

ANDERECK, EVANS, MILNE, PEACE & JOHNSON, L.L.C.

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MARVIN L. SHARP, *Of Counsel*

October 25, 2004

FILED

OCT 25 2004

Secretary
Public Service Commission
P.O. Box 360
Jefferson City, Missouri 65102

Missouri Public
~~Service Commission~~

EUGENE E. ANDERECK (1923-2004)
GREGORY C. STOCKARD (1904-1993)
PHIL HAUCK (1924-1991)

Re: In the Matter of the Application of Northeast Missouri Rural Telephone Company for Three Years' Standing Authority to Issue Notes and/or Loans from the Rural Utility Services of the United States of America and from Rural Telephone Bank in Order to Refinance Portions of Previous Authorized Loans and Execute and Related Liens or Encumbrances on Assets, If Any

Dear Secretary:

Enclosed for filing please find an original and eight copies of the Application of Northeast Missouri Telephone Company for Three Years' Standing Authority to Issue Notes and/or Loans from the Rural Utility Services of the United States of America and From Rural Telephone Bank in Order to Refinance Portions of Previously Authorized Loans, and Execute Any Related Liens or Encumbrance on Assets, if any; the Application for Waiver; and the Motion for Expedited Treatment in the above referenced case.

If you have any questions, please contact me at the number listed above.

Sincerely,


Craig S. Johnson

CSJ:lw

Encl.

CC: Pat Joyce
Mike Dandino
Ray Ford
Pat Richardson

BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

FILED

OCT 25 2004

Missouri Public
Service Commission

In the Matter of the Application of)
Northeast Missouri Rural Telephone)
Company for Three Years' Standing)
Authority to Issue Notes)
and/or Loans from the Rural)
Utility Services of the United States)
of America and from Rural Telephone)
Bank in order to refinance portions)
of previously authorized Loans)
and execute any related Liens or)
Encumbrances on Assets, if any.)

Case No. _____

**APPLICATION OF NORTHEAST MISSOURI RURAL TELEPHONE
COMPANY FOR THREE YEARS' STANDING AUTHORITY TO ISSUE NOTES
AND/OR LOANS FROM THE RURAL UTILITY SERVICES OF THE UNITED
STATES OF AMERICA AND FROM RURAL TELEPHONE BANK IN ORDER
TO REFINANCE PORTIONS OF PREVIOUSLY AUTHORIZED LOANS, AND
EXECUTE ANY RELATED LIEN OR ENCUMBRANCE ON ASSETS, IF ANY**

Comes now Applicant Northeast Missouri Rural Telephone Company (hereinafter "Northeast"), pursuant to § 392.290 RSMo, §392.300 RSMo, and §392.310 RSMo, and requests the Commission to grant this Application and grant Northeast standing authority for a period of three years in which to enter into and execute notes, loan agreements, and related security instruments, if any, with the Rural Utility Services of the Department of Agriculture of the United States of America (RUS) and the Rural Telephone Bank (RTB) in order to refinance parts of a loan previously authorized by this Commission. In support of this Application, Northeast states as follows:

1. Northeast is a Missouri corporation in good standing. Northeast's Certificate of Good Standing issued by the Missouri Secretary of State is attached to this Application as Attachment 1. Northeast has been incorporated for the purpose of, and in

fact is engaged in the business of, operating an incumbent local exchange telecommunications company, and other business operations.

2. The street and mailing address of Northeast's principal office and place of business is:

Ray Ford, Manager
Gary Godfrey, Office Manager
Northeast Missouri Rural Telephone Company
718 South West Street
P.O. Box 98
Green City, MO 63545
(660) 874-4111
(660) 874-4100 fax

3. Correspondence, communications, pleadings, and orders and decisions in this proceeding should be sent to Northeast at the above address, and also to Northeast's counsel of record in this proceeding:

Craig S. Johnson MO Bar No. 28179
ANDERECK, EVANS, MILNE,
PEACE & JOHNSON, L.L.C.
700 East Capitol Ave
Post Office Box 1438
Jefferson City, Missouri 65102
Telephone: (573) 634-3422
Facsimile: (573) 634-7822
email: CJohnson@AEMPB.com

4. Northeast has no pending action or final unsatisfied judgments or decisions against them from any state or federal agency or court that involve customer service or rates, which action, judgment or decision has occurred within three years of the date of this Application.

5. Northeast has no annual report or assessment fees which are overdue.

6. Northeast provides basic local telecommunications services, and exchange access services, to customers within the state of Missouri, pursuant to prior Orders of the

Commission granting Northeast certificates of authority, approving tariffs, and granting of such other authorizations as are routinely provided to an incumbent local exchange company.

7. On or about January 16, 1997, Northeast filed an application for authority to obtain loans in the total amount of approximately \$22,000,000.00. The case was docketed as TF-97-276. By Order of March 18, 1997 (the Prior Authority Order) the Commission approved such loan authority. A specific loan from RUS in the amount of \$13,987,000.00 was authorized, and a specific loan from RTB in the amount of \$8,159,550.00 was authorized.

8. Of the RUS loan, Northeast has been advanced or drawn down approximately \$12,092,000 at the time of this Application. Of the RTB loan, Northeast has not been advanced or drawn down any loan proceeds at the time of this Application.

9. Of the amounts RUS has loaned to Northeast, RUS and RTB have made available to Northeast refinancing of portions of those amounts at interest rates that are lower than that established when the RUS loans were initially advanced or drawn down. At current interest rates, Northeast calculates that by refinancing 10 of the prior advances or draw downs¹ it will save approximately \$88,000.00 per year if it consummates such refinancing. If interest rates available in the future with which to refinance existing or future advances or drawdowns of the financing approved in TF-97-276 at rates more favorable to those at the initial advance or drawdown, Northeast would likewise save additional moneys by consummating such refinancings.

¹ These ten are referred to as Note Designator 12220, 12221, 12222, 12223, 12224, 12225, 12226, 12227, 12520, and 12521, which collectively represent an unpaid principal amount totaling \$7,787,310.

10. Such refinancings are in the public interest, and are not detrimental to the public interest.

11. Northeast requests that it be granted standing authority for a period of three years until December 31, 2007 in which to refinance all or parts of the loan authority initially approved in TF-97-276 at reduced interest rates. Northeast requests that this standing authority will only apply to refinancings that do not result in deterioration of the following financial ratios:

- a. Debt Service Coverage (DSC);
- b. Times Interest Earned (TIER):
- c. Leverage Ratio.

All of these ratios will be calculated and defined as in the loan covenants attached to the debt incurred by Northeast through RUS and RTB. Northeast will file with the Commission documentation that its refinancings did not result in a deterioration in these financial ratios. If any anticipated refinancings will result in a deterioration of any of these ratios, then the standing authority requested herein will not apply.

12. The authority requested herein is within the ambit of the authority granted in the Prior Authority Order. In fact, the authority requested herein is intended to refinance, at a rate or rates more advantageous to Northeast, loan authority that the Prior Authority Order has already authorized.

13. Time is of the essence in obtaining initial refinancing. The interest rates obtained will not be established until the refinancing request is confirmed. If interest rates rise the benefit of the authority requested herein will diminish or disappear.

14. As set forth in separate motions, Northeast requests expedited consideration of this request, and waiver of the normal requirement that this Application be accompanied by a capital expenditure schedule. This requirement was complied with in obtaining the Prior Authority Order. In addition Northeast has met with Staff in advance of filing of this Application, and at the request of Staff is attaching the loan covenants that will be required in the currently anticipated refinancing, which indicates minimum financial ratio requirements of annual DSC as defined by RUS and RTB, TIER, and a maximum annual Leverage Ratio. Attached are the pro forma loan amortization schedules for the refinancing of this debt at anticipated interest rates (Attachment 2). Also attached are the immediate expected impacts to DSC, TIER, and Leverage Ratios (Attachment 3), as well as copies of the loan instruments (Attachment 4), and audited financial statements providing balance and income statement information (Attachment 5).

15. A certified copy of the resolution of Northeast authorizing the initial refinancing is set forth hereto as Attachment 6.

16. As the entire amount of the loan for which approval is sought herein was determined by the Prior Authority Order to be subject to the fee schedule set forth in § 386.300 RSMo, Northeast requests that the Commission order that none of the loan authority requested herein be subject to said fee schedule.

WHEREFORE, on the basis of the foregoing, Northeast respectfully requests an Order granting it standing authority for a period of three years until December 31, 2007 in which to refinance all or any part of the loan authority previously granted, and a determination that the fee schedule of 386.300 RSMo does not apply here, together with

such other and further relief as is necessary or convenient to granting the authority requested herein.

**ANDERECK, EVANS, MILNE,
PEACE & JOHNSON, L.L.C.**

By 

Craig S. Johnson MO Bar No. 28179
Lisa Cole Chase MO Bar No. 51502
700 East Capitol Avenue
The Col. Darwin Marmaduke House
Post Office Box 1438
Jefferson City, Missouri 65102
Telephone: (573) 634-3422
Facsimile: (573) 634-7822

CERTIFICATE OF SERVICE

The undersigned does hereby certify that a true and accurate copy of the foregoing was mailed, via U.S. Mail, postage prepaid, this 25 day of October, 2004, to Staff General Counsel Dan Joyce, and to Office of Public Counsel Michael Dandino.


Craig S. Johnson MO Bar No. 28179

VERIFICATION

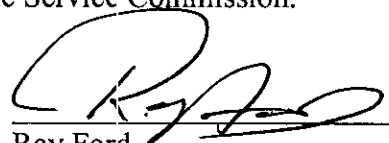
State of Missouri)
County of Cole) ss.
)

Comes now Ray Ford, being of lawful age and duly sworn, swears and affirms that:


1. My name is Ray Ford. I am the Manager of Northeast Missouri Rural Telephone Company. In that capacity I am authorized to apply for Missouri Commission approval of the requests contained in this Application.

2. The information contained in this Application is true and accurate to the best of my knowledge, information, and belief.

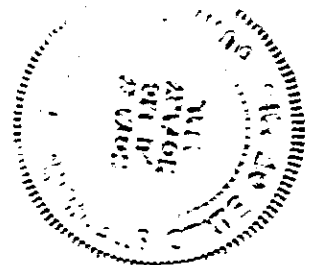
3. Northeast Missouri Rural Telephone Company has authorized Craig S. Johnson and the firm of Andereck, Evans, Milne, Peace, and Johnson, LLC to file and prosecute this application before the Missouri Public Service Commission.


Ray Ford

Subscribed and sworn to before me this 22nd day of October, 2004.


Notary Public

My Commission expires _____
STEPHANIE R. WILLIAMS
Notary Public - Notary Seal
STATE OF MISSOURI
County of Callaway
My Commission Expires June 2, 2007



STATE OF MISSOURI



Matt Blunt
Secretary of State


CORPORATION DIVISION
CERTIFICATE OF GOOD STANDING

I, MATT BLUNT, Secretary of the State of Missouri, do hereby certify that the records in my office and in my care and custody reveal that

NORTHEAST MISSOURI RURAL TELEPHONE COMPANY
T00000571

was created under the laws of this State on the 20th day of October, 1952, and is in good standing, having fully complied with all requirements of this office.

IN TESTIMONY WHEREOF, I have set my hand and imprinted the GREAT SEAL of the State of Missouri, on this, the 19th day of October, 2004


Secretary of State



Certification Number: 7105916-1 Reference:
Verify this certificate online at <http://www.sos.mo.gov/businessentity/verification>



Northeast Missouri Rural Telephone Company

718 South West St. P.O. Box 98
Green City, Missouri 63545-0098

Phone (660)874-4111
Fax (660)874-4100
Email admin@nemr.net

October 22, 2004

Mr. David Murray
Missouri Public Service Commission
PO Box 360
Jefferson City, MO 65102-0360

Dear Mr. Murray:

Attached is a slightly revised spreadsheet showing Northeast's projected impact to cash flow for the refinancing of ten RUS notes. The analysis shows a significant reduction in interest expense totaling more than \$1million over the next 11 years. However, because the amortization period of the notes is reduced from 11 remaining years to 8, the annual debt service requirement actually increases by approximately \$200,000 per year. Of course since the notes will be paid off, cash flow for the 9th, 10th and 11th years would be dramatically better with the refinancing.

We believe the net savings opportunity with the refinancing is too substantial to pass up. The extra cash flow requirement for the next 8 years is manageable in our opinion. If unexpected need for cash does arise, Northeast has financing of more than \$7 million already "approved for advance" by RUS. To access these funds only requires a simple request.

If you need any additional information regarding the financial impact of the proposed refinancing, please don't hesitate to call.

Sincerely,

Gary D. Godfrey
Office Manager

Northeast Missouri Rural Telephone Company
Monthly Payment Differences with RUS Refinancing
Prepared October 22, 2004

	Note Number	Note Origination Date	Note Last Payment Date	Projected Principal Balance on 12/31/2004	Current Monthly Payments Including Prin & Int
Line 1	12220	07/15/1998	10/31/2015	\$ 369,701.49	\$ 3,800.00
Line 2	12221	11/04/1998	10/31/2015	\$ 364,106.30	\$ 3,630.00
Line 3	12222	08/18/1999	10/31/2015	\$ 784,554.90	\$ 8,212.46
Line 4	12223	10/27/1999	10/31/2015	\$ 775,445.36	\$ 8,250.00
Line 5	12224	01/19/2000	10/31/2015	\$ 788,693.63	\$ 8,590.00
Line 6	12225	06/20/2000	10/31/2015	\$ 790,985.55	\$ 8,290.00
Line 7	12226	12/05/2000	10/31/2015	\$ 802,280.82	\$ 8,230.00
Line 8	12227	02/15/2001	10/31/2015	\$ 757,088.57	\$ 7,627.99
Line 9	12520	12/11/2001	10/31/2015	\$ 1,264,238.88	\$ 12,778.61
Line 10	12521	02/28/2002	10/31/2015	\$ 840,457.72	\$ 8,370.00
				<u>\$ 7,537,553.22</u>	<u>\$ 77,779.06</u>

In a letter dated August 5, 2004 RUS stated they had approved Northeast for refinancing for the amounts of:

RUS	\$	4,714,000.00
RTB	\$	3,116,000.00
Required Purchase of RTB Stock @ 5% of RTB Note Balance	\$	155,800.00
Total Refinancing Approved	\$	<u>7,985,800.00</u>

In a subsequent conference call with RUS, they informed us the actual amount of the refinancing would be what ever was owed on the notes at the time of refinancing, plus the 5% RTB stock. Using the same loan proportions as outlined in their August 5 approval letter we project if the closing date is January 1, 2005 the loan balances to be as follows:

RUS	\$	4,537,934.34
RTB	\$	2,999,618.88
Required Purchase of RTB Stock @ 5% of RTB Note Balance	\$	149,980.94
Total Refinancing Approved	\$	<u>7,687,534.17</u>

Monthly Payments on Refinancing for 8 Years would be:

RUS @3.97%	\$	55,250.82
RTB @ 5%	\$	39,873.68
Total	\$	<u>95,124.50</u>

Currently monthly payments shown above	\$	<u>77,779.06</u>
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Increase in Monthly Payments	\$	<u><u>17,345.44</u></u>
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Northeast Missouri Rural Telephone Company
Cash Flow Projection for Impact of RUS Refinancing
Prepared October 22, 2004

<u>Year</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>Current</u>						
Annual Interest Payments	\$ 412,296.00	\$ 382,185.70	\$ 350,317.21	\$ 316,586.76	\$ 280,884.39	\$ 243,093.58
Annual Principal Payments	\$ 521,052.72	\$ 551,163.02	\$ 583,031.51	\$ 616,761.96	\$ 652,464.33	\$ 690,255.14
Debt Service	\$ 933,348.72	\$ 933,348.72	\$ 933,348.72	\$ 933,348.72	\$ 933,348.72	\$ 933,348.72
<u>Projected with Refinancing</u>						
Annual Interest Payments	\$ 321,292.96	\$ 284,607.00	\$ 246,257.46	\$ 206,167.88	\$ 164,258.19	\$ 120,444.61
Annual Principal Payments	\$ 820,201.04	\$ 856,887.00	\$ 895,236.54	\$ 935,326.12	\$ 977,235.81	\$ 1,021,049.39
Debt Service	\$ 1,141,494.00	\$ 1,141,494.00	\$ 1,141,494.00	\$ 1,141,494.00	\$ 1,141,494.00	\$ 1,141,494.00
<u>Difference</u>						
Annual Interest Payments	\$ (91,003.04)	\$ (97,578.70)	\$ (104,059.75)	\$ (110,418.88)	\$ (116,626.20)	\$ (122,648.97)
Annual Principal Payments	\$ 299,148.32	\$ 305,723.98	\$ 312,205.03	\$ 318,564.16	\$ 324,771.48	\$ 330,794.25
Debt Service	\$ 208,145.28	\$ 208,145.28	\$ 208,145.28	\$ 208,145.28	\$ 208,145.28	\$ 208,145.28

<u>Year</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Totals</u>
<u>Current</u>						
Annual Interest Payments	\$ 203,090.86	\$ 160,745.35	\$ 115,918.39	\$ 68,462.97	\$ 18,798.02	\$ 2,552,379.23
Annual Principal Payments	\$ 730,257.86	\$ 772,603.37	\$ 817,430.33	\$ 864,885.75	\$ 737,647.23	\$ 7,537,553.22
Debt Service	\$ 933,348.72	\$ 933,348.72	\$ 933,348.72	\$ 933,348.72	\$ 756,445.25	\$ 10,089,932.45
<u>Projected with Refinancing</u>						
Annual Interest Payments	\$ 74,639.45	\$ 26,750.94	\$ -	\$ -	\$ -	\$ 1,444,418.49
Annual Principal Payments	\$ 1,066,854.55	\$ 1,114,743.71	\$ -	\$ -	\$ -	\$ 7,687,534.16
Debt Service	\$ 1,141,494.00	\$ 1,141,494.65	\$ -	\$ -	\$ -	\$ 9,131,952.65
<u>Difference</u>						
Annual Interest Payments	\$ (128,451.41)	\$ (133,994.41)	\$ (115,918.39)	\$ (68,462.97)	\$ (18,798.02)	\$ (1,107,960.74)
Annual Principal Payments	\$ 336,596.69	\$ 342,140.34	\$ (817,430.33)	\$ (864,885.75)	\$ (737,647.23)	\$ 149,980.94
Debt Service	\$ 208,145.28	\$ 208,145.93	\$ (933,348.72)	\$ (933,348.72)	\$ (756,445.25)	\$ (957,979.80)



Northeast Missouri Rural Telephone Company

718 South West St. P.O. Box 98
Green City, Missouri 63545-0098

Phone (660)874-4111
Fax (660)874-4100
Email admin@nemr.net

October 22, 2004

Mr. David Murray
Missouri Public Service Commission
PO Box 360
Jefferson City, MO 65102-0360

Dear Mr. Murray:

Attached are calculations for TIER, DSC and Leverage (Equity) ratios. Our current RUS note requires that we maintain a TIER of 1.75 or higher. There are also some provisions, with exceptions, that Northeast have 40% equity or higher before we can pay out dividends or capital credits. I'm not aware that RUS has a DSC requirement though we do report that ratio to them annually.

Any reduction in interest rates, which is the sole purpose of this refinancing, would actually improve the TIER.

If you have questions or need any additional information please don't hesitate to contact me.

Sincerely,


Gary D. Godfrey
Office Manager

Northeast Missouri Rural Telephone Company
DSC, TIER and Leverage Ratio Analysis
Prepared October 21, 2004

2 of 2

DSC Ratio using 2003 Audited Financial Statements Page 23

Net Income	\$ 1,397,394
Interest	\$ 899,195
Depreciation Expense	\$ 3,234,401
	<u>\$ 5,530,990</u>

Annual Debt Service on all RUS and RTFC Notes	\$ 2,275,261
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DSCR (Net Income + Interest + Depreciation)/Debt Service Payments	<u><u>2.4309</u></u>
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DSC Ratio adjusted for projected changes to year 2005 Payments

Projected Reduction of interest expense in 2005	\$ 91,382
Projected Increase in Monthly Payments Because of shorter maturities	\$ 205,004

Net Income	\$ 1,488,776
Interest	\$ 807,813
Depreciation Expense	\$ 3,234,401
	<u>\$ 5,530,990</u>

Annual Debt Service on all RUS, RTB and RTFC Notes	\$ 2,480,265
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DSCR (Net Income + Interest + Depreciation)/Debt Service Payments	<u><u>2.2300</u></u>
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Debt to Asset Ratio using 2003 Audited Financial Statements Page 20

Total Assets	\$ 36,819,750
Long Term Debt	\$ 18,900,912
Long Term Debt to Asset Ratio	<u>51%</u>

Total Assets	\$ 36,819,750
Total Equity	\$ 17,127,940
Equity ratio	<u>47%</u>

Northeast Missouri Rural Telephone Company
DSC, TIER and Leverage Ratio Analysis
Prepared October 21, 2004

1 of 2

TIER Ratio using 2003 Audited Financial Statements Page 23

Net Income	\$ 1,397,394
Interest	\$ 899,195
	<u>\$ 2,296,589</u>

TIER (Net Income+ Interest)/Interest	<u>2.5541</u>
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TIER Ratio adjusted for projected reduction to year 2005 interest
Projected Reduction of interest expense in 2005

\$ 91,382

Net Income	\$ 1,488,776
Interest	\$ 807,813
	<u>\$ 2,296,589</u>

TIER (Net Income+ Interest)/Interest	<u>2.8430</u>
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PROMISSORY NOTE

Missouri 538-N12 Green City
Green City, Missouri
August 5, 2004

THIS PROMISSORY NOTE (hereinafter the "Note") is made by **NORTHEAST MISSOURI RURAL TELEPHONE COMPANY** (hereinafter the "Borrower,"), a cooperative duly organized and existing under the laws of the State of **MISSOURI**, and the **UNITED STATES OF AMERICA**, (hereinafter the "Government,"), acting through the Administrator of the Rural Utilities Service. For value received, the Borrower promises to pay to the order of the Government, at the United States Treasury, Washington, D.C., Four Million, Seven Hundred Fourteen Thousand Dollars (\$4,714,000), with interest payable, from the date of each advance, on the amount advanced by the Government (hereinafter the "Advance,"), pursuant to a certain Loan Agreement Amendment, dated the same date as this Note (hereinafter the "Loan Agreement,"), made by and among the Borrower, the Government, and the Rural Telephone Bank, and remaining unpaid from time to time, in the time and manner herein provided:

1. *Interest Rate.* Interest on each Advance shall be at rate(s), per annum (the "Cost of Money Interest Rate,"), determined for each Advance in accordance with Section 305(d)(2)(A) of the Rural Electrification Act of 1936, as amended (7 U.S.C. 935 (d)(2)(A)) and the implementing regulations, as amended from time to time (7 C.F.R. 1735.31(c)).
2. *Maturity Date.* On a date eleven (11) years after the date hereof, the principal hereof advanced pursuant to the Loan Agreement and remaining unpaid, if any, and interest thereon, shall be due and payable (hereinafter the "Maturity Date.")
3. *Fund Advance Period.* Funds will be advanced pursuant to the Loan Agreement. The fund advance period for this Note begins on the date hereof and terminates five (5) years from the date of this Note (hereinafter the "Termination Date.") No funds will be advanced subsequent to the Termination Date unless the Administrator extends the fund advance period.
4. *Payments on Advances.* Interest and principal payments on Advances shall be payable on the last day of each month (hereinafter the "Monthly Payment Date,"), and shall be repaid in installments beginning with the Monthly Payment Date of the month following each Advance and ending on the Maturity Date. The first such payment on an Advance shall be increased by the amount of interest accruing between the date of the Advance and the first day of the next month. Thereafter, to and including the Maturity Date, the Borrower shall make a payment every Monthly Payment Date on each such Advance (i) substantially equal to every other monthly payment on such Advance, and (ii) in an amount that will pay all principal and interest of such Advance no later than the Maturity Date.

5. *Application of Payments.* Each payment made on this Note shall be applied as follows: First, to expenses, costs, and penalties; Second, to late charges; Third, to the payment of interest on principal; and Fourth, to principal.

6. *Prepayment.* All, or a portion of the outstanding balance, of any Advance may be prepaid on any payment date, as herein provided. However, so long as any of the principal advanced pursuant to the Loan Agreement shall remain unpaid, the Borrower shall be obligated to make the monthly payment on account of principal and interest, in the amount provided herein, unless the Borrower and the Government shall otherwise agree, in writing.

7. *Late Payments.* A late charge shall be charged on any payment not made within five (5) days of the date the payment becomes due. The late charge rate shall be computed on the payment from the due date at a rate equal to the rate of the cost of funds to the United States Treasury as prescribed and published by the Secretary of the Treasury. In addition, the Borrower shall pay administrative costs and penalty charges assessed in accordance with applicable Government regulations. Acceptance by the Government of a late payment shall not be deemed to be a waiver of any right or remedy of the Government.

8. *Security.* This Note is secured by a security interest in collateral described in the Supplemental Mortgage, Security Agreement and Financing Statement, dated as of December 2, 1996, made by and among the Borrower, the Government, and the Rural Telephone Bank (such mortgage, as amended, supplemented, consolidated, or restated from time to time, hereinafter the "Mortgage.") Rights and obligations with respect to the collateral are stated in the Mortgage.

9. *Noteholder.* This Note evidences indebtedness created by a loan made under the Rural Electrification Act (7 U.S.C. 901 *et seq.*). The Government shall be and shall have all rights as holder of this Note. If the Government shall at any time assign this Note and insure the payment hereof, the Corporation shall continue to make payments hereunder to the Government as collection agent for the insured holder, and for purposes of the Mortgage, the Government, and not such insured holder, shall be considered to be, and shall have the rights of, the noteholder.

10. *Default.* In an event of default, as provided in the Loan Agreement and/or Mortgage, all principal advanced pursuant to the Loan Agreement and remaining unpaid on this Note, and all interest thereon may be declared or may become due and payable in the manner and with the effect provided in the Loan Agreement and/or Mortgage.

11. *Costs.* The Borrower shall pay any and all costs and expenses incurred in connection with the exercise of rights or the enforcement of remedies, as set forth in the Loan Agreement and/or Mortgage.

12. *Waivers.* The Borrower waives demand, presentment for payment, notice of non-payment, notice of dishonor, protest, and notice of non-payment of this Note.

13. *Obligations.* The obligations of the Borrower hereunder are absolute and unconditional, irrespective of any defense or any right to set off, recoupment, or counterclaim it might otherwise have against the Government.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its corporate or legal name and its corporate seal, if any, to be hereunto affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.

**NORTHEAST MISSOURI RURAL
TELEPHONE COMPANY**

by Richard Morgan
Name: RICHARD MORGAN
Title: PRESIDENT

(SEAL)

Attested to by: Adrian Lewis
Secretary

PROMISSORY NOTE

Missouri 538-N12 Green City
Green City, Missouri
August 5, 2004

THIS PROMISSORY NOTE (hereinafter the "Note") is made by **NORTHEAST MISSOURI RURAL TELEPHONE COMPANY** (hereinafter the "Borrower,"), a cooperative duly organized and existing under the laws of the State of MISSOURI, and the **RURAL TELEPHONE BANK**, (hereinafter the "Bank.") For value received, the Borrower promises to pay to the order of the Bank, at the United States Treasury, Washington, D.C., Three Million, Two Hundred Seventy-One Thousand, Eight Hundred Dollars (3,271,800), with interest payable, from the date of each advance, on the amount advanced by the Bank (hereinafter the "Advance,"), pursuant to a certain Loan Agreement Amendment, dated the same date as this Note (hereinafter the "Loan Agreement,"), made by and among the Borrower, the Bank, and the United States of America (hereinafter the "Government," acting through the Rural Utilities Service), and remaining unpaid from time to time, in the time and manner herein provided:

1. *Interest Rate.*

- (a) Interest on each Advance shall be at the various rates determined for each Advance in accordance with Section 408(b)(3) of the Rural Electrification Act of 1936, as amended (7 U.S.C. 948(b)(3)) and the implementing regulations, as amended from time to time (7C.F.R. 1610.10).
- (b) *Interest Rate Change on an Advance.* Whenever, under the terms of this Note, a payment consists of principal and interest equal to every other payment on an Advance, the payment shall be determined as if the interest rate then in effect would continue to apply to such Advance until the Maturity Date, as hereinafter defined; provided, however, that if the interest rate applying to such Advance is changed pursuant to paragraph (a) of this section, then the payments of principal and interest on such Advance, beginning with the payment due on the next Monthly Payment Date, as hereinafter defined, after such change, shall be redetermined using the new interest rate.

2. *Maturity Date.* On a date eleven (11) years after the date hereof, the principal hereof advanced pursuant to the Loan Agreement and remaining unpaid, if any, and interest thereon, shall be due and payable (hereinafter the "Maturity Date.")

3. *Fund Advance Period.* Funds will be advanced pursuant to the Loan Agreement. The fund advance period for this Note begins on the date hereof and terminates five (5) years from the date of this Note (hereinafter the "Termination Date.") No funds will be advanced subsequent to the Termination Date unless the Governor of the Bank extends the fund advance period.

4. *Payments on Advances.* Interest and principal payments on Advances shall be payable on the last day of each month (hereinafter the "Monthly Payment Date,"), and shall be repaid in installments beginning with the Monthly Payment Date of the month following each Advance and ending on the Maturity Date. The first such payment on an Advance shall be increased by the amount of interest accruing between the date of the Advance and the first day of the next month. Thereafter, to and including the Maturity Date, the Borrower shall make a payment every Monthly Payment Date on each such Advance (i) substantially

equal to every other monthly payment on such Advance, and (ii) in an amount that will pay all principal and interest of such Advance no later than the Maturity Date.

5. *Application of Payments.* Each payment made on this Note shall be applied as follows: First, to expenses, costs, and penalties; Second, to late charges; Third, to the payment of interest on principal; and Fourth, to principal.

6. *Prepayment.* All, or a portion of the outstanding balance, of any Advance may be prepaid on any payment date, as herein provided. However, so long as any of the principal advanced pursuant to the Loan Agreement shall remain unpaid, the Borrower shall be obligated to make the monthly payment on account of principal and interest, in the amount provided herein, unless the Borrower and the Bank shall otherwise agree, in writing.

7. *Late Payments.* A late charge shall be charged on any payment not made within five (5) days of the date the payment becomes due. The late charge rate shall be computed on the payment from the due date at a rate equal to the rate of the cost of funds to the Bank. In addition, the Borrower shall pay administrative costs and penalty charges assessed in accordance with applicable Government regulations. Acceptance by the Bank of a late payment shall not be deemed to be a waiver of any right or remedy of the Bank.

8. *Security.* This Note is secured by a security interest in collateral described in the Supplemental Mortgage, Security Agreement and Financing Statement, dated as of December 2, 1996 made by and among the Borrower, the Bank, and the Government (such mortgage, as amended, supplemented, consolidated, or restated from time to time, hereinafter the "Mortgage.") Rights and obligations with respect to the collateral are stated in the Mortgage.

9. *Noteholder.* This Note evidences indebtedness created by a loan made under the Rural Electrification Act (7 U.S.C. 901 et seq.). The Bank shall be and shall have all rights as holder of this Note.

10. *Default.* In an event of default, as provided in the Loan Agreement and/or Mortgage, all principal advanced pursuant to the Loan Agreement and remaining unpaid on this Note, and all interest thereon may be declared or may become due and payable in the manner and with the effect provided in the Loan Agreement and/or Mortgage.

11. *Costs.* The Borrower shall pay any and all costs and expenses incurred in connection with the exercise of rights or the enforcement of remedies, as set forth in the Loan Agreement and/or Mortgage.

12. *Waivers.* The Borrower waives demand, presentment for payment, notice of non-payment, notice of dishonor, protest, and notice of non-payment of this Note.

13. *Obligations.* The obligations of the Borrower hereunder are absolute and unconditional, irrespective of any defense or any right to set off, recoupment, or counterclaim it might otherwise have against the Bank.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed in its corporate or legal name and its corporate seal, if any, to be hereunto affixed and attested by its officers thereunto duly authorized, all as of the day and year first above written.

NORTHEAST MISSOURI RURAL TELEPHONE
COMPANY

by Richard Morgan
Name: RICHARD MORGAN
Title: PRESIDENT

(SEAL)

Attested to by: Adrian Lewis
Secretary

RUS Project Designation:
Missouri 538-N12 Green City

LOAN AGREEMENT AMENDMENT

dated as of August 5, 2004

among

NORTHEAST MISSOURI RURAL TELEPHONE COMPANY,

UNITED STATES OF AMERICA,

and

RURAL TELEPHONE BANK

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL UTILITIES SERVICE

LOAN AGREEMENT AMENDMENT

THIS LOAN AGREEMENT AMENDMENT (this "Amendment," dated as of August 5, 2004 is among **NORTHEAST MISSOURI RURAL TELEPHONE COMPANY** (hereinafter the "Borrower," a cooperative organized and existing under the laws of Missouri, the **UNITED STATES OF AMERICA**, (hereinafter the "Government," acting through the Administrator of the Rural Utilities Service ("RUS," and the **RURAL TELEPHONE BANK** (hereinafter called the "Bank," a corporation existing under the laws of the Government, acting through the Governor of the Bank.

The Borrower, the Government, and the Bank are parties to a certain telephone loan contract (hereinafter the "Loan Contract") identified in Schedule 1.

The Borrower has applied to RUS and/or the Bank, requesting financial assistance (hereinafter the "Application") to refinance telecommunications loans made pursuant to the Rural Electrification Act of 1936 (7 U.S.C. § 901 *et seq.*, as amended from time to time) (the "Act") for the purpose of furthering the deployment of broadband service in eligible rural communities.

RUS and the Bank are willing to extend financial assistance, in the form of loans or loan guarantees to the Borrower, pursuant to the Act, and all applicable federal regulations, on the terms and conditions stated herein.

THEREFORE, in consideration of the promises and mutual covenants herein contained, the Borrower, the Government, and the Bank agree as follows:

SECTION 1. Section 1.1 of the Loan Contract is amended by increasing the maximum amount(s) of:

- (a) the RUS Cost-of-Money Loan by the amount (hereinafter the "RUS Cost-of-Money Loan Increase") specified in Schedule 1;
- (b) the RUS Hardship Loan by the amount (hereinafter the "RUS Hardship Loan Increase") specified in Schedule 1;
- (c) the Guaranteed Loan by the amount (hereinafter the "Guaranteed Loan Increase") specified in Schedule 1; and/or
- (d) the Bank Loan by the amount (hereinafter the "Bank Loan Increase") specified in Schedule 1.

SECTION 2. The Loans provided for in Section 1.1 of the Loan Contract, as amended by this Amendment, shall bear interest as follows:

- (a) *RUS Cost-of-Money Loan Increase.* Each advance of funds hereunder shall bear interest at the "Cost-of-Money Rate" determined by the Government pursuant to Section 305(d)(2)(A) of the Act and the implementing regulations in 7 C.F.R. §1735.31(c), as amended from time to time.
- (b) *RUS Hardship Loan Increase.* Each advance of funds hereunder shall bear interest at the rate of five percent (5%) per annum.
- (c) *Guaranteed Loan Increase.* Each advance of funds hereunder shall bear interest at the rate established by the Federal Financing Bank at the time such advance is made, on the basis of the determination made by the Secretary of the Treasury pursuant to 12 U.S.C. § 2285(b), as amended from time to time.

- (d) *Bank Loan Increase.* Each advance of the Bank Loan Increase shall bear interest at the various rates determined by the Bank in accordance with section 408(b)(3) of the Act and the implementing regulations in 7 C.F.R. 1610.10, as amended from time to time.

SECTION 3. Recognizing that RUS and the Bank are relying hereon, the Borrower represents and warrants, as of the date of this Amendment, the following:

- (a) *Organization; Power, Etc.* The Borrower: (i) is the type of organization specified in the first paragraph hereof, duly organized, validly existing, and in good standing under the laws of the State identified in the first paragraph hereof; (ii) is duly qualified to do business and is in good standing in each jurisdiction in which the transaction of its business make such qualification necessary; (iii) has legal power to own and operate its assets and to carry on its business and to enter into and perform its obligations under the Loan Contract, as amended hereby; (iv) has duly and lawfully obtained and maintained all material licenses, certificates, permits, authorizations, and approvals necessary to conduct its business or required by applicable Laws (as hereinafter defined); and (v) is eligible to obtain the financial assistance from RUS and the Bank contemplated by this Amendment.
- (b) *Authority.* The execution, delivery, and performance by the Borrower of this Amendment, the notes evidencing the loan(s) and/or loan guarantee(s) provided for herein, and any other loan documents (hereinafter collectively, the "Loan Documents") and the performance of the transactions contemplated hereby and thereby have been duly authorized by all necessary actions and do not violate any provision of law, any charter, articles of incorporation, organization documents or bylaws of the Borrower nor result in a breach of, or constitute a default under, any agreement, security agreement, note, or other instrument to which the Borrower is a party or by which it may be bound. The Borrower has not received any notice from any other party to any of the foregoing that a default has occurred or that any event or condition exists that with the giving of notice or lapse of time, or both, would constitute such a default.
- (c) *Consents.* No consent, approval, authorization, order, filing, qualification, license, or permit of any governmental authority is necessary in connection with the execution, delivery, performance, or enforcement of the Loan Documents, except such as have been obtained and are in full force and effect.
- (d) *Binding Agreement.* Each of the Loan Documents is, or when executed and delivered will be, the legal, valid, and binding obligation of the Borrower, enforceable in accordance with its terms, subject only to limitations on enforceability imposed in equity or by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally.
- (e) *No Event of Default under Loan Contract and Mortgage.* No Event of Default under the Loan Contract or the Mortgage identified in Schedule 1 hereto and no event, which with the passage of time or giving of notice, or both, would constitute such an Event of Default, shall have occurred and be continuing, or shall occur after giving effect to an advance hereunder on the books of the Borrower.
- (f) *Compliance with Laws.* The Borrower is in compliance in all material respects with all federal, state, and local laws, rules, regulations, ordinances, codes, and orders (hereinafter collectively, "Laws.")

- (g) *Litigation.* There are no pending or threatened legal, arbitration, or governmental actions or proceedings to which the Borrower is a party or to which any of its property is subject which, if adversely determined, could have a material adverse effect on the Borrower.
- (h) *Information Submitted with Application.* All information, reports, and other documents and data submitted to RUS or the Bank in connection with the Application were, at the time the same were furnished, complete and correct in all material respects. Any financial statements or data submitted to RUS or the Bank in connection with the Application present fairly, in all material respects, the financial position of the Borrower and the results of its operations in conformity with the system of accounting prescribed by RUS. Since the date thereof, there has been no material adverse change in the financial condition or operations of the Borrower.

SECTION 4. The obligations of RUS to make or approve any advances of the RUS Cost-of-Money Loan Increase, the RUS Hardship Loan Increase, the Guaranteed Loan Increase, and the obligations of the Bank to make advances of the Bank Loan Increase are subject to the satisfaction of each of the following conditions precedent on or before the date of such advance (all documents, certificates and other evidence of such conditions precedent are to be satisfactory to RUS and the Bank in their discretion):

- (a) *Compliance with Conditions to Advance in Loan Contract.* That all prerequisites and conditions to advance of funds specified in the Loan Contract have been satisfied;
- (b) *Continuing Representations and Warranties.* That the representations and warranties of the Borrower contained in this Amendment be true and correct on and as of the date of each advance as though made on and as of such date;
- (c) *Current Financial Information and Certification of Authority.* That RUS has received from the Borrower (i) its current, updated balance sheets, statement of cash flow, and income statements and (ii) a duly authorized and executed certification, Form 675, "Certificate of Authority," designating an officer, employee, or agent of the Borrower as the person or persons authorized to execute and submit, on behalf of the Borrower, REA Form 481, "Financial Requirement Statement;"
- (d) *Compliance with Loan Documents, Loan Contract and Mortgage.* That the Borrower is in material compliance with the Loan Documents, the Loan Contract and the Mortgage;
- (e) *Additional Documents.* The Borrower agrees to provide RUS with such additional documents as RUS may request; and
- (f) *Additional Conditions.* The Borrower has met all additional conditions specified in Schedule 1 hereto.

SECTION 5. The Borrower shall apply the proceeds of any loan increase provided for herein to the repayment of all or a portion of the outstanding obligations of the notes ("Note(s)") identified in Schedule 1.

SECTION 6. The Borrower agrees that unadvanced funds evidenced by the Notes shall be rescinded by RUS or the Bank, as applicable, and further agrees that RUS and the Bank have no further obligation to approve or make advances under the Note(s).

SECTION 7. Except as expressly amended hereby, all terms of the Loan Contract shall remain in full force and effect and applicable to the loan increases provided for herein.

SECTION 8. The headings and sub-headings contained in the titling of this Amendment are intended to be used for convenience only and do not constitute part of this Amendment.

SECTION 9. Each Schedule attached hereto and referred to herein is each an integral part of this Amendment.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the day and year first above written.

NORTHEAST MISSOURI RURAL
TELEPHONE COMPANY

by Richard Morgan
Name: RICHARD MORGAN
Title: PRESIDENT

(Seal)

Attested to by: Adrian Lewis
Secretary

UNITED STATES OF AMERICA, and
RURAL TELEPHONE BANK, respectively

by Anthony M. Aden
Administrator
FOR Rural Utilities Service
and for the
Rural Telephone Bank

(Seal)

Attest: Jonathan Chapin
Assistant Secretary
of the
Rural Telephone Bank

SCHEDULE 1

Recitals:

Loan Contract: **Amending Telephone Loan Contract, dated as of September 23, 1996, among the Borrower, the Government, and the Bank.**

Section 1:

1. RUS Cost-of-Money Loan Increase: **\$4,714,000**
2. RUS Hardship Loan Increase: **0**
3. Guaranteed Loan Increase: **0**
4. Bank Loan Increase: **\$3,271,800**

Section 3:

1. Paragraph (e): Mortgage: **Supplemental Mortgage, Security Agreement and Financing Statement dated as of December 2, 1996, made by and among the Borrower, the Government, and the Bank.**

Section 4

The additional conditions to advance referred in to in Paragraph (g) are as follow: **None**

Section 5:

Note(s):

<u>RUS Designation</u>	<u>Payee</u>	<u>Stated Principal Amount</u>	<u>Date</u>
M12	RUS	\$13,987,000	12/2/1996
M12	RTB	\$ 8,159,550	12/2/1996

MISSOURI-538-GREEN CITY

NORTHEAST MISSOURI
RURAL TELEPHONE COMPANY

GREEN CITY, MISSOURI 63545

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

JOHN W. GILLUM
CERTIFIED PUBLIC ACCOUNTANT
KIRKSVILLE, MISSOURI

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Member:
Missouri Society of
Certified Public Accountants
American Institute of
Certified Public Accountants
AICPA Private Companies Practice
Section (PCPS)

JOHN W. GILLUM
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

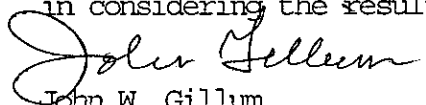
Board of Directors
Northeast Missouri Rural
Telephone Company and Subsidiaries
Green City, Missouri

We have audited the accompanying consolidated balance sheets of Northeast Missouri Rural Telephone Company and subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of income and retained earnings, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Northeast Missouri Rural Telephone Company and subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northeast Missouri Rural Telephone Company and subsidiaries, as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated May 21, 2004 on our consideration of Northeast Missouri Rural Telephone Company and subsidiaries' 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.



John W. Gillum
Certified Public Accountant

May 21, 2004

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Green City, Missouri
Consolidated Comparative Balance Sheets
As of December 31, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Current assets		
Cash and equivalents	\$ 310,079	\$ 628,329
Other short term investments > 90 day mat.	305,393	10,904
Telecommunications accounts receivable	27,896	33,344
Other accounts receivable	459,044	555,821
Interest and dividends receivable	461	79
Material inventory (Note 5)	401,015	393,663
Prepayments (Note 6)	<u>137,837</u>	<u>234,085</u>
Total current assets	1,641,725	1,856,225
Non current assets		
Investment in affiliated companies	978,059	756,813
Other investments (Note 3)	406,667	436,616
Non-regulated investments (Note 4)	<u>13,073</u>	<u>13,734</u>
Total non current assets	1,397,799	1,207,163
Plant, property and equipment (Note 2)		
Telecommunications plant in service	57,805,065	55,653,519
Plant under construction	2,002,786	2,139,277
Less: accumulated depreciation	<u>(25,977,014)</u>	<u>(24,330,133)</u>
Net plant	<u>33,830,837</u>	<u>33,462,663</u>
Total assets	<u>\$36,870,361</u>	<u>\$36,526,051</u>
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
Current liabilities		
Accounts payable	\$ 253,175	\$ 578,261
Customer deposits	73,573	73,546
Other taxes accrued	9,274	9,581
Other current liabilities	47,264	89,150
Current portion long-term debt (Note 7)	<u>1,472,967</u>	<u>1,458,488</u>
Total current liabilities	1,856,253	2,209,026
Long-term debt (Note 7)	18,900,912	19,280,058
Less: current maturities	<u>(1,472,967)</u>	<u>(1,458,488)</u>
Total long-term debt	17,427,945	17,821,570
Other non-current liabilities		
Deferred income taxes	200,404	228,682
Stockholder's equity		
Capital stock (Note 8)	62,170	65,610
Membership and capital certificates	-	6,270
Patronage capital credits & retained earnings	15,730,999	14,961,040
Current year earnings	<u>1,592,590</u>	<u>1,233,853</u>
Total patronage capital, retained earnings & current year earnings	<u>17,323,589</u>	<u>16,194,893</u>
Total stockholder's equity	<u>17,385,759</u>	<u>16,266,773</u>
Total liabilities and stockholders equity	<u>\$36,870,361</u>	<u>\$36,526,051</u>

See accompanying notes to financial statements

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Green City, Missouri

Consolidated Statements of Income and Retained Earnings

For the years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues		
Local network services revenues	\$ 1,088,734	\$ 1,047,645
Network access services revenues	8,387,921	7,957,119
Long distance network services revenues	617,273	646,198
Miscellaneous revenues	335,362	215,112
Uncollected revenues	1,153	(23,180)
Carrier billing & collection	<u>184,071</u>	<u>161,999</u>
Net operating revenues	10,614,514	10,004,893
Operating expenses		
Plant specific operations expense	1,828,003	1,770,505
Plant nonspecific operations expense	213,773	339,921
Depreciation expense & amortization	3,261,688	2,869,996
Customer operations expense	606,405	569,561
Corporate operations expense	<u>1,621,587</u>	<u>1,580,364</u>
Total operating expense	7,531,456	7,130,347
Operating margins	3,083,058	2,874,546
Other nonoperating income and (expense)	68,398	63,987
State and local taxes	(531,497)	(507,053)
Interest expense	(899,195)	(952,863)
Non operating income and (expense)	(186,705)	(97,021)
Non-regulated net income (loss)	<u>151,198</u>	<u>110,257</u>
Net income before provision for corporate taxes	1,685,257	1,491,853
Provision for corporate taxes		
Current year taxes	<u>92,667</u>	<u>258,000</u>
Net income	<u>\$ 1,592,590</u>	<u>\$ 1,233,853</u>
Retained earnings, beginning of year	\$16,194,893	\$15,355,643
Additions: current year earnings	1,592,590	1,233,853
prior period adjustment	28,912	(32,260)
Less: patronage capital retired	<u>(492,806)</u>	<u>(362,343)</u>
Retained earnings, end of year	<u>\$17,323,589</u>	<u>\$16,194,893</u>

See accompanying notes to financial statements

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Green City, Missouri

Consolidated Statements of Cash Flows

For the years ended December 31, 2003 and 2002

<u>Cash Flows from Operating Activities</u>	<u>2003</u>	<u>2002</u>
Cash received from consumers & others	\$10,749,248	\$ 8,844,377
Cash paid to suppliers & employees	(4,611,220)	(2,830,827)
Interest paid	(899,195)	(952,863)
Taxes paid	(531,497)	(618,118)
Other	<u>(24,697)</u>	<u>221</u>
Net cash provided by operating activities	4,682,639	4,442,790
<u>Cash Flows from Investing Activities</u>		
Construction and acquisition of plant	(3,626,750)	(5,688,905)
(Increase) decrease in Investments in affiliated companies	(221,246)	(33,230)
Decrease (increase) in:		
Other investments	29,949	89,960
Non-regulated investments	661	6,538
Temporary investments	(294,489)	753,456
Materials inventory	<u>(7,352)</u>	<u>(11,224)</u>
Net cash provided (used) by investing activities	(4,119,227)	(4,883,405)
<u>Cash Flows from Financing Activities</u>		
Payment of capital credits	(492,806)	(362,343)
Debt proceeds	999,780	1,198,672
Debt reduction	(1,378,926)	(1,266,792)
Proceeds from issuing common stock	5,410	3,850
Common stock retired	<u>(15,120)</u>	<u>(4,500)</u>
Net cash provided (used) by financing activities	(881,662)	(431,113)
Net increase (decrease) in cash	(318,250)	(871,728)
Cash - beginning of year	<u>628,329</u>	<u>1,500,057</u>
Cash - end of year	<u>\$ 310,079</u>	<u>\$ 628,329</u>

See accompanying notes to financial statements

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Green City, Missouri

Consolidated Statements of Cash Flows

For the years ended December 31, 2003 and 2002

Reconciliation of net margins to net cash provided by operating activities:

	<u>2003</u>	<u>2002</u>
Net income	\$ 1,592,590	\$ 1,233,853
Adjustments to reconcile net margins to cash provided by operating activities:		
Depreciation & amortization	3,261,688	2,869,996
Deferred income taxes	(28,278)	172,770
(Increase) decrease in:		
Customer & other accounts receivable	101,843	12,577
Prepaid expenses	96,248	(57,110)
Increase (decrease) in:		
Accounts payable	(325,366)	191,342
Other current liabilities	<u>(16,086)</u>	<u>19,362</u>
Total adjustments	<u>3,090,049</u>	<u>3,208,937</u>
Net cash provided by operating activities	<u>\$ 4,682,639</u>	<u>\$ 4,442,790</u>

See accompanying notes to financial statements

Missouri-538-Green City
Northeast Missouri Rural Telephone Company

Summary of Significant Accounting Policies

December 31, 2003 and 2002

This summary of significant accounting policies of Northeast Missouri Rural Telephone Company (the Company) is presented to assist in the understanding of the Company's financial statements. The financial statements and notes are representation of the Company's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Operations

The Company furnishes telephone and other communication related services to members on a cooperative basis located in the various exchanges in Northeast Missouri.

Method of Accounting

Books and records are maintained on the accrual basis. Revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid. The company maintains its accounts in accordance with RUS Bulletin 465-1 Uniform System of Accounts, and FCC Rules and Regulations Part 32, Uniform System of Accounts.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Multi-Com, Inc. and Northeast Missouri Long Distance, wholly owned subsidiaries. Inter-company transactions and balances have been eliminated in consolidation.

Inventories

Perpetual inventory records are maintained on nonexempt materials. Physical inventories are taken and adjustments to physical amounts are made where necessary. Inventories are priced using an average cost method.

Plant and Depreciation

Plant and equipment is recorded at cost. Depreciation is provided on the straight-line method over the estimated useful life of the respective assets. Depreciation rates are approved by the Missouri Public Service Commission. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized through construction work orders. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts. When property is removed the retirement work order procedures are used.

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Summary of Significant Accounting Policies
December 31, 2003 and 2002

Cash and Cash Equivalents

For purposes of the statement of cash flows, the company considers all short-term investments with an original maturity of three months or less to be cash equivalent.

Income Taxes

The company is a taxable corporation, paying taxes on amounts not allocated to members. Such taxable amounts are calculated on a yearly basis with proper adjustments being made for amounts to be allocated.

Employee Benefits

All employees are covered by a money purchase savings plan contributed to by both the employee and employer.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Risk - Cash

Total cash held by the Company as of December 31, 2003 and 2002 includes monies that are not covered by insurance provided by the federal government. It is the opinion of management, the solvency of the referenced financial institution is not of particular concern at this time.

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

1. Assets Pledged

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

2. Investment in Telephone Plant

Telephone plant in service and under construction is stated at cost. Listed below are the major classes of telephone plant as of December 31, 2003 and 2002.

	<u>2003</u>	<u>2002</u>
Non operating plant		
Telephone plant acquisition adjustment	\$ 8,738,606	\$ 8,738,606
Organization costs	<u>-</u>	<u>119,465</u>
	8,738,606	8,858,071
Operating plant		
Telephone plant in service	48,750,325	46,443,835
Less: accumulated depreciation	<u>(25,793,676)</u>	<u>(24,107,788)</u>
Net telephone plant in service	22,956,649	22,336,047
Telephone plant under construction	<u>2,002,786</u>	<u>2,139,277</u>
	24,959,435	24,475,324
Subsidiary plant, Multi-Com Inc.	<u>132,796</u>	<u>129,268</u>
	<u>\$33,830,837</u>	<u>\$33,462,663</u>

The company provides for depreciation on the straight-line basis at annual rates which will amortize depreciable property over its estimated useful life. Rates applied are approved by the Missouri Public Service Commission. The present rates used were approved in 2001. Depreciation and amortization for 2003 and 2002 aggregated \$3,261,688 and \$2,869,996 respectively.

Telephone plant acquisition adjustment is recorded pursuant to an order issued by the Missouri Public Services Commission, providing for the difference between the dollar amount paid for certain telephone plant assets and the historical cost based book value of those assets acquired.

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

2. Investment in Telephone Plant (Continued)

Telephone plant acquisition adjustment is being amortized over fifteen (15) years for tax purposes. Using the straight line basis, the annual amortization is \$582,603.

	Regulatory Recording of <u>Assets Acq</u>	Reclassify Intangible <u>To Assets Acq</u>	Values Assigned to Assets <u>Acq Nonregulatory</u>
Land & Support Assets	\$ 210,902	\$ 353,914	\$ 564,816
Central Office	1,680,945	2,822,570	4,503,515
Other Term Equity	20,084	34,954	55,038
Cable & Wire Fac.	3,290,777	5,527,168	8,817,945
Plant Acq Adjustment	<u>8,738,606</u>	<u>(8,738,606)</u>	<u>-</u>
	<u>\$13,941,314</u>	<u>\$ -</u>	<u>\$13,941,314</u>

Fifteen (15) year life approximates the remaining life of plant assets acquired, accordingly depreciated total cost would not be materially affected, had the company been allowed to use nonregulatory basis for assigning values to assets acquired.

The following rates apply to depreciable assets as listed:

<u>Account Number</u>	<u>Description</u>	<u>Authorized Minimum Rates %</u>	<u>Rates that will be Booked %</u>
2112	Motor vehicles	10.23	15.00
2116	Other work equipment	6.71	10.00
2121	Buildings	2.80	4.00
2122	Furniture	6.71	10.00
2123.1	Office support equipment	9.70	10.00
2123.2	COE commun. equipment	11.55	20.00
2124	Computers	13.59	20.00
2212	Digital switches	6.67	10.00
2232.1	Fiber terminals	10.30	10.30
2232.11	Fiber term at schools	10.30	10.30
2232.2	Private line circuit equipment	10.30	10.30
2232.31	COE toll carrier	10.30	10.30
2232.32	Analog sub carrier	10.30	20.00

Missouri-538-Green City

Northeast Missouri Rural Telephone Company

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

2. Investment in Telephone Plant (Continued)

2232.33	Digital subs carrier	10.30	10.30
2311.1	Cate 2 private line	10.30	10.30
2351	Public telephones	8.74	10.00
2423	Buried cable	4.29	5.00
2423.1	Buried cable toll	4.29	5.00
2423.3	Fiber optic cable	3.68	5.00
2423.31	Fiber to schools	3.68	5.00

3. Investments, Cash, Cash Equivalents, and Other Property

Investments consist of debt securities for which it is practicable to estimate fair value which are classified as held to maturity securities as is consistent with Cooperative's intentions and investments in deferred patronage allocations of associated organizations, memberships, common stocks, and preferred stocks for which it is not practicable to estimate fair value. The face value of deferred patronage allocations are recorded as an asset and are reflected in income in the year to which the allocations apply.

The fair values of held to maturity securities are estimated based on the present value of the future cash flows expected to be received, discounted at a rate equivalent to the rate of return available on investment quality tax free bond issues of equivalent maturities. For other investments, a reasonable estimate of fair value could not be made without incurring excessive costs. Additional information pertinent to the value of deferred patronage allocations, memberships, common stocks, and preferred stock is provided below.

The carrying amounts and estimated fair values of the Cooperative's investments are as follows:

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments for which it is: <u>Practicable to estimate</u> <u>fair value:</u>				
Held to maturity securities:				
Capital term certificate	\$264,131	\$248,283	\$286,485	\$269,296

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

3. Investments, Cash, Cash Equivalents, and Other Property - Cont.

	2003		2002	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Not Practicable to estimate fair value:</u>				
Internet	220,206	220,206	255,621	255,621
Wireless	121,391	121,391	-	-
Premier Foods	100,000	100,000	-	-
Assigned patronage	268,837	268,837	226,733	226,733
NECA	20,000	20,000	20,000	20,000
ANPI	12,200	12,200	12,200	12,200
Missouri Network Alliance	266,940	266,940	262,771	262,771
DBS franchise	110,621	110,621	129,059	129,059
Various bonds posted	400	400	560	560
	<u>1,120,595</u>	<u>1,120,595</u>	<u>906,944</u>	<u>906,944</u>
	<u>\$1,384,726</u>	<u>\$1,368,878</u>	<u>\$1,193,429</u>	<u>\$1,176,240</u>
Investment in				
Affiliated companies	978,059		756,813	
Other investments	406,667		436,616	
	<u>\$1,384,726</u>		<u>\$1,193,429</u>	

It was not practicable to estimate the fair value of deferred patronage allocations, memberships, common stocks and preferred stocks which are redeemable only at the discretion of the issuing cooperative. It was also not practicable to estimate the fair value of some of the economic development investments because of uncertainties concerning the rate at which they will be repaid or returned to the investor. The deferred patronage allocations are valued at the face amount of the allocations made by the issuing cooperatives as is common practice in the industry.

4. Non Regulated Investments

Non regulated investments consist of the following:

	2003	2002
Equipment in service	\$ 111,943	\$ 106,772
Depreciation reserve	<u>(98,870)</u>	<u>(93,038)</u>
Total	<u>\$ 13,073</u>	<u>\$ 13,734</u>

Missouri-538-Green City
 Northeast Missouri Rural Telephone Company
 Notes to Consolidated Financial Statements
 December 31, 2003 and 2002

5. Materials and Supplies

Materials and supplies at average cost consist of the following at December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Exempt materials	\$204,843	\$194,735
Non exempt materials	187,592	197,772
Wholly owned subsidiary - Multi-Com Inc.	<u>8,580</u>	<u>1,156</u>
Total	<u>\$401,015</u>	<u>\$393,663</u>

6. Prepaid Expenses

Following is a summary of amounts recorded as prepaid items as of December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Prepaid insurance	\$ 92,732	\$ 43,210
Prepaid corporate taxes	7,053	150,399
Prepaid toll calls - NELD	<u>38,052</u>	<u>40,476</u>
	<u>\$137,837</u>	<u>\$234,085</u>

7. Long-Term Debt

Long-term debt is represented by mortgage notes payable to the Rural Utilities Services (RUS) and Rural Telephone Finance Cooperative (RTFC) all payable by Northeast Missouri Rural Telephone Company. Summary as follows:

	<u>2003</u>	<u>2002</u>
Rural Utilities Service (RUS)		
2% and 6.75% notes due over 35 years		
from inception of each note	\$14,094,215	\$13,997,441
Less: current maturities	<u>(966,349)</u>	<u>(982,568)</u>
	\$13,127,866	\$13,014,873

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

7. Long Term Debt (Continued)

	<u>2003</u>	<u>2002</u>
RTFC, original amount - \$7,625,321		
Interest rate 5.50%		
Present balance	\$ 4,806,697	\$ 5,282,617
Current maturities	<u>(506,618)</u>	<u>(475,920)</u>
	4,300,079	4,806,697
 Total long-term debt	 18,900,912	 19,280,058
Current maturities	<u>(1,472,967)</u>	<u>(1,458,488)</u>
Total LTD, net of current maturities	<u>\$17,427,945</u>	<u>\$17,821,570</u>

The estimated maturities of long-term debt for each of the succeeding five years and beyond, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	1,472,967	892,848	2,365,815
2005	1,511,772	820,390	2,332,162
2006	1,578,485	743,101	2,321,586
2007	1,629,739	665,261	2,295,000
2008	1,715,838	583,289	2,299,127
2009-2013	7,882,099	1,632,873	9,514,972
2014-2018	2,554,963	183,783	2,738,749
2019-2023	451,837	24,448	476,285
2024-2028	<u>103,212</u>	<u>1,804</u>	<u>105,016</u>
Total	<u>\$18,900,912</u>	<u>\$5,547,800</u>	<u>\$24,448,712</u>

With respect to RUS notes with Northeast Missouri Rural Telephone Company, unadvanced loan funds of \$0 were available at December 31, 2003 and \$0 at December 31, 2002, respectively; prepaid loan amounts were \$254,236 at December 31, 2003 and \$243,597 at December 31, 2002.

The long-term debt agreements contain restrictions on the retirement of capital credits. The terms of the mortgage agreement require the maintenance of defined amounts of member's equity and working capital after payment of capital credits.

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

8. Capital Stock, Patronage Capital and Retained Earnings

Capital stock is classified as follows: common \$10, par value 10,000 authorized, for 2003 and 2002 respectively 6,217 and 6,561 shares issued and outstanding.

	<u>12-31-03</u>	<u>12-31-02</u>
Patronage Capital Credits and Retained Earnings		
Beginning of year	\$16,194,893	\$15,355,643
Add: Current year earnings	1,592,590	1,233,853
Less: Payment of capital credits	(492,806)	(362,343)
: Prior period adjustment	28,912	(32,260)
End of year	<u>\$17,323,589</u>	<u>\$16,194,893</u>

9. Employee Savings Plan

The company has a money purchase savings plan contributed to by both the employee and employer. For 2003 the company's share of the cost was \$183,378 while the employees paid \$248,949. For 2002 the company's share of the cost is \$180,939, while the employees paid \$238,894.

10. Income Taxes

A consolidated corporate tax return is filed for the company and all subsidiaries.

Operating Loss Carry-Forwards, Carry-Backs - NONE

Components - Current and Deferred

The provisions for income taxes consist of the following components:

	<u>2003</u>	<u>2002</u>
Federal income taxes		
Current tax expense	\$ 103,799	\$ 46,988
Application of tax benefits	(24,858)	-
Deferred tax expense	-	174,901
Deferred tax (benefits)	-	-
Valuation allowance	-	-
State income taxes		
Current tax expense	17,146	9,329
Application of tax benefits	(3,420)	-
Deferred tax expense	-	26,782
Deferred tax (benefits)	-	-
Valuation allowance	-	-
Total tax: Expense	<u>\$ 92,667</u>	<u>\$ 258,000</u>

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Notes to Consolidated Financial Statements

December 31, 2003 and 2002

10. Income Taxes - Continued

Deferred Tax Assets and Liabilities Consist of the Following:

	<u>2003</u>	<u>2002</u>
Deferred tax liabilities		
Federal	\$173,054	\$197,912
State	<u>27,350</u>	<u>30,770</u>
Total deferred tax liabilities	<u>200,404</u>	<u>228,682</u>
Deferred tax assets (benefits)		
Federal	-	-
State	-	-
Valuation allowance	<u>-</u>	<u>-</u>
Total deferred assets (benefits)	<u>-</u>	<u>-</u>
Net deferred tax liability (benefit)	<u>\$200,404</u>	<u>\$228,682</u>

The deferred tax liability results from use of accelerated methods of depreciation of property and equipment rather than straight line depreciation, required for Generally Accepted Accounting Principles. The excess depreciation taken in the early years of the asset's life will be reduced by lower amounts available in later years of the asset's life.

The tax provision differs from the expense that would result from applying the federal statutory rates to margins before income taxes because of state income taxes and the company is permitted to exclude from taxable income, margins generated from patronage source activities if those margins are appropriately allocated to patrons as capital credits. This excluded income will vary from year to year, resulting in fluctuation in the effective tax rate and income tax expense.

Prepaid income taxes of \$7,053 and \$150,399 appearing in the notes to consolidated financial statements at December 31, 2003 and 2002, reflects overpayments of estimated taxes.

Cash paid for income taxes for 2003 total \$68,000 and 2002 total \$90,000, with unused amounts being available for refund or apply to future tax obligations.

11. Related Parties

The company owns 100% of Multi-Com Inc. and Northeast Missouri Long Distance. Multi-Com Inc. merchandises certain telecommunications equipment, operates sales and service of direct broadcast systems, and the related franchised programming territory. During 1999, Northeast Missouri Long Distance (NELD) was established to serve those patrons wishing to have their long distance service provided locally. All subsidiary companies share office space, employees, management, and board of directors. All companies reimburse Northeast Missouri Rural Telephone Company for these services on a reimbursement basis without profit to Northeast Missouri Rural Telephone Company.

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

12. Intangible Assets

The company adopted SFAS 142 on January 1, 2002. The most significant changes made by SFAS 142 are that goodwill and other indefinite lived intangible assets are no longer amortized and will be tested for impairment at least annually. The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001 with respect to goodwill and intangible assets acquired prior to July 1, 2001. The amortization provisions of SFAS 142 were effective upon adoption of SFAS 142.

Prior to the adoption of SFAS 142, the company amortized a portion of the purchase price of certain telephone exchanges acquired from General Telephone Company (GTE) (plant acquisition adjustments). Such assets were acquired July 23, 1996 and have been amortized using the straight line method, over a fifteen year life since the date of acquisition. The basis for the intangible value, to be amortized, was directed pursuant to an order issued by the Missouri Public Service Commission.

Consolidated net income adjusted for the exclusion of amortization expense related to amortization of plant acquisition adjustment is as follows:

Year ended December 31	<u>2003</u>	<u>2002</u>	<u>2001</u>
Reported Net Income	\$1,592,590	\$1,233,853	\$2,227,935
Plant acquisition adjustment amortization	<u>-</u>	<u>-</u>	<u>582,603</u>
Net income as adjusted for exclusion of amortization	<u>\$1,592,590</u>	<u>\$1,233,853</u>	<u>\$2,810,538</u>

Member:
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors
Northeast Missouri Rural Telephone
Company and Subsidiaries
Green City, Missouri

We have audited the consolidated financial statements of Northeast Missouri Rural Telephone Company and subsidiaries as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated May 21, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America.

Compliance

As part of obtaining reasonable assurance about whether Northeast Missouri Rural Telephone Company and subsidiaries' 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

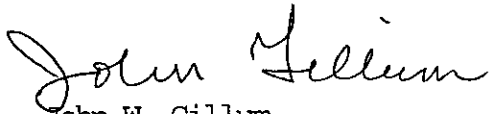
Internal Control over Financial Reporting

In planning and performing our audits we considered Northeast Missouri Rural Telephone Company and subsidiaries' 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.

The Board of Directors
Northeast Missouri Rural Telephone
Company and Subsidiaries
Green City, Missouri

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 solely for the information and use of the board of directors, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.


John W. Gillum
Certified Public Accountant

May 21, 2004

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AICPA Private Companies Practice
Section (PCPS)

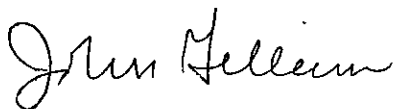
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INDEPENDENT AUDITOR'S REPORT
ON CONSOLIDATED INFORMATION

Board of Directors
Northeast Missouri Rural Telephone
Company and Subsidiaries
Green City, Missouri

Our report on our audit of the consolidated financial statements of Northeast Missouri Rural Telephone Company and subsidiaries for the year ended December 31, 2003 appears on page 1. This audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 20 to 29 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements. In our opinion, such information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.



John W. Gillum
Certified Public Accountant

May 21, 2004

Missouri-538-Green City
 Northeast Missouri Rural Telephone Company
 Green City, Missouri
 Consolidating Comparative Balance Sheets
 As of December 31, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Current assets		
Cash and equivalents	\$ 275,213	\$ 452,929
Cash & other short term invest. > 90 day mat.	305,393	10,904
Telecommunications accounts receivable	27,896	33,344
Other accounts receivable	441,276	559,888
Interest and dividends receivable	461	79
Notes receivable	87,150	77,597
Material inventory	392,435	392,507
Prepayments	<u>92,740</u>	<u>193,195</u>
Total current assets	1,622,564	1,720,443
Non current assets		
Investment in affiliated companies	361,337	1,002,327
Other investments	782,070	306,997
Non-regulated investments	304,669	13,734
Notes receivable	<u>1,069</u>	<u>91,897</u>
Total non current assets	1,499,145	1,414,955
Plant, property and equipment		
Telecommunications plant in service	57,488,931	55,301,906
Plant under construction	2,002,786	2,139,277
Less: accumulated depreciation	<u>(25,793,676)</u>	<u>(24,107,788)</u>
Net plant	<u>33,698,041</u>	<u>33,333,395</u>
Total assets	<u>\$36,819,750</u>	<u>\$36,468,793</u>
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
Current liabilities		
Accounts payable	\$ 194,763	\$ 440,273
Customer deposits	72,623	72,196
Other taxes accrued	5,976	6,068
Other current liabilities	317,132	237,366
Current portion long-term debt	<u>1,606,318</u>	<u>1,459,049</u>
Total current liabilities	2,196,812	2,214,952
Long-term debt	18,900,912	19,280,058
Less: current maturities	<u>(1,606,318)</u>	<u>(1,459,049)</u>
Total long-term debt	17,294,594	17,821,009
Other non-current liabilities - deferred taxes	200,404	228,682
Stockholder's equity		
Capital stock (Note 8)	62,170	65,610
Membership and capital certificates	-	6,270
Patronage capital credits & retained earnings	15,668,376	15,036,378
Current year earnings	<u>1,397,394</u>	<u>1,095,892</u>
Total patronage capital, retained earnings & current year earnings	<u>17,065,770</u>	<u>16,132,270</u>
Total stockholder's equity	<u>17,127,940</u>	<u>16,204,150</u>
Total liabilities and stockholder's equity	<u>\$36,819,750</u>	<u>\$36,468,793</u>

See accompanying notes to financial statements

Multi-Com Incorporated
Consolidating Comparative Balance Sheets
December 31, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Current assets		
Cash	\$ 24,267	\$ 137,851
Accounts receivable	32,835	31,532
Inventory	8,580	1,156
Prepaid expenses	<u>7,045</u>	<u>414</u>
Total current assets	72,727	170,953
Non-current assets		
Other investments	1,155,157	1,118,357
Utility Deposits	<u>100</u>	<u>100</u>
Total non-current assets	1,155,257	1,118,475
Plant property and equipment		
Plant in service	316,134	351,613
Less: accumulated depreciation	<u>(183,338)</u>	<u>(222,345)</u>
Net plant	132,796	129,268
Total assets	<u>1,360,780</u>	<u>1,418,678</u>
 <u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
Current liabilities		
Accrued expenses	\$ 3,298	\$ 3,513
Accounts payable	70,587	170,168
Income tax payable	42,562	12,446
Customer deposits	950	1,350
Note payable - NEMR	<u>87,150</u>	<u>77,597</u>
Total current liabilities	204,547	265,074
Long-term liabilities		
Notes payable (Note 1)	88,219	169,493
Less: current portion	<u>(87,150)</u>	<u>(77,597)</u>
Total long-term liabilities	1,069	91,896
Total liabilities	205,616	356,970
Stockholder's equity		
Paid in capital	336,337	336,337
Capital stock issued and outstanding (Note 1)	10,000	10,000
Retained earnings	<u>808,827</u>	<u>715,371</u>
Total stockholder's equity	<u>1,155,164</u>	<u>1,061,708</u>
Total liabilities and stockholder's equity	<u>\$1,360,780</u>	<u>\$1,418,678</u>

See accompanying notes to financial statements

Northeast Missouri Long Distance
Consolidating Comparative Balance Sheets
As of December 31, 2003 and December 31, 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
Current assets		
Cash and equivalents	\$ 10,599	\$ 37,549
Accounts receivable - NEMR	269,868	177,129
Prepaid toll	<u>38,052</u>	<u>40,476</u>
Total current assets	318,519	255,154
Other assets Investment- ANPI	<u>12,200</u>	<u>12,200</u>
Total assets	<u>\$330,719</u>	<u>\$267,354</u>

<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
Current liabilities		
Income tax payable	\$ 29,790	\$ 16,467
Accounts payable	<u>2,892</u>	<u>\$ 3,420</u>
Total current liabilities	32,682	19,887
Stockholder's equity		
Paid in capital	15,000	15,000
Retained earnings	<u>283,037</u>	<u>232,467</u>
Total stockholder's equity	<u>298,037</u>	<u>247,467</u>
Total liabilities and stockholder's equity	<u>\$330,719</u>	<u>\$267,354</u>

See accompanying notes to financial statements

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Green City, Missouri

Consolidating Statements of Income and Retained Earnings

For the years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues		
Local network services revenues	\$ 1,088,734	\$ 1,047,645
Network access services revenues	8,387,921	7,957,119
Long distance network services revenues	8,514	32,107
Carrier billing and collection revenues	184,071	161,999
Miscellaneous revenues	93,789	59,148
Uncollected revenues	<u>1,153</u>	<u>(23,180)</u>
Net operating revenues	9,764,182	9,234,838
Operating expenses		
Plant specific operations expense	1,459,466	1,401,389
Plant nonspecific operations expense	213,773	334,877
Depreciation expense	3,234,401	2,841,033
Customer operations expense	601,311	564,281
Corporate operations expense	<u>1,430,180</u>	<u>1,408,116</u>
Total operating expense	6,939,131	6,549,696
Operating margins	2,825,051	2,685,142
Other operating income and (expense)	16,984	(893)
State and local taxes	(528,862)	(504,399)
Interest expense	(899,195)	(952,863)
Non operating income and (expense)	(75,115)	(12,265)
Non-regulated net income (loss)	<u>151,198</u>	<u>110,257</u>
Net income before provision for corporate taxes	1,490,061	\$ 1,324,979
Provision for corporate taxes		
Current year tax expense	<u>92,667</u>	<u>229,087</u>
Net income	<u>1,397,394</u>	<u>1,095,892</u>
Retained earnings, beginning of year	\$16,132,270	\$15,430,981
Additions: current year earnings	1,397,394	1,095,892
Less: patronage capital retired	(492,806)	(362,343)
: various adjustments	<u>28,912</u>	<u>(32,260)</u>
Retained earnings, end of year	<u>\$17,065,770</u>	<u>\$16,132,270</u>

See accompanying notes to financial statements

Multi-Com Incorporated
Consolidating Statements of Income and Retained Earnings
For the years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Revenues		
Operating revenues	<u>\$241,573</u>	<u>\$155,964</u>
Total operating revenues	241,573	155,964
Cost of revenues and expenses		
Teleservicing admin. expense	6,764	5,394
Headquarters expense	27,137	25,143
State and local taxes	2,635	2,654
Depreciation	7,738	10,525
Amortization	<u>19,549</u>	<u>18,438</u>
Total operating deductions	<u>63,823</u>	<u>62,154</u>
Net operating income (loss)	177,750	93,810
Equipment sales & cost of sales (net)	<u>(102,300)</u>	<u>(50,405)</u>
Operating income (loss), including equipment sales	75,450	43,405
Other income (deductions)		
Interest income	-	122
Interest expense	(9,290)	(17,319)
Capital credits	21,182	17,032
NRTC investment income	<u>48,676</u>	<u>45,597</u>
Total other income (deductions)	<u>60,568</u>	<u>45,432</u>
Net income (loss) before corporate taxes	136,018	88,837
Provision for corporate taxes	<u>42,562</u>	<u>12,446</u>
Net income (loss)	93,456	76,391
Retained earnings, beginning of period	<u>715,371</u>	<u>638,980</u>
Retained earnings, end of period	<u>\$808,827</u>	<u>\$715,371</u>

See accompanying notes to financial statements

Northeast Missouri Long Distance
Consolidating Statements of Income and Retained Earnings
For the year ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues		
Long distance network services revenues	\$608,759	\$614,091
Net operating revenues	608,759	614,091
Operating expenses		
Plant specific operations expense	368,537	369,116
Plant nonspecific operations expense	-	5,044
Customer operations expense	5,094	5,280
Corporate operations expense	<u>157,506</u>	<u>141,711</u>
Total operating expense	<u>531,137</u>	<u>521,151</u>
Operating margins (loss)	<u>77,622</u>	<u>92,940</u>
Non-operating income (loss)	<u>2,738</u>	<u>2,129</u>
Net income before corporate taxes	80,360	95,069
Provision for corporate taxes	<u>29,790</u>	<u>16,467</u>
Net income	<u>\$ 50,570</u>	<u>\$ 78,602</u>
Retained earnings, beginning of period	232,467	153,865
Additions: Current year earnings	<u>50,570</u>	<u>78,602</u>
Retained earnings, end of period	<u>\$283,037</u>	<u>\$232,467</u>

See accompanying notes to financial statements

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Green City, Missouri

Consolidating Statements of Cash Flows

For the years ended December 31, 2003 and 2002

<u>Cash Flows from Operating Activities</u>	<u>2003</u>	<u>2002</u>
Cash received from consumers	\$ 9,980,927	\$ 8,158,340
Cash paid to suppliers & employees	(3,870,047)	(2,212,611)
Interest paid	(899,195)	(952,863)
Taxes paid, state & local	(528,954)	(503,823)
Corporate taxes paid - net of refunds	<u>(20,490)</u>	<u>(114,295)</u>
Net cash provided by operating activities	4,662,241	4,374,748
<u>Cash Flows from Investing Activities</u>		
Construction and acquisition of plant	(3,599,047)	(5,659,207)
Investments in affiliated companies	640,990	272,944
Decrease (increase) in other investments	(475,073)	51,621
Decrease (increase) in non-regulated investments	(340,935)	(249,082)
Decrease (increase) in temporary investments	(294,489)	753,456
Decrease (increase) in materials inventory	72	(10,929)
Decrease (increase) in notes receivable	<u>81,275</u>	<u>123,245</u>
Net cash provided (used) by investing activities	(3,987,207)	(4,717,952)
<u>Cash Flows from Financing Activities</u>		
Payment of capital credits	(492,806)	(362,343)
Debt proceeds	1,092,518	1,198,672
Debt reduction - incl. advance payments	(1,471,664)	(1,266,791)
Proceeds from issuing common stock	5,410	36,110
Common stock retired	(15,120)	(4,500)
Tax allocation to subsidiaries	28,912	-
Payments related to merger	<u>-</u>	<u>(32,260)</u>
Net cash provided (used) by financing activities	(852,750)	(431,112)
Net increase (decrease) in cash	(177,716)	(774,316)
Cash - beginning of year	<u>452,929</u>	<u>1,227,245</u>
Cash - end of year	<u>\$ 275,213</u>	<u>\$ 452,929</u>

See accompanying notes to financial statements

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Green City, Missouri

Consolidating Statements of Cash Flows

For the years ended December 31, 2003 and 2002

Reconciliation of net margins to net cash provided by operating activities:

	<u>2003</u>	<u>2002</u>
Net margins (Loss)	\$ 1,397,394	\$ 1,095,892
Adjustments to reconcile net margins to cash provided by operating activities:		
Depreciation & amortization	3,234,401	2,841,033
Deferred taxes	(28,278)	229,087
(Increase) decrease in:		
Customer & other accounts receivable	123,678	(1,174,490)
Current and accrued assets, other	-	-
Prepaid expenses	100,455	(114,295)
Increase (decrease) in:		
Accounts payable	(245,510)	8,932
Accrued taxes	(92)	(2,589)
Other current liabilities	<u>80,193</u>	<u>1,491,178</u>
Total adjustments	<u>3,264,847</u>	<u>3,278,856</u>
Net cash provided by operating activities	<u>\$ 4,662,241</u>	<u>\$ 4,374,748</u>

See accompanying notes to financial statements

Multi-Com Incorporated

Consolidating Statements of Cash Flows

For the years ended December 31, 2003 and 2002

<u>Cash Flows from Operating Activities</u>	<u>2003</u>	<u>2002</u>
Cash received from customers	\$ 152,573	\$ 233,509
Cash paid to suppliers and employees	(150,788)	(66,594)
Interest paid	(9,290)	(17,319)
Interest income	<u>-</u>	<u>122</u>
Net cash provided (used) by operating activities	<u>(7,505)</u>	<u>149,718</u>
<u>Cash Flows from Investing Activities</u>		
(Acquisition) disposal of fixed assets	(28,899)	(11,261)
(Investment) retirement in NRTC & other coop	17	203
Prior period adjustment	<u>4,077</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(24,805)</u>	<u>(11,058)</u>
<u>Cash Flows from Financing Activities</u>		
Long-term debt repayments	<u>(81,274)</u>	<u>(123,246)</u>
Net cash provided (used) by financing activities	<u>(81,274)</u>	<u>(123,246)</u>
Net increase (decrease) in cash	(113,584)	15,414
Cash - beginning of year	<u>137,851</u>	<u>122,437</u>
Cash - end of year	<u>\$ 24,267</u>	<u>\$ 137,851</u>
Reconciliation of net income to net cash provided (used) by operating activities		
Net income (loss)	\$ 93,456	\$ 76,391
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Depreciation and amortization	27,287	28,963
Capital credits assigned, included in net income, non-cash portion	(55,256)	(43,088)
(Increase)/decrease in:		
Customer & other accounts receivable	(1,303)	(30,323)
Inventories	(7,424)	(295)
Note receivable	-	4,493
Prepaid	(6,631)	3,806
Increase/(decrease) in:		
Accounts payable	(99,581)	97,563
Income tax payable	42,562	12,446
Accrued expenses	(215)	462
Customer deposits	(400)	(700)
Net cash provided (used) by operating activities	<u>\$ (7,505)</u>	<u>\$ 149,718</u>

See accompanying notes to financial statements

Northeast Missouri Long Distance

Consolidating Statements of Cash Flows

For the year ended December 31, 2003 and 2002

<u>Cash Flows from Operating Activities</u>	<u>2003</u>	<u>2002</u>
Cash received from subscribers & others	\$ 518,758	\$ 439,091
Cash paid to suppliers and others	<u>(545,708)</u>	<u>(551,917)</u>
Net cash provided (used) by operating activities	<u>(26,950)</u>	<u>112,826</u>
Net increase/(decrease) in cash	(26,950)	112,826
Cash - beginning of period	<u>37,549</u>	<u>150,375</u>
Cash - end of period	<u>\$ 10,599</u>	<u>\$ 37,549</u>
Reconciliation of net income to net cash provided by operating activities:		
Net income (loss)	\$ 50,570	\$ 78,602
Adjustments to reconcile net income to net cash provided by operating activities		
(Increase) decrease in A/R-NEMR	(92,739)	(177,129)
(Increase) decrease in prepaid toll	2,424	(3,038)
Increase (decrease) in accounts payable	(528)	93
Increase (decrease) in income tax payable	13,323	(6,654)
(Increase) in investments - non-cash	<u>-</u>	<u>(4,700)</u>
Total adjustments	<u>(77,520)</u>	<u>(191,428)</u>
Net cash provided (used) by operating activities	<u>\$ (26,950)</u>	<u>\$ (112,826)</u>

See accompanying notes to financial statements

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Green City, Missouri

Eliminating Entries - DO NOT POST

December 31, 2003

Multi-Com Inc.	1.		
Accounts payable		12,175	
Other accounts receivable			12,175
To eliminate intercompany accounts payable and accounts receivable.			
	2.		
Common stock		10,000	
Investment in affiliated companies			10,000
To eliminate investment in Multi-Com common stock.			
	3.		
Patron capital credits		906,397	
Investment in affiliated companies			906,397
To eliminate capital credits assigned to wholly owned subsidiary.			
	4.		
Interest income - NEMR		9,290	
Interest expense			9,290
To eliminate interest paid to parent by wholly owned subsidiary.			
	5.		
Current portion long-term debt		87,150	
Notes payable		1,069	
Notes receivable - current			87,150
Notes receivable - long-term			1,069
To eliminate notes receivable from parent and notes payable from subsidiary.			
	6.		
Paid in capital		336,337	
Investment in affiliated companies			336,337
To eliminate paid in capital from subsidiary and investment from parent.			

Missouri-538-Green City

Northeast Missouri Rural Telephone Company

Green City, Missouri

Eliminating Entries - DO NOT POST

December 31, 2002

Multi-Com Inc.	1.		
Accounts payable		32,180	
Other accounts receivable			32,180
To eliminate intercompany accounts payable and accounts receivable.			
	2.		
Common stock		10,000	
Investment in affiliated companies			10,000
To eliminate investment in Multi-Com common stock.			
	3.		
Patron capital credits		885,215	
Investment in affiliated companies			885,215
To eliminate capital credits assigned to wholly owned subsidiary.			
	4.		
Interest income		17,319	
Interest expense			17,319
To eliminate interest paid to parent by wholly owned subsidiary.			
	5.		
Current portion long-term debt		77,597	
Notes payable		91,896	
Notes receivable - current			77,597
Notes receivable - long-term			91,896
To eliminate notes receivable from parent and notes payable from subsidiary.			
	6.		
Paid in capital		336,337	
Investment in affiliated companies			336,337
To eliminate paid in capital from subsidiary and investment from parent.			

Northeast Missouri Rural Telephone Company
Green City, Missouri

Eliminating Entries - DO NOT POST

December 31, 2003

Northeast Missouri Long Distance (NELD)

1.

Accounts payable	2,892	
Other accounts receivable		2,892
To eliminate intercompany accounts payable and accounts receivable.		

2.

Paid in capital	15,000	
Investment in affiliated companies		15,000
To eliminate investment in NELD paid in capital.		

3.

Due to subsidiary - NELD	269,868	
Due from parent - NEMR		269,868
To eliminate funds advanced from subsidiary to parent		

December 31, 2002

Northeast Missouri Long Distance (NELD)

1.

Accounts payable	3,420	
Other accounts receivable		3,420
To eliminate intercompany accounts payable and accounts receivable.		

2.

Paid in capital	15,000	
Investment in affiliated companies		15,000
To eliminate investment in NELD paid in capital.		

3.

Due to subsidiary - NELD	177,129	
Due from parent - NEMR		177,129
To eliminate funds advanced from subsidiary to parent		

Additional Information

Member:
Missouri Society of
Certified Public Accountants
American Institute of
Certified Public Accountants
AICPA Private Companies Practice
Section (PCPS)

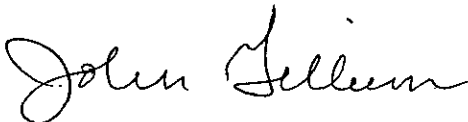
JOHN W. GILLUM
CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report
on Additional Information

Board of Directors
Northeast Missouri Rural Telephone
Company and Subsidiaries
Green City, Missouri

Our report on our audits of the consolidated financial statements of Northeast Missouri Rural Telephone Company and subsidiaries for the years ended December 31, 2003 and 2002, appears on page 1. These audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The additional information on page 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



John W. Gillum
Certified Public Accountant

May 21, 2004

Missouri-538-Green City
Northeast Missouri Rural Telephone Company
Green City, Missouri

Audit Journal Entries

December 31, 2003

1.

1402.2	MNA investment	2,378	
7360	Misc non-operating income		2,378
	To record adjustment to actual K-1 amounts.		

2.

4550.1	Operating margins	92,667	
4300	Deferred taxes	28,278	
1300.1	Prepaid corp taxes - federal		103,799
1300.2	Prepaid corp taxes - state		17,146
	To record adjustment for taxes applied.		

December 31, 2002

1.

4550.02	Margins - non-operating	13,848	
7110	Prior period adjustment		13,848
	To reclassify entry related to 12-31-01.		

2.

4550.02	Margins - non-operating	229,087	
1300	Prepaid corporate taxes		56,317
4300	Deferred taxes		172,770
	To record application of corporate taxes		

Member:
Missouri Society of
Certified Public Accountants
American Institute of
Certified Public Accountants
AICPA Private Companies Practice
Section (PCPS)

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INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Board of Directors
Northeast Missouri Rural
Telephone Company
Green City, Missouri

We have audited the financial statements of Northeast Missouri Rural Telephone Company for the year ended December 31, 2003 and have issued our report thereon dated May 21, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 Northeast Missouri Rural Telephone Company for the year ended December 31, 2003, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

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 auditor's report on compliance and on internal control over financial reporting dated May 21, 2004, and should be read in conjunction with this report.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Board of Directors
May 21, 2004

Section 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), 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 auditor's report, report on compliance and internal control over financial reporting, all dated May 21, 2004) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

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

We noted no matters regarding Northeast Missouri Rural 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, and

- the materials control.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts, and grants. The procedures we performed are summarized as follows:

Board of Directors
May 21, 2004

Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement or lease between the borrower and an affiliate of Northeast Missouri Rural Telephone Company for the year ended December 31, 2003.

1. Obtained and read a borrower-prepared schedule of new written contracts, agreements or leases entered into during the year between the borrower and an affiliate as defined in 1773.33 (e) (2) (i).
2. Reviewed Board of Director minutes to ascertain whether board-approved written contracts are included in the borrower-prepared schedule.
3. Noted the existence of written RUS approval of each contract listed by the borrower.

Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:

1. Agreed amounts reported in Form 479 to Northeast Missouri Rural Telephone Company's records.

The results of our tests indicate that, with respect to the items tested, Northeast Missouri Rural 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 has obtained written approval of the RUS to enter into any contract, agreement or lease with an affiliate as defined in 1773.33 (e) (2) (i) and

The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2003, represented by the borrower as having been submitted to RUS is in agreement with the Northeast Missouri Rural Telephone Company's audited records in all material respects.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of Northeast Missouri Rural Telephone Company, nothing came to our attention that causes us to believe that Northeast Missouri Rural Telephone Company failed to comply with respect to:

The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33 (c) (1);

The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33 (c) (2);

Board of Directors
May 21, 2004

The final adjustments to 2003 Continuing Property Records (CPR's) are pending, data to be provided upon completion of current year cost study with regard to central office CPR's.

The retirement of plant addressed at 7 CFR 1773.33 (c) (3) and (4);

The approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease 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, 2003, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33 (e); and

The detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic financial statement taken as a whole. The detailed schedule of investments required by 7 CFR 1773.33 (i), and provided below, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

INVESTMENTS IN AFFILIATED COMPANIES

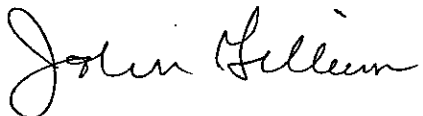
NEMR	<u>2003</u>	<u>2002</u>
Investment in internet related assets	220,206	255,621
NECA	20,000	20,000
Investment in wireless	121,391	-
Premier Foods	<u>100,000</u>	<u>-</u>
	461,597	275,621
Modern Telephone - NEMR		
RTFC Subordinated capital cert.	264,131	286,485
RTFC Patronage capital assigned	102,292	78,719
Investment in capital credits	<u>-</u>	<u>5</u>
	366,423	365,209
Multi-Com, Inc.		
NRTC Patronage capital assigned	137,020	102,947
Patronage capital assigned		
local cooperatives	<u>819</u>	<u>836</u>
	137,839	103,783
NEELD		
Investment in ANPI	<u>12,200</u>	<u>12,200</u>
Total Investments	<u>\$ 978,059</u>	<u>\$ 756,813</u>

Board of Directors
May 21, 2004

OTHER INVESTMENTS

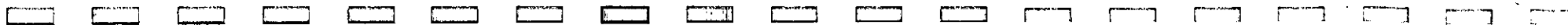
NEMR	<u>2003</u>	<u>2002</u>
Patronage capital assigned		
local cooperatives	28,706	44,226
Missouri Network Alliance	<u>266,940</u>	<u>262,771</u>
	295,646	306,997
 Modern Telephone - NEMR		
Utility deposits	-	160
 Multi-Com, Inc.		
Utility deposits	100	100
Sales tax bond	300	300
 DBS franchise	<u>110,621</u>	<u>129,059</u>
	<u>111,021</u>	<u>129,459</u>
 Total Other Investments	<u>\$ 406,667</u>	<u>\$ 436,616</u>

This report is intended solely for the information and use of the board of directors, management, and the Rural Utilities Service, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.



John W. Gillum
Certified Public Accountant

May 21, 2004



SECRETARY'S CERTIFICATE

I, Adrian Lewis, do hereby certify that: I am the Secretary of Northeast Missouri Rural Telephone Company (hereinafter the "Corporation,") the following are true and correct copies of resolutions duly adopted by the Board of Directors of the Corporation at the regular meeting held September 13, 2004, and entered in the minute book of the Corporation; the meeting was duly and regularly called and held in accordance with the bylaws of the Corporation; the executed Loan Agreement Amendment and Refinancing Note(s) are true and exact copies of the forms thereof authorized and approved by the Board of Directors to be executed, and none of the following resolutions has been rescinded or modified:

RESOLUTIONS

1. RESOLVED that the Corporation borrow from the United States of America, (the "Government,") acting through the Administrator of the Rural Utilities Service ("RUS"), an amount not to exceed \$4,714,000.00 for the purpose of refinancing certain outstanding note(s) payable to the Government and borrow from the Rural Telephone Bank (the "Bank"), an amount not to exceed \$3,271,800.00, for the purpose of refinancing certain outstanding note(s) payable to the Bank;

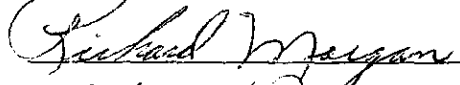

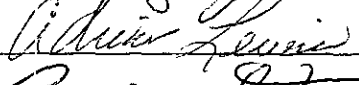

2. RESOLVED that the President is authorized on behalf of the Corporation to execute and deliver under its corporate seal, which the Secretary is directed to affix and attest, as many counterparts, respectively, as shall be deemed advisable of loan documents, including a loan agreement amendment, and refinancing note(s), as required by RUS and the Bank;

3. RESOLVED that the officers of the Corporation be, and each of them is, authorized in the name and on behalf of the Corporation, to execute all such instruments, make all such payments and do all such other acts as in the opinion of the officer or officers acting may be necessary or appropriate in order to carry out the purposes and intent of the foregoing resolutions; and

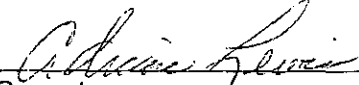
I FURTHER CERTIFY THAT each member of the Board of Directors of the Corporation was furnished with notice of said meeting in compliance with the bylaws of the Corporation.

I FURTHER CERTIFY THAT the date of actual execution of the loan refinancing documents is September 13, 2004.

I FURTHER CERTIFY THAT the following are the names and signatures, respectively, of the officers of the Corporation identified below who validly held and occupied their respective positions on said date of actual execution of the documents.

<u>Office</u>	<u>Name</u>	<u>Signature</u>
President	<u>Richard Morgan</u>	<u></u>
Vice President	<u>Bobby K. Jones</u>	<u></u>
Secretary	<u>Adrian Lewis</u>	<u></u>
Treasurer	<u>Richard Stevenson</u>	<u></u>

IN WITNESS WHEREOF I have hereunto set my hand and affixed the seal of the Corporation this 13 day of Sept, 2004.


Secretary

(Corporate Seal)