

LOCAL EXCHANGE TELEPHONE COMPANIES

For the provision of (check all that apply):

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

ANNUAL REPORT

OF

90-5019

90-5019

Farmers Mutual Telephone Company

(Exact legal name of respondent)

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

Website URL:

County Road 17D, P.O. Box 50106	Okolona	Henry	Ohio	43550
Address	City	County	State	Zip Code

(419) 758-3322

Phone: (Area Code) Number

County Road 17D, P.O. Box 50106, Okolona, OH 43550

(Address of principal business office at end of year)

TO THE
PUBLIC UTILITIES COMMISSION OF OHIO
FOR THE
YEAR ENDED DECEMBER 31, 2006

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

Eric Damman, Secretary/Manager

County Road 17D, P.O. Box 50106, Okolona, OH 43550-3106

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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 form 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.

County Road 17D, P.O. Box 50106, Okolona, OH 43550

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.

Not for profit corporation

Incorporated March 2, 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, it 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 votes 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)
William Allen	Defiance, Ohio 1985	Defiance, Ohio Expired	5	200
Terry Behnfeldt	Defiance, Ohio 2002	Defiance, Ohio 2007	11	440
Kenneth Freytag	Napoleon, Ohio 1988	Napoleon, Ohio 2007	11	400
Glen Steffel	Napoleon, Ohio 1999	Napoleon, Ohio 2007	12	480
Henry Wachtman	Napoleon, Ohio 1997	Napoleon, Ohio 2007	12	440
Ron Dachtenhaus	Napoleon, Ohio 2004	Napoleon, Ohio 2007	12	480
Kevin Gerken	Napoleon, Ohio 2001	Napoleon, Ohio 2007	12	480
Lynn Helberg	Napoleon, Ohio 2006	Napoleon, Ohio 2007	4	120

Name of Chairman of the Board:	Terry Behnfeldt
Name of Secretary of Board:	Eric Damman
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

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.

2. Customary abbreviations may be used in showing titles and departments in columns (a) and (b).

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	N/A	Terry Behmfeldt	Napoleon, Ohio
Vice President	N/A	Ron Dachenhaus	Defiance, Ohio
Treasurer	N/A	Glenn Steffel	Napoleon, Ohio
Secretary	N/A	Eric Damman	Napoleon, 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		104,438	26,784	(77,654)	
1130	Cash		251	251	-	
1140	Special Cash Deposits		250	250	-	
1150	Working Cash Advances					
1160	Temporary Investments	34				
1180	Telecommunications Accounts Receivable	34	83,311	106,932	23,621	
1181	Acts. Receivable Allowance-Telecom. (Cr.)	34				
1190	Other Accounts Receivable	34	12,138	3,087	(9,051)	
1191	Accounts Receivable Allowance-Other (Cr.)	34				
1200	Notes Receivable	35				
1201	Notes Receivable Allowance (Cr.)	35				
1210	Interest and Dividends Receivable	35	1,400	1,400	-	
1220	Material and Supplies		8,998	13,333	4,335	
1280	Prepayments					
1290	Prepaid Rents					
1300	Prepaid Taxes					
1310	Prepaid Insurance		3,299	3,341	42	
1320	Prepaid Directory Expenses					
1330	Other Prepayments		12,278	15,579	3,301	
1350	Other Current Assets					
(1130-1350)	TOTAL CURRENT ASSETS		226,363	170,957	(55,406)	

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)
Class "A" Company	Class "B" Company					
		NONCURRENT ASSETS:				
1401	1401	Investments in Affiliated Cos.	35	96,619	83,000	(13,619)
1402	1402	Investments in Nonaffiliated Cos.	35	566,789	612,992	46,203
1406	1406	Nonregulated Investments		84,456	102,072	17,616
1407	1407	Unamort. Debt Issuance Exp.				-
1408	1408	Sinking Funds				-
1410	1410	Other Noncurrent Assets				-
1437	1437	Deferred Tax Regulatory Assets				-
1438	1438	Deferred Maintenance and Retirements	36			-
1439	1439	Deferred Charges	36	910	853	(57)
1500	1500	Other Juris. Assets-Net	37			-
(1401-1500)	(1401-1500)	TOTAL NONCURRENT ASSETS		748,774	798,917	50,143
		PROPERTY, PLANT AND EQUIPMENT:				
2001	2001	Tele. Plant in Service	24-26	1,784,458	2,056,838	272,380
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.		1,784,458	2,056,838	272,380

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	1,270,107	1,368,877	98,770	
3200	Accum. Deprec.-Held for Future Tele. Use				-	
3300	Accum. Deprec.-Nonoper.				-	
.....	Accum. Amort.-Tangible				-	
3410	Accum. Amort.-Capit. Leases				-	
3420	Accum. Amort.-Lsehd. Improv.				-	
3500	Accum. Amort.-Intangible				-	
3600	Accum. Amort.-Other				-	
(3100-3600)	TOTAL DEPREC. AND AMORT.		1,270,107	1,368,877	98,770	
	NET PLANT (2001-2007) Less (3100-3600)		514,351	687,961	173,610	
	TOTAL ASSETS (1120-2007) Less (3100-3600)		1,489,488	1,657,835	168,347	

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		44,115	16,305	(27,810)	
4020	Notes Payable				-	
4030	Advance Billing and Pay.				-	
4040	Customer Deposits		347	428	81	
4050	Cur. Maturities-Long Term Debt		34,221	63,648	29,427	
4060	Cur. Maturities-Cap. Leases				-	
4070	Income Taxes-Accrued				-	
4080	Other Taxes-Accrued		16,551	14,339	(2,212)	
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		95,234	94,720	(514)	
	LONG-TERM DEBT:					
4210	Funded Debt	39	310,887	389,096	78,209	
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		310,887	389,096	78,209	

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				-	
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	25,427		(25,427)	
4361	Deferred Tax Regulat. Liability	41			-	
4370	Other Juris. Liab. & Def. Cr.-Net	38			-	
(4310-4370)	TOTAL OTHER LIAB. & DEF. CR.		25,427	-	(25,427)	
	STOCKHOLDERS' EQUITY:					
4510	Capital Stock	42	5,668	5,577	(91)	
4520	Additional Paid-in Capital	42			-	
4530	Treasury Stock	42			-	
4540	Other Capital		25,000	25,000	-	
4550	Retained Earnings	23	1,027,272	1,143,442	116,170	
(4510-4550)	TOTAL STOCKHOLDERS' EQUITY		1,057,940	1,174,019	116,079	
(4010-4550)	TOTAL LIAB. & STOCKHOLDERS' EQUITY		1,489,488	1,657,835	168,347	

SCHEDULE: 4A

NOTES TO BALANCE SHEET
None

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	143,041
5002	.....	Optional Extended Area Revenue	
5003	.....	Cellular Mobile Revenue	
5004	.....	Other Mobile Services Revenue	
5000 (5001-5004)	.....	Basic Local Service Revenue	143,041
5010	.....	Public Telephone Revenue	
5040	.....	Local Private Line Revenue	
5050	.....	Customer Premises Revenue	
5060	.....	Other Local Exchange Revenue	25,454
5069	.....	Other Local Exchange Revenue Settlements	
(5001-5069)	5000	LOCAL NETWORK SERVICES REVENUES	168,495
<u>NETWORK ACCESS SERVICE REVENUES:</u>			
5081	5081	End User Revenue	37,270
5082	5082	Switched Access Revenue	261,029
5083	5083	Special Access Revenue	14,501
5084	5084	State Access Revenue	114,024
5080 (5081-5084)	5080 (5081-5084)	NETWORK ACCESS REVENUE	426,824
<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		
		<u>MISCELLANEOUS REVENUES:</u>	
5230	.....	Directory Revenue	472
5240	.....	Rent Revenue	30,990
5250	.....	Corporate Operations Revenue	
5261	.....	Special Billing Arrangements Revenue	
5262	.....	Customer Operations Revenue	
5263	.....	Plant Operations Revenue	
5264	.....	Other Incidental Regulated Revenue	5,343
5269	.....	Other Revenue Settlements	
5270	.....	Carrier Billing and Collection Revenue	26,901
(5230-5270)	5200	MISCELLANEOUS REVENUES	63,706
		<u>NONREGULATED REVENUES:</u>	
5280	5280	Nonregulated Operating Revenue	0
		<u>UNCOLLECTIBLE REVENUES:</u>	
5301	.....	Uncollectible Revenue - Telecommunications	
5302	.....	Uncollectible Revenue - Other	
5300	5300	UNCOLLECTIBLE REVENUES	0
(5301-5302)			
		TOTAL OPERATING REVENUE (5001 - 5302)	659,025

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	9,452
6122	.....	Furniture and Artworks Expense	
6123	.....	Office Equipment Expense	2,597
6124	.....	General Purpose Computers Expense	3,132
6120 (6121-6124)	6120	GENERAL SUPPORT EXPENSE	15,181
6211	.....	Analog Electronic Expense	
6212	.....	Digital Electronic Expense	105,953
6215	.....	Electro-Mechanical Expense	
6210 (6211-6215)	6210	CENTRAL OFFICE SWITCH. EXPENSE	105,953
6220	6220	Operator Systems Expense	
6231	.....	Radio Facilities Expense	
6232	.....	Circuit Equipment Expense	42,722
6230 (6231-6232)	6230	CENTRAL OFFICE TRANSM. EXPENSE	42,722
6311	.....	Station Apparatus Expense	821
6341	.....	Large Private Branch Exchange Expense	
6351	.....	Public Telephone Terminal Equipment Expense	
6362	.....	Other Terminal Equipment Expense	
6310 (6311-6362)	6310	INFO. ORIG./TERM. EXPENSE	821
6411	.....	Poles Expense	
6421	.....	Aerial Cable Expense	
6422	.....	Underground Cable Expense	
6423	.....	Buried Cable Expense	29,540
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	29,540
(6112-6441)	(6110-6410)	TOTAL PLANT SPECIFIC OPERATIONS EXPENSE	194,217

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	1,419
6510 (6511-6512)	6510	OTHER PROP., PLANT & EQUIP. EXPENSE	1,419
6531	.....	Power Expense	4,652
6532	.....	Network Administration Expense	2,466
6533	.....	Testing Expense	3,467
6534	.....	Plant Oper. Admin. Expense	
6535	.....	Engineering Expense	
6530 (6531-6535)	6530	NETWORK OPERATIONS EXPENSE	10,585
6540	6540	Access Expense	
6561	.....	Depreciation Expense-Telecommunications Plant In Service	127,098
6562	.....	Depreciation Expense-Property Held for Future Telecommunications Use	
6563	.....	Amortization Expense-Tangible	(25,427)
6564	.....	Amortization Expense-Intangible	
6565	.....	Amortization Expense-Other	
6560 (6561-6565)	6560	DEPRECIATION & AMORT. EXPENSE	101,671
(6511-6565)	(6510-6560)	TOTAL PLANT NONSPECIFIC OPERATIONS	113,675
		<u>CUSTOMER OPERATIONS EXPENSE:</u>	
6611	.....	Product Management	
6612	.....	Sales	
6613	.....	Product Advertising	
6610 (6611-6613)	6610	MARKETING	0
6621	.....	Call Completion Services	
6622	.....	Number Services	2,761
6623	.....	Customer Services	64,137
6620 (6621-6623)	6620	SERVICES	66,898
(6610-6620)	(6610-6620)	TOTAL CUSTOMER OPERATIONS EXPENSE	66,898
		<u>CORPORATE OPERATIONS EXPENSE:</u>	
6711	.....	Executive	19,615
6712	.....	Planning	10,784
6710 (6711-6712)	6710	EXECUTIVE AND PLANNING	30,399

SCHEDULE: 5

INCOME STATEMENT			
(in dollars)			
Account No.		Account Title	Amount
Class "A" Company	Class "B" Company		
6721	.....	Accounting and Finance	109,145
6722	.....	External Relations	20,762
6723	.....	Human Resources	7,697
6724	.....	Information Management	
6725	.....	Legal	665
6726	.....	Procurement	1,410
6727	.....	Research and Development	
6728	.....	Other General and Administrative	23,813
6720 (6721-6728)	6720	GENERAL AND ADMINISTRATIVE	163,492
6790	6790	Provision for Uncollectible Notes Receivable	
(6710-6790)	(6710-6790)	TOTAL CORPORATE OPERATIONS EXPENSE	193,891
(6112-6790)	(6110-6790)	TOTAL OPERATING EXPENSES	568,681
<u>OPERATING TAXES:</u>			
7210	.....	Operating Investment Tax Credits-Net	
7220	.....	Operating Federal Income Taxes	
7230	.....	Operating State and Local Income Taxes	
7240	.....	Operating Other Taxes	14,288
7250	.....	Provision for Deferred Operating Income Taxes-Net	
7200 (7210-7250)	7200	TOTAL OPERATING TAXES	14,288
NET OPERATING INCOME (5001-5302)			
Less (6110-7200)			76,056
<u>OTHER OPERATING INCOME AND EXPENSE:</u>			
7110	.....	Income from Custom Work	9,155
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	9,155

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	3,417
7320	.....	Interest Income	4,682
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	24,788
7370	.....	Special Charges	(848)
7300 (7310-7370)	7300	TOTAL NONOPERATING INCOME AND EXPENSE	32,039
		<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	21,178
7520	.....	Interest Expense-Capital Leases	
7530	.....	Amortization of Debt Issuance Expense	57
7540	.....	Other Interest Deductions	
7500 (7510-7540)	7500	TOTAL INTEREST AND RELATED ITEMS	21,235
		<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	20,155
		NET INCOME	116,170

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	1,027,272
	Charges:		
	Balance Transferred from Income	21	69,967
	Dividends Declared		
	Miscellaneous Debits to Retained Earnings		
	Miscellaneous Credits to Retained Earnings		46,203
	Balance-End of Year	14	1,143,442
	Notes to Statement of Retained Earnings:		
	Miscellaneous Credits to retained earnings Represent unrealized gain on available-for-sale securities.		

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		
	Miscellaneous Credits		
	TOTAL CREDITS		N/A
	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:					
			Land and Support Assets					
.....		2110	Land					
2111		Land	26,069				26,069
2112		Motor Vehicles	58,707				58,707
2113		Aircraft					
2114		Special Purpose Vehicles					
2115		Garage Work Equipment					
2116		Other Work Equipment	77,286				77,286
2121		Buildings	262,527				262,527
2122		Furniture	8,187	30			8,217
2123.1		Office Support Equip.	7,508				7,508
2123.2		Co. Comm. Equip.	1,456				1,456
2124		General Purpose Computers	53,098				53,098
(2111-2124)		2110	TOTAL GENERAL SUPPORT ASSETS	494,838	30	-	-	494,868
			CENTRAL OFFICE ASSETS:					
2211		Analog Electronic Switching					
2212		Digital Electronic Switching	302,681	224,800	14,494		512,987
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	302,681	224,800	14,494	-	512,987
2220		2220	Operator Systems					
2231		Radio Systems					
2232		Circuit Equipment	292,996	43,473	13,834		322,635
(2231-2232)		2230	CENTRAL OFFICE TRANSMISSION	292,996	43,473	13,834	-	322,635

SCHEDULE: 8

ANALYSIS OF PLANT IN SERVICE (in dollars)							
Account No.	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)
		<u>INFORMATION ORIGINATOR/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	<u>INFORMATION ORIGINATOR/TERMINATION</u>	0		-		
		<u>CABLE AND WIRE FACILITIES ASSETS:</u>					
2411	.....	Poles					
2421	.....	Aerial Cable					
2422	.....	Underground Cable					
2423	.....	Buried Cable	693,943	32,405			726,348
2424	.....	Submarine Cable					
2425	.....	Deep Sea Cable					
2426	.....	Intrabuilding Network Cable					
2431	.....	Aerial Wire					
2441	.....	Conduit Systems					
(2411-2441)	2410	<u>CABLE AND WIRE FACILITIES</u>	693,943	32,405	-		726,348
		<u>AMORTIZABLE ASSETS:</u>					
2681	.....	Capital Leases					
2682	.....	Leasehold Improvements					
(2681-2682)	2680	<u>AMORTIZABLE TANGIBLE ASSET</u>	0		-		
2690	2690	Intangibles					
2001 (2110-2690)	2001 (2110-2690)	<u>TOTAL TELECOMMUNICATIONS PLANT IN SERVICE</u>	1,784,458	300,708	28,328	-	2,056,838

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	Class "B" Company					
2001	2001	1,784,458	300,708	28,328	-	2,056,838
2002	2002					
2003	2003					
2004	2004					
2005	2005					
2006	2006					
2007	2007					
(2001-2007)	(2001-2007)	1,784,458	300,708	28,328	-	2,056,838

SCHEDULE: 9

ACCUMULATED DEPRECIATION (Account 3100) (in dollars)

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

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:							
.....		2110	Land and Support Assets				
2111		Land				
2112		Motor Vehicles	41,704	10.56	6,200	
2113		Aircraft				
2114		Special Purpose Vehicles				
2115		Garage Work Equip.				
2116		Other Work Equip.	70,624	7.92	6,121	
2121		Buildings	55,300	2.77	7,272	
2122		Furniture	4,204	7.92	650	
2123.1		Office Support Equip.	7,591	16.67	1,252	
2123.2		Co. Comm. Equip.	1,647	11.11	162	
2124		Gen. Purpose Computers	67,620	20.00	10,620	
(2111-2124)		2110	TOTAL GEN. SUPPORT ASSETS	248,689		32,277	-
CENTRAL OFFICE ASSETS:							
(2211-2215.3)		2210	Central Office-Switching				
2211		Analog Electronic Switching				
2212		Digital Electronic Switching				
2212.1		Digital Switch. - Hardware	343,157	8.00	33,616	14,494
2212.2		Digital Switch. - Software				
2215		Electro-Mechanical Switching				
2215.1		Step-by-Step Switch.				
2215.2		Crossbar Switch.				
2215.3		Oth. Ele. Mech. Switch.				
2220		2220	Operator Systems				
.....		2230	Central Office-Transmission				
2231		Radio Systems				
2232		Circuit Equip.				
(2211-2232)		(2210-2230)	TOTAL CEN. OFFICE ASSETS	124,690	10.00	30,782	13,835
				467,847		64,398	28,329

(a) From Accounting Records (b) For information only, not part of this calculation (c) thru (d) 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 (PUCO Case No. 02-3152-TP-AAM (if accrual rate changes during the year should be identified with effective date of change 01-01-02).

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:				
			Land and Support Assets				
2111		2110	Land				-
2112			Motor Vehicles				47,904
2113			Aircraft				-
2114			Special Purpose Vehicles				-
2115			Garage Work Equip.				-
2116			Other Work Equip.				76,745
2121			Buildings				62,572
2122			Furniture				4,854
2123.1			Office Support Equip.				8,843
2123.2			Co. Comm. Equip.				1,809
2124			Gen. Purpose Computers				78,240
(2111-2124)		2110	TOTAL GEN. SUPPORT ASSETS				280,967
			CENTRAL OFFICE ASSETS:				
			Central Office-Switching				-
2211			Analog Electronic Switching				-
2212			Digital Electronic Switching				362,279
2215			Electro-Mechanical Switching				-
2215.1			Step-by-Step Switch.				-
2215.2			Crossbar Switch.				-
2215.3			Oth. Ele. Mech. Switch.				-
2220		2220	Operator Systems				-
		2230	Central Office-Transmission				-
2231			Radio Systems				-
2232			Circuit Equip.				141,637
(2211-2232)		(2210-2230)	TOTAL CEN. OFFICE ASSETS				503,916

(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 (FUCO Case No. 02-315E-TP-AAM). If Accrual Rate changes during the year should be identified with effective date of change 01-01-02. 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.	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	0
			CABLE & WIRE FACIL. ASSETS:				
2411	Poles				
2421	Aerial Cable				
2421.1	Aerial Cable - Metallic				
2421.2	Aerial Cable - Nonmetallic				
2421.3	Aerial Cable - Drop				
2422	Underground Cable				
2422.1	Underground Cable - Metallic				
2422.2	Underground Cable - Nonmetallic				
2423	Buried Cable				
2423.1	Buried Cable - Metallic	433,122	4.20	18,238	
2423.2	Buried Cable - Nonmetallic	31,018	4.20	7,173	
2423.3	Buried Cable - Drop	89,431	4.77	5,012	
2424	Submarine Cable				
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 (PUCO Case No. 092-31-98-TP-AAAM). (If Accrual Rate changes during the year should be identified with effective date of change 01-01-02.)

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	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					
		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.				0
		ASSETS				
		CABLE & WIRE FACIL.				
		ASSETS:				
2411	.....	Poles				-
2421	.....	Aerial Cable				-
2421.1	.....	Aerial Cable - Metallic				-
2421.2	.....	Aerial Cable - Nonmetallic				-
2421.3	.....	Aerial Cable - Drop				-
2422	.....	Underground Cable				-
2422.1	.....	Underground Cable - Metallic				-
2422.2	.....	Underground Cable - Nonmetallic				-
2423	.....	Buried Cable				-
2423.1	.....	Buried Cable - Metallic				451,360
2423.2	.....	Buried Cable - Nonmetallic				38,191
2423.3	.....	Buried Cable - Drop				94,443
2424	.....	Submarine Cable				-
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 (LUCO Case No. 02-3129-TP-AAM.) (If Accrual Rate changes during the year should be identified with effective date of change __/__/__.)
 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.	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)
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	553,571		30,423	0
			TOTAL ACCUMULATED DEPREC. (2112-2441)	1,270,107		127,098	28,329

(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 (FLUCO Case No. 02-3159-TE-AAM). (If Accrual Rate changes during the year should be identified with effective date of change. 01-01-02.)
- 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				583,994
		TOTAL ACCUMULATED DEPREC. (2112-2441)				1,368,877

(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 (FUCO Case No. 02-3159-TP-AAM). (If Accrual Rate changes during the year should be identified with effective date of change 01-01-02.)

3. 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	N/A	N/A
2	Accruals Charged		
3	Collection of Amounts Previously Written Off		
4	Other Credits		
5	TOTAL CREDITS	\$ -	\$ -
6	Uncollectibles Written Off During the Year		
7	Other Debits (Explain in a Note)		
8	TOTAL DEBITS	\$ -	\$ -
9	Balance at End of the Year	0	0
10	TOTAL OPERATING REVENUE FOR THE YEAR		
11	Net Write Offs During the Year (Line 6 minus Line 3)	-	-
12	Ratio of Line 11 to Line 10	%	%
13	Ratio of Line 2 to Line 10	%	%

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)
Subscribers	\$	\$ 5,652	\$		\$
AT&T		2,501			
MCI Worldcom		(377)			
NECA		40,808			
Sprint		2,588			
Other carriers		5,165			
Excel		10			
Glo Frontier		1,498			
HiPoint Comm.		49,087		3,087	
Sales, labor, custom					
Total Affiliated	0	106,932	0	3,087	0
Total Nonaffiliated					-
TOTAL BALANCE	0	106,932	0	3,087	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	\$ -	\$ -	-	18,500	\$ -
Bright CLEC, LLC				3,276	
Bright-Net North, Inc			900	(41,964)	
Bright Long Distance, Ltd					
Verisign, Inc					561,710
Independent Fiber Network, LLC			500	100,000	
Horizon Telecom, Inc					40,145
BNG, LLC				3,188	
NISC					9,347
Rural Telephone Finance Company					1,790
Total Affiliated	-	-	1,400	83,000	
Total Nonaffiliated	-	-			612,992
TOTAL BALANCE	-	-	1,400	83,000	612,992

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	\$
Aggregate of All Other Items	
TOTAL	0
ACCOUNT 1439	\$ 853
Aggregate of All Other Items	
TOTAL	\$ 853

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)
N/A				-
				-
				-
				-
				-
TOTALS	-	-	-	\$

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)
N/A				-
				-
				-
				-
				-
TOTALS	-	-	-	\$

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)
N/A				-
				-
				-
				-
				-
TOTALS	-	-	-	\$

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)
Funded - RUS	4/76	2011	\$ 86,081	N/A	2	2	\$ 19,625	\$ 66,456
Funded - RUS	10/79	2014	109,819	N/A	5	5	11,898	\$ 97,921
Funded - RUS	2/85	2020	69,944	N/A	5	5	3,849	\$ 66,095
RTFC - line of credit	12/04	2008	40,000	N/A				\$ 40,000
US Bancorp	6/6/07	2011	146,900	N/A	8	8	28,276	118,624
TOTALS			\$ 452,744				\$ 63,648	\$ 389,096

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)
Depreciation reserve set-up by the PUCO.	\$ -
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)
N/A	\$ -
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 (j) 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 e=(b) x (d) \$ Amount of Stock Issued & Outstanding (e)						
COMMON:	\$ -			\$ -	\$ -	-			\$ -	
N/A										
PREFERRED:										
N/A										
TOTALS	\$ -	-	-	\$ -	\$ -	-	-	-	\$ -	

SCHEDULE: 22

GENERAL SERVICES AND LICENSES

- 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)
N/A		\$
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)
N/A	\$ -	\$ -	\$ -	\$ -

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)
	Male	Female	Total				
Telephone							
Part-time Employees							
Full-time Employees	4	2	6	\$ 232,671	\$ 232,671		
TOTAL ALL EMPLOYEES	4	2	6	\$ 232,671	\$ 232,671	\$ -	\$ -

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 Aerial Wire (c)	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	Ohio						8,367			
2										
3										
4										
5										
6										
	TOTAL	-	-	-	-	-	8,367	-	-	-

(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	Ohio					8,367	-
2							
3							
4							
5							
6							
	TOTAL	-	-	-	-	8,367	-

(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							
2							
3							
4							
5							
6							
	TOTAL	-	-	-	-	-	-

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)
	N/A	

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
N/A	

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*
Okolona	462	None	N/A	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*
Okolona	462	None	N/A	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.

**Service Connection Assistance (SCA)
Annual Reporting Form**

Class of Service	Number of Program Participants- End of Period [A]	Number of New Program Participants During Period [B]	Number of Participants By Qualifying Program					Percentage Penetration of Optional Features				Participants Disconnected for Non-Payment [L]	
			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	0	0	-	-	-	-	-	-	-	-	-	-	-

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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 Monthly Subscriber Line Charge [Q]	Number of Months for SLC Waiver [R]	
(1) Flat	\$	\$	\$	\$	\$		Telephone Company
(2) Message	\$	\$	\$	\$	\$		Street/P.O. Box
(3) Measured	\$	\$	\$	\$	\$		City, State, Zip Code
(4) TOTAL	-	-	-	-	-	-	Name of Person Completing Form
							Signature Date

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.	143,041	-	143,041
5002	.....	Optional Extended Area Rev.	-	-	-
5003	.....	Cellular Mobile Service Rev.	-	-	-
5004	.....	Other Mobile Service Rev.	-	-	-
5000	.....	Basic Local Service Rev.	143,041	0	143,041
(5001-5004)					
5010	.....	Public Telephone Rev.	-	-	-
5040	.....	Local Private Line Rev.	-	-	-
5050	.....	Customer Premises Rev.	-	-	-
5060	.....	Other Local Exchange Rev.	25,454	-	25,454
5069	.....	Other Local Exchange Rev. Settlements	-	-	-
(5001-5069)	5000	TOTAL LOCAL NETWORK SERVICES REVENUES	168,495	0	168,495
NETWORK ACCESS SERVICES REVENUES:					
5081	5081	End User Rev.	37,270	37,270	-
5082	5082	Switched Access Revenue	261,029	261,029	-
5083	5083	Special Access Revenue	14,501	-	14,501
5084	5084	State Access Revenue	114,024	-	114,024
(5081-5084)	5080	NETWORK ACCESS REVENUE	426,824	298,299	128,525
(5081-5084)	(5081-5084)				

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)
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)	0	0	0
<u>MISCELLANEOUS REVENUES:</u>					
5230	Directory Rev.	472		472
5240	Rent Rev.	30,990		30,990
5250	Corporate Operations Rev.	-		-
5261	Special Billing Arrangement Rev.	-		-
5262	Customer Operations Rev.	-		-
5263	Plant Operations Rev.	-		-
5264	Other Incidental Regulated Rev.	5,343		5,343

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	-		-	
5260	Miscellaneous Revenues (5261-5269)	5,343		5,343	
5270	Carrier Billing & Collection Rev.	26,901	9,793	17,108	
5200 (5230-5270)	MISCELLANEOUS REVENUES	63,706	9,793	53,913	
	NONREGULATED REVENUES:				
5280	Nonregulated Operating Revenues	-		-	
	TOTAL OPERATING REVENUES (5001-5280)	659,025	308,092	350,933	
	OTHER OPERATING INCOME AND EXPENSES:				
7110	Income from Custom Work	9,155		9,155	
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:	9,155	0	9,155	
	NONOPERATING INCOME AND EXPENSES:				
7310	Dividend Income	3,417		3,417	
7320	Interest Income	4,682		4,682	
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)	24,788		24,788	
7370	Special Charge	(848)		(848)	
7300 (7310-7370)	NONOPERATING INCOME AND EXPENSES	32,039	0	32,039	

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)
			EXTRAORDINARY ITEMS:			
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	7600		TOTAL EXTRAORDINARY ITEMS	0	0	0
(7610-7640)			SUBTOTAL (5001-7640)	700,219	308,092	392,127
			Less:	()	()	()
			- Earnings or receipts from sales to public utilities for resale			-
			TOTAL	700,219	308,092	392,127
			* 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 Damman	Secretary / Manager
Name	Title
County Road 17D, P.O. Box 50106	
Address	
Okolona, OH 43550-3106	
Address	
(419) 758-3322	
Phone Number (Including Area Code)	

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

Eric Damman	Secretary / Manager
Name	Title
County Road 17D, P.O. Box 50106	
Address	
Okolona, OH 43550-3106	
Address	
(419) 758-3322	
Phone Number (Including Area Code)	

Name and Address of the President

Terry Behnfeldt	President
Name	Title
County Road 17D, P.O. Box 50106	
Address	
Okolona, OH 43550-3106	
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 Henry

Eric Damman makes oath and says that
(Insert here the name of the affiant.)

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

of Farmers 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 Z Damman
(Signature of affiant.)

Subscribed and sworn to before me, a NOTARY in and for the State and county named, this 27th day of April, 2007
My commission expires December 7, 2011.

Henry J. Wachtman
(Signature of Person Authorized to Administer Oaths)
HENRY J. WACHTMAN

OHIO 527 OKOLONA
FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY
(An Ohio Mutual Company)

OKOLONA, OHIO

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL REPORTS

DECEMBER 31, 2006, AND 2005

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LALLY, CUMMINGS, PALMER & PATCH, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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NATHAN J. EADS, C.P.A.

WILLIAM E. CUMMINGS, C.P.A.
CHARLES E. GUGINS, C.P.A.
JANICE M. KIDD, C.P.A.

March 20, 2007

Board of Directors
Farmers Mutual Telephone Company
P.O. Box 50106
Okolona, Ohio 43550

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated balance sheet of FARMERS MUTUAL TELEPHONE COMPANY AND ITS WHOLLY OWNED SUBSIDIARY (An Ohio Mutual Company) as of December 31, 2006, and 2005, and the related consolidated statements of income and patronage capital, members' equity, 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 consolidating financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Farmers Mutual Telephone Company and its wholly owned subsidiary 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 20, 2007, on our consideration of Farmers 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

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY
(An Ohio Mutual Company)
OKOLONA, OHIO

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2006, AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 27,285	\$ 104,939
Telecommunications accounts receivable	61,238	14,774
Other accounts receivable	3,087	12,138
Interest receivable	1,400	1,400
Materials and supplies (at cost)	13,333	22,758
Prepaid expenses	18,920	15,577
Total current assets	<u>125,263</u>	<u>171,586</u>
NONCURRENT ASSETS:		
Investments - affiliated	83,000	96,619
Investments - nonaffiliated	601,855	555,652
Nonregulated investments	18,313	6,902
Other investments	11,137	11,137
Other deferred charges	853	910
Total noncurrent assets	<u>715,158</u>	<u>671,220</u>
PROPERTY, PLANT, AND EQUIPMENT:		
Telecommunications plant in service	2,211,842	1,928,997
Less: Accumulated depreciation	<u>1,394,428</u>	<u>1,282,315</u>
Net book value	<u>817,414</u>	<u>646,682</u>
 Total assets	 <u>\$ 1,657,835</u>	 <u>\$ 1,489,488</u>

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

LIABILITIES AND MEMBERS' EQUITY

	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES:		
Notes payable - current portion	\$ 63,648	\$ 34,221
Accounts payable	16,733	44,462
Accrued taxes	14,339	16,551
Total current liabilities	94,720	95,234
LONG-TERM LIABILITIES:		
Notes payable - net of current portion	389,096	310,887
DEFERRED CREDITS:		
Depreciation reserve adjustment	0	25,427
MEMBERS' EQUITY:		
Memberships	5,577	5,668
Other capital	25,000	25,000
Patronage capital	650,156	586,394
Retained earnings (deficit)	(23,300)	(29,505)
Other comprehensive income	516,586	470,383
Total members' equity	1,174,019	1,057,940
Total liabilities and members' equity	\$ 1,657,835	\$ 1,489,488

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

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2006, AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES:		
Local service	\$ 239,570	\$ 208,583
Access service	389,554	370,674
Miscellaneous	69,003	68,265
Total operating revenues	<u>698,127</u>	<u>647,522</u>
OPERATING EXPENSES:		
Plant specific operations	196,180	154,010
Plant nonspecific operations	12,004	9,659
Depreciation and amortization	115,014	100,928
Customer operations	66,898	68,645
Corporate operations	195,982	225,765
Total operating expenses	<u>586,078</u>	<u>559,007</u>
GROSS OPERATING INCOME	112,049	88,515
OPERATING TAXES:		
Other operating taxes	<u>14,288</u>	<u>16,452</u>
NET OPERATING INCOME	97,761	72,063
NONOPERATING AND NONREGULATED INCOME (LOSS) - net	<u>(6,559)</u>	<u>23,715</u>
INCOME AVAILABLE FOR FIXED CHARGES	91,202	95,778
FIXED CHARGES:		
Interest	<u>21,235</u>	<u>16,919</u>
NET INCOME	69,967	78,859
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized gains (losses) on available-for-sale securities	<u>46,203</u>	<u>(294,767)</u>
COMPREHENSIVE INCOME (LOSS)	116,170	(215,908)
PATRONAGE CAPITAL - beginning	<u>1,027,272</u>	<u>1,243,844</u>
	1,143,442	1,027,936
LESS: PATRONAGE CAPITAL RETIRED	<u>0</u>	<u>664</u>
PATRONAGE CAPITAL AND OTHER COMPREHENSIVE INCOME	<u>\$ 1,143,442</u>	<u>\$ 1,027,272</u>

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

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006, AND 2005

	<u>MEMBERSHIP</u>	<u>PATRONAGE AND OTHER CAPITAL</u>	<u>RETAINED EARNINGS (DEFICIT)</u>	<u>OTHER COMPREHENSIVE INCOME (LOSS)</u>	<u>TOTAL</u>
BEGINNING BALANCE - JANUARY 1, 2005	\$ 5,811	\$ 503,694	\$	\$ 765,150	\$ 1,274,655
Memberships - net	(143)				(143)
Income from:					
Farmers Mutual		108,364		(294,767)	(186,403)
HiPoint Comm.			(29,505)		(29,505)
Retirement of capital credits		(664)			(664)
BALANCE - DECEMBER 31, 2005	5,668	611,394	(29,505)	470,383	1,057,940
Memberships - net	(91)				(91)
Income from:					
Farmers Mutual		63,762		46,203	109,965
HiPoint Comm.			6,205		6,205
Retirement of capital credits					0
ENDING BALANCE - DECEMBER 31, 2006	<u>\$ 5,577</u>	<u>\$ 675,156</u>	<u>\$ (23,300)</u>	<u>\$ 516,586</u>	<u>\$ 1,174,019</u>

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

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

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

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES:		
Comprehensive income (loss)	\$ 116,170	\$ (215,908)
Adjustments to reconcile comprehensive income (loss) to net cash provided by operating activities:		
Depreciation and amortization	115,014	100,928
Changes in operating assets and liabilities:		
Decrease (Increase) in:		
Accounts receivable	(37,413)	(10,604)
Other current assets	6,082	(17,912)
Noncurrent assets	57	29,562
Increase (Decrease) in:		
Accounts payable	(27,729)	4,273
Other current liabilities	(2,212)	6,213
	169,969	(103,448)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	169,969	(103,448)
INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(311,173)	(84,591)
Proceeds from sale of equipment	0	80
Increase (Decrease) in memberships	(91)	(143)
(Increase) Decrease in investments	(43,995)	260,945
	(355,259)	176,291
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(355,259)	176,291
FINANCING ACTIVITIES:		
Borrowing on long-term debt	160,220	0
Principal payments on long-term debt	(52,584)	(63,156)
Patronage capital retired	0	(664)
	107,636	(63,820)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	107,636	(63,820)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(77,654)	9,023
CASH AND CASH EQUIVALENTS - BEGINNING	104,939	95,916
CASH AND CASH EQUIVALENTS - ENDING	\$ 27,285	\$ 104,939
SUPPLEMENTAL DISCLOSURES:		
Interest paid (net of \$0 capitalized)	\$ 21,178	\$ 16,862
Income taxes paid	\$ 0	\$ 0

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

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

These consolidated financial statements include the accounts of the company and its wholly owned subsidiary after elimination of all significant inter-company balances and transactions.

Farmers Mutual Telephone Company provides telecommunication services to Okolona, Ohio. In 2005, the company created HiPoint Communications, LLC to provide wireless telecommunication services to Okolona, Ohio. 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 Okolona, 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 Bright.Net North, Inc., Com Net, Inc., VeriSign, Inc., Bright Long Distance, Ltd., Horizon Telcom, Inc., Bright CLEC, LLC, Independents Fiber Network, LLC, and Broadband Network Group, LLC. Future changes in economic conditions may make the investments less valuable. (See Note 3)

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 Equivalents and Temporary Investments -

The company considers highly liquid investments with maturities of ninety days or less to be cash equivalents. Securities with maturities between ninety-one days and one year are considered temporary investments. The company has deposits with various institutions, none of which are in excess of federally insured limits at December 31, 2006.

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.

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Telephone Plant and Depreciation -

Telephone plant in service was stated substantially at original cost. Management was of the opinion that any adjustments that might be required to record properties at original cost would not be material. 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 files Form 990 annually. (See Note 12)

Revenue Recognition -

Toll access services are furnished in conjunction with Sprint United 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.

2. ASSETS PLEDGED:

Substantially all assets are pledged as security for the long-term debt to RUS.

3. INVESTMENTS - AFFILIATED:

Com Net, Inc. -

During 1994, the company purchased a 6.67% share of Com Net, Inc. (An Ohio Corporation) for \$18,500. 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 \$20,895 and \$21,812, respectively for the A-link service. As part of this continuing project, in April of 2003, the company made a \$100,000 loan to Independents Fiber Network, LLC, a wholly owned Com Net company. The loan bears interest at 3% per annum and is due in April of 2013. In 2004, the company received a 7.14% share of Broadband Network Group, LLC for a \$1 investment.

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS - AFFILIATED (Continued):

Bright.Net North, Inc. -

In March of 1995, the company joined with two other local area telephone companies to form a new company called Bright.Net North, Inc. The purpose of the new company is to furnish local access to the Internet. Each company has a one-third share of the new company. Loans have also been made by each company in the amount of \$15,000 and bear interest at 8% per annum. In August of 1999, a new note in the amount of \$40,000 was issued to the company for the purpose of reimbursement of past management services provided to Bright.Net North, Inc. The note is noninterest bearing and is due on or before March 31, 2012. The company accounts for the investment on the equity method.

Bright Long Distance, Ltd. -

During 1997, the company entered into an operating agreement forming Bright Long Distance, Ltd., a Limited Liability Company organized in Ohio. The purpose of this entity is to sell long distance toll and other related services. The term of the organization is 25 years.

Bright CLEC, LLC -

In March of 2001, the company made an initial investment of \$3,000 in Bright CLEC, LLC (BCL). BCL was formed as a Competitive Local Exchange Carrier (CLEC). BCL will offer to resell transport and local loop through BCL.

4. INVESTMENTS - NONAFFILIATED:

Bright Personal Communications Services, LLC -

On June 27, 2000, Bright PCS, LLC was terminated and was then incorporated into two Ohio C Corporations; Horizon Telcom, Inc. and Horizon PCS, Inc. It is the intent of both 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 PCS, Inc.	66,293 "B" shares
Horizon Telcom, Inc.	124 "A" shares
Horizon Telcom, Inc.	372 "B" shares

In September 2003, 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.

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

4. INVESTMENTS - NONAFFILIATED (Continued):

Fair market values for Horizon Telcom, 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"	10,292	13,454
Horizon Telecom, Inc. "B"	<u>29,853</u>	<u>30,132</u>
Total	40,145	43,586
Less: Market - prior year	<u>43,586</u>	<u>68,200</u>
Gain (loss) in value	<u>\$ (3,441)</u>	<u>\$ (24,614)</u>
Reflected in the financial statements as:		
Other comprehensive income (loss):		
Unrealized gain (loss) on securities	<u>\$ (3,441)</u>	<u>\$ (24,614)</u>

VeriSign, Inc. (F/K/A Illuminet Holdings, Inc.) -

The company held 24,828 shares of common stock of Illuminet Holdings, Inc. On December 12, 2001, Illuminet Holdings, Inc. became a wholly-owned subsidiary of VeriSign, Inc. by merger. As a result of the merger, each share of Illuminet common stock converted into 0.93 of a share of VeriSign common stock. The company now holds 23,090 shares of VeriSign, Inc. The stock was selling for \$24.05 a share on December 31, 2006.

Values are as follows:

	Market <u>2006</u>	Market <u>2005</u>
VeriSign, Inc.	\$555,315	\$ 505,671
Less: Market - prior year	<u>505,671</u>	<u>775,824</u>
Gain (loss) in value	<u>\$ 49,644</u>	<u>\$(270,153)</u>
Reflected in the financial statements as:		
Other comprehensive income (loss):		
Unrealized gain (loss) on securities	<u>\$ 49,644</u>	<u>\$(270,153)</u>

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

4. INVESTMENTS - NONAFFILIATED (Continued):

The accounting method and carrying values for the above investments are as follows:

	Accounting Method	2006	2005
Com Net, Inc.	Cost	\$ 18,500	\$ 18,500
Bright.Net North, Inc.	Equity	(45,264)	(33,473)
Bright Long Distance, Ltd.	Equity	3,300	2,985
VeriSign, Inc.	Market	561,710	512,066
Horizon Telcom, Inc.	Market	40,145	43,586
Bright CLEC, LLC	Equity	3,276	2,433
Independents Fiber Network, LLC	Cost	100,000	100,000
Broadband Network Group, LLC	Equity	3,188	6,174
		<u>\$684,855</u>	<u>\$652,271</u>

5. NONREGULATED INVESTMENTS:

	2006	2005
Nonregulated customer premises equipment - leased (at cost)	\$ 10,620	\$ 10,620
Pay stations	1,475	1,475
Less: Accumulated depreciation	<u>11,841</u>	<u>11,544</u>
	254	551
Nonregulated inventory (at cost)	<u>18,059</u>	<u>6,351</u>
Total nonregulated investments	<u>\$ 18,313</u>	<u>\$ 6,902</u>

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

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

	2006	2005
Income from operations	\$ 20,063	\$ 10,322
Expense	<u>12,998</u>	<u>3,434</u>
Net income	<u>\$ 7,065</u>	<u>\$ 6,888</u>

6. OTHER INVESTMENTS:

Other investments consisted of the following at December 31, 2006, and 2005:

	2006	2005
Stock in North Central Regional Processing Center (at cost)	\$ 9,347	\$ 9,347
Rural Telephone Co-Op - membership (at cost)	<u>1,790</u>	<u>1,790</u>
	<u>\$ 11,137</u>	<u>\$ 11,137</u>

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

7. OTHER DEFERRED CHARGES:

Other deferred charges consisted of the following at December 31, 2006, and 2005.

	<u>2006</u>	<u>2005</u>
RUS loan cost	\$ <u>853</u>	\$ <u>910</u>

8. PROPERTY, PLANT, AND EQUIPMENT:

Telephone plant in service is 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, and the associated depreciation rates:

	<u>2006 Cost</u>	<u>Depreciation Rate 2006</u>	<u>2005 Cost</u>	<u>Depreciation Rate 2005</u>
Land	\$ 26,069	N/A %	\$ 26,069	N/A %
Motor vehicles	58,707	10.56	58,707	10.56
Other work equipment	77,286	7.92	77,286	7.92
Buildings	262,527	2.77	262,527	2.77
Furniture	8,217	7.92	8,187	7.92
Office support equipment	7,508	16.67	7,508	16.67
Company communication equipment	1,456	11.11	1,456	11.11
General purpose computers	53,098	20.00	53,098	20.00
Central office equipment	835,622	8.00	595,677	8.00
Buried cable and fiber	620,728	4.20	589,382	4.20
Buried drops	105,620	4.77	104,561	4.77
Wireless equipment	<u>155,004</u>	9.00	<u>144,539</u>	9.00
Total telephone plant in service	<u>\$2,211,842</u>		<u>\$1,928,997</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 2002, the company was granted new depreciation accrual rates by the Public Utilities Commission of Ohio (PUCO), effective as of January 1, 2002. In addition to the new accrual rates, the PUCO ordered an adjustment of depreciation of \$127,135 amortizable over five years beginning January 1, 2002. The amortization for 2006 and 2005 amounted to \$25,427 and is shown as a reduction of depreciation expense.

FARMERS MUTUAL TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

8. PROPERTY, PLANT, AND EQUIPMENT (Continued):

Depreciation has been charged as follows:

	<u>2006</u>	<u>2005</u>
Depreciation - accrual rates	\$ 140,441	\$126,355
Amortization of reserve	<u>(25,427)</u>	<u>(25,427)</u>
	<u>\$ 115,014</u>	<u>\$100,928</u>

9. LONG-TERM DEBT:

A schedule of long-term debt at December 31, 2006, and 2005, was as follows:

RUS 2% and 5% mortgage notes - payable to the United States of America, principal and interest installments are due quarterly in equal amounts of approximately \$10,000. The notes are for 35 years and are scheduled to be repaid at various times from the year 2011 to the year 2020.

RTFC line of credit - \$100,000
Advanced funds at 12/31/06 were \$40,000 at 6.4%. Payment requirements are interest only with a maturity date of 6/26/08.

U S Bancorp note payable - \$160,220
Capital Lease Agreement. Principal and interest installments are due monthly in the amount of \$3,244.65. Interest at 7.95% with a maturity date of 6/16/11.

	<u>2006</u>	<u>2005</u>
Principal amount of loans	\$1,145,220	\$985,000
Less: Amounts unadvanced	60,000	55,000
Loan funds advanced	<u>1,085,220</u>	<u>930,000</u>
Less: Repayments	<u>632,476</u>	<u>584,892</u>
Principal balance outstanding -	452,744	345,108
Less: Current maturities	<u>63,648</u>	<u>34,221</u>
Total of long-term debt	<u>\$ 389,096</u>	<u>\$310,887</u>

FARMERS MUTUAL TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

9. LONG-TERM DEBT (Continued):

Principal payments due for the five years following the balance sheet date are estimated to be as follows:

2007	\$ 63,648
2008	\$107,176
2009	\$ 70,946
2010	\$ 74,975
2011	\$ 43,458

10. PENSION PLAN:

All accrued pension costs are funded through participation in a retirement program with the National Telephone Cooperative Association. The fund covers all vested benefits under the plan. The expenses for the years 2006 and 2005 were \$34,345 and \$29,386, respectively. The plan has been approved by the Internal Revenue Service.

11. PATRONAGE CAPITAL:

Capital credits were retired during 2006 and 2005 totaling \$0 and \$664, respectively, per established board policy. There was no general retirement of capital credits during 2006, except for those involving estates as required.

12. FEDERAL TAX STATUS:

The 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 has determined its federal income tax liability to amount to \$0 for both 2006 and 2005.

13. POST RETIREMENT BENEFITS:

The company has no liability for post retirement benefits.

14. RELATED PARTY TRANSACTIONS:

There were no related party transactions during 2006.

15. FINANCIAL STATEMENT PRESENTATION:

Certain items and descriptions have been changed to reflect the current year presentation. There was no change to net income reported in 2005.

SUPPLEMENTAL REPORTS

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2006

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS LLC	ELIMINATING	CONSOLIDATED
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 27,285	\$	\$	\$ 27,285
Telecommunications accounts receivable	106,932	3,393	49,087	61,238
Other accounts receivable	3,087			3,087
Interest receivable	1,400			1,400
Materials and supplies (at cost)	13,333			13,333
Prepaid expenses	18,920			18,920
Total current assets	<u>170,957</u>	<u>3,393</u>	<u>49,087</u>	<u>125,263</u>
NONCURRENT ASSETS:				
Investments - affiliated	83,000			83,000
Investments - nonaffiliated	601,855			601,855
Nonregulated investments	102,072		83,759	18,313
Other investments	11,137			11,137
Other deferred charges	853			853
Total noncurrent assets	<u>798,917</u>	<u>0</u>	<u>83,759</u>	<u>715,158</u>
PROPERTY, PLANT, AND EQUIPMENT:				
Telecommunications plant in service	2,056,838	155,004		2,211,842
Less: Accumulated depreciation	1,368,877	25,551		1,394,428
Net book value	<u>687,961</u>	<u>129,453</u>	<u>0</u>	<u>817,414</u>
Total assets	<u>\$ 1,657,835</u>	<u>\$ 132,846</u>	<u>\$ 132,846</u>	<u>\$ 1,657,835</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2006

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS LLC	ELIMINATING	CONSOLIDATED
LIABILITIES AND MEMBERS' EQUITY				
CURRENT LIABILITIES:				
Notes payable - current portion	\$ 63,648	\$ 49,087	\$ 49,087	\$ 63,648
Accounts payable	16,733			16,733
Accrued taxes	14,339			14,339
Total current liabilities	<u>94,720</u>	<u>49,087</u>	<u>49,087</u>	<u>94,720</u>
LONG-TERM LIABILITIES:				
Notes payable - net of current portion	389,096			389,096
MEMBERS' EQUITY:				
Memberships	5,577			5,577
Other capital	25,000			25,000
Patronage capital	650,156	83,759	83,759	650,156
Retained earnings (deficit)	(23,300)			(23,300)
Other comprehensive income	516,586			516,586
Total members' equity	<u>1,174,019</u>	<u>83,759</u>	<u>83,759</u>	<u>1,174,019</u>
Total liabilities and members' equity	<u>\$ 1,657,835</u>	<u>\$ 132,846</u>	<u>\$ 132,846</u>	<u>\$ 1,657,835</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2006

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS LLC	ELIMINATING	CONSOLIDATED
OPERATING REVENUES:				
Local service	\$ 205,765	\$ 33,805	\$	\$ 239,570
Access service	389,554			389,554
Miscellaneous	63,706	5,297		69,003
Total operating revenues	<u>659,025</u>	<u>39,102</u>	<u>0</u>	<u>698,127</u>
OPERATING EXPENSES:				
Plant specific operations	194,217	17,463	(15,500)	196,180
Plant nonspecific operations	12,004			12,004
Depreciation and amortization	101,671	13,343		115,014
Customer operations	66,898			66,898
Corporate operations	193,891	2,091		195,982
Total operating expenses	<u>568,681</u>	<u>32,897</u>	<u>(15,500)</u>	<u>586,078</u>
GROSS OPERATING INCOME	90,344	6,205	(15,500)	112,049
OPERATING TAXES:				
Other operating taxes	14,288			14,288
NET OPERATING INCOME	76,056	6,205	(15,500)	97,761
NONOPERATING AND NONREGULATED INCOME (LOSS) - net	15,146		21,705	(6,559)
INCOME AVAILABLE FOR FIXED CHARGES	91,202	6,205	6,205	91,202
FIXED CHARGES:				
Interest	21,235			21,235
NET INCOME	69,967	6,205	6,205	69,967
OTHER COMPREHENSIVE INCOME (LOSS):				
Unrealized gains (losses) on available-for-sale securities	46,203			46,203
COMPREHENSIVE INCOME	\$ 116,170	\$ 6,205	\$ 6,205	\$ 116,170

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS LLC	ELIMINATING	CONSOLIDATED
OPERATING ACTIVITIES:				
Comprehensive income	\$ 116,170	\$ 6,205	\$ 6,205	\$ 116,170
Adjustments to reconcile comprehensive income to net cash provided by operating activities:				
Depreciation and amortization	101,671	13,343		115,014
Changes in operating assets and liabilities:				
Decrease (Increase) in:				
Accounts receivable	(14,570)	(3,393)	19,450	(37,413)
Other current assets	(7,678)	13,760		6,082
Noncurrent assets	57			57
Increase (Decrease) in:				
Accounts payable	(27,729)	(19,450)	(19,450)	(27,729)
Other current liabilities	(2,212)			(2,212)
	<u>165,709</u>	<u>10,465</u>	<u>6,205</u>	<u>169,969</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
INVESTING ACTIVITIES:				
Purchases of property, plant, and equipment	(300,708)	(10,465)		(311,173)
Increase (Decrease) in memberships	(91)			(91)
(Increase) Decrease in investments	(50,200)		(6,205)	(43,995)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES				
	<u>\$ (350,999)</u>	<u>\$ (10,465)</u>	<u>\$ (6,205)</u>	<u>\$ (355,259)</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS LLC	ELIMINATING	CONSOLIDATED
FINANCING ACTIVITIES:				
Borrowing on long-term debt	\$ 160,220	\$	\$	\$ 160,220
Principal payments on long-term debt	(52,584)			(52,584)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>107,636</u>	<u>0</u>	<u>0</u>	<u>107,636</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(77,654)	0	0	(77,654)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>104,939</u>			<u>104,939</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 27,285</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 27,285</u>
SUPPLEMENTAL DISCLOSURES:				
Interest paid (net of \$0 capitalized)	\$ 21,178	\$ 0	\$ 0	\$ 21,178
Income taxes paid	\$ 0	\$ 0	\$ 0	\$ 0

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2005

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 104,939	\$	\$	\$ 104,939
Telecommunications accounts receivable	83,311		68,537	14,774
Other accounts receivable	12,138			12,138
Interest receivable	1,400			1,400
Materials and supplies (at cost)	8,998	13,760		22,758
Prepaid expenses	15,577			15,577
Total current assets	<u>226,363</u>	<u>13,760</u>	<u>68,537</u>	<u>171,586</u>
NONCURRENT ASSETS:				
Investments - affiliated	96,619			96,619
Investments - nonaffiliated	555,652			555,652
Nonregulated investments	84,456		77,554	6,902
Other investments	11,137			11,137
Other deferred charges	910			910
Total noncurrent assets	<u>748,774</u>	<u>0</u>	<u>77,554</u>	<u>671,220</u>
PROPERTY, PLANT, AND EQUIPMENT:				
Telecommunications plant in service	1,784,458	144,539		1,928,997
Less: Accumulated depreciation	1,270,107	12,208		1,282,315
Net book value	<u>514,351</u>	<u>132,331</u>	<u>0</u>	<u>646,682</u>
Total assets	<u>\$ 1,489,488</u>	<u>\$ 146,091</u>	<u>\$ 146,091</u>	<u>\$ 1,489,488</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2005

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
LIABILITIES AND MEMBERS' EQUITY				
CURRENT LIABILITIES:				
Notes payable - current portion	\$ 34,221	\$	\$	\$ 34,221
Accounts payable	44,462	68,537	68,537	44,462
Accrued taxes	16,551			16,551
Total current liabilities	<u>95,234</u>	<u>68,537</u>	<u>68,537</u>	<u>95,234</u>
LONG-TERM LIABILITIES:				
Notes payable - net of current portion	310,887			310,887
DEFERRED CREDITS:				
Depreciation reserve adjustment	<u>25,427</u>			<u>25,427</u>
MEMBERS' EQUITY:				
Memberships	5,668			5,668
Other capital	25,000			25,000
Patronage capital	586,394	77,554	77,554	586,394
Retained earnings (deficit)	(29,505)			(29,505)
Other comprehensive income	470,383			470,383
Total members' equity	<u>1,057,940</u>	<u>77,554</u>	<u>77,554</u>	<u>1,057,940</u>
Total liabilities and members' equity	<u>\$ 1,489,488</u>	<u>\$ 146,091</u>	<u>\$ 146,091</u>	<u>\$ 1,489,488</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2005

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
OPERATING REVENUES:				
Local service	\$ 204,428	\$ 4,155	\$	\$ 208,583
Access service	370,674			370,674
Miscellaneous	48,447	19,818		68,265
Total operating revenues	<u>623,549</u>	<u>23,973</u>	<u>0</u>	<u>647,522</u>
OPERATING EXPENSES:				
Plant specific operations	137,406	16,604		154,010
Plant nonspecific operations	9,659			9,659
Depreciation and amortization	88,720	12,208		100,928
Customer operations	68,645			68,645
Corporate operations	201,099	24,666		225,765
Total operating expenses	<u>505,529</u>	<u>53,478</u>	<u>0</u>	<u>559,007</u>
GROSS OPERATING INCOME (LOSS)	118,020	(29,505)		88,515
OPERATING TAXES:				
Other operating taxes	16,452			16,452
NET OPERATING INCOME (LOSS)	101,568	(29,505)		72,063
NONOPERATING AND NONREGULATED INCOME (LOSS) - net	<u>(5,790)</u>		<u>29,505</u>	<u>23,715</u>
INCOME AVAILABLE FOR FIXED CHARGES	95,778	(29,505)	29,505	95,778
FIXED CHARGES:				
Interest	16,919			16,919
NET INCOME (LOSS)	78,859	(29,505)	29,505	78,859
OTHER COMPREHENSIVE INCOME (LOSS):				
Unrealized gains (losses) on available-for-sale securities	<u>(294,767)</u>			<u>(294,767)</u>
NET COMPREHENSIVE INCOME (LOSS)	\$ <u>(215,908)</u>	\$ <u>(29,505)</u>	\$ <u>29,505</u>	\$ <u>(215,908)</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

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

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
OPERATING ACTIVITIES:				
Comprehensive income (loss)	\$ (215,908)	\$ (29,505)	\$ (29,505)	\$ (215,908)
Adjustments to reconcile comprehensive income (loss) to net cash provided by operating activities:				
Depreciation and amortization	88,720	12,208		100,928
Changes in operating assets and liabilities:				
Decrease (Increase) in:				
Accounts receivable	(79,141)		(68,537)	(10,604)
Other current assets	(4,152)	(13,760)		(17,912)
Noncurrent assets	29,562			29,562
Increase (Decrease) in:				
Accounts payable	4,273	68,537	68,537	4,273
Other current liabilities	6,213			6,213
	<u>(170,433)</u>	<u>37,480</u>	<u>(29,505)</u>	<u>(103,448)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
	(47,111)	(144,539)	(107,059)	(84,591)
INVESTING ACTIVITIES:				
Purchases of property, plant, and equipment	80			80
Proceeds from sale of equipment	(143)			(143)
Increase (Decrease) in memberships	290,450		29,505	260,945
(Increase) Decrease in investments				
	<u>243,276</u>	<u>(144,539)</u>	<u>(77,554)</u>	<u>176,291</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES				

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

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

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
FINANCING ACTIVITIES:				
Principal payments on long-term debt	\$ (63,156)	\$	\$	\$ (63,156)
Investment by parent company	0	107,059	107,059	0
Patronage capital retired	(664)			(664)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(63,820)</u>	<u>107,059</u>	<u>107,059</u>	<u>(63,820)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,023	0	0	9,023
CASH AND CASH EQUIVALENTS - BEGINNING	<u>95,916</u>			<u>95,916</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 104,939</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 104,939</u>
SUPPLEMENTAL DISCLOSURES:				
Interest paid (net of \$0 capitalized)	\$ 16,862	\$ 0	\$ 0	\$ 16,862
Income taxes paid	\$ 0	\$ 0	\$ 0	\$ 0

LALLY, CUMMINGS, PALMER & PATCH, P.C.

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JANICE M. KIDD, C.P.A.

March 20, 2007

Board of Directors
Farmers Mutual Telephone Company
Okolona, Ohio 43550

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

We have audited the financial statements of Farmers Mutual Telephone Company as of and for the years ended December 31, 2006, and 2005, and have issued our report thereon dated March 20, 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 Farmers 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
Farmers Mutual Telephone Company
March 20, 2007

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Farmers 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

LALLY, CUMMINGS, PALMER & PATCH, P.C.

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March 20, 2007

Board of Directors
Farmers Mutual Telephone Company
Okolona, Ohio 43550

INDEPENDENT AUDITORS' MANAGEMENT LETTER

We have audited the financial statements of Farmers Mutual Telephone Company for the year ended December 31, 2006, and have issued our report thereon dated March 20, 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 Farmers 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 20, 2007, and should be read in conjunction with this report.

Board of Directors
Farmers Mutual Telephone Company
March 20, 2007

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 dated March 20, 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 Farmers 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 20, 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 Farmers 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 Farmers 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 Farmers Mutual Telephone Company to Farmers 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, Farmers 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

OHIO 527 OKOLONA
FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY
(An Ohio Mutual Company)

OKOLONA, OHIO

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL REPORTS

DECEMBER 31, 2006, AND 2005

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March 20, 2007

Board of Directors
Farmers Mutual Telephone Company
P.O. Box 50106
Okolona, Ohio 43550

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated balance sheet of FARMERS MUTUAL TELEPHONE COMPANY AND ITS WHOLLY OWNED SUBSIDIARY (An Ohio Mutual Company) as of December 31, 2006, and 2005, and the related consolidated statements of income and patronage capital, members' equity, 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 consolidating financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Farmers Mutual Telephone Company and its wholly owned subsidiary 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 20, 2007, on our consideration of Farmers 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

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY
(An Ohio Mutual Company)
OKOLONA, OHIO

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2006, AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 27,285	\$ 104,939
Telecommunications accounts receivable	61,238	14,774
Other accounts receivable	3,087	12,138
Interest receivable	1,400	1,400
Materials and supplies (at cost)	13,333	22,758
Prepaid expenses	18,920	15,577
Total current assets	125,263	171,586
NONCURRENT ASSETS:		
Investments - affiliated	83,000	96,619
Investments - nonaffiliated	601,855	555,652
Nonregulated investments	18,313	6,902
Other investments	11,137	11,137
Other deferred charges	853	910
Total noncurrent assets	715,158	671,220
PROPERTY, PLANT, AND EQUIPMENT:		
Telecommunications plant in service	2,211,842	1,928,997
Less: Accumulated depreciation	1,394,428	1,282,315
Net book value	817,414	646,682
Total assets	\$ 1,657,835	\$ 1,489,488

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

LIABILITIES AND MEMBERS' EQUITY

	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES:		
Notes payable - current portion	\$ 63,648	\$ 34,221
Accounts payable	16,733	44,462
Accrued taxes	14,339	16,551
Total current liabilities	94,720	95,234
LONG-TERM LIABILITIES:		
Notes payable - net of current portion	389,096	310,887
DEFERRED CREDITS:		
Depreciation reserve adjustment	0	25,427
MEMBERS' EQUITY:		
Memberships	5,577	5,668
Other capital	25,000	25,000
Patronage capital	650,156	586,394
Retained earnings (deficit)	(23,300)	(29,505)
Other comprehensive income	516,586	470,383
Total members' equity	1,174,019	1,057,940
Total liabilities and members' equity	\$ 1,657,835	\$ 1,489,488

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

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2006, AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES:		
Local service	\$ 239,570	\$ 208,583
Access service	389,554	370,674
Miscellaneous	69,003	68,265
Total operating revenues	<u>698,127</u>	<u>647,522</u>
OPERATING EXPENSES:		
Plant specific operations	196,180	154,010
Plant nonspecific operations	12,004	9,659
Depreciation and amortization	115,014	100,928
Customer operations	66,898	68,645
Corporate operations	195,982	225,765
Total operating expenses	<u>586,078</u>	<u>559,007</u>
GROSS OPERATING INCOME	112,049	88,515
OPERATING TAXES:		
Other operating taxes	<u>14,288</u>	<u>16,452</u>
NET OPERATING INCOME	97,761	72,063
NONOPERATING AND NONREGULATED INCOME (LOSS) - net	<u>(6,559)</u>	<u>23,715</u>
INCOME AVAILABLE FOR FIXED CHARGES	91,202	95,778
FIXED CHARGES:		
Interest	<u>21,235</u>	<u>16,919</u>
NET INCOME	69,967	78,859
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized gains (losses) on available-for-sale securities	<u>46,203</u>	<u>(294,767)</u>
COMPREHENSIVE INCOME (LOSS)	116,170	(215,908)
PATRONAGE CAPITAL - beginning	<u>1,027,272</u>	<u>1,243,844</u>
	1,143,442	1,027,936
LESS: PATRONAGE CAPITAL RETIRED	<u>0</u>	<u>664</u>
PATRONAGE CAPITAL AND OTHER COMPREHENSIVE INCOME	<u>\$ 1,143,442</u>	<u>\$ 1,027,272</u>

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

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006, AND 2005

	MEMBERSHIP	PATRONAGE AND OTHER CAPITAL	RETAINED EARNINGS (DEFICIT)	OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
BEGINNING BALANCE - JANUARY 1, 2005	\$ 5,811	\$ 503,694	\$	\$ 765,150	\$ 1,274,655
Memberships - net	(143)				(143)
Income from:					
Farmers Mutual		108,364		(294,767)	(186,403)
HiPoint Comm.			(29,505)		(29,505)
Retirement of capital credits		(664)			(664)
BALANCE - DECEMBER 31, 2005	5,668	611,394	(29,505)	470,383	1,057,940
Memberships - net	(91)				(91)
Income from:					
Farmers Mutual		63,762		46,203	109,965
HiPoint Comm.			6,205		6,205
Retirement of capital credits					0
ENDING BALANCE - DECEMBER 31, 2006	<u>\$ 5,577</u>	<u>\$ 675,156</u>	<u>\$ (23,300)</u>	<u>\$ 516,586</u>	<u>\$ 1,174,019</u>

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

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

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

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES:		
Comprehensive income (loss)	\$ 116,170	\$ (215,908)
Adjustments to reconcile comprehensive income (loss) to net cash provided by operating activities:		
Depreciation and amortization	115,014	100,928
Changes in operating assets and liabilities:		
Decrease (Increase) in:		
Accounts receivable	(37,413)	(10,604)
Other current assets	6,082	(17,912)
Noncurrent assets	57	29,562
Increase (Decrease) in:		
Accounts payable	(27,729)	4,273
Other current liabilities	(2,212)	6,213
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>169,969</u>	<u>(103,448)</u>
INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(311,173)	(84,591)
Proceeds from sale of equipment	0	80
Increase (Decrease) in memberships	(91)	(143)
(Increase) Decrease in investments	(43,995)	260,945
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>(355,259)</u>	<u>176,291</u>
FINANCING ACTIVITIES:		
Borrowing on long-term debt	160,220	0
Principal payments on long-term debt	(52,584)	(63,156)
Patronage capital retired	0	(664)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>107,636</u>	<u>(63,820)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(77,654)	9,023
CASH AND CASH EQUIVALENTS - BEGINNING	<u>104,939</u>	<u>95,916</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 27,285</u>	<u>\$ 104,939</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid (net of \$0 capitalized)	\$ 21,178	\$ 16,862
Income taxes paid	\$ 0	\$ 0

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

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

These consolidated financial statements include the accounts of the company and its wholly owned subsidiary after elimination of all significant inter-company balances and transactions.

Farmers Mutual Telephone Company provides telecommunication services to Okolona, Ohio. In 2005, the company created HiPoint Communications, LLC to provide wireless telecommunication services to Okolona, Ohio. 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 Okolona, 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 Bright.Net North, Inc., Com Net, Inc., VeriSign, Inc., Bright Long Distance, Ltd., Horizon Telcom, Inc., Bright CLEC, LLC, Independents Fiber Network, LLC, and Broadband Network Group, LLC. Future changes in economic conditions may make the investments less valuable. (See Note 3)

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 Equivalents and Temporary Investments -

The company considers highly liquid investments with maturities of ninety days or less to be cash equivalents. Securities with maturities between ninety-one days and one year are considered temporary investments. The company has deposits with various institutions, none of which are in excess of federally insured limits at December 31, 2006.

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.

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Telephone Plant and Depreciation -

Telephone plant in service was stated substantially at original cost. Management was of the opinion that any adjustments that might be required to record properties at original cost would not be material. 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 files Form 990 annually. (See Note 12)

Revenue Recognition -

Toll access services are furnished in conjunction with Sprint United 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.

2. ASSETS PLEDGED:

Substantially all assets are pledged as security for the long-term debt to RUS.

3. INVESTMENTS - AFFILIATED:

Com Net, Inc. -

During 1994, the company purchased a 6.67% share of Com Net, Inc. (An Ohio Corporation) for \$18,500. 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 \$20,895 and \$21,812, respectively for the A-link service. As part of this continuing project, in April of 2003, the company made a \$100,000 loan to Independents Fiber Network, LLC, a wholly owned Com Net company. The loan bears interest at 3% per annum and is due in April of 2013. In 2004, the company received a 7.14% share of Broadband Network Group, LLC for a \$1 investment.

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS - AFFILIATED (Continued):

Bright.Net North, Inc. -

In March of 1995, the company joined with two other local area telephone companies to form a new company called Bright.Net North, Inc. The purpose of the new company is to furnish local access to the Internet. Each company has a one-third share of the new company. Loans have also been made by each company in the amount of \$15,000 and bear interest at 8% per annum. In August of 1999, a new note in the amount of \$40,000 was issued to the company for the purpose of reimbursement of past management services provided to Bright.Net North, Inc. The note is noninterest bearing and is due on or before March 31, 2012. The company accounts for the investment on the equity method.

Bright Long Distance, Ltd. -

During 1997, the company entered into an operating agreement forming Bright Long Distance, Ltd., a Limited Liability Company organized in Ohio. The purpose of this entity is to sell long distance toll and other related services. The term of the organization is 25 years.

Bright CLEC, LLC -

In March of 2001, the company made an initial investment of \$3,000 in Bright CLEC, LLC (BCL). BCL was formed as a Competitive Local Exchange Carrier (CLEC). BCL will offer to resell transport and local loop through BCL.

4. INVESTMENTS - NONAFFILIATED:

Bright Personal Communications Services, LLC -

On June 27, 2000, Bright PCS, LLC was terminated and was then incorporated into two Ohio C Corporations; Horizon Telcom, Inc. and Horizon PCS, Inc. It is the intent of both 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 PCS, Inc.	66,293 "B" shares
Horizon Telcom, Inc.	124 "A" shares
Horizon Telcom, Inc.	372 "B" shares

In September 2003, 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.

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

4. INVESTMENTS - NONAFFILIATED (Continued):

Fair market values for Horizon Telcom, 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"	10,292	13,454
Horizon Telecom, Inc. "B"	<u>29,853</u>	<u>30,132</u>
Total	40,145	43,586
Less: Market - prior year	<u>43,586</u>	<u>68,200</u>
Gain (loss) in value	<u>\$ (3,441)</u>	<u>\$ (24,614)</u>
Reflected in the financial statements as:		
Other comprehensive income (loss):		
Unrealized gain (loss) on securities	<u>\$ (3,441)</u>	<u>\$ (24,614)</u>

VeriSign, Inc. (F/K/A Illuminet Holdings, Inc.) -

The company held 24,828 shares of common stock of Illuminet Holdings, Inc. On December 12, 2001, Illuminet Holdings, Inc. became a wholly-owned subsidiary of VeriSign, Inc. by merger. As a result of the merger, each share of Illuminet common stock converted into 0.93 of a share of VeriSign common stock. The company now holds 23,090 shares of VeriSign, Inc. The stock was selling for \$24.05 a share on December 31, 2006.

Values are as follows:

	Market <u>2006</u>	Market <u>2005</u>
VeriSign, Inc.	\$555,315	\$ 505,671
Less: Market - prior year	<u>505,671</u>	<u>775,824</u>
Gain (loss) in value	<u>\$ 49,644</u>	<u>\$(270,153)</u>
Reflected in the financial statements as:		
Other comprehensive income (loss):		
Unrealized gain (loss) on securities	<u>\$ 49,644</u>	<u>\$(270,153)</u>

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

4. INVESTMENTS - NONAFFILIATED (Continued):

The accounting method and carrying values for the above investments are as follows:

	Accounting Method	2006	2005
Com Net, Inc.	Cost	\$ 18,500	\$ 18,500
Bright.Net North, Inc.	Equity	(45,264)	(33,473)
Bright Long Distance, Ltd.	Equity	3,300	2,985
VeriSign, Inc.	Market	561,710	512,066
Horizon Telcom, Inc.	Market	40,145	43,586
Bright CLEC, LLC	Equity	3,276	2,433
Independents Fiber Network, LLC	Cost	100,000	100,000
Broadband Network Group, LLC	Equity	3,188	6,174
		<u>\$684,855</u>	<u>\$652,271</u>

5. NONREGULATED INVESTMENTS:

	2006	2005
Nonregulated customer premises equipment - leased (at cost)	\$ 10,620	\$ 10,620
Pay stations	1,475	1,475
Less: Accumulated depreciation	<u>11,841</u>	<u>11,544</u>
	254	551
Nonregulated inventory (at cost)	<u>18,059</u>	<u>6,351</u>
Total nonregulated investments	<u>\$ 18,313</u>	<u>\$ 6,902</u>

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

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

	2006	2005
Income from operations	\$ 20,063	\$ 10,322
Expense	<u>12,998</u>	<u>3,434</u>
Net income	<u>\$ 7,065</u>	<u>\$ 6,888</u>

6. OTHER INVESTMENTS:

Other investments consisted of the following at December 31, 2006, and 2005:

	2006	2005
Stock in North Central Regional Processing Center (at cost)	\$ 9,347	\$ 9,347
Rural Telephone Co-Op - membership (at cost)	<u>1,790</u>	<u>1,790</u>
	<u>\$ 11,137</u>	<u>\$ 11,137</u>

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

7. OTHER DEFERRED CHARGES:

Other deferred charges consisted of the following at December 31, 2006, and 2005.

	<u>2006</u>	<u>2005</u>
RUS loan cost	\$ <u>853</u>	\$ <u>910</u>

8. PROPERTY, PLANT, AND EQUIPMENT:

Telephone plant in service is 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, and the associated depreciation rates:

	<u>2006 Cost</u>	<u>Depreciation Rate 2006</u>	<u>2005 Cost</u>	<u>Depreciation Rate 2005</u>
Land	\$ 26,069	N/A %	\$ 26,069	N/A %
Motor vehicles	58,707	10.56	58,707	10.56
Other work equipment	77,286	7.92	77,286	7.92
Buildings	262,527	2.77	262,527	2.77
Furniture	8,217	7.92	8,187	7.92
Office support equipment	7,508	16.67	7,508	16.67
Company communication equipment	1,456	11.11	1,456	11.11
General purpose computers	53,098	20.00	53,098	20.00
Central office equipment	835,622	8.00	595,677	8.00
Buried cable and fiber	620,728	4.20	589,382	4.20
Buried drops	105,620	4.77	104,561	4.77
Wireless equipment	<u>155,004</u>	9.00	<u>144,539</u>	9.00
Total telephone plant in service	<u>\$2,211,842</u>		<u>\$1,928,997</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 2002, the company was granted new depreciation accrual rates by the Public Utilities Commission of Ohio (PUCO), effective as of January 1, 2002. In addition to the new accrual rates, the PUCO ordered an adjustment of depreciation of \$127,135 amortizable over five years beginning January 1, 2002. The amortization for 2006 and 2005 amounted to \$25,427 and is shown as a reduction of depreciation expense.

FARMERS MUTUAL TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

8. PROPERTY, PLANT, AND EQUIPMENT (Continued):

Depreciation has been charged as follows:

	<u>2006</u>	<u>2005</u>
Depreciation - accrual rates	\$ 140,441	\$126,355
Amortization of reserve	<u>(25,427)</u>	<u>(25,427)</u>
	<u>\$ 115,014</u>	<u>\$100,928</u>

9. LONG-TERM DEBT:

A schedule of long-term debt at December 31, 2006, and 2005, was as follows:

RUS 2% and 5% mortgage notes - payable to the United States of America, principal and interest installments are due quarterly in equal amounts of approximately \$10,000. The notes are for 35 years and are scheduled to be repaid at various times from the year 2011 to the year 2020.

RTFC line of credit - \$100,000
Advanced funds at 12/31/06 were \$40,000 at 6.4%. Payment requirements are interest only with a maturity date of 6/26/08.

U S Bancorp note payable - \$160,220
Capital Lease Agreement. Principal and interest installments are due monthly in the amount of \$3,244.65. Interest at 7.95% with a maturity date of 6/16/11.

	<u>2006</u>	<u>2005</u>
Principal amount of loans	\$1,145,220	\$985,000
Less: Amounts unadvanced	60,000	55,000
Loan funds advanced	<u>1,085,220</u>	<u>930,000</u>
Less: Repayments	<u>632,476</u>	<u>584,892</u>
Principal balance outstanding -	452,744	345,108
Less: Current maturities	<u>63,648</u>	<u>34,221</u>
Total of long-term debt	<u>\$ 389,096</u>	<u>\$310,887</u>

FARMERS MUTUAL TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

9. LONG-TERM DEBT (Continued):

Principal payments due for the five years following the balance sheet date are estimated to be as follows:

2007	\$ 63,648
2008	\$107,176
2009	\$ 70,946
2010	\$ 74,975
2011	\$ 43,458

10. PENSION PLAN:

All accrued pension costs are funded through participation in a retirement program with the National Telephone Cooperative Association. The fund covers all vested benefits under the plan. The expenses for the years 2006 and 2005 were \$34,345 and \$29,386, respectively. The plan has been approved by the Internal Revenue Service.

11. PATRONAGE CAPITAL:

Capital credits were retired during 2006 and 2005 totaling \$0 and \$664, respectively, per established board policy. There was no general retirement of capital credits during 2006, except for those involving estates as required.

12. FEDERAL TAX STATUS:

The 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 has determined its federal income tax liability to amount to \$0 for both 2006 and 2005.

13. POST RETIREMENT BENEFITS:

The company has no liability for post retirement benefits.

14. RELATED PARTY TRANSACTIONS:

There were no related party transactions during 2006.

15. FINANCIAL STATEMENT PRESENTATION:

Certain items and descriptions have been changed to reflect the current year presentation. There was no change to net income reported in 2005.

SUPPLEMENTAL REPORTS

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2006

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS LLC	ELIMINATING	CONSOLIDATED
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 27,285	\$	\$	\$ 27,285
Telecommunications accounts receivable	106,932	3,393	49,087	61,238
Other accounts receivable	3,087			3,087
Interest receivable	1,400			1,400
Materials and supplies (at cost)	13,333			13,333
Prepaid expenses	18,920			18,920
Total current assets	<u>170,957</u>	<u>3,393</u>	<u>49,087</u>	<u>125,263</u>
NONCURRENT ASSETS:				
Investments - affiliated	83,000			83,000
Investments - nonaffiliated	601,855			601,855
Nonregulated investments	102,072		83,759	18,313
Other investments	11,137			11,137
Other deferred charges	853			853
Total noncurrent assets	<u>798,917</u>	<u>0</u>	<u>83,759</u>	<u>715,158</u>
PROPERTY, PLANT, AND EQUIPMENT:				
Telecommunications plant in service	2,056,838	155,004		2,211,842
Less: Accumulated depreciation	1,368,877	25,551		1,394,428
Net book value	<u>687,961</u>	<u>129,453</u>	<u>0</u>	<u>817,414</u>
Total assets	\$ <u>1,657,835</u>	\$ <u>132,846</u>	\$ <u>132,846</u>	\$ <u>1,657,835</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2006

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS LLC	ELIMINATING	CONSOLIDATED
LIABILITIES AND MEMBERS' EQUITY				
CURRENT LIABILITIES:				
Notes payable - current portion	\$ 63,648	\$ 49,087	\$ 49,087	\$ 63,648
Accounts payable	16,733			16,733
Accrued taxes	14,339			14,339
Total current liabilities	<u>94,720</u>	<u>49,087</u>	<u>49,087</u>	<u>94,720</u>
LONG-TERM LIABILITIES:				
Notes payable - net of current portion	389,096			389,096
MEMBERS' EQUITY:				
Memberships	5,577			5,577
Other capital	25,000			25,000
Patronage capital	650,156	83,759	83,759	650,156
Retained earnings (deficit)	(23,300)			(23,300)
Other comprehensive income	516,586			516,586
Total members' equity	<u>1,174,019</u>	<u>83,759</u>	<u>83,759</u>	<u>1,174,019</u>
Total liabilities and members' equity	<u>\$ 1,657,835</u>	<u>\$ 132,846</u>	<u>\$ 132,846</u>	<u>\$ 1,657,835</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2006

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS LLC	ELIMINATING	CONSOLIDATED
OPERATING REVENUES:				
Local service	\$ 205,765	\$ 33,805	\$	\$ 239,570
Access service	389,554			389,554
Miscellaneous	63,706	5,297		69,003
Total operating revenues	<u>659,025</u>	<u>39,102</u>	<u>0</u>	<u>698,127</u>
OPERATING EXPENSES:				
Plant specific operations	194,217	17,463	(15,500)	196,180
Plant nonspecific operations	12,004			12,004
Depreciation and amortization	101,671	13,343		115,014
Customer operations	66,898			66,898
Corporate operations	193,891	2,091		195,982
Total operating expenses	<u>568,681</u>	<u>32,897</u>	<u>(15,500)</u>	<u>586,078</u>
GROSS OPERATING INCOME	90,344	6,205	(15,500)	112,049
OPERATING TAXES:				
Other operating taxes	14,288			14,288
NET OPERATING INCOME	76,056	6,205	(15,500)	97,761
NONOPERATING AND NONREGULATED INCOME (LOSS) - net	15,146		21,705	(6,559)
INCOME AVAILABLE FOR FIXED CHARGES	91,202	6,205	6,205	91,202
FIXED CHARGES:				
Interest	21,235			21,235
NET INCOME	69,967	6,205	6,205	69,967
OTHER COMPREHENSIVE INCOME (LOSS):				
Unrealized gains (losses) on available-for-sale securities	46,203			46,203
COMPREHENSIVE INCOME	\$ 116,170	\$ 6,205	\$ 6,205	\$ 116,170

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS LLC	ELIMINATING	CONSOLIDATED
OPERATING ACTIVITIES:				
Comprehensive income	\$ 116,170	\$ 6,205	\$ 6,205	\$ 116,170
Adjustments to reconcile comprehensive income to net cash provided by operating activities:				
Depreciation and amortization	101,671	13,343		115,014
Changes in operating assets and liabilities:				
Decrease (Increase) in:				
Accounts receivable	(14,570)	(3,393)	19,450	(37,413)
Other current assets	(7,678)	13,760		6,082
Noncurrent assets	57			57
Increase (Decrease) in:				
Accounts payable	(27,729)	(19,450)	(19,450)	(27,729)
Other current liabilities	(2,212)			(2,212)
	<u>165,709</u>	<u>10,465</u>	<u>6,205</u>	<u>169,969</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
		(10,465)		(311,173)
INVESTING ACTIVITIES:				
Purchases of property, plant, and equipment	(300,708)			(91)
Increase (Decrease) in memberships (Increase) Decrease in investments	(50,200)		(6,205)	(43,995)
	<u>\$ (350,999)</u>	<u>\$ (10,465)</u>	<u>\$ (6,205)</u>	<u>\$ (355,259)</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES				

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS LLC	ELIMINATING	CONSOLIDATED
FINANCING ACTIVITIES:				
Borrowing on long-term debt	\$ 160,220	\$	\$	\$ 160,220
Principal payments on long-term debt	(52,584)			(52,584)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>107,636</u>	<u>0</u>	<u>0</u>	<u>107,636</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(77,654)	0	0	(77,654)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>104,939</u>			<u>104,939</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 27,285</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 27,285</u>
SUPPLEMENTAL DISCLOSURES:				
Interest paid (net of \$0 capitalized)	\$ 21,178	\$ 0	\$ 0	\$ 21,178
Income taxes paid	\$ 0	\$ 0	\$ 0	\$ 0

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2005

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 104,939	\$	\$	\$ 104,939
Telecommunications accounts receivable	83,311		68,537	14,774
Other accounts receivable	12,138			12,138
Interest receivable	1,400			1,400
Materials and supplies (at cost)	8,998	13,760		22,758
Prepaid expenses	15,577			15,577
Total current assets	<u>226,363</u>	<u>13,760</u>	<u>68,537</u>	<u>171,586</u>
NONCURRENT ASSETS:				
Investments - affiliated	96,619			96,619
Investments - nonaffiliated	555,652			555,652
Nonregulated investments	84,456		77,554	6,902
Other investments	11,137			11,137
Other deferred charges	910			910
Total noncurrent assets	<u>748,774</u>	<u>0</u>	<u>77,554</u>	<u>671,220</u>
PROPERTY, PLANT, AND EQUIPMENT:				
Telecommunications plant in service	1,784,458	144,539		1,928,997
Less: Accumulated depreciation	1,270,107	12,208		1,282,315
Net book value	<u>514,351</u>	<u>132,331</u>	<u>0</u>	<u>646,682</u>
Total assets	<u>\$ 1,489,488</u>	<u>\$ 146,091</u>	<u>\$ 146,091</u>	<u>\$ 1,489,488</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2005

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
LIABILITIES AND MEMBERS' EQUITY				
CURRENT LIABILITIES:				
Notes payable - current portion	\$ 34,221	\$	\$	\$ 34,221
Accounts payable	44,462	68,537	68,537	44,462
Accrued taxes	16,551			16,551
Total current liabilities	95,234	68,537	68,537	95,234
LONG-TERM LIABILITIES:				
Notes payable - net of current portion	310,887			310,887
DEFERRED CREDITS:				
Depreciation reserve adjustment	25,427			25,427
MEMBERS' EQUITY:				
Memberships	5,668			5,668
Other capital	25,000			25,000
Patronage capital	586,394	77,554	77,554	586,394
Retained earnings (deficit)	(29,505)			(29,505)
Other comprehensive income	470,383			470,383
Total members' equity	1,057,940	77,554	77,554	1,057,940
Total liabilities and members' equity	\$ 1,489,488	\$ 146,091	\$ 146,091	\$ 1,489,488

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2005

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
OPERATING REVENUES:				
Local service	\$ 204,428	\$ 4,155	\$	\$ 208,583
Access service	370,674			370,674
Miscellaneous	48,447	19,818		68,265
Total operating revenues	<u>623,549</u>	<u>23,973</u>	<u>0</u>	<u>647,522</u>
OPERATING EXPENSES:				
Plant specific operations	137,406	16,604		154,010
Plant nonspecific operations	9,659			9,659
Depreciation and amortization	88,720	12,208		100,928
Customer operations	68,645			68,645
Corporate operations	201,099	24,666		225,765
Total operating expenses	<u>505,529</u>	<u>53,478</u>	<u>0</u>	<u>559,007</u>
GROSS OPERATING INCOME (LOSS)	118,020	(29,505)		88,515
OPERATING TAXES:				
Other operating taxes	16,452			16,452
NET OPERATING INCOME (LOSS)	101,568	(29,505)		72,063
NONOPERATING AND NONREGULATED INCOME (LOSS) - net	<u>(5,790)</u>		<u>29,505</u>	<u>23,715</u>
INCOME AVAILABLE FOR FIXED CHARGES	95,778	(29,505)	29,505	95,778
FIXED CHARGES:				
Interest	16,919			16,919
NET INCOME (LOSS)	78,859	(29,505)	29,505	78,859
OTHER COMPREHENSIVE INCOME (LOSS):				
Unrealized gains (losses) on available-for-sale securities	<u>(294,767)</u>			<u>(294,767)</u>
NET COMPREHENSIVE INCOME (LOSS)	\$ <u>(215,908)</u>	\$ <u>(29,505)</u>	\$ <u>29,505</u>	\$ <u>(215,908)</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

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

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
	\$ (215,908)	\$ (29,505)	\$ (29,505)	\$ (215,908)
OPERATING ACTIVITIES:				
Comprehensive income (loss)				
Adjustments to reconcile comprehensive income (loss) to net cash provided by operating activities:				
Depreciation and amortization	88,720	12,208		100,928
Changes in operating assets and liabilities:				
Decrease (Increase) in:				
Accounts receivable	(79,141)		(68,537)	(10,604)
Other current assets	(4,152)	(13,760)		(17,912)
Noncurrent assets	29,562			29,562
Increase (Decrease) in:				
Accounts payable	4,273	68,537	68,537	4,273
Other current liabilities	6,213			6,213
	<u>(170,433)</u>	<u>37,480</u>	<u>(29,505)</u>	<u>(103,448)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
	(47,111)	(144,539)	(107,059)	(84,591)
INVESTING ACTIVITIES:				
Purchases of property, plant, and equipment	80			80
Proceeds from sale of equipment	(143)			(143)
Increase (Decrease) in memberships (Increase) Decrease in investments	290,450		29,505	260,945
	<u>243,276</u>	<u>(144,539)</u>	<u>(77,554)</u>	<u>176,291</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES				

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

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

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
FINANCING ACTIVITIES:				
Principal payments on long-term debt	\$ (63,156)	\$ 107,059	\$ 107,059	\$ (63,156)
Investment by parent company	0			0
Patronage capital retired	(664)			(664)
	<u>(63,820)</u>	<u>107,059</u>	<u>107,059</u>	<u>(63,820)</u>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES				
	9,023	0	0	9,023
CASH AND CASH EQUIVALENTS - BEGINNING	<u>95,916</u>			<u>95,916</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 104,939</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 104,939</u>
SUPPLEMENTAL DISCLOSURES:				
Interest paid (net of \$0 capitalized)	\$ 16,862	\$ 0	\$ 0	\$ 16,862
Income taxes paid	\$ 0	\$ 0	\$ 0	\$ 0

LALLY, CUMMINGS, PALMER & PATCH, P.C.

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JANICE M. KIDD, C.P.A.

March 20, 2007

Board of Directors
Farmers Mutual Telephone Company
Okolona, Ohio 43550

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

We have audited the financial statements of Farmers Mutual Telephone Company as of and for the years ended December 31, 2006, and 2005, and have issued our report thereon dated March 20, 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 Farmers 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
Farmers Mutual Telephone Company
March 20, 2007

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Farmers 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

LALLY, CUMMINGS, PALMER & PATCH, P.C.

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JANICE M. KIDD, C.P.A.

March 20, 2007

Board of Directors
Farmers Mutual Telephone Company
Okolona, Ohio 43550

INDEPENDENT AUDITORS' MANAGEMENT LETTER

We have audited the financial statements of Farmers Mutual Telephone Company for the year ended December 31, 2006, and have issued our report thereon dated March 20, 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 Farmers 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 20, 2007, and should be read in conjunction with this report.

Board of Directors
Farmers Mutual Telephone Company
March 20, 2007

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 dated March 20, 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 Farmers 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 20, 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 Farmers 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 Farmers 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 Farmers Mutual Telephone Company to Farmers 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, Farmers 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 Farmers 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 Farmers Mutual Telephone Company, nothing came to our attention that caused us to believe that Farmers 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 527 OKOLONA
FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY
(An Ohio Mutual Company)

OKOLONA, OHIO

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL REPORTS

DECEMBER 31, 2006, AND 2005

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March 20, 2007

Board of Directors
Farmers Mutual Telephone Company
P.O. Box 50106
Okolona, Ohio 43550

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated balance sheet of FARMERS MUTUAL TELEPHONE COMPANY AND ITS WHOLLY OWNED SUBSIDIARY (An Ohio Mutual Company) as of December 31, 2006, and 2005, and the related consolidated statements of income and patronage capital, members' equity, 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 consolidating financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Farmers Mutual Telephone Company and its wholly owned subsidiary 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 20, 2007, on our consideration of Farmers 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

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY
(An Ohio Mutual Company)
OKOLONA, OHIO

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2006, AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 27,285	\$ 104,939
Telecommunications accounts receivable	61,238	14,774
Other accounts receivable	3,087	12,138
Interest receivable	1,400	1,400
Materials and supplies (at cost)	13,333	22,758
Prepaid expenses	18,920	15,577
Total current assets	<u>125,263</u>	<u>171,586</u>
NONCURRENT ASSETS:		
Investments - affiliated	83,000	96,619
Investments - nonaffiliated	601,855	555,652
Nonregulated investments	18,313	6,902
Other investments	11,137	11,137
Other deferred charges	853	910
Total noncurrent assets	<u>715,158</u>	<u>671,220</u>
PROPERTY, PLANT, AND EQUIPMENT:		
Telecommunications plant in service	2,211,842	1,928,997
Less: Accumulated depreciation	1,394,428	1,282,315
Net book value	<u>817,414</u>	<u>646,682</u>
 Total assets	 <u>\$ 1,657,835</u>	 <u>\$ 1,489,488</u>

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

LIABILITIES AND MEMBERS' EQUITY

	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES:		
Notes payable - current portion	\$ 63,648	\$ 34,221
Accounts payable	16,733	44,462
Accrued taxes	14,339	16,551
Total current liabilities	94,720	95,234
LONG-TERM LIABILITIES:		
Notes payable - net of current portion	389,096	310,887
DEFERRED CREDITS:		
Depreciation reserve adjustment	0	25,427
MEMBERS' EQUITY:		
Memberships	5,577	5,668
Other capital	25,000	25,000
Patronage capital	650,156	586,394
Retained earnings (deficit)	(23,300)	(29,505)
Other comprehensive income	516,586	470,383
Total members' equity	1,174,019	1,057,940
Total liabilities and members' equity	\$ 1,657,835	\$ 1,489,488

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

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2006, AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES:		
Local service	\$ 239,570	\$ 208,583
Access service	389,554	370,674
Miscellaneous	69,003	68,265
Total operating revenues	<u>698,127</u>	<u>647,522</u>
OPERATING EXPENSES:		
Plant specific operations	196,180	154,010
Plant nonspecific operations	12,004	9,659
Depreciation and amortization	115,014	100,928
Customer operations	66,898	68,645
Corporate operations	195,982	225,765
Total operating expenses	<u>586,078</u>	<u>559,007</u>
GROSS OPERATING INCOME	112,049	88,515
OPERATING TAXES:		
Other operating taxes	<u>14,288</u>	<u>16,452</u>
NET OPERATING INCOME	97,761	72,063
NONOPERATING AND NONREGULATED INCOME (LOSS) - net	<u>(6,559)</u>	<u>23,715</u>
INCOME AVAILABLE FOR FIXED CHARGES	91,202	95,778
FIXED CHARGES:		
Interest	<u>21,235</u>	<u>16,919</u>
NET INCOME	69,967	78,859
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized gains (losses) on available-for-sale securities	<u>46,203</u>	<u>(294,767)</u>
COMPREHENSIVE INCOME (LOSS)	116,170	(215,908)
PATRONAGE CAPITAL - beginning	<u>1,027,272</u>	<u>1,243,844</u>
	1,143,442	1,027,936
LESS: PATRONAGE CAPITAL RETIRED	<u>0</u>	<u>664</u>
PATRONAGE CAPITAL AND OTHER COMPREHENSIVE INCOME	<u>\$ 1,143,442</u>	<u>\$ 1,027,272</u>

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

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006, AND 2005

	<u>MEMBERSHIP</u>	<u>PATRONAGE AND OTHER CAPITAL</u>	<u>RETAINED EARNINGS (DEFICIT)</u>	<u>OTHER COMPREHENSIVE INCOME (LOSS)</u>	<u>TOTAL</u>
BEGINNING BALANCE - JANUARY 1, 2005	\$ 5,811	\$ 503,694	\$	\$ 765,150	\$ 1,274,655
Memberships - net	(143)				(143)
Income from:					
Farmers Mutual		108,364		(294,767)	(186,403)
HiPoint Comm.			(29,505)		(29,505)
Retirement of capital credits		(664)			(664)
BALANCE - DECEMBER 31, 2005	5,668	611,394	(29,505)	470,383	1,057,940
Memberships - net	(91)				(91)
Income from:					
Farmers Mutual		63,762		46,203	109,965
HiPoint Comm.			6,205		6,205
Retirement of capital credits					0
ENDING BALANCE - DECEMBER 31, 2006	<u>\$ 5,577</u>	<u>\$ 675,156</u>	<u>\$ (23,300)</u>	<u>\$ 516,586</u>	<u>\$ 1,174,019</u>

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

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

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

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES:		
Comprehensive income (loss)	\$ 116,170	\$ (215,908)
Adjustments to reconcile comprehensive income (loss) to net cash provided by operating activities:		
Depreciation and amortization	115,014	100,928
Changes in operating assets and liabilities:		
Decrease (Increase) in:		
Accounts receivable	(37,413)	(10,604)
Other current assets	6,082	(17,912)
Noncurrent assets	57	29,562
Increase (Decrease) in:		
Accounts payable	(27,729)	4,273
Other current liabilities	(2,212)	6,213
	<u>169,969</u>	<u>(103,448)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
	<u>169,969</u>	<u>(103,448)</u>
INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(311,173)	(84,591)
Proceeds from sale of equipment	0	80
Increase (Decrease) in memberships	(91)	(143)
(Increase) Decrease in investments	(43,995)	260,945
	<u>(355,259)</u>	<u>176,291</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES		
	<u>(355,259)</u>	<u>176,291</u>
FINANCING ACTIVITIES:		
Borrowing on long-term debt	160,220	0
Principal payments on long-term debt	(52,584)	(63,156)
Patronage capital retired	0	(664)
	<u>107,636</u>	<u>(63,820)</u>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES		
	<u>107,636</u>	<u>(63,820)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(77,654)	9,023
CASH AND CASH EQUIVALENTS - BEGINNING	<u>104,939</u>	<u>95,916</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 27,285</u>	<u>\$ 104,939</u>
SUPPLEMENTAL DISCLOSURES:		
Interest paid (net of \$0 capitalized)	\$ 21,178	\$ 16,862
Income taxes paid	\$ 0	\$ 0

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

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

These consolidated financial statements include the accounts of the company and its wholly owned subsidiary after elimination of all significant inter-company balances and transactions.

Farmers Mutual Telephone Company provides telecommunication services to Okolona, Ohio. In 2005, the company created HiPoint Communications, LLC to provide wireless telecommunication services to Okolona, Ohio. 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 Okolona, 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 Bright.Net North, Inc., Com Net, Inc., VeriSign, Inc., Bright Long Distance, Ltd., Horizon Telcom, Inc., Bright CLEC, LLC, Independents Fiber Network, LLC, and Broadband Network Group, LLC. Future changes in economic conditions may make the investments less valuable. (See Note 3)

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 Equivalents and Temporary Investments -

The company considers highly liquid investments with maturities of ninety days or less to be cash equivalents. Securities with maturities between ninety-one days and one year are considered temporary investments. The company has deposits with various institutions, none of which are in excess of federally insured limits at December 31, 2006.

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.

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Telephone Plant and Depreciation -

Telephone plant in service was stated substantially at original cost. Management was of the opinion that any adjustments that might be required to record properties at original cost would not be material. 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 files Form 990 annually. (See Note 12)

Revenue Recognition -

Toll access services are furnished in conjunction with Sprint United 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.

2. ASSETS PLEDGED:

Substantially all assets are pledged as security for the long-term debt to RUS.

3. INVESTMENTS - AFFILIATED:

Com Net, Inc. -

During 1994, the company purchased a 6.67% share of Com Net, Inc. (An Ohio Corporation) for \$18,500. 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 \$20,895 and \$21,812, respectively for the A-link service. As part of this continuing project, in April of 2003, the company made a \$100,000 loan to Independents Fiber Network, LLC, a wholly owned Com Net company. The loan bears interest at 3% per annum and is due in April of 2013. In 2004, the company received a 7.14% share of Broadband Network Group, LLC for a \$1 investment.

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

3. INVESTMENTS - AFFILIATED (Continued):

Bright.Net North, Inc. -

In March of 1995, the company joined with two other local area telephone companies to form a new company called Bright.Net North, Inc. The purpose of the new company is to furnish local access to the Internet. Each company has a one-third share of the new company. Loans have also been made by each company in the amount of \$15,000 and bear interest at 8% per annum. In August of 1999, a new note in the amount of \$40,000 was issued to the company for the purpose of reimbursement of past management services provided to Bright.Net North, Inc. The note is noninterest bearing and is due on or before March 31, 2012. The company accounts for the investment on the equity method.

Bright Long Distance, Ltd. -

During 1997, the company entered into an operating agreement forming Bright Long Distance, Ltd., a Limited Liability Company organized in Ohio. The purpose of this entity is to sell long distance toll and other related services. The term of the organization is 25 years.

Bright CLEC, LLC -

In March of 2001, the company made an initial investment of \$3,000 in Bright CLEC, LLC (BCL). BCL was formed as a Competitive Local Exchange Carrier (CLEC). BCL will offer to resell transport and local loop through BCL.

4. INVESTMENTS - NONAFFILIATED:

Bright Personal Communications Services, LLC -

On June 27, 2000, Bright PCS, LLC was terminated and was then incorporated into two Ohio C Corporations; Horizon Telcom, Inc. and Horizon PCS, Inc. It is the intent of both 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 PCS, Inc.	66,293 "B" shares
Horizon Telcom, Inc.	124 "A" shares
Horizon Telcom, Inc.	372 "B" shares

In September 2003, 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.

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

4. INVESTMENTS - NONAFFILIATED (Continued):

Fair market values for Horizon Telcom, 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"	10,292	13,454
Horizon Telecom, Inc. "B"	<u>29,853</u>	<u>30,132</u>
Total	40,145	43,586
Less: Market - prior year	<u>43,586</u>	<u>68,200</u>
Gain (loss) in value	<u>\$ (3,441)</u>	<u>\$ (24,614)</u>
Reflected in the financial statements as:		
Other comprehensive income (loss):		
Unrealized gain (loss) on securities	<u>\$ (3,441)</u>	<u>\$ (24,614)</u>

VeriSign, Inc. (F/K/A Illuminet Holdings, Inc.) -

The company held 24,828 shares of common stock of Illuminet Holdings, Inc. On December 12, 2001, Illuminet Holdings, Inc. became a wholly-owned subsidiary of VeriSign, Inc. by merger. As a result of the merger, each share of Illuminet common stock converted into 0.93 of a share of VeriSign common stock. The company now holds 23,090 shares of VeriSign, Inc. The stock was selling for \$24.05 a share on December 31, 2006.

Values are as follows:

	Market <u>2006</u>	Market <u>2005</u>
VeriSign, Inc.	\$555,315	\$ 505,671
Less: Market - prior year	<u>505,671</u>	<u>775,824</u>
Gain (loss) in value	<u>\$ 49,644</u>	<u>\$(270,153)</u>
Reflected in the financial statements as:		
Other comprehensive income (loss):		
Unrealized gain (loss) on securities	<u>\$ 49,644</u>	<u>\$(270,153)</u>

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

4. INVESTMENTS - NONAFFILIATED (Continued):

The accounting method and carrying values for the above investments are as follows:

	Accounting Method	2006	2005
Com Net, Inc.	Cost	\$ 18,500	\$ 18,500
Bright.Net North, Inc.	Equity	(45,264)	(33,473)
Bright Long Distance, Ltd.	Equity	3,300	2,985
VeriSign, Inc.	Market	561,710	512,066
Horizon Telcom, Inc.	Market	40,145	43,586
Bright CLEC, LLC	Equity	3,276	2,433
Independents Fiber Network, LLC	Cost	100,000	100,000
Broadband Network Group, LLC	Equity	3,188	6,174
		<u>\$684,855</u>	<u>\$652,271</u>

5. NONREGULATED INVESTMENTS:

	2006	2005
Nonregulated customer premises equipment - leased (at cost)	\$ 10,620	\$ 10,620
Pay stations	1,475	1,475
Less: Accumulated depreciation	<u>11,841</u>	<u>11,544</u>
	254	551
Nonregulated inventory (at cost)	<u>18,059</u>	<u>6,351</u>
Total nonregulated investments	<u>\$ 18,313</u>	<u>\$ 6,902</u>

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

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

	2006	2005
Income from operations	\$ 20,063	\$ 10,322
Expense	<u>12,998</u>	<u>3,434</u>
Net income	<u>\$ 7,065</u>	<u>\$ 6,888</u>

6. OTHER INVESTMENTS:

Other investments consisted of the following at December 31, 2006, and 2005:

	2006	2005
Stock in North Central Regional Processing Center (at cost)	\$ 9,347	\$ 9,347
Rural Telephone Co-Op - membership (at cost)	<u>1,790</u>	<u>1,790</u>
	<u>\$ 11,137</u>	<u>\$ 11,137</u>

FARMERS MUTUAL TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

7. OTHER DEFERRED CHARGES:

Other deferred charges consisted of the following at December 31, 2006, and 2005.

	<u>2006</u>	<u>2005</u>
RUS loan cost	\$ <u>853</u>	\$ <u>910</u>

8. PROPERTY, PLANT, AND EQUIPMENT:

Telephone plant in service is 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, and the associated depreciation rates:

	<u>2006 Cost</u>	<u>Depreciation Rate 2006</u>	<u>2005 Cost</u>	<u>Depreciation Rate 2005</u>
Land	\$ 26,069	N/A %	\$ 26,069	N/A %
Motor vehicles	58,707	10.56	58,707	10.56
Other work equipment	77,286	7.92	77,286	7.92
Buildings	262,527	2.77	262,527	2.77
Furniture	8,217	7.92	8,187	7.92
Office support equipment	7,508	16.67	7,508	16.67
Company communication equipment	1,456	11.11	1,456	11.11
General purpose computers	53,098	20.00	53,098	20.00
Central office equipment	835,622	8.00	595,677	8.00
Buried cable and fiber	620,728	4.20	589,382	4.20
Buried drops	105,620	4.77	104,561	4.77
Wireless equipment	<u>155,004</u>	9.00	<u>144,539</u>	9.00
Total telephone plant in service	<u>\$2,211,842</u>		<u>\$1,928,997</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 2002, the company was granted new depreciation accrual rates by the Public Utilities Commission of Ohio (PUCO), effective as of January 1, 2002. In addition to the new accrual rates, the PUCO ordered an adjustment of depreciation of \$127,135 amortizable over five years beginning January 1, 2002. The amortization for 2006 and 2005 amounted to \$25,427 and is shown as a reduction of depreciation expense.

FARMERS MUTUAL TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

8. PROPERTY, PLANT, AND EQUIPMENT (Continued):

Depreciation has been charged as follows:

	<u>2006</u>	<u>2005</u>
Depreciation - accrual rates	\$ 140,441	\$126,355
Amortization of reserve	<u>(25,427)</u>	<u>(25,427)</u>
	<u>\$ 115,014</u>	<u>\$100,928</u>

9. LONG-TERM DEBT:

A schedule of long-term debt at December 31, 2006, and 2005, was as follows:

RUS 2% and 5% mortgage notes - payable to the United States of America, principal and interest installments are due quarterly in equal amounts of approximately \$10,000. The notes are for 35 years and are scheduled to be repaid at various times from the year 2011 to the year 2020.

RTFC line of credit - \$100,000
Advanced funds at 12/31/06 were \$40,000 at 6.4%. Payment requirements are interest only with a maturity date of 6/26/08.

U S Bancorp note payable - \$160,220
Capital Lease Agreement. Principal and interest installments are due monthly in the amount of \$3,244.65. Interest at 7.95% with a maturity date of 6/16/11.

	<u>2006</u>	<u>2005</u>
Principal amount of loans	\$1,145,220	\$985,000
Less: Amounts unadvanced	60,000	55,000
Loan funds advanced	<u>1,085,220</u>	<u>930,000</u>
Less: Repayments	<u>632,476</u>	<u>584,892</u>
Principal balance outstanding -	452,744	345,108
Less: Current maturities	<u>63,648</u>	<u>34,221</u>
Total of long-term debt	<u>\$ 389,096</u>	<u>\$310,887</u>

FARMERS MUTUAL TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

9. LONG-TERM DEBT (Continued):

Principal payments due for the five years following the balance sheet date are estimated to be as follows:

2007	\$ 63,648
2008	\$107,176
2009	\$ 70,946
2010	\$ 74,975
2011	\$ 43,458

10. PENSION PLAN:

All accrued pension costs are funded through participation in a retirement program with the National Telephone Cooperative Association. The fund covers all vested benefits under the plan. The expenses for the years 2006 and 2005 were \$34,345 and \$29,386, respectively. The plan has been approved by the Internal Revenue Service.

11. PATRONAGE CAPITAL:

Capital credits were retired during 2006 and 2005 totaling \$0 and \$664, respectively, per established board policy. There was no general retirement of capital credits during 2006, except for those involving estates as required.

12. FEDERAL TAX STATUS:

The 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 has determined its federal income tax liability to amount to \$0 for both 2006 and 2005.

13. POST RETIREMENT BENEFITS:

The company has no liability for post retirement benefits.

14. RELATED PARTY TRANSACTIONS:

There were no related party transactions during 2006.

15. FINANCIAL STATEMENT PRESENTATION:

Certain items and descriptions have been changed to reflect the current year presentation. There was no change to net income reported in 2005.

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2006

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS LLC	ELIMINATING	CONSOLIDATED
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 27,285	\$	\$	\$ 27,285
Telecommunications accounts receivable	106,932	3,393	49,087	61,238
Other accounts receivable	3,087			3,087
Interest receivable	1,400			1,400
Materials and supplies (at cost)	13,333			13,333
Prepaid expenses	18,920			18,920
Total current assets	<u>170,957</u>	<u>3,393</u>	<u>49,087</u>	<u>125,263</u>
NONCURRENT ASSETS:				
Investments - affiliated	83,000			83,000
Investments - nonaffiliated	601,855			601,855
Nonregulated investments	102,072		83,759	18,313
Other investments	11,137			11,137
Other deferred charges	853			853
Total noncurrent assets	<u>798,917</u>	<u>0</u>	<u>83,759</u>	<u>715,158</u>
PROPERTY, PLANT, AND EQUIPMENT:				
Telecommunications plant in service	2,056,838	155,004		2,211,842
Less: Accumulated depreciation	1,368,877	25,551		1,394,428
Net book value	<u>687,961</u>	<u>129,453</u>	<u>0</u>	<u>817,414</u>
Total assets	\$ <u>1,657,835</u>	\$ <u>132,846</u>	\$ <u>132,846</u>	\$ <u>1,657,835</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2006

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS LLC	ELIMINATING	CONSOLIDATED
LIABILITIES AND MEMBERS' EQUITY				
CURRENT LIABILITIES:				
Notes payable - current portion	\$ 63,648	\$ 49,087	\$ 49,087	\$ 63,648
Accounts payable	16,733			16,733
Accrued taxes	14,339			14,339
Total current liabilities	<u>94,720</u>	<u>49,087</u>	<u>49,087</u>	<u>94,720</u>
LONG-TERM LIABILITIES:				
Notes payable - net of current portion	389,096			389,096
MEMBERS' EQUITY:				
Memberships	5,577			5,577
Other capital	25,000			25,000
Patronage capital	650,156	83,759	83,759	650,156
Retained earnings (deficit)	(23,300)			(23,300)
Other comprehensive income	516,586			516,586
Total members' equity	<u>1,174,019</u>	<u>83,759</u>	<u>83,759</u>	<u>1,174,019</u>
Total liabilities and members' equity	<u>\$ 1,657,835</u>	<u>\$ 132,846</u>	<u>\$ 132,846</u>	<u>\$ 1,657,835</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2006

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS LLC	ELIMINATING	CONSOLIDATED
OPERATING REVENUES:				
Local service	\$ 205,765	\$ 33,805	\$	\$ 239,570
Access service	389,554			389,554
Miscellaneous	63,706	5,297		69,003
Total operating revenues	<u>659,025</u>	<u>39,102</u>	<u>0</u>	<u>698,127</u>
OPERATING EXPENSES:				
Plant specific operations	194,217	17,463	(15,500)	196,180
Plant nonspecific operations	12,004			12,004
Depreciation and amortization	101,671	13,343		115,014
Customer operations	66,898			66,898
Corporate operations	193,891	2,091		195,982
Total operating expenses	<u>568,681</u>	<u>32,897</u>	<u>(15,500)</u>	<u>586,078</u>
GROSS OPERATING INCOME	90,344	6,205	(15,500)	112,049
OPERATING TAXES:				
Other operating taxes	14,288			14,288
NET OPERATING INCOME	76,056	6,205	(15,500)	97,761
NONOPERATING AND NONREGULATED INCOME (LOSS) - net	15,146		21,705	(6,559)
INCOME AVAILABLE FOR FIXED CHARGES	91,202	6,205	6,205	91,202
FIXED CHARGES:				
Interest	21,235			21,235
NET INCOME	69,967	6,205	6,205	69,967
OTHER COMPREHENSIVE INCOME (LOSS):				
Unrealized gains (losses) on available-for-sale securities	46,203			46,203
COMPREHENSIVE INCOME	\$ 116,170	\$ 6,205	\$ 6,205	\$ 116,170

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS LLC	ELIMINATING	CONSOLIDATED
OPERATING ACTIVITIES:				
Comprehensive income	\$ 116,170	\$ 6,205	\$ 6,205	\$ 116,170
Adjustments to reconcile comprehensive income to net cash provided by operating activities:				
Depreciation and amortization	101,671	13,343		115,014
Changes in operating assets and liabilities:				
Decrease (Increase) in:				
Accounts receivable	(14,570)	(3,393)	19,450	(37,413)
Other current assets	(7,678)	13,760		6,082
Noncurrent assets	57			57
Increase (Decrease) in:				
Accounts payable	(27,729)	(19,450)	(19,450)	(27,729)
Other current liabilities	(2,212)			(2,212)
	<u>165,709</u>	<u>10,465</u>	<u>6,205</u>	<u>169,969</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
		(10,465)		(311,173)
INVESTING ACTIVITIES:				
Purchases of property, plant, and equipment	(300,708)			(91)
Increase (Decrease) in memberships	(91)			(43,995)
(Increase) Decrease in investments	(50,200)		(6,205)	
	<u>\$ (350,999)</u>	<u>\$ (10,465)</u>	<u>\$ (6,205)</u>	<u>\$ (355,259)</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES				

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>FARMERS MUTUAL TELEPHONE COMPANY</u>	<u>HIPOINT COMMUNICATIONS LLC</u>	<u>ELIMINATING</u>	<u>CONSOLIDATED</u>
FINANCING ACTIVITIES:				
Borrowing on long-term debt	\$ 160,220	\$	\$	\$ 160,220
Principal payments on long-term debt	<u>(52,584)</u>	<u></u>	<u></u>	<u>(52,584)</u>
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>107,636</u>	<u>0</u>	<u>0</u>	<u>107,636</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(77,654)	0	0	(77,654)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>104,939</u>	<u></u>	<u></u>	<u>104,939</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 27,285</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 27,285</u>
SUPPLEMENTAL DISCLOSURES:				
Interest paid (net of \$0 capitalized)	\$ 21,178	\$ 0	\$ 0	\$ 21,178
Income taxes paid	\$ 0	\$ 0	\$ 0	\$ 0

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2005

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 104,939	\$	\$	\$ 104,939
Telecommunications accounts receivable	83,311		68,537	14,774
Other accounts receivable	12,138			12,138
Interest receivable	1,400			1,400
Materials and supplies (at cost)	8,998	13,760		22,758
Prepaid expenses	15,577			15,577
Total current assets	<u>226,363</u>	<u>13,760</u>	<u>68,537</u>	<u>171,586</u>
NONCURRENT ASSETS:				
Investments - affiliated	96,619			96,619
Investments - nonaffiliated	555,652			555,652
Nonregulated investments	84,456		77,554	6,902
Other investments	11,137			11,137
Other deferred charges	910			910
Total noncurrent assets	<u>748,774</u>	<u>0</u>	<u>77,554</u>	<u>671,220</u>
PROPERTY, PLANT, AND EQUIPMENT:				
Telecommunications plant in service	1,784,458	144,539		1,928,997
Less: Accumulated depreciation	1,270,107	12,208		1,282,315
Net book value	<u>514,351</u>	<u>132,331</u>	<u>0</u>	<u>646,682</u>
Total assets	<u>\$ 1,489,488</u>	<u>\$ 146,091</u>	<u>\$ 146,091</u>	<u>\$ 1,489,488</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2005

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
LIABILITIES AND MEMBERS' EQUITY				
CURRENT LIABILITIES:				
Notes payable - current portion	\$ 34,221	\$ 68,537	\$ 68,537	\$ 34,221
Accounts payable	44,462			44,462
Accrued taxes	16,551			16,551
Total current liabilities	<u>95,234</u>	<u>68,537</u>	<u>68,537</u>	<u>95,234</u>
LONG-TERM LIABILITIES:				
Notes payable - net of current portion	310,887			310,887
DEFERRED CREDITS:				
Depreciation reserve adjustment	25,427			25,427
MEMBERS' EQUITY:				
Memberships	5,668			5,668
Other capital	25,000			25,000
Patronage capital	586,394	77,554	77,554	586,394
Retained earnings (deficit)	(29,505)			(29,505)
Other comprehensive income	470,383			470,383
Total members' equity	<u>1,057,940</u>	<u>77,554</u>	<u>77,554</u>	<u>1,057,940</u>
Total liabilities and members' equity	\$ <u>1,489,488</u>	\$ <u>146,091</u>	\$ <u>146,091</u>	\$ <u>1,489,488</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2005

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
OPERATING REVENUES:				
Local service	\$ 204,428	\$ 4,155	\$	\$ 208,583
Access service	370,674			370,674
Miscellaneous	48,447	19,818		68,265
Total operating revenues	<u>623,549</u>	<u>23,973</u>	<u>0</u>	<u>647,522</u>
OPERATING EXPENSES:				
Plant specific operations	137,406	16,604		154,010
Plant nonspecific operations	9,659			9,659
Depreciation and amortization	88,720	12,208		100,928
Customer operations	68,645			68,645
Corporate operations	201,099	24,666		225,765
Total operating expenses	<u>505,529</u>	<u>53,478</u>	<u>0</u>	<u>559,007</u>
GROSS OPERATING INCOME (LOSS)	118,020	(29,505)		88,515
OPERATING TAXES:				
Other operating taxes	16,452			16,452
NET OPERATING INCOME (LOSS)	101,568	(29,505)		72,063
NONOPERATING AND NONREGULATED INCOME (LOSS) - net	<u>(5,790)</u>		<u>29,505</u>	<u>23,715</u>
INCOME AVAILABLE FOR FIXED CHARGES	95,778	(29,505)	29,505	95,778
FIXED CHARGES:				
Interest	16,919			16,919
NET INCOME (LOSS)	78,859	(29,505)	29,505	78,859
OTHER COMPREHENSIVE INCOME (LOSS):				
Unrealized gains (losses) on available-for-sale securities	<u>(294,767)</u>			<u>(294,767)</u>
NET COMPREHENSIVE INCOME (LOSS)	\$ <u>(215,908)</u>	\$ <u>(29,505)</u>	\$ <u>29,505</u>	\$ <u>(215,908)</u>

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

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

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
OPERATING ACTIVITIES:				
Comprehensive income (loss)	\$ (215,908)	\$ (29,505)	\$ (29,505)	\$ (215,908)
Adjustments to reconcile comprehensive income (loss) to net cash provided by operating activities:				
Depreciation and amortization	88,720	12,208		100,928
Changes in operating assets and liabilities:				
Decrease (Increase) in:				
Accounts receivable	(79,141)		(68,537)	(10,604)
Other current assets	(4,152)	(13,760)		(17,912)
Noncurrent assets	29,562			29,562
Increase (Decrease) in:				
Accounts payable	4,273	68,537	68,537	4,273
Other current liabilities	6,213			6,213
	<u>(170,433)</u>	<u>37,480</u>	<u>(29,505)</u>	<u>(103,448)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
	(47,111)	(144,539)	(107,059)	(84,591)
INVESTING ACTIVITIES:	80			80
Purchases of property, plant, and equipment	(143)			(143)
Proceeds from sale of equipment	290,450		29,505	260,945
Increase (Decrease) in memberships (Increase) Decrease in investments				
	<u>243,276</u>	<u>(144,539)</u>	<u>(77,554)</u>	<u>176,291</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES				

FARMERS MUTUAL TELEPHONE COMPANY
AND ITS WHOLLY OWNED SUBSIDIARY

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

	FARMERS MUTUAL TELEPHONE COMPANY	HIPOINT COMMUNICATIONS	ELIMINATING	CONSOLIDATED
FINANCING ACTIVITIES:				
Principal payments on long-term debt	\$ (63,156)	\$	\$	\$ (63,156)
Investment by parent company	0	107,059	107,059	0
Patronage capital retired	(664)			(664)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(63,820)</u>	<u>107,059</u>	<u>107,059</u>	<u>(63,820)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,023	0	0	9,023
CASH AND CASH EQUIVALENTS - BEGINNING	<u>95,916</u>			<u>95,916</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 104,939</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 104,939</u>
SUPPLEMENTAL DISCLOSURES:				
Interest paid (net of \$0 capitalized)	\$ 16,862	\$ 0	\$ 0	\$ 16,862
Income taxes paid	\$ 0	\$ 0	\$ 0	\$ 0

LALLY, CUMMINGS, PALMER & PATCH, P.C.

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CHARLES E. GUGINS, C.P.A.
JANICE M. KIDD, C.P.A.

March 20, 2007

Board of Directors
Farmers Mutual Telephone Company
Okolona, Ohio 43550

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

We have audited the financial statements of Farmers Mutual Telephone Company as of and for the years ended December 31, 2006, and 2005, and have issued our report thereon dated March 20, 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 Farmers 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
Farmers Mutual Telephone Company
March 20, 2007

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Farmers 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

LALLY, CUMMINGS, PALMER & PATCH, P.C.

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March 20, 2007

Board of Directors
Farmers Mutual Telephone Company
Okolona, Ohio 43550

INDEPENDENT AUDITORS' MANAGEMENT LETTER

We have audited the financial statements of Farmers Mutual Telephone Company for the year ended December 31, 2006, and have issued our report thereon dated March 20, 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 Farmers 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 20, 2007, and should be read in conjunction with this report.

Board of Directors
Farmers Mutual Telephone Company
March 20, 2007

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 dated March 20, 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.

- 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 Farmers 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 Farmers Mutual Telephone Company to Farmers 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, Farmers 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 Farmers 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 Farmers Mutual Telephone Company, nothing came to our attention that caused us to believe that Farmers 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