

LOCAL EXCHANGE TELEPHONE COMPANIES

For the provision of (check all that apply):

- INCUMBENT LOCAL EXCHANGE CARRIER (ILEC)**
- Class A**
- Class B**

90-5004

ANNUAL REPORT

OF

Arthur Mutual Telephone Company

(Exact legal name of respondent)

If name was changed during year, show also the previous name and date of change.

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| 21980 State Route 637 | Defiance | Paulding | Ohio | 43512 |
| Address | City | County | State | Zip Code |

(419) 393-2233

Phone: (Area Code) Number

21980 State Route 637 Defiance OH 43512

(Address of principal business office at end of year)

TO THE

PUBLIC UTILITIES COMMISSION OF OHIO

FOR THE

YEAR ENDED DECEMBER 31, 2006

Name, title, address, e-mail address, telephone and tax numbers (including area code) of the person to be contacted concerning this report.

Eric Roughton, Manager artelco@bright.net (419) 393-2233

21980 State Route 637 Defiance, Oh 43512 fax (419) 393-2255

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GENERAL INSTRUCTIONS

Please read General Instructions carefully before filling out this form:

1. **Class A** -- Companies having annual revenues from regulated telecommunications operations of \$100,000,000 or more.
Class B -- Companies having annual revenues from regulated telecommunications operations of less than \$100,000,000.
2. **Class B** companies may choose to use **Class A** accounts.
3. The word "Respondent" in the following inquiries means the person, firm, association, or company on whose behalf the report is made.
4. This annual report from was prepared in conformity with the Uniform System of Accounts prescribed by the PUCO for local exchange telephone companies. All accounting words and phrases are to be interpreted in accordance with said classification.
5. The schedules and questions contained in this report were developed to be generally applicable to all local exchange telephone companies. All instructions shall be followed and each question answered as fully and accurately as possible. Sufficient answers shall appear to show that no schedule, question, or line item has been overlooked.
If a particular line item or schedule does not apply to the respondent, indicate this by answering "none", "-0-", or "not applicable", as appropriate.
6. Customary abbreviations may be used except that the exact name of the respondent shall be shown in full on the "cover page" and on the "Verification" page.
7. Where the space provided is insufficient for the required data or it is necessary or desirable to insert additional statements or schedules, the insert pages shall show the number and title of the schedule to which it pertains, as well as the name of the respondent and the year covered, and shall be on 8 1/2" x 11" durable paper.
8. The information required with respect to any statement furnished is the minimum requirement. The respondent may add such further material information as is necessary to ensure that the required statements are not misleading.
9. All copies filed with the Commission must be legible and permanent. All entries shall be made in permanent ink or by a typewriter. Items of a reverse or contrary character shall be enclosed in parentheses, or indicated by a minus sign followed by the amount.
10. The annual report shall be signed by a duly elected officer of the respondent.
11. The information required in this report, unless otherwise indicated, is to be reported for the entire company and not for the State of Ohio only.
12. Totals should be provided as indicated. The respondent shall ensure that schedule totals and subtotals are mathematically correct.

13. If a line item is supported by a detailed schedule elsewhere in this report, the respondent should ensure that the detailed schedule is completed and that the amounts on both schedules match.
14. The word "affiliated companies" means companies that directly or indirectly through one or more intermediaries control or are controlled by, or are under common control with, the utility filing this report.
15. Please list all accounts and totals in whole dollars only. Make sure the rounded numbers are equal to the original totals, when the original totals are rounded to the nearest dollar amount.

ADDITIONAL FILING REQUIREMENTS

The following list is intended only as a reminder to local exchange companies with less than 15,000 access lines of additional information required to be filed with the Commission and when such information is due.

- (1) Major Outage Reports (Rule 4901:1-5-03, O.A.C.) - when a major outage occurs, the local area news media and the Commission's Emergency Outage Coordinator must be notified within two hours. If such outage affects 9-1-1 service, the 9-1-1 PSAP for each affected county must also be notified immediately with an estimate of when 9-1-1- service will be restored.
- (2) Emergency Services Coordinator Names and Telephone Numbers (Rule 4901:1-5-22, O.A.C.) - the list of a company's Emergency Services Coordinator and appropriate phone numbers shall be updated as necessary and submitted to the Commission's Emergency Services Coordinator in the Consumer Services Department.
- (3) Directories (Rule 4901:1-5-06 (c), O.A.C.) - three copies of each directory shall be provided to the Commission's Library.

IDENTITY OF RESPONDENT

1. Give the location (including street and number) of (a) the main Ohio business office of respondent at the close of the year, and (b) if respondent is a foreign corporation, the main business office if not in this state.

(A) 21980 State Route 637 Defiance, OH 43512 (B) N/A

2. State whether respondent is a corporation, a joint stock association, a firm or partnership, or an individual. Indicate date of incorporation or date of formation of partnership.

Joint Stock Company April 20, 1906

3. If a consolidated or merged company, name all constituent and all merged companies absorbed during the year.

N/A

4. Date and authority for each consolidation and for each merger effected during the year.

N/A

5. If a reorganized company, give name of original corporation. State the occasion for any reorganization effected during the year.

N/A

6. For new entrant carrier (NEC); give PUCO Certification approval date, and Case No.

N/A

7. For NEC's only describe current serving area.

N/A

CORPORATE CONTROL OVER RESPONDENT

1. Did any corporation or corporations, telephone or other, hold control over the respondent at the close of the year? **No** If control was so held, state:
 - a. The name and address of the controlling corporation or corporations:
 - b. The form of control, whether sole or joint:
 - c. The manner in which control was established:
 - d. The extent of control:
 - e. Whether control was direct or indirect:
 - f. If indirect, the name and address of the intermediary through which control was established:

2. Did any individual, association, or corporation hold control, as trustee, over the respondent at the close of the year? **No** If control was so held, state:
 - a. The name and address of the trustee:
 - b. The name and address of the beneficiary or beneficiaries for whom the trust was maintained, if available:

RESPONDENT'S CONTROL OVER OTHER CORPORATIONS

3. Did the respondent hold control over other corporations at the close of the year? **No** If so, state:
 - a. The name and address of corporation or corporations controlled:
 - b. The form of control, whether sole or joint:
 - c. Other parties, if any, to joint agreement for control:
 - d. The manner in which control was established:
 - e. The extent of control:
 - f. Whether control is direct or indirect:
 - g. If indirect, the name and address of the intermediary through which control was established:

IMPORTANT CHANGES DURING THE YEAR

Report important changes of the types listed. Except as otherwise indicated data furnished should apply to the same period the report covers. Answers should be numbered in accordance with the inquiries and if "none" states the fact, if should be used. If information which answers an inquiry is given elsewhere in the report, identification of the other answer will be sufficient.

1. Purchase or sale of entire property, or of a part of property when service territory is included: Give brief description of each transaction, name of other party, date, consideration, and Commission authorization.

None

2. Lease of property (to or from another) of the kind covered by the preceding inquiry: To the extent applicable give details corresponding to those required by the preceding inquiry.

None

3. Securities issued during the year: Identify the securities, give purpose of issuance, date, consideration received and Commission authorization. As here used, the term "securities" shall be taken to mean any capital stock or debt, the issuance of which requires prior authorization by this Commission.

None

4. Changes in articles of incorporation: Give brief particulars of each change and date.

None

5. Other important changes: Give brief particulars of each other important change which is not disclosed elsewhere in this report.

None

SCHEDULE: 1

| VOTING POWERS AND ELECTIONS | | | |
|--|--------------------|----------------------|---------------------------------|
| <p>1. In the schedule below, show the particulars called for concerning the stockholders of respondent who, at the date of the latest closing of the stock-book of respondent prior to the actual filing of this report, had the twenty highest voting powers of the respondent. If any such holder is held in trust, attach a statement showing the beneficial owners. If the stock-book was not closed within the year, show twenty such stockholders as of the close of the year. In the space provided, show total shares and notes of all stockholders.</p> | | | |
| Name and Address of Stockholders | No. of Shares Held | No. of Voting Shares | Other Vote Empowered Securities |
| <p>Membership issued with one (1) vote each.</p> | | | |
| TOTAL LISTED ABOVE | | | |
| ALL STOCKHOLDERS | | | |

SCHEDULE: 2

| BOARD OF DIRECTORS | | | | | |
|---|---------------------------------------|---|--|---------------------------------|----------------|
| 1. Give the name of each person who was a member of the Board of Directors at any time during the year. | | | | | |
| 2. Columns (d) and (e) relate to Board meetings only. | | | | | |
| Name of Director and Address (City and State) (a) | Served Continuously From (b) | Term Expired or Current Term Will Expire (c) | Number of Meetings Attended During Year (d) | Fees Paid During Year (e) | |
| Janet Sholl | 1966 | Not Elected | 12 | 0 | |
| Vincent Sholl | 1983 | 2007 | 12 | 800 | |
| Laurie Cashman | 1999 | 2007 | 12 | 800 | |
| Richard Wagner | 1985 | 2009 | 12 | 800 | |
| Donald Johnson | 1993 | 2009 | 12 | 800 | |
| Sue Becher | 2005 | 2007 | 12 | 800 | |
| Richard Thomas | 2001 | 2009 | 12 | 800 | |
| Gene Weidenhamer | 2001 | 2009 | 12 | 800 | |
| Name of Chairman of the Board: | | | | | Richard Wagner |
| Name of Secretary of Board: | | | | | Janet Sholl |
| Number of Meetings of Board during the year: | | | | | 12 |
| Number of directors provided for by charter or by-laws, as amended to the end of the year: | | | | | 7 |
| Number of directors required to constitute a quorum: | | | | | 4 |

SCHEDULE: 3

| PRINCIPAL GENERAL OFFICERS | | | |
|--|---|--|--------------------------------------|
| <p>1. The persons to be listed herein are the chairman of the board, president, vice-presidents, treasurer, general counsel, and comptroller. Respondents that do not have officers bearing the aforesaid titles shall list those officers who have the responsibilities normally associated with such titles.</p> <p>2. Customary abbreviations may be used in showing titles and departments in columns (a) and (b).</p> | | | |
| Title of General Officer (a) | Department Over Which Jurisdiction is Exercised (b) | Name of Person Holding The Office at End of Year (c) | Office Address (City & State) (d) |
| President / Chairman | Entire Company | Richard Wagner | Defiance, Ohio |
| Vice President | Entire Company | Richard Thomas | Defiance, Ohio |
| Secretary / Treasurer | Entire Company | Janet Sholl | Oakwood, Ohio |

SCHEDULE: 4

| BALANCE SHEET ASSETS AND OTHER DEBITS | | | | | | |
|--|--|----------|--|---|-------------------------------------|--|
| Account No. | Account Title | Page No. | Balance at End of Previous Year (in dollars) | Balance at End of Current Year (in dollars) | Increase or (Decrease) (in dollars) | |
| | CURRENT ASSETS: | | | | | |
| 1120 | Cash and Equivalents | | 1,229,785 | 1,483,433 | 253,648 | |
| 1130 | Cash | | | | - | |
| 1140 | Special Cash Deposits | | | | - | |
| 1150 | Working Cash Advances | | | | - | |
| 1160 | Temporary Investments | 34 | 906,594 | 1,030,232 | 123,638 | |
| 1180 | Telecommunications Accounts Receivable | 34 | 34,395 | (37,706) | (72,101) | |
| 1181 | Accts. Receivable Allowance-Telecom. (Cr.) | 34 | (13,540) | (13,540) | - | |
| 1190 | Other Accounts Receivable | 34 | 187,521 | 226,076 | 38,555 | |
| 1191 | Accounts Receivable Allowance-Other (Cr.) | 34 | | | - | |
| 1200 | Notes Receivable | 35 | | | - | |
| 1201 | Notes Receivable Allowance (Cr.) | 35 | | | - | |
| 1210 | Interest and Dividends Receivable | 35 | 1,916 | 1,916 | - | |
| 1220 | Material and Supplies | | 9,684 | 6,668 | (3,016) | |
| 1280 | Prepayments | | | | - | |
| 1290 | Prepaid Rents | | | | - | |
| 1300 | Prepaid Taxes | | 8,298 | 8,298 | - | |
| 1310 | Prepaid Insurance | | 5,410 | 4,289 | (1,121) | |
| 1320 | Prepaid Directory Expenses | | | | - | |
| 1330 | Other Prepayments | | | | - | |
| 1350 | Other Current Assets | | | | - | |
| (1130-1350) | TOTAL CURRENT ASSETS | | 2,370,063 | 2,709,666 | 339,603 | |

SCHEDULE: 4

| BALANCE SHEET ASSETS AND OTHER DEBITS | | | | | | |
|--|--|----------|--|---|-------------------------------------|--|
| Account No. | Account Title | Page No. | Balance at End of Previous Year (in dollars) | Balance at End of Current Year (in dollars) | Increase or (Decrease) (in dollars) | |
| | NONCURRENT ASSETS: | | | | | |
| Class "A" Company | Class "B" Company | | | | | |
| 1401 | 1401 Investments in Affiliated Cos. | 35 | 381,362 | 380,011 | (1,351) | |
| 1402 | 1402 Investments in Nonaffiliated Cos. | 35 | | | - | |
| 1406 | 1406 Nonregulated Investments | | 4,622 | 3,182 | (1,440) | |
| 1407 | 1407 Unamort. Debt Issuance Exp. | | | | - | |
| 1408 | 1408 Sinking Funds | | | | - | |
| 1410 | 1410 Other Noncurrent Assets | | 25,000 | 20,000 | (5,000) | |
| 1437 | 1437 Deferred Tax Regulatory Assets | | | | - | |
| 1438 | 1438 Deferred Maintenance and Retirements | 36 | | | - | |
| 1439 | 1439 Deferred Charges | 36 | | | - | |
| 1500 | 1500 Other Juris. Assets-Net | 37 | | | - | |
| (1401-1500) | (1401-1500) TOTAL NONCURRENT ASSETS | | 410,984 | 403,193 | (7,791) | |
| | PROPERTY, PLANT AND EQUIPMENT: | | | | | |
| 2001 | 2001 Tele. Plant in Service | 24-26 | 4,343,680 | 4,441,837 | 98,157 | |
| 2002 | 2002 Prop. Held for Future Telecommunications Use | 26 | | | - | |
| 2003 | 2003 Tele. Plant Under Construction-Short Term | 26 | | | - | |
| 2004 | 2004 Tele. Plant Under Construction-Long Term | 26 | | | - | |
| 2005 | 2005 Tele. Plant Adjustment | 26 | | | - | |
| 2006 | 2006 Nonoperating Plant | 26 | | | - | |
| 2007 | 2007 Goodwill | 26 | | | - | |
| (2001-2007) | (2001-2007) TOTAL PROP., PLANT & EQUIP. | | 4,343,680 | 4,441,837 | 98,157 | |

SCHEDULE: 4

| BALANCE SHEET ASSETS AND OTHER DEBITS | | | | | | |
|--|--|----------|--|---|-------------------------------------|--|
| Account No. | Account Title | Page No. | Balance at End of Previous Year (in dollars) | Balance at End of Current Year (in dollars) | Increase or (Decrease) (in dollars) | |
| | DEPRECIATION AND AMORTIZATION: | | | | | |
| 3100 | Accum. Deprec. | 27-32 | 3,090,118 | 3,275,130 | 185,012 | |
| 3200 | Accum. Deprec.-Held for Future Tele. Use | | | | - | |
| 3300 | Accum. Deprec.-Nonoper. | | | | - | |
| ..... | Accum. Amort.-Tangible | | | | - | |
| 3410 | Accum. Amort.-Capit. Leases | | | | - | |
| 3420 | Accum. Amort.-Lshld. Improv. | | | | - | |
| 3500 | Accum. Amort.-Intangible | | | | - | |
| 3600 | Accum. Amort.-Other | | | | - | |
| (3100-3600) | TOTAL DEPREC. AND AMORT. | | 3,090,118 | 3,275,130 | 185,012 | |
| | NET PLANT (2001-2007) Less (3100-3600) | | 1,253,562 | 1,166,707 | (86,855) | |
| | TOTAL ASSETS (1120-2007) Less (3100-3600) | | 4,034,609 | 4,279,566 | 244,957 | |

SCHEDULE: 4

| BALANCE SHEET LIABILITIES AND OTHER CREDITS | | | | | | |
|--|-------------------------------------|----------|--|---|-------------------------------------|--|
| Account No. | Account Title | Page No. | Balance at End of Previous Year (in dollars) | Balance at End of Current Year (in dollars) | Increase or (Decrease) (in dollars) | |
| | CURRENT LIABILITIES: | | | | | |
| 4010 | Accounts Payable | | 17,199 | 11,937 | (5,262) | |
| 4020 | Notes Payable | | | | - | |
| 4030 | Advance Billing and Pay. | | | | - | |
| 4040 | Customer Deposits | | 1,175 | 925 | (250) | |
| 4050 | Cur. Maturities-Long Term Debt | | 40,457 | 34,370 | (6,087) | |
| 4060 | Cur. Maturities-Cap. Leases | | | | - | |
| 4070 | Income Taxes-Accrued | | | 15,120 | 15,120 | |
| 4080 | Other Taxes-Accrued | | 35,922 | 30,789 | (5,133) | |
| 4100 | Net Cur. Def. Oper. Income Taxes | 37 | | | - | |
| 4110 | Net Cur. Def. Nonoper. Income Taxes | | | | - | |
| 4120 | Other Accrued Liabilities | | | | - | |
| 4130 | Other Current Liabilities | | | | - | |
| (4010-4130) | TOTAL CURRENT LIABILITIES | | 94,753 | 93,141 | (1,612) | |
| | LONG-TERM DEBT: | | | | | |
| 4210 | Funded Debt | 39 | 199,460 | 166,805 | (32,655) | |
| 4220 | Premium on Long-Term Debt | 39 | | | - | |
| 4230 | Discount on Long-Term Debt | 39 | | | - | |
| 4240 | Reacquired Debt | | | | - | |
| 4250 | Obligations Under Cap. Leases | 39 | | | - | |
| 4260 | Advances from Affil. Cos. | 39 | | | - | |
| 4270 | Other Long-Term Debt | 39 | | | - | |
| (4210-4270) | TOTAL LONG-TERM DEBT | | 199,460 | 166,805 | (32,655) | |

SCHEDULE: 4

| BALANCE SHEET LIABILITIES AND OTHER CREDITS | | | | | | |
|--|---|----------|--|---|-------------------------------------|--|
| Account No. | Account Title | Page No. | Balance at End of Previous Year (in dollars) | Balance at End of Current Year (in dollars) | Increase or (Decrease) (in dollars) | |
| | OTHER LIAB. AND DEF. CREDITS: | | | | | |
| 4310 | Other Long-Term Liabilities | | 50,477 | 62,960 | 12,483 | |
| 4320 | Unamort. Oper. ITC-Net | | | | - | |
| 4330 | Unamort. Nonoper. ITC-Net | | | | - | |
| 4340 | Net Noncur. Def. Oper. Income Taxes | 38 | | | - | |
| 4341 | Net Deferred Tax Liability Adjustments | 38 | | | - | |
| 4350 | Net Noncur. Def. Nonoper. Income Taxes | | | | - | |
| 4360 | Other Deferred Credits | 40 | | 53,723 | 53,723 | |
| 4361 | Deferred Tax Regulat. Liability | 41 | | | - | |
| 4370 | Other Juris. Liab. & Def. Cr.-Net | 38 | | | - | |
| (4310-4370) | TOTAL OTHER LIAB. & DEF. CR. | | 50,477 | 116,683 | 66,206 | |
| | STOCKHOLDERS' EQUITY: | | | | | |
| 4510 | Capital Stock | 42 | | | - | |
| 4520 | Additional Paid-in Capital | 42 | | | - | |
| 4530 | Treasury Stock | 42 | | | - | |
| 4540 | Other Capital | | 17,790 | 18,630 | 840 | |
| 4550 | Retained Earnings | 23 | 3,672,129 | 3,884,307 | 212,178 | |
| (4510-4550) | TOTAL STOCKHOLDERS' EQUITY | | 3,689,919 | 3,902,937 | 213,018 | |
| (4010-4550) | TOTAL LIAB. & STOCKHOLDERS' EQUITY | | 4,034,609 | 4,279,566 | 244,957 | |

SCHEDULE: 4A

| NOTES TO BALANCE SHEET |
|---|
| <p data-bbox="716 499 786 531" style="text-align: center;">None</p> |

SCHEDULE: 5

| INCOME STATEMENT (in dollars) | | | |
|----------------------------------|----------------------|--|----------------|
| Account No. | | Account Title | Amount |
| Class "A" Company | Class "B" Company | | |
| | | <u>LOCAL NETWORK SERVICES REVENUES:</u> | |
| 5001 | ..... | Basic Area Revenue | 228,458 |
| 5002 | ..... | Optional Extended Area Revenue | |
| 5003 | ..... | Cellular Mobile Revenue | |
| 5004 | ..... | Other Mobile Services Revenue | |
| 5000 (5001-5004) | ..... | Basic Local Service Revenue | 228,458 |
| 5010 | ..... | Public Telephone Revenue | |
| 5040 | ..... | Local Private Line Revenue | |
| 5050 | ..... | Customer Premises Revenue | 3,190 |
| 5060 | ..... | Other Local Exchange Revenue | 70,647 |
| 5069 | ..... | Other Local Exchange Revenue Settlements | |
| (5001-5069) | 5000 | LOCAL NETWORK SERVICES REVENUES | 302,295 |
| | | <u>NETWORK ACCESS SERVICE REVENUES:</u> | |
| 5081 | 5081 | End User Revenue | 97,502 |
| 5082 | 5082 | Switched Access Revenue | 403,271 |
| 5083 | 5083 | Special Access Revenue | 9,020 |
| 5084 | 5084 | State Access Revenue | 349,113 |
| 5080 (5081-5084) | 5080 (5081-5084) | NETWORK ACCESS REVENUE | 858,906 |
| | | <u>LONG DISTANCE NETWORK SERVICES REVENUES:</u> | |
| 5100 | 5100 | Long Distance Message Revenue | |
| 5111 | ..... | Long Distance Inward-Only Revenue | |
| 5112 | ..... | Long Distance Outward-Only Revenue | |
| 5121 | ..... | Subvoice Grade Long Distance Private Network Revenue | |
| 5122 | ..... | Voice Grade Long Distance Private Network Revenue | |
| 5123 | ..... | Audio Program Grade Long Distance Private Network Revenue | |
| 5124 | ..... | Video Program Grade Long Distance Private Network Revenue | |
| 5125 | ..... | Digital Transmission Long Distance Private Network Revenue | |
| 5126 | ..... | Long Distance Private Network Switching Revenue | |
| 5128 | ..... | Other Long Distance Private Network Revenue | |
| 5129 | ..... | Other Long Distance Private Network Revenue Settlements | |
| 5160 | ..... | Other Long Distance Revenue | |
| 5169 | ..... | Other Long Distance Revenue Settlements | |
| (5100-5169) | 5100 | TOTAL LONG DISTANCE NETWORK SERVICE REVENUES | 0 |

SCHEDULE: 5

| INCOME STATEMENT | | | |
|-----------------------------------|----------------------|--|------------------|
| (in dollars) | | | |
| Account No. | | Account Title | Amount |
| Class "A" Company | Class "B" Company | | |
| | | MISCELLANEOUS REVENUES: | |
| 5230 | ..... | Directory Revenue | 354 |
| 5240 | ..... | Rent Revenue | |
| 5250 | ..... | Corporate Operations Revenue | |
| 5261 | ..... | Special Billing Arrangements Revenue | |
| 5262 | ..... | Customer Operations Revenue | |
| 5263 | ..... | Plant Operations Revenue | |
| 5264 | ..... | Other Incidental Regulated Revenue | 5,503 |
| 5269 | ..... | Other Revenue Settlements | 19,611 |
| 5270 | ..... | Carrier Billing and Collection Revenue | 8,826 |
| (5230-5270) | 5200 | MISCELLANEOUS REVENUES | 34,294 |
| | | NONREGULATED REVENUES: | |
| 5280 | 5280 | Nonregulated Operating Revenue | |
| | | UNCOLLECTIBLE REVENUES: | |
| 5301 | ..... | Uncollectible Revenue - Telecommunications | |
| 5302 | ..... | Uncollectible Revenue - Other | |
| 5300 (5301-5302) | 5300 | UNCOLLECTIBLE REVENUES | - |
| | | TOTAL OPERATING REVENUE (5001 - 5302) | 1,195,495 |

SCHEDULE: 5

| INCOME STATEMENT | | | |
|-----------------------------------|----------------------|--|----------------|
| (in dollars) | | | |
| Account No. | | Account Title | Amount |
| Class "A" Company | Class "B" Company | | |
| | | PLANT SPECIFIC OPERATIONS EXPENSE: | |
| 6112 | ..... | Motor Vehicle Expense | |
| 6113 | ..... | Aircraft Expense | |
| 6114 | ..... | Spec. Purpose Vehicles Expense | |
| 6115 | ..... | Garage Work Equipment Expense | |
| 6116 | ..... | Other Work Equipment Expense | |
| 6110 (6112-6116) | 6110 | NETWORK SUPPORT EXPENSE | 0 |
| 6121 | ..... | Land and Building Expense | 37,586 |
| 6122 | ..... | Furniture and Artworks Expense | |
| 6123 | ..... | Office Equipment Expense | 5,159 |
| 6124 | ..... | General Purpose Computers Expense | 163 |
| 6120 (6121-6124) | 6120 | GENERAL SUPPORT EXPENSE | 42,908 |
| 6211 | ..... | Analog Electronic Expense | |
| 6212 | ..... | Digital Electronic Expense | 116,180 |
| 6215 | ..... | Electro-Mechanical Expense | |
| 6210 (6211-6215) | 6210 | CENTRAL OFFICE SWITCH. EXPENSE | 116,180 |
| 6220 | 6220 | Operator Systems Expense | |
| 6231 | ..... | Radio Facilities Expense | |
| 6232 | ..... | Circuit Equipment Expense | 173 |
| 6230 (6231-6232) | 6230 | CENTRAL OFFICE TRANSM. EXPENSE | 173 |
| 6311 | ..... | Station Apparatus Expense | 65,969 |
| 6341 | ..... | Large Private Branch Exchange Expense | |
| 6351 | ..... | Public Telephone Terminal Equipment Expense | 433 |
| 6362 | ..... | Other Terminal Equipment Expense | |
| 6310 (6311-6362) | 6310 | INFO. ORIG./TERM. EXPENSE | 66,402 |
| 6411 | ..... | Poles Expense | 332 |
| 6421 | ..... | Aerial Cable Expense | 105 |
| 6422 | ..... | Underground Cable Expense | 14,732 |
| 6423 | ..... | Buried Cable Expense | |
| 6424 | ..... | Submarine Cable Expense | |
| 6425 | ..... | Deep Sea Cable Expense | |
| 6426 | ..... | Intrabuilding Network Cable Expense | |
| 6431 | ..... | Aerial Wire Expense | |
| 6441 | ..... | Conduit Systems Expense | |
| 6410 (6411-6441) | 6410 | CABLE AND WIRE FACIL. EXPENSE | 15,169 |
| (6112-6441) | (6110-6410) | TOTAL PLANT SPECIFIC OPERATIONS EXPENSE | 240,832 |

SCHEDULE: 5

| INCOME STATEMENT | | | |
|-------------------------|----------------------|--|----------------|
| (in dollars) | | | |
| Account No. | | Account Title | Amount |
| Class "A" Company | Class "B" Company | | |
| | | <u>PLANT NONSPECIFIC OPERATIONS EXPENSE:</u> | |
| 6511 | ..... | Property Held for Future Telecommunications Use Expense | |
| 6512 | ..... | Provisioning Expense | 861 |
| 6510 (6511-6512) | 6510 | OTHER PROP., PLANT & EQUIP. EXPENSE | 861 |
| 6531 | ..... | Power Expense | 609 |
| 6532 | ..... | Network Administration Expense | |
| 6533 | ..... | Testing Expense | |
| 6534 | ..... | Plant Oper. Admin. Expense | |
| 6535 | ..... | Engineering Expense | |
| 6530 (6531-6535) | 6530 | NETWORK OPERATIONS EXPENSE | 609 |
| 6540 | 6540 | Access Expense | 36,065 |
| 6561 | ..... | Depreciation Expense-Telecommunications Plant In Service | 185,013 |
| 6562 | ..... | Depreciation Expense-Property Held for Future Telecommunications Use | |
| 6563 | ..... | Amortization Expense-Tangible | |
| 6564 | ..... | Amortization Expense-Intangible | |
| 6565 | ..... | Amortization Expense-Other | |
| 6560 (6561-6565) | 6560 | DEPRECIATION & AMORT. EXPENSE | 185,013 |
| (6511-6565) | (6510-6560) | TOTAL PLANT NONSPECIFIC OPERATIONS | 222,548 |
| | | <u>CUSTOMER OPERATIONS EXPENSE:</u> | |
| 6611 | ..... | Product Management | |
| 6612 | ..... | Sales | |
| 6613 | ..... | Product Advertising | 6,778 |
| 6610 (6611-6613) | 6610 | MARKETING | 6,778 |
| 6621 | ..... | Call Completion Services | |
| 6622 | ..... | Number Services | - |
| 6623 | ..... | Customer Services | 160,869 |
| 6620 (6621-6623) | 6620 | SERVICES | 160,869 |
| (6610-6620) | (6610-6620) | TOTAL CUSTOMER OPERATIONS EXPENSE | 167,647 |
| | | <u>CORPORATE OPERATIONS EXPENSE:</u> | |
| 6711 | ..... | Executive | 6,030 |
| 6712 | ..... | Planning | |
| 6710 (6711-6712) | 6710 | EXECUTIVE AND PLANNING | 6,030 |

SCHEDULE: 5

| INCOME STATEMENT | | | |
|-------------------------|----------------------|--|----------------|
| (in dollars) | | | |
| Account No. | | Account Title | Amount |
| Class "A" Company | Class "B" Company | | |
| 6721 | ..... | Accounting and Finance | 44,821 |
| 6722 | ..... | External Relations | 39,987 |
| 6723 | ..... | Human Resources | |
| 6724 | ..... | Information Management | |
| 6725 | ..... | Legal | 2,714 |
| 6726 | ..... | Procurement | |
| 6727 | ..... | Research and Development | |
| 6728 | ..... | Other General and Administrative | 116,185 |
| 6720 (6721-6728) | 6720 | GENERAL AND ADMINISTRATIVE | 203,707 |
| 6790 (6710-6790) | 6790 (6710-6790) | Provision for Uncollectible Notes Receivable | |
| | | TOTAL CORPORATE OPERATIONS EXPENSE | 209,737 |
| | | | |
| (6112-6790) | (6110-6790) | TOTAL OPERATING EXPENSES | 840,764 |
| | | | |
| | | OPERATING TAXES: | |
| 7210 | ..... | Operating Investment Tax Credits-Net | |
| 7220 | ..... | Operating Federal Income Taxes | 15,120 |
| 7230 | ..... | Operating State and Local Income Taxes | |
| 7240 | ..... | Operating Other Taxes | 27,474 |
| 7250 | ..... | Provision for Deferred Operating Income Taxes-Net | |
| 7200 (7210-7250) | 7200 | TOTAL OPERATING TAXES | 42,594 |
| | | | |
| | | NET OPERATING INCOME (5001-5302) | |
| | | Less (6110-7200) | 312,137 |
| | | | |
| | | OTHER OPERATING INCOME AND EXPENSE: | |
| 7110 | ..... | Income from Custom Work | |
| 7130 | ..... | Return from Nonreg. Use of Regulated Facilities | |
| 7140 | ..... | Gains and Losses from Foreign Exchange | |
| 7150 | ..... | Gains or Losses from Disposition of Land & Artwork | |
| 7160 | ..... | Other Operating Gains & Losses | |
| 7100 (7110-7160) | 7100 | TOTAL OTHER OPERATING INCOME AND EXPENSE | 0 |

SCHEDULE: 5

| INCOME STATEMENT | | | |
|-------------------------|----------------------|---|----------------|
| (in dollars) | | | |
| Account No. | | Account Title | Amount |
| Class "A" Company | Class "B" Company | | |
| | | <u>NONOPERATING INCOME AND EXPENSE:</u> | |
| 7310 | ..... | Dividend Income | 8,554 |
| 7320 | ..... | Interest Income | 103,767 |
| 7330 | ..... | Income from Sinking and Other Funds | |
| 7340 | ..... | Allowance for Funds Used During Construction | |
| 7350 | ..... | Gains or Losses from Disposition of Certain Prop. | |
| 7360 | ..... | Other Nonoperating Income | 8,111 |
| 7370 | ..... | Special Charges | (33,707) |
| 7300 (7310-7370) | 7300 | TOTAL NONOPERATING INCOME AND EXPENSE | 86,725 |
| | | <u>NONOPERATING TAXES:</u> | |
| 7410 | ..... | Nonoperating Investment Tax Credits-Net | |
| 7420 | ..... | Nonoperating Federal Income Taxes | |
| 7430 | ..... | Nonoperating State & Local Income Taxes | |
| 7440 | ..... | Nonoperating Other Taxes | |
| 7450 | ..... | Provision for Deferred Nonoperating Income Taxes-Net | |
| 7400 (7410-7450) | 7400 | TOTAL NONOPERATING TAXES | 0 |
| | | <u>INTEREST AND RELATED ITEMS:</u> | |
| 7510 | ..... | Interest on Funded Debt | 4,498 |
| 7520 | ..... | Interest Expense-Capital Leases | |
| 7530 | ..... | Amortization of Debt Issuance Expense | |
| 7540 | ..... | Other Interest Deductions | |
| 7500 (7510-7540) | 7500 | TOTAL INTEREST AND RELATED ITEMS | 4,498 |
| | | <u>EXTRAORDINARY ITEMS:</u> | |
| 7610 | ..... | Extraordinary Income Credits | |
| 7620 | ..... | Extraordinary Income Charges | |
| 7630 | ..... | Current Income Tax Effect of Extraord. Items-Net | |
| 7640 | ..... | Prov. Or Def. Inc. Tax Effect of Extraord. Items-Net | |
| 7600 (7610-7640) | 7600 | TOTAL EXTRAORDINARY ITEMS | 0 |
| | | <u>JURISDICTIONAL DIFFERENCES AND NONREGULATED INCOME ITEMS:</u> | |
| 7910 | 7910 | Income Effect of Juris. Ratemaking Dif.-Net | |
| 7990 | 7990 | Nonregulated Net Income | 95,854 |
| | | NET INCOME | 490,218 |

SCHEDULE: 5A

| |
|----------------------------------|
| NOTES TO INCOME STATEMENT |
|----------------------------------|

| |
|------|
| None |
|------|

SCHEDULE: 6

| STATEMENT OF RETAINED EARNINGS | | | |
|---------------------------------------|--|----------|------------------------|
| Account No. | Item | Page No. | Amount (in dollars) |
| | Balance-First of Year | 14 | 3,672,129 |
| | Charges: | | |
| | Balance Transferred from Income | 21 | 490,218 |
| | Dividends Declared | | 278,040 |
| | Miscellaneous Debits to Retained Earnings | | |
| | Miscellaneous Credits to Retained Earnings | | |
| | Balance-End of Year | 14 | 3,884,307 |
| | Notes to Statement of Retained Earnings: | | |

SCHEDULE: 7

| PARTNERSHIP CAPITAL STATEMENT ⁽¹⁾ | | | |
|---|---------------------------------------|----------|------------------------|
| Account No. | Item | Page No. | Amount (in dollars) |
| | Partnership Capital-Beginning of Year | 14 | |
| | Net Income (Loss) for Year | 21 | |
| | Partners' Capital Contributions | | N/A |
| | Miscellaneous Credits | | |
| | TOTAL CREDITS | | |
| | Partners' Drawings | | |
| | Prior Period Adjustment(s) | | |
| | Miscellaneous Debits | | |
| | TOTAL DEBITS | | - |
| | Partnership Capital-End of Year | 14 | - |

⁽¹⁾ This statement should also be used by sole proprietors.

SCHEDULE: 8

| ANALYSIS OF PLANT IN SERVICE (in dollars) | | | | | | | | |
|--|----------------------|----------------------|---|--|------------------|--------------------|-----------------------------------|---|
| Account No. | Class "A" Company | Class "B" Company | TELECOMMUNICATIONS PLANT IN SERVICE (ACCT. 2001) Plant Accounts (a) | Balance at End of Previous Year (b) | Additions (c) | Retirements (d) | Transfers & Adjustments (e) | Balance at End of Current Year (f)=(b)+(c)+ (d)+(e) |
| | | | GENERAL SUPPORT ASSETS: | | | | | |
| | | 2110 | Land and Support Assets | | | | | |
| | 2111 | ..... | Land | 22,610 | | | | 22,610 |
| | 2112 | ..... | Motor Vehicles | 38,960 | | | | 38,960 |
| | 2113 | ..... | Aircraft | | | | | - |
| | 2114 | ..... | Special Purpose Vehicles | | | | | - |
| | 2115 | ..... | Garage Work Equipment | | | | | - |
| | 2116 | ..... | Other Work Equipment | 94,212 | 4,217 | | | 98,429 |
| | 2121 | ..... | Buildings | 294,413 | 18,886 | | | 313,299 |
| | 2122 | ..... | Furniture | 20,804 | | | | 20,804 |
| | 2123.1 | ..... | Office Support Equip. | 12,738 | 1,310 | | | 14,048 |
| | 2123.2 | ..... | Co. Comm. Equip. | 19,428 | 1,222 | | | 20,650 |
| | 2124 | ..... | General Purpose Computers | 11,224 | | | | 11,224 |
| | (2111-2124) | 2110 | TOTAL GENERAL SUPPORT ASSETS | 514,389 | 25,635 | - | - | 540,024 |
| | | | CENTRAL OFFICE ASSETS: | | | | | |
| | 2211 | ..... | Analog Electronic Switching | | | | | - |
| | 2212 | ..... | Digital Electronic Switching | 702,762 | 3,754 | | | 706,516 |
| | 2215 | ..... | Electro-Mechanical Switching | | | | | - |
| | 2215.1 | ..... | Step-by-step Switching | | | | | - |
| | 2215.2 | ..... | Crossbar Switching | | | | | - |
| | 2215.3 | ..... | Other Elec. Mech. Switching | | | | | - |
| | (2211-2215.3) | 2210 | CENTRAL OFFICE SWITCHING | 702,762 | 3,754 | - | - | 706,516 |
| | 2220 | | Operator Systems | | | | | - |
| | 2231 | ..... | Radio Systems | | | | | - |
| | 2232 | ..... | Circuit Equipment | 530,782 | 23,643 | | | 554,425 |
| | (2231-2232) | 2230 | CENTRAL OFFICE TRANSMISSION | 530,782 | 23,643 | - | - | 554,425 |

SCHEDULE: 8

| ANALYSIS OF PLANT IN SERVICE (in dollars) | | | | | | |
|--|--|--|------------------|--------------------|-----------------------------------|---|
| Account No. | TELECOMMUNICATIONS PLANT IN SERVICE (ACCT. 2001) Plant Accounts | Balance at End of Previous Year (b) | Additions (c) | Retirements (d) | Transfers & Adjustments (e) | Balance at End of Current Year (f)=(b)+(c)+ (d)+(e) |
| *Class "A" Company | Class "B" Company | | | | | |
| | | <u>INFORMATION</u> <u>ORIGINATION/TERMINATION ASSETS:</u> | | | | |
| 2311 | | Station Apparatus | | | | - |
| 2321 | ..... | Customer Premises Wiring | | | | - |
| 2341 | ..... | Large Private Branch Exchanges | | | | - |
| 2351 | ..... | Public Tele. Terminal Equipment | | | | - |
| 2362 | ..... | Other Terminal Equipment | | | | - |
| (2311-2362) | 2310 | INFORMATION ORIGINATION/TERMINATION | 0 | - | - | 0 |
| | | <u>CABLE AND WIRE FACILITIES ASSETS:</u> | | | | |
| 2411 | ..... | Poles | 970 | | | 970 |
| 2421 | ..... | Aerial Cable | 5,223 | 1,048 | | 6,271 |
| 2422 | ..... | Underground Cable | 26,162 | | | 26,162 |
| 2423 | ..... | Buried Cable | 2,529,104 | 44,077 | | 2,573,181 |
| 2424 | ..... | Submarine Cable | 34,026 | | | 34,026 |
| 2425 | ..... | Deep Sea Cable | | | | - |
| 2426 | ..... | Intrabuilding Network Cable | | | | - |
| 2431 | ..... | Aerial Wire | | | | - |
| 2441 | ..... | Conduit Systems | | | | - |
| (2411-2441) | 2410 | CABLE AND WIRE FACILITIES | 2,595,485 | 45,125 | - | 2,640,610 |
| | | <u>AMORTIZABLE ASSETS:</u> | | | | |
| 2681 | ..... | Capital Leases | | | | - |
| 2682 | ..... | Leasehold Improvements | | | | - |
| (2681-2682) | 2680 | AMORTIZABLE TANGIBLE ASSET | - | - | - | - |
| 2690 | 2690 | Intangibles | 262 | | | 262 |
| 2001 (2110-2690) | 2001 (2110-2690) | TOTAL TELECOMMUNICATIONS PLANT IN SERVICE | 4,343,680 | 98,157 | - | 4,441,837 |

SCHEDULE: 8

| ANALYSIS OF PLANT IN SERVICE (in dollars) | | | | | | |
|--|---|--|------------------|--------------------|-----------------------------------|---|
| Account No. | TELECOMMUNICATIONS PLANT IN SERVICE (ACCT. 2001) Plant Accounts (a) | Balance at End of Previous Year (b) | Additions (c) | Retirements (d) | Transfers & Adjustments (e) | Balance at End of Current Year (f)=(b)+(c)+ (d)+(e) |
| *Class "A" Company | | | | | | |
| 2001 | 2001 Telecommunications Plant in Service | 4,343,680 | 98,157 | - | - | 4,441,837 |
| 2002 | 2002 Property Held For Future Telecommunications Use | | | | | |
| 2003 | 2003 Tele. Plant Under Construction-Short Term | | | | | |
| 2004 | 2004 Tele. Plant Under Construction-Long Term | | | | | |
| 2005 | 2005 Tele. Plant Adjustment | | | | | |
| 2006 | 2006 Nonoperating Plant | | | | | |
| 2007 | 2007 Goodwill | | | | | |
| (2001-2007) | (2001-2007) TOTAL PROPERTY, PLANT AND EQUIPMENT | 4,343,680 | 98,157 | - | - | 4,441,837 |

SCHEDULE: 9

| ACCUMULATED DEPRECIATION (Account 3100) (in dollars) (Please check if the Company's Depreciation Expense is Calculated: * Monthly <input type="checkbox"/> Quarterly <input type="checkbox"/> Annually <input type="checkbox"/> | | | | | | | |
|---|-------------------|-------------------|--------------------------------|---|------------------|--------------------|------------------------------------|
| Account No. | Class "A" Company | Class "B" Company | Account Title | Accumulated Depreciation At Beginning Of Current Year (a) | Accrual Rate (b) | Annual Accrual (c) | Original Cost of Plant Retired (d) |
| | | | GENERAL SUPPORT ASSETS: | | | | |
| | | | Land and Support Assets | | | | |
| 2110 | | | Land | | | | |
| 2111 | | | Motor Vehicles | 26,826 | 10.63 | 4,142 | |
| 2112 | | | Aircraft | | | | |
| 2113 | | | Special Purpose Vehicles | | | | |
| 2114 | | | Garage Work Equip. | | | | |
| 2115 | | | Other Work Equip. | 76,601 | 6.40 | 6,120 | |
| 2116 | | | Buildings | 112,369 | 2.80 | 8,801 | |
| 2121 | | | Furniture | 18,106 | 5.00 | 1,040 | |
| 2122 | | | Office Support Equip. | 11,697 | 8.33 | 1,143 | |
| 2123.1 | | | Co. Comm. Equip. | 15,062 | 12.50 | 2,441 | |
| 2123.2 | | | Gen. Purpose Computers | 16,543 | 20.00 | 2,245 | |
| 2124 | | | TOTAL GEN. SUPPORT ASSETS | 277,204 | | 25,932 | |
| | | | CENTRAL OFFICE ASSETS: | | | | |
| (2211-2215.3) | | | Central Office-Switching | | | | |
| 2211 | | | Analog Electronic Switching | | | | |
| 2212 | | | Digital Electronic Switching | 516,392 | 6.67 | 64,082 | |
| 2212.1 | | | Digital Switch. - Hardware | | | | |
| 2212.2 | | | Digital Switch. - Software | 207,464 | 20.00 | 54,260 | |
| 2215 | | | Electro-Mechanical Switching | | | | |
| 2215.1 | | | Step-by-Step Switch. | | | | |
| 2215.2 | | | Crossbar Switch. | | | | |
| 2215.3 | | | Orth. Ele. Mech. Switch. | | | | |
| 2220 | | | Operator Systems | | | | |
| 2230 | | | Central Office-Transmission | | | | |
| 2231 | | | Radio Systems | | | | |
| 2232 | | | Circuit Equip. | 300,995 | 10.00 | | |
| (2211-2232) | | | TOTAL GEN. OFFICE ASSETS | 1,024,851 | | 118,342 | |

(4) From Accounting Records (b) For information only, not part of this calculation (c) thru (g) From Accounting Records
 Note: Listed below are assets that need to be identified in Annual Reports for minimum acceptable standards in Depreciation:
 1. List the current accrual rates being used to calculate depreciation expense in Column (b). If using a composite accrual rate please specify and show how the composite rate was calculated.
 2. Identify the source of these accrual rates (FUCO Case No. 05-1049-TP-AAM). (If Accrual Rate changes during the year should be identified with effective date of change -01-01-05.)
 3. Clearly mark on the Depreciation Schedule how depreciation expense was calculated, i.e., monthly, quarterly, semi-annually, or annually.

SCHEDULE: 9

| ACCUMULATED DEPRECIATION (Account 3100) (in dollars) | | | | | | | |
|--|-------------------|--------------------|----------------------------------|---------------------|-------------|-----------------|--|
| (Please check if the Company's Depreciation Expense is Calculated: * Monthly <input type="checkbox"/> Quarterly <input type="checkbox"/> Annually <input type="checkbox"/> | | | | | | | |
| Account No. | Class "A" Company | Class "B" Company | Account Title | Cost of Removal (e) | Salvage (f) | Other (g) | Balance at End of Current Year (h)=(a)+(c)-(d)-(e)+(f)+(g) |
| | | | GENERAL SUPPORT ASSETS: | | | | |
| | | 2110 | Land and Support Assets | | | | - |
| 2111 | | | Land | | | | - |
| 2112 | | | Motor Vehicles | | | (356) | 30,612 |
| 2113 | | | Aircraft | | | | - |
| 2114 | | | Special Purpose Vehicles | | | | - |
| 2115 | | | Garage Work Equip. | | | | - |
| 2116 | | | Other Work Equip. | | | 108 | 82,829 |
| 2121 | | | Buildings | | | (1,269) | 119,901 |
| 2122 | | | Furniture | | | (756) | 18,390 |
| 2123.1 | | | Office Support Equip. | | | (514) | 12,326 |
| 2123.2 | | | Co. Comm. Equip. | | | 263 | 17,766 |
| 2124 | | | Gen. Purpose Computers | | | (1,566) | 17,222 |
| (2111-2124) | | 2110 | TOTAL GEN. SUPPORT ASSETS | | | (4,090) | 299,046 |
| | | | CENTRAL OFFICE ASSETS: | | | | |
| (2211-2215.3) | | 2210 | Central Office-Switching | | | | |
| 2211 | | | Analog Electronic Switching | | | | - |
| 2212 | | | Digital Electronic Switching | | | (48,825) | 531,649 |
| 2215 | | | Electro-Mechanical Switching | | | | - |
| 2215.1 | | | Step-by-Step Switch. | | | | 261,724 |
| 2215.2 | | | Crossbar Switch. | | | | - |
| 2215.3 | | | Oth. Ele. Mech. Switch. | | | | - |
| 2220 | | 2220 | Operator Systems | | | | - |
| | | 2230 | Central Office-Transmission | | | | - |
| 2231 | | | Radio Systems | | | | - |
| 2232 | | | Circuit Equip. | | | (8,716) | 292,279 |
| (2211-2232) | | (2210-2230) | TOTAL CEN. OFFICE ASSETS | | | (57,541) | 1,085,652 |

(a) From Accounting Records (b) For information only, not part of this calculation (c) thru (g) From Accounting Records
 Note: Listed below are societies that need to be identified in Annual Reports for minimum acceptable standards in Depreciation:
 1. List the current accrual rates being used to calculate depreciation expense in Column (b). If using a composite accrual rate please specify and show how the composite rate was calculated.
 2. Identify the source of these accrual rates (PUCO Case No. 05-1049-TP-AAM). (If Accrual Rate changes during the year should be identified with effective date of change 01-01-05.)
 3. Clearly mark on the Depreciation Schedule how depreciation expense was calculated, i.e., monthly, quarterly, semi-annually, or annually.

SCHEDULE: 9

| ACCUMULATED DEPRECIATION (Account 3100) (in dollars) | | | | | | | |
|--|-------------------|-------------------|--|---|------------------|--------------------|------------------------------------|
| (Please check if the Company's Depreciation Expense is Calculated: * Monthly <input type="checkbox"/> Quarterly <input type="checkbox"/> Annually <input type="checkbox"/> | | | | | | | |
| Account No. | Class "A" Company | Class "B" Company | Account Title | Accumulated Depreciation At Beginning Of Current Year (a) | Accrual Rate (b) | Annual Accrual (c) | Original Cost of Plant Retired (d) |
| | | | INFORM. ORIG./TERM. ASSETS: | | | | |
| 2311 | | | Station Apparatus | | | | |
| 2321 | | | Cust Premises Wiring | | | | |
| 2341 | | | Large Priv. Branch Exch. | | | | |
| 2351 | | | Pub. Tele. Terminal Equip. | | | | |
| 2362 | | | Other Term. Equipment | | | | |
| (2311-2362) | 2310 | | TOTAL INFO. ORIG./TERM. ASSETS | 0 | | - | 0 |
| | | | CABLE & WIRE FACIL. ASSETS: | | | | |
| 2411 | | | Poles | 1,748 | 5.80 | 56 | |
| 2421 | | | Aerial Cable | | | | |
| 2421.1 | | | Aerial Cable - Metallic | 5,386 | 6.25 | 348 | |
| 2421.2 | | | Aerial Cable - Nonmetallic | | | | |
| 2421.3 | | | Aerial Cable - Drop | | | | |
| 2422 | | | Underground Cable | | | | |
| 2422.1 | | | Underground Cable - Metallic | | | | |
| 2422.2 | | | Underground Cable - Nonmetallic | 1,845 | | 1,099 | |
| 2423 | | | Buried Cable | | | | |
| 2423.1 | | | Buried Cable - Metallic | 1,564,765 | 4.77 | 88,894 | |
| 2423.2 | | | Buried Cable - Nonmetallic | 180,716 | 4.20 | 28,876 | |
| 2423.3 | | | Buried Cable - Drop | | | | |
| 2424 | | | Submarine Cable | 33,603 | 4.16 | 1,416 | |
| 2425 | | | Deep Sea Cable | | | | |

(a) From Accounting Records (b) For information only, not part of this calculation (c) thru (g) From Accounting Records (d) For information only, not part of this calculation

Note: Listed below are specifics that need to be identified in Annual Reports for minimum acceptable standards in Depreciation:

- List the current accrual rates being used to calculate depreciation expense in Column (b). If using a composite accrual rate please specify and show how the composite rate was calculated.
- Identify the source of these accrual rates (PUCD Case No. 05-1049-TP-AAM) (If Accrual Rate changes during the year should be identified with effective date of change 01-01-05).
- Clearly mark on the Depreciation Schedule how depreciation expense was calculated, i.e., monthly, quarterly, semi-annually, or annually.

Continue on next page

SCHEDULE: 9

| ACCUMULATED DEPRECIATION (Account 3100) (in dollars) | | | | | | | |
|--|-------------------|-------------------|--|---------------------|-------------|-----------|--|
| (Please check if the Company's Depreciation Expense is Calculated: * Monthly <input type="checkbox"/> Quarterly <input type="checkbox"/> Annually <input type="checkbox"/> | | | | | | | |
| Account No. | Class "A" Company | Class "B" Company | Account Title | Cost of Removal (e) | Salvage (f) | Other (g) | Balance at End of Current Year (h)=(a)+(c)-(d)-(e)+(f)+(g) |
| | | | INFORM. ORIG./TERM. ASSETS: | | | | |
| 2311 | | | Station Apparatus | | | | - |
| 2321 | | | Cust. Premises Wiring | | | | - |
| 2341 | | | Large Priv. Branch Exch. | | | | - |
| 2351 | | | Pub. Tele. Terminal Equip. | | | | - |
| 2362 | | | Other Term. Equipment | | | | - |
| (2311-2362) | 2310 | | TOTAL INFO. ORIG./TERM. ASSETS | | | | - |
| | | | CABLE & WIRE FACIL. ASSETS: | | | | |
| 2411 | | | Poles | | | (163) | 1,641 |
| 2421 | | | Aerial Cable | | | | - |
| 2421.1 | | | Aerial Cable - Metallic | | | (282) | 5,452 |
| 2421.2 | | | Aerial Cable - Nonmetallic | | | | - |
| 2421.3 | | | Aerial Cable - Drop | | | | - |
| 2422 | | | Underground Cable | | | | - |
| 2422.1 | | | Underground Cable - Metallic | | | | - |
| 2422.2 | | | Underground Cable - Nonmetallic | | | 747 | 3,691 |
| 2423 | | | Buried Cable | | | | - |
| 2423.1 | | | Buried Cable - Metallic | | | (17,430) | 1,636,229 |
| 2423.2 | | | Buried Cable - Nonmetallic | | | 662 | 210,254 |
| 2423.3 | | | Buried Cable - Drop | | | | - |
| 2424 | | | Submarine Cable | | | (1,854) | 33,165 |
| 2425 | | | Deep Sea Cable | | | | - |

(a) From Accounting Records (b) For information only, not part of this calculation (c) thru (g) From Accounting Records
 Note: Listed below are specifics that need to be identified in Annual Reports for minimum acceptable standards in Depreciation:
 1. List the current accrual rates being used to calculate depreciation expense in Column (b). If using a composite accrual rate please specify and show how the composite rate was calculated.
 2. Identify the source of these accrual rates (FURCO Case No. 05-1049-TP-AAM.J.) (If Accrual Rate changes during the year should be identified with effective date of change .01-01-05)
 3. Clearly mark on the Depreciation Schedule how depreciation expense was calculated, i.e., monthly, quarterly, semi-annually, or annually.

Continue on next page

SCHEDULE: 9

ACCUMULATED DEPRECIATION (Account 3100) (in dollars)

(Please check if the Company's Depreciation Expense is Calculated: * Monthly Quarterly Annually)

| Account No. | | Account Title | Accumulated Depreciation At Beginning Of Current Year (a) | Accrual Rate (b) | Annual Accrual (c) | Original Cost of Plant Retired (d) |
|-------------------|-------------------|--|---|------------------|--------------------|------------------------------------|
| Class "A" Company | Class "B" Company | | | | | |
| 2426 | ..... | Intrabldg. Net. Cable | | | | |
| 2426.1 | ..... | Intrabldg. Net. Cable - Metallic | | | | |
| 2426.2 | ..... | Intrabldg. Net. Cable - Nonmetallic | | | | |
| 2431 | ..... | Aerial Wire | | | | |
| 2441 | ..... | Conduit Systems | | | | |
| (2411-2441) | 2410 | TOTAL CABLE & WIRE FACIL. ASSETS | 1,788,063 | | 120,689 | - |
| | | TOTAL ACCUMULATED DEPREC. (2112-2441) | 3,090,118 | | 264,963 | - |

(a) From Accounting Records (b) For information only, not part of this calculation (c) thru (g) From Accounting Records
 Note: Listed below are specifics that need to be identified in Annual Reports for minimum acceptable standards in Depreciation:
 1. List the current accrual rates being used to calculate depreciation expense in Column (b). If using a composite accrual rate please specify and show how the composite rate was calculated.
 2. Identify the source of these accrual rates (PUDD Case No. 05-1049-TP-AAM). (If Accrual Rate changes during the year should be identified with effective date of change 01-01-05)
 3. Clearly mark on the Depreciation Schedule how depreciation expense was calculated, i.e., monthly, quarterly, semi-annually, or annually.

SCHEDULE: 9

ACCUMULATED DEPRECIATION (Account 3100) (in dollars)

(Please check if the Company's Depreciation Expense is Calculated: * Monthly Quarterly Annually

| Account No. | | Account Title | Cost of Removal (e) | Salvage (f) | Other (g) | Balance At End of Current Year (h)=(a)+(c)-(d)-(e)+(f)+(g) |
|-------------------|-------------------|--|---------------------|-------------|-----------|--|
| Class "A" Company | Class "B" Company | | | | | |
| 2426 | ..... | Intrabldg. Net. Cable | | | | - |
| 2426.1 | ..... | Intrabldg. Net. Cable - Metallic | | | | - |
| 2426.2 | ..... | Intrabldg. Net. Cable - Nonmetallic | | | | - |
| 2431 | ..... | Aerial Wire | | | | - |
| 2441 | ..... | Conduit Systems | | | | - |
| (2411-2441) | 2410 | TOTAL CABLE & WIRE FACIL. ASSETS | - | - | (18,320) | 1,890,432 |
| | | TOTAL ACCUMULATED DEPREC. (2112-2441) | - | - | (79,951) | 3,275,130 |

(a) From Accounting Records (b) For information only, not part of this calculation (c) thru (g) From Accounting Records

Note: Listed below are specifics that need to be identified in Annual Reports for minimum acceptable standards in Depreciation:

- List the current accrual rates being used to calculate depreciation expense in Column (b). If using a composite accrual rate please specify and show how the composite rate was calculated.
- Identify the source of these accrual rates (PUCCO Case No. 05-1049-TP-AAM). (If Accrual Rate changes during the year should be identified with effective date of change. 01-01-05)
- Clearly mark on the Depreciation Schedule how depreciation expense was calculated, i.e., monthly, quarterly, semi-annually, or annually.

SCHEDULE: 10

| UNCOLLECTIBLE ACCOUNTS (Accounts 1181 and 1191) (in dollars) | | | |
|--|--|---------------------|---------------------|
| | (a) | Account 1181 (b) | Account 1191 (c) |
| 1 | Balance at Beginning of the Year | \$ 13,540 | \$ - |
| 2 | Accruals Charged | | |
| 3 | Collection of Amounts Previously Written Off | | |
| 4 | Other Credits | | |
| 5 | TOTAL CREDITS | \$ 13,540 | \$ - |
| 6 | Uncollectibles Written Off During the Year | | |
| 7 | Other Debits (Explain in a Note) | - | |
| 8 | TOTAL DEBITS | \$ - | \$ - |
| 9 | Balance at End of the Year | \$ 13,540 | \$ - |
| 10 | TOTAL OPERATING REVENUE FOR THE YEAR | 1,195,495 | - |
| 11 | Net Write Offs During the Year (Line 6 minus Line 3) | 0 | - |
| 12 | Ratio of Line 11 to Line 10 | 0.00% | |
| 13 | Ratio of Line 2 to Line 10 | 0.00% | |

SCHEDULE: 11

RECEIVABLES AND INVESTMENTS - AFFILIATED AND NONAFFILIATED COMPANIES
(in dollars)

1. Provide in columns (b) thru (k), the year-end balances for each affiliate identified in column (a).

| Name of Affiliate (a) | Account 1160 Temporary Investments (b) | Account 1180 Telecom. Accounts Receivable (c) | Account 1181 Accts. Receivable Telecom. Allowance (d) | Account 1190 Other Accounts Receivable (e) | Account 1191 Accts. Receivable Allowance-Other (f) |
|----------------------------|---|---|---|---|---|
| | | | | | \$ |
| Total Affiliated | | | | | |
| Total Nonaffiliated | 1,030,232 | (37,706) | (13,540) | 226,076 | 0 |
| TOTAL BALANCE | 1,030,232 | (37,706) | (13,540) | 226,076 | 0 |

SCHEDULE: 11

RECEIVABLES AND INVESTMENTS - AFFILIATED AND NONAFFILIATED COMPANIES
(in dollars)

1. Provide in columns (b) thru (k), the year-end balances for each affiliate identified in column (a).

| Name of Affiliate (a) | Account 1200 Notes Receivable (g) | Account 1201 Notes Receiv. Allowance (h) | Account 1210 Int. & Div. Receivable (i) | Account 1401 Investments in Affiliated Companies (j) | Account 1402 Investments in Nonaffiliated Companies (k) |
|----------------------------|--|---|--|--|---|
| Com Net, Inc. | \$ - | \$ - | \$ - | 193,000 | \$ - |
| Bright Long Distance | | | | 3,300 | |
| SAA Bright Net, Inc. | | | | 59,223 | |
| Bright CLEC, LLC | | | | 3,277 | |
| Horizon Telcom, Inc | | | | 118,022 | |
| BNG, LLC | | | | 3,189 | |
| Total Affiliated | - | - | - | 380,011 | - |
| Total Nonaffiliated | - | - | 1,916 | | |
| TOTAL BALANCE | - | - | 1,916 | 380,011 | - |

SCHEDULE: 12

| DEFERRED CHARGES (Accounts 1438 and 1439) (Include data for each item in excess of \$1,000,000) | |
|--|---|
| Description of Item (a) | Amount at End of Current Year (in dollars) (b) |
| ACCOUNT 1438 | \$ N/A |
| Aggregate of All Other Items | |
| TOTAL | \$ _____ |
| ACCOUNT 1439 | \$ N/A |
| Aggregate of All Other Items | _____ |
| TOTAL | \$ _____ |

SCHEDULE: 15

| NET NONCUR. DEF. OPERATING INCOME TAXES - ACCOUNT 4340 | | | | |
|---|--|---------------|----------------|---|
| (in dollars) | | | | |
| Description (a) | Balance at End of Previous Year (b) | Debits (c) | Credits (d) | Balance at End of Current Year (e)=(b)-(c)+(d) |
| | | | | - |
| | | | | - |
| | | | | - |
| | | | | - |
| | | | | - |
| TOTALS | 0 | 0 | 0 | 0 |

SCHEDULE: 16

| NET DEFERRED TAX LIABILITY ADJUSTMENTS - ACCOUNT 4341 | | | | |
|--|--|---------------|----------------|---|
| (in dollars) | | | | |
| Description (a) | Balance at End of Previous Year (b) | Debits (c) | Credits (d) | Balance at End of Current Year (e)=(b)-(c)+(d) |
| | | | | - |
| | | | | - |
| | | | | - |
| | | | | - |
| | | | | - |
| TOTALS | 0 | 0 | 0 | 0 |

SCHEDULE: 17

| OTHER JURIS. LIABILITY & DEF. CR. - NET - ACCOUNT 4370 | | | | |
|---|--|---------------|----------------|---|
| (in dollars) | | | | |
| Description (a) | Balance at End of Previous Year (b) | Debits (c) | Credits (d) | Balance at End of Current Year (e)=(b)-(c)+(d) |
| | | | | - |
| | | | | - |
| | | | | - |
| | | | | - |
| | | | | - |
| TOTALS | 0 | 0 | 0 | 0 |

SCHEDULE: 18

LONG-TERM DEBT (Accounts 4210, 4220, 4230, 4250, 4260 and 4270)
(in dollars)

1. List in account number order in column (a) a description of the long-term obligation, including those maturing in the coming year.
2. In the remaining columns (b) - (i) respondent shall furnish the appropriate data.

| Description of Obligation (a) | Nominal Date of Issue (b) | Date of Maturity (c) | Face Amount Outstanding (d) | Unamortized Premium or Discount (e) | Stated Rate (f) | Yield Rate (g) | Short-Term Portion (h) | Long-Term Portion (i) |
|----------------------------------|------------------------------------|----------------------------|-----------------------------------|--|-----------------------|----------------------|------------------------------|-----------------------------|
| RUS | 8/10/72 | 8/10/07 | 5,688 | | % 2.0 | % | 5,688 | - |
| RUS | 6/7/77 | 6/7/12 | 195,487 | | 2.0 | | 28,682 | 166,805 |

SCHEDULE: 19

| OTHER DEFERRED CREDITS (Account 4360) (in dollars) | |
|--|---|
| 1. Disclose the data for each item in Account 4360 amounting to over \$25,000. | |
| Description of Item (a) | Amount at End of Current Year (b) |
| None | \$ - |
| All other - less than \$25,000 each (or aggregate of all other items) | |
| TOTAL | \$ - |

SCHEDULE: 20

| DEFERRED TAX REGULATORY LIABILITY (Account 4361) (in dollars) | |
|--|---|
| 1. Disclose the data for each item in Account 4361 amounting to over \$25,000. | |
| Description of Item (a) | Amount at End of Current Year (b) |
| None | \$ - |
| All other - less than \$25,000 each (or aggregate of all other items) | |
| TOTAL | \$ - |

SCHEDULE: 21

**CAPITAL STOCK (Accounts 4510, 4520 AND 4530)
(in dollars)**

1. Respondent shall enter the class of stock and a description of any pertinent details such as differences in voting rights, preferences as to dividends or assets, pledges, etc.
2. Respondent shall provide the information specified in column headings (b) through (i) and note any other pertinent information at the bottom of this schedule.

| Class and Description of Capital Stock (a) | Par or Stated Value Amount (b) | Number of Shares Authorized (c) | Amount of Stock Issued and Outstanding | | | Acct. 4520 Additional Paid In Capital (f) | Total (Col. (d) & (e)) (g) | Number of Shares of Treasury Stock (h) | Acct. 4530 Amount in Treasury Stock Account (i) | Total Dividends Declared (j) |
|--|--------------------------------|---------------------------------|--|--|------|---|----------------------------|--|---|------------------------------|
| | | | Number of Stock Issued (d) | Acct. 4510 \$ Amount of Stock Issued & Outstanding (e) | \$ | | | | | |
| COMMON: | \$ - | | | \$ - | \$ - | \$ - | | | \$ - | |
| N/A | | | | | | | | | | |
| PREFERRED: | | | | | | | | | | |
| N/A | | | | | | | | | | |
| TOTALS | \$ - | - | - | \$ - | \$ - | \$ - | - | - | \$ - | |

SCHEDULE: 22

GENERAL SERVICES AND LICENSES

1. Provide in column (a) the name of the affiliate to whom respondents paid \$50,000 or more for services rendered under a license agreement, a general service contract, or other arrangement providing for the furnishing of general accounting, engineering, financial, legal, patent, and other general services.

| Name(s) of Affiliate (a) | Service Provided (b) | Amount (in dollars) (c) |
|------------------------------|-------------------------|-------------------------------|
| None | | \$ |
| Aggregate of All Other Items | | \$ |
| TOTAL | | \$ |

SCHEDULE: 24

ANALYSIS OF EXTRAORDINARY ITEMS (Accounts 7610 and 7620)
(in dollars)

1. In column (a) provide the particulars with respect to Accounts 7610 and 7620, with totals for each account.

| Particulars (a) | Debit Amounts (b) | Credit Amounts (c) | Tax Effect Included in Account 7630 (d) | Tax Effect Included in Account 7640 (e) |
|--------------------|----------------------|-----------------------|--|--|
| None | \$ - | \$ - | \$ - | \$ - |

SCHEDULE: 25

| DISTRIBUTION OF SALARIES AND WAGES | | | | | | | |
|---|---------------------------------------|----------|-----------|--|----------------------------------|--------------|-----------------|
| | Number of Employees as of December 31 | | | Total Compensation for Year Ending December 31 | Distribution of Wages | | |
| | | | | | Operation & Maintenance Accounts | Construction | Other (Specify) |
| Telephone | Male | Female | Total | | | | |
| Part-time Employees | 6 | 2 | 8 | \$ 19,718 | \$ 19,718 | | |
| Full-time Employees | 3 | 2 | 5 | \$ 208,500 | \$ 208,500 | | |
| TOTAL ALL EMPLOYEES | 9 | 4 | 13 | \$ 228,218 | \$ 228,218 | \$ - | \$ - |

OUTSIDE PLANT STATISTICS (WIRE)

1. Report the mileage at the end of the year for all solely owned plant and the respondent's share of any jointly owned plant.
2. In column (r), provide the number of poles that company owns, and shares & joint use with other company.
3. Column (p) and (q) are not included column (c).

| (a) | State or Territory (b) | AERIAL CABLE | | UNDERGROUND CABLE | | BURIED CABLE | | SUBMARINE CABLE | |
|-----|---------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|
| | | Miles of Cable (d) | Miles of Wire In Cable (e) | Miles of Cable (f) | Miles of Wire In Cable (g) | Miles of Cable (h) | Miles of Wire In Cable (i) | Miles of Cable (j) | Miles of Wire In Cable (k) |
| 1 | Auglaize County | | | | | 75.02 | 10,542.88 | 0.22 | 264.00 |
| 2 | Defiance County | 0.50 | 50.00 | | | 48.23 | 6,980.50 | 0.23 | 276.00 |
| 3 | Highland County | | | | | 25.32 | 1,247.20 | | |
| 4 | Emerald County | | | | | 6.86 | 229.88 | | |
| 5 | Brown County | | | | | 3.02 | 55.44 | | |
| 6 | TOTAL | 0.50 | 50.00 | - | - | 158.45 | 19,055.90 | 0.45 | 540.00 |

| (a) | State or Territory (b) | DEEP SEA CABLE | | INTRA BUILDING NETWORK CABLE | | TOTAL CABLE | |
|-----|---------------------------|-----------------------|----------------------------------|---------------------------------|----------------------------------|-----------------------|----------------------------------|
| | | Miles of Cable (l) | Miles of Wire In Cable (m) | Miles of Cable (n) | Miles of Wire In Cable (o) | Miles of Cable (p) | Miles of Wire In Cable (q) |
| 1 | Auglaize County | | | | | 75.24 | 10,806.58 |
| 2 | Defiance County | | | | | 48.96 | 7,306.50 |
| 3 | Highland County | | | | | 25.32 | 1,247.20 |
| 4 | Emerald County | | | | | 6.86 | 229.88 |
| 5 | Brown County | | | | | 3.02 | 55.44 |
| 6 | TOTAL | - | - | - | - | 159.40 | 19,645.60 |

| (a) | State or Territory (b) | Number of Poles (r) | | Miles of Tube In Coaxial Cable (s) | | CONDUIT SYSTEM | |
|-----|---------------------------|--------------------------|--|---|----------|---------------------|-------------------|
| | | Company owns poles | Company shares & joint use with other company | (In Ground) | (Aerial) | Trench Miles (t) | Duct Miles (u) |
| 1 | Auglaize County | 3 | | | | | |
| 2 | Defiance County | - | | | | | |
| 3 | Highland County | - | | | | | |
| 4 | Emerald County | - | | | | | |
| 5 | Brown County | - | | | | | |
| 6 | TOTAL | 3 | - | - | - | - | - |

| OUTSIDE PLANT STATISTICS (FIBER OPTIC) | | | | | | | |
|--|---------------------------|--------------------------------------|---|--------------------------------------|---|--------------------------------------|---|
| 1. Report the mileage at the end of the year for all solely owned plant and the respondent's share of any jointly owned plant. | | | | | | | |
| (a) | State or Territory (b) | FIBER OPTIC AERIAL CABLE | | FIBER OPTIC UNDERGROUND CABLE | | FIBER OPTIC BURIED CABLE | |
| | | Miles of Fiber Optic Cable (c) | Miles of Fiber Optic In Cable (d) | Miles of Fiber Optic Cable (e) | Miles of Fiber Optic in Cable (f) | Miles of Fiber Optic Cable (g) | Miles of Fiber Optic In Cable (h) |
| 1 | Anglaize County | | | | | 11.81 | 419.76 |
| 2 | Defiance County | | | | | 11.16 | 171.00 |
| 3 | Highland County | | | | | 4.31 | 154.56 |
| 4 | Emerald County | | | | | 1.02 | 36.72 |
| 5 | Brown County | | | | | - | - |
| 6 | | | | | | | |
| TOTAL | | | | | | 28.30 | 782.04 |

| (a) | State or Territory (b) | FIBER OPTIC SUBMARINE CABLE | | DEEP SEA FIBER OPTIC CABLE | | INTRA BUILDING NETWORK FIBER OPTIC CABLE | | TOTAL FIBER OPTIC CABLE | |
|--------------|---------------------------|--------------------------------------|---|--------------------------------------|---|---|-----------------------------------|--------------------------------------|---|
| | | Miles of Fiber Optic Cable (i) | Miles of Fiber Optic In Cable (j) | Miles of Fiber Optic Cable (k) | Miles of Fiber Optic In Cable (l) | Miles of Fiber Optic Cable (m) | Miles of Fiber In Cable (n) | Miles of Fiber Optic Cable (o) | Miles of Fiber Optic In Cable (p) |
| 1 | Anglaize County | | | | | | | 11.81 | 419.76 |
| 2 | Defiance County | | | | | | | 11.16 | 171.00 |
| 3 | Highland County | | | | | | | 4.31 | 154.56 |
| 4 | Emerald County | | | | | | | 1.02 | 36.72 |
| 5 | Brown County | | | | | | | - | - |
| 6 | | | | | | | | | |
| TOTAL | | | | | | | | 28.30 | 782.04 |

SCHEDULE: 27

| DETAIL OF OHIO EXCHANGE ACCESS LINES IN SERVICE BY CUSTOMER CLASS (For Company with less than 15,000 access lines) | | | | | | | | | |
|---|-----------------------|-------------------|-------------------------------|------------------------------------|-------------------------------|--|------------------------------|----------|----------|
| Name of Exchange (a) | Business Access Lines | | Public Access Lines (d) | Residential Access Lines (e) | Mobile Access Lines (f) | Special Access Lines (Non-Switched) (g) | Total Access Lines (h) | | |
| | Single Line (b) | Multi Line (c) | | | | | | | |
| Arthur | 86 | - | - | 1,201 | - | - | 1,287 | - | - |
| TOTAL | 86 | - | - | 1,201 | - | - | 1,287 | - | - |

NOTE: List all of the access line data by exchange.

SCHEDULE: 28

| PLANT AND SERVICE DATA - OHIO TELEPHONE COMPANIES | | | | | | | | |
|--|-----------------------------|---|------------------------------|--------------------------|------------------------------------|----------------|--------------------|----------------------------------|
| DETAIL OF BILLABLE ACCESS LINES IN SERVICE BY EXCHANGE IN OHIO | | | | | | | | |
| | | | No. of Business Access Lines | | No. of Residential Access Lines | | | |
| Name of Exchange (a) | No. of COs. In Exch. (b) | Type & Model(s) of CO(s) In Exchange (c) | Single Line (d) | Multi-Line Trunks (e) | No. of Company Pay Stations (f) | 1-Party (g) | Multi-Party (h) | No. of Total Access Lines (i) |
| | | | | | | | | - |
| Arthur | 1 | Electronic | 86 | | | 1,201 | | 1,287 |
| | | | | | | | | - |
| | | | | | | | | - |
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| | | | | | | | | - |
| | | | | | | | | - |
| TOTAL FOR OHIO | 1 | | 86 | - | - | 1,201 | - | 1,287 |

NOTE: List all of the access line data by exchange.

For companies with more exchanges than will fit this page, substitute a computer printout with the same information in place of this page.

For exchanges with multiple central offices, list the number of each type of central office, e.g., 12-5ESS, 161E, 2-DMS10, etc. The total should equal the total number of COs listed in Column (b).

Unusual switch types should be characterized as Electromechanical, Analog or Digital.

Use the following symbols to show in the above columns:

- *Includes Key System, PBX and Centrex.
- **Includes all Single Line Business Access Lines.

SCHEDULE: 29

| OHIO CENTRAL OFFICES SCHEDULED TO BE UPGRADED | | |
|--|-------------------------------------|--|
| Date Expected to be Placed in Service | Manufacturer & Type of Equipment | Capable of Independent Operation? (Yes) or (No) |
| 12/05/2007 | Coppercom CSX Central Office Switch | Yes |

Note: This form is only applicable to local exchange companies with less than 15,000 access lines.
 Date: Date new switch was placed or will be placed in service.
 Manufacturer & Type of Equipment: List the type of switch and its manufacturer.
 (Yes) or (No): Is the switch a HOST or REMOTE, i.e. does it have stand-alone capability.

SCHEDULE: 30

| PROJECTION OF NEW OR CHANGED OHIO CENTRAL OFFICE PREFIXES (NXX) TO BE PLACED IN SERVICE | |
|---|--|
| PREFIXES (NXX) Number(s) | Date is Expected to be Operational |
| <p>None</p> | |

Note: This form is only applicable to local exchange companies with less than 15,000 access lines.
 Prefixes (NXX) Number(s): Where any new NXXs placed in service or will any be placed in service in the upcoming year.
 Date: Give date new NXX was or will be operational.

SCHEDULE: 31

Form 1

TOLL USAGE STUDY TO OHIO CONTIGUOUS EXCHANGES

(Month and year of study)

AVERAGE NUMBER OF MESSAGE TOLL CALLS EQUALING 3.0 OR OVER BUT LESS THAN 8.0 PER ACCESS LINE PER MONTH FROM ONE EXCHANGE TO ANOTHER

| Originating exchange (1) | Number of access lines in 1 | Terminating exchange(s) (2) | Number of messages from 1 to 2 | Messages per access line per month from 1 to 2* |
|--------------------------|-----------------------------|-----------------------------|--------------------------------|---|
| | | N/A | | |

Form 2

TOLL USAGE STUDY TO OHIO CONTIGUOUS EXCHANGES

(Month and year of study)

AVERAGE NUMBER OF MESSAGE TOLL CALLS EQUALING 8.0 OR MORE PER ACCESS LINE PER MONTH FROM ONE EXCHANGE TO ANOTHER

| Originating exchange (1) | Number of access lines in 1 | Terminating exchange(s) (2) | Number of messages from 1 to 2 | Messages per access line per month from 1 to 2* |
|--------------------------|-----------------------------|-----------------------------|--------------------------------|---|
| | | N/A | | |

* Total number of messages from 1 to 2 ÷ total number of access lines in 1.

Note: This form is only applicable to local exchange companies with less than 15,000 access lines. EAS calling rates should be filed only for contiguous exchanges that currently have no EAS between them.

SCHEDULE: 32

| Service Connection Assistance (SCA) Annual Reporting Form | | | | | | | | | | | | | | | | | |
|--|--------------------------------|-------------------|------------------------------------|------------|------------------------|------------|----------|-----------------------|--------------|---------------|------------------------|-------------|--------------------|--|-------------|--|---|
| Class of Service | Number of Program Participants | | Number of New Program Participants | | Number of Participants | | | By Qualifying Program | | | Percentage Penetration | | Features | | of Optional | | Participants Disconnected for Non-Payment [L] |
| | End of Period [A] | During Period [B] | HEAP [C] | E-HEAP [D] | HEAP [C] | E-HEAP [D] | OECF [E] | SSI [F] | Medicaid [G] | Touchtone [H] | Wire Care [I] | Non-Pub [J] | Custom Calling [K] | | | | |
| (1) Flat | | | | | | | | | | | | | | | | | |
| (2) Message | | | | | | | | | | | | | | | | | |
| (3) Measured | | | | | | | | | | | | | | | | | |
| (4) TOTAL | | | | | | | | | | | | | | | | | |

| Class of Service | Average Monthly Local Bill [M] | Average Monthly Toll Bill [N] | Average Service Connection Charge Waived [O] | Average of Waived Deposits [P] | Amount of Subscriber [Q] | Monthly Line Charge [R] | Number of Months for SLC Waiver [K] | Telephone Company | |
|------------------|--------------------------------|-------------------------------|--|--------------------------------|--------------------------|-------------------------|-------------------------------------|-------------------|-----------------------|
| | | | | | | | | Street/P.O. Box | City, State, Zip Code |
| (1) Flat | \$ | \$ | \$ | \$ | \$ | | | | |
| (2) Message | \$ | \$ | \$ | \$ | \$ | | | | |
| (3) Measured | \$ | \$ | \$ | \$ | \$ | | | | |
| (4) TOTAL | \$ | \$ | \$ | \$ | \$ | | | | |

Note: This form is applicable to local exchange companies with less than 15,000 access lines, that are exempted from offering TSA and only provide SCA.

SCHEDULE 32: Service Connection Assistance

EXPLANATION OF SCA ANNUAL REPORTING FORM FIELDS

- A, 1-3 - Refers to the number of SCA customers at the end of the fiscal year, as distinguished by the class of service the customers were receiving, i.e., flat, message, or measured rate service.
- A, 4 - The total of A1 + A2 + A3.
- B, 1-3 - Refers to the number of SCA customers that were added to the program during the relevant fiscal year, as distinguished by the class of service. These numbers may actually be greater than the difference between consecutive year's respective totals. For instance, if there were 20 flat rate SCA customers at the end of FY92, and 25 flat rate SCA customers at the end of FY93, but 3 flat rate SCA customers left the program during FY93, then the number of new program participants would be 8, not 5.
- B, 4 - The total of B1 + B2 + B3.
- C-G, 1-3 - Refers to the number of SCA customers at the end of the fiscal year, as distinguished by the specific assistance program which qualified the customer for SCA, and further divided by the particular class of service.
- C-G, 4 - The respective totals for C thru G, 1 + 2 + 3.
- H-K, 1-3 - Refers to the percentage of SCA customers utilizing the respective optional features, as distinguished by the class of service the customer is receiving. These percentages may be calculated at the end of the fiscal year, as opposed to monitoring any changes during the course of the 12 month period.
- H-K, 4 - THESE FIELDS SHOULD NOT ACTUALLY REFLECT TOTALS. Rather, they should reflect the respective percentages of utilization of each optional feature, expressed as a factor of all TSA customers, disregarding class of service distinctions.
- L, 1-3 - Refers to the number of SCA customers involuntarily disconnected for non-payment during the course of the relevant fiscal year, as distinguished by the class of service.
- L, 4 - The total of L1 + L2 + L3.
- M, 1-3 - Refers to the average dollar amount of SCA customers' monthly local charges for the relevant year, as distinguished by the class of service.
- M, 4 - Refers to the average dollar amount of SCA customers' monthly local charges for the relevant fiscal year, disregarding class of service distinctions.
- N, 1-3 - Refers to the average dollar amount of SCA customers' monthly toll charges, including intra and interLATA toll, for the relevant fiscal year, as distinguished by the class of service.
- N, 4 - Refers to the average dollar amount of SCA customers' monthly toll charges, including intra and interLATA toll, for the relevant fiscal year, disregarding class of service distinctions.
- O, 1-3 - Refers to the average dollar amount of service connection charges that are waived for SCA customers during the relevant fiscal year, as distinguished by the class of service.
- O, 4 - Refers to the average dollar amount of service connection charges that are waived for all SCA customers during relevant fiscal year, disregarding class of service distinctions.
- P, 1-3 - Refers to the average dollar amount of deposits waived for SCA customers during the relevant fiscal year, as distinguished by the class of service.
- P, 4 - Refers to the average dollar amount of deposits that are waived for all SCA customers during the relevant fiscal year, disregarding class of service distinctions.
- Q, 1-3 - Refers to the amount of the Subscriber Line Charge assessed by the company. This dollar amount will be the same for every class of service.
- Q, 4 - THIS FIELD SHOULD NOT ACTUALLY REFLECT A TOTAL AND MAY, IN FACT, BE DISREGARDED.
- R, 1-3&4 - Like Q, the answer to this field will be the same for 1 thru 4, and will be equal to:

$$(O + P \div Q)$$

Instructions:

- Revenue billed on behalf of other entities should not be included on this schedule if the company does not include this revenue in its determination of taxable gross receipts for Ohio gross receipts tax purposes. If, however, the local exchange company includes revenue billed on behalf of other entities in its taxable gross receipts, such revenue should then be included on this schedule.
- "Earnings or receipts from sales to other public utilities for resale" includes, but is not limited to, carrier access charges paid to the company.

SCHEDULE: 33

| Account No. | | Item | Total (1) | Interstate (2) | Ohio Intrastate (3)=(1)-(2) |
|--|-------------------------|---------------------------------------|--------------|-------------------|-----------------------------------|
| Class "A" Company | Class "B" Company | | | | |
| LOCAL NETWORK SERVICES REVENUES: | | | | | |
| 5001 | ..... | Basic Area Rev. | 228,458 | | 228,458 |
| 5002 | ..... | Optional Extended Area Rev. | - | | - |
| 5003 | ..... | Cellular Mobile Service Rev. | - | | - |
| 5004 | ..... | Other Mobile Service Rev. | - | | - |
| 5000 (5001-5004) | ..... | Basic Local Service Rev. | 228,458 | 0 | 228,458 |
| 5010 | ..... | Public Telephone Rev. | - | | - |
| 5040 | ..... | Local Private Line Rev. | - | | - |
| 5050 | ..... | Customer Premises Rev. | 3,190 | | 3,190 |
| 5060 | ..... | Other Local Exchange Rev. | 70,647 | | 70,647 |
| 5069 | ..... | Other Local Exchange Rev. Settlements | - | | - |
| (5001-5069) | 5000 | TOTAL LOCAL NETWORK SERVICES REVENUES | 302,295 | - | 302,295 |
| NETWORK ACCESS SERVICES REVENUES: | | | | | |
| 5081 | 5081 | End User Rev. | 97,502 | 97,502 | - |
| 5082 | 5082 | Switched Access Revenue | 403,271 | 403,271 | - |
| 5083 | 5083 | Special Access Revenue | 9,020 | 9,020 | - |
| 5084 | 5084 | State Access Revenue | 349,113 | 30,204 | 318,909 |
| 5080 (5081-5084) | 5080 (5081-5084) | NETWORK ACCESS REVENUE | 858,906 | 539,997 | 318,909 |

Note: Total Column should agree with revenues reported on Schedule 5.
Provide detailed explanation of any deviations.

SCHEDULE: 33

| STATEMENT OF INTRASTATE GROSS EARNINGS (REVENUE) FOR THE YEAR * (in dollars) | | | | | |
|--|----------------------|---|--------------|-------------------|-----------------------------------|
| Account No. Class "A" Company | Class "B" Company | Item | Total (1) | Interstate (2) | Ohio Intrastate (3)=(1)-(2) |
| | | | | | |
| 5100 | | Long Distance Message Rev. | - | | - |
| 5111 | | Long Distance Inward-Only Rev. | - | | - |
| 5112 | | Long Distance Outward-Only Rev. | - | | - |
| 5121 | | Subvoice Grade Long Dist. Priv. Net. Rev. | - | | - |
| 5122 | | Voice Grade Long Dist. Priv. Net. Rev. | - | | - |
| 5123 | | Audio Prog. Grade Long Dist. Priv. Net. Rev. | - | | - |
| 5124 | | Video Prog. Grade Long Dist. Priv. Net. Rev. | - | | - |
| 5125 | | Digital Trans. Long Dist. Priv. Net. Rev. | - | | - |
| 5126 | | Long Dist. Priv. Net. Switching Rev. | - | | - |
| <u>LOCAL NETWORK SERVICES REVENUES:</u> | | | | | |
| 5128 | | Other Long Dist. Priv. Net. Rev. | - | | - |
| 5129 | | Other Long Dist. Priv. Net. Rev. Settlements | - | | - |
| 5160 | | Other Long Dist. Rev. | - | | - |
| 5169 | | Other Long Dist. Rev. Settlements | - | | - |
| 5100-5169 | 5100 | LONG DISTANCE NETWORK SERVICES REVENUES (FOR CLASS "B" ACCOUNT 5100) | - | - | - |
| <u>MISCELLANEOUS REVENUES:</u> | | | | | |
| 5230 | | Directory Rev. | 354 | | 354 |
| 5240 | | Rent Rev. | - | | - |
| 5250 | | Corporate Operations Rev. | - | | - |
| 5261 | | Special Billing Arrangement Rev. | - | | - |
| 5262 | | Customer Operations Rev. | - | | - |
| 5263 | | Plant Operations Rev. | - | | - |
| 5264 | | Other Incidental Regulated Rev. | 5,503 | | 5,503 |

Note: Total Column should agree with revenues reported on Schedule 5.

Provide detailed explanation of any deviations.

SCHEDULE: 33

| STATEMENT OF INTRASTATE GROSS EARNINGS (REVENUE) FOR THE YEAR * | | | | | |
|---|---|------------------|-------------------|-----------------------------------|--|
| (in dollars) | | | | | |
| Account No. | Item | Total (1) | Interstate (2) | Ohio Intrastate (3)=(1)-(2) | |
| Class "A" Company | Class "B" Company | | | | |
| 5269 | Other Rev. Settlements | 19,611 | | 19,611 | |
| 5260 | Miscellaneous Revenues (5261-5269) | | | | |
| 5270 | Carrier Billing & Collection Rev. | 8,826 | 3,861 | 4,965 | |
| 5200 (5230-5270) | MISCELLANEOUS REVENUES | 34,294 | 3,861 | 30,433 | |
| | NONREGULATED REVENUES: | | | | |
| 5280 | Nonregulated Operating Revenues | - | | | |
| | TOTAL OPERATING REVENUES (5001-5280) | 1,195,495 | 543,858 | 651,637 | |
| | OTHER OPERATING INCOME AND EXPENSES: | | | | |
| 7110 | Income from Custom Work | - | | | |
| 7130 | Return from Nonregulated Use of Reg. Fac. | - | | | |
| 7140 | Gains and Losses from Foreign Exchange | - | | | |
| 7150 | Gains or Losses from Disposition of Land and Artwork | - | | | |
| 7160 | Other Operating Gains and Losses | - | | | |
| 7100 (7110-7160) | OTHER OPERATING INCOME AND EXPENSES: | - | - | - | |
| | NONOPERATING INCOME AND EXPENSES: | | | | |
| 7310 | Dividend Income | 8,554 | | 8,554 | |
| 7320 | Interest Income | 103,767 | | 103,767 | |
| 7330 | Income from Sinking and Other Funds | - | | | |
| 7340 | Allowance for Funds Used During Construction | - | | | |
| 7350 | Gains from the Disposition of Certain Prop. | - | | | |
| 7360 | Other Nonoper. Income (Income & Gains Only) | 8,111 | | 8,111 | |
| 7370 | Special Charge | (33,707) | | (33,707) | |
| 7300 (7310-7370) | NONOPERATING INCOME AND EXPENSES | 86,725 | - | 86,725 | |

Note: Total Column should agree with revenues reported on Schedule 5.

Provide detailed explanation of any deviations.

SCHEDULE: 33

| STATEMENT OF INTRASTATE GROSS EARNINGS (REVENUE) FOR THE YEAR * (in dollars) | | | | | |
|--|--|--|------------------|-------------------|-----------------------------------|
| Class "A" Company | Account No. Class "B" Company | Item | Total (1) | Interstate (2) | Ohio Intrastate (3)=(1)-(2) |
| | | | | | |
| | 7610 | Extraordinary Income Credits | - | | |
| | 7620 | Extraordinary Income Charges Debit | - | | |
| | 7630 | Current Income Tax Effect of Extraordinary Items-Net: Credited | - | | |
| | 7640 | Provision for Deferred Income Tax Effect of Extraordinary Items-Net: Credited | - | | |
| | 7600 (7610-7640) | TOTAL EXTRAORDINARY ITEMS | - | | |
| | | SUBTOTAL (5001-7640) | 1,281,598 | 543,858 | 737,740 |
| | | Less: | | | |
| | | - Earnings or receipts from sales to public utilities for resale | | | |
| | | TOTAL | 1,281,598 | 543,858 | 737,740 |
| | | * Intrastate means from one point to another point in Ohio, or wholly within Ohio. | | | |

Note: Total Column should agree with revenues reported on Schedule 5.
Provide detailed explanation of any deviations.

SCHEDULE: 34

IN ORDER TO ENSURE THAT PUCO CORRESPONDENCE IS DIRECTED TO THE APPROPRIATE PERSON AT THE CORRECT ADDRESS, PLEASE COMPLETE THE FOLLOWING.

Name, Title, Address, and Phone Number of the Company's Contact Persons to Receive Entries and Orders from the Docketing Division

| | |
|------------------------------------|--------------------|
| Eric Roughton | Manager |
| Name | Title |
| | |
| 21980 State Rt. 637 | Defiance, OH 43512 |
| Address | |
| | |
| (419) 393-2233 | |
| Phone Number (Including Area Code) | |

Name, Title, Address, and Phone Number of Person to whom Invoice should be Directed

| | |
|------------------------------------|--------------------|
| Eric Roughton | Manager |
| Name | Title |
| | |
| 21980 State Rt. 637 | Defiance, OH 43512 |
| Address | |
| | |
| (419) 393-2233 | |
| Phone Number (Including Area Code) | |

Name and Address of the President

| | |
|---------------------|--------------------|
| Richard Wagner | President |
| Name | Title |
| | |
| 21980 State Rt. 637 | Defiance, OH 43512 |
| Address | |

VERIFICATION

The foregoing report must be verified by the President or Chief Officer of the company. The oath required may be taken before any person authorized to administer an oath by the laws of the State in which the same is taken.

OATH

State of Ohio
County of Paulding

Eric Roughton
(Insert here the name of the affiant.)

makes oath and says that

he is Manager
(Insert here the official title of deponent)

of Arthur Mutual Telephone Company
(Insert here the exact legal title or name of the respondent.)

that he has examined the foregoing report; that to the best of his 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 and including January 1, 2004, to and including December 31, 2004.

Eric W. Roughton
(Signature of affiant.)

Subscribed and sworn to before me, a Notary Public in and for the
State and county named, this 26th day of April, 2007.
My commission expires 6-3, 2010.

Janet E. Shall
(Signature of Person Authorized to Administer Oaths)

OHIO 503 ARTHUR
ARTHUR MUTUAL TELEPHONE COMPANY
(An Ohio Mutual Company)
DEFIANCE, OHIO
FINANCIAL STATEMENTS
AND SUPPLEMENTAL REPORTS
DECEMBER 31, 2006, AND 2005

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C O N T E N T S

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LALLY, CUMMINGS, PALMER & PATCH, P.C.
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WILLIAM E. CUMMINGS, C.P.A.
CHARLES E. GUGINS, C.P.A.
JANICE M. KIDD, C.P.A.

March 8, 2007

Board of Directors
Arthur Mutual Telephone Company
Defiance, Ohio 43512

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of ARTHUR MUTUAL TELEPHONE COMPANY (An Ohio Mutual Company) as of December 31, 2006, and 2005, 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 company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. 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 financial statements referred to above present fairly, in all material respects, the financial position of Arthur Mutual Telephone Company at December 31, 2006, and 2005, the results of its operations, and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated March 8, 2007, on our consideration of Arthur Mutual Telephone Company'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.

Lally, Cummings, Palmer & Patch

ARTHUR MUTUAL TELEPHONE COMPANY
(An Ohio Mutual Company)

BALANCE SHEET
DECEMBER 31, 2006, AND 2005

ASSETS

| | 2006 | 2005 |
|---|------------------|------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 1,483,433 | \$ 1,229,785 |
| Temporary investments | 1,030,232 | 906,594 |
| Telecommunications accounts receivable (less reserves of \$13,540) | 174,830 | 208,376 |
| Interest receivable | 1,916 | 1,916 |
| Materials and supplies (at cost) | 6,668 | 9,684 |
| Prepaid taxes | 8,298 | 8,298 |
| Prepaid expenses | 4,289 | 5,410 |
| Total current assets | 2,709,666 | 2,370,063 |
| NONCURRENT ASSETS: | | |
| Investments | 380,011 | 381,362 |
| Deferred charges | 20,000 | 25,000 |
| Net nonregulated customer premises equipment | 3,182 | 4,622 |
| Total noncurrent assets | 403,193 | 410,984 |
| PROPERTY, PLANT, AND EQUIPMENT: | | |
| Telecommunications plant in service | 4,441,837 | 4,343,680 |
| Less: Depreciation reserve | 3,275,130 | 3,090,118 |
| Net book value | 1,166,707 | 1,253,562 |
| Total assets | \$ 4,279,566 | \$ 4,034,609 |

(The accompanying notes are an integral part of these financial statements)

LIABILITIES AND MEMBERS' EQUITY

| | 2006 | 2005 |
|--|--------------|--------------|
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 11,937 | \$ 17,199 |
| Customer deposits | 925 | 1,175 |
| Notes payable - current portion | 34,370 | 40,457 |
| Accrued taxes and expenses | 45,909 | 35,922 |
| Total current liabilities | 93,141 | 94,753 |
| LONG-TERM LIABILITIES: | | |
| Notes payable - net of current portion | 166,805 | 199,460 |
| Other long-term liabilities | 116,683 | 50,477 |
| Total long-term liabilities | 283,488 | 249,937 |
| MEMBERS' EQUITY: | | |
| Memberships issued | 18,630 | 17,790 |
| Patronage capital (Page 4) | 3,884,307 | 3,672,129 |
| Total members' equity | 3,902,937 | 3,689,919 |
| | | |
| Total liabilities and members' equity | \$ 4,279,566 | \$ 4,034,609 |

(The accompanying notes are an integral part of these financial statements)

ARTHUR MUTUAL TELEPHONE COMPANY

STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2006, AND 2005

| | 2006 | 2005 |
|---|--------------|--------------|
| OPERATING REVENUES: | | |
| Local service | \$ 302,295 | \$ 310,728 |
| Access service | 858,906 | 855,398 |
| Miscellaneous | 34,294 | 25,492 |
| Less: Uncollectible revenue | 0 | 5,836 |
| Total operating revenues | 1,195,495 | 1,185,782 |
| OPERATING EXPENSES: | | |
| Plant specific operations | 241,693 | 215,209 |
| Plant nonspecific operations | 36,674 | 34,115 |
| Depreciation | 185,013 | 170,493 |
| Customer operations | 167,647 | 168,725 |
| Corporate operations | 209,737 | 193,919 |
| Total operating expenses | 840,764 | 782,461 |
| GROSS OPERATING INCOME | 354,731 | 403,321 |
| OPERATING TAXES | | |
| Income taxes | 15,120 | 0 |
| Other operating taxes | 27,474 | 32,205 |
| Total operating taxes | 42,594 | 32,205 |
| NET OPERATING INCOME | 312,137 | 371,116 |
| NONOPERATING AND NONREGULATED INCOME - net | 209,104 | 171,819 |
| INCOME AVAILABLE FOR FIXED CHARGES | 521,241 | 542,935 |
| FIXED CHARGES: | | |
| Interest | 4,498 | 5,283 |
| NET INCOME | 516,743 | 537,652 |
| OTHER COMPREHENSIVE INCOME (LOSS): | | |
| Unrealized gain (loss) on securities | (26,525) | (81,653) |
| NET COMPREHENSIVE INCOME | 490,218 | 455,999 |
| PATRONAGE CAPITAL - beginning | 3,672,129 | 3,233,559 |
| RETIREMENT OF CAPITAL CREDITS | 278,040 | 17,429 |
| PATRONAGE CAPITAL - ending (Page 3) | \$ 3,884,307 | \$ 3,672,129 |

(The accompanying notes are an integral part of these financial statements)

ARTHUR MUTUAL TELEPHONE COMPANY

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, AND 2005

| | 2006 | 2005 |
|---|---------------------|---------------------|
| OPERATING ACTIVITIES: | | |
| Net comprehensive income | \$ 490,218 | \$ 455,999 |
| Adjustments to reconcile net comprehensive income to net cash provided by operating activities: | | |
| Depreciation and amortization | 185,013 | 170,493 |
| Loss on investment | 26,525 | 81,653 |
| Equity in loss of affiliates | 2,283 | 13,300 |
| Changes in operating assets and liabilities: | | |
| Decrease (Increase) in: | | |
| Accounts receivable and other current assets | 37,683 | (107,801) |
| Increase (Decrease) in: | | |
| Accounts payable and other current liabilities | 70,681 | (31,467) |
| | <u>812,403</u> | <u>582,177</u> |
| NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | |
| | <u>812,403</u> | <u>582,177</u> |
| INVESTING ACTIVITIES: | | |
| Purchases of property, plant, and equipment | (98,158) | (199,564) |
| Distributions received from affiliates | 543 | 520 |
| Investment in affiliate companies | (28,000) | (14,000) |
| Change in temporary investments | (123,638) | 85,919 |
| (Increase) Decrease in permanent investments | 6,440 | (16,322) |
| | <u>(242,813)</u> | <u>(143,447)</u> |
| NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | | |
| | <u>(242,813)</u> | <u>(143,447)</u> |
| FINANCING ACTIVITIES: | | |
| Principal payments on long-term debt | (38,742) | (38,903) |
| Increase (Decrease) in memberships | 840 | (435) |
| Retirement of capital credits | (278,040) | (17,429) |
| | <u>(315,942)</u> | <u>(56,767)</u> |
| NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES | | |
| | <u>(315,942)</u> | <u>(56,767)</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 253,648 | 381,963 |
| CASH AND CASH EQUIVALENTS - BEGINNING | <u>1,229,785</u> | <u>847,822</u> |
| CASH AND CASH EQUIVALENTS - ENDING | <u>\$ 1,483,433</u> | <u>\$ 1,229,785</u> |
| SUPPLEMENTAL DISCLOSURES: | | |
| Interest paid (net of \$0 capitalized) | \$ 4,498 | \$ 5,283 |
| Income taxes paid (refunded) | \$ 0 | \$ 0 |

(The accompanying notes are an integral part of these financial statements)

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Arthur Mutual Telephone Company provides telecommunication services to member subscribers in the Arthur, Ohio area. The accounting policies of the company conform to U.S. generally accepted accounting principles and reflect practices appropriate to the telephone industry. The accounting records were maintained in accordance with Part 32 Uniform System of Accounts and the Nonregulated Activity Requirements prescribed by the Public Utilities Commission of Ohio and the Federal Communications Commission.

Concentrations of Credit Risk -

The company grants credit to member subscribers, substantially all of whom are located in the Arthur, Ohio area. The company also grants credit to connecting toll companies located throughout the United States.

Financial instruments that potentially subject the company to credit risk include investments in Com Net, Inc., SAA Bright.NET, Inc., Horizon PCS, Inc., Horizon Telecom, Inc., Bright CLEC, LLC, Bright Long Distance, Ltd, and Broadband Network Group, LLC. Future changes in economic conditions may make the investments less valuable. The investments listed above have restrictive ownership rights.

Use of Estimates -

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents -

The company considers highly liquid investments with maturities of ninety days or less to be cash equivalents. Securities with maturities between ninety days and one year are considered temporary investments.

The company maintains deposits in accounts covered by FDIC insurance and in accounts which are collateralized by securities issued by agencies of the United States.

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Materials and Supplies -

Inventories are stated at cost on the first-in, first-out (FIFO) method. A physical inventory was taken by management on December 31, 2006.

Telephone Plant and Depreciation -

Telephone plant in service and under construction was stated substantially at original cost. The company provided for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. Depreciation for book purposes has been computed in accordance with rates authorized by the Public Utilities Commission of Ohio.

At the time the plant is retired, the retirements credited to telephone plant together with removal costs less salvage, are charged to the depreciation reserve, unless the retirement is of an extraordinary or abnormal nature.

Tax Status -

The company operates as a Section 501(c)(12) corporation as defined by the Internal Revenue Code and filed Forms 990 and 1120 for 2006 and Form 990 for 2005.

Revenue Recognition -

Toll access services are furnished in conjunction with the Embarq Telephone System and other long-distance carriers. During 2006 and 2005, the company received monthly access revenues based upon annual average cost separation studies. Access and local service revenues are substantially recognized when such services are performed.

Maintenance -

Accounting for maintenance and repairs was in conformity with the Uniform System of Accounts prescribed by the Public Utilities Commission of Ohio.

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

2. INVESTMENT IN TELEPHONE PLANT:

Telephone plant in service was stated primarily at cost as explained in Note 1. Listed below are the major classes of the telephone plant as of December 31, 2006, and 2005:

| | <u>2006</u> | <u>2005</u> |
|----------------------------|--------------------|--------------------|
| Organization | \$ 261 | \$ 261 |
| Land | 22,610 | 22,610 |
| Buildings | 313,298 | 294,413 |
| Central office equipment | 1,260,941 | 1,233,546 |
| Pole lines | 969 | 969 |
| Aerial cable | 6,271 | 5,223 |
| Underground cable | 26,162 | 26,162 |
| Buried cable | 2,573,184 | 2,529,104 |
| Submarine cable | 34,026 | 34,026 |
| Furniture | 20,804 | 20,804 |
| Office equipment | 34,697 | 32,165 |
| General purpose computers | 11,224 | 11,224 |
| Motor vehicles | 38,961 | 38,961 |
| Work equipment | 98,429 | 94,212 |
| Telephone plant in service | <u>\$4,441,837</u> | <u>\$4,343,680</u> |

The company provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. During 2005, the company was granted new depreciation rates by the Public Utilities Commission of Ohio (PUCO). In addition to depreciation accrual rates, the PUCO ordered an adjustment of depreciation of \$399,747 amortizable over five years beginning January 1, 2005. The affect of the lower accrual rates is to decrease depreciation expense by approximately \$79,949 annually. Individual plant depreciation rates are as follows:

| | <u>2006</u> | <u>2005</u> |
|---------------------------|-------------|-------------|
| Buildings | 2.80% | 2.80% |
| Central office equipment | 6.67 | 8.17 |
| Central office software | 20.00 | 20.00 |
| Circuit equipment | 10.00 | 9.80 |
| Pole lines | 5.80 | 5.80 |
| Aerial cable | 6.25 | 6.25 |
| Underground cable | 4.20 | 4.20 |
| Buried cable | 4.77 | 4.77 |
| Submarine cable | 4.16 | 4.16 |
| Conduit systems | 2.33 | 2.33 |
| Furniture | 5.00 | 5.00 |
| Office equipment | 8.33 | 8.33 |
| General purpose computers | 20.00 | 20.00 |
| Motor vehicles | 10.63 | 10.63 |
| Work equipment | 6.40 | 6.40 |

For the years ended December 31, 2006, and 2005, depreciation expense totaled \$185,013 and \$170,493, respectively.

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS:

The accounting method and carrying values of investments consisted of the following items at December 31, 2006, and 2005:

| | <u>Accounting Method</u> | <u>2006</u> | <u>2005</u> |
|---|------------------------------|------------------|------------------|
| Com Net, Inc. | Cost | \$ 18,000 | \$ 18,000 |
| SAA Bright.NET, Inc. | Equity | 59,223 | 32,220 |
| Bright Long Distance, Ltd. | Equity | 3,300 | 2,985 |
| Bright CLEC, LLC | Equity | 3,277 | 2,434 |
| Broadband Network Group, LLC | Equity | 3,189 | 6,175 |
| Horizon Telecom, Inc. | Cost | 118,022 | 144,548 |
| Loans receivable - affiliates (see Note 9) | Cost | <u>175,000</u> | <u>175,000</u> |
| Total investments | | <u>\$380,011</u> | <u>\$381,362</u> |

Com Net, Inc. -

During 1993, the company purchased a 6.67% share of Com Net, Inc. (An Ohio Corporation) for \$18,000. The company consists of a group of local exchange companies engaged in a joint venture to construct an A-link system to provide their customers better communication capabilities. The purpose of Com Net, Inc. is to provide quality A-link service at a reduced cost. The investment has ownership restrictions and limited marketability. During 2006 and 2005, the company incurred expenses amounting to \$30,282 and \$29,267, respectively, for the A-link service.

SAA Bright.NET, Inc. -

During 1995, the company purchased a 33.33% share of SAA Bright.NET, Inc. for \$28,000. During 2001 thru 2005, and in 2006, SAA Bright.NET, Inc. issued additional shares of common stock and the company maintained its 33.33% share by investing an additional \$140,000, and \$28,000 respectively. SAA Bright.NET, Inc. consists of three local exchange companies providing internet access to greater Northwestern Ohio. The investment has ownership restrictions and limited marketability. SAA Bright.NET, Inc. maintains its own staff. The company's share of losses for 2006 and 2005 amounted to \$(997) and \$(8,714), respectively. These losses are reflected in nonregulated operations.

Bright Long Distance, Ltd. -

During 2000, the company entered into an operating agreement forming Bright Long Distance, Ltd. a Limited Liability Company organized in Ohio. The purpose of the company is to sell long distance toll services and related services. The term of the organization is 25 years. The company's ownership percentage is less than 5% and its share of the entity's earnings for 2006 and 2005 totaled \$315 and \$554, respectively.

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS (Continued):

Bright CLEC, LLC -

In 2001, the company entered into an operating agreement forming Bright CLEC, LLC, a Limited Liability Company organized in Ohio. The purpose of the company is to create a competitive local exchange company to pool purchasing resources to receive favorable expense reductions. The investment in Bright CLEC, LLC is accounted for on the equity method. The company's share of income for 2006 and 2005 was \$843 and \$1,378, respectively.

Broadband Network Group, LLC -

In 2003, the company entered into a participation agreement with Com Net, Inc., an Ohio Corporation. The purpose of this agreement was to form a LLC to create a fiber ring for local exchange carriers. The company began operations in 2004. The company's share of losses for 2006 and 2005 was \$(2,986) and \$(753), respectively.

Horizon Telecom, Inc. and Horizon PCS, Inc. -

On June 27, 2000, Bright PCS, LLC was terminated and was then incorporated into two Ohio C Corporations; Horizon Telecom, Inc. and Horizon PCS, Inc. It is the intent of both of these companies to become publicly traded on established stock markets. As of December 31, 2006, the company owns the following (adjusted for stock dividends):

| | |
|-----------------------|--------------------|
| Horizon Telecom, Inc. | 411 "A" shares |
| Horizon Telecom, Inc. | 1,234 "B" shares |
| Horizon PCS, Inc. | 219,325 "B" shares |

In September 2004, Horizon PCS, Inc. filed for bankruptcy. The company has significantly more recorded liabilities than recorded assets, and it is projected that the stockholder's investment will be cancelled if the company is to emerge from bankruptcy.

Fair market values for Horizon Telecom, Inc. A and B shares are available from Pink Sheet quotations, which is a market that is very thinly traded.

Values are as follows:

| | Market <u>2006</u> | Market <u>2005</u> |
|---|-----------------------|-----------------------|
| Horizon PCS, Inc. | \$ 0 | \$ 0 |
| Horizon Telecom, Inc. "A" | 37,812 | 44,593 |
| Horizon Telecom, Inc. "B" | 80,210 | 99,954 |
| Total | <u>118,022</u> | <u>144,547</u> |
| Less: Market - prior year | <u>144,547</u> | <u>226,200</u> |
| Gain (loss) in value | <u>\$(26,525)</u> | <u>\$(81,653)</u> |
| Reflected in the financial statements as: | | |
| Other comprehensive income (loss): | | |
| Unrealized gain (loss) on securities | <u>\$(26,525)</u> | <u>\$(81,653)</u> |

ARTHUR MUTUAL TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS (Continued):

Capital Resource Funding, Inc. -

During 2004, a write-off in the amount of \$200,000 was recorded due to the bankruptcy of Capital Resource Funding, Inc. This write-off represents the full investment in Capital Resource Funding, Inc. During 2005, the company received a \$39,698 distribution under the Joint Plan of Liquidation. A final distribution under the liquidation plan of \$4,876 was received in 2006.

4. LONG-TERM LIABILITIES:

Long-term debt is represented by mortgage notes payable to the United States of America. The following is a summary of outstanding long-term debt:

| | <u>2006</u> | <u>2005</u> |
|---|------------------|------------------|
| 2% Rural Utilities Service - notes - due various dates from 2005 - 2018 | \$201,175 | \$239,917 |
| Less: Current maturities | <u>34,370</u> | <u>40,457</u> |
| | <u>\$166,805</u> | <u>\$199,460</u> |

All assets are pledged as security to these notes. Principal and interest installments on the above notes are due quarterly in equal amounts of approximately \$11,000. The maturities of long-term debt for each of the five years succeeding the balance sheet date are estimated to be as follows:

| | |
|------|-----------|
| 2007 | \$ 34,370 |
| 2008 | \$ 28,271 |
| 2009 | \$ 28,842 |
| 2010 | \$ 29,424 |
| 2011 | \$ 30,006 |

5. PENSION PLAN:

The employees of the company are covered by the National Telephone Cooperative Association Pension Plan, a multiple-employer plan.

6. CAPITAL CREDITS:

Capital credit retirements in the amounts of \$278,040 and \$17,429 were paid in 2006 and 2005, respectively. The credits retired were in compliance with the Mortgage Agreement and the policies of the company.

7. FEDERAL TAX STATUS:

This company operates as a tax-exempt corporation as defined by the Internal Revenue Code Section 501(c)(12). One of these requirements is that the company must obtain 85% or more of their gross income from members. The company did not meet this requirement for the year ended December 31, 2006, and incurred a tax of \$15,120. The company met this requirement for the year ended December 31, 2005, and did not incur federal corporate income tax.

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

8. NONREGULATED AND NONOPERATING ACTIVITY:

Following is a summary of net income (loss) from nonregulated investments and nonoperating activity for the years ended December 31, 2006, and 2005:

| | <u>2006</u> | <u>2005</u> |
|--|------------------|------------------|
| Nonregulated revenue - net of expenses | \$ 86,621 | \$ 72,223 |
| Interest income | 103,767 | 50,966 |
| Dividend income | 8,554 | 15,241 |
| Earnings (loss) in SAA Bright.NET, Inc. | (997) | (8,714) |
| Earnings (loss) in Bright CLEC, LLC | 843 | 1,378 |
| Earnings (loss) in Bright Long Distance, Ltd. | 315 | 554 |
| Earnings (loss) in Broadband Network Group, LLC | (2,986) | (753) |
| Other nonoperating income | 8,111 | 1,226 |
| Realized gain (loss) on Capital Resource Funding | <u>4,876</u> | <u>39,698</u> |
| Net income (loss) | <u>\$209,104</u> | <u>\$171,819</u> |

Nonregulated equipment is stated net of accumulated depreciation. The company depreciates these assets on a straight-line basis over their estimated useful lives.

| | <u>2006</u> | <u>2005</u> |
|--------------------------------------|-----------------|-----------------|
| Nonregulated assets - net book value | \$ 0 | \$ 0 |
| Nonregulated inventory | <u>3,182</u> | <u>4,622</u> |
| Total | <u>\$ 3,182</u> | <u>\$ 4,622</u> |

9. NOTES RECEIVABLE:

During 2004, the company entered into the following note receivable, Independents Fiber Network, LLC, an affiliate of Com Net, Inc. - interest accruing at 5.0% per annum - due April 30, 2013 - unsecured - note amount \$175,000.

10. SUBSEQUENT EVENT:

In January 2007, the company contracted for the purchase of telephone switching equipment for an amount in excess of \$300,000.

SUPPLEMENTAL REPORTS

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March 8, 2007

Board of Directors
Arthur Mutual Telephone Company
Defiance, Ohio 43512

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**

We have audited the financial statements of Arthur Mutual Telephone Company as of and for the years ended December 31, 2006, and 2005, and have issued our report thereon dated March 8, 2007. We conducted our audit in accordance with U.S. 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 Arthur Mutual Telephone Company'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.

Board of Directors
Arthur Mutual Telephone Company
March 8, 2007

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Arthur Mutual Telephone Company'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.

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.

Lally, Cummings, Palmer & Patch

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March 8, 2007

Board of Directors
Arthur Mutual Telephone Company
Defiance, Ohio 43512

INDEPENDENT AUDITORS' MANAGEMENT LETTER

We have audited the financial statements of Arthur Mutual Telephone Company for the year ended December 31, 2006, and have issued our report thereon dated March 8, 2007. We conducted our audit in accordance with U.S. 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 Arthur Mutual Telephone Company for the year ended December 31, 2006, 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.

A description of the responsibility of management for establishing and maintaining the internal control over financial reporting and the objectives of and inherent limitations in such control is set forth in our independent auditors' report on compliance and on the internal control over financial reporting dated March 8, 2007, and should be read in conjunction with this report.

Board of Directors
Arthur Mutual Telephone Company
March 8, 2007

In the course of our work we noted that the lack of accounting staff prevents the proper segregation of duties. Management should be aware of opportunities for errors and irregularities caused by this situation and work to mitigate the risks through supervision and review.

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, and our independent auditors' report on compliance and on internal control over financial reporting, all March 8, 2007) 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.

Board of Directors
Arthur Mutual Telephone Company
March 8, 2007

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding Arthur Mutual Telephone Company's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- the accounting procedures and records,
- the process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance, or other expense accounts,
- the materials control.

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 March 8, 2007, 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:

- Procedures 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 Arthur Mutual Telephone Company 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 property, or for the use of mortgaged property by others, or for services pertaining to toll traffic, operator assistance, or switching for the year ended December 31, 2006, of Arthur Mutual Telephone Company:
 1. Borrower did not have a schedule as they did not enter into any new written contracts during the year for the operation or maintenance of its property, or for the use of its property by others, or for services pertaining to toll traffic, operator assistance, or switching as defined in § 1773.33(e)(2)(i).
 2. Reviewed board of director minutes to ascertain whether any new contracts were approved during the year.
- Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:
 1. Agreed amounts reported in Form 479 for Arthur Mutual Telephone Company to Arthur Mutual Telephone Company's records.
- Procedure performed with respect to funded reserve and net plant to secured debt ratio requirements:
 1. This provision does not apply to this borrower.

The results of our tests indicate that, with respect to the items tested, Arthur Mutual Telephone Company 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 maintains all funds in institutions whose accounts are insured by an agency of the federal government.

- the borrower has obtained written approval of the RUS to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others, or for services pertaining to toll traffic, operator assistance, or switching as defined in § 1773.33 (e)(2)(i); and
- the borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2006, represented by the borrower as having been submitted to RUS is in agreement with Arthur Mutual Telephone Company's audited records in all material respects.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of Arthur Mutual Telephone Company, nothing came to our attention that caused us to believe that Arthur Mutual Telephone Company 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);
- sales of plant material or scrap addressed at 7 CFR 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, 2006, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33(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.

Lally, Cummings, Palmer & Patch

OHIO 503 ARTHUR
ARTHUR MUTUAL TELEPHONE COMPANY
(An Ohio Mutual Company)
DEFIANCE, OHIO
FINANCIAL STATEMENTS
AND SUPPLEMENTAL REPORTS
DECEMBER 31, 2006, AND 2005

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March 8, 2007

Board of Directors
Arthur Mutual Telephone Company
Defiance, Ohio 43512

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of ARTHUR MUTUAL TELEPHONE COMPANY (An Ohio Mutual Company) as of December 31, 2006, and 2005, 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 company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. 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 financial statements referred to above present fairly, in all material respects, the financial position of Arthur Mutual Telephone Company at December 31, 2006, and 2005, the results of its operations, and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated March 8, 2007, on our consideration of Arthur Mutual Telephone Company'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.

Lally, Cummings, Palmer & Patch

ARTHUR MUTUAL TELEPHONE COMPANY
(An Ohio Mutual Company)

BALANCE SHEET
DECEMBER 31, 2006, AND 2005

ASSETS

| | 2006 | 2005 |
|---|--------------|--------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 1,483,433 | \$ 1,229,785 |
| Temporary investments | 1,030,232 | 906,594 |
| Telecommunications accounts receivable (less reserves of \$13,540) | 174,830 | 208,376 |
| Interest receivable | 1,916 | 1,916 |
| Materials and supplies (at cost) | 6,668 | 9,684 |
| Prepaid taxes | 8,298 | 8,298 |
| Prepaid expenses | 4,289 | 5,410 |
| Total current assets | 2,709,666 | 2,370,063 |
| NONCURRENT ASSETS: | | |
| Investments | 380,011 | 381,362 |
| Deferred charges | 20,000 | 25,000 |
| Net nonregulated customer premises equipment | 3,182 | 4,622 |
| Total noncurrent assets | 403,193 | 410,984 |
| PROPERTY, PLANT, AND EQUIPMENT: | | |
| Telecommunications plant in service | 4,441,837 | 4,343,680 |
| Less: Depreciation reserve | 3,275,130 | 3,090,118 |
| Net book value | 1,166,707 | 1,253,562 |
| Total assets | \$ 4,279,566 | \$ 4,034,609 |

(The accompanying notes are an integral part of these financial statements)

LIABILITIES AND MEMBERS' EQUITY

| | 2006 | 2005 |
|--|--------------|--------------|
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 11,937 | \$ 17,199 |
| Customer deposits | 925 | 1,175 |
| Notes payable - current portion | 34,370 | 40,457 |
| Accrued taxes and expenses | 45,909 | 35,922 |
| Total current liabilities | 93,141 | 94,753 |
| LONG-TERM LIABILITIES: | | |
| Notes payable - net of current portion | 166,805 | 199,460 |
| Other long-term liabilities | 116,683 | 50,477 |
| Total long-term liabilities | 283,488 | 249,937 |
| MEMBERS' EQUITY: | | |
| Memberships issued | 18,630 | 17,790 |
| Patronage capital (Page 4) | 3,884,307 | 3,672,129 |
| Total members' equity | 3,902,937 | 3,689,919 |
| | | |
| Total liabilities and members' equity | \$ 4,279,566 | \$ 4,034,609 |

(The accompanying notes are an integral part of these financial statements)

ARTHUR MUTUAL TELEPHONE COMPANY

STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2006, AND 2005

| | 2006 | 2005 |
|---|--------------|--------------|
| OPERATING REVENUES: | | |
| Local service | \$ 302,295 | \$ 310,728 |
| Access service | 858,906 | 855,398 |
| Miscellaneous | 34,294 | 25,492 |
| Less: Uncollectible revenue | 0 | 5,836 |
| Total operating revenues | 1,195,495 | 1,185,782 |
| OPERATING EXPENSES: | | |
| Plant specific operations | 241,693 | 215,209 |
| Plant nonspecific operations | 36,674 | 34,115 |
| Depreciation | 185,013 | 170,493 |
| Customer operations | 167,647 | 168,725 |
| Corporate operations | 209,737 | 193,919 |
| Total operating expenses | 840,764 | 782,461 |
| GROSS OPERATING INCOME | 354,731 | 403,321 |
| OPERATING TAXES | | |
| Income taxes | 15,120 | 0 |
| Other operating taxes | 27,474 | 32,205 |
| Total operating taxes | 42,594 | 32,205 |
| NET OPERATING INCOME | 312,137 | 371,116 |
| NONOPERATING AND NONREGULATED INCOME - net | 209,104 | 171,819 |
| INCOME AVAILABLE FOR FIXED CHARGES | 521,241 | 542,935 |
| FIXED CHARGES: | | |
| Interest | 4,498 | 5,283 |
| NET INCOME | 516,743 | 537,652 |
| OTHER COMPREHENSIVE INCOME (LOSS): | | |
| Unrealized gain (loss) on securities | (26,525) | (81,653) |
| NET COMPREHENSIVE INCOME | 490,218 | 455,999 |
| PATRONAGE CAPITAL - beginning | 3,672,129 | 3,233,559 |
| RETIREMENT OF CAPITAL CREDITS | 278,040 | 17,429 |
| PATRONAGE CAPITAL - ending (Page 3) | \$ 3,884,307 | \$ 3,672,129 |

(The accompanying notes are an integral part of these financial statements)

ARTHUR MUTUAL TELEPHONE COMPANY

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, AND 2005

| | 2006 | 2005 |
|---|---------------------|---------------------|
| OPERATING ACTIVITIES: | | |
| Net comprehensive income | \$ 490,218 | \$ 455,999 |
| Adjustments to reconcile net comprehensive income to net cash provided by operating activities: | | |
| Depreciation and amortization | 185,013 | 170,493 |
| Loss on investment | 26,525 | 81,653 |
| Equity in loss of affiliates | 2,283 | 13,300 |
| Changes in operating assets and liabilities: | | |
| Decrease (Increase) in: | | |
| Accounts receivable and other current assets | 37,683 | (107,801) |
| Increase (Decrease) in: | | |
| Accounts payable and other current liabilities | 70,681 | (31,467) |
| | <u>812,403</u> | <u>582,177</u> |
| NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | |
| | <u>812,403</u> | <u>582,177</u> |
| INVESTING ACTIVITIES: | | |
| Purchases of property, plant, and equipment | (98,158) | (199,564) |
| Distributions received from affiliates | 543 | 520 |
| Investment in affiliate companies | (28,000) | (14,000) |
| Change in temporary investments | (123,638) | 85,919 |
| (Increase) Decrease in permanent investments | 6,440 | (16,322) |
| | <u>(242,813)</u> | <u>(143,447)</u> |
| NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | | |
| | <u>(242,813)</u> | <u>(143,447)</u> |
| FINANCING ACTIVITIES: | | |
| Principal payments on long-term debt | (38,742) | (38,903) |
| Increase (Decrease) in memberships | 840 | (435) |
| Retirement of capital credits | (278,040) | (17,429) |
| | <u>(315,942)</u> | <u>(56,767)</u> |
| NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES | | |
| | <u>(315,942)</u> | <u>(56,767)</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 253,648 | 381,963 |
| CASH AND CASH EQUIVALENTS - BEGINNING | <u>1,229,785</u> | <u>847,822</u> |
| CASH AND CASH EQUIVALENTS - ENDING | <u>\$ 1,483,433</u> | <u>\$ 1,229,785</u> |
| SUPPLEMENTAL DISCLOSURES: | | |
| Interest paid (net of \$0 capitalized) | \$ 4,498 | \$ 5,283 |
| Income taxes paid (refunded) | \$ 0 | \$ 0 |

(The accompanying notes are an integral part of these financial statements)

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Arthur Mutual Telephone Company provides telecommunication services to member subscribers in the Arthur, Ohio area. The accounting policies of the company conform to U.S. generally accepted accounting principles and reflect practices appropriate to the telephone industry. The accounting records were maintained in accordance with Part 32 Uniform System of Accounts and the Nonregulated Activity Requirements prescribed by the Public Utilities Commission of Ohio and the Federal Communications Commission.

Concentrations of Credit Risk -

The company grants credit to member subscribers, substantially all of whom are located in the Arthur, Ohio area. The company also grants credit to connecting toll companies located throughout the United States.

Financial instruments that potentially subject the company to credit risk include investments in Com Net, Inc., SAA Bright.NET, Inc., Horizon PCS, Inc., Horizon Telecom, Inc., Bright CLEC, LLC, Bright Long Distance, Ltd, and Broadband Network Group, LLC. Future changes in economic conditions may make the investments less valuable. The investments listed above have restrictive ownership rights.

Use of Estimates -

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents -

The company considers highly liquid investments with maturities of ninety days or less to be cash equivalents. Securities with maturities between ninety days and one year are considered temporary investments.

The company maintains deposits in accounts covered by FDIC insurance and in accounts which are collateralized by securities issued by agencies of the United States.

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Materials and Supplies -

Inventories are stated at cost on the first-in, first-out (FIFO) method. A physical inventory was taken by management on December 31, 2006.

Telephone Plant and Depreciation -

Telephone plant in service and under construction was stated substantially at original cost. The company provided for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. Depreciation for book purposes has been computed in accordance with rates authorized by the Public Utilities Commission of Ohio.

At the time the plant is retired, the retirements credited to telephone plant together with removal costs less salvage, are charged to the depreciation reserve, unless the retirement is of an extraordinary or abnormal nature.

Tax Status -

The company operates as a Section 501(c)(12) corporation as defined by the Internal Revenue Code and filed Forms 990 and 1120 for 2006 and Form 990 for 2005.

Revenue Recognition -

Toll access services are furnished in conjunction with the Embarq Telephone System and other long-distance carriers. During 2006 and 2005, the company received monthly access revenues based upon annual average cost separation studies. Access and local service revenues are substantially recognized when such services are performed.

Maintenance -

Accounting for maintenance and repairs was in conformity with the Uniform System of Accounts prescribed by the Public Utilities Commission of Ohio.

ARTHUR MUTUAL TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

2. INVESTMENT IN TELEPHONE PLANT:

Telephone plant in service was stated primarily at cost as explained in Note 1. Listed below are the major classes of the telephone plant as of December 31, 2006, and 2005:

| | <u>2006</u> | <u>2005</u> |
|----------------------------|--------------------|--------------------|
| Organization | \$ 261 | \$ 261 |
| Land | 22,610 | 22,610 |
| Buildings | 313,298 | 294,413 |
| Central office equipment | 1,260,941 | 1,233,546 |
| Pole lines | 969 | 969 |
| Aerial cable | 6,271 | 5,223 |
| Underground cable | 26,162 | 26,162 |
| Buried cable | 2,573,184 | 2,529,104 |
| Submarine cable | 34,026 | 34,026 |
| Furniture | 20,804 | 20,804 |
| Office equipment | 34,697 | 32,165 |
| General purpose computers | 11,224 | 11,224 |
| Motor vehicles | 38,961 | 38,961 |
| Work equipment | 98,429 | 94,212 |
| Telephone plant in service | <u>\$4,441,837</u> | <u>\$4,343,680</u> |

The company provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. During 2005, the company was granted new depreciation rates by the Public Utilities Commission of Ohio (PUCO). In addition to depreciation accrual rates, the PUCO ordered an adjustment of depreciation of \$399,747 amortizable over five years beginning January 1, 2005. The affect of the lower accrual rates is to decrease depreciation expense by approximately \$79,949 annually. Individual plant depreciation rates are as follows:

| | <u>2006</u> | <u>2005</u> |
|---------------------------|-------------|-------------|
| Buildings | 2.80% | 2.80% |
| Central office equipment | 6.67 | 8.17 |
| Central office software | 20.00 | 20.00 |
| Circuit equipment | 10.00 | 9.80 |
| Pole lines | 5.80 | 5.80 |
| Aerial cable | 6.25 | 6.25 |
| Underground cable | 4.20 | 4.20 |
| Buried cable | 4.77 | 4.77 |
| Submarine cable | 4.16 | 4.16 |
| Conduit systems | 2.33 | 2.33 |
| Furniture | 5.00 | 5.00 |
| Office equipment | 8.33 | 8.33 |
| General purpose computers | 20.00 | 20.00 |
| Motor vehicles | 10.63 | 10.63 |
| Work equipment | 6.40 | 6.40 |

For the years ended December 31, 2006, and 2005, depreciation expense totaled \$185,013 and \$170,493, respectively.

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS:

The accounting method and carrying values of investments consisted of the following items at December 31, 2006, and 2005:

| | Accounting Method | <u>2006</u> | <u>2005</u> |
|---|----------------------|------------------|------------------|
| Com Net, Inc. | Cost | \$ 18,000 | \$ 18,000 |
| SAA Bright.NET, Inc. | Equity | 59,223 | 32,220 |
| Bright Long Distance, Ltd. | Equity | 3,300 | 2,985 |
| Bright CLEC, LLC | Equity | 3,277 | 2,434 |
| Broadband Network Group, LLC | Equity | 3,189 | 6,175 |
| Horizon Telecom, Inc. | Cost | 118,022 | 144,548 |
| Loans receivable - affiliates (see Note 9) | Cost | <u>175,000</u> | <u>175,000</u> |
| Total investments | | <u>\$380,011</u> | <u>\$381,362</u> |

Com Net, Inc. -

During 1993, the company purchased a 6.67% share of Com Net, Inc. (An Ohio Corporation) for \$18,000. The company consists of a group of local exchange companies engaged in a joint venture to construct an A-link system to provide their customers better communication capabilities. The purpose of Com Net, Inc. is to provide quality A-link service at a reduced cost. The investment has ownership restrictions and limited marketability. During 2006 and 2005, the company incurred expenses amounting to \$30,282 and \$29,267, respectively, for the A-link service.

SAA Bright.NET, Inc. -

During 1995, the company purchased a 33.33% share of SAA Bright.NET, Inc. for \$28,000. During 2001 thru 2005, and in 2006, SAA Bright.NET, Inc. issued additional shares of common stock and the company maintained its 33.33% share by investing an additional \$140,000, and \$28,000 respectively. SAA Bright.NET, Inc. consists of three local exchange companies providing internet access to greater Northwestern Ohio. The investment has ownership restrictions and limited marketability. SAA Bright.NET, Inc. maintains its own staff. The company's share of losses for 2006 and 2005 amounted to \$(997) and \$(8,714), respectively. These losses are reflected in nonregulated operations.

Bright Long Distance, Ltd. -

During 2000, the company entered into an operating agreement forming Bright Long Distance, Ltd. a Limited Liability Company organized in Ohio. The purpose of the company is to sell long distance toll services and related services. The term of the organization is 25 years. The company's ownership percentage is less than 5% and its share of the entity's earnings for 2006 and 2005 totaled \$315 and \$554, respectively.

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS (Continued):

Bright CLEC, LLC -

In 2001, the company entered into an operating agreement forming Bright CLEC, LLC, a Limited Liability Company organized in Ohio. The purpose of the company is to create a competitive local exchange company to pool purchasing resources to receive favorable expense reductions. The investment in Bright CLEC, LLC is accounted for on the equity method. The company's share of income for 2006 and 2005 was \$843 and \$1,378, respectively.

Broadband Network Group, LLC -

In 2003, the company entered into a participation agreement with Com Net, Inc., an Ohio Corporation. The purpose of this agreement was to form a LLC to create a fiber ring for local exchange carriers. The company began operations in 2004. The company's share of losses for 2006 and 2005 was \$(2,986) and \$(753), respectively.

Horizon Telecom, Inc. and Horizon PCS, Inc. -

On June 27, 2000, Bright PCS, LLC was terminated and was then incorporated into two Ohio C Corporations; Horizon Telecom, Inc. and Horizon PCS, Inc. It is the intent of both of these companies to become publicly traded on established stock markets. As of December 31, 2006, the company owns the following (adjusted for stock dividends):

| | |
|-----------------------|--------------------|
| Horizon Telecom, Inc. | 411 "A" shares |
| Horizon Telecom, Inc. | 1,234 "B" shares |
| Horizon PCS, Inc. | 219,325 "B" shares |

In September 2004, Horizon PCS, Inc. filed for bankruptcy. The company has significantly more recorded liabilities than recorded assets, and it is projected that the stockholder's investment will be cancelled if the company is to emerge from bankruptcy.

Fair market values for Horizon Telecom, Inc. A and B shares are available from Pink Sheet quotations, which is a market that is very thinly traded.

Values are as follows:

| | Market <u>2006</u> | Market <u>2005</u> |
|---|-----------------------|-----------------------|
| Horizon PCS, Inc. | \$ 0 | \$ 0 |
| Horizon Telecom, Inc. "A" | 37,812 | 44,593 |
| Horizon Telecom, Inc. "B" | <u>80,210</u> | <u>99,954</u> |
| Total | <u>118,022</u> | <u>144,547</u> |
| Less: Market - prior year | <u>144,547</u> | <u>226,200</u> |
| Gain (loss) in value | <u>\$(26,525)</u> | <u>\$(81,653)</u> |
| Reflected in the financial statements as: | | |
| Other comprehensive income (loss): | | |
| Unrealized gain (loss) on securities | <u>\$(26,525)</u> | <u>\$(81,653)</u> |

ARTHUR MUTUAL TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS (Continued):

Capital Resource Funding, Inc. -

During 2004, a write-off in the amount of \$200,000 was recorded due to the bankruptcy of Capital Resource Funding, Inc. This write-off represents the full investment in Capital Resource Funding, Inc. During 2005, the company received a \$39,698 distribution under the Joint Plan of Liquidation. A final distribution under the liquidation plan of \$4,876 was received in 2006.

4. LONG-TERM LIABILITIES:

Long-term debt is represented by mortgage notes payable to the United States of America. The following is a summary of outstanding long-term debt:

| | <u>2006</u> | <u>2005</u> |
|---|------------------|------------------|
| 2% Rural Utilities Service - notes - due various dates from 2005 - 2018 | \$201,175 | \$239,917 |
| Less: Current maturities | <u>34,370</u> | <u>40,457</u> |
| | <u>\$166,805</u> | <u>\$199,460</u> |

All assets are pledged as security to these notes. Principal and interest installments on the above notes are due quarterly in equal amounts of approximately \$11,000. The maturities of long-term debt for each of the five years succeeding the balance sheet date are estimated to be as follows:

| | |
|------|-----------|
| 2007 | \$ 34,370 |
| 2008 | \$ 28,271 |
| 2009 | \$ 28,842 |
| 2010 | \$ 29,424 |
| 2011 | \$ 30,006 |

5. PENSION PLAN:

The employees of the company are covered by the National Telephone Cooperative Association Pension Plan, a multiple-employer plan.

6. CAPITAL CREDITS:

Capital credit retirements in the amounts of \$278,040 and \$17,429 were paid in 2006 and 2005, respectively. The credits retired were in compliance with the Mortgage Agreement and the policies of the company.

7. FEDERAL TAX STATUS:

This company operates as a tax-exempt corporation as defined by the Internal Revenue Code Section 501(c)(12). One of these requirements is that the company must obtain 85% or more of their gross income from members. The company did not meet this requirement for the year ended December 31, 2006, and incurred a tax of \$15,120. The company met this requirement for the year ended December 31, 2005, and did not incur federal corporate income tax.

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

8. NONREGULATED AND NONOPERATING ACTIVITY:

Following is a summary of net income (loss) from nonregulated investments and nonoperating activity for the years ended December 31, 2006, and 2005:

| | <u>2006</u> | <u>2005</u> |
|--|------------------|------------------|
| Nonregulated revenue - net of expenses | \$ 86,621 | \$ 72,223 |
| Interest income | 103,767 | 50,966 |
| Dividend income | 8,554 | 15,241 |
| Earnings (loss) in SAA Bright.NET, Inc. | (997) | (8,714) |
| Earnings (loss) in Bright CLEC, LLC | 843 | 1,378 |
| Earnings (loss) in Bright Long Distance, Ltd. | 315 | 554 |
| Earnings (loss) in Broadband Network Group, LLC | (2,986) | (753) |
| Other nonoperating income | 8,111 | 1,226 |
| Realized gain (loss) on Capital Resource Funding | <u>4,876</u> | <u>39,698</u> |
| Net income (loss) | <u>\$209,104</u> | <u>\$171,819</u> |

Nonregulated equipment is stated net of accumulated depreciation. The company depreciates these assets on a straight-line basis over their estimated useful lives.

| | <u>2006</u> | <u>2005</u> |
|--------------------------------------|-----------------|-----------------|
| Nonregulated assets - net book value | \$ 0 | \$ 0 |
| Nonregulated inventory | <u>3,182</u> | <u>4,622</u> |
| Total | <u>\$ 3,182</u> | <u>\$ 4,622</u> |

9. NOTES RECEIVABLE:

During 2004, the company entered into the following note receivable, Independents Fiber Network, LLC, an affiliate of Com Net, Inc. - interest accruing at 5.0% per annum - due April 30, 2013 - unsecured - note amount \$175,000.

10. SUBSEQUENT EVENT:

In January 2007, the company contracted for the purchase of telephone switching equipment for an amount in excess of \$300,000.

SUPPLEMENTAL REPORTS

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JANICE M. KIDD, C.P.A.

March 8, 2007

Board of Directors
Arthur Mutual Telephone Company
Defiance, Ohio 43512

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**

We have audited the financial statements of Arthur Mutual Telephone Company as of and for the years ended December 31, 2006, and 2005, and have issued our report thereon dated March 8, 2007. We conducted our audit in accordance with U.S. 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 Arthur Mutual Telephone Company'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.

Board of Directors
Arthur Mutual Telephone Company
March 8, 2007

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Arthur Mutual Telephone Company'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.

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.

Lally, Cummings, Palmer & Patch

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March 8, 2007

Board of Directors
Arthur Mutual Telephone Company
Defiance, Ohio 43512

INDEPENDENT AUDITORS' MANAGEMENT LETTER

We have audited the financial statements of Arthur Mutual Telephone Company for the year ended December 31, 2006, and have issued our report thereon dated March 8, 2007. We conducted our audit in accordance with U.S. 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 Arthur Mutual Telephone Company for the year ended December 31, 2006, 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.

A description of the responsibility of management for establishing and maintaining the internal control over financial reporting and the objectives of and inherent limitations in such control is set forth in our independent auditors' report on compliance and on the internal control over financial reporting dated March 8, 2007, and should be read in conjunction with this report.

Board of Directors
Arthur Mutual Telephone Company
March 8, 2007

In the course of our work we noted that the lack of accounting staff prevents the proper segregation of duties. Management should be aware of opportunities for errors and irregularities caused by this situation and work to mitigate the risks through supervision and review.

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, and our independent auditors' report on compliance and on internal control over financial reporting, all March 8, 2007) 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.

Board of Directors
Arthur Mutual Telephone Company
March 8, 2007

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding Arthur Mutual Telephone Company's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- the accounting procedures and records,
- the process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance, or other expense accounts,
- the materials control.

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 March 8, 2007, 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:

- Procedures 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 Arthur Mutual Telephone Company 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 property, or for the use of mortgaged property by others, or for services pertaining to toll traffic, operator assistance, or switching for the year ended December 31, 2006, of Arthur Mutual Telephone Company:
 1. Borrower did not have a schedule as they did not enter into any new written contracts during the year for the operation or maintenance of its property, or for the use of its property by others, or for services pertaining to toll traffic, operator assistance, or switching as defined in § 1773.33(e)(2)(i).
 2. Reviewed board of director minutes to ascertain whether any new contracts were approved during the year.
- Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:
 1. Agreed amounts reported in Form 479 for Arthur Mutual Telephone Company to Arthur Mutual Telephone Company's records.
- Procedure performed with respect to funded reserve and net plant to secured debt ratio requirements:
 1. *This provision does not apply to this borrower.*

The results of our tests indicate that, with respect to the items tested, Arthur Mutual Telephone Company 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 maintains all funds in institutions whose accounts are insured by an agency of the federal government.

Board of Directors
Arthur Mutual Telephone Company
March 8, 2007

- the borrower has obtained written approval of the RUS to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others, or for services pertaining to toll traffic, operator assistance, or switching as defined in § 1773.33 (e)(2)(i); and
- the borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2006, represented by the borrower as having been submitted to RUS is in agreement with Arthur Mutual Telephone Company's audited records in all material respects.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of Arthur Mutual Telephone Company, nothing came to our attention that caused us to believe that Arthur Mutual Telephone Company 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);
- sales of plant material or scrap addressed at 7 CFR 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, 2006, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33(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.

Lally, Cummings, Palmer & Patch

OHIO 503 ARTHUR

ARTHUR MUTUAL TELEPHONE COMPANY
(An Ohio Mutual Company)

DEFIANCE, OHIO

FINANCIAL STATEMENTS
AND SUPPLEMENTAL REPORTS

DECEMBER 31, 2006, AND 2005

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C O N T E N T S

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March 8, 2007

Board of Directors
Arthur Mutual Telephone Company
Defiance, Ohio 43512

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of ARTHUR MUTUAL TELEPHONE COMPANY (An Ohio Mutual Company) as of December 31, 2006, and 2005, 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 company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. 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 financial statements referred to above present fairly, in all material respects, the financial position of Arthur Mutual Telephone Company at December 31, 2006, and 2005, the results of its operations, and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated March 8, 2007, on our consideration of Arthur Mutual Telephone Company'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.

Lally, Cummings, Palmer & Patch

ARTHUR MUTUAL TELEPHONE COMPANY
(An Ohio Mutual Company)

BALANCE SHEET
DECEMBER 31, 2006, AND 2005

ASSETS

| | 2006 | 2005 |
|---|--------------|--------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 1,483,433 | \$ 1,229,785 |
| Temporary investments | 1,030,232 | 906,594 |
| Telecommunications accounts receivable (less reserves of \$13,540) | 174,830 | 208,376 |
| Interest receivable | 1,916 | 1,916 |
| Materials and supplies (at cost) | 6,668 | 9,684 |
| Prepaid taxes | 8,298 | 8,298 |
| Prepaid expenses | 4,289 | 5,410 |
| Total current assets | 2,709,666 | 2,370,063 |
| NONCURRENT ASSETS: | | |
| Investments | 380,011 | 381,362 |
| Deferred charges | 20,000 | 25,000 |
| Net nonregulated customer premises equipment | 3,182 | 4,622 |
| Total noncurrent assets | 403,193 | 410,984 |
| PROPERTY, PLANT, AND EQUIPMENT: | | |
| Telecommunications plant in service | 4,441,837 | 4,343,680 |
| Less: Depreciation reserve | 3,275,130 | 3,090,118 |
| Net book value | 1,166,707 | 1,253,562 |
| Total assets | \$ 4,279,566 | \$ 4,034,609 |

(The accompanying notes are an integral part of these financial statements)

LIABILITIES AND MEMBERS' EQUITY

| | 2006 | 2005 |
|--|--------------|--------------|
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 11,937 | \$ 17,199 |
| Customer deposits | 925 | 1,175 |
| Notes payable - current portion | 34,370 | 40,457 |
| Accrued taxes and expenses | 45,909 | 35,922 |
| Total current liabilities | 93,141 | 94,753 |
| LONG-TERM LIABILITIES: | | |
| Notes payable - net of current portion | 166,805 | 199,460 |
| Other long-term liabilities | 116,683 | 50,477 |
| Total long-term liabilities | 283,488 | 249,937 |
| MEMBERS' EQUITY: | | |
| Memberships issued | 18,630 | 17,790 |
| Patronage capital (Page 4) | 3,884,307 | 3,672,129 |
| Total members' equity | 3,902,937 | 3,689,919 |
| | | |
| Total liabilities and members' equity | \$ 4,279,566 | \$ 4,034,609 |

(The accompanying notes are an integral part of these financial statements)

ARTHUR MUTUAL TELEPHONE COMPANY

STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2006, AND 2005

| | 2006 | 2005 |
|---|--------------|--------------|
| OPERATING REVENUES: | | |
| Local service | \$ 302,295 | \$ 310,728 |
| Access service | 858,906 | 855,398 |
| Miscellaneous | 34,294 | 25,492 |
| Less: Uncollectible revenue | 0 | 5,836 |
| Total operating revenues | 1,195,495 | 1,185,782 |
| OPERATING EXPENSES: | | |
| Plant specific operations | 241,693 | 215,209 |
| Plant nonspecific operations | 36,674 | 34,115 |
| Depreciation | 185,013 | 170,493 |
| Customer operations | 167,647 | 168,725 |
| Corporate operations | 209,737 | 193,919 |
| Total operating expenses | 840,764 | 782,461 |
| GROSS OPERATING INCOME | 354,731 | 403,321 |
| OPERATING TAXES | | |
| Income taxes | 15,120 | 0 |
| Other operating taxes | 27,474 | 32,205 |
| Total operating taxes | 42,594 | 32,205 |
| NET OPERATING INCOME | 312,137 | 371,116 |
| NONOPERATING AND NONREGULATED INCOME - net | 209,104 | 171,819 |
| INCOME AVAILABLE FOR FIXED CHARGES | 521,241 | 542,935 |
| FIXED CHARGES: | | |
| Interest | 4,498 | 5,283 |
| NET INCOME | 516,743 | 537,652 |
| OTHER COMPREHENSIVE INCOME (LOSS): | | |
| Unrealized gain (loss) on securities | (26,525) | (81,653) |
| NET COMPREHENSIVE INCOME | 490,218 | 455,999 |
| PATRONAGE CAPITAL - beginning | 3,672,129 | 3,233,559 |
| RETIREMENT OF CAPITAL CREDITS | 278,040 | 17,429 |
| PATRONAGE CAPITAL - ending (Page 3) | \$ 3,884,307 | \$ 3,672,129 |

(The accompanying notes are an integral part of these financial statements)

ARTHUR MUTUAL TELEPHONE COMPANY

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006, AND 2005

| | 2006 | 2005 |
|---|---------------------|---------------------|
| OPERATING ACTIVITIES: | | |
| Net comprehensive income | \$ 490,218 | \$ 455,999 |
| Adjustments to reconcile net comprehensive income to net cash provided by operating activities: | | |
| Depreciation and amortization | 185,013 | 170,493 |
| Loss on investment | 26,525 | 81,653 |
| Equity in loss of affiliates | 2,283 | 13,300 |
| Changes in operating assets and liabilities: | | |
| Decrease (Increase) in: | | |
| Accounts receivable and other current assets | 37,683 | (107,801) |
| Increase (Decrease) in: | | |
| Accounts payable and other current liabilities | 70,681 | (31,467) |
| | <u>812,403</u> | <u>582,177</u> |
| NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | | |
| | <u>812,403</u> | <u>582,177</u> |
| INVESTING ACTIVITIES: | | |
| Purchases of property, plant, and equipment | (98,158) | (199,564) |
| Distributions received from affiliates | 543 | 520 |
| Investment in affiliate companies | (28,000) | (14,000) |
| Change in temporary investments | (123,638) | 85,919 |
| (Increase) Decrease in permanent investments | 6,440 | (16,322) |
| | <u>(242,813)</u> | <u>(143,447)</u> |
| NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES | | |
| | <u>(242,813)</u> | <u>(143,447)</u> |
| FINANCING ACTIVITIES: | | |
| Principal payments on long-term debt | (38,742) | (38,903) |
| Increase (Decrease) in memberships | 840 | (435) |
| Retirement of capital credits | (278,040) | (17,429) |
| | <u>(315,942)</u> | <u>(56,767)</u> |
| NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES | | |
| | <u>(315,942)</u> | <u>(56,767)</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 253,648 | 381,963 |
| CASH AND CASH EQUIVALENTS - BEGINNING | <u>1,229,785</u> | <u>847,822</u> |
| CASH AND CASH EQUIVALENTS - ENDING | <u>\$ 1,483,433</u> | <u>\$ 1,229,785</u> |
| SUPPLEMENTAL DISCLOSURES: | | |
| Interest paid (net of \$0 capitalized) | \$ 4,498 | \$ 5,283 |
| Income taxes paid (refunded) | \$ 0 | \$ 0 |

(The accompanying notes are an integral part of these financial statements)

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Arthur Mutual Telephone Company provides telecommunication services to member subscribers in the Arthur, Ohio area. The accounting policies of the company conform to U.S. generally accepted accounting principles and reflect practices appropriate to the telephone industry. The accounting records were maintained in accordance with Part 32 Uniform System of Accounts and the Nonregulated Activity Requirements prescribed by the Public Utilities Commission of Ohio and the Federal Communications Commission.

Concentrations of Credit Risk -

The company grants credit to member subscribers, substantially all of whom are located in the Arthur, Ohio area. The company also grants credit to connecting toll companies located throughout the United States.

Financial instruments that potentially subject the company to credit risk include investments in Com Net, Inc., SAA Bright.NET, Inc., Horizon PCS, Inc., Horizon Telecom, Inc., Bright CLEC, LLC, Bright Long Distance, Ltd, and Broadband Network Group, LLC. Future changes in economic conditions may make the investments less valuable. The investments listed above have restrictive ownership rights.

Use of Estimates -

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Cash and Cash Equivalents -

The company considers highly liquid investments with maturities of ninety days or less to be cash equivalents. Securities with maturities between ninety days and one year are considered temporary investments.

The company maintains deposits in accounts covered by FDIC insurance and in accounts which are collateralized by securities issued by agencies of the United States.

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Materials and Supplies -

Inventories are stated at cost on the first-in, first-out (FIFO) method. A physical inventory was taken by management on December 31, 2006.

Telephone Plant and Depreciation -

Telephone plant in service and under construction was stated substantially at original cost. The company provided for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. Depreciation for book purposes has been computed in accordance with rates authorized by the Public Utilities Commission of Ohio.

At the time the plant is retired, the retirements credited to telephone plant together with removal costs less salvage, are charged to the depreciation reserve, unless the retirement is of an extraordinary or abnormal nature.

Tax Status -

The company operates as a Section 501(c)(12) corporation as defined by the Internal Revenue Code and filed Forms 990 and 1120 for 2006 and Form 990 for 2005.

Revenue Recognition -

Toll access services are furnished in conjunction with the Embarq Telephone System and other long-distance carriers. During 2006 and 2005, the company received monthly access revenues based upon annual average cost separation studies. Access and local service revenues are substantially recognized when such services are performed.

Maintenance -

Accounting for maintenance and repairs was in conformity with the Uniform System of Accounts prescribed by the Public Utilities Commission of Ohio.

ARTHUR MUTUAL TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

2. INVESTMENT IN TELEPHONE PLANT:

Telephone plant in service was stated primarily at cost as explained in Note 1. Listed below are the major classes of the telephone plant as of December 31, 2006, and 2005:

| | <u>2006</u> | <u>2005</u> |
|----------------------------|--------------------|--------------------|
| Organization | \$ 261 | \$ 261 |
| Land | 22,610 | 22,610 |
| Buildings | 313,298 | 294,413 |
| Central office equipment | 1,260,941 | 1,233,546 |
| Pole lines | 969 | 969 |
| Aerial cable | 6,271 | 5,223 |
| Underground cable | 26,162 | 26,162 |
| Buried cable | 2,573,184 | 2,529,104 |
| Submarine cable | 34,026 | 34,026 |
| Furniture | 20,804 | 20,804 |
| Office equipment | 34,697 | 32,165 |
| General purpose computers | 11,224 | 11,224 |
| Motor vehicles | 38,961 | 38,961 |
| Work equipment | 98,429 | 94,212 |
| Telephone plant in service | <u>\$4,441,837</u> | <u>\$4,343,680</u> |

The company provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. During 2005, the company was granted new depreciation rates by the Public Utilities Commission of Ohio (PUCO). In addition to depreciation accrual rates, the PUCO ordered an adjustment of depreciation of \$399,747 amortizable over five years beginning January 1, 2005. The affect of the lower accrual rates is to decrease depreciation expense by approximately \$79,949 annually. Individual plant depreciation rates are as follows:

| | <u>2006</u> | <u>2005</u> |
|---------------------------|-------------|-------------|
| Buildings | 2.80% | 2.80% |
| Central office equipment | 6.67 | 8.17 |
| Central office software | 20.00 | 20.00 |
| Circuit equipment | 10.00 | 9.80 |
| Pole lines | 5.80 | 5.80 |
| Aerial cable | 6.25 | 6.25 |
| Underground cable | 4.20 | 4.20 |
| Buried cable | 4.77 | 4.77 |
| Submarine cable | 4.16 | 4.16 |
| Conduit systems | 2.33 | 2.33 |
| Furniture | 5.00 | 5.00 |
| Office equipment | 8.33 | 8.33 |
| General purpose computers | 20.00 | 20.00 |
| Motor vehicles | 10.63 | 10.63 |
| Work equipment | 6.40 | 6.40 |

For the years ended December 31, 2006, and 2005, depreciation expense totaled \$185,013 and \$170,493, respectively.

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS:

The accounting method and carrying values of investments consisted of the following items at December 31, 2006, and 2005:

| | <u>Accounting Method</u> | <u>2006</u> | <u>2005</u> |
|---|------------------------------|------------------|------------------|
| Com Net, Inc. | Cost | \$ 18,000 | \$ 18,000 |
| SAA Bright.NET, Inc. | Equity | 59,223 | 32,220 |
| Bright Long Distance, Ltd. | Equity | 3,300 | 2,985 |
| Bright CLEC, LLC | Equity | 3,277 | 2,434 |
| Broadband Network Group, LLC | Equity | 3,189 | 6,175 |
| Horizon Telecom, Inc. | Cost | 118,022 | 144,548 |
| Loans receivable - affiliates (see Note 9) | Cost | <u>175,000</u> | <u>175,000</u> |
| Total investments | | <u>\$380,011</u> | <u>\$381,362</u> |

Com Net, Inc. -

During 1993, the company purchased a 6.67% share of Com Net, Inc. (An Ohio Corporation) for \$18,000. The company consists of a group of local exchange companies engaged in a joint venture to construct an A-link system to provide their customers better communication capabilities. The purpose of Com Net, Inc. is to provide quality A-link service at a reduced cost. The investment has ownership restrictions and limited marketability. During 2006 and 2005, the company incurred expenses amounting to \$30,282 and \$29,267, respectively, for the A-link service.

SAA Bright.NET, Inc. -

During 1995, the company purchased a 33.33% share of SAA Bright.NET, Inc. for \$28,000. During 2001 thru 2005, and in 2006, SAA Bright.NET, Inc. issued additional shares of common stock and the company maintained its 33.33% share by investing an additional \$140,000, and \$28,000 respectively. SAA Bright.NET, Inc. consists of three local exchange companies providing internet access to greater Northwestern Ohio. The investment has ownership restrictions and limited marketability. SAA Bright.NET, Inc. maintains its own staff. The company's share of losses for 2006 and 2005 amounted to \$(997) and \$(8,714), respectively. These losses are reflected in nonregulated operations.

Bright Long Distance, Ltd. -

During 2000, the company entered into an operating agreement forming Bright Long Distance, Ltd. a Limited Liability Company organized in Ohio. The purpose of the company is to sell long distance toll services and related services. The term of the organization is 25 years. The company's ownership percentage is less than 5% and its share of the entity's earnings for 2006 and 2005 totaled \$315 and \$554, respectively.

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS (Continued):

Bright CLEC, LLC -

In 2001, the company entered into an operating agreement forming Bright CLEC, LLC, a Limited Liability Company organized in Ohio. The purpose of the company is to create a competitive local exchange company to pool purchasing resources to receive favorable expense reductions. The investment in Bright CLEC, LLC is accounted for on the equity method. The company's share of income for 2006 and 2005 was \$843 and \$1,378, respectively.

Broadband Network Group, LLC -

In 2003, the company entered into a participation agreement with Com Net, Inc., an Ohio Corporation. The purpose of this agreement was to form a LLC to create a fiber ring for local exchange carriers. The company began operations in 2004. The company's share of losses for 2006 and 2005 was \$(2,986) and \$(753), respectively.

Horizon Telecom, Inc. and Horizon PCS, Inc. -

On June 27, 2000, Bright PCS, LLC was terminated and was then incorporated into two Ohio C Corporations; Horizon Telecom, Inc. and Horizon PCS, Inc. It is the intent of both of these companies to become publicly traded on established stock markets. As of December 31, 2006, the company owns the following (adjusted for stock dividends):

| | |
|-----------------------|--------------------|
| Horizon Telecom, Inc. | 411 "A" shares |
| Horizon Telecom, Inc. | 1,234 "B" shares |
| Horizon PCS, Inc. | 219,325 "B" shares |

In September 2004, Horizon PCS, Inc. filed for bankruptcy. The company has significantly more recorded liabilities than recorded assets, and it is projected that the stockholder's investment will be cancelled if the company is to emerge from bankruptcy.

Fair market values for Horizon Telecom, Inc. A and B shares are available from Pink Sheet quotations, which is a market that is very thinly traded.

Values are as follows:

| | Market <u>2006</u> | Market <u>2005</u> |
|---|-----------------------|-----------------------|
| Horizon PCS, Inc. | \$ 0 | \$ 0 |
| Horizon Telecom, Inc. "A" | 37,812 | 44,593 |
| Horizon Telecom, Inc. "B" | <u>80,210</u> | <u>99,954</u> |
| Total | 118,022 | 144,547 |
| Less: Market - prior year | <u>144,547</u> | <u>226,200</u> |
| Gain (loss) in value | <u>\$(26,525)</u> | <u>\$(81,653)</u> |
| Reflected in the financial statements as: | | |
| Other comprehensive income (loss): | | |
| Unrealized gain (loss) on securities | <u>\$(26,525)</u> | <u>\$(81,653)</u> |

ARTHUR MUTUAL TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS (Continued):

Capital Resource Funding, Inc. -

During 2004, a write-off in the amount of \$200,000 was recorded due to the bankruptcy of Capital Resource Funding, Inc. This write-off represents the full investment in Capital Resource Funding, Inc. During 2005, the company received a \$39,698 distribution under the Joint Plan of Liquidation. A final distribution under the liquidation plan of \$4,876 was received in 2006.

4. LONG-TERM LIABILITIES:

Long-term debt is represented by mortgage notes payable to the United States of America. The following is a summary of outstanding long-term debt:

| | <u>2006</u> | <u>2005</u> |
|---|------------------|------------------|
| 2% Rural Utilities Service - notes - due various dates from 2005 - 2018 | \$201,175 | \$239,917 |
| Less: Current maturities | 34,370 | 40,457 |
| | <u>\$166,805</u> | <u>\$199,460</u> |

All assets are pledged as security to these notes. Principal and interest installments on the above notes are due quarterly in equal amounts of approximately \$11,000. The maturities of long-term debt for each of the five years succeeding the balance sheet date are estimated to be as follows:

| | |
|------|-----------|
| 2007 | \$ 34,370 |
| 2008 | \$ 28,271 |
| 2009 | \$ 28,842 |
| 2010 | \$ 29,424 |
| 2011 | \$ 30,006 |

5. PENSION PLAN:

The employees of the company are covered by the National Telephone Cooperative Association Pension Plan, a multiple-employer plan.

6. CAPITAL CREDITS:

Capital credit retirements in the amounts of \$278,040 and \$17,429 were paid in 2006 and 2005, respectively. The credits retired were in compliance with the Mortgage Agreement and the policies of the company.

7. FEDERAL TAX STATUS:

This company operates as a tax-exempt corporation as defined by the Internal Revenue Code Section 501(c)(12). One of these requirements is that the company must obtain 85% or more of their gross income from members. The company did not meet this requirement for the year ended December 31, 2006, and incurred a tax of \$15,120. The company met this requirement for the year ended December 31, 2005, and did not incur federal corporate income tax.

ARTHUR MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

8. NONREGULATED AND NONOPERATING ACTIVITY:

Following is a summary of net income (loss) from nonregulated investments and nonoperating activity for the years ended December 31, 2006, and 2005:

| | <u>2006</u> | <u>2005</u> |
|--|------------------|------------------|
| Nonregulated revenue - net of expenses | \$ 86,621 | \$ 72,223 |
| Interest income | 103,767 | 50,966 |
| Dividend income | 8,554 | 15,241 |
| Earnings (loss) in SAA Bright.NET, Inc. | (997) | (8,714) |
| Earnings (loss) in Bright CLEC, LLC | 843 | 1,378 |
| Earnings (loss) in Bright Long Distance, Ltd. | 315 | 554 |
| Earnings (loss) in Broadband Network Group, LLC | (2,986) | (753) |
| Other nonoperating income | 8,111 | 1,226 |
| Realized gain (loss) on Capital Resource Funding | <u>4,876</u> | <u>39,698</u> |
| Net income (loss) | <u>\$209,104</u> | <u>\$171,819</u> |

Nonregulated equipment is stated net of accumulated depreciation. The company depreciates these assets on a straight-line basis over their estimated useful lives.

| | <u>2006</u> | <u>2005</u> |
|--------------------------------------|-----------------|-----------------|
| Nonregulated assets - net book value | \$ 0 | \$ 0 |
| Nonregulated inventory | <u>3,182</u> | <u>4,622</u> |
| Total | <u>\$ 3,182</u> | <u>\$ 4,622</u> |

9. NOTES RECEIVABLE:

During 2004, the company entered into the following note receivable, Independents Fiber Network, LLC, an affiliate of Com Net, Inc. - interest accruing at 5.0% per annum - due April 30, 2013 - unsecured - note amount \$175,000.

10. SUBSEQUENT EVENT:

In January 2007, the company contracted for the purchase of telephone switching equipment for an amount in excess of \$300,000.

SUPPLEMENTAL REPORTS

LALLY, CUMMINGS, PALMER & PATCH, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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JANICE M. KIDD, C.P.A.

March 8, 2007

Board of Directors
Arthur Mutual Telephone Company
Defiance, Ohio 43512

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**

We have audited the financial statements of Arthur Mutual Telephone Company as of and for the years ended December 31, 2006, and 2005, and have issued our report thereon dated March 8, 2007. We conducted our audit in accordance with U.S. 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 Arthur Mutual Telephone Company'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.

Board of Directors
Arthur Mutual Telephone Company
March 8, 2007

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Arthur Mutual Telephone Company'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.

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.

Lally, Cummings, Palmer & Patch

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March 8, 2007

Board of Directors
Arthur Mutual Telephone Company
Defiance, Ohio 43512

INDEPENDENT AUDITORS' MANAGEMENT LETTER

We have audited the financial statements of Arthur Mutual Telephone Company for the year ended December 31, 2006, and have issued our report thereon dated March 8, 2007. We conducted our audit in accordance with U.S. 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 Arthur Mutual Telephone Company for the year ended December 31, 2006, 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.

A description of the responsibility of management for establishing and maintaining the internal control over financial reporting and the objectives of and inherent limitations in such control is set forth in our independent auditors' report on compliance and on the internal control over financial reporting dated March 8, 2007, and should be read in conjunction with this report.

Board of Directors
Arthur Mutual Telephone Company
March 8, 2007

In the course of our work we noted that the lack of accounting staff prevents the proper segregation of duties. Management should be aware of opportunities for errors and irregularities caused by this situation and work to mitigate the risks through supervision and review.

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, and our independent auditors' report on compliance and on internal control over financial reporting, all March 8, 2007) 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 Arthur Mutual Telephone Company's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- the accounting procedures and records,
- the process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance, or other expense accounts,
- the materials control.

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 March 8, 2007, 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:

- Procedures 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 Arthur Mutual Telephone Company 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 property, or for the use of mortgaged property by others, or for services pertaining to toll traffic, operator assistance, or switching for the year ended December 31, 2006, of Arthur Mutual Telephone Company:
 1. Borrower did not have a schedule as they did not enter into any new written contracts during the year for the operation or maintenance of its property, or for the use of its property by others, or for services pertaining to toll traffic, operator assistance, or switching as defined in § 1773.33(e)(2)(i).
 2. Reviewed board of director minutes to ascertain whether any new contracts were approved during the year.
- Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:
 1. Agreed amounts reported in Form 479 for Arthur Mutual Telephone Company to Arthur Mutual Telephone Company's records.
- Procedure performed with respect to funded reserve and net plant to secured debt ratio requirements:
 1. This provision does not apply to this borrower.

The results of our tests indicate that, with respect to the items tested, Arthur Mutual Telephone Company 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 maintains all funds in institutions whose accounts are insured by an agency of the federal government.

- the borrower has obtained written approval of the RUS to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others, or for services pertaining to toll traffic, operator assistance, or switching as defined in § 1773.33 (e)(2)(i); and
- the borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2006, represented by the borrower as having been submitted to RUS is in agreement with Arthur Mutual Telephone Company's audited records in all material respects.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of Arthur Mutual Telephone Company, nothing came to our attention that caused us to believe that Arthur Mutual Telephone Company 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);
- sales of plant material or scrap addressed at 7 CFR 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, 2006, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33(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.

Lalby, Cummings, Palmer & Patch