

Missouri-538-Green City  
Northeast Missouri Rural Telephone Company

Summary of Significant Accounting Policies

December 31, 1995 and 1994

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.

Consolidation Policy

The accompanying consolidated financial statements include the accounts of Multi-Com, Inc., a wholly owned subsidiary. 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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the company considers cash as the following:

	<u>1995</u>	<u>1994</u>
Cash - general	\$109,310	\$160,276
Cash - RUS construction	11,618	11,633
Cash - other	300	658
Cash - affiliate	<u>2,615</u>	<u>185,986</u>
Total	<u>\$123,843</u>	<u>\$358,553</u>

All other cash equivalent items consist of certificates of deposit, treasury notes, GNMA, FNMA, etc.

Missouri-538-Green City

Northeast Missouri Rural Telephone Company

Summary of Significant Accounting Policies

December 31, 1995 and 1994

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 pension plan. Pension plan expense is determined based on the actuarial cost and shared by both the company and the employee.

Missouri-538-Green City

Northeast Missouri Rural Telephone Company

Notes to Consolidated Financial Statements

December 31, 1995 and 1994

1. Assets Pledged

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

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, 1995 and 1994.

	<u>1995</u>	<u>1994</u>
Land and support assets	\$ 1,934,370	\$ 1,766,997
Central office switch	4,030,650	4,037,306
Central office transmission	1,593,972	1,180,281
Originating term equipment	12,251	11,699
Cable and wire facilities	<u>9,137,933</u>	<u>9,107,060</u>
Total plant in service	16,709,176	16,103,343
Less: accumulated depreciation	<u>(6,666,209)</u>	<u>(5,710,560)</u>
Net plant in service	10,042,967	10,392,783
Telephone plant under construction	<u>1,778,592</u>	<u>-</u>
Net plant in service and under construction	11,821,559	10,392,783
Subsidiary plant, net of depreciation	<u>184,341</u>	<u>143,653</u>
	<u>\$12,005,900</u>	<u>\$10,536,436</u>

The company provides for depreciation on the straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. Rates applied are approved by the Missouri Public Service Commission. The present rates being used were approved in 1995. Depreciation for 1995 and 1994 aggregated \$1,115,512 and \$705,920 respectively.

Missouri-538-Green City

Northeast Missouri Rural Telephone Company

Notes to Consolidated Financial Statements

December 31, 1995 and 1994

2. Investment in Telephone Plant (Continued)

<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	Co-owned 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
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

Investments consist of certificates of deposit deposited in various banks served by the telephone company, or repurchase agreements initiated by local banks, and other investment instruments including GNMA, FNMA, etc. Other investments consist of stock and equity in lieu of cash payments in other cooperatives the telephone company does business with. Income from these investments are reflected in the year of receipt or notification.

4. Non Regulated Investments

Non regulated investments consist of the following:

	<u>1995</u>	<u>1994</u>
Inventory	\$ -	\$ -
Equipment in service	45,419	41,147
Depreciation reserve	(39,306)	(37,778)
Other assets, subsidiary	-	1,761
Total	<u>\$ 6,113</u>	<u>\$ 5,130</u>

Missouri-538-Green City

Northeast Missouri Rural Telephone Company

Notes to Consolidated Financial Statements

December 31, 1995 and 1994

5. Materials and Supplies

Materials and supplies at average cost consist of the following at December 31, 1995 and 1994:

	<u>1995</u>	<u>1994</u>
Exempt materials	\$ 61,132	\$ 55,703
Non exempt materials	132,954	129,203
Wholly owned subsidiary	<u>102,817</u>	<u>-</u>
Total	<u>\$296,903</u>	<u>\$184,906</u>

6. Prepaid Expenses

Following is a summary of amounts recorded as prepaid items as of December 31, 1995 and 1994:

	<u>1995</u>	<u>1994</u>
Prepaid insurance	\$ 20,599	\$ 19,076
Prepaid savings and retirement	-	-
Prepaid maintenance contract	-	-
Prepaid corporate taxes	<u>-</u>	<u>169</u>
	<u>\$ 20,599</u>	<u>\$ 19,245</u>

7. Long-Term Debt

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

	<u>1995</u>	<u>1994</u>
2% and 5% notes due over 35 years from inception of each note	\$8,063,674	\$7,139,814
Less: current maturities	<u>(472,777)</u>	<u>(430,703)</u>
	<u>\$7,590,897</u>	<u>\$6,709,111</u>

As of December 31, 1995 and 1994, there were unadvanced loan funds of \$180 and \$180 respectively, and prepaid loan payment amounts of \$182,477 and \$178,028 respectively.

Missouri-538-Green City

Northeast Missouri Rural Telephone Company

Notes to Consolidated Financial Statements

December 31, 1995 and 1994

7. Long-Term Debt (Continued)

Principal and interest installments on the above notes are due quarterly, interest and principal amounts are computed by RUS, and payments are made from invoices received. The estimated maturities of long-term debt for each of the five years succeeding the balance sheet date are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1996	\$ 472,777	\$206,158	\$ 678,935
1997	476,612	194,358	670,970
1998	483,808	182,443	666,251
1999	487,144	170,348	657,492
2000	<u>491,416</u>	<u>158,169</u>	<u>649,585</u>
Total	<u>\$2,411,757</u>	<u>\$911,476</u>	<u>\$3,323,233</u>

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.

8. Capital Stock and Retained Earnings

Capital stock is classified as follows: common \$10, par value 10,000 authorized, for 1995 and 1994 respectively 3,325 and 3,330 shares issued and outstanding, paid in capital applies to subscribers with more than one service installation, and common stock subscribed for stock fully paid but unissued. Such amounts carry a ten dollar per member value.

9. Pension Plan

The company has a defined contribution pension plan that covers union and non-union employees. For 1995 the company's share of the cost is \$78,762, while the employees paid \$77,275. For 1994 the company's share of the cost is \$68,352, while the employees paid \$64,799.

Missouri-538-Green City

Northeast Missouri Rural Telephone Company

Notes to Consolidated Financial Statements

December 31, 1995 and 1994

10. Income Taxes

The company pays corporate income taxes on amounts that are not allocated to members based on member source income, nonmembers source income such as interest, dividends, etc.

	<u>1995</u>	<u>1994</u>
Corporate taxes paid or due		
Current year taxes paid or accrued	<u>\$108,020</u>	<u>\$ 61,326</u>

11. Related Parties

The company owns 100% of the stock in Multi-Com, Inc., a company which deals in merchandising of equipment related to the telecommunication industry and direct broadcast television systems. In addition, the company operates a telemarketing service. The company shares office space, employees, management officers, etc. with Multi-Com, Inc. Multi-Com, Inc. pays the company on a reimbursement basis for labor and overheads incurred.

12. Supplemental Disclosures - Statement of Cash Flows

Supplemental disclosures of cash flow information:

	<u>1995</u>	<u>1994</u>
Cash paid during the year for interest	\$221,745	\$170,167
Cash paid during the year for income taxes	108,020	61,326

13. Contingencies

The company is presently under examination by the Internal Revenue Service for the years 1991 and 1992. The issues being raised during the examination are broad conceptual issues affecting all cooperative telephone companies, and not specific issues pertaining only to our company. The potential liability, if any, is not known. Preliminary information indicates the examination will be completed without modification.

14. Other Matters

The company was successful in acquiring three new telephone exchanges, pending regulatory approval, from General Telephone Company, serving the communities of Unionville, Queen City and Memphis, Missouri. These exchanges will be operated through a new subsidiary, Modern Telephone Company. Final transition is planned for July 1996.

# JOHN W. GILLUM

MEMBER OF AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

CERTIFIED PUBLIC ACCOUNTANT

MEMBER OF MISSOURI SOCIETY  
OF CERTIFIED PUBLIC ACCOUNTANTS

310 SOUTH ELSON  
POST OFFICE BOX 1068  
KIRKSVILLE, MISSOURI 63501  
816-627-1259

105 SOUTH 22ND  
POST OFFICE BOX 327  
UNIONVILLE, MISSOURI 63565  
816-947-7016

Independent Auditor's Report on  
Internal Control Structure in Accordance  
with Government Auditing Standards

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

We have audited the financial statements of Northeast Missouri Rural Telephone Company as of and for the years ended December 31, 1995 and 1994 and have issued our report thereon dated May 9, 1996.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of Northeast Missouri Rural Telephone Company is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operations of policies and procedures may deteriorate.

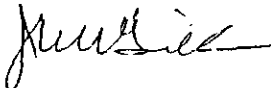
In planning and performing our audit of the financial statements of Northeast Missouri Rural Telephone Company for the years ended December 31, 1995 and 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Board of Directors  
May 9, 1996

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted other matters involving the internal control structure and its operation that we have reported to the management of Northeast Missouri Rural Telephone Company in a separate letter dated May 9, 1996.

This report is intended for the information of management, and the Rural Utilities Service, and supplemental lenders. However, this report is a matter of public record, and its distribution is not limited.



John W. Gillum  
Certified Public Accountant

May 9, 1996

JOHN W. GILLUM

CERTIFIED PUBLIC ACCOUNTANT

MEMBER OF AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

MEMBER OF MISSOURI SOCIETY  
OF CERTIFIED PUBLIC ACCOUNTANTS

310 SOUTH ELSON  
POST OFFICE BOX 1068  
KIRKSVILLE, MISSOURI 63501  
816-627-1259

105 SOUTH 22ND  
POST OFFICE BOX 327  
UNIONVILLE, MISSOURI 63565  
816-947-7016

Independent Auditor's Report on Compliance with  
Laws and Regulations Based on an Audit of  
Financial Statements Performed in Accordance  
with Government Auditing Standards

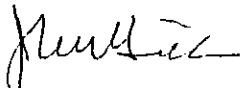
Board of Directors  
Northeast Missouri Rural  
Telephone Company and Subsidiary  
Green City, Missouri

We have audited the financial statements of Northeast Missouri Rural Telephone Company as of and for the years ended December 31, 1995 and 1994 and have issued our report thereon dated May 9, 1996.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to Northeast Missouri Rural Telephone Company is the responsibility of Northeast Missouri Rural Telephone Company's management. As part of our audit, we assessed the risk that noncompliance with certain provisions of laws, regulations, contracts and grants could cause the financial statements to be materially misstated. We concluded that the risk of such material misstatements was sufficiently low that it was not necessary to perform tests of Northeast Missouri Rural Telephone Company's compliance with such provisions of laws, regulations, contracts and grants.

This report is intended for the information of management, the Rural Utilities Services, and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.



John W. Gillum  
Certified Public Accountant

May 9, 1996

# JOHN W. GILLUM

MEMBER OF AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

CERTIFIED PUBLIC ACCOUNTANT

MEMBER OF MISSOURI SOCIETY  
OF CERTIFIED PUBLIC ACCOUNTANTS

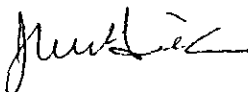
310 SOUTH ELSON  
POST OFFICE BOX 1068  
KIRKSVILLE, MISSOURI 63501  
816-627-1259

105 SOUTH 22ND  
POST OFFICE BOX 327  
UNIONVILLE, MISSOURI 63565  
816-947-7016

Independent Auditor's Report  
on Consolidating Information

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

Our report on our audits of the consolidated financial statements of Northeast Missouri Rural Telephone Company, for the years ended December 31, 1995 and 1994, appears on page 2. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 16 to 22 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.



May 9, 1996

Missouri-538-Green City  
 Northeast Missouri Rural Telephone Company  
 Green City, Missouri  
 Consolidating Comparative Balance Sheets  
 As of December 31, 1995 and 1994

<u>ASSETS</u>	<u>1995</u>	<u>1994</u>
Current assets		
Cash and equivalents	\$ 4,973,931	\$ 4,832,101
Cash REA construction	11,618	11,633
Telecommunications accounts receivable	15,175	5,152
Other accounts receivable	1,194,609	363,041
Interest and dividends receivable	19,136	70,058
Material inventory	194,086	184,906
Prepayments	<u>20,599</u>	<u>19,076</u>
Total current assets	6,429,154	5,485,967
Non current assets		
Investment in affiliated companies	746,194	690,410
Other investments	94,347	469,369
Non-regulated investments	<u>6,113</u>	<u>3,369</u>
Total non current assets	846,654	1,163,148
Plant, property and equipment		
Telecommunications plant in service	16,709,176	16,103,343
Plant under construction	1,778,591	-
Less: accumulated depreciation	<u>(6,666,208)</u>	<u>(5,710,560)</u>
Net plant	<u>11,821,559</u>	<u>10,392,783</u>
Total assets	<u>\$19,097,367</u>	<u>\$17,041,898</u>
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
Current liabilities		
Accounts payable	\$ 260,523	\$ 96,852
Customer deposits	31,499	28,300
Other taxes accrued	2,536	3,649
Other current liabilities	19,677	20,679
Current portion long-term debt	<u>472,777</u>	<u>430,703</u>
Total current liabilities	787,012	580,183
Long-term debt	8,063,674	7,139,814
Less: current maturities	<u>(472,777)</u>	<u>(430,703)</u>
Total long-term debt	7,590,897	6,709,111
Stockholder's equity		
Capital stock	33,250	33,300
Membership and capital certificates	1,970	1,870
Patronage capital credits	9,451,984	7,997,823
Current year earnings	<u>1,232,254</u>	<u>1,719,611</u>
Total stockholder's equity	<u>10,719,458</u>	<u>9,752,604</u>
Total liabilities and stockholder's equity	<u>\$19,097,367</u>	<u>\$17,041,898</u>

See accompanying notes to financial statements

## Multi-Com Incorporated

## Consolidating Comparative Balance Sheets

December 31, 1995 and 1994

<u>ASSETS</u>	<u>1995</u>	<u>1994</u>
Current assets		
Cash	\$ 2,616	\$185,986
Accounts receivable	55,898	30,465
Interest receivable	-	-
Inventory	102,817	-
Prepaid expenses	<u>156</u>	<u>169</u>
Total current assets	161,487	216,620
Fixed assets		
Furniture and fixtures	98,444	96,830
Telecommunications equipment	10,714	7,829
Office equipment	9,573	6,546
Leasehold improvements	5,697	4,737
Buildings	73,459	68,525
Leased dishes	50,046	-
Accumulated depreciation	<u>(63,592)</u>	<u>(40,814)</u>
Total fixed assets	184,341	143,653
Other assets		
Sales tax bond	300	300
Investment in other local cooperatives	1,461	1,461
Investment in DBS franchise	276,560	-
Investment in NRIC	9,739	-
Capital credits assigned, NEMO Rural Tele. Co.	<u>359,073</u>	<u>126,782</u>
Total other assets	<u>647,133</u>	<u>128,543</u>
Total assets	<u>\$992,961</u>	<u>\$488,816</u>
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
Current liabilities		
Accrued expenses	\$ 3,417	\$ 5,522
Accounts payable	729,254	228,177
Bank overdraft	16,136	-
Customer deposits	<u>4,660</u>	<u>-</u>
Total current liabilities	753,467	233,699
Stockholder's equity		
Capital stock issued and outstanding (Note 1)	10,000	10,000
Retained earnings	<u>229,494</u>	<u>245,117</u>
Total stockholder's equity	<u>239,494</u>	<u>255,117</u>
Total liabilities and stockholder's equity	<u>\$992,961</u>	<u>\$488,816</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, 1995 and 1994

	<u>1995</u>	<u>1994</u>
Operating revenues		
Local network services revenues	\$ 283,451	\$ 275,056
Network access services revenues	4,098,772	3,663,131
Long distance network services revenues	99,638	65,588
Miscellaneous revenues	276,508	299,648
Uncollected revenues	<u>(15,721)</u>	<u>(16,831)</u>
Net operating revenues	4,742,648	4,286,592
Operating expenses		
Plant specific operations expense	742,899	599,640
Plant nonspecific operations expense	174,034	167,515
Depreciation expense	1,115,512	705,920
Customer operations expense	237,592	180,832
Corporate operations expense	<u>979,342</u>	<u>641,004</u>
Total operating expense	3,249,379	2,294,911
Operating margins	1,493,269	1,991,681
Other operating income and (expense)	942	-
State and local taxes	(237,222)	(229,310)
Federal & state income tax (current period)	(108,020)	(61,484)
Interest expense	(221,745)	(170,167)
Non operating income and (expense)	351,670	220,755
Nonregulated net income (loss)	<u>(46,640)</u>	<u>(31,864)</u>
Net income	<u>\$ 1,232,254</u>	<u>\$1,719,611</u>
Retained earnings, beginning of year	\$ 9,717,434	\$8,232,842
Additions: current year earnings	1,232,254	1,719,611
prior period adjustments	-	302
Less: patronage capital retired	<u>(265,450)</u>	<u>(235,321)</u>
Retained earnings, end of year	<u>\$10,684,238</u>	<u>\$9,717,434</u>

See accompanying notes to financial statements

Multi-Com Incorporated

Consolidating Statements of Income and Retained Earnings

For the years ended December 31, 1995 and 1994

	<u>1995</u>	<u>1994</u>
Revenues		
Teleservicing revenues	\$128,232	\$275,408
Miscellaneous operating revenues	<u>119,741</u>	<u>89,108</u>
Total operating revenues	247,973	364,516
Cost of revenues and expenses		
Teleservicing dialers expense	283,768	356,205
Teleservicing admin. expense	112,264	121,580
Headquarters expense	23,529	14,969
State and local taxes	1,891	1,765
Depreciation	<u>22,788</u>	<u>20,646</u>
Total operating deductions	<u>444,240</u>	<u>515,165</u>
Net operating income (loss)	(196,267)	(150,649)
Equipment sales & cost of sales (net)	<u>(51,664)</u>	<u>(2,185)</u>
Operating income (loss), including equipment sales	(247,931)	(152,834)
Other income (deductions)		
Interest income	17	2,724
Interest expense	-	-
Capital credits	<u>232,291</u>	<u>108,756</u>
Net income (loss) before taxes	(15,623)	(41,354)
Provision for income taxes	<u>-</u>	<u>158</u>
Net income (loss)	(15,623)	(41,196)
Retained earnings, beginning of period	245,117	268,287
Prior period adjustment	<u>-</u>	<u>18,026</u>
Retained earnings, end of period	<u>\$229,494</u>	<u>\$245,117</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, 1995 and 1994

<u>Cash Flows from Operating Activities</u>	<u>1995</u>	<u>1994</u>
Net income	\$1,232,254	\$1,719,611
Adjustments to reconcile net income to net cash provided by operations		
Depreciation	1,115,512	705,920
(Increase) decrease in:		
Trade accounts receivable	(790,669)	(196,956)
Inventories	(9,180)	11,308
Prepaid expenses	(1,523)	(3,280)
Increase (decrease) in:		
Trade accounts payable	163,671	31,563
Accrued liabilities	1,084	5,227
Prior period adjustments	<u>-</u>	<u>302</u>
Net cash provided by (used by) operating activities	<u>1,711,149</u>	<u>2,273,695</u>
 <u>Cash Flows from Investing Activities</u>		
Purchases of property and equipment	(2,544,288)	(454,087)
Investments in affiliated companies	(55,784)	(653,286)
Purchase of other investments	-	(150,310)
Proceeds from investments	375,022	-
Decrease (Increase) in deregulated investments	(2,744)	421
Decrease (Increase) in temporary investments	<u>(193,155)</u>	<u>(948,505)</u>
Net cash provided by (used by) investing activities	<u>(2,420,949)</u>	<u>(2,205,767)</u>
 <u>Cash Flows from Financing Activities</u>		
New borrowings: Long-term	1,380,000	594,000
Debt reduction: Long-term	(456,140)	(421,170)
Proceeds from issuing common stock	3,660	3,740
Retirement of capital credits	(265,450)	(235,321)
Common stock retired	<u>(3,610)</u>	<u>(3,050)</u>
Net cash provided by (used by) financing activities	<u>658,460</u>	<u>(61,801)</u>
 Net increase (decrease) in cash	(51,340)	6,127
Cash at beginning of year	<u>172,567</u>	<u>166,440</u>
 Cash at end of year	<u>\$ 121,227</u>	<u>\$ 172,567</u>
 Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 221,745	\$ 170,167
Cash paid during the year for income taxes	108,020	61,484

See accompanying notes to financial statements

Multi-Com Incorporated

Consolidating Statements of Cash Flows

For the years ended December 31, 1995 and 1994

<u>Cash Flows from Operating Activities</u>	<u>1995</u>	<u>1994</u>
Net income (loss)	\$ (15,623)	\$ (41,196)
Adjustments to reconcile net income to net cash provided by operations		
Depreciation	22,788	20,646
(Increase) decrease in:		
Inventories	(102,817)	-
Receivables	(25,433)	46,063
Prepays	13	(13)
Increase (decrease) in:		
Accounts payable	501,077	122,880
Accrued expenses	(2,105)	451
Bank overdraft	16,136	-
Customer deposits	4,660	-
Prior period adjustment	<u>-</u>	<u>18,026</u>
Net cash provided (used) by operating activities	<u>398,696</u>	<u>166,857</u>
 <u>Cash Flows from Investing Activities</u>		
Purchase of capital assets	(63,476)	99
Sale of investments	-	100,000
Purchase of DBS franchise	(276,560)	-
Assignment of capital credits	(232,291)	(126,782)
Investment in NRTC	<u>(9,739)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(582,066)</u>	<u>(26,683)</u>
 <u>Cash Flows from Financing Activities</u>		
Net cash provided (used) by financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash	(183,370)	140,174
Cash at beginning of year	<u>185,986</u>	<u>45,812</u>
Cash at end of year	<u>\$ 2,616</u>	<u>\$185,986</u>
 Supplemental disclosures:		
Interest expense	\$ -	\$ -
Income taxes (Refund prior years)	-	(158)

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, 1995

	1.		
Accounts payable		690,021	
Other accounts receivable			690,021
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		359,073	
Investment in affiliated companies			359,073
To eliminate capital credits assigned to wholly owned subsidiary.			

December 31, 1994

	1.		
Accounts payable		228,177	
Other accounts receivable			228,177
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.		
Patrons capital credits		126,782	
Investment in affiliated companies			126,782
To eliminate capital credits assigned to wholly owned subsidiary.			

Additional Information

MEMBER OF AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

310 SOUTH ELSON  
POST OFFICE BOX 1068  
KIRKSVILLE, MISSOURI 63501  
816-627-1259

JOHN W. GILLUM  
CERTIFIED PUBLIC ACCOUNTANT

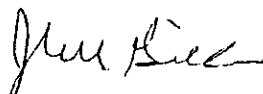
MEMBER OF MISSOURI SOCIETY  
OF CERTIFIED PUBLIC ACCOUNTANTS

105 SOUTH 22ND  
POST OFFICE BOX 327  
UNIONVILLE, MISSOURI 63565  
816-947-7016

Independent Auditor's Report  
on Additional Information

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

Our report on our audits of the consolidated financial statements of Northeast Missouri Rural Telephone Company for the years ended December 31, 1995 and 1994, appear on page 2. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The additional information on page 24 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.



May 9, 1996

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

Audit of Journal Entries

December 31, 1995

1.

1401.7	Investment in Modern Telephone	27,445	
6711.3	Acquisition costs		27,445
	To reclassify organization costs of acquiring new exchanges.		

2.

4010.1	Federal income taxes payable	15,575	
4010.2	State income taxes payable	2,803	
7420	Federal income taxes		15,575
7430	State income taxes		2,803
	To adjust to actual, tax and tax liability amounts.		

December 31, 1994

1.

1401.7	Investment in Modern Telephone	96,051	
6711.3	Acquisition costs		96,051
	To reclassify organization costs of acquiring new exchanges.		

2.

7420	Federal taxes	10,638	
4010.1	Federal taxes payable	6,914	
7430	State taxes	5,383	
4010.2	State taxes payable	602	
4550.1	Retained earnings		23,537
	To adjust to actual, tax and tax liability amounts.		

# JOHN W. GILLUM

MEMBER OF AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC ACCOUNTANTS

CERTIFIED PUBLIC ACCOUNTANT

MEMBER OF MISSOURI SOCIETY  
OF CERTIFIED PUBLIC ACCOUNTANTS

310 SOUTH ELSON  
POST OFFICE BOX 1068  
KIRKSVILLE, MISSOURI 63501  
816-627-1259

105 SOUTH 22ND  
POST OFFICE BOX 327  
UNIONVILLE, MISSOURI 63565  
816-947-7016

## 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, 1995 and have issued our report thereon dated May 9, 1996. We conducted our audit in accordance with generally accepted auditing standards, GOVERNMENT AUDITING STANDARDS issued by the Comptroller General of the United States, and 7 CFR Part 1773. Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Northeast Missouri Rural Telephone Company for the year ended December 31, 1995, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

A description of the responsibility of management for establishing and maintaining the internal control structure and the objectives of and inherent limitations in such a structure is set forth in our independent auditor's report on the internal control structure dated May 9, 1996, and should be read in conjunction with this report.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure and its operation that we consider to be a material weakness as defined above.

Board of Directors  
May 9, 1996

7 CFR Part 1773.34 requires comments on specific aspects of the internal control structure, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control structure, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control structure, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.34(e)(2), related party transactions, and depreciation rates. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-45. Our objective was not to provide an opinion on these specific aspects of the internal control structure, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditor's report, our independent auditor's compliance report, and our independent auditor's report on the internal control structure, all dated May 9, 1996 or summary of recommendations related to our audit) have been furnished to management.

Our comments on specific aspects of the internal control structure, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.34 are presented below.

#### COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL STRUCTURE

We noted no matters regarding Northeast Missouri Rural Telephone Company's internal control structure 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

Management's responsibility for compliance with laws, regulations, contracts, and grants is set forth in our independent auditor's report on compliance dated May 9, 1996, and should be read in conjunction with this report. At your request,

Board of Directors  
May 9, 1996

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

Procedure performed with respect to the requirement to maintain all funds in institutions whose accounts are insured by an Agency of the Federal Government:

1. Obtain information from financial institutions with which Northeast Missouri Rural Telephone Company maintains funds that indicated that the institutions are insured by an Agency of the Federal Government.

Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others for the year ended December 31, 1995 of Northeast Missouri Rural Telephone Company:

1. Obtained and read a borrower prepared schedule of new written contracts entered into during the year for the operation or maintenance of its property, or for the use of its property by others as defined in 1773.34(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 (and other mortgagee) 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 in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to our attention that caused us to believe that Northeast Missouri Rural Telephone Company had not complied, in all material respects, with those provisions. The specific provisions tested, (as well as any exceptions noted), include the requirements that:

The borrower maintains all funds in institutions whose accounts are insured by an Agency of the Federal Government.

Board of Directors  
May 9, 1996

The borrower has obtained written approval of the RUS (and other mortgagees) to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others as defined in 1773.34(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, 1995, represented by the borrower as having been submitted to RUS in agreement with the Northeast Missouri Rural Telephone Company's 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 caused us to believe that Northeast Missouri Rural Telephone Company failed to comply with respect to:

the reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.34(c)(1);

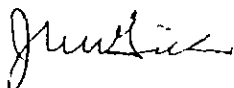
the clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.34(c)(2);

the retirement of plant addressed at 7 CFR Parts 1773.34(c)(3) and (4);

sales of plant, material, or scrap addressed at 7 CFR Part 1773.34(c)(5);

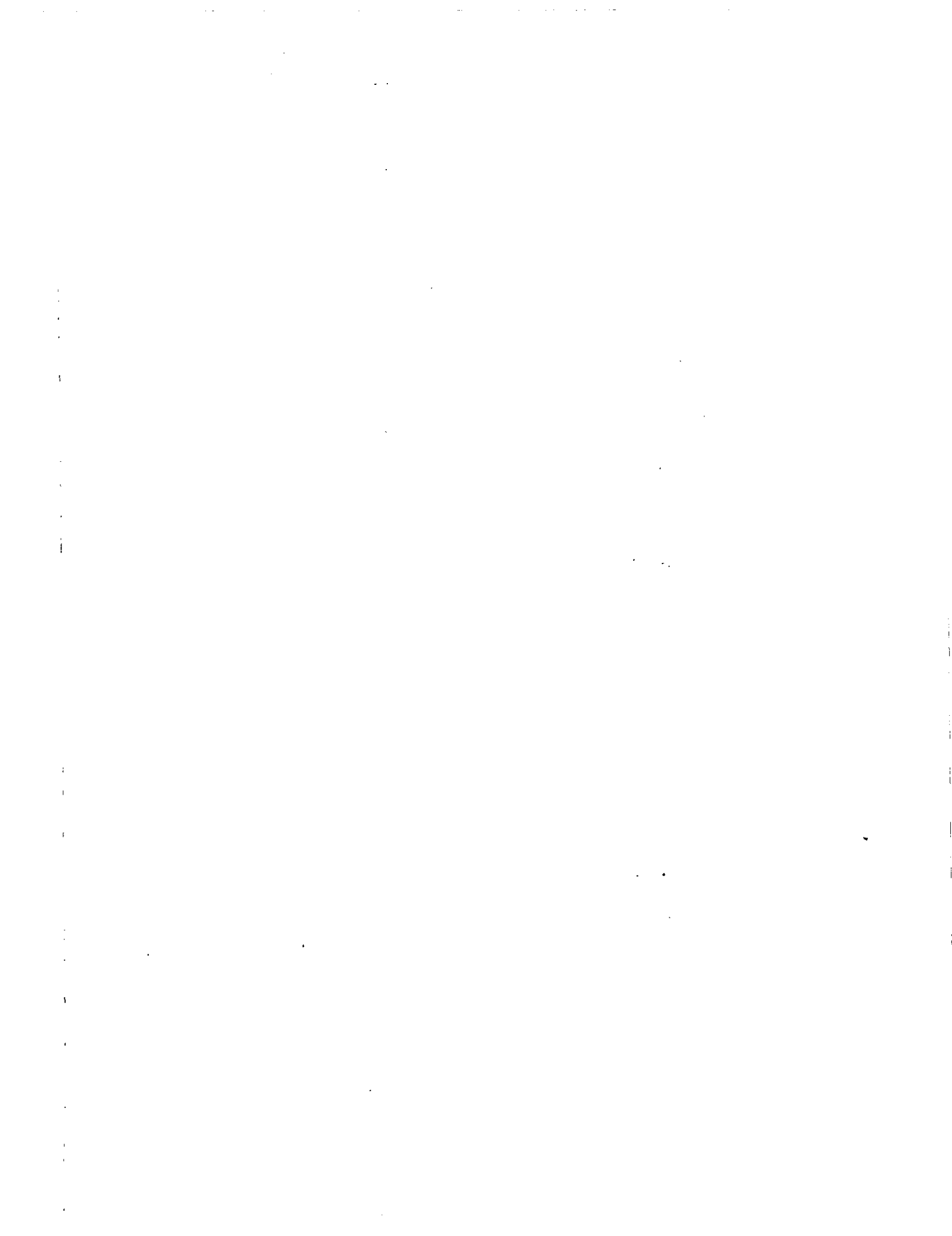
the disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 1995 in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.34(f).

This report is intended solely for the information and use of the board of directors, management, and the Rural Utilities Service and supplemental lenders. However, this report is a matter of public record and its distribution is not limited.



John W. Gillum  
Certified Public Accountant

May 9, 1996



NORTHEAST MISSOURI RURAL TELEPHONE COMPANY  
 PROFORMA BALANCE SHEET  
 1997

1/6/97 11:06 PM

	NORTHEAST PROFORMA 1997	EFFECT OF ADDITIONAL RUS BORROWINGS	ADJUSTED PROFORMA 1997
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
CASH & EQUIVALENTS	\$ 1,416,237	\$ (100,000)	\$ 1,316,237
CASH REA CONSTRUCTION FUND	\$ 11,618		\$ 11,618
TELECOMMUNICATIONS ACCT. REC.	\$ 30,000		\$ 30,000
OTHER ACCOUNTS RECEIVABLE	\$ 1,120,000		\$ 1,120,000
INTEREST & DIVIDENDS REC.	\$ 5,000		\$ 5,000
MATERIAL INVENTORY	\$ 250,000		\$ 250,000
PREPAYMENTS	\$ 35,000		\$ 35,000
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 2,867,855</b>	<b>\$ (100,000)</b>	<b>\$ 2,767,855</b>
<b>NONCURRENT ASSETS:</b>			
INVESTMENT IN AFFILIATED COS.	\$ 10,000		\$ 10,000
INVESTMENT IN MODERN TEL.	\$ 6,227,000		\$ 6,227,000
OTHER INVESTMENTS	\$ 228,000		\$ 228,000
NON-REGULATED INVESTMENTS	\$ 19,000		\$ 19,000
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$ 6,484,000</b>	<b>\$ -</b>	<b>\$ 6,484,000</b>
<b>PLANT, PROPERTY AND EQUIPMENT:</b>			
TELECOMMUN. PLANT IN SERVICE	\$ 21,000,000	\$ 1,700,000	\$ 22,700,000
PLANT UNDER CONSTRUCTION	\$ 100,000		\$ 100,000
LESS ACCUMULATED DEPRECIATION	\$ (8,890,637)		\$ (8,890,637)
PLANT ACQUISITION ADJUSTMENT	\$ -		\$ -
ACQUISITION ADJ. AMORTIZATION	\$ -		\$ -
<b>NET PLANT</b>	<b>\$ 12,209,363</b>	<b>\$ 1,700,000</b>	<b>\$ 13,909,363</b>
<b>TOTAL ASSETS</b>	<b>\$ 21,561,218</b>	<b>\$ 1,600,000</b>	<b>\$ 23,161,218</b>

NORTHEAST MISSOURI RURAL TELEPHONE COMPANY  
 PROFORMA BALANCE SHEET  
 1997

1/6/97 11:06 PM

**LIABILITIES**

**CURRENT LIABILITIES:**

ACCOUNTS PAYABLE	\$	25,500		\$	25,500
CUSTOMER DEPOSITS	\$	33,108		\$	33,108
OTHER TAXES ACCRUED	\$	2,500		\$	2,500
OTHER CURRENT LIABILITIES	\$	20,000		\$	20,000

<b>TOTAL CURRENT LIABILITIES</b>	<b>\$</b>	<b>81,108</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>81,108</b>
----------------------------------	-----------	---------------	-----------	----------	-----------	---------------

**LONG TERM DEBT:**

RTFC NOTES	\$	2,028,536		\$	2,028,536
RUS DEBT	\$	7,140,694	\$	1,600,000	\$ 8,740,694
	\$	9,169,230	\$	1,600,000	\$ 10,769,230

**EQUITY:**

CAPITAL STOCK OUTSTANDING	\$	33,700		\$	33,700
MEMBERSHIP & CAP. CERTIFICATES	\$	2,180		\$	2,180
PATRONAGE CAPITAL CREDITS	\$	11,360,000		\$	11,360,000
RETAINED EARNINGS OR MARGINS	\$	915,000		\$	915,000
OTHER CAPITAL					

<b>TOTAL EQUITY</b>	<b>\$</b>	<b>12,310,880</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>12,310,880</b>
---------------------	-----------	-------------------	-----------	----------	-----------	-------------------

<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$</b>	<b>21,561,218</b>	<b>\$</b>	<b>1,600,000</b>	<b>\$</b>	<b>23,161,218</b>
-------------------------------------	-----------	-------------------	-----------	------------------	-----------	-------------------

NORTHEAST MISSOURI RURAL TELEPHONE COMPANY  
 PROFORMA INCOME STATEMENT  
 1997

1/6/97 11:10 PM

	NORTHEAST PROFORMA 1997	EFFECT OF ADDITIONAL REA BORROWINGS	ADJUSTED PROFORMA 1997
<b>OPERATING REVENUE:</b>			
LOCAL SERVICE	\$ 290,000		\$ 290,000
TOLL SERVICE	\$ 4,200,000		\$ 4,200,000
MISCELLANEOUS	\$ 250,000		\$ 250,000
UNCOLLECTIBLE REVENUES	\$ (15,000)		\$ (15,000)
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 4,725,000</b>	<b>\$ -</b>	<b>\$ 4,725,000</b>
<b>OPERATING EXPENSES:</b>			
MAINTENANCE	\$ 950,000		\$ 950,000
DEPRECIATION	\$ 1,175,000	\$ 81,617	\$ 1,256,617
CUSTOMER OPERATION	\$ 275,000		\$ 275,000
CORPORATION OPERATION	\$ 800,000		\$ 800,000
OTHER OPERATING INC. & EXP.	\$ -		\$ -
STATE & LOCAL TAXES	\$ 260,000		\$ 260,000
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 3,460,000</b>	<b>\$ 81,617</b>	<b>\$ 3,541,617</b>
<b>OTHER INCOME &amp; EXPENSE:</b>			
INTEREST EXPENSE	\$ (265,000)	\$ (109,760)	\$ (374,760)
INTEREST & DIVIDEND INCOME	\$ 35,000	\$ (5,000)	\$ 30,000
NON REGULATED INCOME	\$ (80,000)		\$ (80,000)
INCOME TAXES	\$ (40,000)		\$ (40,000)
	<b>\$ (350,000)</b>	<b>\$ (114,760)</b>	<b>\$ (464,760)</b>
<b>NET INCOME</b>	<b>\$ 915,000</b>	<b>\$ (196,377)</b>	<b>\$ 718,623</b>

Exhibit D

NORTHEAST MISSOURI RURAL TELEPHONE COMPANY  
PROJECTED CAPITALIZATION EXPENDITURES  
FOR 5 YEARS ENDING DECEMBER 31, 2001

1/6/97 11:16 PM

<b>Year</b>	<b>Projected Plant Additions</b>	<b>RUS Financing Received</b>	<b>Capital Credits Distribution</b>	<b>Additions Less Financing and Distributions</b>
1997	\$ 1,700,000	\$ 1,600,000	\$ 307,500	\$ (207,500)
1998	\$ 1,700,000	\$ 1,600,000	\$ 307,500	\$ (207,500)
1999	\$ 1,700,000	\$ 1,600,000	\$ 350,000	\$ (250,000)
2000	\$ 1,700,000	\$ 1,600,000	\$ 350,000	\$ (250,000)
2001	\$ 1,700,000	\$ 1,600,000	\$ 350,000	\$ (250,000)