.65	12,145,494.25
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS	(245,427.28)	(268,880.00)	(302,983.85)	(2,364,521.15)	(2,480,473.00)	(2,459,446.85)
PLANT NONSPECIFIC OPERATIONS	(201,980.18)	(170,711.00)	(208,758.02)	(1,623,744.03)	(1,596,642.00)	(1,556,581.85)
PROVISION FOR DEPRECIATION	(488,906.31)	(452,186.00)	(451,813.72)	(4,242,425.06)	(4,069,674.00)	(3,936,844.82)
CUSTOMER OPERATIONS EXPENSE	(218,671.95)	(184,191.00)	(258,317.51)	(1,597,910.08)	(1,666,514.00)	(1,630,278.15)
CORPORATE OPERATIONS EXPENSE	(186,631.41)	(204,431.00)	(222,777.72)	(1,905,917.44)	(1,885,564.00)	(1,905,110.40)
OPERATING TAXES	(42,728.00)	(42,149.00)	(39,461.00)	(385,279.67)	(379,341.00)	(351,982.00)
TOTAL OPERATING EXPENSES	(1,384,345.13)	(1,322,458.00)	(1,484,111.82)	(12,119,797.43)	(12,078,208.00)	(11,840,244.07)
OPERATING INCOME	127,591.50	163,577.85	(70,278.41)	388,972.15	930,427.65	305,250.18
OTHER INCOME (EXPENSE):						
INTEREST/DIVIDEND/AFUDC INCOME	20,227.65	23,462.00	33,915.25	201,406.90	211,158.00	209,242.84
NONOPERATING INCOME (EXPENSE)	4,800.53	1,700.66	1,913.27	18,616.66	15,305.94	15,046.05
NONREGULATED INCOME (EXPENSE)	(15,324.95)	9,211.07	7,436.79	(119,788.96)	82,899.63	74,535.17
TOTAL OTHER INCOME (LOSS)	9,703.22	34,373.73	43,265.31	100,234.60	309,363.57	298,824.06
FIXED CHARGES						
INTEREST EXPENSE	(121,709.38)	(114,068.00)	(93,189.35)	(797,305.29)	(936,612.00)	(721,104.77)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	15,585.34	83,883.58	(120,202.45)	(308,098.54)	303,179.22	(117,030.53)

#01 North Central Telephone Coop.

SEP 07=CGL211*

RUN/DATE-10/05/07 TIME-11:49 BY-WKM

PAGE-01

NCTC-BALANCE SHEET AT SEPTEMBER 30, 2007

	CURRENT YTD
ASSETS	
CURRENT ASSETS	
CASH-GENERAL	3,738,472.27
CASH-CONSTRUCTION FUND	354,261.81
TEMPORARY CASH INVESTMENTS	2,050,000.00
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,083,704.72
OTHER ACCOUNTS RECEIVABLE	48,881.16
NOTES RECEIVABLE	17,594.76
PREPAYMENTS	61,152.23
MATERIALS AND SUPPLIES	<u>348,650.90</u>
TOTAL CURRENT ASSETS	7,702,717.85
NONCURRENT ASSETS	
INVESTMENTS	21,409,045.99
NONREGULATED INVESTMENTS	<u>1,563,880.64</u>
TOTAL NONCURRENT ASSETS	22,972,926.63
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	85,132,378.47
TELECOM PLANT UNDER CONST	10,560,474.04
LESS ACCUMULATED DEPRECIATION	<u>(49,224,942.38)</u>
TOTAL PROP, PLANT & EQUIP	<u>46,467,910.13</u>
TOTAL ASSETS	77,143,554.61

#01 North Central Telephone Coop.

SEP 07*CGL211*

RUN/DATE-10/05/07 TIME-11:49 BY-WKM

PAGE-02

NCTC-BALANCE SHEET AT SEPTEMBER 30, 2007

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(486,714.71)
CUSTOMER DEPOSITS	(428,572.88)
DUE TO AFFILIATED COS	(1,627,257.66)
ACCRUED LIABILITIES	(3,038,646.63)
ADVANCED BILLINGS	<u>(120,242.19)</u>
TOTAL CURRENT LIABILITIES	(5,701,434.07)
LONG-TERM LIABILITIES	
FAS106 POSTRETIREMENT BENEFIT	<u>(1,387,242.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(1,387,242.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(29,705,584.19)</u>
TOTAL LONG-TERM DEBT	<u>(29,705,584.19)</u>
TOTAL LIABILITIES	(36,794,260.26)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,657,392.89)
2007 NET INCOME	<u>308,098.54</u>
TOTAL MEMBERS' EQUITY	<u>(40,349,294.35)</u>
TOTAL LIAB & MEMBERS' EQUITY	(77,143,554.61)

#01 North Central Telephone Coop.

NCTC-INCOME STATEMENT FOR MONTH ENDED AUG 31,2007

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	400,423.64	473,975.00	361,314.12	3,182,638.15	3,463,742.00	2,902,219.17
NETWORK ACCESS SERVICE REVENUE	511,510.81	522,595.00	460,790.22	4,170,306.48	4,124,206.00	4,123,685.77
LONG DISTANCE NETWORK SVC REV	418,900.35	321,981.00	446,407.43	2,106,049.72	2,573,234.00	2,363,349.76
MISCELLANEOUS REVENUE	237,708.49	188,494.00	193,523.57	1,671,697.24	1,510,875.00	1,464,722.46
UNREGULATED OPERATING REVENUE	(24,161.61)	(16,951.15)	(10,312.99)	(113,858.64)	(128,424.20)	(101,708.89)
	1,544,381.68	1,490,093.85	1,451,722.35	11,016,832.95	11,543,632.80	10,752,228.27
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,624.00)	(2,500.00)	(20,000.00)	(21,033.00)	(20,567.43)
TOTAL OPERATING REVENUES	1,541,881.68	1,487,469.85	1,449,222.35	10,996,832.95	11,522,599.80	10,731,660.84
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS	(339,832.75)	(305,785.00)	(292,880.42)	(2,119,093.87)	(2,211,593.00)	(2,156,463.00)
PLANT NONSPECIFIC OPERATIONS	(234,227.30)	(197,861.00)	(161,870.27)	(1,421,763.85)	(1,425,931.00)	(1,347,823.83)
PROVISION FOR DEPRECIATION	(480,197.95)	(452,186.00)	(450,243.62)	(3,753,518.75)	(3,617,488.00)	(3,485,031.10)
CUSTOMER OPERATIONS EXPENSE	(165,847.33)	(213,905.00)	(140,113.61)	(1,379,238.13)	(1,482,413.00)	(1,371,960.64)
CORPORATE OPERATIONS EXPENSE	(238,466.57)	(227,664.00)	(211,196.09)	(1,719,286.03)	(1,681,133.00)	(1,682,332.68)
OPERATING TAXES	(42,779.00)	(42,149.00)	(39,375.00)	(342,551.67)	(337,192.00)	(312,521.00)
TOTAL OPERATING EXPENSES	(1,521,350.90)	(1,439,550.00)	(1,295,679.01)	(10,735,452.30)	(10,755,750.00)	(10,356,132.25)
OPERATING INCOME	20,530.78	47,919.85	153,543.34	261,380.65	766,849.80	375,528.59
OTHER INCOME (EXPENSE):						
INTEREST/DIVIDEND/AFUDC INCOME	6,424.22	23,462.00	22,539.37	181,179.25	187,696.00	175,327.59
NONOPERATING INCOME (EXPENSE)	1,953.93	1,700.66	1,841.84	13,916.13	13,605.28	13,132.78
NONREGULATED INCOME (EXPENSE)	(15,482.95)	9,211.07	7,987.05	(104,464.00)	73,688.56	67,098.38
TOTAL OTHER INCOME (LOSS)	(7,104.80)	34,373.73	31,468.26	90,531.38	274,989.84	255,558.75
FIXED CHARGES						
INTEREST EXPENSE	(124,615.84)	(111,568.00)	(91,505.49)	(675,595.91)	(822,544.00)	(627,915.42)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	(111,189.86)	(29,274.42)	93,506.11	(323,683.88)	219,295.64	3,171.92

#01 North Central Telephone Coop.

AUG 07*CGL211*

RUN/DATE- 9/10/07 TIME-12:44 BY-WKM

PAGE-01

NCIC-BALANCE SHEET AT AUGUST 31, 2007

CURRENT
YTD

ASSETS

CURRENT ASSETS

CASH-GENERAL	3,361,423.49
CASH-CONSTRUCTION FUND	354,261.81
TEMPORARY CASH INVESTMENTS	2,050,000.00
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,016,747.36
OTHER ACCOUNTS RECEIVABLE	203,050.23
NOTES RECEIVABLE	18,056.35
PREPAYMENTS	113,911.89
MATERIALS AND SUPPLIES	<u>313,186.57</u>

TOTAL CURRENT ASSETS 7,430,637.70

NONCURRENT ASSETS

INVESTMENTS	21,409,045.99
NONREGULATED INVESTMENTS	<u>1,588,038.79</u>

TOTAL NONCURRENT ASSETS 22,997,084.78

PROPERTY, PLANT & EQUIPMENT

TELECOM PLANT IN SERVICE	84,941,031.25
TELECOM PLANT UNDER CONST	10,540,680.16
LESS ACCUMULATED DEPRECIATION	<u>(48,782,988.21)</u>

TOTAL PROP, PLANT & EQUIP 46,698,723.20

TOTAL ASSETS 77,126,445.68

#01 North Central Telephone Coop.

AUG 07*CGL211* RUN/DATE- 9/10/07 TIME-12:44 BY-WKM

PAGE-02

NCIC-BALANCE SHEET AT AUGUST 31, 2007

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(511,437.09)
CUSTOMER DEPOSITS	(439,247.88)
DUE TO AFFILIATED COS	(1,622,226.99)
ACCRUED LIABILITIES	(2,868,322.44)
ADVANCED BILLINGS	<u>(120,242.19)</u>
TOTAL CURRENT LIABILITIES	(5,561,476.59)
LONG-TERM LIABILITIES	
FAS106 POSTRETIREMENT BENEFIT	<u>(1,307,242.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(1,307,242.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(29,924,018.08)</u>
TOTAL LONG-TERM DEBT	<u>(29,924,018.08)</u>
TOTAL LIABILITIES	(36,792,736.67)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,657,392.89)
2007 NET INCOME	<u>323,683.88</u>
TOTAL MEMBERS' EQUITY	<u>(40,333,709.01)</u>
TOTAL LIAB & MEMBERS' EQUITY	(77,126,445.68)

PAGE-01

JUL 07*06L211* RUN/DATE- 8/17/07 TIME-13:07 BK-WRR

#01 North Central Telephone Coop.

NCIC-INCOME STATEMENT FOR MONTH ENDED JULY 31, 2007

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	400,718.03	474,567.00	362,887.19	2,782,214.51	2,989,767.00	2,540,905.05
NETWORK ACCESS SERVICE REVENUE	499,791.60	520,603.00	504,057.46	3,658,795.67	3,601,611.00	3,662,855.55
LONG DISTANCE NETWORK SVC REV	254,592.80	321,568.00	190,217.87	1,687,149.37	2,252,153.00	1,916,942.33
MISCELLANEOUS REVENUE	204,078.12	188,804.00	191,741.73	1,435,968.75	1,322,361.00	1,271,198.89
NONREGULATED OPERATING REVENUES	(3,061.18)	(16,051.15)	(11,174.79)	(89,597.03)	(112,373.05)	(91,395.90)
	1,356,119.37	1,489,490.85	1,237,729.46	9,472,451.27	10,053,538.95	9,300,505.92
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,628.00)	(2,500.00)	(17,500.00)	(18,409.00)	(18,067.43)
TOTAL OPERATING REVENUES	1,353,619.37	1,486,862.85	1,235,229.46	9,454,951.27	10,035,129.95	9,282,438.49
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS	(291,420.13)	(269,568.00)	(282,003.39)	(1,779,261.12)	(1,905,808.00)	(1,863,582.58)
PLANT NONSPECIFIC OPERATIONS	(174,501.30)	(171,537.00)	(175,536.15)	(1,187,536.55)	(1,228,070.00)	(1,185,953.56)
PROVISION FOR DEPRECIATION	(477,219.63)	(452,186.00)	(449,613.54)	(3,273,320.80)	(3,165,302.00)	(3,034,787.48)
CUSTOMER OPERATIONS EXPENSE	(174,276.61)	(184,101.00)	(153,161.30)	(1,193,390.80)	(1,268,508.00)	(1,231,847.03)
CORPORATE OPERATIONS EXPENSE	(195,699.24)	(204,431.00)	(194,529.18)	(1,480,819.46)	(1,453,469.00)	(1,471,136.59)
OPERATING TAXES	(42,766.00)	(42,149.00)	(39,403.00)	(299,772.67)	(295,043.00)	(273,146.00)
TOTAL OPERATING EXPENSES	(1,355,882.91)	(1,323,972.00)	(1,294,246.56)	(9,214,101.40)	(9,316,200.00)	(9,060,453.24)
OPERATING INCOME	(2,263.54)	162,890.85	(59,017.10)	240,849.87	718,929.95	221,985.25
OTHER INCOME (EXPENSE):						
INTEREST/DIVIDEND/AFUDC INCOME	31,388.92	23,462.00	20,293.49	174,755.03	164,234.00	152,788.22
NONOPERATING INCOME (EXPENSE)	1,982.31	1,700.66	(1,071.57)	11,862.20	11,904.62	11,290.94
NONREGULATED INCOME (EXPENSE)	(16,284.36)	9,211.07	6,508.77	(88,981.05)	64,477.49	60,011.33
TOTAL OTHER INCOME (LOSS)	17,086.87	34,373.73	25,730.69	97,636.18	240,616.11	224,090.49
FIXED CHARGES						
INTEREST EXPENSE	(47,202.00)	(109,068.00)	(66,439.80)	(550,980.07)	(710,976.00)	(536,469.93)
EXCISE TAX REUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	(32,378.67)	88,196.58	(99,726.21)	(212,494.02)	248,570.06	(90,334.19)

#01 North Central Telephone Coop.

JUL 07*OGL211*

RUN/DATE- 8/17/07 TIME-13:10 BY-WKM

PAGE-01

NCTC-BALANCE SHEET AT JULY 31, 2007

	CURRENT YTD
ASSETS	
CURRENT ASSETS	
CASH-GENERAL	3,392,624.80
CASH-CONSTRUCTION FUND	11,424.97
TEMPORARY CASH INVESTMENTS	2,050,000.00
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,005,427.14
OTHER ACCOUNTS RECEIVABLE	38,175.15
NOTES RECEIVABLE	18,514.12
PREPAYMENTS	180,439.48
MATERIALS AND SUPPLIES	<u>322,027.90</u>
TOTAL CURRENT ASSETS	7,018,633.56
NONCURRENT ASSETS	
INVESTMENTS	21,409,045.99
NONREGULATED INVESTMENTS	<u>1,609,608.25</u>
TOTAL NONCURRENT ASSETS	23,018,654.24
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	83,204,859.59
TELECOM PLANT UNDER CONST	12,155,994.25
LESS ACCUMULATED DEPRECIATION	<u>(48,732,952.35)</u>
TOTAL PROP, PLANT & EQUIP	<u>46,627,901.49</u>
TOTAL ASSETS	76,665,189.29

#01 North Central Telephone Coop.

JUL 07*OGL211*

RUN/DATE- 8/17/07 TIME-13:10 BY-WKM

PAGE-02

NCIC-BALANCE SHEET AT JULY 31, 2007

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(474,904.36)
CUSTOMER DEPOSITS	(442,447.88)
DUE TO AFFILIATED COS	(1,534,323.70)
ACCRUED LIABILITIES	(2,723,393.37)
ADVANCED BILLINGS	<u>(120,242.19)</u>
TOTAL CURRENT LIABILITIES	(5,295,311.50)
LONG-TERM LIABILITIES	
EAS106 POSTRETIREMENT BENEFIT	<u>(1,277,242.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(1,277,242.00)</u>
LONG-TERM DEBT	
RCS MORTGAGE NOTES	<u>(29,647,736.92)</u>
TOTAL LONG-TERM DEBT	<u>(29,647,736.92)</u>
TOTAL LIABILITIES	(36,220,290.42)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,657,392.89)
2007 NET INCOME	<u>212,494.02</u>
TOTAL MEMBERS' EQUITY	<u>(40,444,898.87)</u>
TOTAL LIAB & MEMBERS' EQUITY	(76,665,189.29)

PAGE-01

JUN 07*06:211* RIVIERE- 7/08/07 TIME-13:33 BY-RM

#01 North Central Telephone Corp.

NET-INCOME STATEMENT FOR MONTH ENDED JUNE 30,2007

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	400,850.80	431,630.00	362,612.71	2,381,496.48	2,515,200.00	2,178,017.86
NETWORK ACCESS SERVICE REVENUE	506,378.65	519,701.00	501,530.17	3,159,004.07	3,081,008.00	3,158,798.09
LONG DISTANCE NETWORK SVC REV	271,711.17	322,339.00	276,736.49	1,432,556.57	1,930,585.00	1,726,724.46
MISCELLANEOUS REVENUE	218,385.76	189,295.00	186,527.29	1,229,910.63	1,133,577.00	1,079,457.16
UNRECALCULATED OPERATING REVENUE	(17,385.16)	(16,052.15)	(22,032.55)	(86,635.85)	(96,321.90)	(80,221.11)
	1,379,941.24	1,446,912.85	1,315,394.11	8,116,331.90	8,564,088.10	8,062,776.46
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,635.00)	(2,169.91)	(15,000.00)	(15,781.00)	(15,567.43)
TOTAL OPERATING REVENUES	1,377,441.24	1,444,277.85	1,313,224.20	8,101,331.90	8,548,267.10	8,047,209.03
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS	(278,937.39)	(267,953.00)	(283,976.88)	(1,487,840.99)	(1,636,240.00)	(1,581,579.19)
PLANT NONSPECIFIC OPERATIONS	(172,017.35)	(171,997.00)	(179,146.38)	(1,013,035.25)	(1,056,533.00)	(1,010,417.41)
PROVISION FOR DEPRECIATION	(478,879.60)	(452,186.00)	(446,704.97)	(2,796,101.17)	(2,713,116.00)	(2,585,173.94)
CUSTOMER OPERATIONS EXPENSE	(166,532.42)	(175,767.00)	(177,802.97)	(1,019,114.19)	(1,084,407.00)	(1,078,685.73)
CORPORATE OPERATIONS EXPENSE	(216,529.42)	(204,431.00)	(222,853.52)	(1,285,120.22)	(1,249,038.00)	(1,276,607.41)
OPERATING TAXES	(42,797.00)	(42,149.00)	(39,751.00)	(257,006.67)	(232,894.00)	(233,743.00)
TOTAL OPERATING EXPENSES	(1,351,693.16)	(1,314,483.00)	(1,349,241.72)	(7,858,218.49)	(7,992,228.00)	(7,765,206.68)
OPERATING INCOME	25,748.06	129,794.85	(36,017.52)	243,113.41	556,039.10	281,002.35
OTHER INCOME (EXPENSE):						
INTEREST/DIVIDEND/ARDC INCOME	23,853.06	23,462.00	20,132.36	143,366.11	140,772.00	132,494.73
NONOPERATING INCOME (EXPENSE)	2,013.94	1,700.66	1,940.07	9,879.89	10,203.96	12,382.51
NONRELEASED INCOME (EXPENSE)	(16,599.14)	9,211.07	6,642.43	(72,696.69)	55,266.42	53,502.56
TOTAL OTHER INCOME (LOSS)	9,267.86	34,373.73	28,714.86	80,549.31	206,242.38	198,359.80
FIXED CHARGES						
INTEREST EXPENSE	(97,181.89)	(106,568.00)	(80,834.96)	(503,778.07)	(601,908.00)	(469,370.13)
EXCESS TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	(62,165.97)	57,600.58	(88,137.64)	(180,115.35)	160,373.48	9,382.02

#01 North Central Telephone Coop.

JUN 07*CGE211*

RUN/DATE- 7/09/07 TIME-13:33 BY-W004

PAGE-01

NCIC-BALANCE SHEET AT JUNE 30, 2007

ASSETS	CURRENT YTD
CURRENT ASSETS	
CASH-GENERAL	3,679,227.13
CASH-CONSTRUCTION FUND	82,837.25
TEMPORARY CASH INVESTMENTS	2,050,000.00
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,068,962.61
OTHER ACCOUNTS RECEIVABLE	(21,733.41)
NOTES RECEIVABLE	18,968.11
PREPAYMENTS	100,064.81
MATERIALS AND SUPPLIES	<u>292,410.92</u>
TOTAL CURRENT ASSETS	7,270,737.42
NONCURRENT ASSETS	
INVESTMENTS	21,409,045.99
NONREGULATED INVESTMENTS	<u>1,628,204.18</u>
TOTAL NONCURRENT ASSETS	23,037,250.17
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	82,847,134.56
TELECOM PLANT UNDER CONST	12,116,404.69
LESS ACCUMULATED DEPRECIATION	<u>(48,269,458.83)</u>
TOTAL PROP, PLANT & EQUIP	<u>46,694,080.42</u>
TOTAL ASSETS	77,002,068.01

#01 North Central Telephone Coop.

JUN 07*05L211* RUN/DATE- 7/09/07 TIME-13:33 BX-WGM

PAGE-02

NCTC-BALANCE SHEET AT JUNE 30, 2007

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(490,934.13)
CUSTOMER DEPOSITS	(442,497.88)
DUE TO AFFILIATED COS	(1,387,921.20)
ACCURED LIABILITIES	(2,709,644.53)
ADVANCED BILLINGS	<u>(120,242.19)</u>
TOTAL CURRENT LIABILITIES	(5,151,239.93)
LONG-TERM LIABILITIES	
PAS106 POSTRETIREMENT BENEFIT	<u>(1,297,242.00)</u>
TOTAL LONG-TERM LIABILITIES	(1,297,242.00)
LONG-TERM DEBT	
RIS MORTGAGE NOTES	<u>(30,076,308.54)</u>
TOTAL LONG-TERM DEBT	(30,076,308.54)
TOTAL LIABILITIES	(36,524,790.47)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,657,392.89)
2007 NET INCOME	<u>180,115.35</u>
TOTAL MEMBERS' EQUITY	(40,477,277.54)
TOTAL LIAB & MEMBERS' EQUITY	(77,002,068.01)

NCTC-INCOME STATEMENT FOR MONTH ENDED MAY 31, 2007

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	402,288.75	431,959.00	362,994.58	1,980,645.68	2,083,570.00	1,815,405.15
NETWORK ACCESS SERVICE REVENUE	490,047.89	517,891.00	508,035.73	2,652,625.42	2,561,307.00	2,657,247.92
LONG DISTANCE NETWORK SVC REV	207,576.80	322,611.00	310,707.91	1,160,845.40	1,608,246.00	1,449,987.97
MISCELLANEOUS REVENUE	203,146.28	189,469.00	194,447.38	1,011,524.85	944,282.00	892,929.87
NONREGULATED OPERATING REVENUE	(17,958.18)	(16,057.15)	2,067.72	(69,250.69)	(80,269.75)	(68,188.56)
	1,285,101.54	1,445,877.85	1,378,253.32	6,736,390.66	7,117,135.25	6,747,382.35
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,638.00)	(2,500.00)	(12,500.00)	(13,146.00)	(13,397.52)
TOTAL OPERATING REVENUES	1,282,601.54	1,443,239.85	1,375,753.32	6,723,890.66	7,103,989.25	6,733,984.83
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS	(273,241.84)	(268,089.00)	(290,082.16)	(1,208,903.60)	(1,368,287.00)	(1,297,602.31)
PLANT NONSPECIFIC OPERATIONS	(180,278.53)	(172,158.00)	(180,279.54)	(841,017.90)	(884,536.00)	(831,271.03)
PROVISION FOR DEPRECIATION	(473,308.74)	(452,186.00)	(427,782.31)	(2,321,221.57)	(2,260,930.00)	(2,138,468.97)
CUSTOMER OPERATIONS EXPENSE	(159,788.85)	(175,767.00)	(170,974.17)	(852,581.77)	(908,640.00)	(900,882.76)
CORPORATE OPERATIONS EXPENSE	(212,206.30)	(204,431.00)	(207,419.40)	(1,068,590.80)	(1,044,607.00)	(1,053,783.89)
OPERATING TAXES	(43,495.00)	(42,149.00)	(47,986.00)	(214,209.67)	(210,745.00)	(194,986.00)
TOTAL OPERATING EXPENSES	(1,342,319.26)	(1,314,780.00)	(1,324,523.58)	(6,506,525.31)	(6,677,745.00)	(6,416,964.36)
OPERATING INCOME	(59,717.72)	128,459.85	51,229.74	217,365.35	426,244.25	317,019.87
OTHER INCOME (EXPENSE) :						
INTEREST/DIVIDEND/AFUDC INCOME	20,651.74	23,462.00	15,482.38	119,513.05	117,310.00	112,362.37
NONOPERATING INCOME (EXPENSE)	2,055.81	1,700.66	10,667.70	7,865.95	8,503.30	10,422.44
NONREGULATED INCOME (EXPENSE)	(16,051.58)	9,211.07	6,299.81	(56,097.55)	46,055.35	46,860.13
TOTAL OTHER INCOME (LOSS)	6,655.97	34,373.73	32,449.89	71,281.45	171,868.65	169,644.94
FIXED CHARGES						
INTEREST EXPENSE	(101,444.15)	(104,068.00)	(94,791.49)	(406,596.18)	(495,340.00)	(389,135.15)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	(154,505.90)	58,765.58	(11,111.86)	(117,949.38)	102,772.90	97,529.66

NCTC-BALANCE SHEET AT MAY 31, 2007

	CURRENT YTD
ASSETS	
CURRENT ASSETS	
CASH-GENERAL	2,835,501.12
CASH-CONSTRUCTION FUND	218,376.66
TEMPORARY CASH INVESTMENTS	2,050,000.00
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,020,923.64
OTHER ACCOUNTS RECEIVABLE	69,142.74
NOTES RECEIVABLE	19,418.35
PREPAYMENTS	173,520.32
MATERIALS AND SUPPLIES	<u>313,026.38</u>
TOTAL CURRENT ASSETS	6,699,909.21
NONCURRENT ASSETS	
INVESTMENTS	21,401,650.99
NONREGULATED INVESTMENTS	<u>1,564,909.13</u>
TOTAL NONCURRENT ASSETS	22,966,560.12
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	82,576,434.76
TELECOM PLANT UNDER CONST	11,857,985.87
LESS ACCUMULATED DEPRECIATION	<u>(47,817,055.49)</u>
TOTAL PROP, PLANT & EQUIP	<u>46,617,365.14</u>
TOTAL ASSETS	76,283,834.47

NCTC-BALANCE SHEET AT MAY 31, 2007

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(547,829.12)
CUSTOMER DEPOSITS	(456,672.88)
DUE TO AFFILIATED COS	(1,153,671.05)
ACCRUED LIABILITIES	(2,571,144.44)
ADVANCED BILLINGS	<u>(120,242.19)</u>
TOTAL CURRENT LIABILITIES	(4,849,559.68)
LONG-TERM LIABILITIES	
FAS106 POSTRETIREMENT BENEFIT	<u>(1,267,242.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(1,267,242.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(29,627,589.28)</u>
TOTAL LONG-TERM DEBT	<u>(29,627,589.28)</u>
TOTAL LIABILITIES	(35,744,390.96)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,657,392.89)
2007 NET INCOME	<u>117,949.38</u>
TOTAL MEMBERS' EQUITY	<u>(40,539,443.51)</u>
TOTAL LIAB & MEMBERS' EQUITY	(76,283,834.47)

##01 North Central Telephone Coop.

NCIC-INCOME STATEMENT FOR MONTH ENDED APR 30, 2007

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	405,318.07	431,959.00	363,819.73	1,578,356.93	1,651,611.00	1,452,410.57
NETWORK ACCESS SERVICE REVENUE	563,052.25	515,513.00	536,852.80	2,162,577.53	2,043,416.00	2,149,212.19
LONG DISTANCE NETWORK SVC REV	233,089.93	322,611.00	305,337.86	953,268.60	1,285,635.00	1,139,280.06
MISCELLANEOUS REVENUE	223,249.91	189,469.00	185,470.61	808,378.57	754,813.00	698,482.49
NONREGULATED OPERATING REVENUE	(10,903.77)	(16,053.15)	(27,926.46)	(51,292.51)	(64,217.60)	(70,256.28)
	1,414,706.39	1,443,498.85	1,363,554.54	5,451,289.12	5,671,257.40	5,369,129.03
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,638.00)	(2,500.00)	(10,000.00)	(10,508.00)	(10,897.52)
TOTAL OPERATING REVENUES	1,412,206.39	1,440,860.85	1,361,054.54	5,441,289.12	5,660,749.40	5,358,231.51
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS	(298,044.51)	(268,089.00)	(335,866.79)	(935,661.76)	(1,100,198.00)	(1,007,520.15)
PLANT NONSPECIFIC OPERATIONS	(172,771.56)	(172,158.00)	(174,016.24)	(660,739.37)	(712,378.00)	(650,991.49)
PROVISION FOR DEPRECIATION	(471,110.66)	(452,186.00)	(429,942.73)	(1,847,912.83)	(1,808,744.00)	(1,710,686.66)
CUSTOMER OPERATIONS EXPENSE	(167,604.10)	(175,767.00)	(164,573.39)	(692,792.92)	(732,873.00)	(729,908.59)
CORPORATE OPERATIONS EXPENSE	(215,650.41)	(204,431.00)	(177,214.99)	(856,384.50)	(840,176.00)	(846,334.49)
OPERATING TAXES	(42,862.00)	(42,149.00)	(36,750.00)	(170,714.67)	(168,596.00)	(147,000.00)
TOTAL OPERATING EXPENSES	(1,368,043.24)	(1,314,780.00)	(1,318,364.14)	(5,164,206.05)	(5,362,965.00)	(5,092,441.38)
OPERATING INCOME	44,163.15	126,080.85	42,690.40	277,083.07	297,784.40	265,790.13
OTHER INCOME (EXPENSE) :						
INTEREST/DIVIDEND/AFUDC INCOME	28,426.12	23,462.00	27,396.84	98,861.31	93,848.00	96,879.99
NONOPERATING INCOME (EXPENSE)	(474.62)	1,700.66	(3,894.72)	5,810.14	6,802.64	(245.26)
NONREGULATED INCOME (EXPENSE)	(14,646.32)	9,211.07	7,012.87	(40,045.97)	36,844.28	40,560.32
TOTAL OTHER INCOME (LOSS)	13,305.18	34,373.73	30,514.99	64,625.48	137,494.92	137,195.05
FIXED CHARGES						
INTEREST EXPENSE	(9,132.39)	(101,568.00)	(70,053.28)	(305,152.03)	(391,272.00)	(294,343.66)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	48,335.94	58,886.58	3,152.11	36,556.52	44,007.32	108,641.52

NCTC-BALANCE SHEET AT APRIL 30, 2007

ASSETS	CURRENT YTD
CURRENT ASSETS	
CASH-GENERAL	3,552,674.50
CASH-CONSTRUCTION FUND	296,192.54
TEMPORARY CASH INVESTMENTS	2,049,932.93
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	989,201.91
OTHER ACCOUNTS RECEIVABLE	76,048.86
NOTES RECEIVABLE	19,864.86
PREPAYMENTS	233,472.08
MATERIALS AND SUPPLIES	<u>316,435.24</u>
TOTAL CURRENT ASSETS	7,533,822.92
NONCURRENT ASSETS	
INVESTMENTS	21,401,650.99
NONREGULATED INVESTMENTS	<u>1,576,380.28</u>
TOTAL NONCURRENT ASSETS	22,978,031.27
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	82,184,616.92
TELECOM PLANT UNDER CONST	11,405,446.82
LESS ACCUMULATED DEPRECIATION	<u>(47,441,848.05)</u>
TOTAL PROP, PLANT & EQUIP	<u>46,148,215.69</u>
TOTAL ASSETS	76,660,069.88

NCIC-BALANCE SHEET AT APRIL 30, 2007

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(492,269.66)
CUSTOMER DEPOSITS	(452,022.88)
DUE TO AFFILIATED COS	(1,403,159.02)
ACCRUED LIABILITIES	(2,433,157.59)
ADVANCED BILLINGS	<u>(120,242.19)</u>
TOTAL CURRENT LIABILITIES	(4,900,851.34)
LONG-TERM LIABILITIES	
FAS106 POSTRETIREMENT BENEFIT	<u>(1,237,242.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(1,237,242.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(29,828,027.13)</u>
TOTAL LONG-TERM DEBT	<u>(29,828,027.13)</u>
TOTAL LIABILITIES	(35,966,120.47)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,657,392.89)
2007 NET INCOME	<u>(36,556.52)</u>
TOTAL MEMBERS' EQUITY	<u>(40,693,949.41)</u>
TOTAL LIAB & MEMBERS' EQUITY	(76,660,069.88)

#01 North Central Telephone Coop.

NCTC-INCOME STATEMENT FOR MONTH ENDED MAR 31, 2007

LAST YEAR YTD

BUDGET YTD

YEAR TO DATE

LAST YEAR MONTH

BUDGET MONTH

CURRENT MONTH

LAST YEAR MONTH

BUDGET MONTH

CURRENT MONTH

LAST YEAR YTD

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	407,647.55	430,084.00	365,696.39	1,173,038.86	1,219,652.00	1,088,590.84
NETWORK ACCESS SERVICE REVENUE	526,405.67	511,437.00	566,157.57	1,599,525.28	1,527,903.00	1,612,359.39
LONG DISTANCE NETWORK SVC REV	223,578.96	321,067.00	263,287.76	720,178.67	963,024.00	833,942.20
MISCELLANEOUS REVENUE	224,179.26	188,485.00	174,410.05	585,128.66	565,344.00	513,011.88
NONREGULATED OPERATING REVENUE	(25,359.35)	(16,058.15)	(12,976.14)	(41,288.74)	(48,164.45)	(42,329.82)
	1,356,452.09	1,435,014.85	1,356,575.63	4,036,582.73	4,227,758.55	4,005,574.49
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,500.00)	(2,500.00)	(7,500.00)	(7,870.00)	(8,397.52)
TOTAL OPERATING REVENUES	1,353,952.09	1,432,514.85	1,354,075.63	4,029,082.73	4,219,888.55	3,997,176.97

OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS	(279,254.65)	(297,559.00)	(312,637.18)	(637,617.25)	(832,109.00)	(671,653.36)
PLANT NONSPECIFIC OPERATIONS	(210,972.33)	(197,851.00)	(188,195.46)	(487,967.81)	(540,220.00)	(476,975.25)
PROVISION FOR DEPRECIATION	(466,705.23)	(452,186.00)	(428,437.90)	(1,376,802.17)	(1,356,558.00)	(1,280,743.93)
CUSTOMER OPERATIONS EXPENSE	(209,051.05)	(205,572.00)	(220,627.47)	(525,188.82)	(557,106.00)	(565,335.20)
CORPORATE OPERATIONS EXPENSE	(223,301.90)	(226,883.00)	(229,301.55)	(640,734.09)	(635,745.00)	(669,119.50)
OPERATING TAXES	(42,679.00)	(42,149.00)	(36,750.00)	(127,852.67)	(126,447.00)	(110,250.00)
	(1,431,964.16)	(1,422,200.00)	(1,415,949.56)	(3,796,162.81)	(4,048,185.00)	(3,774,077.24)
TOTAL OPERATING EXPENSES	(78,012.07)	(10,190.85)	(61,873.93)	232,919.92	171,703.55	223,099.73

OTHER INCOME (EXPENSE) :						
INTEREST/DIVIDEND/AFUDC INCOME	19,818.77	23,462.00	25,248.83	70,435.19	70,386.00	69,483.15
NONOPERATING INCOME (EXPENSE)	2,101.04	1,700.66	2,137.57	6,284.76	5,101.98	3,649.46
NONREGULATED INCOME (EXPENSE)	(10,008.70)	9,211.07	10,810.41	(25,399.65)	27,633.21	33,547.45
TOTAL OTHER INCOME (LOSS)	11,911.11	34,373.73	38,196.81	51,320.30	103,121.19	106,680.06

FIXED CHARGES						
INTEREST EXPENSE	(115,287.47)	(99,068.00)	(73,209.01)	(296,019.64)	(289,704.00)	(224,290.38)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	(81,362.96)	(54,503.42)	(96,886.13)	(11,779.42)	(14,879.26)	105,489.41

NCTC-BALANCE SHEET AT MARCH 31, 2007

	CURRENT YTD
ASSETS	
CURRENT ASSETS	
CASH-GENERAL	3,423,160.74
CASH-CONSTRUCTION FUND	375,484.41
TEMPORARY CASH INVESTMENTS	2,170,000.00
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,004,334.07
OTHER ACCOUNTS RECEIVABLE	79,768.49
NOTES RECEIVABLE	20,307.68
PREPAYMENTS	107,061.52
MATERIALS AND SUPPLIES	<u>303,376.29</u>
TOTAL CURRENT ASSETS	7,483,493.20
NONCURRENT ASSETS	
INVESTMENTS	21,401,962.29
NONREGULATED INVESTMENTS	<u>1,599,671.24</u>
TOTAL NONCURRENT ASSETS	23,001,633.53
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	81,795,373.35
TELECOM PLANT UNDER CONST	11,302,726.25
LESS ACCUMULATED DEPRECIATION	<u>(47,001,065.89)</u>
TOTAL PROP, PLANT & EQUIP	<u>46,097,033.71</u>
TOTAL ASSETS	76,582,160.44

NCTC-BALANCE SHEET AT MARCH 31, 2007

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(515,080.19)
CUSTOMER DEPOSITS	(462,322.88)
DUE TO AFFILIATED COS	(1,251,049.83)
ACCRUED LIABILITIES	(2,567,085.46)
ADVANCED BILLINGS	<u>(120,242.19)</u>
TOTAL CURRENT LIABILITIES	(4,915,780.55)
LONG-TERM LIABILITIES	
FAS106 POSTRETIREMENT BENEFIT	<u>(1,257,242.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(1,257,242.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(29,763,524.42)</u>
TOTAL LONG-TERM DEBT	<u>(29,763,524.42)</u>
TOTAL LIABILITIES	(35,936,546.97)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,657,392.89)
2007 NET INCOME	<u>11,779.42</u>
TOTAL MEMBERS' EQUITY	<u>(40,645,613.47)</u>
TOTAL LIAB & MEMBERS' EQUITY	(76,582,160.44)

NCTC-INCOME STATEMENT FOR MONTH ENDED FEB 28, 2007

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	406,023.72	429,739.00	362,699.09	765,391.31	789,568.00	722,894.45
NETWORK ACCESS SERVICE REVENUE	549,918.96	509,046.00	565,396.32	1,073,119.61	1,016,466.00	1,046,201.82
LONG DISTANCE NETWORK SVC REV	250,950.97	320,782.00	283,818.28	496,599.71	641,957.00	570,654.44
MISCELLANEOUS REVENUE	206,463.96	188,305.00	174,429.23	360,949.40	376,859.00	338,601.83
NONREGULATED OPERATING REVENUE	(8,439.70)	(16,053.15)	(24,315.21)	(15,929.39)	(32,106.30)	(29,353.68)
	1,404,917.91	1,431,818.85	1,362,027.71	2,680,130.64	2,792,743.70	2,648,998.86
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,621.00)	(3,397.52)	(5,000.00)	(5,246.00)	(5,897.52)
TOTAL OPERATING REVENUES	1,402,417.91	1,429,197.85	1,358,630.19	2,675,130.64	2,787,497.70	2,643,101.34
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS	(251,103.57)	(267,177.00)	(264,823.59)	(358,362.60)	(534,550.00)	(359,016.18)
PLANT NONSPECIFIC OPERATIONS	(176,838.45)	(171,067.00)	(177,136.13)	(276,995.48)	(342,369.00)	(288,779.79)
PROVISION FOR DEPRECIATION	(455,243.08)	(452,186.00)	(426,329.46)	(910,096.94)	(904,372.00)	(852,306.03)
CUSTOMER OPERATIONS EXPENSE	(159,793.47)	(175,767.00)	(181,085.68)	(316,137.77)	(351,534.00)	(344,707.73)
CORPORATE OPERATIONS EXPENSE	(218,092.73)	(204,431.00)	(207,039.42)	(417,432.19)	(408,862.00)	(439,817.95)
OPERATING TAXES	(42,612.67)	(42,149.00)	(36,750.00)	(85,173.67)	(84,298.00)	(73,500.00)
TOTAL OPERATING EXPENSES	(1,303,583.97)	(1,312,777.00)	(1,293,164.28)	(2,364,198.65)	(2,625,985.00)	(2,358,127.68)
OPERATING INCOME	98,733.94	116,420.85	65,465.91	310,931.99	161,512.70	284,973.66
OTHER INCOME (EXPENSE) :						
INTEREST/DIVIDEND/AFUDC INCOME	23,556.51	23,462.00	21,831.30	50,616.42	46,924.00	44,234.32
NONOPERATING INCOME (EXPENSE)	2,093.89	1,700.66	(575.09)	4,183.72	3,401.32	1,511.89
NONREGULATED INCOME (EXPENSE)	(7,656.54)	9,211.07	11,302.81	(15,390.95)	18,422.14	22,737.04
TOTAL OTHER INCOME (LOSS)	17,993.86	34,373.73	32,559.02	39,409.19	68,747.46	68,483.25
FIXED CHARGES						
INTEREST EXPENSE	(108,726.93)	(96,568.00)	(75,409.18)	(180,732.17)	(190,636.00)	(151,081.37)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	8,000.87	54,226.58	22,615.75	169,609.01	39,624.16	202,375.54

NCTC-BALANCE SHEET AT FEBRUARY 28, 2007

	CURRENT YTD
ASSETS	
CURRENT ASSETS	
CASH-GENERAL	3,711,995.29
CASH-CONSTRUCTION FUND	1,446,883.31
TEMPORARY CASH INVESTMENTS	2,170,000.00
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,016,187.14
OTHER ACCOUNTS RECEIVABLE	123,956.62
NOTES RECEIVABLE	20,746.84
PREPAYMENTS	171,605.55
MATERIALS AND SUPPLIES	<u>294,979.51</u>
TOTAL CURRENT ASSETS	8,956,354.26
NONCURRENT ASSETS	
INVESTMENTS	21,398,222.44
NONREGULATED INVESTMENTS	<u>1,503,568.38</u>
TOTAL NONCURRENT ASSETS	22,901,790.82
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	81,321,352.05
TELECOM PLANT UNDER CONST	11,281,326.38
LESS ACCUMULATED DEPRECIATION	<u>(47,000,117.14)</u>
TOTAL PROP, PLANT & EQUIP	<u>45,602,561.29</u>
TOTAL ASSETS	77,460,706.37

NCTC-BALANCE SHEET AT FEBRUARY 28, 2007

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(512,712.39)
CUSTOMER DEPOSITS	(457,247.88)
DUE TO AFFILIATED COS	(1,459,043.08)
ACCRUED LIABILITIES	(2,850,057.76)
ADVANCED BILLINGS	<u>(120,242.19)</u>
TOTAL CURRENT LIABILITIES	(5,399,303.30)
LONG-TERM LIABILITIES	
FAS106 POSTRETIREMENT BENEFIT	<u>(1,277,242.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(1,277,242.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(29,957,159.17)</u>
TOTAL LONG-TERM DEBT	<u>(29,957,159.17)</u>
TOTAL LIABILITIES	(36,633,704.47)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,657,392.89)
2007 NET INCOME	<u>(169,609.01)</u>
TOTAL MEMBERS' EQUITY	<u>(40,827,001.90)</u>
TOTAL LIAB & MEMBERS' EQUITY	(77,460,706.37)

NCTC- INCOME STATEMENT FOR MONTH ENDED JAN 31, 2007

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	359,367.59	359,829.00	360,195.36	359,367.59	359,829.00	360,195.36
NETWORK ACCESS SERVICE REVENUE	523,200.65	507,420.00	480,805.50	523,200.65	507,420.00	480,805.50
LONG DISTANCE NETWORK SVC REV	245,648.74	321,175.00	286,836.16	245,648.74	321,175.00	286,836.16
MISCELLANEOUS REVENUE	154,485.44	188,554.00	164,172.60	154,485.44	188,554.00	164,172.60
NONREGULATED OPERATING REVENUE	(7,489.69)	(16,053.15)	(5,038.47)	(7,489.69)	(16,053.15)	(5,038.47)
	1,275,212.73	1,360,924.85	1,286,971.15	1,275,212.73	1,360,924.85	1,286,971.15
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,625.00)	(2,500.00)	(2,500.00)	(2,625.00)	(2,500.00)
TOTAL OPERATING REVENUES	1,272,712.73	1,358,299.85	1,284,471.15	1,272,712.73	1,358,299.85	1,284,471.15
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS	(107,259.03)	(267,373.00)	(94,192.59)	(107,259.03)	(267,373.00)	(94,192.59)
PLANT NONSPECIFIC OPERATIONS	(100,157.03)	(171,302.00)	(111,643.66)	(100,157.03)	(171,302.00)	(111,643.66)
PROVISION FOR DEPRECIATION	(454,853.86)	(452,186.00)	(425,976.57)	(454,853.86)	(452,186.00)	(425,976.57)
CUSTOMER OPERATIONS EXPENSE	(156,344.30)	(175,767.00)	(163,622.05)	(156,344.30)	(175,767.00)	(163,622.05)
CORPORATE OPERATIONS EXPENSE	(199,339.46)	(204,431.00)	(232,778.53)	(199,339.46)	(204,431.00)	(232,778.53)
OPERATING TAXES	(42,561.00)	(42,149.00)	(36,750.00)	(42,561.00)	(42,149.00)	(36,750.00)
TOTAL OPERATING EXPENSES	(1,060,514.68)	(1,313,208.00)	(1,064,963.40)	(1,060,514.68)	(1,313,208.00)	(1,064,963.40)
OPERATING INCOME	212,198.05	45,091.85	219,507.75	212,198.05	45,091.85	219,507.75
OTHER INCOME (EXPENSE) :						
INTEREST/DIVIDEND/AFUDC INCOME	27,059.91	23,462.00	22,403.02	27,059.91	23,462.00	22,403.02
NONOPERATING INCOME (EXPENSE)	2,089.83	1,700.66	2,086.98	2,089.83	1,700.66	2,086.98
NONREGULATED INCOME (EXPENSE)	(7,734.41)	9,211.07	11,434.23	(7,734.41)	9,211.07	11,434.23
TOTAL OTHER INCOME (LOSS)	21,415.33	34,373.73	35,924.23	21,415.33	34,373.73	35,924.23
FIXED CHARGES						
INTEREST EXPENSE	(72,005.24)	(94,068.00)	(75,672.19)	(72,005.24)	(94,068.00)	(75,672.19)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	161,608.14	(14,602.42)	179,759.79	161,608.14	(14,602.42)	179,759.79

NCTC-BALANCE SHEET AT JANUARY 31, 2007

ASSETS	CURRENT YTD
CURRENT ASSETS	
CASH-GENERAL	3,342,303.98
CASH-CONSTRUCTION FUND	886,620.12
TEMPORARY CASH INVESTMENTS	2,573,559.67
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	930,620.27
OTHER ACCOUNTS RECEIVABLE	87,786.23
NOTES RECEIVABLE	21,182.38
PREPAYMENTS	222,664.56
MATERIALS AND SUPPLIES	<u>283,849.83</u>
TOTAL CURRENT ASSETS	8,348,587.04
NONCURRENT ASSETS	
INVESTMENTS	21,398,222.44
NONREGULATED INVESTMENTS	<u>1,514,296.17</u>
TOTAL NONCURRENT ASSETS	22,912,518.61
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	79,889,783.94
TELECOM PLANT UNDER CONST	12,660,138.54
LESS ACCUMULATED DEPRECIATION	<u>(47,106,233.48)</u>
TOTAL PROP, PLANT & EQUIP	<u>45,443,689.00</u>
TOTAL ASSETS	76,704,794.65

NCTC-BALANCE SHEET AT JANUARY 31, 2007

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(508,024.89)
CUSTOMER DEPOSITS	(449,752.91)
DUE TO AFFILIATED COS	(1,406,343.28)
ACCRUED LIABILITIES	(3,066,576.72)
ADVANCED BILLINGS	<u>(120,242.19)</u>
TOTAL CURRENT LIABILITIES	(5,550,939.99)
LONG-TERM LIABILITIES	
FAS106 POSTRETIREMENT BENEFIT	<u>(1,247,242.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(1,247,242.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(29,087,611.63)</u>
TOTAL LONG-TERM DEBT	<u>(29,087,611.63)</u>
TOTAL LIABILITIES	(35,885,793.62)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,657,392.89)
2007 NET INCOME	<u>(161,608.14)</u>
TOTAL MEMBERS' EQUITY	<u>(40,819,001.03)</u>
TOTAL LIAB & MEMBERS' EQUITY	(76,704,794.65)

NCTC-INCOME STATEMENT FOR MONTH ENDED DEC 31, 2006

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	361,666.86	357,878.00	359,292.48	4,346,781.06	4,317,005.00	4,345,689.73
NETWORK ACCESS SERVICE REVENUE	515,277.94	651,936.00	550,223.22	6,165,199.18	7,402,117.00	6,441,513.93
LONG DISTANCE NETWORK SVC REV	339,657.02	324,170.00	266,702.40	3,550,203.74	3,910,387.00	3,748,148.37
MISCELLANEOUS REVENUE	261,771.22	175,954.00	351,727.09	2,299,129.95	2,122,620.00	2,243,490.17
NONREGULATED OPERATING REVENUE	(122,910.04)	(9,818.83)	(86,829.42)	(329,661.41)	(117,825.96)	(177,045.16)
	1,355,463.00	1,500,119.17	1,441,115.77	16,031,652.52	17,634,303.04	16,601,797.04
LESS UNCOLLECTIBLE REVENUES	(82,500.00)	(2,846.00)	(2,500.00)	(110,567.43)	(34,325.00)	(32,925.94)
TOTAL OPERATING REVENUES	1,272,963.00	1,497,273.17	1,438,615.77	15,921,085.09	17,599,978.04	16,568,871.10
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS	(613,120.99)	(293,668.00)	(559,094.78)	(3,592,504.16)	(3,571,699.00)	(3,527,732.00)
PLANT NONSPECIFIC OPERATIONS	(347,639.59)	(169,317.00)	(229,120.73)	(2,236,699.46)	(2,102,491.00)	(2,038,797.52)
PROVISION FOR DEPRECIATION	(454,521.93)	(478,297.00)	(423,618.31)	(5,298,920.69)	(5,541,564.00)	(5,089,962.32)
CUSTOMER OPERATIONS EXPENSE	(327,440.03)	(195,765.00)	(231,873.23)	(2,263,832.31)	(2,418,992.00)	(2,328,210.14)
CORPORATE OPERATIONS EXPENSE	(387,212.44)	(212,414.00)	(232,879.80)	(2,718,772.00)	(2,504,900.00)	(2,463,873.18)
OPERATING TAXES	40,309.01	(36,789.00)	33,179.11	(390,636.99)	(441,468.00)	(371,463.34)
TOTAL OPERATING EXPENSES	(2,089,625.97)	(1,386,250.00)	(1,643,407.74)	(16,501,365.61)	(16,581,114.00)	(15,820,038.50)
OPERATING INCOME	(816,662.97)	111,023.17	(204,791.97)	(580,280.52)	1,018,864.04	748,832.60
OTHER INCOME (EXPENSE):						
GAIN ON SALE OF LAND	.00	.00	.00	.00	.00	109,364.50
INTEREST/DIVIDEND/AFUDC INCOME	28,965.94	27,705.76	22,672.92	287,197.50	332,469.12	323,149.82
NONOPERATING INCOME (EXPENSE)	1,626,568.35	2,039.90	707,318.70	1,645,617.28	24,478.80	729,704.02
NONREGULATED INCOME (EXPENSE)	7,952.89	11,075.51	(28,613.88)	107,877.21	132,947.04	92,574.47
TOTAL OTHER INCOME (LOSS)	1,663,487.18	40,821.17	701,377.74	2,040,691.99	489,894.96	1,254,792.81
FIXED CHARGES						
INTEREST EXPENSE	(52,313.23)	(104,560.00)	(65,432.00)	(996,478.14)	(1,115,740.00)	(927,181.76)
EXCISE TAX REFUNDABLE	(12,168.94)	.00	11,403.20	(12,168.94)	.00	11,403.20
NET INCOME (LOSS)	782,342.04	47,284.34	442,556.97	451,764.39	393,019.00	1,087,846.85

NCIC-BALANCE SHEET AT DECEMBER 31, 2006

	CURRENT YTD
ASSETS	
CURRENT ASSETS	
CASH-GENERAL	3,849,653.12
CASH-CONSTRUCTION FUND	1,205,492.66
TEMPORARY CASH INVESTMENTS	2,572,678.86
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,031,351.39
OTHER ACCOUNTS RECEIVABLE	84,777.27
NOTES RECEIVABLE	21,614.32
PREPAYMENTS	113,719.44
MATERIALS AND SUPPLIES	<u>267,837.03</u>
TOTAL CURRENT ASSETS	9,147,124.09
NONCURRENT ASSETS	
INVESTMENTS	21,386,767.45
NONREGULATED INVESTMENTS	<u>1,531,258.12</u>
TOTAL NONCURRENT ASSETS	22,918,025.57
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	79,856,576.48
TELECOM PLANT UNDER CONST	13,372,093.47
LESS ACCUMULATED DEPRECIATION	<u>(46,660,811.82)</u>
TOTAL PROP, PLANT & EQUIP	<u>46,567,858.13</u>
TOTAL ASSETS	78,633,007.79

NCTC-BALANCE SHEET AT DECEMBER 31, 2006

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(2,161,497.71)
CUSTOMER DEPOSITS	(447,802.91)
DUE TO AFFILIATED COS	(1,256,957.65)
ACCRUED LIABILITIES	(3,283,940.40)
ADVANCED BILLINGS	<u>(120,242.19)</u>
TOTAL CURRENT LIABILITIES	(7,270,440.86)
LONG-TERM LIABILITIES	
FAS106 POSTRETIREMENT BENEFIT	<u>(1,217,242.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(1,217,242.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(29,487,932.04)</u>
TOTAL LONG-TERM DEBT	<u>(29,487,932.04)</u>
TOTAL LIABILITIES	(37,975,614.90)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,205,628.50)
2006 NET INCOME	<u>(451,764.39)</u>
TOTAL MEMBERS' EQUITY	<u>(40,657,392.89)</u>
TOTAL LIAB & MEMBERS' EQUITY	(78,633,007.79)

NETC-INCOME STATEMENT FOR MONTH ENDED NOV 30, 2006

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	359,178.09	359,039.00	360,687.72	3,985,114.20	3,959,127.00	3,986,397.25
NETWORK ACCESS SERVICE REVENUE	498,837.80	646,770.00	534,759.72	5,649,921.24	6,750,181.00	5,891,290.71
LONG DISTANCE NETWORK SVC REV	231,499.90	325,221.00	292,270.18	3,210,546.72	3,586,217.00	3,481,445.97
MISCELLANEOUS REVENUE	183,883.01	176,531.00	172,644.10	2,037,358.73	1,946,666.00	1,891,763.08
NONREGULATED OPERATING REVENUE	(46,199.96)	(9,818.83)	(8,027.47)	(206,751.37)	(108,007.13)	(90,215.74)
	1,227,198.84	1,497,742.17	1,352,334.25	14,676,189.52	16,134,183.87	15,160,681.27
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,855.00)	(2,500.00)	(28,067.43)	(31,479.00)	(30,425.94)
TOTAL OPERATING REVENUES	1,224,698.84	1,494,887.17	1,349,834.25	14,648,122.09	16,102,704.87	15,130,255.33
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS	(249,123.83)	(293,676.00)	(260,506.64)	(2,979,383.17)	(3,278,031.00)	(2,968,637.22)
PLANT NONSPECIFIC OPERATIONS	(163,543.73)	(169,861.00)	(161,553.30)	(1,889,059.87)	(1,933,174.00)	(1,809,676.79)
PROVISION FOR DEPRECIATION	(454,245.18)	(475,297.00)	(440,162.04)	(4,844,398.76)	(5,063,267.00)	(4,666,344.01)
CUSTOMER OPERATIONS EXPENSE	(143,639.65)	(195,765.00)	(179,905.19)	(1,936,392.28)	(2,223,227.00)	(2,096,336.91)
CORPORATE OPERATIONS EXPENSE	(218,165.37)	(242,414.00)	(233,355.28)	(2,331,559.56)	(2,292,486.00)	(2,230,993.38)
OPERATING TAXES	(39,457.00)	(36,789.00)	(36,750.00)	(430,946.00)	(404,679.00)	(404,642.45)
	(1,268,174.76)	(1,413,802.00)	(1,312,232.45)	(14,411,739.64)	(15,194,864.00)	(14,176,630.76)
TOTAL OPERATING EXPENSES	(43,475.92)	81,085.17	37,601.80	236,382.45	907,840.87	953,624.57
OPERATING INCOME						
OTHER INCOME (EXPENSE):						
GAIN ON SALE OF LAND	.00	.00	.00	.00	.00	109,364.50
INTEREST/DIVIDEND/AUDC INCOME	23,610.75	27,705.76	23,419.35	258,231.56	304,763.36	300,476.90
NONOPERATING INCOME (EXPENSE)	2,024.53	2,039.90	1,986.29	19,048.93	22,438.90	22,385.32
NONREGULATED INCOME (EXPENSE)	7,816.39	11,079.23	10,396.03	99,924.32	121,871.53	121,188.35
TOTAL OTHER INCOME (LOSS)	33,451.67	40,824.89	35,801.67	377,204.81	449,073.79	553,415.07
FIXED CHARGES						
INTEREST EXPENSE	(118,256.16)	(104,667.00)	(71,238.37)	(944,164.91)	(1,011,180.00)	(861,749.76)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	(128,280.41)	17,243.06	2,165.10	(330,577.65)	345,734.66	645,289.88

NCTC-BALANCE SHEET AT NOVEMBER 30, 2006

	CURRENT YTD
ASSETS	
CURRENT ASSETS	
CASH-GENERAL	3,795,977.83
CASH-CONSTRUCTION FUND	768,205.15
TEMPORARY CASH INVESTMENTS	2,571,803.92
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,177,352.44
OTHER ACCOUNTS RECEIVABLE	71,179.84
ADVANCES TO AFFILIATED COS	(1,269,034.69)
PREPAYMENTS	134,422.24
MATERIALS AND SUPPLIES	<u>339,163.44</u>
TOTAL CURRENT ASSETS	7,589,070.17
NONCURRENT ASSETS	
INVESTMENTS	19,746,964.17
NONREGULATED INVESTMENTS	<u>1,552,063.27</u>
TOTAL NONCURRENT ASSETS	21,299,027.44
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	79,807,923.18
TELECOM PLANT UNDER CONST	11,323,436.25
LESS ACCUMULATED DEPRECIATION	<u>(46,218,493.64)</u>
TOTAL PROP, PLANT & EQUIP	<u>44,912,865.79</u>
TOTAL ASSETS	73,800,963.40

NCTC-BALANCE SHEET AT NOVEMBER 30, 2006

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(750,631.98)
CUSTOMER DEPOSITS	(452,652.91)
ACCRUED LIABILITIES	(3,091,172.42)
ADVANCED BILLINGS	<u>(121,496.04)</u>
TOTAL CURRENT LIABILITIES	(4,415,953.35)
LONG-TERM LIABILITIES	
EAS106 POSTRETIREMENT BENEFIT	<u>(693,391.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(693,391.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(28,816,568.20)</u>
TOTAL LONG-TERM DEBT	<u>(28,816,568.20)</u>
TOTAL LIABILITIES	(33,925,912.55)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,205,628.50)
2006 NET INCOME	<u>330,577.65</u>
TOTAL MEMBERS' EQUITY	<u>(39,875,050.85)</u>
TOTAL LIAB & MEMBERS' EQUITY	(73,800,963.40)

NCTC-INCOME STATEMENT FOR MONTH ENDED OCT 31, 2006

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	361,792.77	359,203.00	362,169.03	3,625,936.11	3,600,088.00	3,625,709.53
NETWORK ACCESS SERVICE REVENUE	507,446.55	640,289.00	535,465.97	5,151,063.44	6,103,411.00	5,356,530.99
LONG DISTANCE NETWORK SVC REV	243,481.08	325,370.00	316,445.83	2,979,046.82	3,260,996.00	3,189,175.79
MISCELLANEOUS REVENUE	192,272.42	176,613.00	178,973.12	1,853,475.72	1,770,135.00	1,719,118.98
NONREGULATED OPERATING REVENUE	(24,563.82)	(9,818.83)	(9,812.46)	(160,551.41)	(98,188.30)	(92,188.27)
	1,280,429.00	1,491,656.17	1,383,241.49	13,448,990.68	14,636,441.70	13,808,347.02
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,856.00)	(2,500.00)	(25,567.43)	(28,624.00)	(27,925.94)
TOTAL OPERATING REVENUES	1,277,929.00	1,488,800.17	1,380,741.49	13,423,423.25	14,607,817.70	13,780,421.08
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS	(270,812.49)	(293,359.00)	(266,670.56)	(2,730,259.34)	(2,984,355.00)	(2,708,130.58)
PLANT NONSPECIFIC OPERATIONS	(168,934.29)	(169,938.00)	(163,154.05)	(1,725,516.14)	(1,763,313.00)	(1,648,123.49)
PROVISION FOR DEPRECIATION	(453,308.76)	(472,297.00)	(439,765.44)	(4,390,153.58)	(4,587,970.00)	(4,226,181.97)
CUSTOMER OPERATIONS EXPENSE	(162,474.48)	(195,765.00)	(165,869.77)	(1,792,752.63)	(2,027,462.00)	(1,916,431.72)
CORPORATE OPERATIONS EXPENSE	(208,283.79)	(217,414.00)	(205,095.01)	(2,113,394.19)	(2,050,072.00)	(1,997,638.10)
OPERATING TAXES	(39,507.00)	(36,789.00)	(36,750.00)	(391,489.00)	(367,890.00)	(367,892.45)
TOTAL OPERATING EXPENSES	(1,303,320.81)	(1,385,562.00)	(1,277,304.83)	(13,143,564.88)	(13,781,062.00)	(12,864,398.31)
OPERATING INCOME	(25,391.81)	103,238.17	103,436.66	279,858.37	826,755.70	916,022.77
OTHER INCOME (EXPENSE) :						
GAIN ON SALE OF LAND	.00	.00	.00	.00	.00	109,364.50
INTEREST/DIVIDEND/AFUDC INCOME	25,377.97	27,705.76	30,262.68	234,620.81	277,057.60	271,057.55
NONOPERATING INCOME (EXPENSE)	1,978.35	2,039.90	1,884.42	17,024.40	20,399.00	20,399.03
NONREGULATED INCOME (EXPENSE)	17,572.76	11,079.23	(614.89)	92,107.93	110,792.30	110,792.32
TOTAL OTHER INCOME (LOSS)	44,929.08	40,824.89	31,532.21	343,753.14	408,248.90	517,613.40
FIXED CHARGES						
INTEREST EXPENSE	(104,803.98)	(104,774.00)	(74,410.88)	(825,908.75)	(906,513.00)	(790,511.39)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	(85,266.71)	39,289.06	60,557.99	(202,297.24)	328,491.60	643,124.78

NCTC-BALANCE SHEET AT OCTOBER 31, 2006

	CURRENT YTD
ASSETS	
CURRENT ASSETS	
CASH-GENERAL	3,845,111.82
CASH-CONSTRUCTION FUND	1,496,947.42
TEMPORARY CASH INVESTMENTS	2,571,283.26
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,096,512.93
OTHER ACCOUNTS RECEIVABLE	40,770.30
ADVANCES TO AFFILIATED COS	(999,641.59)
PREPAYMENTS	180,111.20
MATERIALS AND SUPPLIES	<u>354,857.22</u>
TOTAL CURRENT ASSETS	8,585,952.56
NONCURRENT ASSETS	
INVESTMENTS	19,746,964.17
NONREGULATED INVESTMENTS	<u>1,345,877.10</u>
TOTAL NONCURRENT ASSETS	21,092,841.27
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	79,773,260.70
TELECOM PLANT UNDER CONST	10,350,538.44
LESS ACCUMULATED DEPRECIATION	<u>(45,778,071.18)</u>
TOTAL PROP, PLANT & EQUIP	<u>44,345,727.96</u>
TOTAL ASSETS	74,024,521.79

NCIC-BALANCE SHEET-AS OF OCTOBER 31, 2006

CURRENT

YTD

LIABILITIES & MEMBERS' EQUITY

CURRENT LIABILITIES

(752,860.67)
(453,377.91)
(2,952,633.67)
(121,496.04)

ACCOUNTS PAYABLE
CUSTOMER DEPOSITS
ACCRUED LIABILITIES
ADVANCED BILLINGS

TOTAL CURRENT LIABILITIES

(4,280,368.29)

LONG-TERM LIABILITIES

(743,391.00)

PS106 POSTRETIREMENT BENEFIT

(743,391.00)

TOTAL LONG-TERM LIABILITIES

LONG-TERM DEBT

(28,997,431.24)

RUS MORTGAGE NOTES

(28,997,431.24)

TOTAL LONG-TERM DEBT

TOTAL LIABILITIES

(34,021,190.53)

MEMBERS' EQUITY

.00

MEMBERSHIP

(40,205,628.50)

RETAINED EARNINGS

(40,003,331.26)

TOTAL MEMBERS' EQUITY

TOTAL LIAB & MEMBERS' EQUITY

(74,024,521.79)

OPERATING REVENUES	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
LOCAL NETWORK SERVICES REVENUE	361,924.17	359,562.00	362,419.61	3,264,143.34	3,240,885.00	3,263,540.50
NETWORK ACCESS SERVICE REVENUE	519,991.12	634,066.00	536,663.81	4,643,636.89	5,463,122.00	4,821,065.02
LONG DISTANCE NETWORK SVC REV	372,215.98	325,695.00	293,721.58	2,735,565.74	2,935,626.00	2,872,729.96
MISCELLANEOUS REVENUE	196,480.84	176,791.00	176,157.16	1,661,203.30	1,593,522.00	1,540,145.86
NONREGULATED OPERATING REVENUE	(34,278.70)	(9,818.83)	(24,874.60)	(135,987.59)	(88,369.47)	(72,375.81)
LESS UNCOLLECTIBLE REVENUES	1,416,333.41	1,486,295.17	1,344,087.56	12,168,561.68	13,144,785.53	12,425,105.53
TOTAL OPERATING REVENUES	(2,500.00)	(2,859.00)	(2,500.00)	(23,067.43)	(25,768.00)	(25,425.94)
OPERATING EXPENSES	1,413,833.41	1,483,436.17	1,341,587.56	12,145,494.25	13,119,017.53	12,399,679.59
PLANT SPECIFIC OPERATIONS	(302,983.85)	(337,313.00)	(315,436.38)	(2,459,446.85)	(2,690,996.00)	(2,441,460.02)
PLANT NONSPECIFIC OPERATIONS	(208,758.02)	(200,183.00)	(195,653.53)	(1,556,581.85)	(1,593,375.00)	(1,484,969.44)
PROVISION FOR DEPRECIATION	(451,813.72)	(469,297.00)	(431,881.45)	(3,936,844.82)	(4,115,673.00)	(3,786,416.53)
CUSTOMER OPERATIONS EXPENSE	(258,317.51)	(230,671.00)	(231,397.12)	(1,630,278.15)	(1,831,697.00)	(1,750,561.95)
CORPORATE OPERATIONS EXPENSE	(222,777.72)	(225,380.00)	(199,334.84)	(1,905,110.40)	(1,832,658.00)	(1,792,543.09)
OPERATING TAXES	(32,461.00)	(36,789.00)	(36,750.00)	(351,982.00)	(331,101.00)	(331,142.45)
TOTAL OPERATING EXPENSES	(1,484,111.82)	(1,499,633.00)	(1,410,453.32)	(11,840,244.07)	(12,395,500.00)	(11,587,093.48)
OPERATING INCOME	(70,278.41)	(16,196.83)	(68,865.76)	305,250.18	723,517.53	812,586.11
OTHER INCOME (EXPENSE):						
GAIN ON SALE OF LAND						
INTEREST/DIVIDEND/AFUDC INCOME	33,915.25	27,705.76	25,787.56	209,242.84	249,351.84	109,364.50
NONOPERATING INCOME (EXPENSE)	1,913.27	2,039.90	1,969.86	15,046.05	18,359.10	246,794.87
NONREGULATED INCOME (EXPENSE)	7,436.79	11,079.23	24,413.33	74,535.17	99,713.07	18,514.61
TOTAL OTHER INCOME (LOSS)	43,265.31	40,824.89	49,170.75	298,824.06	367,424.01	485,081.19
INTEREST EXPENSE	(93,189.35)	(97,742.00)	(78,166.35)	(721,104.77)	(801,739.00)	(716,100.51)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	(120,202.45)	(73,113.94)	(97,861.36)	(117,030.53)	289,202.54	582,566.79

NCTC-BALANCE SHEET AT SEPTEMBER 30, 2006

	CURRENT YTD
ASSETS	
CURRENT ASSETS	
CASH-GENERAL	3,552,332.39
CASH-CONSTRUCTION FUND	1,167,004.01
TEMPORARY CASH INVESTMENTS	2,770,873.13
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,253,108.34
OTHER ACCOUNTS RECEIVABLE	37,328.39
ADVANCES TO AFFILIATED COS	(849,390.72)
PREPAYMENTS	98,938.76
MATERIALS AND SUPPLIES	<u>391,367.91</u>
TOTAL CURRENT ASSETS	8,421,562.21
NONCURRENT ASSETS	
INVESTMENTS	19,746,964.17
NONREGULATED INVESTMENTS	<u>1,342,856.01</u>
TOTAL NONCURRENT ASSETS	21,089,820.18
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	79,628,659.39
TELECOM PLANT UNDER CONST	9,448,645.29
LESS ACCUMULATED DEPRECIATION	<u>(45,329,243.61)</u>
TOTAL PROP, PLANT & EQUIP	<u>43,748,061.07</u>
TOTAL ASSETS	73,259,443.46

NCTC-BALANCE SHEET AT SEPTEMBER 30, 2006

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(759,212.07)
CUSTOMER DEPOSITS	(450,402.91)
ACCRUED LIABILITIES	(2,889,674.72)
ADVANCED BILLINGS	<u>(121,496.04)</u>
TOTAL CURRENT LIABILITIES	(4,220,785.74)
LONG-TERM LIABILITIES	
PAS106 POSTRETIREMENT BENEFIT	<u>(743,391.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(743,391.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(28,206,668.75)</u>
TOTAL LONG-TERM DEBT	<u>(28,206,668.75)</u>
TOTAL LIABILITIES	(33,170,845.49)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,205,628.50)
2006 NET INCOME	<u>117,030.53</u>
TOTAL MEMBERS' EQUITY	<u>(40,088,597.97)</u>
TOTAL LIAB & MEMBERS' EQUITY	(73,259,443.46)

NCTC-INCOME STATEMENT FOR MONTH ENDED AUG 31, 2006

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	361,314.12	359,726.00	361,847.28	2,902,219.17	2,881,323.00	2,901,120.89
NETWORK ACCESS SERVICE REVENUE	460,790.22	628,581.00	515,760.88	4,123,645.77	4,829,056.00	4,284,401.21
LONG DISTANCE NETWORK SVC REV	446,407.43	325,843.00	451,920.39	2,363,349.76	2,609,931.00	2,579,008.38
MISCELLANEOUS REVENUE	193,523.57	176,872.00	173,554.35	1,464,722.46	1,416,731.00	1,363,988.70
NONREGULATED OPERATING REVENUE	(10,312.99)	(9,818.83)	(14,848.07)	(101,708.89)	(78,550.64)	(47,501.21)
	1,451,722.35	1,481,203.17	1,488,234.83	10,752,228.27	11,658,490.36	11,081,017.97
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,860.00)	(2,500.00)	(20,567.43)	(22,909.00)	(22,925.94)
TOTAL OPERATING REVENUES	1,449,222.35	1,478,343.17	1,485,734.83	10,731,660.84	11,635,581.36	11,058,092.03

OPERATING EXPENSES

PLANT SPECIFIC OPERATIONS	(292,880.42)	(292,807.00)	(286,261.21)	(2,156,463.00)	(2,353,683.00)	(2,126,023.64)
PLANT NONSPECIFIC OPERATIONS	(161,870.27)	(170,183.00)	(163,446.83)	(1,347,823.83)	(1,393,192.00)	(1,289,315.91)
PROVISION FOR DEPRECIATION	(450,243.62)	(466,297.00)	(428,404.76)	(3,485,031.10)	(3,646,376.00)	(3,354,535.08)
CUSTOMER OPERATIONS EXPENSE	(140,113.61)	(195,765.00)	(246,569.01)	(1,371,960.64)	(1,601,026.00)	(1,519,164.83)
CORPORATE OPERATIONS EXPENSE	(211,196.09)	(197,414.00)	(210,531.70)	(1,682,332.68)	(1,607,278.00)	(1,593,208.25)
OPERATING TAXES	(39,375.00)	(36,789.00)	(36,750.00)	(312,521.00)	(294,312.00)	(294,392.45)
TOTAL OPERATING EXPENSES	(1,295,679.01)	(1,359,255.00)	(1,374,963.51)	(10,356,132.25)	(10,895,867.00)	(10,176,640.16)
OPERATING INCOME	153,543.34	119,088.17	113,771.32	375,528.59	739,714.36	881,451.87

OTHER INCOME (EXPENSE) :

GAIN ON SALE OF LAND	.00	.00	.00	.00	.00	109,364.50
INTEREST/DIVIDEND/AFUDC INCOME	22,539.37	27,705.76	22,714.49	175,327.59	221,646.08	221,007.31
NONOPERATING INCOME (EXPENSE)	1,841.84	2,039.90	2,019.51	13,132.78	16,319.20	16,544.75
NONREGULATED INCOME (EXPENSE)	7,087.05	11,079.23	11,149.90	67,098.38	88,633.84	89,993.88
TOTAL OTHER INCOME (LOSS)	31,468.26	40,824.89	35,883.90	255,558.75	326,599.12	436,910.44

FIXED CHARGES

INTEREST EXPENSE	(91,505.49)	(97,816.00)	(79,635.35)	(627,915.42)	(703,997.00)	(637,934.16)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	93,506.11	62,097.06	70,019.87	3,171.92	362,316.48	680,428.15

NCTC-BALANCE SHEET AT AUGUST 31, 2006

	CURRENT YTD
ASSETS	
CURRENT ASSETS	
CASH-GENERAL	3,889,026.68
CASH-CONSTRUCTION FUND	1,426,013.74
TEMPORARY CASH INVESTMENTS	2,770,000.00
ACCOUNTS RECEIVABLE LESS	1,222,567.52
ALLOWANCE FOR DOUBTFUL ACCTS	
OTHER ACCOUNTS RECEIVABLE	190,260.01
ADVANCES TO AFFILIATED COS	(1,343,588.77)
PREPAYMENTS	154,601.83
MATERIALS AND SUPPLIES	<u>410,519.26</u>
TOTAL CURRENT ASSETS	8,719,400.27
NONCURRENT ASSETS	
INVESTMENTS	19,746,964.17
NONREGULATED INVESTMENTS	<u>1,352,887.46</u>
TOTAL NONCURRENT ASSETS	21,099,851.63
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	79,380,152.19
TELECOM PLANT UNDER CONST	9,207,605.42
LESS ACCUMULATED DEPRECIATION	<u>(44,912,789.42)</u>
TOTAL PROP, PLANT & EQUIP	<u>43,674,968.19</u>
TOTAL ASSETS	73,494,220.09

NCTC-BALANCE SHEET AT AUGUST 31, 2006

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(794,736.96)
CUSTOMER DEPOSITS	(461,702.91)
ACCRUED LIABILITIES	(2,784,694.97)
ADVANCED BILLINGS	<u>(121,496.04)</u>
TOTAL CURRENT LIABILITIES	(4,162,630.88)
LONG-TERM LIABILITIES	
FAS106 POSTRETIREMENT BENEFIT	<u>(743,391.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(743,391.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(28,379,397.79)</u>
TOTAL LONG-TERM DEBT	<u>(28,379,397.79)</u>
TOTAL LIABILITIES	(33,285,419.67)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,205,628.50)
2006 NET INCOME	<u>(3,171.92)</u>
TOTAL MEMBERS' EQUITY	<u>(40,208,800.42)</u>
TOTAL LIAB & MEMBERS' EQUITY	(73,494,220.09)

NCTC-INCOME STATEMENT FOR MONTH ENDED JULY 31, 2006

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	362,887.19	360,135.00	363,743.35	2,540,905.05	2,521,597.00	2,539,273.61
NETWORK ACCESS SERVICE REVENUE	504,057.46	621,763.00	537,178.72	3,662,855.55	4,200,475.00	3,768,640.33
LONG DISTANCE NETWORK SVC REV	190,217.87	326,213.00	311,148.96	1,916,942.33	2,284,088.00	2,127,087.99
MISCELLANEOUS REVENUE	191,741.73	177,076.00	175,076.13	1,271,198.89	1,239,859.00	1,190,434.35
NONREGULATED OPERATING REVENUE	(11,174.79)	(9,818.83)	418.35	(91,395.90)	(68,731.81)	(32,653.14)
	1,237,729.46	1,475,368.17	1,387,565.51	9,300,505.92	10,177,287.19	9,592,783.14
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,863.00)	(5,425.94)	(18,067.43)	(20,049.00)	(20,425.94)
TOTAL OPERATING REVENUES	1,235,229.46	1,472,505.17	1,382,139.57	9,282,438.49	10,157,238.19	9,572,357.20

OPERATING EXPENSES

PLANT SPECIFIC OPERATIONS	(282,003.39)	(292,429.00)	(284,207.02)	(1,863,582.58)	(2,060,876.00)	(1,839,762.43)
PLANT NONSPECIFIC OPERATIONS	(175,536.15)	(170,374.00)	(177,300.87)	(1,185,953.56)	(1,223,009.00)	(1,125,869.08)
PROVISION FOR DEPRECIATION	(449,613.54)	(463,297.00)	(426,704.03)	(3,034,787.48)	(3,180,079.00)	(2,926,130.32)
CUSTOMER OPERATIONS EXPENSE	(153,161.30)	(195,765.00)	(167,460.74)	(1,231,847.03)	(1,405,261.00)	(1,272,595.82)
CORPORATE OPERATIONS EXPENSE	(194,529.18)	(197,414.00)	(190,962.55)	(1,471,136.59)	(1,409,864.00)	(1,382,676.55)
OPERATING TAXES	(39,403.00)	(36,789.00)	(36,750.00)	(273,146.00)	(257,523.00)	(257,642.45)
TOTAL OPERATING EXPENSES	(1,294,246.56)	(1,356,068.00)	(1,283,385.21)	(9,060,453.24)	(9,536,612.00)	(8,804,676.65)
OPERATING INCOME	(59,017.10)	116,437.17	98,754.36	221,985.25	620,626.19	767,680.55

OTHER INCOME (EXPENSE) :

GAIN ON SALE OF LAND	.00	.00	109,364.50	.00	.00	109,364.50
INTEREST/DIVIDEND/AFUDC INCOME	20,293.49	27,705.76	28,564.43	152,788.22	193,940.32	198,292.82
NONOPERATING INCOME (EXPENSE)	(1,071.57)	2,039.90	1,921.61	11,290.94	14,279.30	14,525.24
NONREGULATED INCOME (EXPENSE)	6,508.77	11,079.23	11,248.99	60,011.33	77,554.61	78,843.98
TOTAL OTHER INCOME (LOSS)	25,730.69	40,824.89	151,099.53	224,090.49	285,774.23	401,026.54

FIXED CHARGES

INTEREST EXPENSE	(66,439.80)	(97,889.00)	(87,324.92)	(536,409.93)	(606,181.00)	(558,298.81)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	(99,726.21)	59,373.06	162,528.97	(90,334.19)	300,219.42	610,408.28

NCIC-BALANCE SHEET AT JULY 31, 2006

	CURRENT YTD
ASSETS	
CURRENT ASSETS	
CASH-GENERAL	3,678,042.20
CASH-CONSTRUCTION FUND	826,526.49
TEMPORARY CASH INVESTMENTS	2,670,000.00
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,135,511.65
OTHER ACCOUNTS RECEIVABLE	276,101.43
ADVANCES TO AFFILIATED COS	(1,323,275.15)
PREPAYMENTS	226,174.84
MATERIALS AND SUPPLIES	<u>425,266.67</u>
TOTAL CURRENT ASSETS	7,914,348.13
NONCURRENT ASSETS	
INVESTMENTS	19,746,964.17
NONREGULATED INVESTMENTS	<u>1,151,008.94</u>
TOTAL NONCURRENT ASSETS	20,897,973.11
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	79,043,652.70
TELECOM PLANT UNDER CONST	8,666,227.00
LESS ACCUMULATED DEPRECIATION	<u>(44,541,313.45)</u>
TOTAL PROP, PLANT & EQUIP	<u>43,168,566.25</u>
TOTAL ASSETS	71,980,887.49

NCTC-BALANCE SHEET AT JULY 31, 2006

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(776,068.74)
CUSTOMER DEPOSITS	(466,202.91)
ACCRUED LIABILITIES	(2,667,970.80)
ADVANCED BILLINGS	<u>(121,496.04)</u>
TOTAL CURRENT LIABILITIES	(4,031,738.49)
LONG-TERM LIABILITIES	
FAS106 POSTRETIREMENT BENEFIT	<u>(793,391.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(793,391.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(27,040,463.69)</u>
TOTAL LONG-TERM DEBT	<u>(27,040,463.69)</u>
TOTAL LIABILITIES	(31,865,593.18)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,205,628.50)
2006 NET INCOME	<u>90,334.19</u>
TOTAL MEMBERS' EQUITY	<u>(40,115,294.31)</u>
TOTAL LIAB & MEMBERS' EQUITY	(71,980,887.49)

NCIC-INCOME STATEMENT FOR MONTH ENDED JUNE 30, 2006

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	362,612.71	360,740.00	361,103.77	2,178,017.86	2,161,462.00	2,175,530.26
NETWORK ACCESS SERVICE REVENUE	501,550.17	615,549.00	547,915.80	3,158,798.09	3,578,712.00	3,231,461.61
LONG DISTANCE NETWORK SVC REV	276,736.49	326,761.00	351,986.83	1,726,724.46	1,957,875.00	1,815,939.03
MISCELLANEOUS REVENUE	186,527.29	177,377.00	192,158.85	1,079,457.16	1,062,783.00	1,015,358.22
NONREGULATED OPERATING REVENUE	(12,032.55)	(9,818.83)	(7,697.54)	(80,221.11)	(58,912.98)	(33,071.49)
	1,315,394.11	1,470,608.17	1,445,467.71	8,062,776.46	8,701,919.02	8,205,217.63
LESS UNCOLLECTIBLE REVENUES	(2,169.91)	(2,868.00)	(2,500.00)	(15,567.43)	(17,186.00)	(15,000.00)
TOTAL OPERATING REVENUES	1,313,224.20	1,467,740.17	1,442,967.71	8,047,209.03	8,684,733.02	8,190,217.63

OPERATING EXPENSES

PLANT SPECIFIC OPERATIONS	(283,976.88)	(289,070.00)	(289,246.48)	(1,581,579.19)	(1,768,447.00)	(1,555,555.41)
PLANT NONSPECIFIC OPERATIONS	(179,146.38)	(170,659.00)	(159,112.71)	(1,010,417.41)	(1,052,635.00)	(948,568.21)
PROVISION FOR DEPRECIATION	(446,704.97)	(460,297.00)	(420,077.73)	(2,585,173.94)	(2,716,782.00)	(2,499,426.29)
CUSTOMER OPERATIONS EXPENSE	(177,802.97)	(195,765.00)	(196,875.73)	(1,078,685.73)	(1,209,496.00)	(1,105,135.08)
CORPORATE OPERATIONS EXPENSE	(222,853.52)	(197,414.00)	(210,763.13)	(1,276,607.41)	(1,212,450.00)	(1,191,714.00)
OPERATING TAXES	(38,757.00)	(36,789.00)	(36,750.00)	(233,743.00)	(220,734.00)	(220,892.45)
TOTAL OPERATING EXPENSES	(1,349,241.72)	(1,349,994.00)	(1,312,825.78)	(7,766,206.68)	(8,180,544.00)	(7,521,291.44)
OPERATING INCOME	(36,017.52)	117,746.17	130,141.93	281,002.35	504,189.02	668,926.19

OTHER INCOME (EXPENSE) :

GAIN ON SALE OF LAND	.00	.00	.00	.00	.00	.00
INTEREST/DIVIDEND/AFUDC INCOME	20,132.36	27,705.76	25,553.71	132,494.73	166,234.56	169,728.39
NONOPERATING INCOME (EXPENSE)	1,940.07	2,039.90	2,873.35	12,362.51	12,239.40	12,603.63
NONREGULATED INCOME (EXPENSE)	6,642.43	11,079.23	11,154.97	53,502.56	66,475.38	67,594.99
TOTAL OTHER INCOME (LOSS)	28,714.86	40,824.89	39,582.03	198,359.80	244,949.34	249,927.01

FIXED CHARGES

INTEREST EXPENSE	(80,834.98)	(87,980.00)	(78,817.21)	(469,970.13)	(508,292.00)	(470,973.89)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	(88,137.64)	70,591.06	90,906.75	9,392.02	240,846.36	447,879.31

NCIC-BALANCE SHEET AT JUNE 30, 2006

ASSETS	CURRENT YTD
CURRENT ASSETS	
CASH-GENERAL	4,357,770.90
CASH-CONSTRUCTION FUND	831,626.02
TEMPORARY CASH INVESTMENTS	1,670,000.00
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,073,815.44
OTHER ACCOUNTS RECEIVABLE	243,091.47
ADVANCES TO AFFILIATED COS	(1,213,003.59)
PREPAYMENTS	65,257.82
MATERIALS AND SUPPLIES	<u>435,759.96</u>
TOTAL CURRENT ASSETS	7,464,318.02
NONCURRENT ASSETS	
INVESTMENTS	19,746,964.17
NONREGULATED INVESTMENTS	<u>1,006,397.18</u>
TOTAL NONCURRENT ASSETS	20,753,361.35
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	78,956,186.08
TELECOM PLANT UNDER CONST	7,517,371.68
LESS ACCUMULATED DEPRECIATION	<u>(44,108,570.24)</u>
TOTAL PROP, PLANT & EQUIP	<u>42,364,987.52</u>
TOTAL ASSETS	70,582,666.89

NCTC-BALANCE SHEET AT JUNE 30, 2006

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(798,790.76)
CUSTOMER DEPOSITS	(463,302.91)
ACCRUED LIABILITIES	(2,647,767.95)
ADVANCED BILLINGS	<u>(121,496.04)</u>
TOTAL CURRENT LIABILITIES	(4,031,357.66)
LONG-TERM LIABILITIES	
FAS106 POSTRETIREMENT BENEFIT	<u>(793,391.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(793,391.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(25,542,897.71)</u>
TOTAL LONG-TERM DEBT	<u>(25,542,897.71)</u>
TOTAL LIABILITIES	(30,367,646.37)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,205,628.50)
2006 NET INCOME	<u>(9,392.02)</u>
TOTAL MEMBERS' EQUITY	<u>(40,215,020.52)</u>
TOTAL LIAB & MEMBERS' EQUITY	(70,582,666.89)

NCIC-INCOME STATEMENT FOR MONTH ENDED MAY 31, 2006

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	362,994.58	361,148.00	362,462.54	1,815,405.15	1,800,722.00	1,814,426.49
NETWORK ACCESS SERVICE REVENUE	508,035.73	608,906.00	519,162.26	2,657,247.92	2,963,163.00	2,683,545.81
LONG DISTANCE NETWORK SVC REV	310,707.91	327,132.00	303,884.94	1,449,987.97	1,631,114.00	1,463,952.20
MISCELLANEOUS REVENUE	194,447.38	177,580.00	162,048.54	892,929.87	885,406.00	823,199.37
NONREGULATED OPERATING REVENUE	2,067.72	(9,818.83)	(8,806.20)	(68,188.56)	(49,094.15)	(25,373.95)
	1,378,253.32	1,464,947.17	1,338,752.08	6,747,382.35	7,231,310.85	6,759,749.92
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,872.00)	(2,500.00)	(13,397.52)	(14,318.00)	(12,500.00)
TOTAL OPERATING REVENUES	1,375,753.32	1,462,075.17	1,336,252.08	6,733,984.83	7,216,992.85	6,747,249.92

OPERATING EXPENSES

PLANT SPECIFIC OPERATIONS	(290,082.16)	(288,710.00)	(295,753.02)	(1,297,602.31)	(1,479,377.00)	(1,266,308.93)
PLANT NONSPECIFIC OPERATIONS	(180,279.54)	(170,851.00)	(163,468.86)	(831,271.03)	(881,976.00)	(789,455.50)
PROVISION FOR DEPRECIATION	(427,782.31)	(457,297.00)	(419,417.41)	(2,138,468.97)	(2,256,485.00)	(2,079,348.56)
CUSTOMER OPERATIONS EXPENSE	(170,974.17)	(195,765.00)	(163,222.87)	(900,882.76)	(1,013,731.00)	(908,259.35)
CORPORATE OPERATIONS EXPENSE	(207,419.40)	(197,414.00)	(207,586.13)	(1,053,753.89)	(1,015,036.00)	(980,950.87)
OPERATING TAXES	(47,986.00)	(36,789.00)	(37,142.45)	(194,986.00)	(183,945.00)	(184,142.45)
TOTAL OPERATING EXPENSES	(1,324,523.58)	(1,346,826.00)	(1,286,590.74)	(6,416,964.96)	(6,830,550.00)	(6,208,465.66)
OPERATING INCOME	51,229.74	115,249.17	49,661.34	317,019.87	386,442.85	538,784.26

OTHER INCOME (EXPENSE):

GAIN ON SALE OF LAND	.00	.00	.00	.00	.00	.00
INTEREST/DIVIDEND/AFUDC INCOME	15,482.38	27,705.76	30,275.79	112,362.37	138,528.80	144,174.68
NONOPERATING INCOME (EXPENSE)	10,667.70	2,039.90	2,081.13	10,422.44	10,199.50	9,730.28
NONREGULATED INCOME (EXPENSE)	6,299.81	11,079.23	11,220.11	46,860.13	55,396.15	56,440.02
TOTAL OTHER INCOME (LOSS)	32,449.89	40,824.89	43,577.03	169,644.94	204,124.45	210,344.98

FIXED CHARGES

INTEREST EXPENSE	(94,791.49)	(88,008.00)	(81,325.44)	(389,135.15)	(420,312.00)	(392,156.68)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	(11,111.86)	68,066.06	11,912.93	97,529.66	170,255.30	356,972.56

NCTC-BALANCE SHEET AT MAY 31, 2006

	CURRENT YTD
ASSETS	
CURRENT ASSETS	
CASH-GENERAL	3,737,661.83
CASH-CONSTRUCTION FUND	2,189,648.48
TEMPORARY CASH INVESTMENTS	1,670,000.00
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,305,307.42
OTHER ACCOUNTS RECEIVABLE	222,481.04
ADVANCES TO AFFILIATED COS	(1,125,779.21)
PREPAYMENTS	156,659.99
MATERIALS AND SUPPLIES	<u>320,696.10</u>
TOTAL CURRENT ASSETS	8,476,675.65
NONCURRENT ASSETS	
INVESTMENTS	19,746,964.17
NONREGULATED INVESTMENTS	<u>984,375.12</u>
TOTAL NONCURRENT ASSETS	20,731,339.29
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	78,432,486.98
TELECOM PLANT UNDER CONST	6,901,746.75
LESS ACCUMULATED DEPRECIATION	<u>(43,817,983.13)</u>
TOTAL PROP, PLANT & EQUIP	<u>41,516,250.60</u>
TOTAL ASSETS	70,724,265.54

NCIC-BALANCE SHEET AT MAY 31, 2006

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(826,888.35)
CUSTOMER DEPOSITS	(462,227.91)
ACCRUED LIABILITIES	(2,521,920.86)
ADVANCED BILLINGS	<u>(121,496.04)</u>
TOTAL CURRENT LIABILITIES	(3,932,533.16)
LONG-TERM LIABILITIES	
FAS106 POSTRETIREMENT BENEFIT	<u>(798,391.00)</u>
TOTAL LONG-TERM LIABILITIES	(798,391.00)
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(25,690,183.22)</u>
TOTAL LONG-TERM DEBT	(25,690,183.22)
TOTAL LIABILITIES	(30,421,107.38)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,205,628.50)
2006 NET INCOME	<u>(97,529.66)</u>
TOTAL MEMBERS' EQUITY	(40,303,158.16)
TOTAL LIAB & MEMBERS' EQUITY	(70,724,265.54)

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	363,819.73	360,429.00	364,550.74	1,452,410.57	1,439,574.00	1,451,963.95
NETWORK ACCESS SERVICE REVENUE	536,852.80	600,603.00	488,646.86	2,149,212.19	2,354,257.00	2,164,383.55
LONG DISTANCE NETWORK SVC REV	305,337.86	326,481.00	338,844.71	1,139,280.06	1,303,982.00	1,160,067.26
MISCELLANEOUS REVENUE	185,470.61	177,223.00	186,726.01	698,482.49	707,826.00	661,150.83
NONREGULATED OPERATING REVENUE	(27,926.46)	(9,818.83)	(26,121.64)	(70,256.28)	(39,275.32)	(16,567.75)
LESS UNCOLLECTIBLE REVENUES	1,363,554.54	1,454,917.17	1,352,646.68	5,369,129.03	5,766,363.68	5,420,997.84
TOTAL OPERATING REVENUES	(2,500.00)	(2,866.00)	(2,500.00)	(10,897.52)	(11,446.00)	(10,000.00)
1,361,054.54	1,452,051.17	1,350,146.68	5,358,231.51	5,754,917.68	5,410,997.84	
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS						
PLANT NONSPECIFIC OPERATIONS	(335,866.79)	(287,966.00)	(324,730.02)	(1,007,520.15)	(1,190,667.00)	(970,555.91)
PROVISION FOR DEPRECIATION	(174,016.24)	(170,513.00)	(183,950.39)	(650,991.49)	(711,125.00)	(625,986.64)
CUSTOMER OPERATIONS EXPENSE	(429,942.73)	(454,297.00)	(418,693.90)	(1,710,686.66)	(1,799,188.00)	(1,659,931.15)
CORPORATE OPERATIONS EXPENSE	(164,573.39)	(195,765.00)	(199,721.38)	(729,908.59)	(817,966.00)	(745,036.48)
OPERATING TAXES	(177,214.99)	(197,414.00)	(225,560.93)	(846,334.49)	(817,622.00)	(773,364.74)
TOTAL OPERATING EXPENSES	(36,750.00)	(36,789.00)	(36,750.00)	(147,000.00)	(147,156.00)	(147,000.00)
OPERATING INCOME	(1,318,364.14)	(1,342,744.00)	(1,389,406.62)	(5,092,441.38)	(5,483,724.00)	(4,921,874.92)
42,690.40	109,307.17	(39,259.94)	265,790.13	271,193.68	489,122.92	
OTHER INCOME (EXPENSE) :						
GAIN ON SALE OF LAND						
INTEREST/DIVIDEND/AFUDC INCOME	.00	.00	.00	.00	.00	.00
NONOPERATING INCOME (EXPENSE)	27,396.84	27,705.76	30,364.13	96,879.99	110,823.04	113,898.89
NONREGULATED INCOME (EXPENSE)	(3,894.72)	2,039.90	1,512.03	(245.26)	8,159.60	7,649.15
TOTAL OTHER INCOME (LOSS)	7,012.87	11,079.23	12,174.83	40,560.32	44,316.92	45,219.91
FIXED CHARGES	30,514.99	40,824.89	44,050.99	137,195.05	163,299.56	166,767.95
INTEREST EXPENSE	(70,053.28)	(88,035.00)	(69,118.34)	(294,343.66)	(332,304.00)	(310,831.24)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	3,152.11	62,097.06	(64,327.29)	108,641.52	102,189.24	345,059.63

NCIC-BALANCE SHEET AT APRIL 30, 2006

	CURRENT YTD
ASSETS	
CURRENT ASSETS	
CASH-GENERAL	3,883,884.46
CASH-CONSTRUCTION FUND	686,413.44
TEMPORARY CASH INVESTMENTS	1,670,000.00
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,386,915.97
OTHER ACCOUNTS RECEIVABLE	129,833.50
ADVANCES TO AFFILIATED COS	(848,768.54)
PREPAYMENTS	248,062.18
MATERIALS AND SUPPLIES	<u>293,763.87</u>
TOTAL CURRENT ASSETS	7,450,104.88
NONCURRENT ASSETS	
INVESTMENTS	19,747,964.17
NONREGULATED INVESTMENTS	<u>187,281.25</u>
TOTAL NONCURRENT ASSETS	19,935,245.42
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	75,826,585.46
TELECOM PLANT UNDER CONST	9,267,690.51
LESS ACCUMULATED DEPRECIATION	<u>(43,626,153.76)</u>
TOTAL PROP, PLANT & EQUIP	<u>41,468,122.21</u>
TOTAL ASSETS	68,853,472.51

NCIC-BALANCE SHEET AT APRIL 30, 2006

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(888,783.15)
CUSTOMER DEPOSITS	(465,352.91)
ACCRUED LIABILITIES	(2,384,050.08)
ADVANCED BILLINGS	<u>(121,496.04)</u>
TOTAL CURRENT LIABILITIES	(3,859,682.18)
LONG-TERM LIABILITIES	
FAS106 POSTRETIREMENT BENEFIT	<u>(803,391.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(803,391.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(23,876,129.31)</u>
TOTAL LONG-TERM DEBT	<u>(23,876,129.31)</u>
TOTAL LIABILITIES	(28,539,202.49)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,205,628.50)
2006 NET INCOME	<u>(108,641.52)</u>
TOTAL MEMBERS' EQUITY	<u>(40,314,270.02)</u>
TOTAL LIAB & MEMBERS' EQUITY	(68,853,472.51)

NCTC-INCOME STATEMENT FOR MONTH ENDED MAR 31, 2006

OPERATING REVENUES	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
LOCAL NETWORK SERVICES REVENUE	365,696.39	359,383.00	363,454.42	1,088,590.84	1,079,145.00	1,087,413.21
NETWORK ACCESS SERVICE REVENUE	566,157.57	591,780.00	576,324.60	1,612,359.39	1,753,654.00	1,675,736.69
LONG DISTANCE NETWORK SVC REV	263,287.76	325,533.00	277,163.46	833,942.20	977,501.00	821,222.55
MISCELLANEOUS REVENUE	174,410.05	176,702.00	186,940.43	513,011.88	530,603.00	474,424.82
NONREGULATED OPERATING REVENUE	(12,976.14)	(9,818.83)	(6,219.73)	(42,329.82)	(29,456.49)	9,553.89
	1,356,575.63	1,443,579.17	1,397,663.18	4,005,574.49	4,311,446.51	4,068,351.16
LESS UNCOLLECTIBLE REVENUES	(2,500.00)	(2,857.00)	(2,500.00)	(8,397.52)	(8,580.00)	(7,500.00)
TOTAL OPERATING REVENUES	1,354,075.63	1,440,722.17	1,395,163.18	3,997,176.97	4,302,866.51	4,060,851.16

OPERATING EXPENSES

PLANT SPECIFIC OPERATIONS	(312,637.18)	(329,776.00)	(288,791.42)	(671,653.36)	(902,701.00)	(645,825.89)
PLANT NONSPECIFIC OPERATIONS	(188,195.46)	(200,100.00)	(154,714.17)	(476,975.25)	(540,612.00)	(442,036.25)
PROVISION FOR DEPRECIATION	(428,437.90)	(451,297.00)	(414,088.45)	(1,280,743.93)	(1,344,891.00)	(1,241,237.25)
CUSTOMER OPERATIONS EXPENSE	(220,627.47)	(230,671.00)	(202,841.70)	(565,335.20)	(622,201.00)	(545,315.10)
CORPORATE OPERATIONS EXPENSE	(229,301.55)	(225,380.00)	(190,394.71)	(669,119.50)	(620,208.00)	(547,803.81)
OPERATING TAXES	(36,750.00)	(36,789.00)	(36,750.00)	(110,250.00)	(110,367.00)	(110,250.00)
TOTAL OPERATING EXPENSES	(1,415,949.56)	(1,474,013.00)	(1,287,580.45)	(3,774,077.24)	(4,140,980.00)	(3,532,468.30)
OPERATING INCOME	(61,873.93)	(33,290.83)	107,582.73	223,099.73	161,886.51	528,382.86

OTHER INCOME (EXPENSE) :

GAIN ON SALE OF LAND	.00	.00	.00	.00	.00	.00
INTEREST/DIVIDEND/AFUDC INCOME	25,248.83	27,705.76	28,218.93	69,483.15	83,117.28	83,534.76
NONOPERATING INCOME (EXPENSE)	2,137.57	2,039.90	2,202.30	3,649.46	6,119.70	6,137.12
NONREGULATED INCOME (EXPENSE)	10,810.41	11,079.23	10,037.06	33,547.45	33,237.69	33,045.08
TOTAL OTHER INCOME (LOSS)	38,196.81	40,824.89	40,458.29	106,680.06	122,474.67	122,716.96

FIXED CHARGES

INTEREST EXPENSE	(73,209.01)	(81,423.00)	(87,876.51)	(224,290.38)	(244,269.00)	(241,712.90)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	(96,886.13)	(73,888.94)	60,164.51	105,489.41	40,092.18	409,366.92

NCTC-BALANCE SHEET AT MARCH 31, 2006

	CURRENT YTD
ASSETS	
CURRENT ASSETS	
CASH-GENERAL	4,786,251.34
CASH-CONSTRUCTION FUND	686,413.44
TEMPORARY CASH INVESTMENTS	1,670,000.00
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,273,809.45
OTHER ACCOUNTS RECEIVABLE	89,477.05
ADVANCES TO AFFILIATED COS	(667,088.18)
PREPAYMENTS	78,508.72
MATERIALS AND SUPPLIES	314,769.75
TOTAL CURRENT ASSETS	<u>8,232,141.57</u>
NONCURRENT ASSETS	
INVESTMENTS	19,740,569.17
NONREGULATED INVESTMENTS	<u>193,756.11</u>
TOTAL NONCURRENT ASSETS	19,934,325.28
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	76,530,198.95
TELECOM PLANT UNDER CONST	8,911,074.56
LESS ACCUMULATED DEPRECIATION	<u>(43,944,648.95)</u>
TOTAL PROP, PLANT & EQUIP	<u>41,496,624.56</u>
TOTAL ASSETS	69,663,091.41

NCTC-BALANCE SHEET AT MARCH 31, 2006

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(1,441,099.36)
CUSTOMER DEPOSITS	(463,577.91)
ACCRUED LIABILITIES	(2,343,619.20)
ADVANCED BILLINGS	<u>(121,496.04)</u>
TOTAL CURRENT LIABILITIES	(4,369,792.51)
LONG-TERM LIABILITIES	
FAS106 POSTRETIREMENT BENEFIT	<u>(758,391.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(758,391.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(24,223,789.99)</u>
TOTAL LONG-TERM DEBT	<u>(24,223,789.99)</u>
TOTAL LIABILITIES	(29,351,973.50)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,205,628.50)
2006 NET INCOME	<u>(105,489.41)</u>
TOTAL MEMBERS' EQUITY	<u>(40,311,117.91)</u>
TOTAL LIAB & MEMBERS' EQUITY	(69,663,091.41)

#01 North Central Telephone Coop.

NCTC-INCOME STATEMENT FOR MONTH ENDED FEB 28, 2006

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	362,699.09	359,693.00	362,389.75	722,894.45	719,762.00	723,958.79
NETWORK ACCESS SERVICE REVENUE	565,396.32	584,579.00	558,239.65	1,046,201.82	1,161,874.00	1,099,412.09
LONG DISTANCE NETWORK SVC REV	283,818.28	325,814.00	273,970.47	570,654.44	651,968.00	544,059.09
MISCELLANEOUS REVENUE	174,429.23	176,857.00	155,948.20	338,601.83	353,901.00	287,484.39
NONREGULATED OPERATING REVENUE	(24,315.21)	(9,818.83)	14,899.21	(29,353.68)	(19,637.66)	15,773.62
	<u>1,362,027.71</u>	<u>1,437,124.17</u>	<u>1,365,447.28</u>	<u>2,648,998.86</u>	<u>2,867,867.34</u>	<u>2,670,687.98</u>
LESS UNCOLLECTIBLE REVENUES	(3,397.52)	(2,860.00)	(2,500.00)	(5,897.52)	(5,723.00)	(5,000.00)
TOTAL OPERATING REVENUES	<u>1,358,630.19</u>	<u>1,434,264.17</u>	<u>1,362,947.28</u>	<u>2,643,101.34</u>	<u>2,862,144.34</u>	<u>2,665,687.98</u>
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS	(264,823.59)	(286,676.00)	(254,118.62)	(359,016.18)	(572,925.00)	(357,034.47)
PLANT NONSPECIFIC OPERATIONS	(177,136.13)	(170,168.00)	(154,779.10)	(288,779.79)	(340,512.00)	(287,322.08)
PROVISION FOR DEPRECIATION	(426,329.46)	(448,297.00)	(413,623.04)	(852,306.03)	(893,594.00)	(827,148.80)
CUSTOMER OPERATIONS EXPENSE	(181,085.68)	(195,765.00)	(183,119.08)	(344,707.73)	(391,530.00)	(342,473.40)
CORPORATE OPERATIONS EXPENSE	(207,039.42)	(197,414.00)	(175,953.24)	(439,817.95)	(394,828.00)	(357,409.10)
OPERATING TAXES	(36,750.00)	(36,789.00)	(36,750.00)	(73,500.00)	(73,578.00)	(73,500.00)
TOTAL OPERATING EXPENSES	<u>(1,293,164.28)</u>	<u>(1,335,109.00)</u>	<u>(1,218,343.08)</u>	<u>(2,358,127.68)</u>	<u>(2,666,967.00)</u>	<u>(2,244,887.85)</u>
OPERATING INCOME	<u>65,465.91</u>	<u>99,155.17</u>	<u>144,604.20</u>	<u>284,973.66</u>	<u>195,177.34</u>	<u>420,800.13</u>
OTHER INCOME (EXPENSE):						
GAIN ON SALE OF LAND	.00	.00	.00	.00	.00	.00
INTEREST/DIVIDEND/AFUDC INCOME	21,831.30	27,705.76	28,413.50	44,234.32	55,411.52	55,315.83
NONOPERATING INCOME (EXPENSE)	(575.09)	2,039.90	2,211.20	1,511.89	4,079.80	3,934.82
NONREGULATED INCOME (EXPENSE)	11,302.81	11,079.23	10,618.22	22,737.04	22,158.46	23,008.02
TOTAL OTHER INCOME (LOSS)	<u>32,559.02</u>	<u>40,824.89</u>	<u>41,242.92</u>	<u>68,483.25</u>	<u>81,649.78</u>	<u>82,258.67</u>
FIXED CHARGES						
INTEREST EXPENSE	(75,409.18)	(81,423.00)	(73,492.56)	(151,081.37)	(162,846.00)	(153,836.39)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	<u>22,615.75</u>	<u>58,557.06</u>	<u>112,354.56</u>	<u>202,375.54</u>	<u>113,981.12</u>	<u>349,222.41</u>

NCTC-BALANCE SHEET AT FEBRUARY 28, 2006

ASSETS	CURRENT YTD
CURRENT ASSETS	
CASH-GENERAL	4,579,351.33
CASH-CONSTRUCTION FUND	284,442.68
TEMPORARY CASH INVESTMENTS	1,670,000.00
ACCOUNTS RECEIVABLE LESS ALLOWANCE FOR DOUBTFUL ACCTS	1,298,366.71
OTHER ACCOUNTS RECEIVABLE	75,743.99
ADVANCES TO AFFILIATED COS	(564,330.47)
PREPAYMENTS	124,721.86
MATERIALS AND SUPPLIES	<u>350,989.53</u>
TOTAL CURRENT ASSETS	7,819,285.63
NONCURRENT ASSETS	
INVESTMENTS	19,736,829.32
NONREGULATED INVESTMENTS	<u>187,392.08</u>
TOTAL NONCURRENT ASSETS	19,924,221.40
PROPERTY, PLANT & EQUIPMENT	
TELECOM PLANT IN SERVICE	76,254,054.55
TELECOM PLANT UNDER CONST	8,480,310.35
LESS ACCUMULATED DEPRECIATION	<u>(43,714,921.07)</u>
TOTAL PROP, PLANT & EQUIP	<u>41,019,443.83</u>
TOTAL ASSETS	68,762,950.86

NCIC-BALANCE SHEET AT FEBRUARY 28, 2006

	CURRENT YTD
LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	(1,288,969.41)
CUSTOMER DEPOSITS	(460,252.91)
ACCRUED LIABILITIES	(2,214,042.22)
ADVANCED BILLINGS	<u>(121,496.04)</u>
TOTAL CURRENT LIABILITIES	(4,084,760.58)
LONG-TERM LIABILITIES	
EAS106 POSTRETIREMENT BENEFIT	<u>(713,391.00)</u>
TOTAL LONG-TERM LIABILITIES	<u>(713,391.00)</u>
LONG-TERM DEBT	
RUS MORTGAGE NOTES	<u>(23,556,795.24)</u>
TOTAL LONG-TERM DEBT	<u>(23,556,795.24)</u>
TOTAL LIABILITIES	(28,354,946.82)
MEMBERS' EQUITY	
MEMBERSHIPS	.00
RETAINED EARNINGS	(40,205,628.50)
2006 NET INCOME	<u>(202,375.54)</u>
TOTAL MEMBERS' EQUITY	<u>(40,408,004.04)</u>
TOTAL LIAB & MEMBERS' EQUITY	(68,762,950.86)

MOIC- INCOME STATEMENT FOR MONTH ENDED JAN 31, 2006

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING REVENUES						
LOCAL NETWORK SERVICES REVENUE	360,195.36	360,069.00	361,569.04	360,195.36	360,069.00	361,569.04
NETWORK ACCESS SERVICE REVENUE	480,805.50	577,295.00	541,172.44	480,805.50	577,295.00	541,172.44
LONG DISTANCE NETWORK SVC REV	286,836.16	326,154.00	270,088.62	286,836.16	326,154.00	270,088.62
MISCELLANEOUS REVENUE	164,172.60	177,044.00	131,536.19	164,172.60	177,044.00	131,536.19
NONREGULATED OPERATING REVENUE	(5,038.47)	(9,818.83)	874.41	(5,038.47)	(9,818.83)	874.41
LESS UNCOLLECTIBLE REVENUES	1,286,971.15	1,430,743.17	1,305,240.70	1,286,971.15	1,430,743.17	1,305,240.70
TOTAL OPERATING REVENUES	(2,500.00)	(2,863.00)	(2,500.00)	(2,500.00)	(2,863.00)	(2,500.00)
TOTAL OPERATING REVENUES	1,284,471.15	1,427,880.17	1,302,740.70	1,284,471.15	1,427,880.17	1,302,740.70

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OPERATING EXPENSES						
PLANT SPECIFIC OPERATIONS	(94,192.59)	(286,249.00)	(102,915.85)	(94,192.59)	(286,249.00)	(102,915.85)
PLANT NONSPECIFIC OPERATIONS	(111,643.66)	(170,344.00)	(132,542.98)	(111,643.66)	(170,344.00)	(132,542.98)
PROVISION FOR DEPRECIATION	(425,976.57)	(445,297.00)	(413,525.76)	(425,976.57)	(445,297.00)	(413,525.76)
CUSTOMER OPERATIONS EXPENSE	(163,622.05)	(195,765.00)	(159,354.32)	(163,622.05)	(195,765.00)	(159,354.32)
CORPORATE OPERATIONS EXPENSE	(232,778.53)	(197,414.00)	(181,455.86)	(232,778.53)	(197,414.00)	(181,455.86)
OPERATING TAXES	(36,750.00)	(36,789.00)	(36,750.00)	(36,750.00)	(36,789.00)	(36,750.00)
TOTAL OPERATING EXPENSES	(1,064,963.40)	(1,331,858.00)	(1,026,544.77)	(1,064,963.40)	(1,331,858.00)	(1,026,544.77)
OPERATING INCOME	219,507.75	96,022.17	276,195.93	219,507.75	96,022.17	276,195.93

	CURRENT MONTH	BUDGET MONTH	LAST YEAR MONTH	YEAR TO DATE	BUDGET YTD	LAST YEAR YTD
OTHER INCOME (EXPENSE) :						
GAIN ON SALE OF LAND	.00	.00	.00	.00	.00	.00
INTEREST/DIVIDEND/AFUDC INCOME	22,403.02	27,705.76	26,902.33	22,403.02	27,705.76	26,902.33
NONOPERATING INCOME (EXPENSE)	2,086.98	2,039.90	1,723.62	2,086.98	2,039.90	1,723.62
NONREGULATED INCOME (EXPENSE)	11,434.23	11,079.23	12,389.80	11,434.23	11,079.23	12,389.80
TOTAL OTHER INCOME (LOSS)	35,924.23	40,824.89	41,015.75	35,924.23	40,824.89	41,015.75
FIXED CHARGES						
INTEREST EXPENSE	(75,672.19)	(81,423.00)	(80,343.83)	(75,672.19)	(81,423.00)	(80,343.83)
EXCISE TAX REFUNDABLE	.00	.00	.00	.00	.00	.00
NET INCOME (LOSS)	179,759.79	55,424.06	236,867.85	179,759.79	55,424.06	236,867.85

NOTE-BALANCE SHEET AT JANUARY 31, 2006

CURRENT YTD

ASSETS

CURRENT ASSETS

5,106,252.79	CASH-GENERAL
455,528.39	CASH-CONSTRUCTION FUND
1,670,000.00	TEMPORARY CASH INVESTMENTS
1,221,703.19	ACCOUNTS RECEIVABLE LESS
67,650.81	ALLOWANCE FOR DOUBTFUL ACCTS
67,650.81	OTHER ACCOUNTS RECEIVABLE
(397,594.49)	ADVANCES TO AFFILIATED COS
162,689.85	PREPAYMENTS
342,873.48	MATERIALS AND SUPPLIES
8,629,104.02	TOTAL CURRENT ASSETS

NONCURRENT ASSETS

19,736,829.32	INVESTMENTS
190,208.10	NONNEGOTIATED INVESTMENTS
19,927,037.42	TOTAL NONCURRENT ASSETS

PROPERTY, PLANT & EQUIPMENT

75,870,587.15	TELECOM PLANT IN SERVICE
8,386,244.64	TELECOM PLANT UNDER CONST
(43,299,985.57)	LESS ACCUMULATED DEPRECIATION
40,956,846.22	TOTAL PROP, PLANT & EQUIP

TOTAL ASSETS

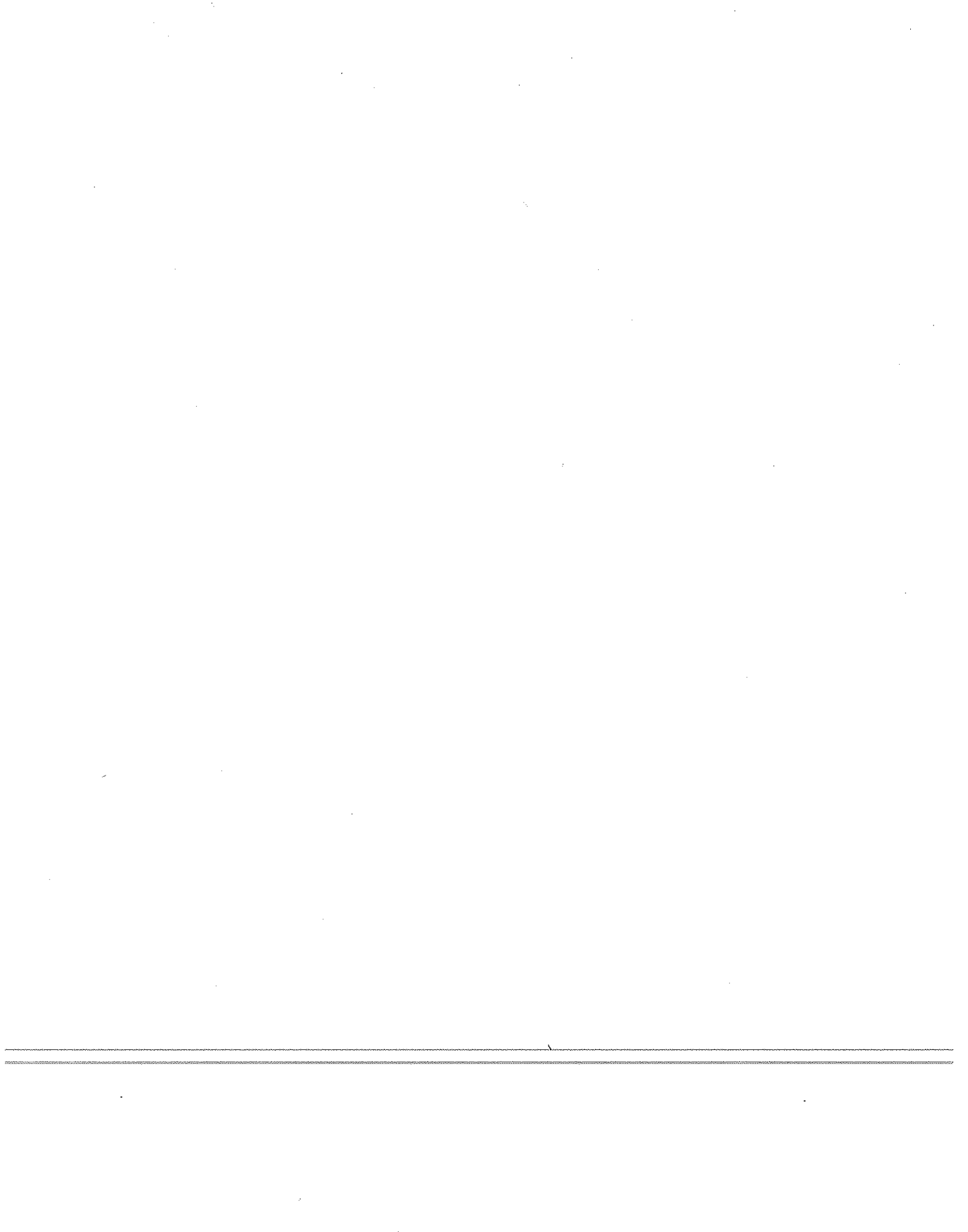
69,512,987.66

NOTICE-BALANCE SHEET AT JANUARY 31, 2006

CURRENT

YTD

LIABILITIES & MEMBERS' EQUITY	
CURRENT LIABILITIES	(693,286.24)
ACCOUNTS PAYABLE	(451,677.91)
CUSTOMER DEPOSITS	(2,934,268.35)
ACCRUED LIABILITIES	(121,496.04)
ADVANCED BILLINGS	
TOTAL CURRENT LIABILITIES	(4,200,728.54)
LONG-TERM LIABILITIES	(668,391.00)
LONG-TERM LIABILITIES	(668,391.00)
FAST106 POSTRETIREMENT BENEFIT	
TOTAL LONG-TERM LIABILITIES	(668,391.00)
LONG-TERM DEBT	(23,691,565.79)
LONG-TERM DEBT	(23,691,565.79)
BUS MORTGAGE NOTES	
TOTAL LONG-TERM DEBT	(23,691,565.79)
TOTAL LIABILITIES	(28,560,685.33)
MEMBERS' EQUITY	.00
MEMBERSHIPS	(40,772,542.54)
RETAINED EARNINGS	(179,759.79)
2006 NET INCOME	
TOTAL MEMBERS' EQUITY	(40,952,302.33)
TOTAL LIAB & MEMBERS' EQUITY	(69,512,987.66)



AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TENNESSEE 545
NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION
AND SUBSIDIARY
LAFAYETTE, TENNESSEE

December 31, 2006 and 2005

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CONTENTS

Consolidated Financial Statements:	
Independent Auditors' Report.....	Page 3
Consolidated Balance Sheets	4
Consolidated Statements of Income and Patronage Capital	6
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	10
Consolidating Information:	
Independent Auditors' Report on Consolidating Information	21
Consolidating Balance Sheets.....	22
Consolidating Statements of Income and Patronage Capital	24

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INDEPENDENT AUDITORS' REPORT

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the accompanying consolidated balance sheets of North Central Telephone Cooperative Corporation and Subsidiary as of December 31, 2006 and 2005, and the related consolidated statements of income and patronage capital and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Central Telephone Cooperative Corporation and Subsidiary as of December 31, 2006 and 2005, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2007, on our consideration of North Central Telephone Cooperative Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Totherow, Haile & Welch, PLLC

Certified Public Accountants

McMinnville, Tennessee
January 26, 2007

NORTH CENTRAL TELEPHONE COOPERATIVE

December 31, 2006

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 4,466,228	\$ 6,705,672
Cash - construction funds	1,205,493	1,320,073
Temporary cash investments	5,370,000	3,894,963
Telecommunications accounts receivable, less allowances of \$91,814 in 2006 and \$71,418 in 2005	1,300,348	1,462,169
Notes receivable	11,700	20,856
Other accounts receivable	106,392	49,718
Materials and supplies	333,632	436,497
Other current assets	<u>20,144</u>	<u>372,309</u>
TOTAL CURRENT ASSETS	\$ 12,813,937	\$ 14,262,257
<u>NONCURRENT ASSETS</u>		
Investments	\$ 16,089,169	\$ 15,297,649
Notes receivable - net of current portion	5,087	14,520
Nonregulated investments	1,531,258	167,298
Goodwill, less accumulated amortization of \$57,494 in 2006 and 2005	<u>813,143</u>	<u>572,983</u>
TOTAL NONCURRENT ASSETS	\$ 18,438,657	\$ 16,052,450
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service	\$ 85,333,408	\$ 82,028,478
Telecommunications plant under construction	<u>13,409,749</u>	<u>7,430,249</u>
	\$ 98,743,157	\$ 89,458,727
Less accumulated depreciation	<u>48,610,544</u>	<u>44,668,965</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>\$ 50,132,613</u>	<u>\$ 44,789,762</u>
	<u>\$ 81,385,207</u>	<u>\$ 75,104,469</u>

See the notes to financial statements.

BALANCE SHEETS

CORPORATION AND SUBSIDIARY

and 2005

	2006	2005
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 1,967,004	\$ 1,427,881
Advance billings and payments	169,682	163,662
Customer deposits	447,803	444,353
Current maturities on long-term debt	3,095,000	2,365,248
Accrued taxes	549,374	365,384
Accrued interest	104,540	140,527
Accrued rents	476,996	462,884
Accrued salaries and wages	212,086	217,496
Accrued vacation and sick leave benefits	2,028,305	1,965,591
Other current liabilities	<u>387,611</u>	<u>512,873</u>
TOTAL CURRENT LIABILITIES	\$ 9,438,401	\$ 8,065,899
<u>LONG-TERM DEBT</u>		
Rural Utilities Service	26,673,460	21,958,211
Other long-term debt	2,001,842	2,686,886
<u>OTHER LIABILITIES</u>		
Postretirement benefits other than pension	1,217,242	623,391
Deferred taxes	<u>1,396,871</u>	<u>997,543</u>
TOTAL LIABILITIES	\$ 40,727,816	\$ 34,331,930
<u>MEMBERS' EQUITY</u>		
Patronage capital	<u>40,657,391</u>	<u>40,772,539</u>
TOTAL MEMBERS' EQUITY	\$ 40,657,391	\$ 40,772,539
	<u>\$ 81,385,207</u>	<u>\$ 75,104,469</u>

CONSOLIDATED STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2006 and 2005

	2006	2005
Operating revenues:		
Local network services revenue	\$ 4,883,848	\$ 4,822,329
Network access services revenue	6,502,918	6,774,162
Long distance network services revenue	3,550,205	3,748,148
Miscellaneous revenue	8,523,803	8,585,567
Less: Uncollectible revenue	<u>(110,567)</u>	<u>(32,926)</u>
TOTAL OPERATING REVENUES	\$ 23,350,207	\$ 23,897,280
Operating expenses:		
Plant specific operations expense	\$ 4,129,031	\$ 3,976,780
Plant nonspecific operations expense	2,236,698	2,038,798
Provision for depreciation and amortization	5,882,685	5,673,892
Customer operations expense	5,323,187	5,575,559
Corporate operations expense	5,870,661	5,526,293
Operating taxes	<u>529,272</u>	<u>447,537</u>
TOTAL OPERATING EXPENSES	\$ 23,971,534	\$ 23,238,859
OPERATING INCOME (LOSS)	\$ (621,327)	\$ 658,421
Other income (loss):		
Income from investments	\$ 2,235,927	\$ 1,317,701
Interest and dividends	374,651	348,444
Nonregulated loss	(160,135)	(19,456)
Gain on sale of investment	941,860	16,577
Gain (Loss) on sale of equipment	<u>(180,036)</u>	<u>110,514</u>
TOTAL OTHER INCOME	\$ 3,212,267	\$ 1,773,780
Fixed charges:		
Interest expense	\$ 1,181,669	\$ 1,135,783
Interest charged to construction - credit	<u>(120,300)</u>	<u>(202,559)</u>
TOTAL FIXED CHARGES	\$ 1,061,369	\$ 933,224
INCOME BEFORE TAXES ON INCOME	\$ 1,529,571	\$ 1,498,977
Taxes on income	<u>1,077,805</u>	<u>422,536</u>
NET INCOME	\$ 451,766	\$ 1,076,441
Patronage capital at beginning of year	40,772,539	40,282,559
Capital credits paid and applied	<u>(566,914)</u>	<u>(597,864)</u>
Excise tax refundable on capital credits	<u>0</u>	<u>11,403</u>
PATRONAGE CAPITAL AT END OF YEAR	\$ 40,657,391	\$ 40,772,539

See the notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Cash received from customers	\$ 23,455,354	\$24,154,199
Cash paid to suppliers and employees	(16,269,365)	(16,033,144)
Interest received	321,214	266,961
Interest paid	(1,097,356)	(951,841)
Taxes paid	(1,405,316)	(1,012,133)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 5,004,531	\$ 6,424,042
Cash flows from investing activities:		
Construction and acquisition of plant	\$ (11,601,693)	\$ (7,051,873)
Proceeds from sale of property and equipment	416,064	131,789
Proceeds from sale of investment	1,693,246	16,577
Plant removal costs	(276,328)	(305,459)
Salvage	0	24,114
Cash distribution from investments	772,236	943,867
Investment in nonregulated CPE	(1,363,960)	60,805
Goodwill purchased	(240,160)	(40,000)
Increase in notes receivable	(7,515)	(22,473)
Collection on notes receivable	26,104	36,031
Decrease (Increase) in:		
Materials and supplies	102,865	54,005
Temporary investments	(1,475,037)	597,384
Other investments	(34,587)	(35,794)
Nonregulated income	(160,135)	(19,456)
NET CASH USED BY INVESTING ACTIVITIES	\$ (12,148,900)	\$ (5,610,483)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2006 and 2005

	2006	2005
Cash flows from financing activities:		
Debt proceeds	\$ 8,127,715	\$ 5,144,588
Payments on long-term borrowings	(3,367,757)	(2,251,872)
Decrease in memberships	0	(6,580)
Excise credit applied to capital	0	11,403
Capital credits paid and applied	(566,914)	(597,864)
Postretirement benefits other than pension	593,851	228,231
(Decrease) Increase in customer deposits	3,450	(34,148)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>\$ 4,790,345</u>	<u>\$ 2,493,758</u>
NET INCREASE (DECREASE) IN CASH	\$(2,354,024)	\$ 3,307,317
CASH AT BEGINNING OF YEAR	<u>8,025,745</u>	<u>4,718,428</u>
CASH AT END OF YEAR	<u><u>\$ 5,671,721</u></u>	<u><u>\$ 8,025,745</u></u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2006 and 2005

	2006	2005
Net income	\$ 451,766	\$1,076,441
Nonregulated loss	160,135	19,456
Income from investments	<u>(2,235,927)</u>	<u>(1,317,701)</u>
Net loss from regulated operations	\$(1,624,026)	\$ (221,804)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$ 5,947,878	\$5,740,144
Loss (Gain) on sale of equipment	180,036	(110,514)
Gain on sale of investment	(941,860)	(16,577)
Deferred taxes on income	399,328	450,776
Noncash patronage dividend	(53,437)	(81,483)
Decrease (Increase) in:		
Customer and accounts receivable	105,147	256,919
Current and accrued assets - other	352,165	168,798
Increase (Decrease) in:		
Accounts payable	539,123	525,409
Advance billings and payments	6,020	13,282
Accrued taxes	183,990	(211,279)
Accrued interest	(35,987)	(18,617)
Accrued rents	14,112	108,363
Accrued salaries and employee benefits	57,304	14,506
Other current liabilities	<u>(125,262)</u>	<u>(193,881)</u>
TOTAL ADJUSTMENTS	<u>\$ 6,628,557</u>	<u>\$6,645,846</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,004,531</u>	<u>\$6,424,042</u>

See the notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2006 and 2005

Note A – North Central Telephone Cooperative Corporation and Subsidiary provides retail telecommunications services to Macon County, Tennessee and surrounding counties including a portion of southern Kentucky. North Central Telephone Cooperative Corporation and Subsidiary has adopted the following accounting policies:

(1) Principles of Consolidation:

North Central Telephone Cooperative Corporation (Cooperative) owns 100% of the outstanding common stock of North Central Communications, Inc. and Subsidiaries (Subsidiary). North Central Communications, Inc. and Subsidiaries were formed for the purpose of providing long distance and other telephone services, computer sales and services and security systems. The consolidated financial statements include the accounts of North Central Communications, Inc. and Subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Cooperative operates on a fiscal year ending December 31. The Subsidiary operates on a fiscal year ending September 30. The consolidated financial statements reflect the results of operations from January 1 through December 31 for the Cooperative and from October 1, 2005 through September 30, 2006 for the Subsidiary.

- (2) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- (3) For purposes of financial statement presentation, the Cooperative and Subsidiary consider all highly-liquid investments with a maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of treasury bills and notes and commercial paper with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as temporary investments.
- (4) Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. No interest is charged on accounts receivable balances that are past due. Past due accounts receivable are based upon contractual terms as defined on customer invoices.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2006 and 2005

Note A – (Cont'd):

The allowance for doubtful accounts is based upon a credit review of the accounts receivable, past bad debt experience, current economic conditions and other pertinent factors which form a basis for determining the adequacy of the allowance. The allowance represents an estimate based upon these and other factors and, it is at least reasonably possible that a change in the estimate will occur in the near term.

Telecommunication services are provided to the customers on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

- (5) Material and supplies are valued at average cost accumulated in perpetual inventory records, which are periodically adjusted to physical counts.
- (6) Employee vacation and sick leave benefits are accrued as the benefits are earned according to an established policy.
- (7) The Cooperative's expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired from service are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation. The Subsidiary provides for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its estimated useful life.
- (8) Advertising costs are charged to expense as incurred. These costs amounted to \$134,254 in 2006 and \$149,050 in 2005.
- (9) Various amounts have been reclassified for comparative purposes.

Note B – Substantially all assets of the Cooperative are pledged as security for the long-term debt to RUS.

Note C – The Cooperative and Subsidiary maintain their cash and temporary investments in several commercial banks located within their trade area. The Federal Deposit Insurance Corporation (FDIC) insures accounts and temporary investments up to \$100,000. A summary of the total insured and uninsured cash balances follows:

Total cash and temporary investments	\$11,249,865
Portion insured by FDIC	<u>917,162</u>
Uninsured cash balances	<u>\$10,332,703</u>

Restricted cash consists of an employee savings account in which \$71,111 has been deposited.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2006 and 2005

Note D – Notes receivable balances are the result of computer equipment sales to customers. The average term of the notes is three years with an average interest rate of 15%, due in monthly installments with interest computed by the simple interest method. The following is a schedule of estimated maturities of the note principal amounts for the next three years:

<u>Year ending</u> <u>September 30,</u>	<u>Amount</u>
2006	\$11,700
2007	4,460
2008	<u>627</u>
TOTAL	<u>\$16,787</u>

Note E – Investments:

	<u>2006</u>	<u>2005</u>
Rural Telephone Bank "c" stock - at cost	\$ 0	\$ 1,000
NECA Services, Inc. stock - at cost	10,000	10,000
Cash value of life insurance	555,376	519,581
Investment in Tennessee RSA #3 cellular partnership (16.67%)	0	1,120,380
Investment in Kentucky RSA #3 cellular partnership (25%)	11,960,284	9,799,430
Investment in Bluegrass Network, LLC (20%)	2,084,106	2,402,050
Investment in Bluegrass Telecom, LLC (20%)	342,042	347,970
Qualified patronage capital certificates – NRTC	369,689	332,303
Tennessee 220 MHZ Radio	156,372	156,372
Tennessee Independent Telecom Group (IRIS Networks) (10%)	611,160	499,599
NRTC Wildblue project	0	108,609
Deposits	<u>140</u>	<u>355</u>
	<u>\$16,089,169</u>	<u>\$15,297,649</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2006 and 2005

Note E – (Cont'd)

The following is a summary as of September 30, 2006 of selected financial information from the financial statements of the investments in which North Central Communications, Inc. owns a significant percentage:

	Kentucky RSA #3 cellular partnership	Bluegrass Network, LLC	Bluegrass Telecom, LLC	Tennessee Independent Telecom Group
Total assets	\$44,018,000	\$11,235,260	\$3,443,000	\$16,341,601
Total liabilities	\$ 4,190,000	\$ 812,722	\$1,733,000	\$10,229,999
Total equity	\$39,828,000	\$10,420,537	\$1,710,000	\$ 6,111,602
Net income	\$ 3,780,088	\$ 990,288	\$1,835,904	\$ 851,598

Nonregulated investments:

	<u>2006</u>	<u>2005</u>
Nonregulated customer premises equipment - leased	\$1,845,579	\$617,463
Less accumulated provisions for depreciation	<u>314,321</u>	<u>450,165</u>
	<u>\$1,531,258</u>	<u>\$167,298</u>

Nonregulated customer premises equipment is stated at cost. The Cooperative provides for depreciation on a straight-line basis at an annual rate of depreciation, which will amortize the cost of the equipment over its estimated useful life.

Note F – In June 2001, the Financial Accounting Standards Board issued SFAS No. 142 “Goodwill and Other Intangible Assets.” Under SFAS No. 142, goodwill and other indefinite lived intangible assets are no longer amortized but reviewed annually, or sooner if deemed necessary, for impairment. Goodwill represents the excess cost over fair value of net assets acquired through acquisitions. During 2006, there was no recorded impairment of goodwill.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2006 and 2005

Note G – Telephone plant in service and under construction is stated at cost. Listed below are the major classes of the telephone plant as of December 31:

	<u>2006</u>	<u>2005</u>
Franchises	\$ 236	\$ 236
Land	735,097	735,097
Buildings	5,355,983	5,217,281
Central office equipment	23,891,744	21,585,401
Poles, cables and wire	44,684,623	43,398,454
Furniture and office equipment	2,284,109	2,023,460
Vehicles and other work equipment	<u>2,904,784</u>	<u>2,873,625</u>
TOTAL PLANT IN SERVICE	<u>\$79,856,576</u>	<u>\$75,833,554</u>

The Cooperative provides for depreciation on a straight-line basis of annual rates, which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of telephone plant in service was 6.94 percent for 2006 and 6.92 percent for 2005. The provision for 2006 was \$5,129,979 and the provision for 2005 was \$5,196,226.

Individual plant depreciation rates are as follows:

	<u>Percent</u>
Buildings	2.6
Central office equipment	6.7 – 21.0
Public telephone equipment	15.1
Poles, cable and wire	1.7 – 8.8
Furniture and office equipment	6.7 – 16.4
Vehicles and other work equipment	6.4 – 10.8
DBS and internet equipment	18.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2006 and 2005

Note G – (Cont'd)

Investment in property and equipment included in the Subsidiary:

	<u>2006</u>	<u>2005</u>
Land	\$ 35,000	\$ 67,937
Building	207,148	808,972
CATV equipment	4,809,860	4,582,721
Office furniture and fixtures	21,580	98,143
Equipment	289,057	405,007
Vehicles	<u>114,187</u>	<u>232,144</u>
TOTAL	<u>\$5,476,832</u>	<u>\$6,194,924</u>

The Subsidiary provides for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its useful life. Depreciation charged to expense on the Subsidiary's records amounted to \$543,266 in 2006 and \$543,915 in 2005.

Note H – A description of notes payable follows:

Long-term debt is represented by mortgage notes payable to the United States of America and other lenders. Following is a summary of outstanding long-term debt:

	<u>2006</u>	<u>2005</u>
2% Rural Utilities Service notes	\$ 1,126,246	\$ 152,276
4.1% to 5% Rural Utilities Service notes	28,361,686	23,888,392
6.5% Steve Cothran, matures January 6, 2018	0	433,161
5.0% Farmers National Bank, matures October 22, 2013	<u>2,282,370</u>	<u>2,536,516</u>
	\$31,770,302	\$27,010,345
Less current maturities	<u>3,095,000</u>	<u>2,365,248</u>
	<u>\$28,675,302</u>	<u>\$24,645,097</u>

~~The Rural Utilities Service notes have various maturity dates.~~

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2006 and 2005

Note H – (Cont'd)

Long-term debt matures as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2007	\$ 3,095,000
2008	3,243,249
2009	3,406,223
2010	3,577,107
2011	3,756,565
Beyond five years	<u>14,692,158</u>
TOTAL	<u>\$31,770,302</u>

Note I– The Cooperative has adopted the retirement and security program of the National Telephone Cooperative Association as a pension plan covering all employees meeting certain age and length of service requirements for which it pays approximately 80% of the cost. The Cooperative funds the pension plan by making monthly contributions into the program based on salaries. The Cooperative's cost was \$670,314 for 2006 and \$656,591 for 2005.

Note J – Income taxes are accounted for using Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). Under the provision for FAS 109, an entity recognizes deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the Cooperative's financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Under FAS 109, measurement is computed using applicable current tax rates.

	<u>2006</u>	<u>2005</u>
Current income tax expense (benefit)	\$ 678,477	\$ (28,240)
Deferred income tax expense	<u>399,328</u>	<u>450,776</u>
	<u>\$1,077,805</u>	<u>\$422,536</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2006 and 2005

Note J – (Cont'd)

The deferred tax liability is primarily the result of timing differences related to the Cooperative's investments in several limited partnerships.

	<u>2006</u>	<u>2005</u>
Deferred tax liability at beginning of year	\$ 997,543	\$ 546,767
Current period increase for deferred taxes on income	<u>439,638</u>	<u>695,199</u>
Deferred tax liability at end of year	\$1,437,181	\$1,241,966
Less deferred tax benefit at end of year	<u>40,310</u>	<u>244,423</u>
Net deferred tax liability	<u>\$1,396,871</u>	<u>\$ 997,543</u>

The deferred tax asset is primarily the result of net operating losses that are carried forward for state income tax reporting purposes from North Central Communication's investment in its wholly owned subsidiaries.

The Subsidiary has a net operating loss carryforward of approximately \$3,508,589, which is available to offset future state taxable income. This carryforward will expire in 13 to 20 years.

Note K – The Cooperative has adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions". Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Cooperative's obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. The cost of health benefits for current and future associate retirees was recognized as determined under the projected unit credit cost method.

Substantially all of the Cooperative's employees are covered under postretirement health and life insurance plans. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on 25% of the preretirement life insurance benefit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2006 and 2005

Note K – (Cont'd):

The following table sets forth the plan's funded status and the amount recognized in the Cooperative's Balance Sheet as of December 31:

	<u>2006</u>	<u>2005</u>
Accumulated postretirement obligation attributable to:		
Retirees	\$ (3,692,597)	\$(3,176,592)
Fully eligible plan participants	(1,463,921)	(1,676,439)
Other active plan participants	<u>(6,618,973)</u>	<u>(2,984,213)</u>
 Total accumulated postretirement benefit obligation	 \$(11,775,491)	 \$(7,837,244)
 Fair value of plan assets	 <u>5,380,999</u>	 <u>4,284,633</u>
 Accumulated postretirement benefit obligation in excess of plan assets	 \$ (6,394,492)	 \$(3,552,611)
 Unrecognized net gains	 4,674,723	 2,326,190
Unamortized initial obligation	<u>502,527</u>	<u>603,030</u>
 Accrued postretirement benefit obligation	 <u>\$ (1,217,242)</u>	 <u>\$ (623,391)</u>

Postretirement benefit cost is composed of the following for the year ended December 31:

	<u>2006</u>	<u>2005</u>
Benefits earned during the year	\$ 425,165	\$ 352,493
Interest on accumulated postretirement benefit obligation	599,387	528,798
Actual return on plan assets	(427,509)	(382,019)
Net amortization of transition obligation over 20 years	100,506	100,506
Net amortization and deferral	<u>201,150</u>	<u>166,743</u>
 Postretirement benefit cost	 <u>\$ 898,699</u>	 <u>\$ 766,521</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2006 and 2005

Note K – (Cont'd):

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 5.75% at December 31, 2005 and 5.50% at January 1, 2006. The assumed rate of future increases in compensation levels was 6.00% at December 31, 2006. The medical cost trend rate in 2006 was approximately 9.00% grading down to an ultimate rate in 2017 of 5.00%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of 2006 net periodic postretirement benefit cost by \$370,429 and would have increased the accumulated postretirement benefit obligation as of December 31, 2006 by \$2,185,985.

Note L – Labor Force

Approximately 80% of the Cooperative's labor force is subject to a collective bargaining agreement. A five-year agreement was negotiated and approved for the period January 1, 2006 to December 31, 2010 between the Cooperative and the Communications Workers of America.

Note M – Commitments and Contingencies

The Cooperative is a guarantor for loans in the amount of \$1,100,000. These loans are the obligation of TN Independent Telecommunications Group d/b/a Iris Networks, a related party.

The Cooperative accrues pole rental based on contracts it has with other utility companies. These contracts establish the rate per pole the Cooperative pays to attach to these entities. Currently one electric cooperative has invoiced the Cooperative for attachment rates that are significantly higher than the contract amounts. Management is currently trying to resolve this matter and believes it will be successful. At December 31, 2006 the accrued pole rent has been accrued at the contract rate not the invoiced rate.

CONSOLIDATING INFORMATION

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

Our report on our audits of the consolidated financial statements of North Central Telephone Cooperative Corporation and Subsidiary for 2006 and 2005 appears on page 3. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information contained on pages 22 through 25 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Totherow, Haile & Welch, PLLC

Certified Public Accountants

McMinnville, Tennessee
January 26, 2007

NORTH CENTRAL TELEPHONE

December 31,

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash - general	\$ 4,052,332	\$ 413,896	\$ 0	\$ 4,466,228
Cash - construction funds	1,205,493	0	0	1,205,493
Temporary cash investments	2,370,000	3,000,000	0	5,370,000
Telecommunications accounts receivable	1,031,351	268,997	0	1,300,348
Notes receivable - current	0	11,700	0	11,700
Other accounts receivable	106,392	0	0	106,392
Advance to related company	0	834,387	(834,387)	0
Materials and supplies	267,837	65,795	0	333,632
Other current assets	113,719	328,996	(422,571)	20,144
TOTAL CURRENT ASSETS	\$ 9,147,124	\$ 4,923,771	\$ (1,256,958)	\$ 12,813,937
<u>NONCURRENT ASSETS</u>				
Investment in subsidiary	\$ 20,821,391	\$ 0	\$ (20,821,391)	\$ 0
Investments	565,376	15,523,793	0	16,089,169
Nonregulated investments	1,531,258	0	0	1,531,258
Notes receivable	0	5,087	0	5,087
Goodwill - net	0	813,143	0	813,143
TOTAL NONCURRENT ASSETS	\$ 22,918,025	\$ 16,342,023	\$ (20,821,391)	\$ 18,438,657
<u>PROPERTY, PLANT AND EQUIPMENT</u>				
Telecommunications plant in service	\$ 79,856,576	\$ 5,476,832	\$ 0	\$ 85,333,408
Telecommunications plant under construction	13,372,093	37,656	0	13,409,749
	\$ 93,228,669	\$ 5,514,488	\$ 0	\$ 98,743,157
Less accumulated depreciation	46,660,812	1,949,732	0	48,610,544
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 46,567,857	\$ 3,564,756	\$ 0	\$ 50,132,613
	\$ 78,633,006	\$ 24,830,550	\$ (22,078,349)	\$ 81,385,207

BALANCE SHEETS

COOPERATIVE CORPORATION AND SUBSIDIARY

2006

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable	\$ 1,828,903	\$ 138,101	\$ 0	\$ 1,967,004
Advance billings and payments	120,242	49,440	0	169,682
Advance to related company	1,256,958	0	\$ (1,256,958)	0
Customer deposits	447,803	0	0	447,803
Current maturities on long-term debt	2,814,472	280,528	0	3,095,000
Accrued taxes	473,620	75,754	0	549,374
Accrued interest	104,540	0	0	104,540
Accrued rent	465,127	11,869	0	476,996
Accrued salaries and wages	206,577	5,509	0	212,086
Accrued vacation and sick leave benefits	2,028,305	0	0	2,028,305
Other current liabilities	338,366	49,245	0	387,611
TOTAL CURRENT LIABILITIES	\$ 10,084,913	\$ 610,446	\$ (1,256,958)	\$ 9,438,401
<u>LONG-TERM DEBT</u>				
Rural Utilities Service	26,673,460	0	0	26,673,460
Other long-term debt	0	2,001,842	0	2,001,842
<u>OTHER LIABILITIES</u>				
Postretirement benefits other than pension	1,217,242	0	0	1,217,242
Deferred taxes - net	0	1,396,871	0	1,396,871
TOTAL LIABILITIES	\$ 37,975,615	\$ 4,009,159	\$ (1,256,958)	\$ 40,727,816
<u>MEMBERS' EQUITY</u>				
Capital stock	\$ 0	\$ 8,100,000	\$ (8,100,000)	\$ 0
Patronage capital	40,657,391	0	0	40,657,391
Retained earnings	0	12,721,391	(12,721,391)	0
TOTAL MEMBERS' EQUITY	\$ 40,657,391	\$ 20,821,391	\$ (20,821,391)	\$ 40,657,391
	<u>\$ 78,633,006</u>	<u>\$ 24,830,550</u>	<u>\$ (22,078,349)</u>	<u>\$ 81,385,207</u>

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2006

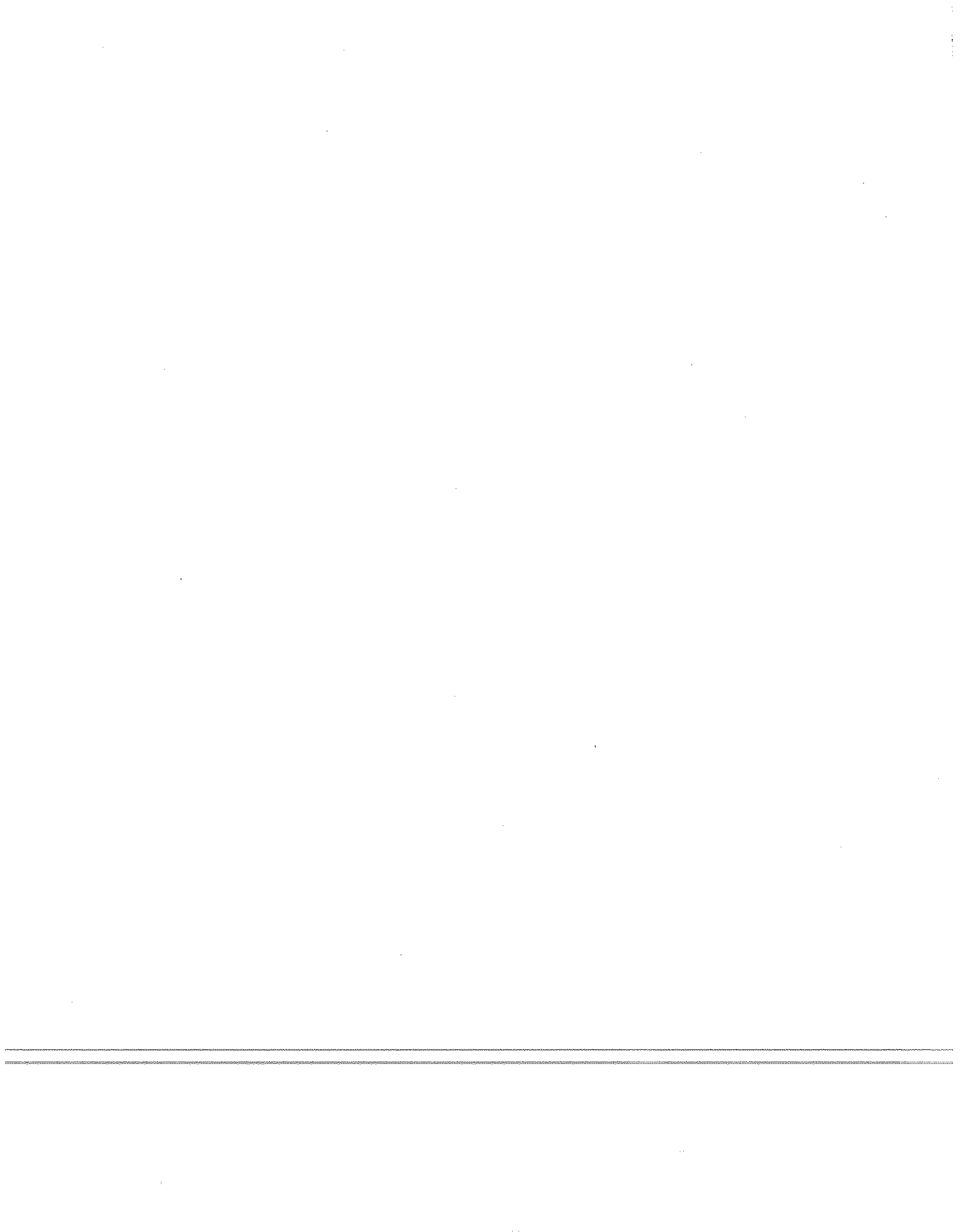
	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
Operating revenues:				
Local network services revenue	\$ 4,346,782	\$ 537,066	\$ 0	\$ 4,883,848
Network access service revenue	6,165,199	337,719	0	6,502,918
Long distance network services revenue	3,550,205	0	0	3,550,205
Miscellaneous revenue	2,299,130	6,224,673	0	8,523,803
Less: Uncollectible revenue	<u>(110,567)</u>	<u>0</u>	<u>0</u>	<u>(110,567)</u>
TOTAL OPERATING REVENUES	\$ 16,250,749	\$ 7,099,458	\$ 0	\$ 23,350,207
Operating expenses:				
Plant specific operations expense	\$ 3,592,504	\$ 536,527	\$ 0	\$ 4,129,031
Plant nonspecific operations expense	2,236,698	0	0	2,236,698
Provision for depreciation	5,339,421	543,266	0	5,882,685
Customer operations expense	2,263,832	3,059,355	0	5,323,187
Corporate operations expense	2,718,772	3,151,889	0	5,870,661
Operating taxes	<u>402,808</u>	<u>126,464</u>	<u>0</u>	<u>529,272</u>
TOTAL OPERATING EXPENSES	\$ 16,554,035	\$ 7,417,501	\$ 0	\$ 23,971,534
OPERATING INCOME (LOSS)	\$ (303,286)	\$ (318,043)	\$ 0	\$ (621,327)
Other income (loss):				
Income from subsidiaries	\$ 1,629,803	\$ 0	\$ (1,629,803)	\$ 0
Income from investments	0	2,235,927	0	2,235,927
Interest and dividend income	166,898	207,753	0	374,651
Nonregulated loss	(160,135)	0	0	(160,135)
Gain on sale of investment	0	941,860	0	941,860
Loss on sale of equipment	<u>0</u>	<u>(180,036)</u>	<u>0</u>	<u>(180,036)</u>
TOTAL OTHER INCOME	\$ 1,636,566	\$ 3,205,504	\$ (1,629,803)	\$ 3,212,267

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2006

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
Fixed charges:				
Interest expense	\$ 996,478	\$ 185,191	\$ 0	\$ 1,181,669
Interest charged to construction - credit	<u>(120,300)</u>	<u>0</u>	<u>0</u>	<u>(120,300)</u>
TOTAL FIXED CHARGES	\$ 876,178	\$ 185,191	\$ 0	\$ 1,061,369
INCOME BEFORE TAXES ON INCOME	\$ 457,102	\$ 2,702,270	\$ (1,629,801)	\$ 1,529,571
Taxes on income	<u>5,336</u>	<u>1,072,469</u>	<u>0</u>	<u>1,077,805</u>
NET INCOME	\$ 451,766	\$ 1,629,801	\$ (1,629,801)	\$ 451,766
Patronage capital at beginning of year	40,772,539	11,091,590	(11,091,590)	40,772,539
Capital credits paid and applied	<u>(566,914)</u>	<u>0</u>	<u>0</u>	<u>(566,914)</u>
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 40,657,391</u>	<u>\$ 12,721,391</u>	<u>\$ (12,721,391)</u>	<u>\$ 40,657,391</u>



NORTH CENTRAL TELEPHONE COOPERATIVE INC
DEPRECIATION SCHEDULE 2007

Account Number	Percent	Cost @ Aug-07	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
2112.2	10.1%	1,925,075.32	15,705.06	15,705.06	15,705.06	15,705.06	15,705.06	15,705.06	16,202.72	16,202.72	16,202.72
2115	7.5%	195,204.53	1,199.56	1,199.56	1,199.56	1,220.03	1,220.03	1,220.03	1,220.03	1,220.03	1,220.03
2116	7.5%	866,668.37	5,293.16	5,293.16	5,406.47	5,406.47	5,406.47	5,416.68	5,416.68	5,416.68	5,416.68
2121	2.7%	5,422,288.44	12,050.96	12,050.96	12,050.96	12,032.76	12,002.24	12,045.36	12,084.73	12,084.73	12,200.15
2122	8.7%	239,166.47	1,733.96	1,733.96	1,733.96	1,733.96	1,733.96	1,733.96	1,733.96	1,733.96	1,733.96
2123.1	7.5%	354,964.67	2,218.53	2,218.53	2,218.53	2,218.53	2,218.53	2,218.53	2,218.53	2,218.53	2,218.53
2123.2	15.0%	265,944.93	3,101.60	3,324.31	3,324.31	3,324.31	3,324.31	3,324.31	3,324.31	3,324.31	3,324.31
2124	15.8%	1,087,037.83	12,586.33	12,586.33	12,787.21	12,787.21	12,789.34	12,815.06	14,297.47	14,304.05	14,312.66
2124.1	15.8%	493,591.65	-	-	-	-	-	-	-	-	-
2212	7.5%	10,387,571.60	66,670.14	66,670.14	63,450.02	64,915.44	64,917.21	64,917.98	64,920.96	64,921.20	64,922.32
2212.2	7.5%	334,703.37	2,091.90	2,091.90	2,091.90	2,091.90	2,091.90	2,091.90	2,091.90	2,091.90	2,091.90
2231.1	9.1%	49,152.67	-	-	-	-	-	-	-	-	-
2232	10.0%	4,883,217.84	39,256.15	39,256.15	39,264.06	40,176.81	40,176.81	40,414.44	40,516.40	40,587.15	40,693.48
2232.1	10.0%	4,244.65	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00
2232.2	11.9%	4,996,609.51	46,291.24	46,474.77	46,599.54	46,599.54	46,899.77	47,934.16	48,368.02	48,368.02	49,549.71
2232.3	10.0%	3,728,601.92	26,813.31	26,922.15	26,993.46	27,755.15	27,953.04	27,996.93	28,055.05	30,976.68	31,071.68
2232.4	10.0%	1,966,592.79	2,000.52	2,000.52	13,388.99	16,297.71	16,388.27	16,388.27	16,388.27	16,388.27	16,388.27

NORTH CENTRAL TELEPHONE CO
DEPRECIATION SCHEDULE 2007

<u>Account</u> <u>Number</u>	<u>Percent</u>	<u>Cost @</u> <u>Aug-07</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Total</u>
2112.2	10.1%	1,925,075.32				142,838.52
2115	7.5%	195,204.53				10,918.86
2116	7.5%	866,668.37				48,472.45
2121	2.7%	5,422,288.44				108,602.85
2122	8.7%	239,166.47				15,605.64
2123.1	7.5%	354,964.67				19,966.77
2123.2	15.0%	265,944.93				29,696.08
2124	15.8%	1,087,037.83				119,265.66
2124.1	15.8%	493,591.65				-
2212	7.5%	10,387,571.60				586,305.41
2212.2	7.5%	334,703.37				18,827.10
2231.1	9.1%	49,152.67				-
2232	10.0%	4,883,217.84				360,341.45
2232.1	10.0%	4,244.65				13,500.00
2232.2	11.9%	4,996,609.51				427,084.77
2232.3	10.0%	3,728,601.92				254,537.45
2232.4	10.0%	1,966,592.79				115,629.09

NORTH CENTRAL TELEPHONE COOPERATIVE INC
DEPRECIATION SCHEDULE 2007

Account Number	Percent	Cost @ Aug-07	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
2411	5.6%	4,913,620.06	22,984.33	22,992.78	23,005.39	22,469.92	22,535.33	22,596.32	22,631.87	22,671.64	22,930.23
2421.0	6.6%	3,360,153.91	17,202.11	17,103.17	19,132.61	19,040.75	18,946.05	18,817.12	18,712.27	18,611.81	18,480.85
2421.1	6.6%	17,716,374.52	94,787.46	94,787.46	94,874.01	93,884.93	94,710.92	95,405.34	95,494.88	95,525.11	97,440.06
2421.2	5.1%	2,555,088.41	9,766.23	9,766.23	9,766.23	9,766.23	10,065.47	10,065.47	10,065.47	10,065.47	10,859.13
2422.1	5.0%	417,165.45	1,738.19	1,738.19	1,738.19	1,738.19	1,738.19	1,738.19	1,738.19	1,738.19	1,738.19
2422.2	5.0%	44,362.10	97.27	97.27	97.27	97.27	145.08	145.08	145.08	145.08	184.84
2423.1	5.5%	14,775,599.82	62,785.58	62,785.58	63,319.13	63,334.52	63,635.63	64,160.68	64,221.83	64,232.58	67,721.50
2423.2	5.1%	2,035,447.44	7,597.10	7,597.10	7,597.10	7,599.57	7,776.98	7,776.98	7,777.17	7,777.17	8,650.65
2431	9.4%	979,377.65	7,560.15	7,560.15	7,723.52	7,677.01	7,686.25	7,689.47	7,688.11	7,688.11	7,671.79
2441	2.2%	207,871.94	381.10	381.10	381.10	381.10	381.10	381.10	381.10	381.10	381.10
1406.6R	33%	258,238.55	-	-	-	-	-	-	-	-	-
1406.12	20%	1,504,446.67	20,571.82	21,091.11	21,503.28	24,323.09	25,074.11	25,074.11	25,074.11	25,074.11	25,074.11
Total		85,968,383.08	483,983.76	484,927.64	496,851.86	504,077.46	507,022.05	509,572.53	512,269.11	515,248.60	523,978.85

NORTH CENTRAL TELEPHONE CO
DEPRECIATION SCHEDULE 2007

<u>Account</u> <u>Number</u>	<u>Percent</u>	<u>Cost @</u> <u>Aug-07</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Total</u>
2411	5.6%	4,913,620.06				204,817.81
2421.0	6.6%	3,360,153.91				166,046.74
2421.1	6.6%	17,716,374.52				856,910.17
2421.2	5.1%	2,555,088.41				90,185.93
2422.1	5.0%	417,165.45				15,643.71
2422.2	5.0%	44,362.10				1,154.24
2423.1	5.5%	14,775,599.82				576,197.03
2423.2	5.1%	2,035,447.44				70,149.82
2431	9.4%	979,377.65				68,944.56
2441	2.2%	207,871.94				3,429.90
1406.6R	33%	258,238.55				-
1406.12	20%	1,504,446.67				212,859.85
Total		85,968,383.08	-	-	-	4,537,931.86

NORTH CENTRAL TELEPHONE COOPERATIVE, INC.
DEPRECIATION ANALYSIS
JANUARY - AUGUST 2007

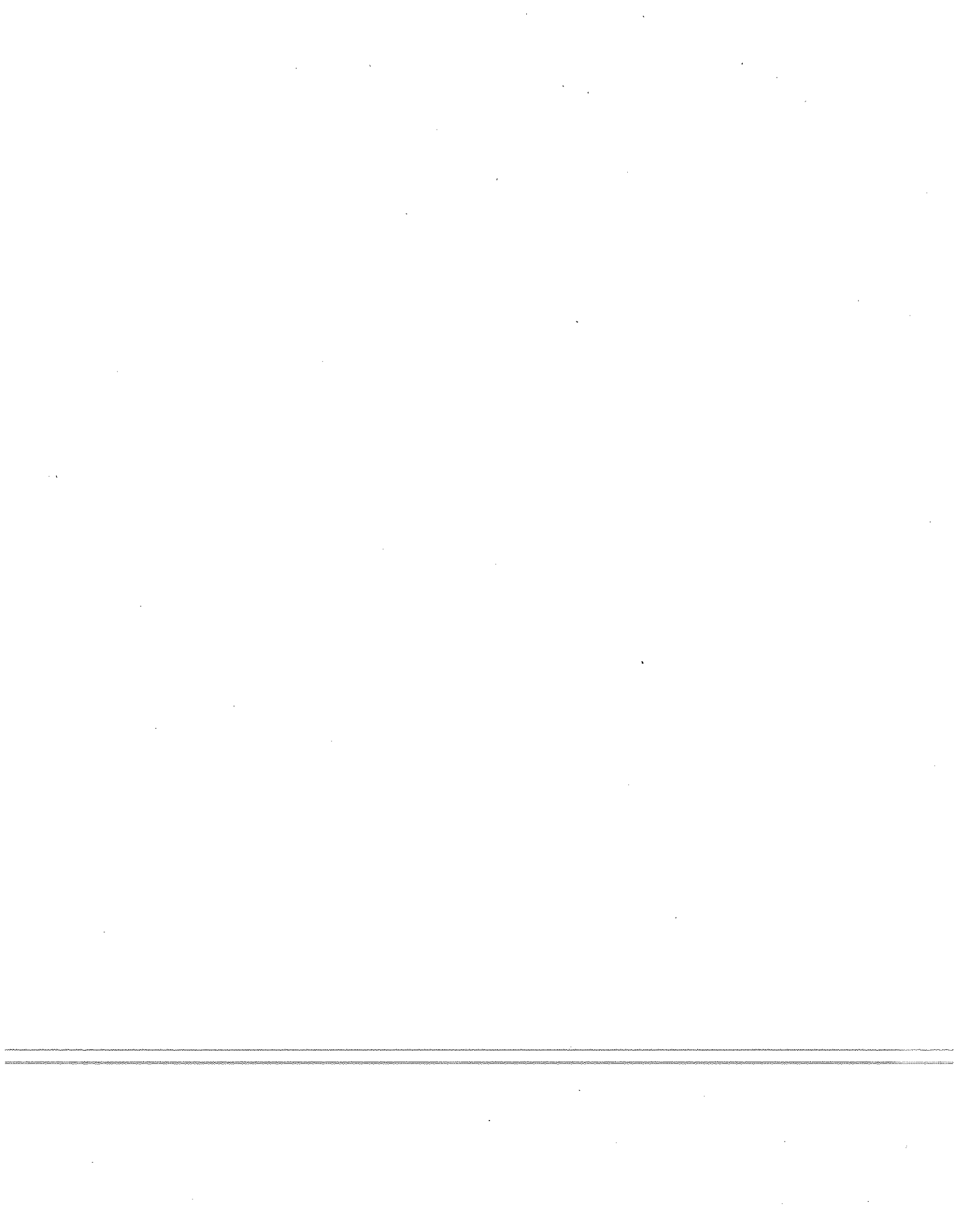
<u>Account Number</u>	<u>Beginning Balance 1/1/2007</u>	<u>Depreciation Expense</u>	<u>Retirements</u>	<u>Removal Costs</u>	<u>Salvage Value</u>	<u>Adjustments</u>	<u>Ending Balance 8/31/2007</u>	<u>Account Description</u>
2112.2	1,461,727.18	126,635.80	-	-	-	-	1,588,362.98	Transportation Equipment
2115	135,257.98	9,698.83	-	-	-	-	144,956.81	Other Work Equip. (Garage)
2116	668,980.05	43,055.77	-	-	-	-	712,035.82	Other Work Equipment
2121	1,848,235.28	96,402.70	35,003.00	6,451.92	-	-	1,903,183.06	Buildings
2122	197,162.54	13,871.68	-	-	-	-	211,034.22	Furniture
2123.1	171,023.75	17,748.24	-	-	-	-	188,771.99	Office Support Equipment
2123.2	208,238.38	26,371.77	-	-	-	-	234,610.15	Company Comm. Equipment
2124	816,273.59	104,953.00	-	-	-	-	921,226.59	Data Processing
2124.1	16,832.12	-	-	-	-	-	16,832.12	Computer Graphics Eng.
2212	5,085,748.97	521,383.09	516,969.21	-	-	-	5,090,162.85	Digital Electronic Switch
2212.2	301,211.60	16,735.20	-	-	-	-	317,946.80	Emergency Generators
2231.1	49,152.67	-	-	-	-	-	49,152.67	Radio Systems - Other
2232	2,399,316.66	319,647.97	-	-	-	-	2,718,964.63	COE - Truck Carrier - Toll
2232.1	2,091.27	12,000.00	-	-	-	-	14,091.27	Subscriber Carrier System
2232.2	4,128,610.60	377,535.06	-	-	-	-	4,506,145.66	DSU-Concentrators
2232.3	697,397.12	223,465.77	-	-	-	-	920,862.89	DSL Equipment
2232.4	22,730.45	99,240.82	-	-	-	-	121,971.27	Broadband Equip - BDT
2411	2,027,948.88	181,887.58	287,654.22	31,441.13	-	-	1,890,741.11	Pole Lines
2421.0	1,788,159.22	147,565.89	191,753.54	-	-	-	1,743,971.57	Station Connections - Drop
2421.1	12,793,066.62	759,470.11	361,033.04	90,130.81	-	-	13,101,372.88	Aerial Cable - Metallic

NORTH CENTRAL TELEPHONE COOPERATIVE, INC.
DEPRECIATION ANALYSIS
JANUARY - AUGUST 2007

<u>Account Number</u>	<u>Beginning Balance 1/1/2007</u>	<u>Depreciation Expense</u>	<u>Retirements</u>	<u>Removal Costs</u>	<u>Salvage Value</u>	<u>Adjustments</u>	<u>Ending Balance 8/31/2007</u>	<u>Account Description</u>
2421.2	917,004.32	79,326.80	32,615.55	3,820.00	-	-	959,895.57	Aerial Cable - Fiber Optic
2422.1	275,384.96	13,905.52	-	-	-	-	289,290.48	Underground Cable - Metallic
2422.2	12,668.62	969.40	-	-	-	-	13,638.02	Underground Cable - Fiber Optic
2423.1	9,195,285.17	508,475.53	59,707.36	18,079.72	-	-	9,625,973.62	Buried Cable - metallic
2423.2	678,103.47	61,499.17	-	-	-	-	739,602.64	Buried Cable - Fiber Optic
2431	698,569.04	61,272.77	14,387.78	54,943.60	-	-	690,510.43	Aerial Wire
2441	64,631.31	3,048.80	-	-	-	-	67,680.11	Underground Conduit
Total	46,660,811.82	3,826,167.27	1,499,123.70	204,867.18	-	-	48,782,988.21	
		3,826,167.27						
Difference		<u><u>-</u></u>						

YTD Accumulated Depreciation Analysis

	<u>Ending Balance</u>	<u>GL Balance</u>	<u>Difference</u>
3100.1	5,921,013.74	5,921,013.74	-
3100.2	13,739,298.04	13,739,298.04	-
3100.3	-	-	-
3100.4	29,122,676.43	29,122,676.43	-
	<u>48,782,988.21</u>	<u>48,782,988.21</u>	<u>-</u>





**NORTH CENTRAL TELEPHONE COOPERATIVE, INC.
2006 REVISED ANNUAL TOLL COST STUDY
NEW COE INVESTMENT BASIC STUDY
DECEMBER 31, 2006**

PART 36

North Central Telephone Coop., Inc.
 2006 Annual Toll Cost Study - Revised
 Inputs

FCC PART 36
 Version 51a

Description	Investment	Depr / Amort Reserve - 3100	Depr / Amort Expense - 6561
Total General Support Facilities	8,632,780	4,741,446	512,038
Billing Computers	1,196,124		
Central Office Equipment			
2210 Switching Equipment	10,985,991	4,928,259	809,650
2220 Operator Systems			
2230 Transmission Equipment	12,260,453	6,363,893	1,219,755
TOTAL Central Office Equipment	23,246,444	11,292,152	2,029,405
Information Orig./Term. Equip.			
IOT Cat 1 Other Information			
IOT Cat 2 Customer Premise Equipment			
TOTAL Information Orig./Term. Equip.			
TOTAL Cable & Wire Facilities	44,063,098	27,225,689	2,612,132
Equal Access Investment			
2680 Tang. Assets - Lease Improve., GSF			
2690 Tang. Assets - Capital Lease-COE			
2690 Tang. Assets - Capital Lease-C & WF			
2690 Intangible Assets	236		
TOTAL Telecommunications Plant in Service	77,138,682	43,259,287	5,153,575
1220 Material & Supplies	435,760		
1402 Inv. Non-Affil. Cos. - RTB Stock			
1410 Other Noncurrent Assets (Allowable Portion)			
1500 Other Jurisdictional Assets			
2002 Property Held for Future Use			
2003 Plant Under Construction - S.T.	7,517,372		
2004 Plant Under Construction - L.T.			
2005 Telephone Plant Adjustment			
3200 Property Held for Future Use			
3400 Accum. Amortization - Tangible			
3500 Accum. Amortization - Intangible			
3600 Accum. Amortization - Other			
4040 Customer Deposits		463,303	
4100 Net Current Deferred Income Taxes			
4310 Other Long Term Liabilities (Allowable Portion)		1,993,391	
4340 Net Non-Current Deferred Income Tax			
4370 Other Jurisdictional Liabilities			
4550 Patronage Capital			
6562 Depr Exp - Prop Held for Future Use			
6563 Amort Expense - Tangible			
6564 Amort Expense - Intangible			
6565 Amort Expense - Other			

Plant Categorization	TOTAL	JOINT USE	Direct Assignments					
			Message Telephone Service			Private Line		
			Intralata	State	Interstate	Intralata	State	Interstate
Central Office Equipment								
COE Cat. 1 Operator Systems								
COE Cat. 2 Tandem Switching								
COE Cat. 3 Local Switching	10,985,991	10,985,991						
COE Cat. 4.11 WB Exchange Line CCT / DSL	3,561,657					1,276,834	26,780	2,258,043
COE Cat. 4.12 Exchange Trunk CCT	58,256	58,256						
COE Cat. 4.13 Exch. Line CCT - Excl. WB	5,764,071	5,764,071						
COE Cat. 4.21 IX CCT - Excl. WB/Sat.								
COE Cat. 4.22 IX CCT - WB/Satellite								
COE Cat. 4.23 All Other IX CCT	1,343,273	1,343,273						
COE Cat. 4.3 Host/Remote Msg. CCT	1,533,196	1,533,196						
TOTAL Central Office Equipment	23,246,444	19,684,787				1,276,834	26,780	2,258,043
Cable & Wire Facilities								
C & WF Cat. 1 Exchange Line	41,989,191	41,989,191						
C & WF Cat. 2 Exchange Trunk	1,326,333	97,398				565,751	15,858	649,326
C & WF Cat. 3 Interexchange	236,461	236,461						
C & WF Cat. 4 Host/Remote	509,113	509,113						
TOTAL Cable & Wire Facilities	44,063,098	42,832,163				565,751	15,858	649,326

North Central Telephone Coop., Inc.
 2006 Annual Toll Cost Study - Revised
 Inputs

FCC PART 36
 Version 51a

	TOTAL	JOINT USE	Direct Assignments				
			Message Telephone Service			Private Line	
			State Intralata	State Interlata	Interstate	State Intralata	State Interlata
Plant Specific Operations Expense							
6110 Total Network Support							
6120 Total General Support	367,177	367,177					
Central Office Maintenance Expense							
6210 Total Central Office Switching	1,061,045	1,061,045					
6220 Total Central Office Oper. Sys.							
6230 Total Central Office Trans.	78,501	78,501					
TOTAL Central Office Maintenance Expense	1,139,546	1,139,546					
6310 Total Info. Orig./Term. Equip.							
6410 Total Cable & Wire Facilities	2,065,676	2,065,676					
TOTAL Plant Specific Operations Expense	3,572,399	3,572,399					

Plant Non-Specific Operations Expense							
6510 Total Other Prop. Plant & Equip. Exp.	5,151	5,151					
6530 Total Network Operations	1,817,633	1,817,633					
6540 Total Access	472,599		237,427		235,172		
Total Deprec. & Amort (From Page 1)	5,153,575	5,153,575					
TOTAL Plant Non-Specific Operations Expense	7,448,958	6,976,359	237,427		235,172		

Customer Operations Expense							
6610 Total Marketing Expense	105,806	105,806					
6620 Services							
Telephone Operator - Call Completion							
Telephone Operator - Number Services							
Directory Assistance	46,045	2,459	26,248	17,338			
Sub-total - Telephone Operator Services	46,045	2,459	26,248	17,338			
Published Directory							
Directory Publishing - Alpha	65,964	65,964					
Directory Publishing - Classified							
Directory Publishing - Foreign	5,911	5,911					
Sub-total - Published Directory Services	71,875	71,875					
All Other Customer Services							
Category 1 - Local Business Office	1,233,326						

	Basic Factor	Message Telephone Factors			Private Line Factors			Other
		State Intralata	State Interlata	Interstate	State Intralata	State Interlata	Interstate	
Category 1 - Local Business Office Factors								
E. U. Service Order Processing	0.292596	0.007437	0.002705	0.127789				0.862069
E. U. Payment & Collection	0.522448	0.213486	0.078835	0.316931	0.001858			0.388889
E. U. Billing Inquiry	0.162114			0.070322			0.027414	0.902265
IXC Service Order Processing	0.022842		1.000000					
IXC Payment & Collection			0.689699	0.266639		0.025875	0.017787	
IXC Billing Inquiry								1.000000
Coin Collection & Administration								1.000000
Total	1.000000							

	TOTAL	JOINT USE	Direct Assignments				
			Message Telephone Service			Private Line	
			State Intralata	State Interlata	Interstate	State Intralata	State Interlata
Category 2 - Revenue Accounting							
Message Processing - Toll & Local Reserved	182,006	182,006					
Other Billing & Collecting	401,436	401,436					
CABS Billing & Collecting	8,854	8,854					
Sub-total - Revenue Accounting	592,296	592,296					
Category 3 - All Other	9,528				9,528		
6620 TOTAL Services Expense	1,953,070	1,899,956	26,248	17,338	9,528		
TOTAL Customer Operations Expense	2,058,876	2,005,762	26,248	17,338	9,528		

North Central Telephone Coop., Inc.
 2006 Annual Toll Cost Study - Revised
 Inputs

FCC PART 36
 Version 51a

Corporate Operations Expense			
6710	Total Executive & Planning	613,563	613,563
6720	Total General & Admin.	2,283,409	2,240,136
			43,273
TOTAL Corporate Operations Expense		2,896,972	2,853,699
TOTAL Operating Expenses		15,977,205	15,408,219

Other Operating Expenses, Taxes, ITC & Fixed Charges	TOTAL	JOINT USE	Direct Assignments					
			Message Telephone Service			Private Line		
			State Intralata	State Interlata	Interstate	State Intralata	State Interlata	Interstate
5301 Uncollectibles	110,567							
7210 ITC - Operating Equal Access Expense								
7240 Ad Valorem Tax	390,637	390,637						
7240 Gross Receipts Tax								
7240 PUC Fees								
7240 Other Operating Taxes								
7340 Interest During Construction	120,300	120,300						
7370 Special Charges								
7510 Interest on Funded Debt - Book	977,799							
7510 Interest on Funded Debt - Allowed								
7520 Interest Exp. - Capital Lease								
7540 Interest on Cust. Deposits (CWC)	18,679	18,679						
7910 Inc. Eff.-Juris. Rate/m*kg Diff.								
TOTAL Other Expenses and Taxes (Excludes 7210, 7340, 7510, 7520)	519,883	409,316						

Miscellaneous Revenues	
5240 Rent Rev. - GSF	
5240 Rent Rev. - COE	
5240 Rent Rev. - C&WF	
5240 Rent Rev. - Direct Assignment	
5250 Corporate Operations Revenues	
5260 Miscellaneous Revenues	
TOTAL Miscellaneous Revenues	

TOTAL Expenses Less Misc. Revenues 16,497,088

Traffic Factors	State Intralata	State Interlata	Interstate	Other	Total
Frozen Subscriber Plant Factor - SPF	0.096527	0.076185	0.289031	0.538257	1.000000
Phase-Down Subscriber Plt Fact - SPF	0.096527	0.076185	0.250000	0.577288	1.000000
Subscriber Line Usage - SLU	0.066953	0.052943	0.131105	0.749099	1.000000
Conversation Minute Miles - CMM	0.275764	0.187346	0.492876	0.044014	1.000000
Conversation Minutes - CM	0.260509	0.206526	0.512398	0.020567	1.000000
COE Cat. 1 - Composite Factor - WSW					
COE Cat. 2 - Minutes Of Use - MOU					
COE Cat. 3 Composite Allocator - DEM	0.134460	0.105654	0.228523	0.531363	1.000000
Host-Remote Factor - HR MOU-M	0.090483	0.075214	0.184259	0.650044	1.000000
Wideband MTS Minutes Of Use - WB-MOU					
Private Line Direct Assignment - WB					
Equal Access Factor - EQAC		0.287271	0.712729		1.000000

North Central Telephone Coop., Inc.
 2006 Annual Toll Cost Study - Revised
 Inputs

FCC PART 36
 Version 51a

Loops / Circuit Miles / Terminations	Joint Use- MTS	P/L-State Intralata	P/L-State Interlata	P/L Interstate	Other	Total
Loops						
Message Telephone	22,260					22,260
Private Line		87		46		133
TOTAL Loops						22,393
Total Distribution	0.994061	0.003885		0.002054		1.000000
Private Line Distribution		0.654135		0.345865		1.000000
Terminations						
Message Telephone	1,084					1,084
Private Line		190		23		213
TOTAL Terminations						1,297
Total Distribution	0.835775	0.146492		0.017733		1.000000
Private Line Distribution		0.892019		0.107981		1.000000
Circuit Miles						
Message Telephone	36,461.52					36,461.52
Private Line		3,280.85		1,431.08		4,711.93
TOTAL Circuit Miles						41,173.45
Total Distribution	0.885559	0.079684		0.034757		1
Private Line Distribution		0.696286		0.303714		1
Other Inputs						
	Local & Directory	State Intralata	State Interlata	Interstate		TOTAL
Marketing Revenues						
Toll/Network Access *	318,179	197,143	100,778	191,974		808,074
P.L./Special Access *		11,713		8,052		19,765
TOTAL Marketing Revenues						827,839
Total Distribution	0.384348	0.238142	0.121736	0.231898		0.976124
Private Line Distribution		0.014149		0.009727		0.023876
						1.000000
Messages - Toll & Local		259,652	50,748	92,381		402,781
Total Distribution		0.644648	0.125994	0.229358		1.000000
State Distribution		0.836508	0.163492			1.000000
Customer Operations CAT. 3 O.B.C. Users						
	Amount	Distribution				
% State Toll	33	0.333333				
% Exchange	33	0.333333				
% Interstate Toll	33	0.333333				
Reserved						
Reserved						
Reserved						
TOTAL	99	0.999999				
OBC MTS-(MTS Message %)	0.333333	0.278836	0.054497	0.333333		0.999999
Reserved						0.999999
Class "A" Or "B" Company - (A or B)						
Class "A" Or "B" Company - (A or B)	B					
Corp. Oper. Exp. - Cat 1 (EAS) Factor						
Dir. Publ.- Foreign LATA Factor (1 or 0)	1					
Oth. Juris. Assets Alloc. Fact.- MTS **						
Oth. Juris. Assets Alloc. Fact.- P/L **						

* Revenues As Applied To Account 6610-Marketing Expense Consist Of Intralata Billed Toll, State Interlata And Interstate CCL And Switched Access, Intralata P.L., State Interlata And Interstate Special Access And Local Revenues.

** Applies To A/C'S 1500, 4370 & 7910

North Central Telephone Coop., Inc.
 2006 Annual Toll Cost Study - Revised
 Separation Section

FCC PART 36
 Version 51a

	Message Telephone			Private Lines			Other
	Total	State Intralata	State Interlata	Interstate	State Intralata	State Interlata	
Central Office Equipment							
COE Cat. 1 Operator Systems							
COE Cat. 2 Tandem Switching							
COE Cat. 3 Local Switching	10,985,991	1,477,176	1,160,714	2,510,552			5,837,549
COE Cat. 4.11 WB Exchange Line CCT / DSL	3,561,657				1,276,834	26,780	2,258,043
COE Cat. 4.12 Exchange Trunk CCT	58,256						58,256
COE Cat. 4.13 Exch. Line CCT - Excl. WB	5,764,071	553,084	436,528	1,432,460	22,393		3,307,767
COE Cat. 4.21 IX CCT - Excl. WB/Sat.							
COE Cat. 4.22 IX CCT - WB/Satellite							
COE Cat. 4.23 All Other IX CCT	1,343,273	292,467	231,861	575,256	186,779		23,820
COE Cat. 4.3 Host/Remote Msg. CCT	1,533,196	138,728	115,318	282,505			996,645
TOTAL Central Office Equipment	23,246,444	2,461,455	1,944,421	4,800,773	1,496,006	26,780	2,293,702
Information Orig./Term. Equip.							
IOT Cat 1 Other Info Orig./Term Equip							
IOT Cat 2 Customer Premise Equip							
TOTAL Information Orig./Term. Equip.							
Cable & Wire Facilities							
C & WF Cat 1 Exchange Line	41,989,191	4,029,019	3,179,948	10,434,954	163,128		86,246
C & WF Cat 2 Exchange Trunk	1,328,333				565,751	15,858	649,326
C & WF Cat 3 Interexchange	236,461	57,745	39,230	103,208	18,842		8,219
C & WF Cat 4 Host/Remote	509,113	46,066	38,292	93,809			330,946
TOTAL Cable & Wire Facilities	44,063,098	4,132,830	3,257,470	10,631,971	747,721	15,858	743,791
Other							
Total General Support Facilities	8,632,780	845,753	667,167	1,979,324	287,765	5,465	389,571
Billing Computers	1,196,124	117,184	92,440	274,247	39,872	757	53,977
Equal Access Investment							
2680 Tang Assets - Lease Impr., GSF							
2680 Tang Assets - Capital Lease-COE							
2680 Tang Assets - Capital Lease-C&WF							
2690 Intangible Assets	236	23	18	54	8		11
TOTAL Other	9,829,140	962,960	759,625	2,253,625	327,645	6,222	443,559
TOTAL Telephone Plant In Service	77,138,682	7,557,245	5,961,516	17,686,369	2,571,372	48,860	3,481,052
1220 Material & Supplies	435,760	40,871	32,215	105,144	7,395	157	7,356
1402 Inv in Nonaffil Co - RTB Stock							
1410 Other Noncurrent Assets							
1500 Other Jurisdictional Assets							
2002 Property Held for Future Use							
2003 Plant Under Construction - S.T.	7,517,372	736,477	580,965	1,723,583	250,584	4,758	339,236
2004 Plant Under Construction - L.T.							
2005 Telephone Plant Adjustment							
Account 3100 - Accum. Deprec. - TPIS							
General Support Facilities	4,741,446	464,519	366,433	1,087,119	158,051	3,001	213,967
COE - Switching Equipment	4,928,259	662,654	520,690	1,126,221			2,618,694
COE - Operator Systems							
COE - Transmission Equipment	6,363,893	510,898	406,790	1,188,759	776,515	13,900	1,190,566
IOT - Other Info. Orig./Term. Equip.							
IOT - Customer Premise Equipment							
C & WF - Cable & Wire Facilities	27,225,689	2,553,591	2,012,724	6,569,278	462,002	9,796	459,573
Equal Access Investment							
TOTAL Depreciation Reserve	43,259,287	4,191,662	3,306,637	9,971,377	1,396,568	26,699	1,864,106
Account 4100 - Net Current Def Inc Taxes							
General Support Facilities							
COE - Switching Equipment							
COE - Operator Systems							
COE - Transmission Equipment							
IOT - Other Info. Orig./Term. Equip.							
IOT - Customer Premise Equipment							
C & WF - Cable & Wire Facilities							
Equal Access Investment							
Tang. Assets - Lease Improve., GSF							
Tang. Assets - Capital Lease-COE							
Tang. Assets - Capital Lease-C & WF							
Intangible Assets							
TOTAL Net Current Def Inc Taxes							

North Central Telephone Coop., Inc.
 2006 Annual Toll Cost Study - Revised
 Separation Section

FCC PART 36
 Version 51a

	Message Telephone			Private Lines			Other
	State Intralata	State Interlata	Interstate	State Intralata	State Interlata	Interstate	
Account 4340 - Net Noncurr Def Inc Taxes							
General Support Facilities							
COE - Switching Equipment							
COE - Operator Systems							
COE - Transmission Equipment							
IOT - Other Info. Orig./Term. Equip.							
IOT - Customer Premise Equipment							
C & WF - Cable & Wire Facilities							
Equal Access Investment							
Tang. Assets - Lease Improve., GSF							
Tang. Assets - Capital Lease-COE							
Tang. Assets - Capital Lease-C & WF							
Intangible Assets							
TOTAL Net Noncurrent Def Inc Taxes							
Other Reserve Accounts							
3200 Accum Depr - Plt Hld for Fut Use							
3400 Accum Amort - Tangible							
3500 Accum Amort - Intangible							
3600 Accum Amort - Other							
4040 Customer Deposits	463,303			106,226			20,907
4310 Other Long Term Liabilities	1,993,391	260,024	155,205	460,956	48,322	903	66,386
4370 Other Juris Liab & Def Credits							1,001,595
4550 Patronage Capital							
Summary Of Plant							
2110 General Support Facilities	9,828,904	962,937	759,607	2,253,571	327,637	6,222	443,548
2210 Central Office Equipment	23,246,444	2,461,455	1,944,421	4,800,773	1,496,006	26,780	2,293,702
2310 Information Orig/Term Equip							
2410 Cable & Wire Facilities	44,063,098	4,132,830	3,257,470	10,631,971	747,721	15,858	743,791
Equal Access Investment							
2680 Tangible Assets							
2690 Intangible Assets	236	23	18	54	8		11
TOTAL Telephone Plant In Service	77,138,682	7,557,245	5,961,516	17,686,369	2,571,372	48,860	3,481,052
1220 Material & Supplies	435,760	40,871	32,215	105,144	7,395	157	7,356
1402 Inv in Nonaffil Co - RTB Stock							
1410 Other Noncurrent Assets							
1500 Other Jurisdictional Assets							
2002 Property Held for Future Use							
2003 Plant Under Construction - S.T.	7,517,372	736,477	580,965	1,723,583	250,584	4,758	339,236
2004 Plant Under Construction - L.T.							
2005 Telephone Plant Adjustment							
TOTAL Telephone Plant	85,091,814	8,334,593	6,574,696	19,515,096	2,829,351	53,775	3,827,644
Less 3100 Accum Deprec - TPIS	43,259,287	4,191,662	3,306,637	9,971,377	1,396,568	26,699	1,864,106
Less 3200 Accum Depr - Plt Hld Fut Use							
Less 3400 Accum Amort - Tangible							
Less 3500 Accum Amort - Intangible							
Less 3600 Accum Amort - Other							
Less 4040 Customer Deposits	463,303			106,226			20,907
Less 4100 Net Current Def Income Taxes							
Less 4310 Other Long Term Liabilities	1,993,391	260,024	155,205	460,956	48,322	903	66,386
Less 4340 Accum Def Income Taxes							
Less 4370 Oth Juris. Liab. & Def Cred							1,001,595
NET Telephone Plant	39,375,833	3,882,907	3,112,854	8,976,537	1,384,461	26,173	1,876,245
Cash Working Capital - Interstate	128,334			113,505			14,829
NET Telephone Plant & Interstate CWC	39,504,167	3,882,907	3,112,854	9,090,042	1,384,461	26,173	1,891,074
NET Tel Plant less Interstate-Only Items (Excludes 4040 & CWC)	39,839,136	3,882,907	3,112,854	9,082,763	1,384,461	26,173	1,897,152
4550 Patronage Capital							

North Central Telephone Coop., Inc.
 2006 Annual Toll Cost Study - Revised
 Separation Section

FCC PART 36
 Version 51a

	Total	Message Telephone			Private Lines			Other
		State Intralata	State Interlata	Interstate	State Intralata	State Interlata	Interstate	
Plant Specific Operations Expense								
6110 Total Network Support Expense								
6120 Total General Support Expense	367,177	35,972	28,377	84,186	12,239	232	16,570	189,801
Central Office Maintenance Expense								
6210 Total COE Switching Expense	1,061,045	112,349	88,750	219,123	68,283	1,222	104,692	466,626
6220 Total COE Operator Sys Expense								
6230 Total COE Transmission Expense	78,501	8,312	6,566	16,212	5,052	90	7,746	34,523
TOTAL Central Office Maintenance Expense	1,139,546	120,661	95,316	235,335	73,335	1,312	112,438	501,149
6310 Total Information Orig/Term Equip Exp								
6410 Total Cable & Wire Fac Exp	2,065,676	193,747	152,710	498,426	35,053	743	34,869	1,150,128
TOTAL Plant Specific Operations Expense	3,572,399	350,380	276,403	817,947	120,627	2,287	163,877	1,840,878
Plant Non-Specific Operations Expense								
Other Property Plant & Equipment								
6510 Total Other Prop Plant & Equip Exp	5,151	505	398	1,181	172	3	232	2,660
6530 Total Network Operations Exp	1,817,633	178,074	140,472	416,747	60,589	1,151	82,024	938,576
6540 Total Access Expenses	472,599	237,427		235,172				
Depreciation Expense - Plant In Service								
General Support Facilities	512,038	50,164	39,572	117,400	17,068	324	23,107	264,403
COE - Switching Equipment	809,650	108,866	85,543	185,024				430,217
COE - Operator Systems								
COE - Transmission Equipment	1,219,755	97,923	77,969	227,847	148,833	2,664	228,193	436,326
IOT Cat 1 Other Info Orig/Term Equip								
IOT Cat 2 Customer Premise Equip								
C&WF - Cable & Wire Facilities	2,612,132	245,001	193,108	630,281	44,326	940	44,093	1,454,383
Equal Access Investment								
6561 - TOTAL Depreciation Expense	5,153,575	501,954	396,192	1,160,552	210,227	3,928	295,393	2,585,329
6562 Depr Exp - Prop Held for Fut Use								
6563 Amort Expense - Tangible								
6564 Amort Expense - Intangible								
6565 Amort Expense - Other								
6560 Total Depreciation & Amortization Expense	5,153,575	501,954	396,192	1,160,552	210,227	3,928	295,393	2,585,329
TOTAL Plant Non-Specific Operations Expense	7,448,958	917,960	637,062	1,813,652	270,988	5,082	377,649	3,526,565
Customer Operations Expense								
6610 Total Marketing Expense	105,806	25,197	12,880	24,536	1,497		1,029	40,667
6620 - SERVICES								
Telephone Operator Services								
Call Completion								
Directory Assistance	46,045	26,248	17,338					2,459
Sub-total - Telephone Operator Services	46,045	26,248	17,338					2,459
Published Directory Services								
Dir Publishing - Alpha	65,964	4,416	3,486	8,648				49,414
Dir Publishing - Classified								
Dir Publishing - Foreign	5,911	5,911						
Sub-total - Published Directory Services	71,875	10,327	3,486	8,648				49,414
All Other Services - Category 1 *								
E. U. Service Order Processing	317,436	2,684	976	2,684				311,092
E. U. Service Order Processing - Presub.	43,431			43,431				
E. U. Payment & Collection	644,349	137,559	50,797	204,214	1,197			250,582
E. U. Billing Inquiry	199,939			14,060			5,481	180,398
IXC Service Order Processing	26,172		28,172					
IXC Payment & Collection								
IXC Billing Inquiry								
Coin Collection & Admin								
Sub-total - All Other Services - Cat. 1	1,233,327	140,243	79,945	264,389	1,197		5,481	742,072

* Other Column Includes Local & Directory on End User

North Central Telephone Coop., Inc.
2006 Annual Toll Cost Study - Revised
Separation Section

FCC PART 36
Version 51a

	Total	Message Telephone			Private Lines			Other
		State Intralata	State Interlata	Interstate	State Intralata	State Interlata	Interstate	
All Other Services - Category 2								
Message Processing - Toll & Local	182,006	117,330	22,932	41,745				(1)
E.U.C.L. Billing & Collecting								
Other Billing & Collecting	401,436	111,935	21,877	133,812				133,812
CABS Billing & Collecting	8,854		4,427	4,427				
Sub-total - All Other Services - Cat. 2	592,296	229,265	49,236	179,984				133,811
All Other Services - Category 3	9,528		9,528					
6620 TOTAL Services Expense	1,953,071	406,083	150,005	462,549	1,197		5,481	927,756
TOTAL Customer Operations Expense	2,058,877	431,280	162,885	487,085	2,694		6,510	968,423
Corporate Operations Expense								
6710 Total Executive & Planning Exp	613,563	80,035	47,772	141,882	14,873	278	20,433	308,290
6720 Total General & Admin Exp	2,283,409	292,210	174,417	561,287	54,303	1,015	74,603	1,125,574
TOTAL Corporate Operations Expense	2,896,972	372,245	222,189	703,169	69,176	1,293	95,036	1,433,864
Other Oper. Exp., Tax, ITC & Fixed Charges								
5301 Uncollectibles	110,567							110,567
7210 ITC - Operating								
Equal Access Expense								
7240 Ad Valorem Tax	390,637	38,271	30,190	89,565	13,021	247	17,628	201,715
7240 Gross Receipts Tax								
7240 PUC Fees								
7240 Other Operating Taxes								
7340 Interest During Construction	120,300	11,786	9,297	27,582	4,010	76	5,429	62,120
7370 Special Charges								
7510 Interest Expense - Funded Debt								
7520 Interest Expense - Capital Lease								
7540 Int. on Customer Deposits (CWC)	18,679	1,842	1,477	4,258	657	12	890	9,543
7910 Inc. Eff.-Juris. Ratemaking Diff								
TOTAL Other Expenses and Taxes (Excludes 7210, 7340, 7510, 7520)	519,883	40,113	31,667	93,823	13,678	259	18,518	321,825
Miscellaneous Revenues								
5240 Rent Rev - GSF								
5240 Rent Rev - COE								
5240 Rent Rev - C & WF								
5240 Rent Rev - Direct Assignment								
5250 Corporate Operations Revenues								
5260 Miscellaneous Revenues								
TOTAL Miscellaneous Revenues								
Summary Of Operating Expenses & Taxes								
6110 Total Network Support Expense								
6120 Total General Support Expense	367,177	35,972	28,377	84,186	12,239	232	16,570	189,601
6210 Total Central Office Sw Exp	1,061,045	112,349	88,750	219,123	68,283	1,222	104,692	466,626
6220 Total Central Office Opers Sys								
6230 Total Central Office Trans Exp	78,501	8,312	6,566	16,212	5,052	90	7,746	34,523
6310 Total Info Orig/Term Equip Exp								
6410 Total C & WF Exp	2,065,676	193,747	152,710	498,426	35,053	743	34,869	1,150,128
TOTAL Plant Specific Operations Expense	3,572,399	350,380	276,403	817,947	120,627	2,287	163,877	1,840,878
6510 Total Oth Prop Plant & Equip Exp	5,151	505	398	1,181	172	3	232	2,660
6530 Total Network Operations Exp	1,817,633	178,074	140,472	416,747	60,589	1,151	82,024	938,576
6540 Total Access Expenses	472,599	237,427		235,172				
6560 Total Depreciation & Amort Exp	5,153,575	501,954	396,192	1,160,552	210,227	3,928	295,393	2,585,329
TOTAL Plant Non-Specific Operations Expense	7,448,958	917,960	537,062	1,813,652	270,988	5,082	377,649	3,526,565
6610 Total Marketing Expense	105,806	25,197	12,880	24,536	1,497		1,029	40,667
6620 Total Services Expense	1,953,071	406,083	150,005	462,549	1,197		5,481	927,756
TOTAL Customer Operations Expense	2,058,877	431,280	162,885	487,085	2,694		6,510	968,423
6710 Total Executive & Planning Exp	613,563	80,035	47,772	141,882	14,873	278	20,433	308,290
6720 Total General & Admin Exp	2,283,409	292,210	174,417	561,287	54,303	1,015	74,603	1,125,574
TOTAL Corporate Operations Expense	2,896,972	372,245	222,189	703,169	69,176	1,293	95,036	1,433,864
TOTAL Other Expenses & Taxes	519,883	40,113	31,667	93,823	13,678	259	18,518	321,825
TOTAL Operating Expenses & Taxes	16,497,089	2,111,978	1,230,206	3,915,676	477,163	8,921	661,590	8,091,555
Miscellaneous Revenues								
TOTAL Expenses Less Misc Revenues	16,497,089	2,111,978	1,230,206	3,915,676	477,163	8,921	661,590	8,091,555
TOTAL Expenses Less Interstate-Only Items	16,497,089	2,111,978	1,230,206	3,915,676	477,163	8,921	661,590	8,091,555

North Central Telephone Coop., Inc.
 2006 Annual Toll Cost Study - Revised
 Cash Working Capital

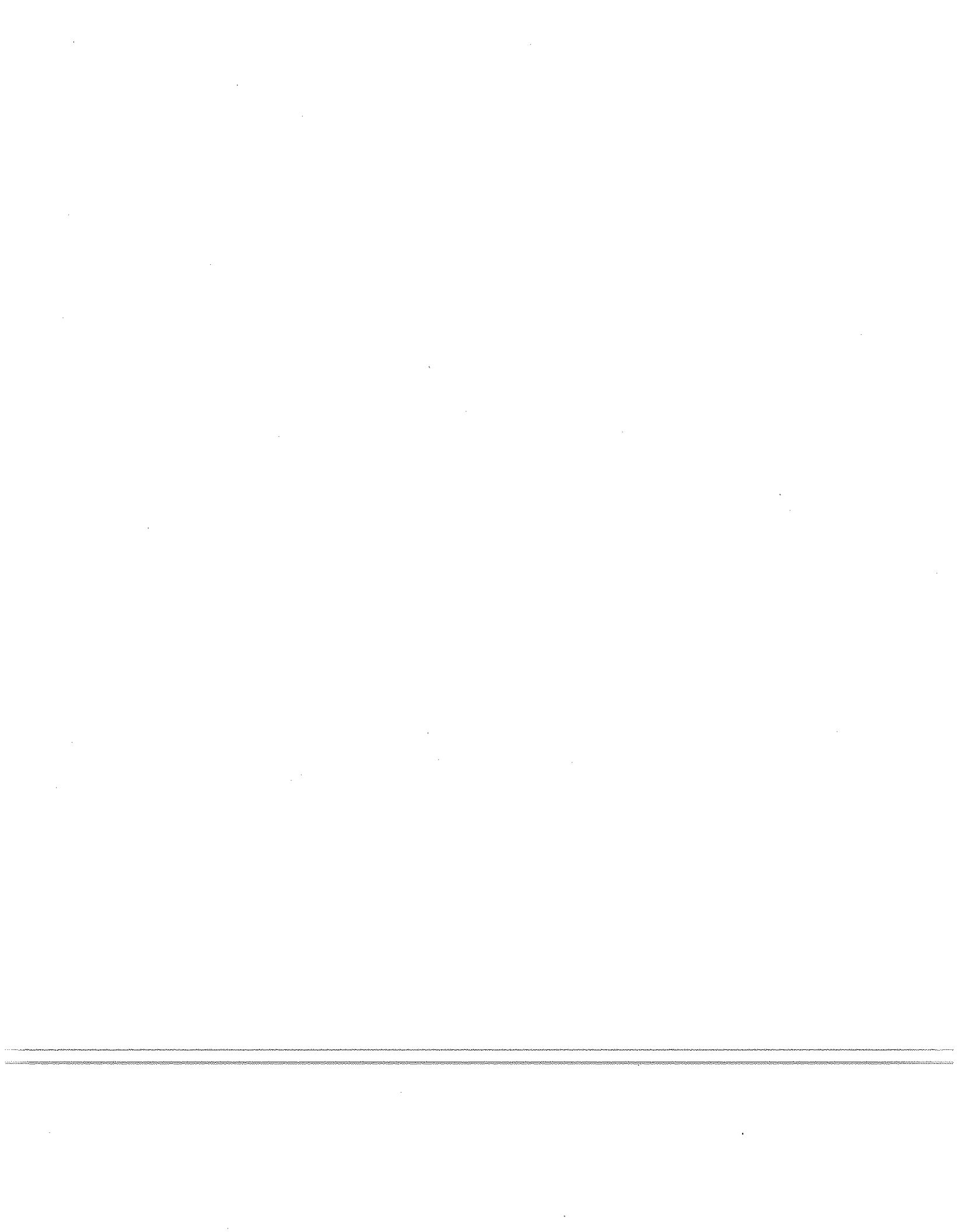
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	Total	Message Telephone			Private Lines			Other
		State Intralata	State Interlata	Interstate	State Intralata	State Interlata	Interstate	
Plant Specific Expense	3,572,399							
Plant Non-Specific (Less 6560) Expense	2,295,383							
Customer Operations Expense	2,058,877							
Corporate Operations Expense	2,896,972							
Other Expenses And Taxes								
Equal Access Expense								
7210 ITC - Operating								
7220 Operating F.I.T. - booked								
7230 Operating S.I.T. - booked								
7240 Ad Valorem Tax	390,637							
7240 Gross Receipts Tax								
7240 PUC Fees								
7240 Other Operating Taxes								
7370 Special Charges								
7510 Interest Expense								
7540 Interest on Customer Deposits	18,679							
7910 Inc Eff-Juris Ratemaking Diff								
TOTAL Expenses and Taxes	11,232,947			2,761,943			360,827	
Standard Allowance Factor	0.041096			0.041096			0.041096	
Cash Working Capital	461,629			113,505			14,829	
Study Period Multiplier (12 / 12) - Annual = 1	1			1			1	
Study Period Cash Working Capital	461,629			113,505			14,829	

North Central Telephone Coop., Inc.
 2006 Annual Toll Cost Study - Revised
 Revenue Requirement

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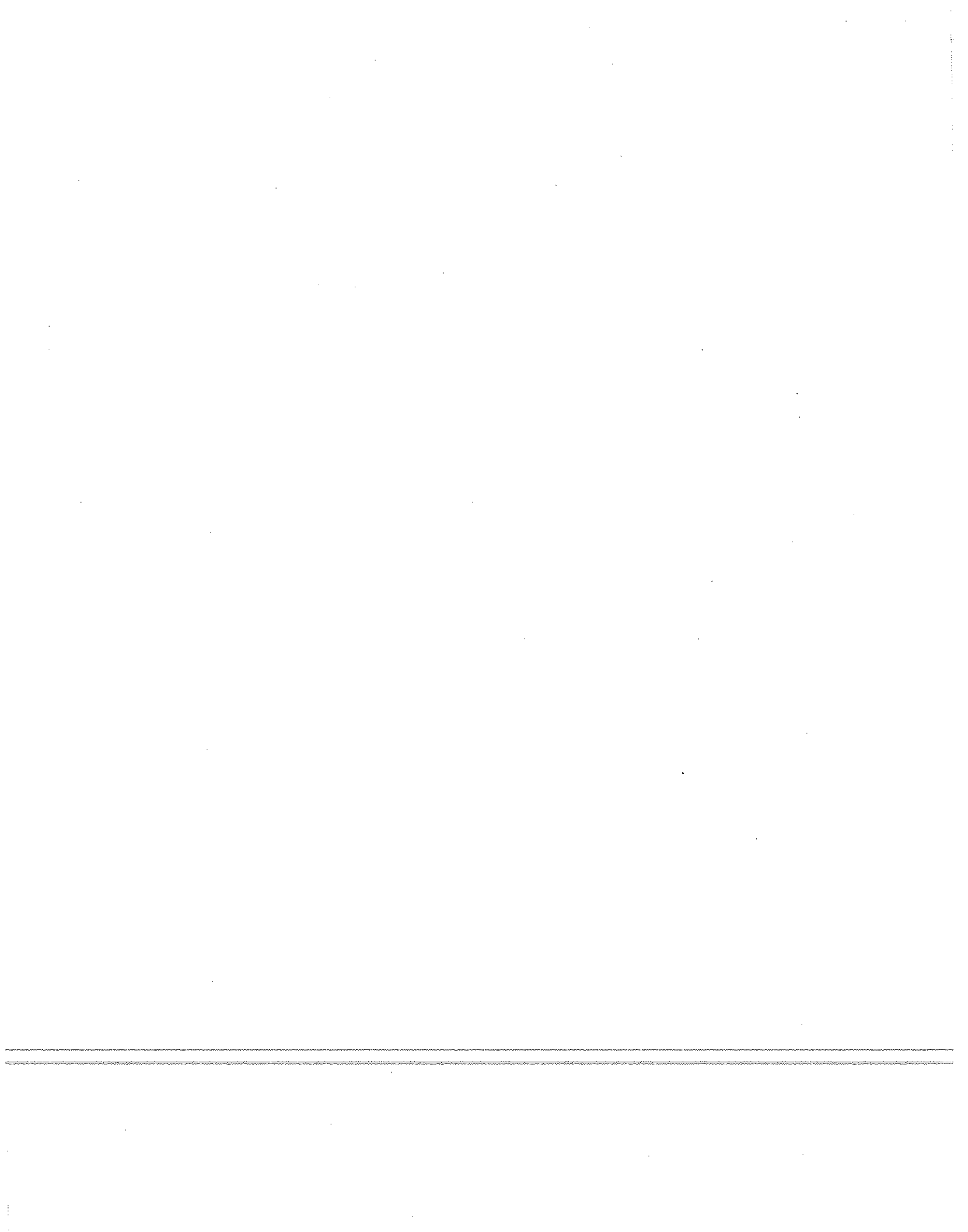
REVENUE REQUIREMENT	Total	Message Telephone			Private Lines			Other
		State Intralata	State Interlata	Interstate	State Intralata	State Interlata	Interstate	
1. Net Investment	39,504,167	3,882,907	3,112,854	9,090,042	1,384,461	26,173	1,891,074	20,116,656
2. Rate of Return		11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%	11.2500%
3. Return (Line 1 x Line 2)		436,827	350,196	1,022,630	155,752	2,944	212,746	2,263,124
4. IDC		11,786	9,297	27,582	4,010	76	5,429	62,120
5. Less Net Adds/Deducts for FIT								
6. Less ITC								
7. Total FIT Base (Line 4 - 5 - 6)		436,827	350,196	1,022,630	155,752	2,944	212,746	2,263,124
8. FIT Gross-up Factor								
9. Gross FIT (Line 7 x Line 8)								
10. Less ITC								
11. Net FIT (Line 9 - Line 10)								
12. Total SIT Base (Line 7 + Line 9)		436,827	350,196	1,022,630	155,752	2,944	212,746	2,263,124
13. SIT Rate								
14. Net SIT (Line 12 x Line 13)								
15. Return + FIT + SIT - IDC (Line 3+11+14-4)		425,041	340,899	995,048	151,742	2,868	207,317	2,201,004
16. Total Exp's, Taxes less Misc. Rev's	16,497,089	2,111,978	1,230,206	3,915,676	477,163	8,921	661,590	8,091,555
17. Total Rev. Req't. (Line 15 + 16)		2,537,019	1,571,105	4,910,724	628,905	11,789	868,907	10,292,559



NORTH CENTRAL TELEPHONE COOPERATIVE
Response for Section 10(10)f
Expenditures - January through August 2007

Expenditure Item	Account	Amount
Membership Dues	6728.2	\$46,581.47
Initiation Fees	NONE	\$0.00
Country Clubs	6728.2	\$1,475.00
Charitable Contributions**	6722 / 6728.0	\$7,169.24
Marketing	6610	
-Salaries		\$6,802.49
-Benefits		\$4,722.77
-Other (including Chaz Taylor)		\$148,868.71
Sales	N/A	\$0.00
Advertising	6613	\$20,374.03
Professional Services		
-Legal Services	6725	\$103,009.29
-Audit Services	6721	\$27,548.93
-Consulting Services	6721/6725	\$99,874.72
Civic Activities**	6722 / 6728.0	\$10,448.65
Employee Parties	6728.0	\$6,706.15
Employee Gifts(service pins given at picnic)	6728.0	\$4,097.66

** Charitable contributions and civic/political activities are recorded in accounts 6722 and 6728.0. These expense items are not tracked separately. Amounts presented based on review of expenditures recorded in these accounts.



NORTH CENTRAL TELEPHONE COOPERATIVE, INC.
SECTION 10(10)(G) - Analysis of Payroll Costs

YEAR	TOTAL PAYROLL COSTS	EMPLOYEE BENEFITS	PAYROLL TAXES	STRAIGHT TIME (HRS)	OVERTIME (HRS)	EXECUTIVE COMPENSATION
2006	\$5,660,867.48	\$4,280,997.37	\$449,260.76	224,482.70	3,254.63	\$173,630.79
** 2007	\$4,087,979.17	\$2,390,913.37	\$312,827.93	155,669.58	2,217.02	\$131,923.89

** DATA THROUGH 9/14/07 PAYROLL.

EXECUTIVE COMPENSATION REPRESENTS PAYROLL FOR ONE POSITION, THE PRESIDENT AND CHIEF EXECUTIVE OFFICER.



AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TENNESSEE 545
NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION
AND SUBSIDIARY
LAFAYETTE, TENNESSEE

December 31, 2005 and 2004

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CONTENTS

Consolidated Financial Statements:

Independent Auditors' Report.....	Page 3
Consolidated Balance Sheets	4
Consolidated Statements of Income and Patronage Capital	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements.....	10

Consolidating Information:

Independent Auditors' Report on Consolidating Information	21
Consolidating Balance Sheets.....	22
Consolidating Statements of Income and Patronage Capital	24

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INDEPENDENT AUDITORS' REPORT

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the accompanying consolidated balance sheets of North Central Telephone Cooperative Corporation and Subsidiary as of December 31, 2005 and 2004, and the related consolidated statements of income and patronage capital and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Central Telephone Cooperative Corporation and Subsidiary as of December 31, 2005 and 2004, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2006, on our consideration of North Central Telephone Cooperative Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Totherow, Haile & Welch, PLLC
Certified Public Accountants

McMinnville, Tennessee

January 20, 2006

CONSOLIDATED

NORTH CENTRAL TELEPHONE COOPERATIVE

December 31, 2005

	2005	2004
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 6,705,672	\$ 4,628,583
Cash - construction funds	1,320,073	89,845
Temporary cash investments	3,894,963	4,492,347
Notes receivable	20,856	26,244
Telecommunications accounts receivable, less allowances of \$71,418 in 2005 and \$57,758 in 2004	1,462,169	1,728,311
Other accounts receivable	49,718	40,495
Materials and supplies	436,497	490,502
Other current assets	372,309	541,107
TOTAL CURRENT ASSETS	\$ 14,262,257	\$ 12,037,434
<u>NONCURRENT ASSETS</u>		
Investments	\$ 15,297,649	\$ 14,808,382
Notes receivable - net of current portion	14,520	22,690
Nonregulated investments	167,298	228,103
Goodwill, less accumulated amortization of \$57,494 in 2005 and 2004	572,983	542,983
TOTAL NONCURRENT ASSETS	\$ 16,052,450	\$ 15,602,158
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service	\$ 82,028,478	\$ 80,321,403
Telecommunications plant under construction	7,430,249	6,777,246
	\$ 89,458,727	\$ 87,098,649
Less accumulated provision for depreciation	44,668,965	43,892,530
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 44,789,762	\$ 43,206,119
	<u>\$ 75,104,469</u>	<u>\$ 70,845,711</u>

See the notes to financial statements.

BALANCE SHEETS

CORPORATION AND SUBSIDIARY

and 2004

	2005	2004
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 1,427,881	\$ 902,472
Advance billings and payments	163,662	150,380
Customer deposits	444,353	478,501
Current maturities on long-term debt	2,365,248	2,306,233
Accrued taxes	365,384	576,663
Accrued interest	140,527	159,144
Accrued rents	462,884	354,521
Accrued salaries and wages	217,496	229,298
Accrued vacation and sick leave benefits	1,965,591	1,939,283
Other current liabilities	512,873	706,754
TOTAL CURRENT LIABILITIES	\$ 8,065,899	\$ 7,803,249
<u>LONG-TERM DEBT</u>		
Rural Utilities Service	21,958,211	18,841,718
Other long-term debt	2,686,886	2,969,678
<u>OTHER LIABILITIES</u>		
Postretirement benefits other than pension	623,391	395,160
Deferred taxes	997,543	546,767
TOTAL LIABILITIES	\$ 34,331,930	\$ 30,556,572
<u>MEMBERS' EQUITY</u>		
Memberships	\$ 0	\$ 6,580
Patronage capital	40,772,539	40,282,559
TOTAL MEMBERS' EQUITY	\$ 40,772,539	\$ 40,289,139
	<u>\$ 75,104,469</u>	<u>\$ 70,845,711</u>

CONSOLIDATED STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2005 and 2004

	2005	2004
Operating revenues:		
Local network services revenue	\$ 4,822,329	\$ 4,951,831
Network access services revenue	6,774,162	6,367,587
Long distance network services revenue	3,748,148	3,601,109
Miscellaneous revenue	8,585,567	8,780,603
TOTAL OPERATING REVENUES	<u>\$ 23,930,206</u>	<u>\$ 23,701,130</u>
Operating expenses:		
Plant specific operations expense	\$ 3,976,780	\$ 3,980,587
Plant nonspecific operations expense	2,038,798	1,895,792
Provision for depreciation and amortization	5,673,892	5,535,062
Customer operations expense	5,575,559	6,697,408
Corporate operations expense	5,526,293	5,174,080
Operating taxes	447,537	413,563
TOTAL OPERATING EXPENSES	<u>\$ 23,238,859</u>	<u>\$ 23,696,492</u>
OPERATING INCOME	\$ 691,347	\$ 4,638
Other income:		
Income from investments	\$ 1,317,701	\$ 1,972,786
Interest and dividends	348,444	247,452
Nonregulated loss	(52,382)	(24,744)
Gain on sale of investment	16,577	4,442,208
Gain (loss) on sale of equipment	110,514	(1,070,066)
TOTAL OTHER INCOME	<u>\$ 1,740,854</u>	<u>\$ 5,567,636</u>
Fixed charges:		
Interest expense	\$ 1,135,783	\$ 1,250,473
Interest charged to construction - credit	(202,559)	(187,219)
TOTAL FIXED CHARGES	<u>\$ 933,224</u>	<u>\$ 1,063,254</u>
INCOME BEFORE TAXES ON INCOME	\$ 1,498,977	\$ 4,509,020
Taxes on income	422,536	1,087,620
NET INCOME	<u>\$ 1,076,441</u>	<u>\$ 3,421,400</u>
Patronage capital at beginning of year	40,282,559	37,453,905
Capital credits paid and applied	(597,864)	(605,972)
Excise tax refundable on capital credits	11,403	13,226
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 40,772,539</u>	<u>\$ 40,282,559</u>

See the notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash received from customers	\$ 24,187,125	\$ 23,469,702
Cash paid to suppliers and employees	(16,033,144)	(17,410,726)
Interest received	266,961	195,633
Interest paid	(951,841)	(1,118,587)
Taxes paid	(1,012,133)	(1,906,933)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,456,968	\$ 3,229,089
Cash flows from investing activities:		
Construction and acquisition of plant	\$ (7,051,873)	\$ (6,908,268)
Proceeds from sale of property and equipment	131,789	25,682
Proceeds from sale of investment	16,577	4,442,207
Plant removal costs	(305,459)	(23,749)
Investment in partnership	0	(613,800)
Salvage	24,114	6,300
Cash distribution from investments	943,867	1,069,248
Investment in nonregulated CPE	60,805	20,861
Goodwill purchased	(40,000)	(40,000)
Increase in notes receivable	(22,473)	(43,832)
Collection on notes receivable	36,031	41,863
Decrease (Increase) in:		
Materials and supplies	54,005	256,045
Temporary investments	597,384	(1,498,113)
Other investments	(35,794)	(54,253)
Nonregulated income	(52,382)	(24,744)
NET CASH USED BY INVESTING ACTIVITIES	\$ (5,643,409)	\$ (3,344,553)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2005 and 2004

	2005	2004
Cash flows from financing activities:		
Debt proceeds	\$ 5,144,588	\$ 4,125,856
Payments on long-term borrowings	(2,251,872)	(5,086,219)
Decrease in memberships	(6,580)	0
Excise credit applied to capital	11,403	13,226
Capital credits paid and applied	(597,864)	(605,972)
Postretirement benefits other than pension	228,231	74,590
Increase in customer deposits	(34,148)	(112,258)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>\$ 2,493,758</u>	<u>\$(1,590,777)</u>
NET INCREASE (DECREASE) IN CASH	\$ 3,307,317	\$(1,706,241)
CASH AT BEGINNING OF YEAR	<u>4,718,428</u>	<u>6,424,669</u>
CASH AT END OF YEAR	<u>\$ 8,025,745</u>	<u>\$ 4,718,428</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2005 and 2004

	2005	2004
Net income	\$1,076,441	\$3,421,400
Nonregulated loss	52,382	24,744
Income from investments	<u>(1,317,701)</u>	<u>(1,972,786)</u>
Net income (loss) from regulated operations	\$ (188,878)	\$1,473,358
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	\$5,740,144	\$5,606,311
Loss (Gain) on sale of equipment	(110,514)	1,070,066
Gain on sale of investment	(16,577)	(4,442,208)
Deferred taxes on income	450,776	(89,386)
Noncash patronage allocation	(81,483)	(51,819)
Decrease (Increase) in:		
Customer and accounts receivable	256,919	(216,493)
Current and accrued assets - other	168,798	(142,854)
Increase (Decrease) in:		
Accounts payable	525,409	(593,431)
Advance billings and payments	13,282	6,331
Accrued taxes	(211,279)	119,906
Accrued interest	(18,617)	(55,333)
Accrued rents	108,363	61,838
Accrued salaries and employee benefits	14,506	241,506
Other current liabilities	<u>(193,881)</u>	<u>241,297</u>
TOTAL ADJUSTMENTS	<u>\$6,645,846</u>	<u>\$1,755,731</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$6,456,968</u>	<u>\$3,229,089</u>

See the notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2005 and 2004

Note A – North Central Telephone Cooperative Corporation and Subsidiary provides retail telecommunications services to Macon County, Tennessee and surrounding counties including a portion of southern Kentucky. North Central Telephone Cooperative Corporation and Subsidiary has adopted the following accounting policies:

(1) Principles of Consolidation:

North Central Telephone Cooperative Corporation (Cooperative) owns 100% of the outstanding common stock of North Central Communications, Inc. and Subsidiaries (Subsidiary). North Central Communications, Inc. and Subsidiaries were formed for the purpose of providing long distance and other telephone services, computer sales and services and security systems. The consolidated financial statements include the accounts of North Central Communications, Inc. and Subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Cooperative operates on a fiscal year ending December 31. The Subsidiary operates on a fiscal year ending September 30. The consolidated financial statements reflect the results of operations from January 1 through December 31 for the Cooperative and from October 1, 2004 through September 30, 2005 for the Subsidiary.

- (2) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- (3) For purposes of financial statement presentation, the Cooperative and Subsidiary consider all highly-liquid investments with a maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of treasury bills and notes and commercial paper with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as temporary investments.
- (4) Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. No interest is charged on accounts receivable balances that are past due. Past due accounts receivable are based upon contractual terms as defined on customer invoices.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2005 and 2004

Note A – (Cont'd):

The allowance for doubtful accounts is based upon a credit review of the accounts receivable, past bad debt experience, current economic conditions and other pertinent factors which form a basis for determining the adequacy of the allowance. The allowance represents an estimate based upon these and other factors and, it is at least reasonably possible that a change in the estimate will occur in the near term.

Telecommunication services are provided to the customers on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

- (5) Material and supplies are valued at average cost accumulated in perpetual inventory records, which are periodically adjusted to physical counts.
- (6) Employee vacation and sick leave benefits are accrued as the benefits are earned according to an established policy.
- (7) The Cooperative's expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired from service are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation. The Subsidiary provides for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its estimated useful life.
- (8) Advertising costs are charged to expense as incurred. These costs amounted to \$149,050 in 2005 and \$272,985 in 2004.

Note B – Substantially all assets of the Cooperative are pledged as security for the long-term debt to RUS.

Note C – The Cooperative and Subsidiary maintain their cash and temporary investments in several commercial banks located within their trade area. The Federal Deposit Insurance Corporation (FDIC) insures accounts and temporary investments up to \$100,000. A summary of the total insured and uninsured cash balances follows:

Total cash and temporary investments	\$12,179,583
Portion insured by FDIC	<u>1,013,430</u>

Uninsured cash balances \$11,166,153

Restricted cash consists of an employee savings account in which \$94,158 has been deposited.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2005 and 2004

Note D – Notes receivable balances are the result of computer equipment sales to customers. The average term of the notes is three years with an average interest rate of 15%, due in monthly installments with interest computed by the simple interest method. The following is a schedule of estimated maturities of the note principal amounts for the next three years:

<u>Year ending September 30,</u>	<u>Amount</u>
2006	\$20,856
2007	11,391
2008	<u>3,129</u>
TOTAL	<u>\$35,376</u>

Note E – Investments:

	<u>2005</u>	<u>2004</u>
Rural Telephone Bank "c" stock - at cost	\$ 1,000	\$ 1,000
NECA Services, Inc. stock - at cost	10,000	10,000
Cash value of life insurance	519,581	483,783
Investment in Tennessee RSA #3 cellular partnership (16.67%)	1,120,387	1,689,277
Investment in Kentucky RSA #3 cellular partnership (25%)	9,799,430	9,058,440
Investment in Bluegrass Network, LLC (20%)	2,402,050	2,146,582
Investment in Bluegrass Telecom, LLC (20%)	347,970	459,572
Qualified patronage capital certificates – NRTC	332,303	250,821
Tennessee 220 MHZ Radio	156,372	156,372
Tennessee Independent Telecom Group (IRIS Networks) (10%)	499,599	441,730
NRTC Wildblue project	108,609	110,450
Deposits	<u>355</u>	<u>355</u>
	<u>\$15,297,649</u>	<u>\$14,808,382</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2005 and 2004

Note E – (Cont'd)

The following is a summary of selected financial information from the financial statements of the investments in which North Central Communications, Inc. owns a significant percentage:

	Tennessee RSA #3 cellular partnership	Kentucky RSA #3 cellular partnership	Bluegrass Network, LLC	Bluegrass Telecom, LLC	Tennessee Independent Telecom Group
Total assets	\$19,410,105	\$40,844,000	\$12,834,401	\$3,584,000	\$16,936,103
Total liabilities	\$12,689,135	\$ 4,612,000	\$ 824,153	\$1,874,000	\$11,940,096
Total equity	\$ 6,720,970	\$36,232,000	\$12,010,248	\$1,710,000	\$ 4,996,007
Net income(loss)	\$(3,307,684)	\$ 2,383,798	\$ 998,341	\$1,459,332	\$ 457,294

Nonregulated investments:

	<u>2005</u>	<u>2004</u>
Nonregulated customer premises equipment - leased	\$617,463	\$627,189
Less accumulated provisions for depreciation	<u>450,165</u>	<u>399,086</u>
	<u>\$167,298</u>	<u>\$228,103</u>

Nonregulated customer premises equipment is stated at cost. The Cooperative provides for depreciation on a straight-line basis at an annual rate of depreciation, which will amortize the cost of the equipment over its estimated useful life.

Note F – In June 2001, the Financial Accounting Standards Board issued SFAS No. 142 "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and other indefinite lived intangible assets are no longer amortized but reviewed annually, or sooner if deemed necessary, for impairment. Goodwill represents the excess cost over fair value of net assets acquired through acquisitions. During 2005, there was no recorded impairment of goodwill.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2005 and 2004

Note G – Telephone plant in service and under construction is stated at cost. Listed below are the major classes of the telephone plant as of December 31:

	<u>2005</u>	<u>2004</u>
Franchises	\$ 236	\$ 236
Land	735,097	750,733
Buildings	5,217,281	4,495,122
Central office equipment	21,585,401	22,795,972
Poles, cables and wire	43,398,454	40,749,674
Furniture and office equipment	2,023,460	2,586,498
Vehicles and other work equipment	<u>2,873,625</u>	<u>2,886,533</u>
TOTAL PLANT IN SERVICE	<u>\$75,833,554</u>	<u>\$74,264,768</u>

The Cooperative provides for depreciation on a straight-line basis of annual rates, which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of telephone plant in service was 6.92 percent for 2005 and 6.16 percent for 2004. The provision for 2005 was \$5,196,226 and the provision for 2004 was \$4,835,626.

Individual plant depreciation rates are as follows:

	<u>Percent</u>
Buildings	2.6
Central office equipment	6.7 – 21.0
Public telephone equipment	15.1
Poles, cable and wire	1.7 – 8.8
Furniture and office equipment	6.7 – 16.4
Vehicles and other work equipment	6.4 – 10.8
DBS and internet equipment	18.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2005 and 2004

Note G – (Cont'd)

Investment in property and equipment included in the Subsidiary:

	<u>2005</u>	<u>2004</u>
Land	\$ 67,937	\$ 67,937
Building	808,972	808,972
CATV equipment	4,582,721	4,431,321
Office furniture and fixtures	98,143	96,230
Equipment	405,007	401,433
Vehicles	<u>232,144</u>	<u>250,742</u>
TOTAL	<u>\$6,194,924</u>	<u>\$6,056,635</u>

The Subsidiary provides for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its useful life. Depreciation charged to expense on the Subsidiary's records amounted to \$543,915 in 2005 and \$699,436 in 2004.

Note H – A description of notes payable follows:

Long-term debt is represented by mortgage notes payable to the United States of America and other lenders. Following is a summary of outstanding long-term debt:

	<u>2005</u>	<u>2004</u>
2% Rural Utilities Service notes	\$ 152,276	\$ 272,849
4.1% to 5% Rural Utilities Service notes	23,888,392	20,606,521
6.5% Steve Cothran, matures January 6, 2018	433,161	454,019
5.0% Farmers National Bank, matures October 22, 2013	<u>2,536,516</u>	<u>3,238,259</u>
	\$27,010,345	\$24,117,629
Less current maturities	<u>2,365,248</u>	<u>2,306,233</u>
	<u>\$24,645,097</u>	<u>\$21,811,396</u>

The Rural Utilities Service notes have various maturity dates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2005 and 2004

Note H – (Cont'd)

Long-term debt matures as follows:

<u>December 31,</u>	<u>Amount</u>
2006	\$ 2,365,248
2007	2,484,335
2008	2,609,156
2009	2,740,804
2010	2,878,821
Beyond five years	<u>13,931,981</u>
TOTAL	<u>\$27,010,345</u>

Note I– The Cooperative has adopted the retirement and security program of the National Telephone Cooperative Association as a pension plan covering all employees meeting certain age and length of service requirements for which it pays approximately 80% of the cost. The Cooperative funds the pension plan by making monthly contributions into the program based on salaries. The Cooperative's cost was \$656,591 for 2005 and \$561,647 for 2004.

Note J – Income taxes are accounted for using Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). Under the provision for FAS 109, an entity recognizes deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the Cooperative's financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Under FAS 109, measurement is computed using applicable current tax rates.

	<u>2005</u>	<u>2004</u>
Current income tax expense	\$ (28,240)	\$1,177,006
Deferred income tax expense (reduction)	<u>450,776</u>	<u>(89,386)</u>
	<u>\$422,536</u>	<u>\$1,087,620</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2005 and 2004

Note J – (Cont'd)

The deferred tax liability is primarily the result of timing differences related to the Cooperative's investments in several limited partnerships.

	<u>2005</u>	<u>2004</u>
Deferred tax liability at beginning of year	\$ 546,767	\$636,153
Current period increase for deferred taxes on income	<u>695,199</u>	<u>164,247</u>
Deferred tax liability at end of year	\$1,241,966	\$800,400
Less deferred tax benefit at end of year	<u>244,423</u>	<u>253,633</u>
Deferred tax liability at end of year	<u>\$ 997,543</u>	<u>\$546,767</u>

The deferred tax asset is primarily the result of net operating losses that are carried forward for state income tax reporting purposes from North Central Communication's investment in its wholly owned subsidiaries.

The Subsidiary has a net operating loss carryforward of approximately \$3,499,895, which is available to offset future state taxable income. This carryforward will expire in 14 to 20 years.

Note K – The Cooperative has adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions". Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Cooperative's obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. The cost of health benefits for current and future associate retirees was recognized as determined under the projected unit credit cost method.

Substantially all of the Cooperative's employees are covered under postretirement health and life insurance plans. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on 25% of the preretirement life insurance benefit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2005 and 2004

Note K – (Cont'd):

The following table sets forth the plan's funded status and the amount recognized in the Cooperative's Balance Sheet as of December 31:

	<u>2005</u>	<u>2004</u>
Accumulated postretirement obligation attributable to:		
Retirees	\$(3,176,592)	\$(1,871,993)
Fully eligible plan participants	(1,676,439)	(1,703,019)
Other active plan participants	<u>(2,984,213)</u>	<u>(3,969,231)</u>
 Total accumulated postretirement benefit obligation	 \$(7,837,244)	 \$(7,544,243)
 Fair value of plan assets	 <u>4,284,633</u>	 <u>3,952,614</u>
 Accumulated postretirement benefit obligation in excess of plan assets	 \$(3,552,611)	 \$(3,591,629)
 Unrecognized net gains	 2,326,190	 2,492,933
Unamortized initial obligation	<u>603,030</u>	<u>703,536</u>
 Accrued postretirement benefit obligation	 <u>\$ (623,391)</u>	 <u>\$ (395,160)</u>

Postretirement benefit cost is composed of the following for the year ended December 31:

	<u>2005</u>	<u>2004</u>
Benefits earned during the year	\$ 352,493	\$ 275,339
Interest on accumulated postretirement benefit obligation	528,798	451,134
Actual return on plan assets	(382,019)	(318,481)
Net amortization of transition obligation over 20 years	100,506	100,506
Net amortization and deferral	<u>166,743</u>	<u>104,322</u>
 <u>Postretirement benefit cost</u>	 <u>\$ 766,521</u>	 <u>\$ 612,820</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2005 and 2004

Note K – (Cont'd):

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 6.50% at December 31, 2004 and 5.75% at January 1, 2005. The assumed rate of future increases in compensation levels was 6.00% at December 31, 2005. The medical cost trend rate in 2005 was approximately 9.00% grading down to an ultimate rate in 2010 of 5.00%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of 2005 net periodic postretirement benefit cost by \$55,874 and would have increased the accumulated postretirement benefit obligation as of December 31, 2005 by \$383,793.

Note L – Labor Force

Approximately 80% of the Cooperative's labor force is subject to a collective bargaining agreement. A three-year agreement was negotiated and approved for the period January 1, 2003 to December 31, 2005 between the Cooperative and the Communications Workers of America.

Note M – Commitments and Contingencies

The Cooperative is a guarantor for loans in the amount of \$1,777,778. These loans are the obligation of TN Independent Telecommunications Group d/b/a Iris Networks, a related party.

The Cooperative accrues pole rental based on contracts it has with other utility companies. These contracts establish the rate per pole the Cooperative pays to attach to these entities. Currently one electric cooperative has invoiced the Cooperative for attachment rates that are significantly higher than the contract amounts. Management is currently trying to resolve this matter and believes it will be successful. At December 31, 2005 the accrued pole rent has been accrued at the contract rate not invoiced rate.

CONSOLIDATING INFORMATION

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

Our report on our audits of the consolidated financial statements of North Central Telephone Cooperative Corporation and Subsidiary for 2005 and 2004 appears on page 3. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information contained on pages 21 through 24 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Totherow, Haile & Welch, PLLC
Certified Public Accountants

McMinnville, Tennessee
January 20, 2006

CONSOLIDATING

NORTH CENTRAL TELEPHONE

December 31,

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash - general	\$ 6,005,858	\$ 699,814	\$ 0	\$ 6,705,672
Cash - construction funds	1,320,073	0	0	1,320,073
Temporary cash investments	1,794,963	2,100,000	0	3,894,963
Telecommunications accounts receivable	1,204,136	258,033	0	1,462,169
Notes receivable - current	0	20,856	0	20,856
Other accounts receivable	49,718	0	0	49,718
Advance to related company	0	319,384	(319,384)	0
Materials and supplies	210,531	225,966	0	436,497
Other current assets	54,815	360,943	(43,449)	372,309
TOTAL CURRENT ASSETS	\$ 10,640,094	\$ 3,984,996	\$ (362,833)	\$ 14,262,257
<u>NONCURRENT ASSETS</u>				
Investment in subsidiary	\$ 19,191,590	\$ 0	\$ (19,191,590)	\$ 0
Investments	530,574	14,767,075	0	15,297,649
Nonregulated investments	167,298	0	0	167,298
Notes receivable	0	14,520	0	14,520
Goodwill - net	0	572,983	0	572,983
TOTAL NONCURRENT ASSETS	\$ 19,889,462	\$ 15,354,578	\$ (19,191,590)	\$ 16,052,450
<u>PROPERTY, PLANT AND EQUIPMENT</u>				
Telecommunications plant in service	\$ 75,833,554	\$ 6,194,924	\$ 0	\$ 82,028,478
Telecommunications plant under construction	7,383,088	47,161	0	7,430,249
	\$ 83,216,642	\$ 6,242,085	\$ 0	\$ 89,458,727
Less accumulated provision for depreciation	42,887,022	1,781,943	0	44,668,965
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 40,329,620	\$ 4,460,142	\$ 0	\$ 44,789,762
	\$ 70,859,176	\$ 23,799,716	\$ (19,554,423)	\$ 75,104,469

BALANCE SHEETS

COOPERATIVE CORPORATION AND SUBSIDIARY

2005

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable	\$ 982,728	\$ 445,153	\$ 0	\$ 1,427,881
Advance billings and payments	121,496	42,166	0	163,662
Advance to related company	362,833	0	(362,833)	0
Customer deposits	444,353	0	0	444,353
Current maturities on long-term debt	2,082,456	282,792	0	2,365,248
Accrued taxes	362,314	3,070	0	365,384
Accrued interest	119,144	21,383	0	140,527
Accrued rent	462,884	0	0	462,884
Accrued salaries and wages	204,070	13,426	0	217,496
Accrued vacation and sick leave benefits	1,965,591	0	0	1,965,591
Other current liabilities	<u>397,166</u>	<u>115,707</u>	<u>0</u>	<u>512,873</u>
TOTAL CURRENT LIABILITIES	\$ 7,505,035	\$ 923,697	\$ (362,833)	\$ 8,065,899
<u>LONG-TERM DEBT</u>				
Rural Utilities Service	21,958,211	0	0	21,958,211
Other long-term debt	0	2,686,886	0	2,686,886
<u>OTHER LIABILITIES</u>				
Postretirement benefits other than pension	623,391	0	0	623,391
Deferred taxes - net	<u>0</u>	<u>997,543</u>	<u>0</u>	<u>997,543</u>
TOTAL LIABILITIES	\$ 30,086,637	\$ 4,608,126	\$ (362,833)	\$ 34,331,930
<u>MEMBERS' EQUITY</u>				
Capital stock	\$ 0	\$ 8,100,000	\$ (8,100,000)	\$ 0
Patronage capital	40,772,539	0	0	40,772,539
Retained earnings	<u>0</u>	<u>11,091,590</u>	<u>(11,091,590)</u>	<u>0</u>
TOTAL MEMBERS' EQUITY	\$ 40,772,539	\$ 19,191,590	\$ (19,191,590)	\$ 40,772,539
	<u>\$ 70,859,176</u>	<u>\$ 23,799,716</u>	<u>\$ (19,554,423)</u>	<u>\$ 75,104,469</u>

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2005

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
Operating revenues:				
Local network services revenue	\$ 4,345,690	\$ 476,639	\$ 0	\$ 4,822,329
Network access service revenue	6,441,514	332,648	0	6,774,162
Long distance network services revenue	3,748,148	0	0	3,748,148
Miscellaneous revenue	<u>2,243,490</u>	<u>6,342,077</u>	<u>0</u>	<u>8,585,567</u>
TOTAL OPERATING REVENUES	\$ 16,778,842	\$ 7,151,364	\$ 0	\$ 23,930,206
Operating expenses:				
Plant specific operations expense	\$ 3,527,732	\$ 449,048	\$ 0	\$ 3,976,780
Plant nonspecific operations expense	2,038,798	0	0	2,038,798
Provision for depreciation	5,129,976	543,915	0	5,673,891
Customer operations expense	2,328,210	3,247,349	0	5,575,559
Corporate operations expense	2,463,873	3,062,419	0	5,526,292
Operating taxes	<u>371,463</u>	<u>76,074</u>	<u>0</u>	<u>447,537</u>
TOTAL OPERATING EXPENSES	\$ 15,860,052	\$ 7,378,805	\$ 0	\$ 23,238,857
OPERATING INCOME (LOSS)	\$ 918,790	\$ (227,441)	\$ 0	\$ 691,349
Other income (loss):				
Income from subsidiaries	\$ 710,744	\$ 0	\$ (710,744)	\$ 0
Income from investments	0	1,317,701	0	1,317,701
Interest and dividend income	120,591	227,853	0	348,444
Nonregulated loss	(52,382)	0	0	(52,382)
Gain on sale of investment	0	16,577	0	16,577
Gain on sale of property and equipment	<u>109,365</u>	<u>1,149</u>	<u>0</u>	<u>110,514</u>
TOTAL OTHER INCOME	\$ 888,318	\$ 1,563,280	\$ (710,744)	\$ 1,740,854

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2005

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
Fixed charges:				
Interest expense	\$ 927,182	\$ 208,601	\$ 0	\$ 1,135,783
Interest charged to construction - credit	<u>(202,559)</u>	<u>0</u>	<u>0</u>	<u>(202,559)</u>
TOTAL FIXED CHARGES	\$ 724,623	\$ 208,601	\$ 0	\$ 933,224
INCOME BEFORE TAXES ON INCOME	\$ 1,082,485	\$ 1,127,238	\$ (710,746)	\$ 1,498,977
Taxes on income	<u>6,044</u>	<u>416,492</u>	<u>0</u>	<u>422,536</u>
NET INCOME	\$ 1,076,441	\$ 710,746	\$ (710,746)	\$ 1,076,441
Patronage capital at beginning of year	40,282,559	10,380,844	(10,380,844)	40,282,559
Capital credits paid and applied	(597,864)	0	0	(597,864)
Excise tax refundable on capital credits	<u>11,403</u>	<u>0</u>	<u>0</u>	<u>11,403</u>
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 40,772,539</u>	<u>\$ 11,091,590</u>	<u>\$ (11,091,590)</u>	<u>\$ 40,772,539</u>

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2005, and have issued our report thereon dated January 20, 2006. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and 7 CFR part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2005, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 2

7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(2), and related party transactions and investments. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38 - .45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditors' report, and our independent auditors' report on compliance and on internal control over financial reporting, all dated January 20, 2006) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding North Central Telephone Cooperative Corporation's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

ACCOUNTING RECORDS - In addition to our observation of the effectiveness of internal control, it appears that the bookkeeping and accounting records, including the many supplementary files and ledgers are well kept and adequately maintained. From tests made by us, it appeared that the methods used in accumulating costs for material, transportation, labor and overhead and the distribution of these costs to the various accounts were in accordance with proper procedures.

MATERIAL CONTROL – Materials and supplies are stated at average cost. Inventory quantities of outside plant materials and supplies were ascertained by physical count, weight or other measure as of December 31, 2006, by employees of the Cooperative. We were present during the time of taking the physical inventories to observe the procedures used to determine inventory quantities. We made test counts of quantities on hand and subsequently traced these counts to the perpetual inventory records. We reviewed the basis of pricing and tested the clerical accuracy of the extensions and footings. We tested the accuracy of perpetual inventory records. Our review indicated only minor differences between the counts reflected by the tests and those accumulated on the books.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement or lease between the borrower and an affiliate for the year ended December 31, 2005, of North Central Telephone Cooperative Corporation.
 1. No contracts for management, operations or billing services were in effect during the year ended December 31, 2005 as defined in 1773.33(e)(2)(i).
 2. Reviewed Board of Directors minutes to ascertain whether board-approved written contracts should have been included in a borrower-prepared schedule.
- Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:

Financial statements as of December 31, 2005, included in copies of RUS Form 479 were compared with the Cooperative's books and found to be in agreement in all material respects.

The results of our tests indicate that, with respect to the items tested, North Central Telephone Cooperative Corporation complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested include the requirements that:

- The borrower has obtained written approval of the RUS to enter into any contract, agreement, or lease with an affiliate as defined in 1773.33(e)(2)(i);
- The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2005, represented by the borrower as having been submitted to RUS is in agreement with the North Central Telephone Cooperative Corporation's audited records in all material respects as of December 31, 2005, appears reasonable based upon the audit procedures performed.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of North Central Telephone Cooperative Corporation, nothing came to our attention that caused us to believe that North Central Telephone Cooperative Corporation failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33 (c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33 (c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- The approval of the sale and disposition of proceeds for the sale of plant, material, or scrap addressed at 7 CFR 1773.33 (c)(5); and
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 2005, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33 (e).

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments in affiliated companies required by 7 CFR 1773.33(i) and provided below, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit 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.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 5

Detailed schedule of investments

	North Central Communications, Inc.
Original investment	\$ 8,100,000
Additional investments as of 12/31/04	0
Undistributed earnings (losses) as of 12/31/04	<u>10,380,843</u>
Book value of investments as of 12/31/04	\$18,480,843
Additional investments as of 12/31/05	0
Undistributed earnings (losses) as of 12/31/05	<u>11,091,590</u>
Book value of investments as of 12/31/05	<u>\$19,191,590</u>

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Jethro, Haile & Welch, PLLC
Certified Public Accountants

McMinnville, Tennessee
January 20, 2006

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated January 20, 2006. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit we considered North Central Telephone Cooperative Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

~~We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.~~

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 2

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

J. H. Hume, Hails & Welch, Assoc
Certified Public Accountants

McMinnville, Tennessee
January 20, 2006

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TENNESSEE 545
NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION
AND SUBSIDIARY
LAFAYETTE, TENNESSEE

December 31, 2004 and 2003

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C O N T E N T S

Consolidated Financial Statements:	
Independent Auditors' Report.....	Page 3
Consolidated Balance Sheets	4
Consolidated Statements of Income and Patronage Capital	6
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	10
Consolidating Information:	
Independent Auditors' Report on Consolidating Information	21
Consolidating Balance Sheets.....	22
Consolidating Statements of Income and Patronage Capital	24

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INDEPENDENT AUDITORS' REPORT

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the accompanying consolidated balance sheets of North Central Telephone Cooperative Corporation and Subsidiary as of December 31, 2004 and 2003, and the related consolidated statements of income and patronage capital and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Central Telephone Cooperative Corporation and Subsidiary as of December 31, 2004 and 2003, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2005, on our consideration of North Central Telephone Cooperative Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Totherow, Haile & Welch, PLLC

Certified Public Accountants

McMinnville, Tennessee

January 21, 2005

CONSOLIDATED

NORTH CENTRAL TELEPHONE COOPERATIVE

December 31, 2004

	2004	2003
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 4,628,583	\$ 6,411,010
Cash - construction funds	89,845	13,659
Temporary cash investments	4,492,347	2,994,234
Notes receivable	26,244	24,790
Telecommunications accounts receivable, less allowances of \$57,758 in 2004 and \$74,914 in 2003	1,728,311	1,531,609
Other accounts receivable	40,495	20,704
Materials and supplies	490,502	746,547
Other current assets	541,107	398,253
TOTAL CURRENT ASSETS	\$ 12,037,434	\$ 12,140,806
<u>NONCURRENT ASSETS</u>		
Investments	\$ 14,808,382	\$ 13,233,683
Notes receivable - net of current portion	22,690	22,175
Nonregulated investments	228,103	248,964
Goodwill, less accumulated amortization of \$57,494 in 2004 and 2003	542,983	502,983
Organization costs	0	117
TOTAL NONCURRENT ASSETS	\$ 15,602,158	\$ 14,007,922
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service	\$ 80,321,403	\$ 76,618,341
Telecommunications plant under construction	6,777,246	5,238,254
	\$ 87,098,649	\$ 81,856,595
Less accumulated provision for depreciation	43,892,530	38,922,963
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 43,206,119	\$ 42,933,632
	<u>\$ 70,845,711</u>	<u>\$ 69,082,360</u>

See the notes to financial statements.

BALANCE SHEETS

CORPORATION AND SUBSIDIARY

and 2003

	2004	2003
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 902,472	\$ 1,495,903
Advance billings and payments	150,380	144,049
Customer deposits	478,501	590,759
Current maturities on long-term debt	2,306,233	5,008,387
Accrued taxes	576,663	456,757
Accrued interest	159,144	214,477
Accrued rents	354,521	292,683
Accrued salaries and wages	229,298	170,784
Accrued vacation and sick leave benefits	1,939,283	1,756,291
Other current liabilities	706,754	465,457
TOTAL CURRENT LIABILITIES	\$ 7,803,249	\$ 10,595,547
<u>LONG-TERM DEBT</u>		
Rural Utilities Service	18,841,718	19,615,586
Other long-term debt	2,969,678	454,019
<u>OTHER LIABILITIES</u>		
Postretirement benefits other than pension	395,160	320,570
Deferred taxes	546,767	636,153
TOTAL LIABILITIES	\$30,556,572	\$31,621,875
<u>MEMBERS' EQUITY</u>		
Memberships	\$ 6,580	\$ 6,580
Patronage capital	40,282,559	37,453,905
TOTAL MEMBERS' EQUITY	\$40,289,139	\$37,460,485
	<u>\$70,845,711</u>	<u>\$69,082,360</u>

CONSOLIDATED STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2004 and 2003

	2004	2003
Operating revenues:		
Local network services revenue	\$ 4,951,831	\$ 4,646,946
Network access services revenue	6,367,587	6,617,243
Long distance network services revenue	3,601,109	3,447,622
Miscellaneous revenue	8,780,603	7,624,987
TOTAL OPERATING REVENUES	<u>\$ 23,701,130</u>	<u>\$ 22,336,798</u>
Operating expenses:		
Plant specific operations expense	\$ 3,980,587	\$ 3,268,996
Plant nonspecific operations expense	1,895,792	1,884,186
Provision for depreciation and amortization	5,535,062	5,127,295
Customer operations expense	6,697,408	5,492,277
Corporate operations expense	5,174,080	4,507,407
Operating taxes	413,563	440,385
TOTAL OPERATING EXPENSES	<u>\$ 23,696,492</u>	<u>\$ 20,720,546</u>
OPERATING INCOME	\$ 4,638	\$ 1,616,252
Other income:		
Income from investments	\$ 1,972,786	\$ 1,375,576
Interest and dividends	247,452	285,808
Nonregulated loss	(24,744)	(171,420)
Gain (Loss) on sale of investment	4,442,208	(4,064)
Impairment of goodwill	0	(254,564)
Loss on sale of equipment	(1,070,066)	(322)
TOTAL OTHER INCOME	<u>\$ 5,567,636</u>	<u>\$ 1,231,014</u>
Fixed charges:		
Interest expense	\$ 1,250,473	\$ 1,215,786
Interest charged to construction - credit	(187,219)	(186,563)
TOTAL FIXED CHARGES	<u>\$ 1,063,254</u>	<u>\$ 1,029,223</u>
INCOME BEFORE TAXES ON INCOME	\$ 4,509,020	\$ 1,818,043
Taxes on income	1,087,620	405,565
NET INCOME	<u>\$ 3,421,400</u>	<u>\$ 1,412,478</u>
Patronage capital at beginning of year	37,453,905	36,456,363
Capital credits paid and applied	(605,972)	(437,436)
Excise tax refundable on capital credits	13,226	22,500
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 40,282,559</u>	<u>\$ 37,453,905</u>

See the notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2004 and 2003

	2004	2003
Cash flows from financing activities:		
Debt proceeds	\$ 4,125,856	\$ 3,126,015
Payments on long-term borrowings	(5,086,219)	(3,723,998)
Excise credit applied to capital	13,226	22,500
Capital credits paid and applied	(605,972)	(437,436)
Postretirement benefits other than pension	74,590	386,542
Increase (Decrease) in customer deposits	<u>(112,258)</u>	<u>13,917</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>\$(1,590,777)</u>	<u>\$ (612,460)</u>
NET INCREASE (DECREASE) IN CASH	\$(1,706,241)	\$ 556,366
CASH AT BEGINNING OF YEAR	<u>6,424,669</u>	<u>5,868,303</u>
CASH AT END OF YEAR	<u><u>\$ 4,718,428</u></u>	<u><u>\$ 6,424,669</u></u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTD)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2004 and 2003

	2004	2003
Net income	\$3,421,400	\$1,412,478
Nonregulated loss	24,744	171,420
Income from investments	(1,972,786)	(1,375,576)
Impairment of goodwill	0	254,564
Net income from regulated operations	\$1,473,358	\$ 462,886
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$5,606,311	\$5,203,035
Loss on sale of equipment	1,070,066	322
Loss (Gain) on sale of investment	(4,442,208)	4,064
Deferred taxes on income	(89,386)	194,499
Noncash patronage allocation	(51,819)	(38,629)
Decrease (Increase) in:		
Customer and accounts receivable	(216,493)	136,275
Current and accrued assets - other	(142,854)	(157,297)
Increase (Decrease) in:		
Accounts payable	(593,431)	(263,675)
Advance billings and payments	6,331	9,767
Accrued taxes	119,906	(98,599)
Accrued interest	(55,333)	55,092
Accrued rents	61,838	(4,810)
Accrued salaries and employee benefits	241,506	173,492
Other current liabilities	241,297	52,938
TOTAL ADJUSTMENTS	<u>\$1,755,731</u>	<u>\$5,266,474</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$3,229,089</u>	<u>\$5,729,360</u>

See the notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2004 and 2003

Note A – North Central Telephone Cooperative Corporation and Subsidiary provides retail telecommunications services to Macon County, Tennessee and surrounding counties including a portion of southern Kentucky. North Central Telephone Cooperative Corporation and Subsidiary has adopted the following accounting policies:

(1) Principles of Consolidation:

North Central Telephone Cooperative Corporation (Cooperative) owns 100% of the outstanding common stock of North Central Communications, Inc. and Subsidiaries (Subsidiary). North Central Communications, Inc. and Subsidiaries were formed for the purpose of providing long distance and other telephone services, computer sales and services and security systems. The consolidated financial statements include the accounts of North Central Communications, Inc. and Subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Cooperative operates on a fiscal year ending December 31. The Subsidiary operates on a fiscal year ending September 30. The consolidated financial statements reflect the results of operations from January 1 through December 31 for the Cooperative and from October 1, 2003 through September 30, 2004 for the Subsidiary.

- (2) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- (3) For purposes of financial statement presentation, the Cooperative and Subsidiary consider all highly-liquid investments with a maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of treasury bills and notes and commercial paper with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as temporary investments.
- (4) Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. No interest is charged on accounts receivable balances that are past due. Past due accounts receivable are based upon contractual terms as defined on customer invoices.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2004 and 2003

Note A – (Cont'd):

The allowance for doubtful accounts is based upon a credit review of the accounts receivable, past bad debt experience, current economic conditions and other pertinent factors which form a basis for determining the adequacy of the allowance. The allowance represents an estimate based upon these and other factors and, it is at least reasonably possible that a change in the estimate will occur in the near term.

Telecommunication services are provided to the customers on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

- (5) Material and supplies are valued at average cost accumulated in perpetual inventory records, which are periodically adjusted to physical counts.
- (6) Employee vacation and sick leave benefits are accrued as the benefits are earned according to an established policy.
- (7) The Cooperative's expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired from service are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation. The Subsidiary provides for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its estimated useful life.
- (8) Advertising costs are charged to expense as incurred. These costs amounted to \$272,985 in 2004 and \$292,126 in 2003.

Note B – Substantially all assets of the Cooperative are pledged as security for the long-term debt to RUS.

Note C – The Cooperative and Subsidiary maintain their cash and temporary investments in several commercial banks located within their trade area. The Federal Deposit Insurance Corporation (FDIC) insures accounts and temporary investments up to \$100,000. A summary of the total insured and uninsured cash balances follows:

Total cash and temporary investments	\$9,907,438
Portion insured by FDIC	<u>1,045,857</u>

Uninsured cash balances	<u>\$8,861,581</u>
-------------------------	--------------------

Restricted cash consists of an employee savings account in which \$130,795 has been deposited.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2004 and 2003

Note D – Notes receivable balances are the result of computer equipment sales to customers. The average term of the notes is three years with an average interest rate of 15%, due in monthly installments with interest computed by the simple interest method. The following is a schedule of estimated maturities of the note principal amounts for the next three years:

<u>Year ending</u> <u>September 30,</u>	<u>Amount</u>
2005	\$26,244
2006	16,825
2007	<u>5,865</u>
TOTAL	<u>\$48,934</u>

Note E – Investments:

	<u>2004</u>	<u>2003</u>
Rural Telephone Bank "c" stock - at cost	\$ 1,000	\$ 1,000
NECA Services, Inc. stock - at cost	10,000	10,000
Cash value of life insurance	483,783	429,530
Investment in Tennessee RSA #3 cellular partnership (16.67%)	1,689,277	1,877,053
Investment in Kentucky RSA #3 cellular partnership (25%)	9,058,440	7,578,615
Investment in Direct Broadcast Satellite	0	16,913
Investment in Bluegrass Network, LLC (20%)	2,146,582	1,930,292
Investment in Bluegrass Telecom, LLC (20%)	459,572	502,219
Qualified patronage capital certificates – NRTC	250,821	199,001
Tennessee 220 MHZ Radio	156,372	156,372
Tennessee Independent Telecom Group (IRIS Networks) (10%)	441,730	421,883
NRTC Wildblue project	110,450	110,450
Deposits	<u>355</u>	<u>355</u>
	<u>\$14,808,382</u>	<u>\$13,233,683</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2004 and 2003

Note E – (Cont'd)

The following is a summary of selected financial information from the financial statements of the investments in which North Central Communications, Inc. owns a significant percentage:

	Tennessee RSA #3 cellular partnership	Kentucky RSA #3 cellular partnership	Bluegrass Network, LLC	Bluegrass Telecom, LLC	Tennessee Independent Telecom Group
Total assets	\$18,544,391	\$39,822,000	\$11,205,558	\$3,639,000	\$16,786,013
Total liabilities	\$ 8,408,811	\$ 4,097,000	\$ 472,648	\$1,929,000	\$12,368,714
Total equity	\$10,135,391	\$35,725,000	\$10,732,910	\$1,710,000	\$ 4,417,299
Net income	\$(1,126,430)	\$ 5,858,998	\$ 1,081,452	\$2,298,378	\$ 198,467

Nonregulated investments:

	<u>2004</u>	<u>2003</u>
Nonregulated customer premises equipment - leased	\$627,189	\$774,191
Less accumulated provisions for depreciation	<u>399,086</u>	<u>525,227</u>
	<u>\$228,103</u>	<u>\$248,964</u>

Nonregulated customer premises equipment is stated at cost. The Cooperative provides for depreciation on a straight-line basis at an annual rate of depreciation, which will amortize the cost of the equipment over its estimated useful life.

Note F – Organization costs are being amortized over five years using the straight-line method of accounting. At September 30, 2004, these costs amounted to \$2,670 and has been fully amortized.

Note G – In June 2001, the Financial Accounting Standards Board issued SFAS No. 142 “ Goodwill and Other Intangible Assets.” Under SFAS No. 142, goodwill and other indefinite lived intangible assets are no longer amortized but reviewed annually, or sooner if deemed necessary, for impairment. Goodwill represents the excess cost over fair value of net assets acquired through acquisitions. During 2004, there was no recorded impairment of goodwill.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2004 and 2003

Note H – Telephone plant in service and under construction is stated at cost. Listed below are the major classes of the telephone plant as of December 31:

	<u>2004</u>	<u>2003</u>
Franchises	\$ 236	\$ 236
Land	750,733	524,807
Buildings	4,495,122	4,227,160
Central office equipment	22,795,972	21,933,470
Poles, cables and wire	40,749,674	38,314,640
Furniture and office equipment	2,586,498	2,327,147
Vehicles and other work equipment	<u>2,886,533</u>	<u>2,704,103</u>
TOTAL PLANT IN SERVICE	<u>\$74,264,768</u>	<u>\$70,031,563</u>

The Cooperative provides for depreciation on a straight-line basis of annual rates, which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of telephone plant in service was 6.16 percent for 2004 and 6.90 percent for 2003. The provision for 2004 was \$4,835,626 and the provision for 2003 was \$4,670,993.

Individual plant depreciation rates are as follows:

	<u>Percent</u>
Buildings	2.6
Central office equipment	6.7 – 21.0
Public telephone equipment	15.1
Poles, cable and wire	1.7 – 8.8
Furniture and office equipment	6.7 – 16.4
Vehicles and other work equipment	6.4 – 10.8
DBS and internet equipment	18.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2004 and 2003

Note H – (Cont'd)

Investment in property and equipment included in the Subsidiary:

	<u>2004</u>	<u>2003</u>
Land	\$ 67,937	\$ 67,937
Building	808,972	808,972
CATV equipment	4,431,321	4,978,812
Office furniture and fixtures	96,230	100,664
Equipment	401,433	379,651
Vehicles	<u>250,742</u>	<u>250,742</u>
TOTAL	<u>\$6,056,635</u>	<u>\$6,586,778</u>

The Subsidiary provides for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its useful life. Depreciation charged to expense on the Subsidiary's records amounted to \$699,436 in 2004 and \$456,302 in 2003.

Note I – A description of notes payable follows:

Long-term debt is represented by mortgage notes payable to the United States of America and other lenders. Following is a summary of outstanding long-term debt:

	<u>2004</u>	<u>2003</u>
2% Rural Utilities Service notes	\$ 272,849	\$ 1,921,344
5% Rural Utilities Service notes	20,606,521	19,557,031
Others	<u>3,238,259</u>	<u>3,599,617</u>
	\$24,117,629	\$25,077,992
Less current maturities	<u>2,306,233</u>	<u>5,008,387</u>
	<u>\$21,811,396</u>	<u>\$20,069,605</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2004 and 2003

Note I – (Cont'd)

Long-term debt matures as follows:

<u>December 31,</u>	<u>Amount</u>
2005	\$ 2,306,233
2006	2,422,327
2007	2,544,267
2008	2,672,085
2009	2,806,880
Beyond five years	<u>11,365,837</u>
TOTAL	<u>\$24,117,629</u>

Note J – The Cooperative has adopted the retirement and security program of the National Telephone Cooperative Association as a pension plan covering all employees meeting certain age and length of service requirements for which it pays approximately 80% of the cost. The Cooperative funds the pension plan by making monthly contributions into the program based on salaries. The Cooperative's cost was \$561,647 for 2004 and \$392,555 for 2003.

Note K – Income taxes are accounted for using Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). Under the provision for FAS 109, an entity recognizes deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the Cooperative's financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Under FAS 109, measurement is computed using applicable current tax rates.

	<u>2004</u>	<u>2003</u>
Current income tax expense	\$1,177,006	\$211,066
Deferred income tax expense (reduction)	<u>(89,386)</u>	<u>194,499</u>
	<u>\$1,087,620</u>	<u>\$405,565</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2004 and 2003

Note K – (Cont'd)

The deferred tax liability is primarily the result of timing differences related to the Cooperative's investments in several limited partnerships.

	<u>2004</u>	<u>2003</u>
Deferred tax liability at beginning of year	\$636,153	\$441,654
Current period increase for deferred taxes on income	<u>164,247</u>	<u>469,546</u>
Deferred tax liability at end of year	\$800,400	\$911,200
Less deferred tax benefit at end of year	<u>253,633</u>	<u>275,047</u>
Deferred tax liability at end of year	<u>\$546,767</u>	<u>\$636,153</u>

The deferred tax asset is primarily the result of net operating losses that are carried forward for state income tax reporting purposes from North Central Communication's investment in its wholly owned subsidiaries.

The Subsidiary has a net operating loss carryforward of approximately \$3,245,655, which is available to offset future state taxable income. This carryforward will expire in 15 to 20 years.

Note L – The Cooperative has adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions". Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Cooperative's obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. The cost of health benefits for current and future associate retirees was recognized as determined under the projected unit credit cost method.

Substantially all of the Cooperative's employees are covered under postretirement health and life insurance plans. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on 25% of the preretirement life insurance benefit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2004 and 2003

Note L – (Cont'd):

The following table sets forth the plan's funded status and the amount recognized in the Cooperative's Balance Sheet as of December 31:

	<u>2004</u>	<u>2003</u>
Accumulated postretirement obligation attributable to:		
Retirees	\$(1,871,993)	\$(1,694,724)
Fully eligible plan participants	(1,703,019)	(1,243,993)
Other active plan participants	<u>(3,969,231)</u>	<u>(3,379,491)</u>
 Total accumulated postretirement benefit obligation	 \$(7,544,243)	 \$(6,318,208)
 Fair value of plan assets	 <u>3,952,614</u>	 <u>2,839,654</u>
 Accumulated postretirement benefit obligation in excess of plan assets	 \$(3,591,629)	 \$(3,478,554)
 Unrecognized net gains	 2,492,933	 2,353,942
Unamortized initial obligation	<u>703,536</u>	<u>804,042</u>
 Prepaid (Accrued) postretirement benefit obligation	 <u>\$ (395,160)</u>	 <u>\$ (320,570)</u>

Postretirement benefit cost is composed of the following for the year ended December 31:

	<u>2004</u>	<u>2003</u>
Benefits earned during the year	\$ 451,134	\$ 226,826
Interest on accumulated postretirement benefit obligation	275,339	379,864
Actual return on plan assets	(318,481)	(240,571)
Net amortization of transition obligation over 20 years	100,506	100,506
Net amortization and deferral	<u>104,322</u>	<u>100,201</u>
 Postretirement benefit cost	 <u>\$ 612,820</u>	 <u>\$ 566,826</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2004 and 2003

Note L – (Cont'd):

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 6.50% at December 31, 2003 and 6.50% at January 1, 2004. The assumed rate of future increases in compensation levels was 6.00% at December 31, 2004. The medical cost trend rate in 2004 was approximately 9.00% grading down to an ultimate rate in 2014 of 5.50%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of 2004 net periodic postretirement benefit cost by \$243,605 and would have increased the accumulated postretirement benefit obligation as of December 31, 2004 by \$1,341,687.

Note M – Labor Force

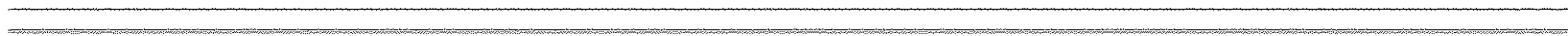
Approximately 80% of the Cooperative's labor force is subject to a collective bargaining agreement. A three-year agreement was negotiated and approved for the period January 1, 2003 to December 31, 2005 between the Cooperative and the Communications Workers of America.

Note N – Commitments and Contingencies

The Cooperative is a guarantor for loans in the amount of \$1,777,778. These loans are the obligation of TN Independent Telecommunications Group d/b/a Iris Networks, a related party.

The Cooperative accrues pole rental based on contracts it has with other utility companies. These contracts establish the rate per pole the Cooperative pays to attach to these entities. Currently one electric cooperative has invoiced the Cooperative for attachment rates that are significantly higher than the contract amounts. Management is currently trying to resolve this matter and believes it will be successful. At December 31, 2004 the accrued pole rent has been accrued at the contract rate not invoiced rate.

CONSOLIDATING INFORMATION



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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

Our report on our audits of the consolidated financial statements of North Central Telephone Cooperative Corporation and Subsidiary for 2004 and 2003 appears on page 3. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information contained on pages 21 through 24 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Totherow, Haile & Welch, PLLC

Certified Public Accountants

McMinnville, Tennessee
January 21, 2005

CONSOLIDATING

NORTH CENTRAL TELEPHONE

December 31,

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash - general	\$ 4,240,560	\$ 388,023	\$ 0	\$ 4,628,583
Cash - construction funds	89,845	0	0	89,845
Temporary cash investments	1,992,347	2,500,000	0	4,492,347
<i>Telecommunications</i>				
accounts receivable	1,281,836	446,475	0	1,728,311
Notes receivable - current	0	26,244	0	26,244
Other accounts receivable	40,495	0	0	40,495
Advance to related company	835,583	0	(835,583)	0
Materials and supplies	187,345	303,157	0	490,502
Other current assets	124,235	745,874	(329,002)	541,107
TOTAL CURRENT ASSETS	\$ 8,792,246	\$ 4,409,773	\$ (1,164,585)	\$ 12,037,434
<u>NONCURRENT ASSETS</u>				
Investment in subsidiary	\$ 18,480,843	\$ 0	\$ (18,480,843)	\$ 0
Investments	494,783	14,313,599	0	14,808,382
Nonregulated investments	228,103	0	0	228,103
Notes receivable	0	22,690	0	22,690
Goodwill - net	0	542,983	0	542,983
TOTAL NONCURRENT ASSETS	\$ 19,203,729	\$ 14,879,272	\$ (18,480,843)	\$ 15,602,158
<u>PROPERTY, PLANT AND EQUIPMENT</u>				
Telecommunications plant in service	\$ 74,264,768	\$ 6,056,635	\$ 0	\$ 80,321,403
Telecommunications plant under construction	6,735,671	41,575	0	6,777,246
	\$ 81,000,439	\$ 6,098,210	\$ 0	\$ 87,098,649
Less accumulated provision for depreciation	42,617,985	1,274,545	0	43,892,530
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 38,382,454	\$ 4,823,665	\$ 0	\$ 43,206,119
	\$ 66,378,429	\$ 24,112,710	\$ (19,645,428)	\$ 70,845,711

BALANCE SHEETS

COOPERATIVE CORPORATION AND SUBSIDIARY

2004

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable	\$ 572,771	\$ 329,701	\$ 0	\$ 902,472
Advance billings and payments	120,100	30,280	0	150,380
Advance from parent company	0	1,164,585	(1,164,585)	0
Customer deposits	478,501	0	0	478,501
Current maturities on long-term debt	2,037,652	268,581	0	2,306,233
Accrued taxes	405,343	171,320	0	576,663
Accrued interest	131,210	27,934	0	159,144
Accrued rent	354,521	0	0	354,521
Accrued salaries and wages	212,067	17,231	0	229,298
Accrued vacation and sick leave benefits	1,939,283	0	0	1,939,283
Other current liabilities	600,964	105,790	0	706,754
TOTAL CURRENT LIABILITIES	\$ 6,852,412	\$ 2,115,422	\$ (1,164,585)	\$ 7,803,249
<u>LONG-TERM DEBT</u>				
Rural Utilities Service	18,841,718	0	0	18,841,718
Other long-term debt	0	2,969,678	0	2,969,678
<u>OTHER LIABILITIES</u>				
Postretirement benefits other than pension	395,160	0	0	395,160
Deferred taxes - net	0	546,767	0	546,767
TOTAL LIABILITIES	\$ 26,089,290	\$ 5,631,867	\$ (1,164,585)	\$ 30,556,572
<u>MEMBERS' EQUITY</u>				
Memberships	\$ 6,580	\$ 0	\$ 0	\$ 6,580
Capital stock	0	8,100,000	(8,100,000)	0
Patronage capital	40,282,559	0	0	40,282,559
Retained earnings	0	10,380,843	(10,380,843)	0
TOTAL MEMBERS' EQUITY	\$ 40,289,139	\$ 18,480,843	\$ (18,480,843)	\$ 40,289,139
	<u>\$ 66,378,429</u>	<u>\$ 24,112,710</u>	<u>\$ (19,645,428)</u>	<u>\$ 70,845,711</u>

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2004

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
Operating revenues:				
Local network services revenue	\$ 4,337,505	\$ 614,326	\$ 0	\$ 4,951,831
Network access service revenue	6,367,587	0	0	6,367,587
Long distance network services revenue	3,601,109	0	0	3,601,109
Miscellaneous revenue	<u>1,908,177</u>	<u>6,872,426</u>	<u>0</u>	<u>8,780,603</u>
TOTAL OPERATING REVENUES	\$ 16,214,378	\$ 7,486,752	\$ 0	\$ 23,701,130
Operating expenses:				
Plant specific operations expense	\$ 3,616,058	\$ 364,529	\$ 0	\$ 3,980,587
Plant nonspecific operations expense	1,895,792	0	0	1,895,792
Provision for depreciation	4,835,626	699,436	0	5,535,062
Customer operations expense	2,202,548	4,494,860	0	6,697,408
Corporate operations expense	2,222,665	2,951,415	0	5,174,080
Operating taxes	<u>413,563</u>	<u>0</u>	<u>0</u>	<u>413,563</u>
TOTAL OPERATING EXPENSES	\$ 15,186,252	\$ 8,510,240	\$ 0	\$ 23,696,492
OPERATING INCOME (LOSS)	\$ 1,028,126	\$ (1,023,488)	\$ 0	\$ 4,638
Other income (loss):				
Income from subsidiaries	\$ 3,147,164	\$ 0	\$ (3,147,164)	\$ 0
Income from investments	0	1,972,786	0	1,972,786
Interest and dividend income	94,683	152,769	0	247,452
Nonregulated loss	(24,744)	0	0	(24,744)
Gain on sale of investment	0	4,442,208	0	4,442,208
Loss on sale of equipment	<u>0</u>	<u>(1,070,066)</u>	<u>0</u>	<u>(1,070,066)</u>
TOTAL OTHER INCOME	\$ 3,217,103	\$ 5,497,697	\$ (3,147,164)	\$ 5,567,636

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2004

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
Fixed charges:				
Interest expense	\$ 1,009,048	\$ 241,425	\$ 0	\$ 1,250,473
Interest charged to construction - credit	<u>(187,219)</u>	<u>0</u>	<u>0</u>	<u>(187,219)</u>
TOTAL FIXED CHARGES	\$ 821,829	\$ 241,425	\$ 0	\$ 1,063,254
INCOME BEFORE TAXES ON INCOME	\$ 3,423,400	\$ 4,232,784	\$ (3,147,164)	\$ 4,509,020
Taxes on income	<u>2,000</u>	<u>1,085,620</u>	<u>0</u>	<u>1,087,620</u>
NET INCOME	\$ 3,421,400	\$ 3,147,164	\$ (3,147,164)	\$ 3,421,400
Patronage capital at beginning of year	37,453,905	7,233,679	(7,233,679)	37,453,905
Capital credits paid and applied	(605,972)	0	0	(605,972)
Excise tax refundable on capital credits	<u>13,226</u>	<u>0</u>	<u>0</u>	<u>13,226</u>
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 40,282,559</u>	<u>\$ 10,380,843</u>	<u>\$ (10,380,843)</u>	<u>\$ 40,282,559</u>

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated January 21, 2005. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit we considered North Central Telephone Cooperative Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 2

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

Lettsman, Hails & Welch, PLLC
Certified Public Accountants

McMinnville, Tennessee
January 21, 2005

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2004, and have issued our report thereon dated January 21, 2005. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and 7 CFR part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2004, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(2), and related party transactions and investments. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38 - .45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditors' report, and our independent auditors' report on compliance and on internal control over financial reporting, all dated January 21, 2005) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding North Central Telephone Cooperative Corporation's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

ACCOUNTING RECORDS - In addition to our observation of the effectiveness of internal control, it appears that the bookkeeping and accounting records, including the many supplementary files and ledgers are well kept and adequately maintained. From tests made by us, it appeared that the methods used in accumulating costs for material, transportation, labor and overhead and the distribution of these costs to the various accounts were in accordance with proper procedures.

MATERIAL CONTROL – Materials and supplies are stated at average cost. Inventory quantities of outside plant materials and supplies were ascertained by physical count, weight or other measure as of December 31, 2004, by employees of the Cooperative. We were present during the time of taking the physical inventories to observe the procedures used to determine inventory quantities. We made test counts of quantities on hand and subsequently traced these counts to the perpetual inventory records. We reviewed the basis of pricing and tested the clerical accuracy of the extensions and footings. We tested the accuracy of perpetual inventory records. Our review indicated only minor differences between the counts reflected by the tests and those accumulated on the books.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement or lease between the borrower and an affiliate for the year ended December 31, 2004, of North Central Telephone Cooperative Corporation.
 1. No contracts for management, operations or billing services were in effect during the year ended December 31, 2004 as defined in 1773.33(e)(2)(i).
 2. Reviewed Board of Directors minutes to ascertain whether board-approved written contracts should have been included in a borrower-prepared schedule.
 - Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:

Financial statements as of December 31, 2004, included in copies of RUS Form 479 were compared with the Cooperative's books and found to be in agreement in all material respects.
-

The results of our tests indicate that, with respect to the items tested, North Central Telephone Cooperative Corporation complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested include the requirements that:

- The borrower has obtained written approval of the RUS to enter into any contract, agreement, or lease with an affiliate as defined in 1773.33(e)(2)(i);
- The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2004, represented by the borrower as having been submitted to RUS is in agreement with the North Central Telephone Cooperative Corporation's audited records in all material respects as of December 31, 2004, appears reasonable based upon the audit procedures performed.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of North Central Telephone Cooperative Corporation, nothing came to our attention that caused us to believe that North Central Telephone Cooperative Corporation failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33 (c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33 (c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- The approval of the sale and disposition of proceeds for the sale of plant, material, or scrap addressed at 7 CFR 1773.33 (c)(5); and
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 2004, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33 (e).

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments in affiliated companies required by 7 CFR 1773.33(i) and provided below, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit 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.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 5

Detailed schedule of investments

	North Central Communications, Inc.
Original investment	\$ 8,100,000
Additional investments as of 12/31/03	4,975,871
Undistributed earnings (losses) as of 12/31/03	<u>2,257,808</u>
Book value of investments as of 12/31/03	\$15,333,679
Additional investments as of 12/31/04	0
Undistributed earnings (losses) as of 12/31/04	<u>3,147,164</u>
Book value of investments as of 12/31/04	<u>\$18,480,843</u>

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Letherow, Haile & Welch, PLLC
Certified Public Accountants

McMinnville, Tennessee
January 21, 2005

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TENNESSEE 545
NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION
AND SUBSIDIARY
LAFAYETTE, TENNESSEE

December 31, 2003 and 2002

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CONTENTS

Consolidated Financial Statements:

Independent Auditors' Report.....	Page 3
Consolidated Balance Sheets	4
Consolidated Statements of Income and Patronage Capital	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements.....	10

Consolidating Information:

Independent Auditors' Report on Consolidating Information	20
Consolidating Balance Sheets	21
Consolidating Statements of Income and Patronage Capital	23

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INDEPENDENT AUDITORS' REPORT

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the accompanying consolidated balance sheets of North Central Telephone Cooperative Corporation and Subsidiary as of December 31, 2003 and 2002, and the related consolidated statements of income and patronage capital and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Central Telephone Cooperative Corporation and Subsidiary as of December 31, 2003 and 2002, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 23, 2004, on our consideration of North Central Telephone Cooperative Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Totherow, Haile + Welch, PLLC

Certified Public Accountants

McMinntville, Tennessee
January 23, 2004

CONSOLIDATED

NORTH CENTRAL TELEPHONE COOPERATIVE

December 31, 2003

	2003	2002
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 6,411,010	\$ 5,707,919
Cash - construction funds	13,659	160,384
Temporary cash investments	2,994,234	3,689,061
Notes receivable	24,790	37,236
Telecommunications accounts receivable, less allowances of \$74,914 in 2003 and \$59,735 in 2002	1,531,609	1,651,619
Other accounts receivable	20,704	36,969
Materials and supplies	746,547	621,324
Other current assets	398,253	240,956
TOTAL CURRENT ASSETS	\$ 12,140,806	\$ 12,145,468
<u>NONCURRENT ASSETS</u>		
Investments	\$ 13,233,683	\$ 12,715,216
Notes receivable - net of current portion	22,175	19,803
Nonregulated investments	248,964	288,415
Prepaid postretirement benefits other than pension	0	65,972
Goodwill, less accumulated amortization of \$172,870 in 2003 and 2002 and impairment loss of \$254,564 in 2003 and \$226,205 in 2002	502,983	577,069
Organization costs	117	426
TOTAL NONCURRENT ASSETS	\$ 14,007,922	\$ 13,666,901
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service	\$ 76,618,341	\$ 69,027,567
Telecommunications plant under construction	5,238,254	7,798,311
	\$ 81,856,595	\$ 76,825,878
Less accumulated provision for depreciation	38,922,963	34,408,637
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 42,933,632	\$ 42,417,241
	<u>\$ 69,082,360</u>	<u>\$ 68,229,610</u>

See the notes to financial statements.

BALANCE SHEETS

CORPORATION AND SUBSIDIARY

and 2002

	2003.	2002
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 1,495,903	\$ 1,759,578
Advance billings and payments	144,049	134,282
Customer deposits	590,759	576,842
Current maturities on long-term debt	5,008,387	1,791,961
Accrued taxes	456,757	555,356
Accrued interest	214,477	159,385
Accrued rents	292,683	297,493
Accrued salaries and wages	170,784	132,591
Accrued vacation and sick leave benefits	1,756,291	1,620,992
Other current liabilities	465,457	412,519
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	\$ 10,595,547	\$ 7,440,999
 <u>LONG-TERM DEBT</u>		
Rural Utilities Service	19,615,586	21,397,121
Other long-term debt	454,019	2,486,893
 <u>OTHER LIABILITIES</u>		
Postretirement benefits other than pension	320,570	0
Deferred taxes	636,153	441,654
	<hr/>	<hr/>
TOTAL LIABILITIES	\$ 31,621,875	\$ 31,766,667
 <u>MEMBERS' EQUITY</u>		
Memberships	\$ 6,580	\$ 6,580
Patronage capital	37,453,905	36,456,363
	<hr/>	<hr/>
TOTAL MEMBERS' EQUITY	\$ 37,460,485	\$ 36,462,943
<hr/>		
	<hr/>	<hr/>
	\$ 69,082,360	\$ 68,229,610

CONSOLIDATED STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2003 and 2002

	2003	2002
Operating revenues:		
Local network services revenue	\$ 4,646,946	\$ 4,257,474
Network access services revenue	6,617,243	6,748,758
Long distance network services revenue	3,447,622	3,924,939
Miscellaneous revenue	7,624,987	6,386,846
TOTAL OPERATING REVENUES	<u>\$ 22,336,798</u>	<u>\$ 21,318,017</u>
Operating expenses:		
Plant specific operations expense	\$ 3,268,996	\$ 2,676,469
Plant nonspecific operations expense	1,884,186	1,717,242
Provision for depreciation and amortization	5,127,295	4,586,928
Customer operations expense	5,492,277	4,698,612
Corporate operations expense	4,507,407	3,878,173
Operating taxes	440,385	610,551
TOTAL OPERATING EXPENSES	<u>\$ 20,720,546</u>	<u>\$ 18,167,975</u>
OPERATING INCOME	\$ 1,616,252	\$ 3,150,042
Other income:		
Income from investments	\$ 1,375,576	\$ 1,513,002
Interest and dividends	285,808	427,232
Nonregulated loss	(171,420)	(117,358)
Loss on sale of investment	(4,064)	0
Impairment of goodwill	(254,564)	(226,205)
Gain (loss) on sale of equipment	(322)	62
TOTAL OTHER INCOME	<u>\$ 1,231,014</u>	<u>\$ 1,596,733</u>
Fixed charges:		
Interest expense	\$ 1,215,786	\$ 1,248,314
Interest charged to construction - credit	(186,563)	(124,160)
TOTAL FIXED CHARGES	<u>\$ 1,029,223</u>	<u>\$ 1,124,154</u>
INCOME BEFORE TAXES ON INCOME	\$ 1,818,043	\$ 3,622,621
Taxes on income	405,565	439,094
NET INCOME	<u>\$ 1,412,478</u>	<u>\$ 3,183,527</u>
Patronage capital at beginning of year	36,456,363	33,826,136
Capital credits paid and applied	(437,436)	(617,916)
Excise tax refundable on capital credits	22,500	64,616
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 37,453,905</u>	<u>\$ 36,456,363</u>

See the notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Cash received from customers	\$ 22,537,688	\$ 21,294,682
Cash paid to suppliers and employees	(15,104,096)	(11,794,163)
Interest received	247,179	373,535
Interest paid	(974,131)	(1,132,293)
Taxes paid	(977,280)	(1,031,995)
	<hr/>	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 5,729,360	\$ 7,709,766
Cash flows from investing activities:		
Construction and acquisition of plant	\$ (5,682,976)	\$ (9,095,912)
Proceeds from sale of equipment	224	1,273
Proceeds from sale of investment	5,680	0
Plant removal costs	(11,811)	(113,549)
Investment in partnership	(110,450)	0
Salvage	40,750	48,195
Cash distribution from investments	976,369	675,661
Investment in nonregulated CPE	39,451	70,627
Goodwill purchased	(180,478)	(40,000)
Increase in notes receivable	(49,446)	(39,559)
Collection on notes receivable	59,520	59,037
Decrease (Increase) in:		
Materials and supplies	(125,223)	(3,581)
Temporary investments	694,827	1,494,795
Other investments	(45,551)	(12,901)
Nonregulated income	(171,420)	(117,358)
	<hr/>	<hr/>
NET CASH USED BY INVESTING ACTIVITIES	\$ (4,560,534)	\$ (7,073,272)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2003 and 2002

	2003	2002
Cash flows from financing activities:		
Debt proceeds	\$ 3,126,015	\$ 2,692,290
Payments on long-term borrowings	(3,723,998)	(1,706,384)
Excise credit applied to capital	22,500	64,616
Capital credits paid and applied	(437,436)	(617,916)
Postretirement benefits other than pension	386,542	(5,656)
Increase in customer deposits	13,917	38,019
	<u>\$ (612,460)</u>	<u>\$ 464,969</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		
	\$ 556,366	\$ 1,101,463
NET INCREASE IN CASH		
	5,868,303	4,766,840
CASH AT BEGINNING OF YEAR	<u>5,868,303</u>	<u>4,766,840</u>
	\$ 6,424,669	\$ 5,868,303
CASH AT END OF YEAR	<u>\$ 6,424,669</u>	<u>\$ 5,868,303</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2003 and 2002

	2003	2002
Net income	\$1,412,478	\$3,183,527
Nonregulated loss	171,420	117,358
Income from investments	(1,375,576)	(1,513,002)
Impairment of goodwill	254,564	226,205
Net income from regulated operations	\$ 462,886	\$2,014,088
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$5,203,035	\$4,653,508
Loss (Gain) on sale of equipment	322	(62)
Loss on sale of investment	4,064	0
Deferred taxes	194,499	(128,375)
Noncash patronage allocation	(38,629)	(53,697)
Decrease (Increase) in:		
Customer and accounts receivable	136,275	(70,289)
Current and accrued assets - other	(157,297)	94,452
Increase (Decrease) in:		
Accounts payable	(263,675)	670,606
Advance billings and payments	9,767	31,544
Accrued taxes	(98,599)	145,025
Accrued interest	55,092	(8,139)
Accrued rents	(4,810)	112,463
Accrued salaries and employee benefits	173,492	185,243
Other current liabilities	52,938	63,399
TOTAL ADJUSTMENTS	<u>\$5,266,474</u>	<u>\$5,695,678</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$5,729,360</u></u>	<u><u>\$7,709,766</u></u>

See the notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2003 and 2002

Note A – North Central Telephone Cooperative Corporation and Subsidiary provides retail tele-communications services to Macon County, Tennessee and surrounding counties including a portion of southern Kentucky. North Central Telephone Cooperative Corporation and Subsidiary has adopted the following accounting policies:

(1) Principles of Consolidation:

North Central Telephone Cooperative Corporation (Cooperative) owns 100% of the outstanding common stock of North Central Communications, Inc. and Subsidiaries (Subsidiary). North Central Communications, Inc. and Subsidiaries were formed for the purpose of providing long distance and other telephone services and computer sales and services. The consolidated financial statements include the accounts of North Central Communications, Inc. and Subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Cooperative operates on a fiscal year ending December 31. The Subsidiary operates on a fiscal year ending September 30. The consolidated financial statements reflect the results of operations from January 1 through December 31 for the Cooperative and from October 1, 2002 through September 30, 2003 for the Subsidiary.

- (2) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- (3) For purposes of financial statement presentation, the Cooperative and Subsidiary consider all highly-liquid investments with a maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of treasury bills and notes and commercial paper with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as temporary investments.
- (4) Trade Accounts Receivable - Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used ~~reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to trade accounts receivable. No interest is charged on trade accounts receivable balances that are past due. Past due accounts receivable are based upon contractual terms as defined on customer invoices.~~

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2003 and 2002

Note A – (Cont'd):

The allowance for doubtful accounts is based upon a credit review of the accounts receivable, past bad debt experience, current economic conditions and other pertinent factors which form a basis for determining the adequacy of the allowance. The allowance represents an estimate based upon these and other factors and, it is at least reasonably possible that a change in the estimate will occur in the near term.

Telecommunication services are provided to the customers on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

- (5) Material and supplies are valued at average cost accumulated in perpetual inventory records which are periodically adjusted to physical counts.
- (6) Employee vacation and sick leave benefits are accrued as the benefits are earned according to an established policy.
- (7) The Cooperative's expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired from service are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation. The Subsidiary provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life.
- (8) Advertising costs are charged to expense as incurred. These costs amounted to \$292,126 in 2003 and \$223,801 in 2002.

Note B – Substantially all assets of the Cooperative are pledged as security for the long-term debt to RUS.

Note C – The Cooperative and Subsidiary maintain their cash and temporary investments in several commercial banks located within their trade area. The Federal Deposit Insurance Corporation (FDIC) insures accounts and temporary investments up to \$100,000. A summary of the total insured and uninsured cash balances follows:

Total cash and temporary investments	\$9,239,823
Portion insured by FDIC	<u>1,053,378</u>
Uninsured cash balances	<u>\$8,186,445</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2003 and 2002

Note D – Investments:

	<u>2003</u>	<u>2002</u>
Rural Telephone Bank "c" stock - at cost	\$ 1,000	\$ 1,000
NECA Services, Inc. stock - at cost	10,000	10,000
Cash value of life insurance	429,530	383,979
Investment in Tennessee RSA #3 cellular partnership (16.67%)	1,877,053	1,840,084
Investment in Kentucky RSA #3 cellular partnership (25%)	7,578,615	7,064,121
Investment in Direct Broadcast Satellite	16,913	50,738
Investment in Bluegrass Network, LLC (20%)	1,930,292	1,795,095
Investment in Bluegrass Telecom, LLC (20%)	502,219	454,933
Qualified patronage capital certificates – NRTC	199,001	160,372
Tennessee 220 MHZ Radio	156,372	203,308
Tennessee Independent Telecom Group (IRIS Networks) (10%)	421,883	741,487
Enhanced Compact Disc Productions	0	9,744
NRTC Wildblue project	110,450	0
Deposits	<u>355</u>	<u>355</u>
	<u>\$13,233,683</u>	<u>\$12,715,216</u>

Nonregulated investments:

Nonregulated customer premises equipment - leased	\$ 774,191	\$ 824,823
Less accumulated provisions for depreciation	<u>525,227</u>	<u>536,408</u>
	<u>\$ 248,964</u>	<u>\$ 288,415</u>

Nonregulated customer premises equipment is stated at cost. The Cooperative provides for depreciation on a straight-line basis at an annual rate of depreciation which will amortize the cost of the equipment over its estimated useful life.

Note E – Organization costs are being amortized over five years using the straight-line method of accounting. At September 30, 2003, these costs amounted to \$2,670, less accumulated amortization in the amount of \$2,553.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2003 and 2002

Note F – In June 2001, the Financial Accounting Standards Board issued SFAS No. 142 “ Goodwill and Other Intangible Assets.” Under SFAS No. 142, goodwill and other indefinite lived intangible assets are no longer amortized but reviewed annually, or sooner if deemed necessary, for impairment. Goodwill represents the excess cost over fair value of net assets acquired through acquisitions. During the current year, the management of North Central Computer Technologies, Inc. recorded an impairment loss to goodwill in the amount of \$254,564, which reduced the Goodwill balance to zero.

Note G – Telephone plant in service and under construction is stated at cost. Listed below are the major classes of the telephone plant as of December 31, 2003 and December 31, 2002.

	<u>2003</u>	<u>2002</u>
Franchises	\$ 236	\$ 236
Land	524,807	524,807
Buildings	4,227,160	3,878,746
Central office equipment	21,933,470	21,084,630
Poles, cables and wire	38,314,640	37,175,361
Furniture and office equipment	2,327,147	2,095,082
Vehicles and other work equipment	<u>2,704,103</u>	<u>2,645,322</u>
TOTAL PLANT IN SERVICE	<u>\$70,031,563</u>	<u>\$67,404,184</u>

The Cooperative provides for depreciation on a straight-line basis of annual rates which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of telephone plant in service was 6.90 percent for 2003 and 6.80 percent for 2002. The provision for 2003 was \$4,670,993 and the provision for 2002 was \$4,375,188.

Individual plant depreciation rates are as follows:

	<u>Percent</u>
Buildings	2.6
Central office equipment	6.7 – 21.0
Public telephone equipment	15.1
Poles, cable and wire	1.7 – 8.8
Furniture and office equipment	6.7 – 16.4
Vehicles and other work equipment	6.4 – 10.8
DBS and internet equipment	18.8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2003 and 2002

Note G -- (Cont'd):

Investment in property and equipment included in the Subsidiary:

	<u>2003</u>	<u>2002</u>
Land	\$ 67,937	\$ 67,937
Building	808,972	808,972
CATV equipment	4,978,812	73,884
Office furniture and fixtures	100,664	159,124
Equipment	379,651	359,954
Vehicles	<u>250,742</u>	<u>153,512</u>
TOTAL	<u>\$6,586,778</u>	<u>\$1,623,383</u>

The Subsidiary provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its useful life. Depreciation charged to expense on the Subsidiary's records amounted to \$456,302 in 2003 and \$211,740 in 2002.

Note H -- A description of notes payable follows:

Long-term debt is represented by mortgage notes payable to the United States of America and other lenders. Following is a summary of outstanding long-term debt.

	<u>2003</u>	<u>2002</u>
2% Rural Utilities Service notes	\$ 1,921,344	\$ 2,191,231
5% Rural Utilities Service notes	19,557,031	20,979,462
Others	<u>3,599,617</u>	<u>2,505,282</u>
	\$25,077,992	\$25,675,975
Less current maturities	<u>5,008,387</u>	<u>1,791,961</u>
	<u>\$20,069,605</u>	<u>\$23,884,014</u>

Long-term debt matures as follows:

<u>Year</u>	<u>Amount</u>
2004	\$ 5,008,387
2005	1,976,786
2006	<u>2,075,939</u>
2007	2,180,068
2008	2,289,427
Beyond five years	<u>11,547,385</u>
TOTAL	<u>\$25,077,992</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2003 and 2002

Note I – The Cooperative has adopted the retirement and security program of the National Telephone Cooperative Association as a pension plan covering all employees meeting certain age and length of service requirements for which it pays approximately 73% of the cost. The Cooperative funds the pension plan by making monthly contributions into the program based on salaries. The Cooperative's cost was \$392,555 for 2003 and \$326,138 for 2002.

Note J – Income taxes are accounted for using Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). Under the provision for FAS 109, an entity recognizes deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the Cooperative's financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Under FAS 109, measurement is computed using applicable current tax rates.

	<u>2003</u>	<u>2002</u>
Current income tax expense	\$211,066	\$567,470
Deferred income tax expense	<u>194,499</u>	<u>(128,376)</u>
	<u>\$405,565</u>	<u>\$439,094</u>

The deferred tax liability is primarily the result of timing differences related to the Cooperative's investments in several limited partnerships.

	<u>2003</u>	<u>2002</u>
Deferred tax liability at beginning of year	\$441,654	\$992,370
Current period increase (reduction) for deferred taxes on income	<u>469,546</u>	<u>(376,170)</u>
Deferred tax liability at end of year	\$911,200	\$616,200
Less deferred tax benefit at end of year	<u>275,047</u>	<u>174,546</u>
Deferred tax liability at end of year	<u>\$636,153</u>	<u>\$441,654</u>

The deferred tax asset is primarily the result of net operating losses that are carried forward for state income tax reporting purposes from North Central Communication's investment in its wholly owned subsidiaries.

The Subsidiary has a net operating loss carryforward of approximately \$2,732,383 which is available to offset future state taxable income. This carryforward will expire in 16 to 20 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2003 and 2002

Note K – The Cooperative has adopted Statement of Financial Accounting Standards No. 106, “Employers’ Accounting for Postretirement Benefits other than Pensions”. Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Cooperative’s obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. The cost of health benefits for current and future associate retirees was recognized as determined under the projected unit credit cost method.

Substantially all of the Cooperative’s employees are covered under postretirement health and life insurance plans. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on 25% of the preretirement life insurance benefit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2003 and 2002

Note K – (Cont'd):

The following table sets forth the plan's funded status and the amount recognized in the Cooperative's Balance Sheet as of December 31:

	<u>2003</u>	<u>2002</u>
Accumulated postretirement obligation attributable to:		
Retirees	\$(1,694,724)	\$ (1,568,653)
Fully eligible plan participants	(1,243,993)	(1,073,467)
Other active plan participants	<u>(3,379,491)</u>	<u>(2,678,199)</u>
 Total accumulated postretirement benefit obligation	 \$(6,318,208)	 \$(5,320,319)
 Fair value of plan assets	 <u>2,839,654</u>	 <u>3,164,343</u>
 Accumulated postretirement benefit obligation in excess of plan assets	 \$(3,478,554)	 \$(2,155,976)
 Unrecognized net gains (losses)	 2,353,942	 1,317,400
Unamortized initial obligation	<u>804,042</u>	<u>904,548</u>
 Prepaid (Accrued) postretirement benefit obligation	 <u>\$ (320,570)</u>	 <u>\$ 65,972</u>

Postretirement benefit cost is composed of the following for the year ended December 31:

	<u>2003</u>	<u>2002</u>
Benefits earned during the year	\$ 226,826	\$ 186,347
Interest on accumulated postretirement benefit obligation	379,864	272,594
Actual return on plan assets	(240,571)	(249,348)
Net amortization of transition obligation over 20 years	100,506	100,506
Net amortization and deferral	<u>100,201</u>	<u>46,533</u>
 Postretirement benefit cost	 <u>\$ 566,826</u>	 <u>\$ 356,632</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2003 and 2002

Note K – (Cont'd):

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 6.50% at December 31, 2003 and 6.50% at January 1, 2003. The assumed rate of future increases in compensation levels was 6.00% at December 31, 2003. The medical cost trend rate in 2003 was approximately 9.00% grading down to an ultimate rate in 2014 of 5.50%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of 2003 net periodic postretirement benefit cost by \$199,333 and would have increased the accumulated postretirement benefit obligation as of December 31, 2003 by \$346,865.

Note L – Labor Force

Approximately 80% of the Cooperative's labor force is subject to a collective bargaining agreement. A three-year agreement was negotiated and approved for the period January 1, 2003 to December 31, 2005 between the Cooperative and the Communications Workers of America.

Note M – Commitments and Contingencies

The Cooperative is a guarantor for loans in the amount of \$1,777,778. These loans are the obligation of TN Independent Telecommunications Group d/b/a Iris Networks, a related party.

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

Our report on our audits of the consolidated financial statements of North Central Telephone Cooperative Corporation and Subsidiary for 2003 and 2002 appears on page 3. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information contained on pages 21 through 24 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Totherow, Haile & Welch, PLLC

Certified Public Accountants

McMinnville, Tennessee
January 23, 2004

CONSOLIDATING

NORTH CENTRAL TELEPHONE

December 31,

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash - general	\$ 5,706,543	\$ 704,467	\$ 0	\$ 6,411,010
Cash - construction funds	13,659	0	0	13,659
Temporary cash investments	2,865,811	128,423	0	2,994,234
Telecommunications				
accounts receivable	1,378,625	152,984	0	1,531,609
Notes receivable - current	0	24,790	0	24,790
Other accounts receivable	20,704	0	0	20,704
Advance to related company	692,378	0	(692,378)	0
Materials and supplies	213,232	533,315	0	746,547
Other current assets	82,003	316,732	(482)	398,253
TOTAL CURRENT ASSETS	\$ 10,972,955	\$ 1,860,711	\$ (692,860)	\$ 12,140,806
<u>NONCURRENT ASSETS</u>				
Investment in subsidiary	\$ 15,333,679	\$ 0	\$ (15,333,679)	\$ 0
Investments	440,530	12,793,153	0	13,233,683
Nonregulated investments	248,964	0	0	248,964
Notes receivable	0	22,175	0	22,175
Prepaid postretirement benefits	0	0	0	0
Goodwill - net	0	502,983	0	502,983
Organization costs	0	117	0	117
TOTAL NONCURRENT ASSETS	\$ 16,023,173	\$ 13,318,428	\$ (15,333,679)	\$ 14,007,922
<u>PROPERTY, PLANT AND EQUIPMENT</u>				
Telecommunications plant in service	\$ 70,031,563	\$ 6,586,778	\$ 0	\$ 76,618,341
Telecommunications plant under construction	5,142,588	95,666	0	5,238,254
	\$ 75,174,151	\$ 6,682,444	\$ 0	\$ 81,856,595
Less accumulated provision for depreciation	38,082,968	839,995	0	38,922,963
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 37,091,183	\$ 5,842,449	\$ 0	\$ 42,933,632
	\$ 64,087,311	\$ 21,021,588	\$ (16,026,539)	\$ 69,082,360

BALANCE SHEETS

COOPERATIVE CORPORATION AND SUBSIDIARY

2003

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable	\$ 921,899	\$ 574,004	\$ 0	\$ 1,495,903
Advance billings and payments	119,729	24,320	0	144,049
Advance from parent company	0	692,860	(692,860)	0
Customer deposits	590,759	0	0	590,759
Current maturities on long-term debt	1,862,789	3,145,598	0	5,008,387
Accrued taxes	437,007	19,750	0	456,757
Accrued interest	190,492	23,985	0	214,477
Accrued rent	292,683	0	0	292,683
Accrued salaries and wages	152,933	17,851	0	170,784
Accrued vacation and sick leave benefits	1,756,291	0	0	1,756,291
Other current liabilities	366,088	99,369	0	465,457
TOTAL CURRENT LIABILITIES	\$ 6,690,670	\$ 4,597,737	\$ (692,860)	\$ 10,595,547
<u>LONG-TERM DEBT</u>				
Rural Utilities Service	19,615,586	0	0	19,615,586
Other long-term debt	0	454,019	0	454,019
<u>OTHER LIABILITIES</u>				
Postretirement benefits other than pension	320,570	0	0	320,570
Deferred taxes - net	0	636,153	0	636,153
TOTAL LIABILITIES	\$ 26,626,826	\$ 5,687,909	\$ (692,860)	\$ 31,621,875
<u>MEMBERS' EQUITY</u>				
Memberships	\$ 6,580	\$ 0	\$ 0	\$ 6,580
Capital stock	0	8,100,000	(8,100,000)	0
Patronage capital	37,453,905	0	0	37,453,905
Retained earnings	0	7,233,679	(7,233,679)	0
TOTAL MEMBERS' EQUITY	\$ 37,460,485	\$ 15,333,679	\$ (15,333,679)	\$ 37,460,485
	<u>\$ 64,087,311</u>	<u>\$ 21,021,588</u>	<u>\$ (16,026,539)</u>	<u>\$ 69,082,360</u>

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2003

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
Operating revenues:				
Local network services revenue	\$ 4,315,608	\$ 331,338	\$ 0	\$ 4,646,946
Network access service revenue	6,617,243	0	0	6,617,243
Long distance network services revenue	3,447,622	0	0	3,447,622
Miscellaneous revenue	1,622,831	6,002,156	0	7,624,987
TOTAL OPERATING REVENUES	\$ 16,003,304	\$ 6,333,494	\$ 0	\$ 22,336,798
Operating expenses:				
Plant specific operations expense	\$ 3,002,261	\$ 266,735	\$ 0	\$ 3,268,996
Plant nonspecific operations expense	1,884,186	0	0	1,884,186
Provision for depreciation	4,670,993	456,302	0	5,127,295
Customer operations expense	2,028,146	3,464,131	0	5,492,277
Corporate operations expense	2,108,410	2,398,997	0	4,507,407
Operating taxes	440,385	0	0	440,385
TOTAL OPERATING EXPENSES	\$ 14,134,381	\$ 6,586,165	\$ 0	\$ 20,720,546
OPERATING INCOME (LOSS)	\$ 1,868,923	\$ (252,671)	\$ 0	\$ 1,616,252
Other income (loss):				
Income from subsidiaries	\$ 469,816	\$ 0	\$ (469,816)	\$ 0
Income from investments	0	1,375,576	0	1,375,576
Interest and dividend income	147,297	138,511	0	285,808
Nonregulated loss	(171,420)	0	0	(171,420)
Loss on sale of investment	0	(4,064)	0	(4,064)
Impairment of goodwill	0	(254,564)	0	(254,564)
Loss on sale of equipment	0	(322)	0	(322)
TOTAL OTHER INCOME	\$ 445,693	\$ 1,255,137	\$ (469,816)	\$ 1,231,014

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2003

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
Fixed charges:				
Interest expense	\$ 1,088,701	\$ 127,085	\$ 0	\$ 1,215,786
Interest charged to construction - credit	<u>(186,563)</u>	<u>0</u>	<u>0</u>	<u>(186,563)</u>
TOTAL FIXED CHARGES	\$ 902,138	\$ 127,085	\$ 0	\$ 1,029,223
INCOME BEFORE TAXES ON INCOME	\$ 1,412,478	\$ 875,381	\$ (469,816)	\$ 1,818,043
Taxes on income	<u>0</u>	<u>405,565</u>	<u>0</u>	<u>405,565</u>
NET INCOME	\$ 1,412,478	\$ 469,816	\$ (469,816)	\$ 1,412,478
Patronage capital at beginning of year	36,456,363	6,763,863	(6,763,863)	36,456,363
Capital credits paid and applied	(437,436)	0	0	(437,436)
Excise tax refundable on capital credits	<u>22,500</u>	<u>0</u>	<u>0</u>	<u>22,500</u>
PATRONAGE CAPITAL AT END OF YEAR	<u><u>\$ 37,453,905</u></u>	<u><u>\$ 7,233,679</u></u>	<u><u>\$ (7,233,679)</u></u>	<u><u>\$ 37,453,905</u></u>

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated January 23, 2004. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit we considered North Central Telephone Cooperative Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 2

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

Jotherow, Haire & Welch, PLLC
Certified Public Accountants

McMinnville, Tennessee
January 23, 2004

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2003, and have issued our report thereon dated January 23, 2004. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and 7 CFR part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2003, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(2), and related party transactions and investments. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38 - .45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditors' report, and our independent auditors' report on compliance and on internal control over financial reporting, all dated January 23, 2004) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding North Central Telephone Cooperative Corporation's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

ACCOUNTING RECORDS - In addition to our observation of the effectiveness of internal control, it appears that the bookkeeping and accounting records, including the many supplementary files and ledgers are well kept and adequately maintained. From tests made by us, it appeared that the methods used in accumulating costs for material, transportation, labor and overhead and the distribution of these costs to the various accounts were in accordance with proper procedures.

MATERIAL CONTROL – Materials and supplies are stated at average cost. Inventory quantities of outside plant materials and supplies were ascertained by physical count, weight or other measure as of December 31, 2003, by employees of the Cooperative. We were present during the time of taking the physical inventories to observe the procedures used to determine inventory quantities. We made test counts of quantities on hand and subsequently traced these counts to the perpetual inventory records. We reviewed the basis of pricing and tested the clerical accuracy of the extensions and footings. We tested the accuracy of perpetual inventory records. Our review indicated only minor differences between the counts reflected by the tests and those accumulated on the books.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement or lease between the borrower and an affiliate for the year ended December 31, 2003, of North Central Telephone Cooperative Corporation.
 1. No contracts for management, operations or billing services were in effect during the year ended December 31, 2003 as defined in 1773.33(e)(2)(i).
 2. Reviewed Board of Directors minutes to ascertain whether board- approved written contracts should have been included in a borrower-prepared schedule.
- Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:

Financial statements as of December 31, 2003, included in copies of RUS Form 479 were compared with the Cooperative's books and found to be in agreement in all material respects.

The results of our tests indicate that, with respect to the items tested, North Central Telephone Cooperative Corporation complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested include the requirements that:

- The borrower has obtained written approval of the RUS to enter into any contract, agreement, or lease with an affiliate as defined in 1773.33(e)(2)(i);
- The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2003, represented by the borrower as having been submitted to RUS is in agreement with the North Central Telephone Cooperative Corporation's audited records in all material respects as of December 31, 2003, appears reasonable based upon the audit procedures performed.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of North Central Telephone Cooperative Corporation, nothing came to our attention that caused us to believe that North Central Telephone Cooperative Corporation failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33 (c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33 (c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- The approval of the sale and disposition of proceeds for the sale of plant, material, or scrap addressed at 7 CFR 1773.33 (c)(5); and
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 2003, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33 (e).

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments in affiliated companies required by 7 CFR 1773.33(i) and provided below, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit 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.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 5

Detailed schedule of investments

	North Central Communications, Inc.
Original investment	\$ 8,100,000
Additional investments as of 12/31/02	4,975,871
Undistributed earnings (losses) as of 12/31/02	<u>1,787,992</u>
Book value of investments as of 12/31/02	\$14,863,863
Additional investments as of 12/31/03	0
Undistributed earnings (losses) as of 12/31/03	<u>469,816</u>
Book value of investments as of 12/31/03	<u>\$15,333,679</u>

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Ishterow, Hails & Wells, PLLC
Certified Public Accountants

McMinnville, Tennessee
January 23, 2004

James A. Welch, CPA
M. Wayne Smith, CPA
Gentry B. Underhill Jr., CPA
Stephen B. Boyd, CPA, CMA
Carol C. Boyd, CPA
Tana L. Keil, CPA
Joseph B. Mitchell, CPA
Kevin C. Sizemore, Acct.
L. Candice King, Acct.
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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated January 24, 2003. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit we considered North Central Telephone Cooperative Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 2

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

Fotherow, Haile & Welch
Certified Public Accountants

McMinnville, Tennessee
January 24, 2003

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TENNESSEE 545
NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION
AND SUBSIDIARY
LAFAYETTE, TENNESSEE

December 31, 2002 and 2001

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C O N T E N T S

Consolidated Financial Statements:

Independent Auditors' Report.....	Page 3
Consolidated Balance Sheets	4
Consolidated Statements of Income and Patronage Capital	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements.....	10

Consolidating Information:

Independent Auditors' Report on Consolidating Information	20
Consolidating Balance Sheets	21
Consolidating Statements of Income and Patronage Capital	23

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INDEPENDENT AUDITORS' REPORT

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the accompanying consolidated balance sheets of North Central Telephone Cooperative Corporation and Subsidiary as of December 31, 2002 and 2001, and the related statements of income and patronage capital and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Central Telephone Cooperative Corporation and Subsidiary as of December 31, 2002 and 2001, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 24, 2003, on our consideration of North Central Telephone Cooperative Corporation's internal control over financial reporting and our tests of it compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Totherow, Haile & Welch
Certified Public Accountants

McMinnville, Tennessee
January 24, 2003

CONSOLIDATED

NORTH CENTRAL TELEPHONE COOPERATIVE

December 31, 2002

	2002	2001
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 5,707,919	\$ 4,728,945
Cash - construction funds	160,384	37,895
Temporary cash investments	3,689,061	5,183,856
Notes receivable	37,236	45,093
Telecommunications accounts receivable, less allowances of \$59,735 in 2002 and \$55,726 in 2001	1,651,619	1,527,360
Other accounts receivable	36,969	90,939
Materials and supplies	621,324	617,743
Other current assets	<u>240,956</u>	<u>335,408</u>
TOTAL CURRENT ASSETS	\$12,145,468	\$12,567,239
<u>NONCURRENT ASSETS</u>		
Investments	\$12,715,216	\$11,876,902
Notes receivable - net of current portion	19,803	31,425
Nonregulated investments	288,415	359,042
Prepaid postretirement benefits other than pension	65,972	60,316
Goodwill, less accumulated amortization of \$214,343 in 2002 and \$152,282 in 2001 and an impairment loss of \$226,205 in 2002	577,069	783,863
Organization costs	<u>426</u>	<u>960</u>
TOTAL NONCURRENT ASSETS	\$13,666,901	\$13,112,508
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service	\$69,027,567	\$64,659,459
Telecommunications plant under construction	<u>7,798,311</u>	<u>3,847,389</u>
	\$76,825,878	\$68,506,848
Less accumulated provision for depreciation	<u>34,408,637</u>	<u>30,682,903</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>\$42,417,241</u>	<u>\$37,823,945</u>
	<u>\$68,229,610</u>	<u>\$63,503,692</u>

See the notes to financial statements.

BALANCE SHEETS

CORPORATION AND SUBSIDIARY

and 2001

	2002	2001
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 1,759,578	\$ 1,088,972
Advance billings and payments	134,282	102,738
Customer deposits	576,842	538,823
Current maturities on long-term debt	1,791,961	1,719,374
Accrued taxes	555,356	410,331
Accrued interest	159,385	167,524
Accrued rents	297,493	185,030
Accrued salaries and wages	132,591	121,431
Accrued vacation and sick leave benefits	1,620,992	1,446,909
Other current liabilities	<u>412,519</u>	<u>349,120</u>
TOTAL CURRENT LIABILITIES	\$ 7,440,999	\$ 6,130,252
<u>LONG-TERM DEBT</u>		
Rural Utilities Service	21,397,121	22,478,703
Other long-term debt	2,486,893	491,992
<u>OTHER LIABILITIES</u>		
Deferred taxes	<u>441,654</u>	<u>570,029</u>
TOTAL LIABILITIES	\$31,766,667	\$29,670,976
<u>MEMBERS' EQUITY</u>		
Memberships	\$ 6,580	\$ 6,580
Patronage capital	<u>36,456,363</u>	<u>\$33,826,136</u>
TOTAL MEMBERS' EQUITY	<u>\$36,462,943</u>	<u>\$33,832,716</u>
	<u>\$68,229,610</u>	<u>\$63,503,692</u>

CONSOLIDATED STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2002 and 2001

	2002	2001
Operating revenues:		
Local network services revenue	\$ 4,257,474	\$ 4,051,066
Network access services revenue	6,748,758	6,874,799
Long distance network services revenue	3,924,939	3,893,227
Miscellaneous revenue	6,386,846	5,701,399
TOTAL OPERATING REVENUES	<u>\$21,318,017</u>	<u>\$20,520,491</u>
Operating expenses:		
Plant specific operations expense	\$ 2,676,469	\$ 2,196,263
Plant nonspecific operations expense	1,717,242	1,771,887
Provision for depreciation and amortization	4,586,928	4,565,765
Customer operations expense	4,698,612	3,974,797
Corporate operations expense	3,878,173	3,706,120
Operating taxes	610,551	561,882
TOTAL OPERATING EXPENSES	<u>\$18,167,975</u>	<u>\$16,776,714</u>
OPERATING INCOME	\$ 3,150,042	\$ 3,743,777
Other income:		
Income from investments	\$ 1,513,002	\$ 1,605,034
Interest and dividend income	427,232	582,263
Nonregulated income (loss)	(117,358)	97,139
Impairment of goodwill	(226,205)	0
Gain (loss) on sale of equipment	62	(48,774)
TOTAL OTHER INCOME	<u>\$ 1,596,733</u>	<u>\$ 2,235,662</u>
Fixed charges:		
Interest expense	\$ 1,248,314	\$ 1,299,264
Interest charged to construction - credit	(124,160)	(146,458)
TOTAL FIXED CHARGES	<u>\$ 1,124,154</u>	<u>\$ 1,152,806</u>
INCOME BEFORE TAXES ON INCOME	\$ 3,622,621	\$ 4,826,633
Taxes on income	439,094	551,379
NET INCOME	<u>\$ 3,183,527</u>	<u>\$ 4,275,254</u>
Patronage capital at beginning of year	33,826,136	29,828,762
Capital credits paid and applied	(617,916)	(357,171)
Excise tax refundable on capital credits	64,616	79,291
PATRONAGE CAPITAL AT END OF YEAR	<u>\$36,456,363</u>	<u>\$33,826,136</u>

See the notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Cash received from customers	\$21,294,682	\$21,049,398
Cash paid to suppliers and employees	(11,794,163)	(11,290,478)
Interest received	373,535	537,966
Interest paid	(1,132,293)	(1,148,000)
Taxes paid	(1,031,995)	(1,335,410)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 7,709,766	\$ 7,813,476
Cash flows from investing activities:		
Construction and acquisition of plant	\$(9,095,912)	\$(5,792,671)
Proceeds from sale of equipment	1,273	0
Plant removal costs	(113,549)	(44,690)
Investment in partnership	0	(876,566)
Salvage	48,195	48,313
Cash distribution from investments	675,661	530,173
Investment in nonregulated CPE	70,627	(69,499)
Goodwill purchased	(40,000)	(40,000)
Increase in notes receivable	(39,559)	(52,380)
Collection on notes receivable	59,037	63,283
Decrease (Increase) in:		
Materials and supplies	(3,581)	197,967
Temporary investments	1,494,795	84,822
Other investments	(12,901)	(38,899)
Nonregulated income	(117,358)	97,139
NET CASH USED BY INVESTING ACTIVITIES	\$(7,073,272)	\$(5,893,008)

See the notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2002 and 2001

	2002	2001
Cash flows from financing activities:		
Debt proceeds	\$ 2,692,290	\$ 0
Payments on long-term borrowings	(1,706,384)	(1,637,266)
Excise credit applied to capital	64,616	79,291
Capital credits paid and applied	(617,916)	(357,171)
Postretirement benefits other than pension	(5,656)	(358,248)
Increase in customer deposits	<u>38,019</u>	<u>25,575</u>
 NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	 <u>\$ 464,969</u>	 <u>\$(2,247,819)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 <u>\$ 1,101,463</u>	 <u>\$ (327,351)</u>
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>4,766,840</u>	 <u>5,094,191</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u><u>\$ 5,868,303</u></u>	 <u><u>\$ 4,766,840</u></u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2002 and 2001

	2002	2001
Net income	\$3,183,527	\$4,275,254
Less: Nonregulated income	117,358	(97,139)
Income from investments	(1,513,002)	(1,605,034)
Impairment of goodwill	<u>226,205</u>	<u>0</u>
Net income from regulated operations	\$2,014,088	\$2,573,081
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$4,653,508	\$4,565,765
Loss (Gain) on sale of equipment	(62)	48,774
Deferred taxes	(128,375)	(56,927)
Noncash patronage allocation	(53,697)	(44,297)
Decrease (Increase) in:		
Customer and accounts receivable	(70,289)	597,378
Current and accrued assets - other	94,452	(149,733)
Increase (Decrease) in:		
Accounts payable	670,606	138,105
Advance billings and payments	31,544	102,738
Accrued taxes	145,025	(137,222)
Accrued interest	(8,139)	4,806
Accrued rents	112,463	1,462
Accrued salaries and employee benefits	185,243	190,820
Other current liabilities	<u>63,399</u>	<u>(21,274)</u>
TOTAL ADJUSTMENTS	<u>\$5,695,678</u>	<u>\$5,240,395</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$7,709,766</u>	<u>\$7,813,476</u>

See the notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2002 and 2001

Note A – North Central Telephone Cooperative Corporation and Subsidiary provides retail telecommunications services to Macon County, Tennessee and surrounding counties including a portion of southern Kentucky. North Central Telephone Cooperative Corporation and Subsidiary has adopted the following accounting policies:

(1) Principles of Consolidation:

North Central Telephone Cooperative Corporation (Cooperative) owns 100% of the outstanding common stock of North Central Communications, Inc. and Subsidiaries (Subsidiary). North Central Communications, Inc. and Subsidiaries were formed for the purpose of providing long distance and other telephone services and computer sales and services. The consolidated financial statements include the accounts of North Central Communications, Inc. and Subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Cooperative operates on a fiscal year ending December 31. The Subsidiary operates on a fiscal year ending September 30. The consolidated financial statements reflect the results of operations from January 1 through December 31 for the Cooperative and from October 1, 2001 through September 30, 2002 for the Subsidiary.

- (2) Material and supplies are valued at average cost accumulated in perpetual inventory records which are periodically adjusted to physical counts.
- (3) The Companies prepare their financial statements using the accrual method of accounting.
- (4) The Cooperative's expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired from service are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation. The Subsidiary provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life.
- (5) For purposes of financial statement presentation, the Cooperative and Subsidiary consider all highly-liquid investments with a maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of treasury bills and notes and commercial paper with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as temporary investments.
-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2002 and 2001

Note A – (Cont'd):

- (6) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- (7) The Cooperative and Subsidiary expense advertising costs to expense as incurred.

Note B – Substantially all assets of the Cooperative are pledged as security for the long-term debt to RUS.

Note C – The Cooperative and Subsidiary maintain their cash and temporary investments in several commercial banks located within their trade area. The Federal Deposit Insurance Corporation (FDIC) insures accounts and temporary investments up to \$100,000. A summary of the total insured and uninsured cash balances follows:

Total cash and temporary investments	\$9,755,976
Portion insured by FDIC	<u>1,609,733</u>
Uninsured cash balances	<u>\$8,146,243</u>

Telecommunication services are provided to the customers on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2002 and 2001

Note D – Investments:

	<u>2002</u>	<u>2001</u>
Rural Telephone Bank "c" stock - at cost	\$ 1,000	\$ 1,000
NECA Services, Inc. stock - at cost	10,000	10,000
Cash value of life insurance	383,979	371,078
Investment in Tennessee RSA #3 cellular partnership	1,840,084	1,830,146
Investment in Kentucky RSA #3 cellular partnership	7,064,121	6,246,036
Investment in Direct Broadcast Satellite	50,738	84,564
Investment in Bluegrass Network, Inc.	1,795,095	1,661,943
Investment in Bluegrass Telecom, LLC	454,933	435,801
Qualified patronage capital certificates - NRTC	160,372	106,675
Tennessee 220 MHZ Radio	203,308	203,308
Tennessee Independent Telecom Group	741,487	916,252
Enhanced Compact Disc Productions	9,744	9,744
Deposits	<u>355</u>	<u>355</u>
	<u>\$12,715,216</u>	<u>\$11,876,902</u>

Nonregulated investments:

Nonregulated customer premises equipment - leased	\$ 824,823	\$ 986,673
Less accumulated provisions for depreciation	<u>536,408</u>	<u>627,631</u>
	<u>\$ 288,415</u>	<u>\$ 359,042</u>

Nonregulated customer premises equipment is stated at cost. The Cooperative provides for depreciation on a straight-line basis at an annual rate of depreciation which will amortize the cost of the equipment over its estimated useful life.

Note E – Organization costs are being amortized over five years using the straight-line method of accounting. At September 30, 2002, these costs amounted to \$2,670, less accumulated amortization in the amount of \$2,214.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2002 and 2001

Note F – Telephone plant in service and under construction is stated at cost. Listed below are the major classes of the telephone plant as of December 31, 2002 and December 31, 2001.

	<u>2002</u>	<u>2001</u>
Franchises	\$ 236	\$ 236
Land	524,807	524,807
Buildings	3,878,746	3,706,794
Central office equipment	21,084,630	19,598,098
Poles, cables and wire	37,175,361	35,056,518
Furniture and office equipment	2,095,082	1,886,292
Vehicles and other work equipment	<u>2,645,322</u>	<u>2,401,208</u>
TOTAL PLANT IN SERVICE	<u>\$67,404,184</u>	<u>\$63,173,953</u>

The Cooperative provides for depreciation on a straight-line basis of annual rates which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of telephone plant in service was 6.80 percent for 2002 and 6.86 percent for 2001. The provision for 2002 was \$4,375,188 and the provision for 2001 was \$4,266,844.

Individual plant depreciation rates are as follows:

	<u>Percent</u>
Buildings	2.6
Central office equipment	6.7 – 21.0
Public telephone equipment	15.1
Poles, cable and wire	1.7 – 8.8
Furniture and office equipment	6.7 – 16.4
Vehicles and other work equipment	6.4 – 10.8
DBS and internet equipment	18.8

Investment in property and equipment included in the Subsidiary:

	<u>2002</u>	<u>2001</u>
Land	\$ 67,937	\$ 67,937
Building	808,972	803,324
CATV equipment	73,884	0
Office furniture and fixtures	159,124	61,332
Equipment	359,954	358,648
Vehicles	<u>153,512</u>	<u>215,897</u>
TOTAL	<u>\$1,623,383</u>	<u>\$1,507,138</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2002 and 2001

Note F – (Cont'd):

The Subsidiary provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its useful life. Depreciation charged to expense on the Subsidiary's records amounted to \$211,740 in 2002 and \$298,921 in 2001.

Note G – A description of notes payable follows:

Long-term debt is represented by mortgage notes payable to the United States of America and other lenders. Following is a summary of outstanding long-term debt.

	<u>2002</u>	<u>2001</u>
2% Rural Utilities Service notes	\$ 2,191,231	\$ 2,466,259
5% Rural Utilities Service notes	20,979,462	21,714,551
Others	<u>2,505,282</u>	<u>509,259</u>
	\$25,675,975	\$24,690,069
Less current maturities	<u>1,791,961</u>	<u>1,719,374</u>
	<u>\$23,884,014</u>	<u>\$22,970,695</u>

Long-term debt matures as follows:

<u>Year</u>	<u>Amount</u>
2003	\$ 1,791,961
2004	3,895,126
2005	1,976,221
2006	2,075,346
2007	2,179,445
Beyond five years	<u>13,757,876</u>
TOTAL	<u>\$25,675,975</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2002 and 2001

Note H – The Cooperative has adopted the retirement and security program of the National Telephone Cooperative Association as a pension plan covering all employees meeting certain age and length of service requirements for which it pays approximately 73% of the cost. The Cooperative funds the pension plan by making quarterly contributions into the program based on salaries. The Cooperative's cost was \$326,138 for 2002 and \$317,407 for 2001.

Note I – Income taxes are accounted for using Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). Under the provision for FAS 109, an entity recognizes deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the Cooperative's financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Under FAS 109, measurement is computed using applicable current tax rates.

	<u>2002</u>	<u>2001</u>
Current income tax expense	\$567,470	\$608,306
Deferred income tax expense	<u>(128,376)</u>	<u>(56,927)</u>
	<u>\$439,094</u>	<u>\$551,379</u>

The deferred tax liability is primarily the result of timing differences related to the Cooperative's investments in several limited partnerships.

	<u>2002</u>	<u>2001</u>
Deferred tax liability at beginning of year	\$992,370	\$800,000
Current period increase (reduction) for deferred taxes on income	<u>(376,170)</u>	<u>192,370</u>
Deferred tax liability at end of year	\$616,200	\$992,370
Less deferred tax benefit at end of year	<u>174,546</u>	<u>422,341</u>
Deferred tax liability at end of year	<u>\$441,654</u>	<u>\$570,029</u>

The deferred tax asset is primarily the result of net operating losses that are carried forward for state income tax reporting purposes from North Central Communication's investment in its wholly owned subsidiaries.

~~The Subsidiary has a net operating loss carryforward of approximately \$1,863,879 which is available to offset future state taxable income. This carryforward will expire in 17 to 20 years.~~

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2002 and 2001

Note J – The Cooperative has adopted Statement of Financial Accounting Standards No. 106, “Employers’ Accounting for Postretirement Benefits other than Pensions”. Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Cooperative’s obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. The cost of health benefits for current and future associate retirees was recognized as determined under the projected unit credit cost method.

Substantially all of the Cooperative’s employees are covered under postretirement health and life insurance plan. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on 25% of the preretirement life insurance benefit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2002 and 2001

Note J – (Cont'd):

The following table sets forth the plan's funded status and the amount recognized in the Cooperative's Balance Sheet as of December 31:

	<u>2002</u>	<u>2001</u>
Accumulated postretirement obligation attributable to:		
Retirees	\$ (1,568,653)	\$(1,507,040)
Fully eligible plan participants	(1,073,467)	(786,803)
Other active plan participants	<u>(2,678,199)</u>	<u>(2,229,505)</u>
Total accumulated postretirement benefit obligation	\$(5,320,319)	\$(4,523,348)
Fair value of plan assets	<u>3,164,343</u>	<u>2,989,851</u>
Accumulated postretirement benefit obligation in excess of plan assets	\$(2,155,976)	\$(1,533,497)
Unrecognized net gains (losses)	1,317,400	588,759
Unamortized initial obligation	<u>904,548</u>	<u>1,005,054</u>
Prepaid (Accrued) postretirement benefit obligation	<u>\$ 65,972</u>	<u>\$ 60,316</u>

Postretirement benefit cost is composed of the following for the year ended December 31:

	<u>2002</u>	<u>2001</u>
Benefits earned during the year	\$186,347	\$155,695
Interest on accumulated postretirement benefit obligation	272,594	270,793
Actual return on plan assets	(249,348)	(231,905)
Net amortization of transition obligation over 20 years	100,506	100,506
Net amortization and deferral	<u>46,533</u>	<u>9,600</u>
Postretirement benefit cost	<u>\$356,632</u>	<u>\$304,689</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2002 and 2001

Note J – (Cont'd):

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 6.00% at December 31, 2002 and 6.50% at January 1, 2001. The assumed rate of future increases in compensation levels was 6.00% at December 31, 2002. The medical cost trend rate in 2002 was approximately 7.00% grading down to an ultimate rate in 2016 of 5.50%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of 2002 net periodic postretirement benefit cost by \$135,866 and would have increased the accumulated postretirement benefit obligation as of December 31, 2002 by \$769,386.

Note K – Labor Force

Approximately 80% of the Cooperative's labor force is subject to a collective bargaining agreement. A three-year agreement was negotiated and approved for the period January 1, 2003 to December 31, 2005 between the Cooperative and the Communications Workers of America.

Note L – Commitments and Contingencies

The Cooperative is a guarantor for loans in the amount of \$1,777,778. These loans are the obligation of TN Independent Telecommunications Group d/b/a Iris Networks, a related party.

Note M – Related Party Transactions

Related party transactions include, but are not limited to security and monitoring services provided by North central security Services, inc. (a related company), computer maintenance and support provided by North Central Computer Technologies, Inc. (a related company), and internet services provided by North Central Communications, Inc. (subsidiary).

CONSOLIDATING INFORMATION

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

Our report on our audits of the consolidated financial statements of North Central Telephone Cooperative Corporation and Subsidiary for 2002 and 2001 appears on page 3. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information contained on pages 21 through 24 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Totherow, Haile & Welch
Certified Public Accountants

McMinnville, Tennessee
January 24, 2003

CONSOLIDATING

NORTH CENTRAL TELEPHONE

December 31,

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash - general	\$ 5,223,044	\$ 484,875	\$ 0	\$ 5,707,919
Cash - construction funds	160,384	0	0	160,384
Temporary cash investments	3,089,061	600,000	0	3,689,061
Telecommunications				
accounts receivable	1,491,703	159,916	0	1,651,619
Notes receivable - current	0	37,236	0	37,236
Other accounts receivable	36,969	0	0	36,969
Advance to related company	1,051,119	524,348	(1,575,467)	0
Materials and supplies	486,506	134,818	0	621,324
Other current assets	142,650	98,306	0	240,956
TOTAL CURRENT ASSETS	\$ 11,681,436	\$ 2,039,499	\$ (1,575,467)	\$ 12,145,468
<u>NONCURRENT ASSETS</u>				
Investment in subsidiary	\$ 14,863,863	\$ 0	\$ (14,863,863)	\$ 0
Investments	394,979	12,320,237	0	12,715,216
Nonregulated investments	288,415	0	0	288,415
Notes receivable	0	19,803	0	19,803
Prepaid postretirement benefits	65,972	0	0	65,972
Goodwill - net	0	577,069	0	577,069
Organization costs	0	426	0	426
TOTAL NONCURRENT ASSETS	\$ 15,613,229	\$ 12,917,535	\$ (14,863,863)	\$ 13,666,901
<u>PROPERTY, PLANT AND EQUIPMENT</u>				
Telecommunications plant in service	\$ 67,404,184	\$ 1,623,383	\$ 0	\$ 69,027,567
Telecommunications plant under construction	3,500,028	2,722,816	1,575,467	7,798,311
	\$ 70,904,212	\$ 4,346,199	\$ 1,575,467	\$ 76,825,878
Less accumulated provision for depreciation	33,957,938	450,699	0	34,408,637
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 36,946,274	\$ 3,895,500	\$ 1,575,467	\$ 42,417,241
	\$ 64,240,939	\$ 18,852,534	\$ (14,863,863)	\$ 68,229,610

BALANCE SHEETS

COOPERATIVE CORPORATION AND SUBSIDIARY

2002

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable	\$ 820,378	\$ 939,200	\$ 0	\$ 1,759,578
Advance billings and payments	115,623	18,659	0	134,282
Customer deposits	576,842	0	0	576,842
Current maturities on long-term debt	1,773,572	18,389	0	1,791,961
Accrued taxes	555,356	0	0	555,356
Accrued interest	135,400	23,985	0	159,385
Accrued rent	297,493	0	0	297,493
Accrued salaries and wages	117,893	14,698	0	132,591
Accrued vacation and sick leave benefits	1,620,992	0	0	1,620,992
Other current liabilities	367,326	45,193	0	412,519
TOTAL CURRENT LIABILITIES	\$ 6,380,875	\$ 1,060,124	\$ 0	\$ 7,440,999
<u>LONG-TERM DEBT</u>				
Rural Utilities Service	21,397,121	0	0	21,397,121
Other long-term debt	0	2,486,893	0	2,486,893
<u>OTHER LIABILITIES</u>				
Deferred taxes -net	0	441,654	0	441,654
TOTAL LIABILITIES	\$ 27,777,996	\$ 3,988,671	\$ 0	\$ 31,766,667
<u>MEMBERS' EQUITY</u>				
Memberships	\$ 6,580	\$ 0	\$ 0	\$ 6,580
Capital stock	0	8,100,000	(8,100,000)	0
Patronage capital	36,456,363	0	0	36,456,363
Retained earnings	0	6,763,863	(6,763,863)	0
TOTAL MEMBERS' EQUITY	\$ 36,462,943	\$ 14,863,863	\$ (14,863,863)	\$ 36,462,943
	<u>\$ 64,240,939</u>	<u>\$ 18,852,534</u>	<u>\$ (14,863,863)</u>	<u>\$ 68,229,610</u>

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2002

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
Operating revenues:				
Local network services revenue	\$ 4,257,474	\$ 0	\$ 0	\$ 4,257,474
Network access service revenue	6,748,758	0	0	6,748,758
Long distance network services revenue	3,924,939	0	0	3,924,939
Miscellaneous revenue	<u>1,392,939</u>	<u>4,993,907</u>	<u>0</u>	<u>6,386,846</u>
TOTAL OPERATING REVENUES	\$ 16,324,110	\$ 4,993,907	\$ 0	\$ 21,318,017
Operating expenses:				
Plant specific operations expense	\$ 2,676,469	\$ 0	\$ 0	\$ 2,676,469
Plant nonspecific operations expense	1,717,242	0	0	1,717,242
Provision for depreciation	4,375,188	211,740	0	4,586,928
Customer operations expense	1,828,752	2,869,860	0	4,698,612
Corporate operations expense	1,905,785	1,972,388	0	3,878,173
Operating taxes	<u>610,551</u>	<u>0</u>	<u>0</u>	<u>610,551</u>
TOTAL OPERATING EXPENSES	\$ 13,113,987	\$ 5,053,988	\$ 0	\$ 18,167,975
OPERATING INCOME (LOSS)	\$ 3,210,123	\$ (60,081)	\$ 0	\$ 3,150,042
Other income (loss):				
Income from subsidiaries	\$ 692,396	\$ 0	\$ (692,396)	\$ 0
Income from investments	0	1,513,002	0	1,513,002
Interest and dividends	228,717	198,515	0	427,232
Nonregulated loss	(117,358)	0	0	(117,358)
Impairment of goodwill	0	(226,205)	0	(226,205)
Gain on sale of equipment	<u>0</u>	<u>62</u>	<u>0</u>	<u>62</u>
TOTAL OTHER INCOME	\$ 803,755	\$ 1,485,374	\$ (692,396)	\$ 1,596,733

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL (CONTD)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2002

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
Fixed charges:				
Interest expense	\$ 1,143,070	\$ 105,244	\$ 0	\$ 1,248,314
Interest charged to construction - credit	<u>(124,160)</u>	<u>0</u>	<u>0</u>	<u>(124,160)</u>
TOTAL FIXED CHARGES	\$ 1,018,910	\$ 105,244	\$ 0	\$ 1,124,154
INCOME BEFORE TAXES ON INCOME	\$ 2,994,968	\$ 1,320,049	\$ (884,766)	\$ 3,430,251
Taxes on income	<u>3,811</u>	<u>435,283</u>	<u>0</u>	<u>439,094</u>
NET INCOME	\$ 2,991,157	\$ 884,766	\$ (884,766)	\$ 2,991,157
Patronage capital at beginning of year	34,018,506	0	192,370	34,210,876
Capital credits paid and applied	(617,916)	0	0	(617,916)
Excise tax refundable on capital credits	<u>64,616</u>	<u>0</u>	<u>0</u>	<u>64,616</u>
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 36,456,363</u>	<u>\$ 884,766</u>	<u>\$ (692,396)</u>	<u>\$ 36,648,733</u>

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2002, and have issued our report thereon dated January 24, 2003. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and 7 CFR part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2002, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(2), and related party transactions and investments. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38 - .45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditors' report, and our independent auditors' report on compliance and on internal control over financial reporting, all dated January 24, 2003) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding North Central Telephone Cooperative Corporation's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

ACCOUNTING RECORDS - In addition to our observation of the effectiveness of internal control, it appears that the bookkeeping and accounting records, including the many supplementary files and ledgers are well kept and adequately maintained. From tests made by us, it appeared that the methods used in accumulating costs for material, transportation, labor and overhead and the distribution of these costs to the various accounts were in accordance with proper procedures.

MATERIAL CONTROL – Materials and supplies are stated at average cost. Inventory quantities of outside plant materials and supplies were ascertained by physical count, weight or other measure as of December 31, 2002, by employees of the Cooperative. We were present during the time of taking the physical inventories to observe the procedures used to determine inventory quantities. We made test counts of quantities on hand and subsequently traced these counts to the perpetual inventory records. We reviewed the basis of pricing and tested the clerical accuracy of the extensions and footings. We tested the accuracy of perpetual inventory records. Our review indicated only minor differences between the counts reflected by the tests and those accumulated on the books.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement or lease between the borrower and an affiliate for the year ended December 31, 2002, of North Central Telephone Cooperative Corporation.
 1. No contracts for management, operations or billing services were in effect during the year ended December 31, 2002 as defined in 1773.33(e)(2)(i).
 2. Reviewed Board of Directors minutes to ascertain whether board- approved written contracts should have been included in a borrower-prepared schedule.
- Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:

Financial statements as of December 31, 2002, included in copies of RUS Form 479 were compared with the Cooperative's books and found to be in agreement in all material respects.

The results of our tests indicate that, with respect to the items tested, North Central Telephone Cooperative Corporation complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested include the requirements that:

- The borrower has obtained written approval of the RUS to enter into any contract, agreement, or lease with an affiliate as defined in 1773.33(e)(2)(i);
- The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2002, represented by the borrower as having been submitted to RUS is in agreement with the North Central Telephone Cooperative Corporation's audited records in all material respects as of December 31, 2002, appears reasonable based upon the audit procedures performed.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of North Central Telephone Cooperative Corporation, nothing came to our attention that caused us to believe that North Central Telephone Cooperative Corporation failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33 (c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33 (c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- The approval of the sale and disposition of proceeds for the sale of plant, material, or scrap addressed at 7 CFR 1773.33 (c)(5); and
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 2002, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33 (e).

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments in affiliated companies required by 7 CFR 1773.33(i) and provided below, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit 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.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 5

Detailed schedule of investments

	North Central Communications, Inc.
Original investment	\$8,100,000
Additional investments as of 12/31/00	0
Undistributed earnings (losses) as of 12/31/00	<u>4,975,871</u>
Book value of investments as of 12/31/00	\$13,075,871
Additional investments as of 12/31/01	0
Undistributed earnings (losses) as of 12/31/01	<u>1,095,596</u>
Book value of investments as of 12/31/01	\$14,171,467
Additional investments as of 12/31/02	0
Undistributed earnings (losses) as of 12/31/02	<u>692,396</u>
Book value of investments as of 12/31/02	<u>\$14,863,863</u>

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Jotherow, Haile & Welch
Certified Public Accountants

McMinnville, Tennessee
January 24, 2003

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TENNESSEE 545
NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION
AND SUBSIDIARY
LAFAYETTE, TENNESSEE

December 31, 2001 and 2000

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C O N T E N T S

Consolidated Financial Statements:

Independent Auditors' Report.....	Page 3
Consolidated Balance Sheets	4
Consolidated Statements of Income and Patronage Capital	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements.....	10

Consolidating Information:

Independent Auditors' Report on Consolidating Information	20
Consolidating Balance Sheets	21
Consolidating Statements of Income and Patronage Capital	23

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INDEPENDENT AUDITORS' REPORT

Board of Directors
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Cooperative Corporation
Lafayette, Tennessee

We have audited the accompanying consolidated balance sheets of North Central Telephone Cooperative Corporation and Subsidiary as of December 31, 2001 and 2000, and the related statements of income and patronage capital and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Central Telephone Cooperative Corporation and Subsidiary as of December 31, 2001 and 2000, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2002, on our consideration of North Central Telephone Cooperative Corporation's internal control over financial reporting and our tests of it compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Totherow, Haile & Welch

Certified Public Accountants

McMinnville, Tennessee
January 25, 2002

CONSOLIDATED BALANCE

NORTH CENTRAL TELEPHONE

December 31, 2001

	2001	2000*
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 4,728,945	\$ 4,612,972
Cash - construction funds	37,895	481,219
Temporary cash investments	5,183,856	5,268,678
Notes receivable	45,093	36,950
Telecommunications accounts receivable, less allowances of \$55,726 in 2001 and \$56,284 in 2000	1,527,360	2,186,862
Other accounts receivable	90,939	28,815
Materials and supplies	617,743	815,710
Other current assets	<u>335,408</u>	<u>185,675</u>
TOTAL CURRENT ASSETS	\$12,567,239	\$13,616,881
<u>NONCURRENT ASSETS</u>		
Investments - Note D	\$11,876,902	\$ 9,907,905
Notes receivable - net of current portion	31,425	50,471
Nonregulated investments - Note D	359,042	289,543
Prepaid postretirement benefits - Note J	60,316	0
Goodwill - net of accumulated amortization of \$152,282 in 2001 and \$88,818 in 2000	783,863	809,247
Organization costs - Note E	<u>960</u>	<u>1,494</u>
TOTAL NONCURRENT ASSETS	\$13,112,508	\$11,058,660
<u>PROPERTY, PLANT AND EQUIPMENT - Note F</u>		
Telecommunications plant in service	\$64,659,459	\$62,864,861
Telecommunications plant under construction	<u>3,847,389</u>	<u>2,597,794</u>
	\$68,506,848	\$65,462,655
Less accumulated provision for depreciation	<u>30,682,903</u>	<u>28,944,763</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>\$37,823,945</u>	<u>\$36,517,892</u>
	<u>\$63,503,692</u>	<u>\$61,193,433</u>

* Certain amounts have been reclassified for comparative purposes.
See the notes to financial statements.

SHEETS

COOPERATIVE CORPORATION AND SUBSIDIARY

and 2000

	2001	2000*
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 1,088,972	\$ 950,867
Advance billings and payments	102,738	0
Customer deposits	538,823	513,248
Current maturities on long-term debt	1,719,374	1,680,629
Accrued taxes	410,331	547,553
Accrued interest	167,524	162,718
Accrued rents	185,030	183,568
Accrued salaries and wages	121,431	77,963
Accrued vacation and sick leave benefits	1,446,909	1,299,557
Other current liabilities	349,120	370,394
	<u> </u>	<u> </u>
TOTAL CURRENT LIABILITIES	\$ 6,130,252	\$ 5,786,497
<u>LONG-TERM DEBT - Note G</u>		
Rural Utilities Service	22,478,703	24,137,447
Other long-term debt	491,992	509,259
<u>OTHER LIABILITIES</u>		
Postretirement benefits other than pension - Note J	0	297,932
Deferred taxes - Note I	570,029	626,956
	<u> </u>	<u> </u>
TOTAL LIABILITIES	\$29,670,976	\$31,358,091
<u>MEMBERS' EQUITY</u>		
Memberships	\$ 6,580	\$ 6,580
Patronage capital	33,826,136	29,828,762
	<u> </u>	<u> </u>
TOTAL MEMBERS' EQUITY	\$33,832,716	\$29,835,342
	<u> </u>	<u> </u>
	<u>\$63,503,692</u>	<u>\$61,193,433</u>

CONSOLIDATED STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2001 and 2000

	2001	2000
Operating revenues:		
Local network services revenue	\$ 4,051,066	\$ 3,999,092
Network access services revenue	6,874,799	5,690,367
Long distance network services revenue	3,893,227	3,870,589
Miscellaneous revenue	5,701,399	4,878,850
TOTAL OPERATING REVENUES	<u>\$20,520,491</u>	<u>\$18,438,898</u>
Operating expenses:		
Plant specific operations expense	\$ 2,196,263	\$ 1,981,229
Plant nonspecific operations expense	1,771,887	1,466,397
Provision for depreciation and amortization	4,565,765	4,216,551
Customer operations expense	3,974,797	3,731,977
Corporate operations expense	3,706,120	3,186,849
Operating taxes	561,882	477,703
TOTAL OPERATING EXPENSES	<u>\$16,776,714</u>	<u>\$15,060,706</u>
OPERATING INCOME	\$ 3,743,777	\$ 3,378,192
Other income:		
Income from investments	\$ 1,605,034	\$ 1,633,868
Interest and dividend income	582,263	513,756
Nonregulated income	97,139	258,151
Gain on sale of investment	0	2,848,048
Loss on sale of equipment	(48,774)	(23,030)
TOTAL OTHER INCOME	<u>\$ 2,235,662</u>	<u>\$ 5,230,793</u>
Fixed charges:		
Interest expense	\$ 1,299,264	\$ 1,283,928
Interest charged to construction - credit	(146,458)	(194,000)
TOTAL FIXED CHARGES	<u>\$ 1,152,806</u>	<u>\$ 1,089,928</u>
INCOME BEFORE TAXES ON INCOME	\$ 4,826,633	\$ 7,519,057
Taxes on income	551,379	2,047,962
NET INCOME	<u>\$ 4,275,254</u>	<u>\$ 5,471,095</u>
Patronage capital at beginning of year	29,828,762	24,529,399
Capital credits paid and applied	(357,171)	(276,113)
Excise tax refundable on capital credits	79,291	104,381
PATRONAGE CAPITAL AT END OF YEAR	<u>\$33,826,136</u>	<u>\$29,828,762</u>

See the notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2001 and 2000

	2001	2000*
Cash flows from operating activities:		
Cash received from customers	\$21,049,398	\$18,272,165
Cash paid to suppliers and employees	(11,290,478)	(10,840,696)
Interest received	537,966	496,661
Interest paid	(1,148,000)	(1,091,818)
Taxes paid	(1,335,410)	(2,554,963)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 7,813,476	\$ 4,281,349
Cash flows from investing activities:		
Construction and acquisition of plant	\$(5,792,671)	\$(6,787,818)
Proceeds from sale of investment	0	5,672,000
Plant removal costs	(44,690)	(32,787)
Investment in partnership	(876,566)	(461,486)
Salvage	48,313	63,101
Cash distribution from investments	530,173	854,978
Investment in nonregulated CPE	(69,499)	(77,309)
Goodwill purchased	(40,000)	(300,000)
Increase in notes receivable	(52,380)	(112,157)
Collection on notes receivable	63,283	24,736
Decrease (Increase) in:		
Materials and supplies	197,967	(315,927)
Temporary investments	84,822	(2,553,428)
Other investments	(38,899)	(48,832)
Nonregulated income	97,139	258,151
NET CASH USED BY INVESTING ACTIVITIES	\$(5,893,008)	\$(3,816,778)

*Various amounts have been reclassified for comparative purposes.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2001 and 2000

	2001	2000*
Cash flows from financing activities:		
Debt proceeds	\$ 0	\$ 1,250,000
Payments on notes payable	0	(45,000)
Payments on long-term borrowings	(1,637,266)	(1,570,754)
Excise credit applied to capital	79,291	104,381
Capital credits paid and applied	(357,171)	(276,113)
Postretirement benefits other than pension	(358,248)	(24,733)
Increase in customer deposits	<u>25,575</u>	<u>40,238</u>
 NET CASH USED BY FINANCING ACTIVITIES	 <u>\$ (2,247,819)</u>	 <u>\$ (521,981)</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 \$ (327,351)	 \$ (57,410)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>5,094,191</u>	 <u>5,151,601</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u>\$ 4,766,840</u>	 <u>\$ 5,094,191</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2001 and 2000

	2001	2000*
Net income	\$4,275,254	\$5,471,095
Less: Nonregulated income	(97,139)	(258,151)
Income from investments	(1,605,034)	(1,633,868)
Gain on sale of investment	<u>0</u>	<u>(2,848,048)</u>
Net income from regulated operations	\$2,573,081	\$ 731,028
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$4,565,765	\$4,216,551
Loss on sale of equipment	48,774	23,030
Deferred taxes	(56,927)	(365,984)
Noncash patronage allocation	(44,297)	(17,095)
Decrease (Increase) in:		
Customer and accounts receivable	597,378	(177,522)
Current and accrued assets - other	(149,733)	103,895
Increase (Decrease) in:		
Accounts payable	138,105	(506,171)
Advance billings and payments	102,738	0
Accrued taxes	(137,222)	148,686
Accrued interest	4,806	(1,890)
Accrued rents	1,462	1,682
Accrued salaries and employee benefits	190,820	90,942
Other current liabilities	<u>(21,274)</u>	<u>34,197</u>
TOTAL ADJUSTMENTS	<u>\$5,240,395</u>	<u>\$3,550,321</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$7,813,476</u></u>	<u><u>\$4,281,349</u></u>

See the notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2001 and 2000

Note A – North Central Telephone Cooperative Corporation and Subsidiary provides retail telecommunications services to Macon County, Tennessee and surrounding counties including a portion of southern Kentucky. North Central Telephone Cooperative Corporation and Subsidiary has adopted the following accounting policies:

(1) Principles of Consolidation:

North Central Telephone Cooperative Corporation (Cooperative) owns 100% of the outstanding common stock of North Central Communications, Inc. and Subsidiaries (Subsidiary). North Central Communications, Inc. and Subsidiaries were formed for the purpose of providing long distance and other telephone services and computer sales and services. The consolidated financial statements include the accounts of North Central Communications, Inc. and Subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Cooperative operates on a fiscal year ending December 31. The Subsidiary operates on a fiscal year ending September 30. The consolidated financial statements reflect the results of operations from January 1 through December 31 for the Cooperative and from October 1, 2000 through September 30, 2001 for the Subsidiary.

- (2) Material and supplies are valued at average cost accumulated in perpetual inventory records which are periodically adjusted to physical counts.
- (3) The Companies prepare their financial statements using the accrual method of accounting.
- (4) The Cooperative's expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired from service are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation. The Subsidiary provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life.
- (5) For purposes of financial statement presentation, the Cooperative and Subsidiary consider all highly-liquid investments with a maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of treasury bills and notes and ~~commercial paper with original maturities of 90 days or less. Certificates of deposit~~ and other securities with original maturities over 90 days are classified as temporary investments.
-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2001 and 2000

Note A – (Cont'd):

- (6) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- (7) The Cooperative and Subsidiary expense advertising costs as incurred.

Note B – Substantially all assets of the Cooperative are pledged as security for the long-term debt to RUS.

Note C – The Cooperative and Subsidiary maintain their cash and temporary investments in several commercial banks located within their trade area. The Federal Deposit Insurance Corporation (FDIC) insures accounts and temporary investments up to \$100,000. A summary of the total insured and uninsured cash balances follows:

Total cash and temporary investments	\$9,950,696
Portion insured by FDIC	<u>1,531,433</u>
Uninsured cash balances	<u>\$8,419,263</u>

Telecommunication services are provided to the customers on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2001 and 2000

Note D – Investments:

	<u>2001</u>	<u>2000</u>
Rural Telephone Bank "c" stock - at cost	\$ 1,000	\$ 1,000
NECA Services, Inc. stock - at cost	10,000	10,000
Cash value of life insurance	371,078	332,320
Investment in Tennessee RSA #3 cellular partnership	1,830,146	1,762,114
Investment in Kentucky RSA #3 cellular partnership	6,246,036	5,187,261
Investment in Direct Broadcast Satellite	84,564	118,389
Investment in Bluegrass Network, Inc.	1,661,943	1,522,336
Investment in Bluegrass Telecom, LLC	435,801	340,406
Qualified patronage capital certificates - NRTC	106,675	62,377
Tennessee 220 MHZ Radio	203,308	161,487
Tennessee Independent Telecom Group	916,252	410,000
Enhanced Compact Disc Productions	9,744	0
Deposits	<u>355</u>	<u>215</u>
	<u>\$11,876,902</u>	<u>\$9,907,905</u>
Nonregulated investments:		
Nonregulated customer premises equipment - leased	\$ 986,673	\$ 904,108
Less accumulated provisions for depreciation	<u>627,631</u>	<u>614,565</u>
	<u>\$ 359,042</u>	<u>\$ 289,543</u>

Nonregulated customer premises equipment is stated at cost. The Cooperative provides for depreciation on a straight-line basis at an annual rate of depreciation which will amortize the cost of the equipment over its estimated useful life.

Note E – Organization costs are being amortized over five years using the straight-line method of accounting. At September 30, 2001, these costs amounted to \$2,670, less accumulated amortization in the amount of \$1,710.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2001 and 2000

Note F – Telephone plant in service and under construction is stated at cost. Listed below are the major classes of the telephone plant as of December 31, 2001 and December 31, 2000.

	<u>2001</u>	<u>2000</u>
Franchises	\$ 236	\$ 236
Land	524,807	524,807
Buildings	3,706,794	3,697,311
Central office equipment	19,598,098	19,228,343
Poles, cables and wire	35,056,518	33,850,854
Furniture and office equipment	1,886,292	1,824,033
Vehicles and other work equipment	<u>2,401,208</u>	<u>2,079,687</u>
TOTAL PLANT IN SERVICE	<u>\$63,173,953</u>	<u>\$61,205,271</u>

The Cooperative provides for depreciation on a straight-line basis of annual rates which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of telephone plant in service was 6.86 percent for 2001 and 6.67 percent for 2000. The provision for 2001 was \$4,266,844 and the provision for 2000 was \$3,926,020.

Individual plant depreciation rates are as follows:

	<u>Percent</u>
Buildings	2.6
Central office equipment	6.7 – 21.0
Public telephone equipment	15.1
Poles, cable and wire	1.7 – 8.8
Furniture and office equipment	6.7 – 16.4
Vehicles and other work equipment	6.4 – 10.8
DBS and internet equipment	18.8

Investment in property and equipment included in the Subsidiary:

	<u>2001</u>	<u>2000</u>
Land	\$ 67,937	\$ 67,937
Building	803,324	739,809
Plant under construction	21,632	0
Office furniture and fixtures	61,332	23,078
Equipment	337,016	641,240
Vehicles	<u>215,897</u>	<u>187,526</u>
TOTAL	<u>\$1,507,138</u>	<u>\$1,659,590</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2001 and 2000

Note F – (Cont'd):

The Subsidiary provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its useful life. Depreciation charged to expense on the Subsidiary's records amounted to \$298,921 in 2001.

Note G – A description of notes payable follows:

Long-term debt is represented by mortgage notes payable to the United States of America and other lenders. Following is a summary of outstanding long-term debt.

	<u>2001</u>	<u>2000</u>
2% Rural Utilities Service notes	\$ 2,466,259	\$ 781,244
5% Rural Utilities Service notes	21,714,551	25,020,619
Others	<u>509,259</u>	<u>525,472</u>
	\$24,690,069	\$26,327,335
Less current maturities	<u>1,719,374</u>	<u>1,680,629</u>
	<u>\$22,970,695</u>	<u>\$24,646,706</u>

Long-term debt matures as follows:

<u>Year</u>	<u>Amount</u>
2002	\$ 1,719,374
2003	1,805,601
2004	1,896,157
2005	1,991,259
2006	2,091,134
Beyond five years	<u>15,186,544</u>
TOTAL	<u>\$24,690,069</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2001 and 2000

Note H – The Cooperative has adopted the retirement and security program of the National Telephone Cooperative Association as a pension plan covering all employees meeting certain age and length of service requirements for which it pays approximately 70% of the cost. The Cooperative funds the pension plan by making quarterly contributions into the program based on salaries. The Cooperative's cost was \$317,407 for 2001 and \$275,655 for 2000.

Note I – Income taxes are accounted for using Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). Under the provision for FAS 109, an entity recognizes deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the Cooperative's financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Under FAS 109, measurement is computed using applicable current tax rates.

	<u>2001</u>	<u>2000</u>
Current income tax expense:		
Federal	\$513,006	\$1,919,452
State	95,300	321,450
Deferred income tax expense:		
Federal	(47,927)	(162,940)
State	<u>(9,000)</u>	<u>(30,000)</u>
	<u>\$551,379</u>	<u>\$2,047,962</u>

The deferred tax liability is primarily the result of timing differences related to the Cooperative's investments in several limited partnerships.

	<u>2001</u>	<u>2000</u>
Deferred tax liability at beginning of year	\$800,000	\$992,940
Current period increase (reduction) for deferred taxes on income	<u>192,370</u>	<u>(192,940)</u>
Deferred tax liability at end of year	\$992,370	\$800,000
Less deferred tax benefit at end of year	<u>422,341</u>	<u>173,044</u>
Deferred tax liability at end of year	<u>\$570,029</u>	<u>\$626,956</u>

The deferred tax asset is primarily the result of differences using accelerated depreciation methods for tax purposes and net operating loss carryforwards.

The Subsidiary has a net operating loss carryforward of approximately \$1,304,690 which is available to offset future state taxable income. This carryforward will expire in 17 to 20 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2001 and 2000

Note J – The Cooperative has adopted Statement of Financial Accounting Standards No. 106, “Employers’ Accounting for Postretirement Benefits other than Pensions”. Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Cooperative’s obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. The cost of health benefits for current and future associate retirees was recognized as determined under the projected unit credit cost method.

Substantially all of the Cooperative’s employees are covered under postretirement health and life insurance plan. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on 25% of the preretirement life insurance benefit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2001 and 2000

Note J – (Cont'd):

The following table sets forth the plan's funded status and the amount recognized in the Cooperative's Balance Sheet as of December 31:

	<u>2001</u>	<u>2000</u>
Accumulated postretirement obligation attributable to:		
Retirees	\$(1,507,040)	\$ (996,059)
Fully eligible plan participants	(786,803)	(475,891)
Other active plan participants	<u>(2,229,505)</u>	<u>(2,256,182)</u>
Total accumulated postretirement benefit obligation	\$(4,523,348)	\$(3,728,132)
Fair value of plan assets	<u>2,989,851</u>	<u>2,531,295</u>
Accumulated postretirement benefit obligation in excess of plan assets	\$(1,533,497)	\$(1,196,837)
Unrecognized net gains (losses)	588,759	(206,655)
Unamortized initial obligation	<u>1,005,054</u>	<u>1,105,560</u>
Prepaid (Accrued) postretirement benefit obligation	<u>\$ 60,316</u>	<u>\$ (297,932)</u>

Postretirement benefit cost is composed of the following for the year ended December 31:

	<u>2001</u>	<u>2000</u>
Benefits earned during the year	\$155,695	\$137,732
Interest on accumulated postretirement benefit obligation	270,793	217,929
Actual return on plan assets	(231,905)	(201,848)
Net amortization of transition obligation over 20 years	100,506	100,506
Net amortization and deferral	<u>9,600</u>	<u>656</u>
Postretirement benefit cost	<u>\$304,689</u>	<u>\$254,975</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2001 and 2000

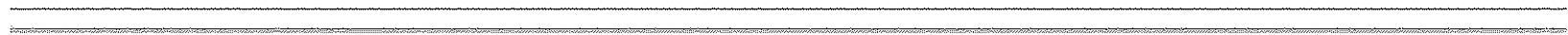
Note J – (Cont'd):

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 6.00% at December 31, 2001 and 6.50% at January 1, 2000. The assumed rate of future increases in compensation levels was 6.00% at December 31, 2001. The medical cost trend rate in 2001 was approximately 7.00% grading down to an ultimate rate in 2016 of 5.50%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of 2001 net periodic postretirement benefit cost by \$135,866 and would have increased the accumulated postretirement benefit obligation as of December 31, 2001 by \$769,386.

Note K – Labor Force

Approximately 80% of the Cooperative's labor force is subject to a collective bargaining agreement. A three-year agreement was negotiated and approved for the period January 1, 2000 to December 31, 2002 between the Cooperative and the Communications Workers of America.

CONSOLIDATING INFORMATION



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TIN 62-0693408

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

Our report on our audits of the consolidated financial statements of North Central Telephone Cooperative Corporation and Subsidiary for 2001 and 2000 appears on page 3. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information contained on pages 21 through 24 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Totherow, Haile & Welch
Certified Public Accountants

McMinnville, Tennessee
January 25, 2002

CONSOLIDATING

NORTH CENTRAL TELEPHONE

December 31,

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash - general	\$ 4,357,795	\$ 371,150	\$ 0	\$ 4,728,945
Cash - construction funds	37,895	0	0	37,895
Temporary cash investments	3,583,856	1,600,000	0	5,183,856
Telecommunications accounts receivable	1,448,223	79,137	0	1,527,360
Notes receivable - current	0	45,093	0	45,093
Other accounts receivable	112,499	0	(21,560)	90,939
Advance to related company	441,776	0	(441,776)	0
Materials and supplies	501,438	116,305	0	617,743
Other current assets	185,308	150,100	0	335,408
TOTAL CURRENT ASSETS	\$ 10,668,790	\$ 2,361,785	\$ (463,336)	\$ 12,567,239
<u>NONCURRENT ASSETS</u>				
Investment in subsidiary	\$ 14,171,467	\$ 0	\$ (14,171,467)	\$ 0
Investments	382,078	11,494,824	0	11,876,902
Nonregulated investments	359,042	0	0	359,042
Notes receivable	0	31,425	0	31,425
Prepaid postretirement benefits	60,316	0	0	60,316
Goodwill - net	0	783,863	0	783,863
Organization costs	0	960	0	960
TOTAL NONCURRENT ASSETS	\$ 14,972,903	\$ 12,311,072	\$ (14,171,467)	\$ 13,112,508
<u>PROPERTY, PLANT AND EQUIPMENT</u>				
Telecommunications plant in service	\$ 63,173,953	\$ 1,485,506	\$ 0	\$ 64,659,459
Telecommunications plant under construction	3,825,757	21,632	0	3,847,389
	\$ 66,999,710	\$ 1,507,138	\$ 0	\$ 68,506,848
<u>Less accumulated provision for</u>				
depreciation	30,356,977	325,926	0	30,682,903
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 36,642,733	\$ 1,181,212	\$ 0	\$ 37,823,945
	\$ 62,284,426	\$ 15,854,069	\$ (14,634,803)	\$ 63,503,692

BALANCE SHEETS

COOPERATIVE CORPORATION AND SUBSIDIARY

2001

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable	\$ 828,249	\$ 260,723	\$ 0	\$ 1,088,972
Advance billings and payments	102,738	0	0	102,738
Customer deposits	538,823	0	0	538,823
Current maturities on long-term debt	1,702,107	17,267	0	1,719,374
Accrued taxes	402,274	8,057	0	410,331
Accrued interest	142,698	24,826	0	167,524
Accrued rent	185,030	0	0	185,030
Accrued salaries and wages	108,266	13,165	0	121,431
Accrued vacation and sick leave benefits	1,446,909	0	0	1,446,909
Other current liabilities	323,543	25,577	0	349,120
Advance from related company	0	463,336	(463,336)	0
TOTAL CURRENT LIABILITIES	\$ 5,780,637	\$ 812,951	\$ (463,336)	\$ 6,130,252
<u>LONG-TERM DEBT</u>				
Rural Utilities Service	22,478,703	0	0	22,478,703
Other long-term debt	0	491,992	0	491,992
<u>OTHER LIABILITIES</u>				
Deferred taxes -net	0	570,029	0	570,029
TOTAL LIABILITIES	\$ 28,259,340	\$ 1,874,972	\$ (463,336)	\$ 29,670,976
<u>MEMBERS' EQUITY</u>				
Memberships	\$ 6,580	\$ 0	\$ 0	\$ 6,580
Capital stock	0	8,100,000	(8,100,000)	0
Patronage capital	34,018,506	0	(192,370)	33,826,136
Retained earnings	0	5,879,097	(5,879,097)	0
TOTAL MEMBERS' EQUITY	\$ 34,025,086	\$ 13,979,097	\$ (14,171,467)	\$ 33,832,716
	<u>\$ 62,284,426</u>	<u>\$ 15,854,069</u>	<u>\$ (14,634,803)</u>	<u>\$ 63,503,692</u>

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2001

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
Operating revenues:				
Local network services revenue	\$ 4,051,066	\$ 0	\$ 0	\$ 4,051,066
Network access service revenue	6,874,799	0	0	6,874,799
Long distance network services revenue	3,893,227	0	0	3,893,227
Miscellaneous revenue	<u>1,330,763</u>	<u>4,370,636</u>	<u>0</u>	<u>5,701,399</u>
TOTAL OPERATING REVENUES	\$ 16,149,855	\$ 4,370,636	\$ 0	\$ 20,520,491
Operating expenses:				
Plant specific operations expense	\$ 2,196,263	\$ 0	\$ 0	\$ 2,196,263
Plant nonspecific operations expense	1,771,887	0	0	1,771,887
Provision for depreciation	4,266,844	298,921	0	4,565,765
Customer operations expense	1,479,759	2,495,038	0	3,974,797
Corporate operations expense	1,833,033	1,873,087	0	3,706,120
Operating taxes	<u>561,882</u>	<u>0</u>	<u>0</u>	<u>561,882</u>
TOTAL OPERATING EXPENSES	\$ 12,109,668	\$ 4,667,046	\$ 0	\$ 16,776,714
OPERATING INCOME (LOSS)	\$ 4,040,187	\$ (296,410)	\$ 0	\$ 3,743,777
<i>Other income (loss):</i>				
Income from subsidiaries	\$ 1,095,596	\$ 0	\$ (1,095,596)	\$ 0
Income from investments	0	1,605,034	0	1,605,034
Interest and dividends	300,480	281,783	0	582,263
Nonregulated income	97,139	0	0	97,139
Loss on sale of equipment	<u>0</u>	<u>(48,774)</u>	<u>0</u>	<u>(48,774)</u>
TOTAL OTHER INCOME	\$ 1,493,215	\$ 1,838,043	\$ (1,095,596)	\$ 2,235,662

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2001

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Eliminations	Total
Fixed charges:				
Interest expense	\$ 1,207,415	\$ 91,849	\$ 0	\$ 1,299,264
Interest charged to construction - credit	<u>(146,458)</u>	<u>0</u>	<u>0</u>	<u>(146,458)</u>
TOTAL FIXED CHARGES	\$ 1,060,957	\$ 91,849	\$ 0	\$ 1,152,806
INCOME BEFORE TAXES ON INCOME	\$ 4,472,445	\$ 1,449,784	\$ (1,095,596)	\$ 4,826,633
Taxes on income	<u>4,821</u>	<u>546,558</u>	<u>0</u>	<u>551,379</u>
NET INCOME	\$ 4,467,624	\$ 903,226	\$ (1,095,596)	\$ 4,275,254
Patronage capital at beginning of year	29,828,762	0	0	29,828,762
Capital credits paid and applied	(357,171)	0	0	(357,171)
Excise tax refundable on capital credits	<u>79,291</u>	<u>0</u>	<u>0</u>	<u>79,291</u>
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 34,018,506</u>	<u>\$ 903,226</u>	<u>\$ (1,095,596)</u>	<u>\$ 33,826,136</u>

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TOTHEROW, HAILE & WELCH

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated January 25, 2002. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit we considered North Central Telephone Cooperative Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. ~~We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.~~

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 2

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

Johnson, Haire & Welch

Certified Public Accountants

McMinnville, Tennessee
January 25, 2002

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2001, and have issued our report thereon dated January 25, 2002. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2001, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 2

7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(2), and related party transactions and investments. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38 - .45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditors' report, and our independent auditors' report on compliance and on internal control over financial reporting, all dated January 25, 2002) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding North Central Telephone Cooperative Corporation's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

ACCOUNTING RECORDS - In addition to our observation of the effectiveness of internal control, it appears that the bookkeeping and accounting records, including the many supplementary files and ledgers are well kept and adequately maintained. From tests made by us, it appeared that the methods used in accumulating costs for material, transportation, labor and overhead and the distribution of these costs to the various accounts were in accordance with proper procedures.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY
INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement or lease between the borrower and an affiliate for the year ended December 31, 2001, of North Central Telephone Cooperative Corporation.
 1. No contracts for management, operations or billing services were in effect during the year ended December 31, 2001 as defined in 1773.33(e)(2)(i).
 2. Reviewed Board of Directors minutes to ascertain whether board- approved written contracts should have been included in a borrower-prepared schedule.
- Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:

Financial statements as of December 31, 2001, included in copies of RUS Form 479 were compared with the Cooperative's books and found to be in agreement in all material respects.

The results of our tests indicate that, with respect to the items tested, North Central Telephone Cooperative Corporation complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested include the requirements that:

- The borrower has obtained written approval of the RUS to enter into any contract, agreement, or lease with an affiliate as defined in 1773.33(e)(2)(i);
 - The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2001, represented by the borrower as having been submitted to RUS is in agreement with the North Central Telephone Cooperative Corporation's audited records in all material respects as of December 31, 2001, appears reasonable based upon the audit procedures performed.
-

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of North Central Telephone Cooperative Corporation, nothing came to our attention that caused us to believe that North Central Telephone Cooperative Corporation failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33 (c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33 (c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- The approval of the sale and disposition of proceeds for the sale of plant, material, or scrap addressed at 7 CFR 1773.33 (c)(5); and
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 2001, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33 (e).

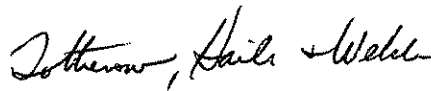
Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments in affiliated companies required by 7 CFR 1773.33(i) and provided below, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit 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.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 5

Detailed schedule of investments

	North Central Communications, Inc.
Original investment	\$ 8,100,000
Additional investments as of 12/31/99	0
Undistributed earnings (losses) as of 12/31/99	<u>2,843,724</u>
Book value of investments as of 12/31/99	\$10,943,724
Additional investments as of 12/31/00	0
Undistributed earnings (losses) as of 12/31/00	<u>2,132,147</u>
Book value of investments as of 12/31/00	\$13,075,871
Additional investments as of 12/31/01	0
Undistributed earnings (losses) as of 12/31/01	<u>1,095,596</u>
Book value of investments as of 12/31/01	<u>\$14,171,467</u>

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



Certified Public Accountants

McMinnville, Tennessee
January 25, 2002

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TENNESSEE 545
NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION
AND SUBSIDIARY
LAFAYETTE, TENNESSEE

December 31, 2000 and 1999

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CONTENTS

Consolidated Financial Statements:	
Independent Auditors' Report.....	Page 3
Consolidated Balance Sheets	4
Consolidated Statements of Income and Patronage Capital	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements.....	10
Consolidating Information:	
Independent Auditors' Report on Consolidating Information	20
Consolidating Balance Sheets	21
Consolidating Statements of Income and Patronage Capital	23

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INDEPENDENT AUDITORS' REPORT

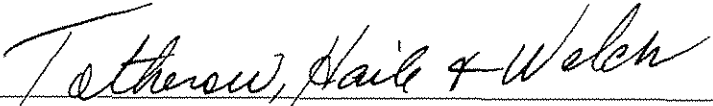
Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the accompanying consolidated balance sheets of North Central Telephone Cooperative Corporation and subsidiary as of December 31, 2000 and 1999, and the related statements of income and patronage capital and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Central Telephone Cooperative Corporation and subsidiary as of December 31, 2000 and 1999, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2001, on our consideration of North Central Telephone Cooperative Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


Certified Public Accountants

McMinnville, Tennessee
January 25, 2001

CONSOLIDATED BALANCE

NORTH CENTRAL TELEPHONE

December 31, 2000

	2000	1999
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 4,612,972	\$ 4,805,058
Cash - construction funds	481,219	346,543
Temporary cash investments	5,268,678	2,715,250
Notes receivable	36,950	0
Telecommunications accounts receivable, less allowances of \$56,284 in 2000 and \$97,441 in 1999 - Note L	2,186,862	1,983,016
Other accounts receivable	28,815	55,139
Materials and supplies	815,710	499,783
Other current assets	<u>185,675</u>	<u>289,570</u>
TOTAL CURRENT ASSETS	\$13,616,881	\$10,694,359
<u>NONCURRENT ASSETS</u>		
Investments - Note D	\$ 9,907,905	\$11,459,380
Notes receivable - net of current portion	50,471	0
Nonregulated investments - Note D	289,543	212,234
Deferred tax asset	173,044	0
Goodwill - net of accumulated amortization of \$88,818 in 2000 and \$30,353 in 1999	809,247	567,712
Organization costs - Note E	<u>1,494</u>	<u>2,028</u>
TOTAL NONCURRENT ASSETS	\$11,231,704	\$12,241,354
<u>PROPERTY, PLANT AND EQUIPMENT - Note F</u>		
Telecommunications plant in service	\$62,864,861	\$56,792,928
Telecommunications plant under construction	<u>2,597,794</u>	<u>2,796,799</u>
	\$65,462,655	\$59,589,727
Less accumulated provision for depreciation	<u>28,944,763</u>	<u>25,682,583</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>\$36,517,892</u>	<u>\$33,907,144</u>
	<u>\$61,366,477</u>	<u>\$56,842,857</u>

See the notes to financial statements.

SHEETS

COOPERATIVE CORPORATION AND SUBSIDIARY

and 1999

	2000	1999
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Notes payable	\$ 0	\$ 45,000
Accounts payable	950,867	1,457,038
Customer deposits	513,248	473,010
Current maturities on long-term debt	1,680,629	1,531,825
Accrued taxes	547,553	398,867
Accrued interest	162,718	164,608
Accrued rents	183,568	181,886
Accrued salaries and wages	77,963	67,124
Accrued vacation and sick leave benefits	1,299,557	1,219,454
Other current liabilities	<u>370,394</u>	<u>336,197</u>
TOTAL CURRENT LIABILITIES	\$ 5,786,497	\$ 5,875,009
<u>LONG-TERM DEBT - Note G</u>		
Rural Utilities Service	24,137,447	24,590,791
Other long-term debt	509,259	525,473
<u>OTHER LIABILITIES</u>		
Postretirement benefits other than pension - Note J	297,932	322,665
Deferred taxes - Note I	<u>800,000</u>	<u>992,940</u>
TOTAL LIABILITIES	\$31,531,135	\$32,306,878
<u>MEMBERS' EQUITY</u>		
Memberships	\$ 6,580	\$ 6,580
Patronage capital - Note L	<u>29,828,762</u>	<u>24,529,399</u>
TOTAL MEMBERS' EQUITY	<u>\$29,835,342</u>	<u>\$24,535,979</u>
<hr/>		
	<u>\$61,366,477</u>	<u>\$56,842,857</u>

CONSOLIDATED STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2000 and 1999

	2000	1999
Operating revenues:		
Local network services revenue	\$ 3,999,092	\$ 3,726,020
Network access services revenue	5,690,367	4,721,773
Long distance network services revenue	3,870,589	3,870,436
Miscellaneous revenue	4,878,850	3,764,859
TOTAL OPERATING REVENUES	<u>\$18,438,898</u>	<u>\$16,083,088</u>
Operating expenses:		
Plant specific operations expense	\$ 1,981,229	\$ 1,778,386
Plant nonspecific operations expense	1,466,397	1,408,902
Provision for depreciation and amortization	4,216,551	4,491,951
Customer operations expense	3,731,977	3,097,238
Corporate operations expense	3,186,849	2,205,207
Operating taxes	477,703	442,131
TOTAL OPERATING EXPENSES	<u>\$15,060,706</u>	<u>\$13,423,815</u>
OPERATING INCOME	<u>\$ 3,378,192</u>	<u>\$ 2,659,273</u>
Other income:		
Income from investments	\$ 1,633,868	\$ 2,435,261
Interest and dividend income	513,756	219,158
Nonregulated income	258,151	307,027
Gain on sale of investment	2,848,048	0
Loss on sale of equipment	(23,030)	(12,760)
TOTAL OTHER INCOME	<u>\$ 5,230,793</u>	<u>\$ 2,948,686</u>
Fixed charges:		
Interest expense	\$ 1,283,928	\$ 1,267,103
Interest charged to construction - credit	(194,000)	(246,664)
TOTAL FIXED CHARGES	<u>\$ 1,089,928</u>	<u>\$ 1,020,439</u>
INCOME BEFORE TAXES ON INCOME	<u>\$ 7,519,057</u>	<u>\$ 4,587,520</u>
Taxes on income	2,047,962	746,586
NET INCOME	<u>\$ 5,471,095</u>	<u>\$ 3,840,934</u>
Patronage capital at beginning of year (as restated)	24,529,399	20,928,389
Capital credits paid and applied	(276,113)	(292,524)
Excise tax refundable on capital credits	104,381	52,600
PATRONAGE CAPITAL AT END OF YEAR	<u><u>\$29,828,762</u></u>	<u><u>\$24,529,399</u></u>

See the notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2000 and 1999

	2000	1999
Cash flows from operating activities:		
Cash received from customers	\$18,272,165	\$15,969,439
Cash paid to suppliers and employees	(10,840,696)	(8,362,559)
Interest received	513,756	219,158
Interest paid	(1,091,818)	(1,007,737)
Taxes paid	(2,554,963)	(1,116,040)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,298,444	\$ 5,702,261
Cash flows from investing activities:		
Construction and acquisition of plant	\$(6,787,818)	\$(4,596,752)
Proceeds from sale of investment	5,672,000	0
Proceeds from sale of equipment	0	17,252
Plant removal costs	(32,787)	(57,183)
Investment in partnership	(461,486)	0
Salvage	63,101	157,130
Cash distribution from investments	854,978	1,068,777
Investment in nonregulated CPE	(77,309)	92,739
Goodwill purchased	(300,000)	(57,368)
Increase in notes receivable	(112,157)	0
Collection on notes receivable	24,736	0
Decrease (Increase) in:		
Materials and supplies	(315,927)	(56,049)
Temporary investments	(2,553,428)	(600,000)
Other investments	(65,927)	(116,697)
Organization costs	0	(1,170)
Nonregulated income	258,151	297,827
NET CASH USED BY INVESTING ACTIVITIES	\$(3,833,873)	\$(3,851,494)

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2000 and 1999

	2000	1999
Cash flows from financing activities:		
Debt proceeds	\$ 1,250,000	\$ 1,795,000
Payments on notes payable	(45,000)	0
Payments on long-term borrowings	(1,570,754)	(1,444,382)
Excise credit applied to capital	104,381	52,600
Capital credits paid and applied	(276,113)	(292,524)
Postretirement benefits other than pension	(24,733)	(349,352)
Increase in customer deposits	<u>40,238</u>	<u>35,000</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>\$ (521,981)</u>	<u>\$ (203,658)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (57,410)	\$ 1,647,109
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,151,601</u>	<u>3,504,492</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 5,094,191</u></u>	<u><u>\$ 5,151,601</u></u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2000 and 1999

	2000	1999
Net income	\$5,471,095	\$3,840,934
Less: Nonregulated (income) loss	(258,151)	(297,827)
Income from investments	(1,633,868)	(2,435,261)
Gain on sale of investment	<u>(2,848,048)</u>	<u>0</u>
Net income from regulated operations	\$ 731,028	\$1,107,846
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$4,216,551	\$4,491,951
Loss on sale of equipment	23,030	12,760
Deferred taxes	(365,984)	(16,460)
Decrease (Increase) in:		
Customer and accounts receivable	(177,522)	6,983
Current and accrued assets - other	103,895	(168,887)
Increase (Decrease) in:		
Accounts payable	(506,171)	23,928
Accrued taxes	148,686	89,137
Accrued interest	(1,890)	12,702
Accrued rents	1,682	3,723
Accrued salaries and employee benefits	90,942	117,764
Other current liabilities	<u>34,197</u>	<u>20,814</u>
TOTAL ADJUSTMENTS	<u>\$3,567,416</u>	<u>\$4,594,415</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$4,298,444</u>	<u>\$5,702,261</u>

See the notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2000 and 1999

Note A – North Central Telephone Cooperative Corporation and subsidiary provides retail telecommunications services to Macon County, Tennessee and surrounding counties including a portion of southern Kentucky. North Central Telephone Cooperative Corporation and subsidiary has adopted the following accounting policies:

(1) Principles of Consolidation:

North Central Telephone Cooperative Corporation (Cooperative) owns 100% of the outstanding common stock of North Central Communications, Inc. and Subsidiary (Subsidiary). North Central Communications, Inc. and Subsidiary were formed for the purpose of providing long distance and other telephone services and computer sales and services. The consolidated financial statements include the accounts of North Central Communications, Inc. and Subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Cooperative operates on a fiscal year ending December 31. The Subsidiary operates on a fiscal year ending September 30. The consolidated financial statements reflect the results of operations from January 1 through December 31 for the Cooperative and from October 1, 1999 through September 30, 2000 for the Subsidiary. On December 31, 1999 North Central Communications sold its stock investment in TENNMARK Telecommunications, Inc. The gain from the sale of this stock was approximately \$2,848,048 before income taxes. This was the only material event that occurred in the Subsidiary's operations during the intervening period from October 1, 1999 to December 31, 1999.

- (2) Material and supplies are valued at average cost accumulated in perpetual inventory records which are periodically adjusted to physical counts.
- (3) The Companies prepare their financial statements using the accrual method of accounting.
- (4) The Cooperative's expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired from service are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation. The Subsidiary provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2000 and 1999

Note A – (Cont'd):

- (5) For purposes of financial statement presentation, the Cooperative and Subsidiary consider all highly-liquid investments with a maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of treasury bills and notes and commercial paper with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as temporary investments.
- (6) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B – Substantially all assets of the Cooperative are pledged as security for the long-term debt to RUS.

Note C – The Cooperative maintains its cash and temporary investments in several commercial banks located within its trade area. The Federal Deposit Insurance Corporation (FDIC) insures accounts and temporary investments up to \$100,000. A summary of the total insured and uninsured cash balances follows:

Total cash and temporary investments	\$7,562,869
Portion insured by FDIC	<u>1,430,779</u>
Uninsured cash balances	<u>\$6,132,090</u>

Telecommunication services are provided to the customers on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2000 and 1999

Note D – Investments:

	<u>2000</u>	<u>1999</u>
Rural Telephone Bank "c" stock - at cost	\$ 1,000	\$ 1,000
NECA Services, Inc. stock - at cost	10,000	0
Cash value of life insurance	332,320	293,563
Investment in Tennessee RSA #3 cellular partnership	1,762,114	1,689,551
Investment in Kentucky RSA #3 cellular partnership	5,187,261	4,873,677
Investments in TENNMARK Telecommunications, Inc.	0	2,754,772
Investment in Direct Broadcast Satellite	118,389	152,214
Investment in Bluegrass Network, Inc.	1,522,336	1,309,749
Investment in Bluegrass Telecom, LLC	340,406	229,432
Qualified patronage capital certificates - NRTC	62,377	45,282
Tennessee 220 MHZ Radio	161,487	0
Tennessee Independent Telecom Group	410,000	110,000
Deposits	<u>215</u>	<u>140</u>
	<u>\$9,907,905</u>	<u>\$11,459,380</u>

Nonregulated investments:

Nonregulated customer premises equipment - leased	\$ 904,108	\$ 744,285
Less accumulated provisions for depreciation	<u>614,565</u>	<u>532,051</u>
	<u>\$ 289,543</u>	<u>\$ 212,234</u>

Nonregulated customer premises equipment is stated at cost. The Cooperative provides for depreciation on a straight-line basis at an annual rate of depreciation which will amortize the cost of the equipment over its estimated useful life.

Note E – Organization costs are being amortized over five years using the straight-line method of accounting. At September 30, 2000, these costs amounted to \$2,670, less accumulated amortization in the amount of \$1,176.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2000 and 1999

Note F – Telephone plant in service and under construction is stated at cost. Listed below are the major classes of the telephone plant as of December 31, 2000 and December 31, 1999.

	<u>2000</u>	<u>1999</u>
Franchises	\$ 236	\$ 236
Land	524,807	442,202
Buildings	3,697,311	2,983,834
Central office equipment	19,228,343	16,719,234
Poles, cables and wire	33,850,854	32,120,101
Furniture and office equipment	1,824,033	1,904,804
Vehicles and other work equipment	<u>2,079,687</u>	<u>1,827,774</u>
TOTAL PLANT IN SERVICE	<u>\$61,205,271</u>	<u>\$55,998,185</u>

The Cooperative provides for depreciation on a straight-line basis of annual rates which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of telephone plant in service was 6.67 percent for 2000 and 8.21 percent for 1999. The provision for 2000 was \$3,926,020 and the provision for 1999 was \$4,321,142.

Individual plant depreciation rates are as follows:

	<u>Percent</u>
Buildings	2.6
Central office equipment	6.7 – 21.0
Public telephone equipment	15.1
Poles, cable and wire	1.7 – 8.8
Furniture and office equipment	6.7 – 16.4
Vehicles and other work equipment	6.4 – 10.8
DBS and internet equipment	18.8

Investment in property and equipment included in the Subsidiary:

	<u>2000</u>	<u>1999</u>
Land	\$ 67,937	\$ 42,937
Building	739,809	40,278
Office furniture and fixtures	23,078	16,898
Equipment	641,240	662,975
Vehicles	<u>187,526</u>	<u>71,933</u>
TOTAL	<u>\$1,659,590</u>	<u>\$835,021</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2000 and 1999

Note F – (Cont'd):

The Subsidiary provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its useful life. Depreciation charged to expense on the subsidiary's records amounted to \$290,531 in 2000.

Note G – A description of notes payable follows:

Long-term debt is represented by mortgage notes payable to the United States of America and other lenders. Following is a summary of outstanding long-term debt.

	<u>2000</u>	<u>1999</u>
2% Rural Utilities Service notes	\$ 781,244	\$ 3,100,484
5% Rural Utilities Service notes	25,020,619	23,006,908
Others	<u>525,472</u>	<u>540,697</u>
	\$26,327,335	\$26,648,089
Less current maturities	<u>1,680,629</u>	<u>1,531,825</u>
	<u>\$24,646,706</u>	<u>\$25,116,264</u>

Long-term debt matures as follows:

<u>Year</u>	<u>Amount</u>
2001	\$ 1,680,629
2002	1,798,193
2003	1,923,979
2004	2,058,567
2005	2,202,568
Beyond five years	<u>16,663,399</u>
TOTAL	<u>\$26,327,335</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2000 and 1999

Note H – The Cooperative has adopted the retirement and security program of the National Telephone Cooperative Association as a pension plan covering all employees meeting certain age and length of service requirements for which it pays approximately 70% of the cost. The Cooperative funds the pension plan by making quarterly contributions into the program based on salaries. The Cooperative's cost was \$275,655 for 2000 and \$254,885 for 1999.

Note I – Income taxes are accounted for using Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). Under the provision for FAS 109, an entity recognizes deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the Cooperative's financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Under FAS 109, measurement is computed using applicable current tax rates.

	<u>2000</u>	<u>1999</u>
Current income tax expense:		
Federal	\$2,078,896	\$459,446
State	335,050	150,400
Deferred income tax expense:		
Federal	(162,940)	141,100
State	<u>(30,000)</u>	<u>13,500</u>
	\$2,221,006	\$764,446
Less deferred tax asset	<u>173,044</u>	<u>17,860</u>
	<u>\$2,047,962</u>	<u>\$746,586</u>

The deferred tax liability is primarily the result of timing differences related to the Cooperative's investments in several limited partnerships.

Deferred tax liability at beginning of year	\$992,940
Add current period provision for deferred taxes on income	<u>(192,940)</u>
Deferred tax liability at end of year	\$800,000
Less deferred tax benefit	<u>173,044</u>
Deferred tax liability at end of year	<u>\$626,956</u>

~~The deferred tax asset is primarily the result of differences using accelerated depreciation methods for tax purposes and net operating loss carryforwards.~~

The Subsidiary has a net operating loss carryforward of approximately \$549,158 which is available to offset future federal and state taxable income. This carryforward will expire in 20 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2000 and 1999

Note J – The Cooperative has adopted Statement of Financial Accounting Standards No. 106, “Employers’ Accounting for Postretirement Benefits other than Pensions”. Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Cooperative’s obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. The cost of health benefits for current and future associate retirees was recognized as determined under the projected unit credit cost method.

Substantially all of the Cooperative’s employees are covered under postretirement health and life insurance plan. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on 25% of the preretirement life insurance benefit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2000 and 1999

Note J – (Cont'd):

The following table sets forth the plan's funded status and the amount recognized in the Cooperative's Balance Sheet as of December 31:

	<u>2000</u>	<u>1999</u>
Accumulated postretirement obligation attributable to:		
Retirees	\$ (996,059)	\$ (917,185)
Fully eligible plan participants	(475,891)	(417,521)
Other active plan participants	<u>(2,256,182)</u>	<u>(1,756,921)</u>
 Total accumulated postretirement benefit obligation	 \$(3,728,132)	 \$(3,091,627)
 Fair value of plan assets	 <u>2,531,295</u>	 <u>1,991,384</u>
 Accumulated postretirement benefit obligation in excess of plan assets	 \$(1,196,837)	 \$(1,100,243)
 Unrecognized net gains (losses)	 (206,655)	 (428,488)
Unamortized initial obligation	<u>1,105,560</u>	<u>1,206,066</u>
 Accrued postretirement benefit obligation	 <u>\$ (297,932)</u>	 <u>\$ (322,665)</u>

Postretirement benefit cost is composed of the following for the year ended December 31:

	<u>2000</u>	<u>1999</u>
Benefits earned during the year	\$137,732	\$116,270
Interest on accumulated postretirement benefit obligation	217,929	184,925
Actual return on plan assets	(201,848)	(177,084)
Net amortization of transition obligation over 20 years	100,506	100,506
Net amortization and deferral	<u>656</u>	<u>(10,153)</u>
 Postretirement benefit cost	 <u>\$254,975</u>	 <u>\$214,464</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2000 and 1999

Note J – (Cont'd):

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 6.50% at December 31, 1999 and 6.50% at January 1, 2000. The assumed rate of future increases in compensation levels was 6.00% at December 31, 2000. The medical cost trend rate in 2000 was approximately 7.50% grading down to an ultimate rate in 2017 of 5.50%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of 2000 net periodic postretirement benefit cost by \$89,913 and would have increased the accumulated postretirement benefit obligation as of December 31, 2000 by \$637,814.

Note K – Labor Force

Approximately 80% of the Cooperative's labor force is subject to a collective bargaining agreement. The agreement in effect at December 31, 1999 has expired. A new three-year agreement was negotiated and approved for the period January 1, 2000 to December 31, 2002 between the Cooperative and the Communications Workers of America.

Note L – Patronage Capital Restatement

The Cooperative has agreements with inter-exchange carriers in which the carriers compensate the Cooperative for access to our facilities. During 2000 one of the carriers notified the Cooperative that in prior years, the carrier had not properly recorded the access. This resulted in the underpayment of access revenue to the Cooperative. This underpayment resulted in the Cooperative's income in prior years being understated by \$450,000. Beginning patronage capital has been restated to correct this error.

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

Our report on our audits of the consolidated financial statements of North Central Telephone Cooperative Corporation and subsidiary for 2000 and 1999 appears on page 3. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information contained on pages 21 through 24 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.


Certified Public Accountants

McMinnville, Tennessee
January 25, 2001

CONSOLIDATING

NORTH CENTRAL TELEPHONE

December 31,

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiary	Eliminations	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash - general	\$ 4,404,943	\$ 208,029	\$ 0	\$ 4,612,972
Cash - construction funds	481,219	0	0	481,219
Temporary cash investments	2,468,678	2,800,000	0	5,268,678
Telecommunications accounts receivable	2,092,448	94,414	0	2,186,862
Notes receivable - current	0	36,950	0	36,950
Other accounts receivable	28,815	0	0	28,815
Advance to related company	603,955	0	(603,955)	0
Materials and supplies	694,013	121,697	0	815,710
Other current assets	109,266	76,409	0	185,675
TOTAL CURRENT ASSETS	\$ 10,883,337	\$ 3,337,499	\$ (603,955)	\$ 13,616,881
<u>NONCURRENT ASSETS</u>				
Investment in subsidiary	\$ 13,075,871	\$ 0	\$ (13,075,871)	\$ 0
Investments	343,320	9,564,585	0	9,907,905
Nonregulated investments	289,543	0	0	289,543
Notes receivable	0	50,471	0	50,471
Deferred tax asset	0	173,044	0	173,044
Goodwill - net	0	809,247	0	809,247
Organization costs	0	1,494	0	1,494
TOTAL NONCURRENT ASSETS	\$ 13,708,734	\$ 10,598,841	\$ (13,075,871)	\$ 11,231,704
<u>PROPERTY, PLANT AND EQUIPMENT</u>				
Telecommunications plant in service	\$ 61,205,271	\$ 1,659,590	\$ 0	\$ 62,864,861
Telecommunications plant under construction	2,597,794	0	0	2,597,794
	\$ 63,803,065	\$ 1,659,590	\$ 0	\$ 65,462,655
Less accumulated provision for depreciation	28,504,344	440,419	0	28,944,763
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 35,298,721	\$ 1,219,171	\$ 0	\$ 36,517,892
	\$ 59,890,792	\$ 15,155,511	\$ (13,679,826)	\$ 61,366,477

BALANCE SHEETS

COOPERATIVE CORPORATION AND SUBSIDIARY

2000 and 1999

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiary	Eliminations	Total
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable	\$ 1,085,243	\$ 161,225	\$ (295,601)	\$ 950,867
Customer deposits	513,248	0	0	513,248
Current maturities on long-term debt	1,664,416	16,213	0	1,680,629
Accrued taxes	318,799	228,754	0	547,553
Accrued interest	137,101	25,617	0	162,718
Accrued rent	183,568	0	0	183,568
Accrued salaries and wages	68,902	9,061	0	77,963
Accrued vacation and sick leave benefits	1,299,557	0	0	1,299,557
Other current liabilities	349,237	21157	0	370,394
Advance from related company	0	308,354	(308,354)	0
TOTAL CURRENT LIABILITIES	\$ 5,620,071	\$ 770,381	\$ (603,955)	\$ 5,786,497
<u>LONG-TERM DEBT</u>				
Rural Utilities Service	24,137,447	0	0	24,137,447
Other long-term debt	0	509,259	0	509,259
<u>OTHER LIABILITIES</u>				
Postretirement benefits other than pension	297,932	0	0	297,932
Deferred taxes	0	800,000	0	800,000
TOTAL LIABILITIES	\$ 30,055,450	\$ 2,079,640	\$ (603,955)	\$ 31,531,135
<u>MEMBERS' EQUITY</u>				
Memberships	\$ 6,580	\$ 0	\$ 0	\$ 6,580
Capital stock	0	8,100,000	(8,100,000)	0
Patronage capital	29,828,762	0	0	29,828,762
Retained earnings	0	4,975,871	(4,975,871)	0
TOTAL MEMBERS' EQUITY	\$ 29,835,342	\$ 13,075,871	\$ (13,075,871)	\$ 29,835,342
	<u>\$ 59,890,792</u>	<u>\$ 15,155,511</u>	<u>\$ (13,679,826)</u>	<u>\$ 61,366,477</u>

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2000

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiary	Eliminations	Total
Operating revenues:				
Local network services revenue	\$ 3,999,092	\$ 0	\$ 0	\$ 3,999,092
Network access service revenue	5,690,367	0	0	5,690,367
Long distance network services revenue	3,870,589	0	0	3,870,589
Miscellaneous revenue	<u>1,284,513</u>	<u>3,594,337</u>	<u>0</u>	<u>4,878,850</u>
TOTAL OPERATING REVENUES	\$ 14,844,561	\$ 3,594,337	\$ 0	\$ 18,438,898
Operating expenses:				
Plant specific operations expense	\$ 1,981,229	\$ 0	\$ 0	\$ 1,981,229
Plant nonspecific operations expense	1,466,397	0	0	1,466,397
Provision for depreciation	3,926,020	290,531	0	4,216,551
Customer operations expense	1,395,237	2,336,740	0	3,731,977
Corporate operations expense	1,779,076	1,407,773	0	3,186,849
Operating taxes	477,703	<u>0</u>	<u>0</u>	<u>477,703</u>
TOTAL OPERATING EXPENSES	\$ 11,025,662	\$ 4,035,044	\$ 0	\$ 15,060,706
OPERATING INCOME (LOSS)	\$ 3,818,899	\$ (440,707)	\$ 0	\$ 3,378,192
Other income:				
Income from subsidiaries	\$ 2,132,147	\$ 0	\$ (2,132,147)	\$ 0
Income from investments	0	1,633,868	0	1,633,868
Interest and dividends	306,607	207,149	0	513,756
Nonregulated income	258,151	0	0	258,151
Gain on sale of investment	0	2,848,048	0	2,848,048
Loss on sale of equipment	<u>0</u>	<u>(23,030)</u>	<u>0</u>	<u>(23,030)</u>
TOTAL OTHER INCOME	\$ 2,696,905	\$ 4,666,035	\$ (2,132,147)	\$ 5,230,793

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2000

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiary	Eliminations	Total
Fixed charges:				
Interest expense	\$ 1,235,109	\$ 48,819	\$ 0	\$ 1,283,928
Interest charged to construction - credit	<u>(194,000)</u>	<u>0</u>	<u>0</u>	<u>(194,000)</u>
TOTAL FIXED CHARGES	\$ 1,041,109	\$ 48,819	\$ 0	\$ 1,089,928
INCOME BEFORE TAXES ON INCOME	\$ 5,474,695	\$ 4,176,509	\$ (2,132,147)	\$ 7,519,057
Taxes on income	<u>3,600</u>	<u>2,044,362</u>	<u>0</u>	<u>2,047,962</u>
NET INCOME	\$ 5,471,095	\$ 2,132,147	\$ (2,132,147)	\$ 5,471,095
Patronage capital at beginning of year	24,529,399	0	0	24,529,399
Capital credits paid and applied	(276,113)	0	0	(276,113)
Excise tax refundable on capital credits	<u>104,381</u>	<u>0</u>	<u>0</u>	<u>104,381</u>
PATRONAGE CAPITAL AT END OF YEAR	<u>\$ 29,828,762</u>	<u>\$ 2,132,147</u>	<u>\$ (2,132,147)</u>	<u>\$ 29,828,762</u>

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated January 25, 2001. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit we considered North Central Telephone Cooperative Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 2

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

Totherson, Hail & Weller
Certified Public Accountants

McMinnville, Tennessee
January 25, 2001

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2000, and have issued our report thereon dated January 25, 2001. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 2000, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(d)(2), and related party transactions and investments. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38 - .45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditors' report, and our independent auditors' report on compliance and on internal control over financial reporting, all dated January 25, 2001) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provision, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding North Central Telephone Cooperative Corporation's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

ACCOUNTING RECORDS - In addition to our observation of the effectiveness of internal control, it appears that the bookkeeping and accounting records, including the many supplementary files and ledgers are well kept and adequately maintained. From tests made by us, it appeared that the methods used in accumulating costs for material, transportation, labor and overhead and the distribution of these costs to the various accounts were in accordance with proper procedures.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of all or any part of its property, or for the use of mortgaged property by others for services pertaining to toll traffic, operator assistance, or switching for the year ended December 31, 2000, of North Central Telephone Cooperative Corporation.
 1. No contracts for management, operations or billing services were in effect during the year ended December 31, 2000 as defined in 1773.33(d)(2)(i).
 2. Reviewed Board of Directors minutes to ascertain whether board- approved written contracts should have been included in a borrower-prepared schedule.
- Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:

Financial statements as of December 31, 2000, included in copies of RUS Form 479 were compared with the Cooperative's books and found to be in agreement in all material respects.

The results of our tests indicate that, with respect to the items tested, North Central Telephone Cooperative Corporation complied, except as noted below, in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2000, represented by the borrower as having been submitted to RUS is in agreement with the North Central Telephone Cooperative Corporation's audited records in all material respects as of December 31, 2000, and appears reasonable based upon the audit procedures performed.
-

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of North Central Telephone Cooperative Corporation, nothing came to our attention that caused us to believe that North Central Telephone Cooperative Corporation failed to comply with respect to:

- The reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33 (c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33 (c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- The approval of the sale and disposition of proceeds for the sale of plant, material, or scrap addressed at 7 CFR 1773.33 (c)(5); and
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 2000, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33 (e).

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


Certified Public Accountants

McMinnville, Tennessee
January 25, 2001

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TENNESSEE 545
NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION
AND SUBSIDIARY
LAFAYETTE, TENNESSEE

December 31, 1999 and December 31, 1998

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CONTENTS

Consolidated Financial Statements:	
Independent Auditors' Report.....	3
Consolidated Balance Sheets	4
Consolidated Statements of Income and Patronage Capital	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements.....	9
Consolidating Information:	
Independent Auditors' Report on Consolidating Information	19
Consolidating Balance Sheets	20
Consolidating Statements of Income and Patronage Capital	22

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INDEPENDENT AUDITORS' REPORT

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the accompanying consolidated balance sheets of North Central Telephone Cooperative Corporation and subsidiary as of December 31, 1999 and 1998, and the related statements of income and patronage capital and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Central Telephone Cooperative Corporation and subsidiary as of December 31, 1999 and 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated January 21, 2000 on our consideration of North Central Telephone Cooperative Corporation's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Totherow, Haile & Welch
Certified Public Accountants

McMinnville, Tennessee
January 21, 2000

CONSOLIDATED BALANCE

NORTH CENTRAL TELEPHONE

December 31, 1999

	1999	1998
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 4,805,058	\$ 3,382,839
Cash - construction funds	346,543	121,653
Temporary cash investments	2,715,250	2,115,250
Telecommunications accounts receivable, less allowances of \$97,441 in 1999 and \$109,512 in 1998	1,533,016	1,455,545
Other accounts receivable	55,139	139,593
Materials and supplies	499,783	443,734
Other current assets	289,570	120,683
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	\$10,244,359	\$ 7,779,297
 <u>NONCURRENT ASSETS</u>		
Investments - Note D	\$11,459,240	\$ 9,976,199
Nonregulated investments - Note D	212,234	262,870
Goodwill net of accumulated amortization of \$30,353	567,712	0
Organization costs - Note E	2,028	1,275
Deposits	140	0
	<hr/>	<hr/>
TOTAL NONCURRENT ASSETS	\$12,241,354	\$10,240,344
 <u>PROPERTY, PLANT AND EQUIPMENT - Note F</u>		
Telecommunications plant in service	\$56,792,928	\$49,862,102
Telecommunications plant under construction	2,796,799	6,704,547
	<hr/>	<hr/>
	\$59,589,727	\$56,566,649
Less accumulated provision for depreciation	25,682,583	22,665,117
	<hr/>	<hr/>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$33,907,144	\$33,901,532
	<hr/>	<hr/>
	<u>\$56,392,857</u>	<u>\$51,921,173</u>

See the notes to financial statements.

SHEETS

COOPERATIVE CORPORATION AND SUBSIDIARY

and 1998

	1999	1998
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Notes payable	\$ 45,000	\$ 0
Accounts payable	1,457,038	1,433,110
Customer deposits	473,010	438,010
Current maturities on long-term debt	1,531,825	1,384,419
Accrued taxes	398,867	309,730
Accrued interest	164,608	151,906
Accrued rents	181,886	178,163
Accrued salaries and wages	67,124	45,698
Accrued vacation and sick leave benefits	1,219,454	1,123,116
Other current liabilities	336,197	315,383
	<u> </u>	<u> </u>
TOTAL CURRENT LIABILITIES	\$ 5,875,009	\$ 5,379,535
 <u>LONG-TERM DEBT</u> - Note G		
Rural Utilities Service	24,590,791	24,417,355
Other long-term debt	525,473	0
 <u>OTHER LIABILITIES</u>		
Postretirement benefits other than pension - Note J	322,665	672,017
Deferred taxes - Note I	992,940	1,009,400
	<u> </u>	<u> </u>
TOTAL LIABILITIES	\$32,306,878	\$31,478,307
 <u>MEMBERS' EQUITY</u>		
Memberships	\$ 6,580	\$ 6,580
Patronage capital	24,079,399	20,436,286
	<u> </u>	<u> </u>
TOTAL MEMBERS' EQUITY	<u>\$24,085,979</u>	<u>\$20,442,866</u>
 <hr/> <hr/>		
	<u>\$56,392,857</u>	<u>\$51,921,173</u>

CONSOLIDATED STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 1999 and 1998

	1999	1998
Operating revenues:		
Local network services revenue	\$ 3,726,020	\$ 3,441,670
Network access services revenue	4,721,773	6,339,326
Long distance network services revenue	3,870,436	2,945,499
Miscellaneous revenue	3,764,859	1,027,003
TOTAL OPERATING REVENUES	<u>\$16,083,088</u>	<u>\$13,753,498</u>
Operating expenses:		
Plant specific operations expense	\$ 1,778,386	\$ 1,766,219
Plant nonspecific operations expense	1,408,902	1,253,304
Provision for depreciation and amortization	4,491,951	3,826,824
Customer operations expense	3,097,238	1,823,992
Corporate operations expense	2,205,207	1,713,422
Operating taxes	442,131	338,926
TOTAL OPERATING EXPENSES	<u>\$13,423,815</u>	<u>\$10,722,687</u>
OPERATING INCOME	\$ 2,659,273	\$ 3,030,811
Other income:		
Income from investments	\$ 2,435,261	\$ 2,117,632
Interest and dividend income	219,158	238,247
Nonregulated income	307,027	267,040
Miscellaneous	0	22,677
Loss on sale of equipment	(12,760)	0
TOTAL OTHER INCOME	<u>\$ 2,948,686</u>	<u>\$ 2,645,596</u>
Fixed charges:		
Interest expense	\$ 1,267,103	\$ 1,157,503
Interest charged to construction - credit	(246,664)	(231,580)
Non-operating federal income taxes	4,446	0
TOTAL FIXED CHARGES	<u>\$ 1,024,885</u>	<u>\$ 925,923</u>
INCOME BEFORE TAXES ON INCOME	\$ 4,583,074	\$ 4,750,484
Taxes on income	742,140	799,731
NET INCOME	<u>\$ 3,840,934</u>	<u>\$ 3,950,753</u>
Patronage capital at beginning of year	20,478,389	17,242,338
Capital credits paid and applied	(292,524)	(816,607)
Excise tax refundable on capital credits	52,600	59,802
PATRONAGE CAPITAL AT END OF YEAR	<u>\$24,079,399</u>	<u>\$20,436,286</u>

See the notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 1999 and 1998

	1999	1998
Cash flows from operating activities:		
Cash received from customers	\$15,969,439	\$13,483,920
Cash paid to suppliers and employees	(8,362,559)	(5,385,281)
Interest received	219,158	238,247
Interest paid	(1,007,737)	(909,487)
Taxes paid	(1,116,040)	(382,081)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,702,261</u>	<u>\$ 7,045,318</u>
Cash flows from investing activities:		
Construction and acquisition of plant	\$(4,596,752)	\$(8,230,449)
Proceeds from sale of equipment	17,252	0
Plant removal costs	(57,183)	(49,614)
Salvage	157,130	11,931
Cash distribution from investments	1,068,777	0
Investment in nonregulated CPE	92,739	(18,618)
Goodwill purchased	(57,368)	0
Decrease (Increase) in:		
Materials and supplies	(56,049)	(63,502)
Temporary investments	(600,000)	(22,750)
Other investments	(116,557)	288,220
Organization costs	(1,170)	(1,275)
Utility deposits	(140)	0
Nonregulated income (loss)	297,827	267,040
NET CASH USED BY INVESTING ACTIVITIES	<u>\$(3,851,494)</u>	<u>\$(7,819,017)</u>
Cash flows from financing activities:		
Debt proceeds	\$ 1,795,000	\$ 3,400,000
Payments on long-term borrowings	(1,444,382)	(1,258,563)
Excise credit applied to capital	52,600	59,802
Capital credits paid and applied	(292,524)	(816,607)
Postretirement benefits other than pension	(349,352)	(252,593)
Increase (Decrease) in:		
Customer deposits	35,000	42,925
Memberships	0	(10)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>\$ (203,658)</u>	<u>\$ 1,174,954</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>\$ 1,647,109</u>	<u>\$ 401,255</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,504,492</u>	<u>3,103,237</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 5,151,601</u></u>	<u><u>\$ 3,504,492</u></u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 1999 and 1998

	1999	1998
Net income	\$3,840,934	\$3,950,753
Less: Nonregulated (income) loss	(297,827)	(267,040)
Income from investments	<u>(2,435,261)</u>	<u>(2,117,632)</u>
Net income from regulated operations	\$1,107,846	\$1,566,081
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$4,491,951	\$3,826,824
Loss on sale of equipment	12,760	0
Deferred taxes	(16,460)	925,500
Decrease (Increase) in:		
Customer and accounts receivable	6,983	(275,917)
Current and accrued assets - other	(168,887)	(26,853)
Increase (Decrease) in:		
Accounts payable	23,928	904,577
Accrued taxes	89,137	(168,924)
Accrued interest	12,702	16,436
Accrued rents	3,723	188
Accrued salaries and employee benefits	117,764	56,758
Other current liabilities	<u>20,814</u>	<u>220,648</u>
TOTAL ADJUSTMENTS	<u>\$4,594,415</u>	<u>\$5,479,237</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$5,702,261</u></u>	<u><u>\$7,045,318</u></u>

See the notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1999 and 1998

Note A – North Central Telephone Cooperative Corporation and subsidiary provides retail telecommunications services to Macon County, Tennessee and surrounding counties including a portion of southern Kentucky. North Central Telephone Cooperative Corporation and subsidiary has adopted the following accounting policies:

(1) Principles of Consolidation:

North Central Telephone Cooperative Corporation (Cooperative) owns 100% of the outstanding common stock of North Central Communications, Inc. and Subsidiary (Subsidiary). North Central Communications, Inc. and Subsidiary were formed for the purpose of providing long distance and other telephone services and computer sales and services. The consolidated financial statements include the accounts of North Central Communications, Inc. and Subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Cooperative operates on a fiscal year ending December 31. The Subsidiary operates on a fiscal year ending September 30. The consolidated financial statements reflect the results of operations from January 1 through December 31 for the Cooperative and from October 1, 1998 through September 30, 1999 for the Subsidiary. On December 31, 1999 North Central Communications sold its stock investment in TENNMARK Telecommunications, Inc. The gain from the sale of this stock was approximately \$2,917,228 before income taxes. This was the only material event that occurred in the Subsidiary's operations during the intervening period from October 1, 1999 to December 31, 1999

- (2) Material and supplies are valued at average cost accumulated in perpetual inventory records which are periodically adjusted to physical counts.
- (3) The Companies prepare their financial statements using the accrual method of accounting.
- (4) The Cooperative's expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired from service are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation. The Subsidiary provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life.
-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1999 and 1998

Note A – (Cont'd):

- (5) For purposes of financial statement presentation, the Cooperative and Subsidiary consider all highly-liquid investments with a maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of treasury bills and notes and commercial paper with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as temporary investments.
- (6) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B – Substantially all assets of the Cooperative are pledged as security for the long-term debt to RUS.

Note C – The Cooperative maintains its cash and temporary investments in several commercial banks located within its trade area. The Federal Deposit Insurance Corporation (FDIC) insures accounts and temporary investments up to \$100,000. A summary of the total insured and uninsured cash balances follows:

Total cash and temporary investments	\$7,866,851
Portion insured by FDIC	<u>1,642,257</u>
Uninsured Cash Balances	<u>\$6,224,594</u>

Telecommunication services are provided to the customers on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1999 and 1998

Note D – Investments:

	<u>1999</u>	<u>1998</u>
Rural Telephone Bank "c" stock – at cost	\$ 1,000	\$ 1,000
Cash value of life insurance	293,563	254,804
Investment in Tennessee RSA #3 cellular partnership	1,689,551	1,432,653
Investment in Kentucky RSA #3 cellular partnership	4,873,677	4,448,971
Investments in TENNMARK Telecommunications, Inc.	2,754,772	2,356,806
Investment in Direct Broadcast Satellite	152,214	186,039
Investment in Bluegrass Network, Inc.	1,309,749	1,087,697
Investment in Bluegrass Telecom, LLC	229,432	164,571
Qualified patronage capital certificates – NRTC	45,282	43,658
Tennessee Independent Telecom Group	<u>110,000</u>	<u>0</u>
	<u>\$11,459,240</u>	<u>\$9,976,199</u>

Nonregulated investments:

Nonregulated customer premises equipment - leased	\$ 744,285	\$ 767,696
Less accumulated provisions for depreciation	<u>532,051</u>	<u>504,826</u>
	<u>\$ 212,234</u>	<u>\$ 262,870</u>

Nonregulated customer premises equipment is stated at cost. The Cooperative provides for depreciation on a straight-line basis at an annual rate of depreciation which will amortize the cost of the equipment over its estimated useful life.

Note E – Organization costs are being amortized over five years using the straight-line method of accounting. At September 30, 1999, these costs amounted to \$2,670, less accumulated amortization in the amount of \$642.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1999 and 1998

Note F – Telephone plant in service and under construction is stated at cost. Listed below are the major classes of the telephone plant as of December 31, 1999 and December 31, 1998.

	<u>1999</u>	<u>1998</u>
Franchises	\$ 236	\$ 236
Land	442,202	442,202
Buildings	2,983,834	2,934,385
Central office equipment	16,719,234	13,186,901
Poles, cables and wire	32,120,101	29,259,067
Furniture and office equipment	1,904,804	1,810,402
Vehicles and other work equipment	<u>1,827,774</u>	<u>1,676,607</u>
TOTAL PLANT IN SERVICE	<u>\$55,998,185</u>	<u>\$49,309,800</u>

The Cooperative provides for depreciation on a straight-line basis of annual rates which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of telephone plant in service was 8.21 percent for 1999 and 7.96 percent for 1998. The provision for 1999 was \$4,321,142 and the provision for 1998 was \$3,723,117.

Individual plant depreciation rates are as follows:

	<u>Percent</u>
Buildings	2.6
Central office equipment	6.7 – 21.0
Public telephone equipment	15.1
Poles, cable and wire	1.7 – 8.8
Furniture and office equipment	6.7 – 16.4
Vehicles and other work equipment	6.4 – 10.8
DBS and internet equipment	18.8

Investment in property and equipment included in the Subsidiary:

	<u>1999</u>	<u>1998</u>
Land	\$ 42,937	\$ 0
Building under construction	40,278	0
Office furniture and fixtures	16,898	0
Equipment	662,975	552,302
Vehicles	<u>71,933</u>	<u>0</u>
TOTAL	<u>\$835,021</u>	<u>\$552,302</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1999 and 1998

Note F – (Cont'd):

The Subsidiary provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its useful life. Depreciation charged to expense on the subsidiary's records amounted to \$335,153 in 1999.

Note G – A description of notes payable follows:

<u>Due Date</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Payee</u>
<u>CURRENT LIABILITY</u>			
October 25, 1999	\$45,000.00	8.9%	Macon Bank & Trust

LONG-TERM DEBT

Long-term debt is represented by mortgage notes payable to the United States of America and other lenders. Following is a summary of outstanding long-term debt.

	<u>1999</u>	<u>1998</u>
2% Rural Utilities Service notes	\$ 3,100,484	\$ 3,445,798
5% Rural Utilities Service notes	23,006,908	22,355,976
Others	<u>540,697</u>	<u>0</u>
	\$26,648,089	\$25,801,774
Less current maturities	<u>1,531,825</u>	<u>1,384,419</u>
	<u>\$25,116,264</u>	<u>\$24,417,355</u>

Long-term debt matures as follows:

<u>Year</u>	<u>Amount</u>
2000	\$ 1,531,825
2001	1,608,644
2002	1,689,320
2003	1,774,044
2004	<u>1,863,023</u>
Beyond five years	<u>18,181,233</u>

TOTAL \$26,648,089

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1999 and 1998

Note H – The Cooperative has adopted the retirement and security program of the National Telephone Cooperative Association as a pension plan covering all employees meeting certain age and length of service requirements for which it pays approximately 70% of the cost. The Cooperative funds the pension plan by making quarterly contributions into the program based on salaries. The Cooperative's cost was \$254,885 for 1999 and \$203,027 for 1998.

Note I – Income taxes are accounted for using Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). Under the provision for FAS 109, an entity recognizes deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the Cooperative's financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Under FAS 109, measurement is computed using applicable current tax rates.

	<u>1999</u>	<u>1998</u>
Current income tax expense:		
Federal	\$ 455,000	\$ 0
State	150,400	0
Deferred income tax expense:		
Federal	141,100	673,200
State	<u>13,500</u>	<u>126,531</u>
	\$ 760,000	\$ 799,731
Less deferred tax asset	<u>17,860</u>	<u>0</u>
	<u>\$ 742,140</u>	<u>\$ 799,731</u>

The deferred tax liability is primarily the result of timing differences related to the Cooperative's investments in several limited partnerships.

Deferred tax liability at beginning of year	\$1,009,400
Add current period provision for deferred taxes on income	1,400
Less deferred tax benefit	<u>(17,860)</u>
Deferred tax liability at end of year	<u>\$ 992,940</u>

The deferred tax asset is primarily the result of differences using accelerated depreciation methods for tax purposes and net operating loss carryforwards.

The Subsidiary has a net operating loss carryforward of approximately \$54,945 which is available to offset future federal and state taxable income. This carryforward will expire in 20 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1999 and 1998

Note J – The Cooperative has adopted Statement of Financial Accounting Standards No. 106, “Employers’ Accounting for Postretirement Benefits other than Pensions”. Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Cooperative’s obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. The cost of health benefits for current and future associate retirees was recognized as determined under the projected unit credit cost method.

In conjunction with the adoption of Statement No. 106, for financial reporting purposes, the Cooperative elected to amortize the cost for the initial obligation over twenty years in level payments of principal.

Substantially all of the Cooperative’s employees are covered under postretirement health and life insurance plan. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on 25% of the preretirement life insurance benefit.

Postretirement benefit cost is composed of the following for the year ended December 31, 1999:

	<u>Medical</u>	<u>Life</u>	<u>Other</u>	<u>Total</u>
Benefits earned during the year	\$106,699	\$ 8,825	\$ 746	\$116,270
Interest on accumulated postretirement benefit obligation	167,409	15,203	2,313	184,925
Actual return on plan assets	(136,662)	0	0	(136,662)
Net amortization	<u>83,043</u>	<u>5,673</u>	<u>1,636</u>	<u>90,352</u>
Postretirement benefit cost	<u>\$220,489</u>	<u>\$29,701</u>	<u>\$4,695</u>	<u>\$254,885</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1999 and 1998

Note J – (Cont'd):

The following table sets forth the plan's funded status and the amount recognized in the Cooperative's Balance Sheet as of December 31, 1999:

	<u>Medical</u>	<u>Life</u>	<u>Other</u>	<u>Total</u>
Accumulated postretirement obligation attributable to:				
Retirees	\$ 809,914	\$ 86,841	\$20,430	\$ 917,185
Fully eligible Plan participants	394,918	19,568	3,035	417,521
Other active plan Participants	<u>1,594,096</u>	<u>149,010</u>	<u>13,815</u>	<u>1,756,921</u>
Total accumulated postretirement benefit obligation	\$2,798,928	\$255,419	\$37,280	\$ 3,091,627
Fair value of plan assets	<u>1,991,384</u>	<u>0</u>	<u>0</u>	<u>1,991,384</u>
Accumulated postretirement benefit obligation in excess of plan assets	\$ 807,544	\$255,419	\$37,280	\$ 1,100,243
Unrecognized net gains (losses)	453,286	(10,803)	(13,995)	428,488
Unamortized prior service cost	<u>(1,124,830)</u>	<u>(68,082)</u>	<u>(13,154)</u>	<u>(1,206,066)</u>
Accrued postretirement benefit obligation	<u>\$136,000</u>	<u>\$176,534</u>	<u>\$10,131</u>	<u>\$ 322,665</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1999 and 1998

Note J – (Cont'd):

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 6.5% at December 31, 1998 and 6.5% at January 1, 1999. The assumed rate of future increases in compensation levels was 6.00% at December 31, 1999. The medical cost trend rate in 1999 was approximately 8.00% grading down to an ultimate rate in 2016 of 5.50%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of 1999 net periodic postretirement benefit cost by \$541,583 and would have increased the accumulated postretirement benefit obligation as of December 31, 1999 by \$81,137.

CONSOLIDATING INFORMATION

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

Our report on our audits of the consolidated financial statements of North Central Telephone Cooperative Corporation and subsidiary for 1999 and 1998 appears on page 3. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information contained on pages 20 through 23 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Totherow, Haile & Welch
Certified Public Accountants

McMinnville, Tennessee
January 21, 2000

CONSOLIDATING

NORTH CENTRAL TELEPHONE

December 31,

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiary	Eliminations	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash - general	\$ 4,357,194	\$ 447,864	\$ 0	\$ 4,805,058
Cash - construction funds	346,543	0	0	346,543
Temporary cash investments	2,715,250	0	0	2,715,250
Telecommunications accounts receivable	1,421,773	111,243	0	1,533,016
Other accounts receivable	55,139	0	0	55,139
Advance to related company	397,249	0	(397,249)	0
Materials and supplies	434,527	65,256	0	499,783
Other current assets	38,241	251,329	0	289,570
TOTAL CURRENT ASSETS	\$ 9,765,916	\$ 875,692	\$ (397,249)	\$ 10,244,359
<u>NONCURRENT ASSETS</u>				
Investment in subsidiary	\$ 10,943,724	\$ 0	\$ (10,943,724)	\$ 0
Investments	294,563	11,164,677	0	11,459,240
Nonregulated investments	212,234	0	0	212,234
Goodwill - net	0	567,712	0	567,712
Organization costs	0	2,028	0	2,028
Deposits	0	140	0	140
TOTAL NONCURRENT ASSETS	\$ 11,450,521	\$ 11,734,557	\$ (10,943,724)	\$ 12,241,354
<u>PROPERTY, PLANT AND EQUIPMENT</u>				
Telecommunications plant in service	\$ 55,998,185	\$ 794,743	\$ 0	\$ 56,792,928
Telecommunications plant under construction	2,756,521	40,278	0	2,796,799
	\$ 58,754,706	\$ 835,021	\$ 0	\$ 59,589,727
Less accumulated provision for depreciation	25,347,430	335,153	0	25,682,583
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 33,407,276	\$ 499,868	\$ 0	\$ 33,907,144
	<u>\$ 54,623,713</u>	<u>\$ 13,110,117</u>	<u>\$ (11,340,973)</u>	<u>\$ 56,392,857</u>

BALANCE SHEETS

COOPERATIVE CORPORATION AND SUBSIDIARY

1999 and 1998

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiary	Eliminations	Total
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Notes payable	\$ 0	\$ 45,000	\$ 0	\$ 45,000
Accounts payable	1,322,531	34,676	99,831	1,457,038
Customer deposits	473,010	0	0	473,010
Current maturities on long-term debt	1,516,601	15,224	0	1,531,825
Accrued taxes	387,059	11,808	0	398,867
Accrued interest	137,608	27,000	0	164,608
Accrued rent	181,886	0	0	181,886
Accrued salaries and wages	62,895	4,229	0	67,124
Accrued vacation and sick leave benefits	1,219,454	0	0	1,219,454
Other current liabilities	323,234	12,963	0	336,197
Advance from related company	0	497,080	(497,080)	0
TOTAL CURRENT LIABILITIES	\$ 5,624,278	\$ 647,980	\$ (397,249)	\$ 5,875,009
<u>LONG-TERM DEBT</u>				
Rural Utilities Service	24,590,791	0	0	24,590,791
Other long-term debt	0	525,473	0	525,473
<u>OTHER LIABILITIES</u>				
Postretirement benefits other than pension	322,665	0	0	322,665
Deferred taxes	0	992,940	0	992,940
TOTAL LIABILITIES	\$ 30,537,734	\$ 2,166,393	\$ (397,249)	\$ 32,306,878
<u>MEMBERS' EQUITY</u>				
Memberships	\$ 6,580	\$ 0	\$ 0	\$ 6,580
Capital stock	0	8,100,000	(8,100,000)	0
Patronage capital	24,079,399	0	0	24,079,399
Retained earnings	0	2,843,724	(2,843,724)	0
TOTAL MEMBERS' EQUITY	\$ 24,085,979	\$ 10,943,724	\$ (10,943,724)	\$ 24,085,979
	<u>\$ 54,623,713</u>	<u>\$ 13,110,117</u>	<u>\$ (11,340,973)</u>	<u>\$ 56,392,857</u>

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 1999

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiary	Eliminations	Total
Operating revenues:				
Local network services revenue	\$ 3,726,020	\$ 0	\$ 0	\$ 3,726,020
Network access service revenue	4,721,773	0	0	4,721,773
Long distance network services revenue	3,870,436	0	0	3,870,436
Miscellaneous revenue	<u>1,125,649</u>	<u>2,648,410</u>	<u>(9,200)</u>	<u>3,764,859</u>
TOTAL OPERATING REVENUES	\$ 13,443,878	\$ 2,648,410	\$ (9,200)	\$ 16,083,088
Operating expenses:				
Plant specific operations expense	\$ 1,783,104	\$ 0	\$ (4,718)	\$ 1,778,386
Plant nonspecific operations expense	1,409,684	0	(782)	1,408,902
Provision for depreciation	4,321,142	170,809	0	4,491,951
Customer operations expense	1,294,457	1,803,159	(378)	3,097,238
Corporate operations expense	1,403,626	804,903	(3,322)	2,205,207
Operating taxes	<u>442,131</u>	<u>0</u>	<u>0</u>	<u>442,131</u>
TOTAL OPERATING EXPENSES	\$ 10,654,144	\$ 2,778,871	\$ (9,200)	\$ 13,423,815
OPERATING INCOME (LOSS)	\$ 2,789,734	\$ (130,461)	\$ 0	\$ 2,659,273
Other income:				
Income from subsidiary	\$ 1,535,943	\$ 0	\$ (1,535,943)	\$ 0
Income from investments	0	2,435,261	0	2,435,261
Interest and dividends	206,115	13,043	0	219,158
Nonregulated income	307,027	0	0	307,027
Loss on sale of equipment	<u>0</u>	<u>(12,760)</u>	<u>0</u>	<u>(12,760)</u>
TOTAL OTHER INCOME	\$ 2,049,085	\$ 2,435,544	\$ (1,535,943)	\$ 2,948,686

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 1999

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiary	Eliminations	Total
Fixed charges:				
Interest expense	\$ 1,240,103	\$ 27,000	\$ 0	\$ 1,267,103
Interest charged to construction - credit	(246,664)	0	0	(246,664)
Non-operating federal income taxes	4,446	0	0	4,446
TOTAL FIXED CHARGES	\$ 997,885	\$ 27,000	\$ 0	\$ 1,024,885
INCOME BEFORE TAXES ON INCOME	\$ 3,840,934	\$ 2,278,083	\$ (1,535,943)	\$ 4,583,074
Taxes on income	0	742,140	0	742,140
NET INCOME	\$ 3,840,934	\$ 1,535,943	\$ (1,535,943)	\$ 3,840,934
Patronage capital at beginning of year	20,478,389	0	0	20,478,389
Excise tax refundable on capital credits	52,600	0	0	52,600
Capital credits paid and applied	(292,524)	0	0	(292,524)
PATRONAGE CAPITAL AT END OF YEAR	\$ 24,079,399	\$ 1,535,943	\$ (1,535,943)	\$ 24,079,399

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation as of and for the years ended December 31, 1999 and 1998, and have issued our report thereon dated January 21, 2000. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Central Telephone Cooperative Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 2

This report is intended for the information of the audit committee, management, the Rural Utilities Service and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.

Tetherow, Haile & Welch
Certified Public Accountants

McMinnville, Tennessee
January 21, 2000

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 1999, and have issued our report thereon dated January 21, 2000. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 1999, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

A description of the responsibility of management for establishing and maintaining the internal control structure and the objectives of and inherent limitations in such a structure is set forth in our independent auditors' report on compliance and on the internal control over financial reporting dated January 21, 2000, and should be read in conjunction with this report.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 2

7 CFR Part 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(2), and related party transactions. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38 - .45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters and, accordingly, we express no opinion thereon.

No reports (other than our independent auditors' report, report on compliance and on internal control over financial reporting, all dated January 21, 2000) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provision, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding North Central Telephone Cooperative Corporation's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

ACCOUNTING RECORDS - In addition to our observation of the effectiveness of internal control, it appears that the bookkeeping and accounting records, including the many supplementary files and ledgers are well kept and adequately maintained. From tests made by us, it appeared that the methods used in accumulating costs for material, transportation, labor and overhead and the distribution of these costs to the various accounts were in accordance with proper procedures.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 3

MATERIALS CONTROL - Materials and supplies are stated at average cost. Inventory quantities of outside plant materials and supplies were ascertained by physical count, weight or other measure as of December 31, 1999, by employees of the Cooperative. We were present during the time of taking the physical inventories to observe the procedures used to determine inventory quantities. We made test counts of quantities on hand and subsequently traced these counts to the perpetual inventory records. We reviewed the basis of pricing and tested the clerical accuracy of the extensions and footings. We tested the accuracy of the perpetual inventory records. Our review indicated only minor differences between the amounts reflected by the tests and those accumulated on the books.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

Management's responsibility for compliance with laws, regulations, contracts and grants is set forth in our independent auditors' report on compliance and on internal control over financial reporting dated January 21, 2000, and should be read in conjunction with this report. At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

- Procedure performed with respect to the requirement to maintain all funds from loans made or guaranteed by RUS in institutions whose accounts are insured by an agency of the Federal government:
 1. Obtained information from financial institutions with which North Central Telephone Cooperative Corporation maintains cash proceeds from loans that indicated that the institutions are insured by an agency of the Federal government.
-

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of all or any part of its property, or for the use of mortgaged property by others for services pertaining to toll traffic, operator assistance, or switching for the year ended December 31, 1999, of North Central Telephone Cooperative Corporation
 1. No contracts for management, operations or billing services were in effect during the year ended December 31, 1999.
 2. Reviewed Board of Directors minutes to ascertain whether board-approved written contracts should have been included in a borrower-prepared schedule.
- Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:

Financial statements as of December 31, 1999, included in copies of RUS Form 479 were compared with the Cooperative's books and found to be in agreement in all material respects.
- Procedure performed with respect to funded reserve and net plant to secured debt ratio requirements:

The Cooperative has no loans that require it to maintain a secured debt ratio of least 1.2 or a funded reserve.

The results of our tests indicate that, with respect to the items tested, North Central Telephone Cooperative Corporation complied, except as noted below, in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to our attention that caused us to believe that North Central Telephone Cooperative Corporation had not complied, in all material respects, with those provisions. The specific provisions tested, as well as any exceptions noted, include the requirements that:

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- ~~The borrower maintains all funds from loans made or guaranteed by RUS in institutions whose accounts are insured by an agency of the Federal government;~~

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 5

- The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 1999, represented by the borrower as having been submitted to RUS is in agreement with the North Central Telephone Cooperative Corporation's audited records in all material respects as of December 31, 1999, and appears reasonable based upon the audit procedures performed.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of North Central Telephone Cooperative Corporation nothing came to our attention that caused us to believe that North Central Telephone Cooperative Corporation failed to comply with respect to:

- The reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.33 (c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33 (c)(2);
- The retirement of plant addressed at 7 CFR Part 1773.33(c)(3) and (4);
- Sales of plant, material, or scrap addressed at 7 CFR Part 1773.33 (c)(5);
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 1999 in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33 (f).

This report is intended solely for the use of the board of directors, management, the RUS and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.

T. Johnson, D. A. Hail & W. E. W. W.
Certified Public Accountants

McMinnville, Tennessee
January 21, 2000

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TENNESSEE 545
NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION
AND SUBSIDIARY
LAFAYETTE, TENNESSEE

December 31, 1998 and December 31, 1997

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C O N T E N T S

Consolidated Financial Statements:	
Independent Auditors' Report	Page 3
Consolidated Balance Sheets	4
Consolidated Statements of Income and Patronage Capital . .	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	9
Consolidating Information:	
Independent Auditors' Report on Consolidating Information .	19
Consolidating Balance Sheets	20
Consolidating Statements of Income and Patronage Capital . .	22

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INDEPENDENT AUDITORS' REPORT

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the accompanying consolidated balance sheets of North Central Telephone Cooperative Corporation and subsidiary as of December 31, 1998 and December 31, 1997, and the related statements of income and patronage capital and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Central Telephone Cooperative Corporation and subsidiary as of December 31, 1998 and December 31, 1997, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated January 22, 1999 on our consideration of North Central Telephone Cooperative and subsidiary's internal control structure and a report dated January 22, 1999 on its compliance with laws and regulations.

Totherow, Haile & Welch
Certified Public Accountants

McMinnville, Tennessee
January 22, 1999

CONSOLIDATED BALANCE

NORTH CENTRAL TELEPHONE

December 31, 1998

	<u>1998</u>	<u>1997</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 3,382,839	\$ 2,793,378
Cash - construction funds	121,653	309,859
Temporary cash investments	2,115,250	2,092,500
Telecommunications accounts receivable, less allowances of \$109,512 in 1998 and \$94,169 in 1997	1,455,545	1,245,330
Other accounts receivable	139,593	73,891
Materials and supplies	443,734	380,232
Other current assets	<u>120,683</u>	<u>93,830</u>
TOTAL CURRENT ASSETS	\$ 7,779,297	\$ 6,989,020
<u>NONCURRENT ASSETS</u>		
Investments - Note D	\$ 9,976,199	\$ 8,146,787
Nonregulated investments - Note D	262,870	602,786
Organization costs - Note E	<u>1,275</u>	<u>0</u>
TOTAL NONCURRENT ASSETS	\$10,240,344	\$ 8,749,573
<u>PROPERTY, PLANT AND EQUIPMENT - Note F</u>		
Telecommunications plant in service	\$49,862,102	\$44,215,137
Telecommunications plant under construction	<u>6,704,547</u>	<u>3,997,586</u>
	\$56,566,649	\$48,212,723
Less accumulated provision for depreciation	<u>22,665,117</u>	<u>19,111,033</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$33,901,532	\$29,101,690
	<u>\$51,921,173</u>	<u>\$44,840,283</u>

See the notes to financial statements.

SHEETS

COOPERATIVE CORPORATION AND SUBSIDIARY

and 1997

	1998	1997
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 1,433,110	\$ 528,533
Customer deposits	438,010	395,085
Current maturities on long-term debt	1,384,419	1,119,224
Accrued taxes	309,730	478,654
Accrued interest	151,906	135,470
Accrued rents	178,163	177,975
Accrued salaries and wages	45,698	44,000
Accrued vacation and sick leave benefits	1,123,116	1,068,056
Other current liabilities	<u>315,383</u>	<u>94,735</u>
TOTAL CURRENT LIABILITIES	\$ 5,379,535	\$ 4,041,732
<u>LONG-TERM DEBT - Note G</u>		
Rural Utilities Service	24,417,355	22,541,113
<u>OTHER LIABILITIES</u>		
Postretirement benefits other than pension - Note J	672,017	924,610
Deferred taxes - Note I	<u>1,009,400</u>	<u>83,900</u>
TOTAL LIABILITIES	\$31,478,307	\$27,591,355
<u>MEMBERS' EQUITY</u>		
Memberships	\$ 6,580	\$ 6,590
Patronage capital	<u>20,436,286</u>	<u>17,242,338</u>
TOTAL MEMBERS' EQUITY	\$20,442,866	\$17,248,928
	<u>\$51,921,173</u>	<u>\$44,840,283</u>

CONSOLIDATED STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 1998 and 1997

	1998	1997
Operating revenues:		
Local network services revenue	\$ 3,441,670	\$ 3,193,507
Network access services revenue	6,339,326	5,113,633
Long distance network services revenue	2,945,499	2,008,432
Miscellaneous revenue	<u>1,027,003</u>	<u>747,136</u>
	\$13,753,498	\$11,062,708
Less uncollectible revenue	<u>0</u>	<u>60,000</u>
TOTAL OPERATING REVENUES	\$13,753,498	\$11,002,708
Operating expenses:		
Plant specific operations expense	\$ 1,766,219	\$ 1,938,058
Plant nonspecific operations expense	1,253,304	974,993
Provision for depreciation and amortization	3,826,824	3,057,879
Customer operations expense	1,823,992	1,088,540
Corporate operations expense	1,713,422	1,175,312
Operating taxes	<u>338,926</u>	<u>471,469</u>
TOTAL OPERATING EXPENSES	<u>\$10,722,687</u>	<u>\$ 8,706,251</u>
OPERATING INCOME	\$ 3,030,811	\$ 2,296,457
Other income:		
Income from investment	\$ 2,117,632	\$ 0
Interest and dividend income	238,247	189,234
Nonregulated income	267,040	1,517,052
Miscellaneous	<u>22,677</u>	<u>0</u>
TOTAL OTHER INCOME	\$ 2,645,596	\$ 1,706,286
Fixed charges:		
Interest expense	\$ 1,157,503	\$ 1,061,165
Interest charged to construction - credit	<u>(231,580)</u>	<u>(124,037)</u>
TOTAL FIXED CHARGES	<u>\$ 925,923</u>	<u>\$ 937,128</u>
INCOME BEFORE TAXES ON INCOME	\$ 4,750,484	\$ 3,065,615
Taxes on income	<u>799,731</u>	<u>0</u>
NET INCOME	\$ 3,950,753	\$ 3,065,615
Patronage capital at beginning of year	17,242,338	14,139,423
Excise tax refundable on capital credits	59,802	37,300
Capital credits paid and applied	(816,607)	0
PATRONAGE CAPITAL AT END OF YEAR	<u>\$20,436,286</u>	<u>\$17,242,338</u>

See the notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 1998 and 1997

	1998	1997 *
Cash flows from operating activities:		
Cash received from customers	\$13,483,920	\$10,884,599
Cash paid to suppliers and employees	(5,385,281)	(5,483,793)
Interest received	238,247	190,287
Interest paid	(909,487)	(931,578)
Taxes paid	(382,081)	(354,536)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 7,045,318	\$ 4,304,979
Cash flows from investing activities:		
Construction and acquisition of plant	\$(8,230,449)	\$(4,590,770)
Investment in nonregulated CPE	(18,618)	(13,370)
Plant removal costs	(49,614)	(36,369)
Salvage	11,931	13,904
Decrease (Increase) in:		
Notes receivable	0	46,915
Materials and supplies	(63,502)	189,279
Temporary investments	(22,750)	200,000
Other investments	(1,829,412)	(849,423)
Nonregulated income (loss)	267,040	(92,094)
Income from investments	2,117,632	1,609,146
Organization costs	(1,275)	0
NET CASH USED BY INVESTING ACTIVITIES	\$(7,819,017)	\$(3,522,782)
Cash flows from financing activities:		
Debt proceeds	\$ 3,400,000	\$ 1,883,000
Payments on long-term borrowings	(1,258,563)	(1,095,721)
Excise credit applied to capital	59,802	37,300
Capital credits paid and applied	(816,607)	0
Postretirement benefits other than pension	(252,593)	(192,912)
Increase (Decrease) in:		
Customer deposits	42,925	31,200
Memberships	(10)	0
NET CASH PROVIDED BY FINANCING ACTIVITIES	\$ 1,174,954	\$ 662,867
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 401,255	\$ 1,445,064
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,103,237	1,658,173
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,504,492</u>	<u>\$ 3,103,237</u>

* Various amounts have been reclassified for comparative purposes

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 1998 and 1997

	1998	1997 *
Net income	\$ 3,950,753	\$ 3,065,615
Less: Nonregulated (income) loss	(267,040)	92,094
Income from investments	<u>(2,117,632)</u>	<u>(1,609,146)</u>
Net income from regulated operations	\$ 1,566,081	\$ 1,548,563
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$ 3,826,824	\$ 3,129,588
Provision for uncollectible accounts	0	64,772
Deferred taxes	925,500	15,000
Decrease (Increase) in:		
Customer and accounts receivable	(275,917)	(86,357)
Current and accrued assets - other	(26,853)	(95,470)
Increase (Decrease) in:		
Accounts payable	904,577	(458,543)
Accrued taxes	(168,924)	101,933
Accrued interest	16,436	5,549
Accrued rents	188	(2,401)
Accrued salaries and employee benefits	56,758	72,324
Other current liabilities	<u>220,648</u>	<u>10,021</u>
TOTAL ADJUSTMENTS	<u>\$ 5,479,237</u>	<u>\$ 2,756,416</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 7,045,318</u>	<u>\$ 4,304,979</u>

* Various amounts have been reclassified for comparative purposes.

See the notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1998 and 1997

Note A - North Central Telephone Cooperative Corporation and subsidiary provides retail telecommunication services to Macon County, Tennessee and surrounding counties including a portion of southern Kentucky. North Central Telephone Cooperative Corporation and subsidiary has adopted the following accounting policies:

(1) Principles of Consolidation:

North Central Telephone Cooperative Corporation (Cooperative) owns 100% of the outstanding common stock of North Central Communications, Inc. (Subsidiary). North Central Communications, Inc. was formed on January 1, 1998 for the purpose of providing long distance and other telephone services. The consolidated financial statements include the accounts of North Central Communications, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Cooperative operates on a fiscal year ending December 31. The Subsidiary operates on a fiscal year ending September 30. The Consolidated financial statements reflect the results of operations from January 1 through December 31 for the Cooperative and from January 1 through September 30 for the Subsidiary. No material events have occurred in the subsidiary's operations during the intervening period from October 1 to December 31.

- (2) Materials and supplies are valued at average cost accumulated in perpetual inventory records which are periodically adjusted to physical counts.
- (3) The Companies prepare their financial statements using the accrual method of accounting.
- (4) The Cooperative's expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired from service are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation. The Subsidiary provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life.
-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1998 and 1997

Note A - (Cont'd):

- (5) For purposes of financial statement presentation, the Cooperative and Subsidiary consider all highly-liquid investments with a maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of treasury bills and notes and commercial paper with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as temporary investments.
- (6) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B - Substantially all assets of the Cooperative are pledged as security for the long-term debt to RUS.

Note C - The Cooperative maintains its cash and temporary investments in several commercial banks located within its trade area. The Federal Deposit Insurance Corporation (FDIC) insures accounts and temporary investments up to \$100,000. A summary of the total insured and uninsured cash balances follows:

Total cash and temporary investments	\$5,839,088
Portion insured by FDIC	<u>1,223,875</u>
Uninsured Cash Balances	<u>\$4,615,213</u>

Telecommunication services are provided to the customers on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1998 and 1997

Note D - Investments:

	<u>1998</u>	<u>1997</u>
Rural Telephone Bank "c" stock - at cost	\$ 1,000	\$ 1,000
Cash value of life insurance	254,804	224,268
Investment in Tennessee RSA #3 cellular partnership	1,432,653	1,095,639
Investment in Kentucky RSA #3 cellular partnership	4,448,971	3,692,691
Investments in TENNMARK Telecommunications, Inc.	2,356,806	1,899,254
Investment in Direct Broadcast Satellite	186,039	211,408
Investment in Bluegrass Network, Inc.	1,087,697	983,850
Investment in Bluegrass Telecom, LLC	164,571	0
Qualified patronage capital certificates - NRTC	<u>43,658</u>	<u>38,677</u>
	<u>\$9,976,199</u>	<u>\$8,146,787</u>

Nonregulated investments:

Nonregulated customer premises equipment - leased	\$ 767,696	\$1,289,356
Less accumulated provisions for depreciation	<u>504,826</u>	<u>686,570</u>
	<u>\$ 262,870</u>	<u>\$ 602,786</u>

Nonregulated customer premises equipment is stated at cost. The Cooperative provides for depreciation on a straight-line basis at an annual rate of depreciation which will amortize the cost of the equipment over its estimated useful life.

Note E - Organization costs are being amortized over five years using the straight-line method of accounting. At September 30, 1998, these costs amounted to \$1,500, less accumulated amortization in the amount of \$225.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1998 and 1997

Note F - Telephone plant in service and under construction is stated at cost. Listed below are the major classes of the telephone plant as of December 31, 1998 and December 31, 1997.

	<u>1998</u>	<u>1997</u>
Franchises	\$ 236	\$ 236
Land	442,202	442,202
Buildings	2,934,385	2,585,349
Central office equipment	13,186,901	10,572,345
Poles, cables and wire	29,259,067	27,236,918
Furniture and office equipment	1,810,402	1,751,315
Vehicles and other work equipment	<u>1,676,607</u>	<u>1,626,772</u>
TOTAL PLANT IN SERVICE	<u>\$49,309,800</u>	<u>\$44,215,137</u>

The Cooperative provides for depreciation on a straight-line basis of annual rates which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of telephone plant in service was 7.96 percent for 1998 and 7.25 percent in 1997. The provision for 1998 was \$3,723,117 and the provision for 1997 was \$3,129,588.

Individual plant depreciation rates are as follows:

	<u>Percent</u>
Buildings	2.6
Central office equipment	6.7 - 21.0
Public telephone equipment	15.1
Poles, cables and wire	1.7 - 8.8
Furniture and office equipment	6.7 - 16.4
Vehicles and other work equipment	6.4 - 10.8
DBS and internet equipment	18.8

Investment in property and equipment included in the Subsidiary:

	<u>1998</u>	<u>1997</u>
DBS equipment	\$493,038	\$0
Internet equipment	<u>59,264</u>	<u>0</u>
TOTAL	<u>\$552,302</u>	<u>\$0</u>

~~The Subsidiary provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its useful life. Depreciation charged to expense on the subsidiary's records amounted to \$78,113 in 1998.~~

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1998 and 1997

Note G - Long-term debt:

Long-term debt is represented by mortgage notes payable to the United States of America. Following is a summary of outstanding long-term debt.

	<u>1998</u>	<u>1997</u>
2% Rural Utilities Service notes	\$ 3,445,798	\$ 3,789,815
5% Rural Utilities Service notes	<u>22,355,976</u>	<u>19,870,522</u>
	\$25,801,774	\$23,660,337
Less current maturities	<u>1,384,419</u>	<u>1,119,224</u>
	<u>\$24,417,355</u>	<u>\$22,541,113</u>

Long-term debt matures as follows:

<u>Year</u>	<u>Amount</u>
1999	\$ 1,384,419
2000	1,453,640
2001	1,526,322
2002	1,602,639
2003	1,682,770
Beyond five years	<u>18,151,984</u>
TOTAL	<u>\$25,801,774</u>

Note H - The Cooperative has adopted the retirement and security program of the National Telephone Cooperative Association as a pension plan covering all employees meeting certain age and length of service requirements for which it pays approximately 70% of the cost. The Cooperative funds the pension plan by making quarterly contributions into the program based on salaries. The Cooperative's cost was \$203,027 for 1998 and \$170,718 for 1997.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1998 and 1997

Note I - Income taxes are accounted for using Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). Under the provision of FAS 109, an entity recognizes deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the companies' financial statements or tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Under FAS 109, measurement is computed using applicable current tax rates.

Deferred income tax expense:

Federal	\$673,200
State	<u>126,531</u>
TOTAL	<u>\$799,731</u>

The deferred tax balance is primarily the result of timing differences related to the companies' investments in several limited partnerships.

Deferred tax liability incurred at inception	\$ 209,669
Add current period provision for deferred taxes on income	<u>799,731</u>
Deferred tax liability at end of year	<u>\$1,009,400</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1998 and 1997

Note J - The Cooperative has adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions". Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Cooperative's obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. The cost of health benefits for current and future associate retirees was recognized as determined under the projected unit credit cost method.

In conjunction with the adoption of Statement No. 106, for financial reporting purposes, the Cooperative elected to amortize the cost for the initial obligation over twenty years in level payments of principal.

Substantially all of the Cooperative's employees are covered under postretirement health and life insurance plans. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical and dental benefit provisions. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on 25% of the preretirement life insurance benefit.

Postretirement benefit cost is composed of the following for the year ended December 31, 1998:

	<u>Medical</u>	<u>Life</u>	<u>Other</u>	<u>Total</u>
Benefits earned during the year	\$114,278	\$ 8,845	\$ 733	\$123,856
Interest on accumulated postretirement benefit obligation	168,158	14,167	2,204	184,529
Actual return on plan assets	(77,500)			(77,500)
Net amortization	<u>93,736</u>	<u>5,673</u>	<u>1,610</u>	<u>101,019</u>
Postretirement benefit cost	<u>\$298,672</u>	<u>\$28,685</u>	<u>\$4,547</u>	<u>\$331,904</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1998 and 1997.

Note J - (Cont'd):

The following table sets forth the plans' funded status and the amount recognized in the Cooperative's Balance Sheet as of December 31, 1998.

	<u>Health</u>	<u>Life Insurance</u>	<u>Other</u>	<u>Total</u>
Accumulated post-retirement obligation attributable to:				
Retirees	\$1,736,456	\$145,902	\$13,463	\$1,895,821
Fully eligible plan participants	406,860	27,136	4,401	438,397
Other active plan participants	<u>684,697</u>	<u>66,003</u>	<u>17,794</u>	<u>768,494</u>
 Total accumulated post-retirement benefit obligation	 \$2,828,013	 \$239,041	 \$35,658	 \$3,102,712
 Fair value of plan assets	 <u>(1,314,300)</u>	 <u>0</u>	 <u>0</u>	 <u>(1,314,300)</u>
 Accumulated postretirement benefit obligation in excess of plan assets	 \$1,513,713	 \$239,041	 \$35,658	 \$1,788,412
 Unrecognized net gains (losses)	 217,753	 (15,975)	 (11,602)	 190,176
Unamortized prior service cost	<u>(1,218,566)</u>	<u>(73,755)</u>	<u>(14,250)</u>	<u>(1,306,571)</u>
 <hr/> Accrued post-retirement benefit obligation	 <u>\$ 512,900</u>	 <u>\$149,311</u>	 <u>\$ 9,806</u>	 <u>\$ 672,017</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 1998 and 1997

Note J - (Cont'd):

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.00% at December 31, 1997 and 6.50% at January 1, 1998. The assumed rate of future increases in compensation levels was 6.00% at December 31, 1998. The medical cost trend rate in 1998 was approximately 8.50%, grading down to an ultimate rate in 2017 of 5.50%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of 1998 net periodic postretirement benefit cost by \$69,726 and would have increased the accumulated postretirement benefit obligation as of December 31, 1998 by \$525,963.

CONSOLIDATING INFORMATION

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M. Wayne Smith, CPA
Gentry B. Underhill, Jr., CPA
Stephen Boyd, CMA, CPA
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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

Our report on our audits of the consolidated financial statements of North Central Cooperative Corporation and subsidiary for 1998 and 1997 appears on page three. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information contained on pages 20 through 22 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Totherow, Haile & Welch
Certified Public Accountants

McMinnville, Tennessee
January 22, 1999

CONSOLIDATING BALANCE

NORTH CENTRAL TELEPHONE

December 31, 1998

	North Central Telephone Cooperative, Inc.	North Central Communications Inc.	Eliminations	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash - general	\$ 3,070,039	\$ 532,146	\$ (219,346)	\$ 3,382,839
Cash - construction funds	121,653	0	0	121,653
Temporary cash investments	2,115,250	0	0	2,115,250
Telecommunications accounts receivable	1,455,545	0	0	1,455,545
Other accounts receivable	77,068	62,525	0	139,593
Advance to related company	12,528	0	(12,528)	0
Materials and supplies	381,892	61,842	0	443,734
Other current assets	120,683	0	0	120,683
TOTAL CURRENT ASSETS	\$ 7,354,658	\$ 656,513	\$ (231,874)	\$ 7,779,297
<u>NONCURRENT ASSETS</u>				
Investment in subsidiary	\$ 9,407,781	\$ 0	\$(9,407,781)	\$ 0
Investments	255,804	9,720,395	0	9,976,199
Nonregulated investments	262,870	0	0	262,870
Organization costs	0	1,275	0	1,275
TOTAL NONCURRENT ASSETS	\$ 9,926,455	\$ 9,721,670	\$(9,407,781)	\$10,240,344
<u>PROPERTY, PLANT AND EQUIPMENT</u>				
Telecommunications plant in service	\$49,309,800	\$ 552,302	\$ 0	\$49,862,102
Telecommunications plant under construction	6,704,547	0	0	6,704,547
	\$56,014,347	\$ 552,302	\$ 0	\$56,566,649
Less accumulated provision for depreciation	22,437,866	227,251	0	22,665,117
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$33,576,481	\$ 325,051	\$ 0	\$33,901,532
	<u>\$50,857,594</u>	<u>\$10,703,234</u>	<u>\$(9,639,655)</u>	<u>\$51,921,173</u>

See the notes to financial statements.

SHEETS

COOPERATIVE CORPORATION AND SUBSIDIARY

AND 1997

	North Central Telephone Cooperative, Inc.	North Central Communications Inc.	Eliminations	Totals
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable	\$ 1,370,511	\$ 62,599	\$ 0	\$ 1,433,110
Customer deposits	438,010	0	0	438,010
Current maturities on long-term debt	1,384,419	0	0	1,384,419
Accrued taxes	284,730	25,000	0	309,730
Accrued interest	151,906	0	0	151,906
Accrued rents	178,163	0	0	178,163
Accrued salaries and wages	45,698	0	0	45,698
Accrued vacation and sick leave benefits	1,123,116	0	0	1,123,116
Other current liabilities	306,700	8,683	0	315,383
Advance from related company	0	189,771	(189,771)	0
TOTAL CURRENT LIABILITIES	\$ 5,283,253	\$ 286,053	\$ (189,771)	\$ 5,379,535
<u>LONG-TERM DEBT</u>				
Rural Utilities Service	24,417,355	0	0	24,417,355
<u>OTHER LIABILITIES</u>				
Postretirement benefits other than pension	672,017	0	0	672,017
Deferred taxes	0	1,009,400	0	1,009,400
TOTAL LIABILITIES	\$30,372,625	\$ 1,295,453	\$ (189,771)	\$31,478,307
<u>MEMBERS' EQUITY</u>				
Memberships	\$ 6,580	\$ 0	\$ 0	\$ 6,580
Capital stock	0	8,100,000	(8,100,000)	0
Patronage capital	20,478,389	0	(42,103)	20,436,286
Retained earnings	0	1,307,781	(1,307,781)	0
TOTAL MEMBERS' EQUITY	\$20,484,969	\$ 9,407,781	\$(9,449,884)	\$20,442,866
	<u>\$50,857,594</u>	<u>\$10,703,234</u>	<u>\$(9,639,655)</u>	<u>\$51,921,173</u>

CONSOLIDATING STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 1998 and 1997

	North Central Telephone Cooperative, Inc.	North Central Communications Inc.	Eliminations	Total
Operating revenues:				
Local network services revenue	\$ 3,441,670	\$ 0	\$ 0	\$ 3,441,670
Network access services revenue	5,231,679	1,107,647	0	6,339,326
Long distance network services revenue	2,945,499	0	0	2,945,499
Miscellaneous revenue	<u>1,027,003</u>	<u>0</u>	<u>0</u>	<u>1,027,003</u>
TOTAL OPERATING REVENUES	\$12,645,851	\$1,107,647	\$ 0	\$13,753,498
Operating expenses:				
Plant specific operations expense	\$ 1,766,219	\$ 0	\$ 0	\$ 1,740,321
Plant nonspecific operations expense	1,253,304	0	0	1,279,202
Provision for depreciation	3,723,117	103,707	0	3,826,824
Customer operations expense	1,190,143	633,849	0	1,823,992
Corporate operations expense	1,303,418	410,004	0	1,713,422
Operating taxes	<u>338,926</u>	<u>0</u>	<u>0</u>	<u>338,926</u>
TOTAL OPERATING EXPENSES	\$ 9,575,127	\$1,147,560	\$ 0	\$10,722,687
OPERATING INCOME (LOSS)	\$ 3,070,724	\$ (39,913)	\$ 0	\$ 3,030,811
Other income:				
Income from investments	\$ 1,307,781	\$2,117,632	\$(1,307,781)	\$ 2,117,632
Interest and dividend	231,131	7,116	0	238,247
Nonregulated income	309,143	0	(42,103)	267,040
Miscellaneous	<u>0</u>	<u>22,677</u>	<u>0</u>	<u>22,677</u>
TOTAL OTHER INCOME	\$ 1,848,055	\$2,147,425	\$(1,349,884)	\$ 2,645,596
Fixed charges:				
Interest expense	\$ 1,157,503	\$ 0	\$ 0	\$ 1,157,503
Interest charged to construction - credit	<u>(231,580)</u>	<u>0</u>	<u>0</u>	<u>(231,580)</u>
TOTAL FIXED CHARGES	\$ 925,923	\$ 0	\$ 0	\$ 925,923
INCOME BEFORE TAXES ON INCOME	\$ 3,992,856	\$2,107,512	\$(1,349,884)	\$ 4,750,484
Taxes on income	<u>0</u>	<u>799,731</u>	<u>0</u>	<u>799,731</u>
NET INCOME	\$ 3,992,856	\$1,307,781	\$(1,349,884)	\$ 3,950,753
Patronage capital at beginning of year	17,242,338	0	0	17,242,338
Excise tax refundable on capital credits	59,802	0	0	59,802
Capital credits paid and applied	<u>(816,607)</u>	<u>0</u>	<u>0</u>	<u>(816,607)</u>
PATRONAGE CAPITAL AT END OF YEAR	\$20,478,389	\$1,307,781	\$(1,349,884)	\$20,436,286

See the notes to financial statements.

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation as of and for the years ended December 31, 1998 and 1997, and have issued our report thereon dated January 22, 1999. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Central Telephone Cooperative Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 2

This report is intended for the information of the audit committee, management, the Rural Utilities Service and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.

T. O. Thrown, Haile & Webb
Certified Public Accountants

McMinnville, Tennessee
January 22, 1999

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 1998, and have issued our report thereon dated January 22, 1999. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 1998, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

A description of the responsibility of management for establishing and maintaining the internal control structure and the objectives of and inherent limitations in such a structure is set forth in our independent auditors' report on compliance and on the internal control over financial reporting dated January 22, 1999, and should be read in conjunction with this report.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

7 CFR Part 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(2), and related party transactions. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38 - .45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters and, accordingly, we express no opinion thereon.

No reports (other than our independent auditors' report, report on compliance and on internal control over financial reporting, all dated January 22, 1999) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provision, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding North Central Telephone Cooperative Corporation's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

ACCOUNTING RECORDS - In addition to our observation of the effectiveness of internal control, it appears that the bookkeeping and accounting records, including the many supplementary files and ledgers are well kept and adequately maintained. From tests made by us, it appeared that the methods used in accumulating costs for material, transportation, labor and overhead and the distribution of these costs to the various accounts were in accordance with proper procedures.

MATERIALS CONTROL - Materials and supplies are stated at average cost. Inventory quantities of outside plant materials and supplies were ascertained by physical count, weight or other measure as of December 31, 1998, by employees of the Cooperative. We were present during the time of taking the physical inventories to observe the procedures used to determine inventory quantities. We made test counts of quantities on hand and subsequently traced these counts to the perpetual inventory records. We reviewed the basis of pricing and tested the clerical accuracy of the extensions and footings. We tested the accuracy of the perpetual inventory records. Our review indicated only minor differences between the amounts reflected by the tests and those accumulated on the books.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

Management's responsibility for compliance with laws, regulations, contracts and grants is set forth in our independent auditors' report on compliance and on internal control over financial reporting dated January 22, 1999, and should be read in conjunction with this report. At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

Procedure performed with respect to the requirement to maintain all funds from loans made or guaranteed by RUS in institutions whose accounts are insured by an agency of the Federal government:

1. Obtained information from financial institutions with which North Central Telephone Cooperative Corporation maintains cash proceeds from loans that indicated that the institutions are insured by an agency of the Federal government.
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Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of all or any part of its property, or for the use of mortgaged property by others, for services pertaining to toll traffic, operator assistance, or switching for the year ended December 31, 1998 of North Central Telephone Cooperative Corporation.

1. No contracts for management, operations or billing services were in effect during the year ended December 31, 1998.
 2. Reviewed Board of Directors minutes to ascertain whether board-approved written contracts should have been included in a borrower-prepared schedule.
- Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:
- Financial statements as of December 31, 1998, included in copies of RUS Form 479 were compared with the Cooperative's books and found to be in agreement in all material respects.
- Procedure performed with respect to funded reserve and net plant to secured debt ratio requirements.
1. The Cooperative has no loans that require it to maintain a secured debt ratio of at least 1.2 or a funded reserve.

The results of our tests indicate that, with respect to the items tested, North Central Telephone Cooperative Corporation complied, except as noted below, in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to our attention that caused us to believe that North Central Telephone Cooperative Corporation had not complied, in all material respects, with those provisions. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower maintains all funds from loans made or guaranteed by RUS in institutions whose accounts are insured by an agency of the Federal government;
-
-

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 5

- The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 1998, represented by the borrower as having been submitted to RUS in agreement with the North Central Telephone Cooperative Corporation's audited records in all material respects as of December 31, 1998, and appears reasonable based upon the audit procedures performed.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of North Central Telephone Cooperative Corporation nothing came to our attention that caused us to believe that North Central Telephone Cooperative Corporation failed to comply with respect to:

- The reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.33 (c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33 (c)(2);
- The retirement of plant addressed at 7 CFR Part 1773.33(c)(3) and (4);
- Sales of plant, material, or scrap addressed at 7 CFR Part 1773.33 (c)(5);
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 1998 in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33 (f).

This report is intended solely for the information and use of the board of directors, management, the RUS and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.


Certified Public Accountants

McMinnville, Tennessee
January 22, 1999

AUDITED FINANCIAL STATEMENTS

TENNESSEE 545
NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION
LAFAYETTE, TENNESSEE

December 31, 1997 and December 31, 1996

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C O N T E N T S

Independent Auditors' Report	Page	3
Balance Sheets		4
Statements of Income and Patronage Capital		6
Statements of Cash Flows		7
Notes to Financial Statements		9

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INDEPENDENT AUDITORS' REPORT

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the accompanying balance sheets of North Central Telephone Cooperative Corporation as of December 31, 1997 and December 31, 1996, and the related statements of income and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards and the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides 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 North Central Telephone Cooperative Corporation as of December 31, 1997 and December 31, 1996, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated January 23, 1998 on our consideration of North Central Telephone Cooperative's internal control structure and a report dated January 23, 1998 on its compliance with laws and regulations.

Totherow, Haile & Welch
Certified Public Accountants

McMinnville, Tennessee
January 23, 1998

BALANCE

NORTH CENTRAL TELEPHONE

December 31, 1997

	<u>1997</u>	<u>1996</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 2,793,378	\$ 1,447,552
Cash - construction funds	309,859	210,621
Temporary cash investments	2,092,500	2,292,500
Telecommunications accounts receivable, less allowances of \$94,169 in 1997 and \$29,396 in 1996	1,245,330	1,223,746
Other accounts receivable	73,891	45,634
Notes receivable	0	46,915
Materials and supplies	380,232	569,511
Other current assets	<u>93,830</u>	<u>26,618</u>
TOTAL CURRENT ASSETS	\$ 6,989,020	\$ 5,863,097
<u>NONCURRENT ASSETS</u>		
Investments - Note D	\$ 8,146,787	\$ 7,297,364
Nonregulated investments - Note D	<u>602,786</u>	<u>589,416</u>
TOTAL NONCURRENT ASSETS	\$ 8,749,573	\$ 7,886,780
<u>PROPERTY, PLANT AND EQUIPMENT - Note E</u>		
Telecommunications plant in service	\$44,215,137	\$42,039,424
Telecommunications plant under construction	<u>3,997,586</u>	<u>2,128,324</u>
	\$48,212,723	\$44,167,748
Less accumulated provision for depreciation	<u>19,111,033</u>	<u>16,549,705</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$29,101,690	\$27,618,043
	<u>\$44,840,283</u>	<u>\$41,367,920</u>

See the notes to financial statements.

SHEETS

COOPERATIVE CORPORATION

and 1996

	1997	1996
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 528,533	\$ 987,075
Customer deposits	395,085	363,885
Current maturities on long-term debt	1,119,224	1,033,579
Accrued taxes	478,654	376,721
Accrued interest	135,470	129,921
Accrued rents	177,975	180,376
Accrued salaries and wages	44,000	20,000
Accrued vacation and sick leave benefits	1,068,056	1,019,732
Other current liabilities	94,735	84,716
	<u> </u>	<u> </u>
TOTAL CURRENT LIABILITIES	\$ 4,041,732	\$ 4,196,005
<u>LONG-TERM DEBT - Note F</u>		
Rural Utilities Service	22,541,113	21,839,480
<u>OTHER LIABILITIES</u>		
Postretirement benefits other than pension - Note J	924,610	1,117,522
Deferred taxes - Note I	83,900	68,900
	<u> </u>	<u> </u>
TOTAL LIABILITIES	\$27,591,355	\$27,221,907
<u>CONTINGENT LIABILITIES - Note H</u>		
<u>MEMBERS' EQUITY</u>		
Memberships	\$ 6,590	\$ 6,590
Patronage capital	17,242,338	14,139,423
	<u> </u>	<u> </u>
TOTAL MEMBERS' EQUITY	\$17,248,928	\$14,146,013
	<u> </u>	<u> </u>
	<u>\$44,840,283</u>	<u>\$41,367,920</u>

STATEMENTS OF INCOME AND PATRONAGE CAPITAL

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

For the years ended December 31, 1997 and 1996

	1997	1996
Operating revenues:		
Local network services revenue	\$ 3,193,507	\$ 2,987,887
Network access services revenue	5,113,633	4,490,038
Long distance network services revenue	2,008,432	1,981,680
Miscellaneous revenue	747,136	730,819
	<u>\$11,062,708</u>	<u>\$10,190,424</u>
Less uncollectible revenue	60,000	45,600
	<u>\$11,002,708</u>	<u>\$10,144,824</u>
TOTAL OPERATING REVENUES	\$11,002,708	\$10,144,824
Operating expenses:		
Plant specific operations expense	\$ 1,938,058	\$ 1,745,949
Plant nonspecific operations expense	974,993	930,578
Provision for depreciation	3,057,879	2,538,734
Customer operations expense	1,088,540	1,060,903
Corporate operations expense	1,175,312	1,148,891
Operating taxes	471,469	449,253
	<u>\$ 8,706,251</u>	<u>\$ 7,874,308</u>
TOTAL OPERATING EXPENSES	\$ 8,706,251	\$ 7,874,308
	OPERATING INCOME	\$ 2,296,457
		\$ 2,270,516
Other income:		
Interest and dividend income	\$ 189,234	\$ 173,318
Nonregulated income	1,517,052	839,441
	<u>\$ 1,706,286</u>	<u>\$ 1,012,759</u>
TOTAL OTHER INCOME	\$ 1,706,286	\$ 1,012,759
Fixed charges:		
Interest expense	\$ 1,061,165	\$ 1,045,736
Interest charged to construction - credit	(124,037)	(98,671)
	<u>\$ 937,128</u>	<u>\$ 947,065</u>
TOTAL FIXED CHARGES	\$ 937,128	\$ 947,065
	NET INCOME	\$ 3,065,615
		\$ 2,336,210
Patronage capital at beginning of year	14,139,423	11,777,648
Excise tax refundable on capital credits	37,300	25,565
	<u>\$17,242,338</u>	<u>\$14,139,423</u>
PATRONAGE CAPITAL AT END OF YEAR	\$17,242,338	\$14,139,423

See the notes to financial statements.

STATEMENTS OF CASH FLOWS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

For the years ended December 31, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Cash flows from operating activities:		
Cash received from customers	\$10,884,599	\$10,007,948
Cash paid to suppliers and employees	(5,483,793)	(4,454,221)
Interest received	190,287	215,720
Interest paid	(931,578)	(963,070)
Taxes paid	(354,536)	(455,995)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,304,979</u>	<u>\$ 4,350,382</u>
Cash flows from investing activities:		
Construction and acquisition of plant	\$(4,590,770)	\$(3,432,021)
Investment in nonregulated CPE	(13,370)	43,957
Plant removal costs	(36,369)	(68,672)
Salvage	13,904	19,911
Decrease (Increase) in:		
Notes receivable	46,915	34,404
Materials and supplies	189,279	(306,953)
Temporary investments	200,000	(385,000)
Other investments	(849,423)	(1,070,436)
Nonregulated income	1,517,052	839,441
NET CASH USED BY INVESTING ACTIVITIES	<u>\$(3,522,782)</u>	<u>\$(4,325,369)</u>
Cash flows from financing activities:		
Debt proceeds	\$ 1,883,000	\$ 595,000
Payments on long-term borrowings	(1,095,721)	(1,027,656)
Excise credit applied to capital	37,300	25,565
Postretirement benefits other than pension	(192,912)	18,838
Increase in customer deposits	31,200	53,110
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>\$ 662,867</u>	<u>\$ (335,143)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>\$ 1,445,064</u>	<u>\$ (310,130)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,658,173</u>	<u>1,968,303</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 3,103,237</u></u>	<u><u>\$ 1,658,173</u></u>

STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

For the years ended December 31, 1997 and 1996

	1997	1996
Net income	\$ 3,065,615	\$ 2,336,210
Less nonregulated income	<u>1,517,052</u>	<u>839,441</u>
Net income from regulated operations	\$ 1,548,563	\$ 1,496,769
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	\$ 3,129,588	\$ 2,595,550
Provision for uncollectible accounts	64,772	(26,332)
Deferred taxes	15,000	(3,642)
Decrease (Increase) in:		
Customer and accounts receivable	(86,357)	(110,543)
Current and accrued assets - other	(95,470)	42,402
Increase (Decrease) in:		
Accounts payable	(458,543)	177,566
Accrued taxes	101,933	(3,100)
Accrued interest	5,549	(16,005)
Accrued rents	(2,401)	(148,552)
Accrued salaries and employee benefits	72,324	340,219
Other current liabilities	<u>10,021</u>	<u>6,050</u>
TOTAL ADJUSTMENTS	<u>\$ 2,756,416</u>	<u>\$ 2,853,613</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 4,304,979</u>	<u>\$ 4,350,382</u>

See the notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

December 31, 1997 and 1996

Note A - North Central Telephone Cooperative Corporation provides telephone service to residential and commercial customers in Macon County, Tennessee and the surrounding counties.

The Cooperative's significant accounting policies are summarized below:

- (1) Materials and supplies:
Materials and supplies are valued at average cost accumulated in perpetual inventory records which are periodically adjusted to physical counts.
- (2) Expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired from service are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation.
- (3) Employee vacation and sick leave:
Employee vacation pay and sick leave benefits are accrued as the benefits are earned according to an established policy.
- (4) Cash equivalents consist primarily of treasury bills and notes and commercial paper with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as temporary investments.
- (5) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B - Substantially all assets are pledged as security for the long-term debt to RUS.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

December 31, 1997 and 1996

Note C - The Cooperative maintains its cash and temporary investments in several commercial banks located within its trade area. The Federal Deposit Insurance Corporation (FDIC) insures accounts and temporary investments up to \$100,000.00. A summary of the total insured and uninsured cash balances follows:

Total cash and temporary investments	\$5,194,859
Portion insured by FDIC	<u>1,100,000</u>
Uninsured Cash Balances	<u>\$4,094,859</u>

Telephone services are provided to the Cooperative customers on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

Note D - Investments:

	<u>1997</u>	<u>1996</u>
Investment in Tennessee RSA #3 cellular partnership	\$1,095,639	\$1,196,051
Investment in Kentucky RSA #3 cellular partnership	3,692,691	3,585,426
Investment in TENNMARK Telecommunications, Inc.	1,899,254	1,288,493
Investment in Direct Broadcast Satellite	211,408	245,233
Investment in Bluegrass Network, Inc.	983,850	761,898
Rural Telephone Bank "c" stock - at cost	1,000	1,000
Qualified patronage capital certificates - NRTC	38,677	29,754
Cash value of life insurance	<u>224,268</u>	<u>189,509</u>
TOTAL	<u>\$8,146,787</u>	<u>\$7,297,364</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

December 31, 1997 and 1996

Note D - (Cont'd)

Nonregulated investments:

	<u>1997</u>	<u>1996</u>
Nonregulated customer premises equipment - leased	\$1,289,356	\$1,100,900
Less accumulated provisions for depreciation	<u>686,570</u>	<u>511,484</u>
	<u>\$ 602,786</u>	<u>\$ 589,416</u>

Nonregulated customer premises equipment is stated at cost. The Cooperative provides for depreciation on a straight-line basis at an annual rate of depreciation which will amortize the cost of the equipment over its estimated useful life.

Following is a summary of net income from investments and nonregulated investments for the years ending December 31, 1997 and 1996.

	<u>1997</u>	<u>1996</u>
Income from investments	\$1,983,116	\$1,515,919
Federal income tax on investments	(427,313)	(177,358)
Income from nonregulated investments	2,056,946	1,735,299
Expenses from nonregulated investments	<u>(2,095,697)</u>	<u>(2,234,420)</u>
NET INCOME	<u>\$1,517,052</u>	<u>\$ 839,441</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

December 31, 1997 and 1996

Note E - Telephone plant in service and under construction is stated at cost. Listed below are the major classes of the telephone plant as of December 31, 1997 and December 31, 1996.

	<u>1997</u>	<u>1996</u>
Franchises	\$ 236	\$ 236
Land	442,202	442,202
Buildings	2,585,349	2,442,459
Central office equipment	10,572,345	9,979,502
Public telephone equipment	0	63,618
Poles, cables and wire	27,236,918	25,834,566
Furniture and office equipment	1,751,315	1,699,383
Vehicles and other work equipment	<u>1,626,772</u>	<u>1,577,458</u>
TOTAL PLANT IN SERVICE	<u>\$44,215,137</u>	<u>\$42,039,424</u>

The Cooperative provides for depreciation on a straight-line basis of annual rates which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of telephone plant in service was 7.25 percent for 1997 and 6.40 percent in 1996. The provision for 1997 was \$3,129,588 and the provision for 1996 was \$2,595,550.

Individual plant depreciation rates are as follows:

	<u>Percent</u>
Buildings	2.6
Central office equipment	6.7 - 21.0
Public telephone equipment	15.1
Poles, cables and wire	1.7 - 8.8
Furniture and office equipment	6.7 - 16.4
Vehicles and other work equipment	6.4 - 10.8

NOTES TO FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

December 31, 1997 and 1996

Note F - Long-term debt:

Long-term debt is represented by mortgage notes payable to the United States of America. Following is a summary of outstanding long-term debt.

	<u>1997</u>	<u>1996</u>
2% Rural Utilities Service notes	\$ 3,789,815	\$ 4,131,524
5% Rural Utilities Service notes	<u>19,870,522</u>	<u>18,741,534</u>
	\$23,660,337	\$22,873,059
Less current maturities	<u>1,119,224</u>	<u>1,033,579</u>
	<u>\$22,541,113</u>	<u>\$21,839,480</u>

Long-term debt matures as follows:

<u>Year</u>	<u>Amount</u>
1998	\$ 1,119,224
1999	1,172,351
2000	1,228,081
2001	1,286,542
2002	1,350,870
Beyond five years	<u>17,503,269</u>
TOTAL	<u>\$23,660,337</u>

Note G - The Cooperative has adopted the retirement and security program of the National Telephone Cooperative Association as a pension plan covering all employees meeting certain age and length of service requirements for which it pays approximately 70% of the cost. The Cooperative funds the pension plan by making quarterly contributions into the program based on salaries. The Cooperative's cost was \$170,718 for 1997 and \$161,762 for 1996.

Note H - The Cooperative has learned that the Internal Revenue Service plans to challenge the tax exempt status of some Cooperatives by redefining member and non-member revenue. Since the effect can not yet be determined, no provision has been made in the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

December 31, 1997 and 1996

Note I - The Cooperative's regulated activities are exempt from Federal income taxes under the provision of Section 501(c)(12) of the Internal Revenue Code. However, several of the Cooperative's nonregulated activities are subject to Federal income taxes.

Income tax expense deducted from nonregulated income consists of the following:

	<u>Years ended December 31,</u>	
	<u>1997</u>	<u>1996</u>
Current taxes	\$412,313	\$181,000
Deferred taxes	<u>15,000</u>	<u>(3,642)</u>
TOTAL	<u>\$427,313</u>	<u>\$177,358</u>

Deferred taxes result from differences in the recognition of depreciation expense for income tax and financial statement purposes.

Note J - The Cooperative has adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions". Statement No. 106 requires accrual accounting for all postretirement benefits other than pensions. Under the prescribed accrual method, the Cooperative's obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. Prior to the adoption of Statement No. 106, the cost of health and life insurance benefits for retirees was recognized by charging claims to expense as they were incurred. The cost of health benefits for current and future associate retirees was recognized as determined under the projected unit credit cost method.

In conjunction with the adoption of Statement No. 106, for financial reporting purposes, the Cooperative elected to amortize the cost for the initial obligation over twenty years in level payments of principal.

Substantially all of the Cooperative's employees are covered under postretirement health and life insurance plans. The determination of postretirement benefit cost for postretirement health benefit plans is based on comprehensive hospital, medical, surgical, and dental benefit provisions. The postretirement life insurance benefit formula used in the determination of postretirement benefit cost is primarily based on 25% of the preretirement life insurance benefit.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

December 31, 1997 and 1996

Note J - (Cont'd):

Postretirement benefit cost is composed of the following for the year ended December 31, 1997:

	<u>Medical</u>	<u>Life</u>	<u>Other</u>	<u>Total</u>
Benefits earned during the year	\$ 92,499	\$ 7,056	\$ 662	\$100,217
Interest on accumulated postretirement benefit obligation	146,769	12,674	2,132	161,575
Actual return on plan assets	(35,925)	0	0	(35,925)
Net amortization	<u>75,655</u>	<u>5,673</u>	<u>1,480</u>	<u>82,808</u>
Postretirement benefit cost	<u>\$278,998</u>	<u>\$25,403</u>	<u>\$4,274</u>	<u>\$308,675</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

December 31, 1997 and 1996

Note J - (Cont'd):

The following table sets forth the plans' funded status and the amount recognized in the Cooperative's Balance Sheet as of December 31, 1997.

	<u>Health</u>	<u>Life Insurance</u>	<u>Other</u>	<u>Total</u>
Accumulated post-retirement obligation attributable to:				
Retirees	\$ 591,004	\$ 60,051	\$16,691	\$ 667,746
Fully eligible plan participants	256,961	21,470	3,000	281,431
Other active plan participants	<u>1,454,722</u>	<u>117,402</u>	<u>12,391</u>	<u>1,584,515</u>
 Total accumulated post-retirement benefit obligation	 \$2,302,687	 \$198,923	 \$32,082	 \$2,533,692
 Fair value of plan assets	 <u>697,131</u>	 <u>0</u>	 <u>0</u>	 <u>697,131</u>
 Accumulated postretirement benefit obligation in excess of plan assets	 \$1,605,556	 \$198,923	 \$32,082	 \$1,836,561
 Unrecognized net gains (losses)	 502,303	 2,124	 (9,302)	 495,125
Unamortized prior service cost	<u>(1,312,302)</u>	<u>(79,428)</u>	<u>(15,346)</u>	<u>(1,407,076)</u>
<hr/>				
Accrued post-retirement benefit obligation	<u>\$ 795,557</u>	<u>\$121,619</u>	<u>\$ 7,434</u>	<u>\$ 924,610</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION

December 31, 1997 and 1996

Note J - (Cont'd):

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.00% at December 31, 1996 and 7.00% at January 1, 1997. The assumed rate of future increases in compensation levels was 6.00% at December 31, 1997. The medical cost trend rate in 1997 was approximately 8.50%, grading down to an ultimate rate in 2016 of 5.50%. A one percentage point increase in the assumed health care cost trend rates for each future year would have increased the aggregate of the service and interest cost components of 1997 net periodic postretirement benefit cost by \$56,490 and would have increased the accumulated postretirement benefit obligation as of December 31, 1997 by \$411,260.

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation as of and for the years ended December 31, 1997 and 1996, and have issued our report thereon dated January 23, 1998.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to North Central Telephone Cooperative Corporation is the responsibility of North Central Telephone Cooperative Corporation's management. As part of our audit, we assessed the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants could cause the financial statements to be materially misstated. We concluded that the risk of such material misstatement was sufficiently low that it was not necessary to perform tests of North Central Telephone Cooperative Corporation's compliance with such provisions of laws, regulations, contracts and grants.

This report is intended for the information of the audit committee, management, the Rural Utilities Service, the Tennessee Comptroller's Office, Division of Municipal Audit and supplemental lenders. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Totherow, Haile & Welch
Certified Public Accountants

McMinnville, Tennessee
January 23, 1998

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation as of and for the years ended December 31, 1997 and December 31, 1996, and have issued our report thereon dated January 23, 1998.

We conducted our audits in accordance with generally accepted auditing standards, and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of North Central Telephone Cooperative Corporation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee
Page 2

In planning and performing our audit of the financial statements of North Central Telephone Cooperative Corporation for the years ended December 31, 1997 and December 31, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted other matters involving the internal control structure and its operation that we have reported to the management of North Central Telephone Cooperative Corporation in a separate letter dated January 23, 1998.

This report is intended for the information of the audit committee, management and the Rural Utilities Service and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.


Certified Public Accountants

McMinnville, Tennessee
January 23, 1998

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Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 1997, and have issued our report thereon dated January 23, 1998. We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of North Central Telephone Cooperative Corporation for the year ended December 31, 1997, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

A description of the responsibility of management for establishing and maintaining the internal control structure and the objectives of and inherent limitations in such a structure is set forth in our independent auditors' report dated January 23, 1998, and should be read in conjunction with this report.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure and its operation that we consider to be a material weakness as defined above.

7 CFR Part 1773.34 requires comments on specific aspects of the internal control structure, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control structure, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control structure, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.34(e)(2), related party transactions, and depreciation rates. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38 - .45. Our objective was not to provide an opinion on these specific aspects of the internal control structure, compliance with specific RUS loan and security instrument provisions, or additional matters and, accordingly, we express no opinion thereon.

No reports (other than our independent auditors' report, our independent auditors' compliance report, and our independent auditors' report on the internal control structure, all dated January 23, 1998) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control structure, compliance with specific RUS loan and security instrument provision, and other additional matters as required by 7 CFR Part 1773.34 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL STRUCTURE

We noted no matters regarding North Central Telephone Cooperative Corporations' internal control structure and its operation that we consider to be a material weakness as previously defined with respect to:

ACCOUNTING RECORDS - In addition to our observation of the effectiveness of internal control, it appears that the bookkeeping and accounting records, including the many supplementary files and ledgers are well kept and adequately maintained. From tests made by us, it appeared that the methods used in accumulating costs for material, transportation, labor and overhead and the distribution of these costs to the various accounts were in accordance with proper procedures.

MATERIALS CONTROL - Materials and supplies are stated at average cost. Inventory quantities of outside plant materials and supplies were ascertained by physical count, weight or other measure as of December 31, 1997, by employees of the Cooperative. We were present during the time of taking the physical inventories to observe the procedures used to determine inventory quantities. We made test counts of quantities on hand and subsequently traced these counts to the perpetual inventory records. We reviewed the basis of pricing and tested the clerical accuracy of the extensions and footings. Our review indicated minor differences between the amounts reflected by the tests and those accumulated on the books. The books have been adjusted to reflect the amounts determined by physical inventory.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

Management's responsibility for compliance with laws, regulations, contracts, and grants is set forth in our independent auditors' report on compliance dated January 23, 1998, and should be read in conjunction with this report. At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, and contracts. The procedures we performed are summarized as follows:

Procedure performed with respect to the requirement to maintain all funds in institutions whose accounts are insured by an Agency of the Federal government.

1. Obtained information from financial institutions with which North Central Telephone Cooperative Corporation maintains funds that indicated that the institutions are insured by an agency of the federal government.

Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of all or any part of its property, or for the use by others of its property for the year ended December 31, 1997 of North Central Telephone Cooperative Corporation.

1. No contracts for management, operations or billing services were in effect during the years ended December 31, 1997 and 1996.
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2. Reviewed Board of Directors minutes to ascertain whether board-approved written contracts should have been included in a borrower-prepared schedule.

Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:

Financial statements as of December 31, 1997 and 1996, included in copies of RUS Form 479 were compared with the Cooperative's books and found to be in agreement in all material respects.

The results of our tests indicate that, with respect to the items tested, North Central Telephone Cooperative Corporation complied, in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to our attention that caused us to believe that North Central Telephone Cooperative Corporation had not complied, in all material respects, with those provisions. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower maintains all funds in institutions whose accounts are insured by an Agency of the Federal government;
 - The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 1997, as submitted to RUS is in agreement with the North Central Telephone Cooperative Corporation's records in all material respects.
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COMMENTS ON OTHER ADDITIONAL MATTERS

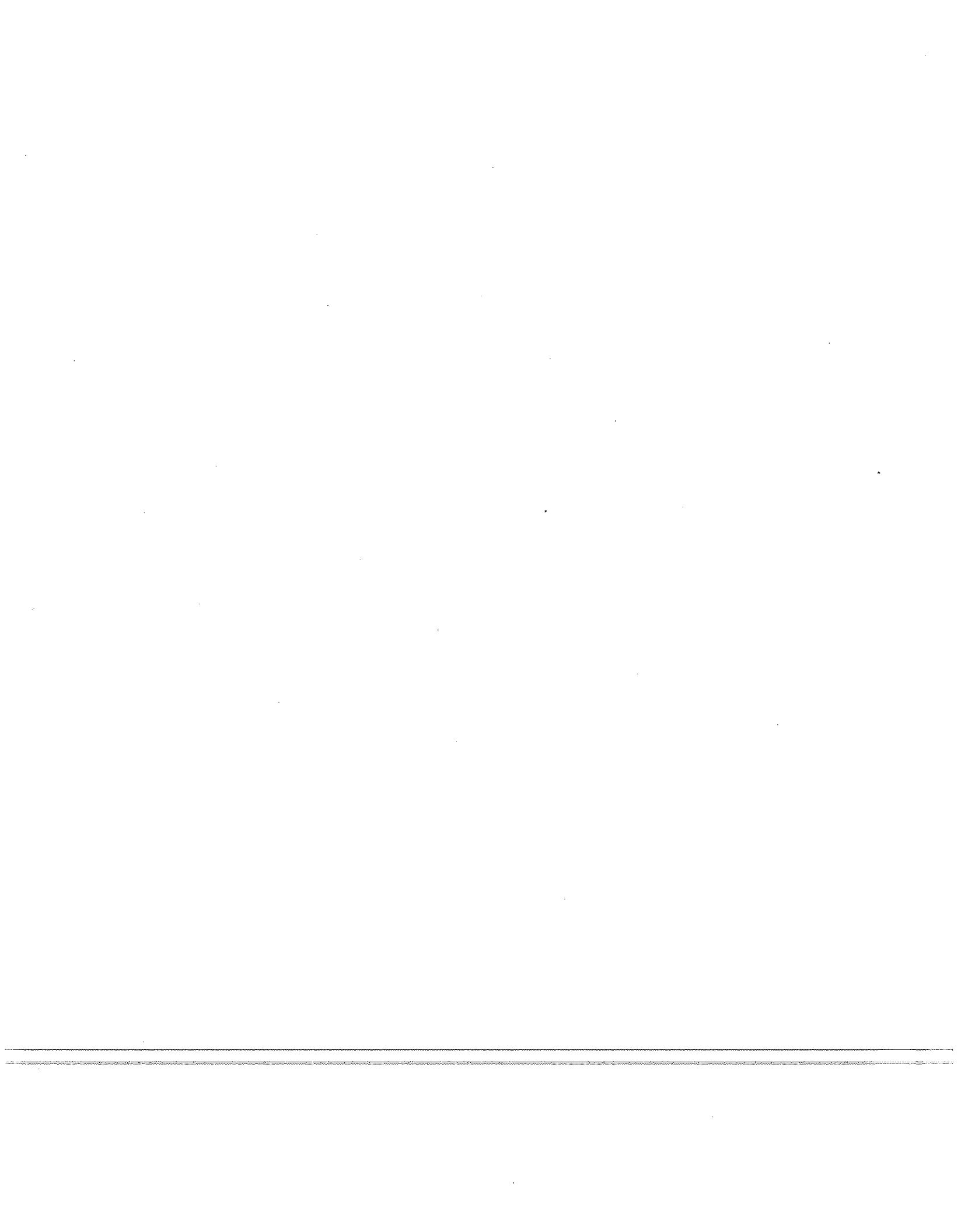
In connection with our audit of the financial statements of North Central Telephone Cooperative Corporation, nothing came to our attention that caused us to believe that North Central Telephone Cooperative Corporation failed to comply with respect to:

- The reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.34 (c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.34 (c)(2);
- The retirement of plant addressed at 7 CFR Part 1773.34 and (4);
- Sales of plant, material, or scrap addressed at 7 CFR Part 1773.34 (c)(5);
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 1997, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.34 (f).

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.

Tetherow, Hail & Webb
Certified Public Accountants

McMinnville, Tennessee
January 23, 1998



North Central Telephone Cooperative
Rate Impact Summary

	Residential	Business	Annualized
Average Revenue per line *	\$ 30.48	\$ 33.59	
KY access lines	5,218	488	
Total Revenue	\$ 159,045	\$ 16,392	\$ 2,105,239
Rate increase	\$ 3.00	\$ 5.00	
Additional Revenues	\$ 15,654	\$ 2,440	\$ 217,128
Overall impact	9.8%	14.9%	10.3%

* includes all components of dial tone service including optional features and fees but exclusive of taxes

