WEAVTEL

**WeavTel**
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August 13, 2008

Ms. Carole J. Washburn, Executive Secretary
Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive SW
Olympia, WA 98504-7250

Re: Compliance Filing
Dockets UT-060762, UT-060920 and UT-060921 *(consolidated)*
Order 04

Dear Ms. Washburn:

Pursuant to Order 04 of the aforementioned Dockets numbers, WeavTel respectfully submits its audited Financial Statement for the period end December 31, 2007.

Sincerely,

Richard J. Weaver
Manager of Operations

Enclosures

# WASHINGTON 547 WESTGATE
# WESTGATE COMMUNICATIONS, LLC
# d/b/a WEAVTEL

Financial Statements

December 31, 2007 and 2006

**WASHINGTON 547 WESTGATE**
**WESTGATE COMMUNICATIONS, LLC**
**d/b/a WEAVTEL**

Financial Statements

December 31, 2007 and 2006

JOHNSON STONE & PAGANO, P.S.
CERTIFIED PUBLIC ACCOUNTANTS

1501 Regents Blvd., Suite 100
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To the Members
Westgate Communications, LLC, d/b/a WeavTel
Chelan, Washington

We have audited the accompanying balance sheet of Westgate Communications, LLC d/b/a WeavTel (a Limited Liability Company) as of December 31, 2007, and the related statements of operations and changes in members' deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Westgate Communications, LLC, d/b/a WeavTel as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, certain conditions indicate that the Company may be unable to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The December 31, 2006 financial statements were compiled by us, and our report thereon, dated March 10, 2008, except for Note 1 whose effective date is April 23, 2008, stated we did not audit or review those financial statements and, accordingly, expressed no opinion or other form of assurance on them.

Johnson, Stone & Pagano, P.S.

**JOHNSON, STONE & PAGANO, P.S.**

July 31, 2008

# FINANCIAL STATEMENTS

**WASHINGTON 547 WESTGATE**
**WESTGATE COMMUNICATIONS, LLC**
**d/b/a WEAVTEL**

BALANCE SHEETS

December 31, 2007 and 2006

| | 2007 (Audited) | 2006 (Compiled) |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | $ 23,179 | $ 10,016 |
| Certificate of deposit | 11,295 | 11,295 |
| Telecommunications accounts receivable | 53,900 | 2,667 |
| Prepaid expenses | 3,812 | 1,363 |
| **Total Current Assets** | 92,186 | 25,341 |
| **NONCURRENT ASSETS** | | |
| Due from related party | 30,680 | 38,382 |
| Unamortized debt issuance expense | 9,250 | 10,000 |
| **Total Noncurrent Assets** | 39,930 | 48,382 |
| **PROPERTY, PLANT AND EQUIPMENT** | | |
| Telecommunications plant in service | 2,168,121 | 1,882,912 |
| Less allowances for depreciation | 289,299 | 125,674 |
| **Total Telecommunications Plant in Service** | 1,878,822 | 1,757,238 |
| Telecommunications plant under construction | 19,973 | |
| **Total Property, Plant and Equipment** | 1,898,795 | 1,757,238 |
| **Total Assets** | $ 2,030,911 | $ 1,830,961 |

See accompanying notes to financial statements.

| | 2007 (Audited) | 2006 (Compiled) |
|---|---|---|
| **LIABILITIES AND MEMBERS' DEFICIT** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 1,061,048 | $ 811,532 |
| Note payable line of credit | 63,599 | 61,552 |
| Taxes, other than income taxes | 3,904 | 3,277 |
| Accrued interest payable | 102,336 | 24,577 |
| Member notes payable | 75,003 | 64,665 |
| Installments on long-term debt due within one year | 1,869,399 | 1,852,895 |
| **Total Current Liabilities** | 3,175,289 | 2,818,498 |
| **MEMBERS' DEFICIT** | (1,144,378) | (987,537) |
| **Total Liabilities and Members' Deficit** | $ 2,030,911 | $ 1,830,961 |

**WASHINGTON 547 WESTGATE**
**WESTGATE COMMUNICATIONS, LLC**
**d/b/a WEAVTEL**

STATEMENTS OF OPERATIONS AND CHANGES IN MEMBERS' DEFICIT

Years Ended December 31, 2007 and 2006

| | 2007 (Audited) | 2006 (Compiled) |
|---|---|---|
| **OPERATING REVENUES** | | |
| Local network service revenues | $ 1,962 | $ 9,991 |
| Network access service revenues | 363,951 | 30,338 |
| Miscellaneous revenues | 40,013 | 814 |
| **Total Operating Revenues** | 405,926 | 41,143 |
| **OPERATING EXPENSES** | | |
| Plant specific operations | 135,308 | 70,231 |
| Plant nonspecific operations | 94,711 | 66,333 |
| Depreciation and amortization | 164,375 | 86,994 |
| Customer operations | 1,813 | 499 |
| Corporate operations | 77,620 | 262,189 |
| Taxes, other than income taxes | 1,944 | 2,029 |
| **Total Operating Expenses** | 475,771 | 488,275 |
| **Net Operating Loss** | (69,845) | (447,132) |
| **FIXED CHARGES** | 89,605 | 60,799 |
| **OTHER INCOME** | | |
| Interest and dividend income | 2,189 | 415 |
| Nonregulated income | 420 | 60 |
| **Total Other Income** | 2,609 | 475 |
| **Net Loss** | (156,841) | (507,456) |
| **MEMBERS' DEFICIT AT BEGINNING OF YEAR** | (987,537) | (480,081) |
| **Members' Deficit at End of Year** | $ (1,144,378) | $ (987,537) |

See accompanying notes to financial statements.

**WASHINGTON 547 WESTGATE**
**WESTGATE COMMUNICATIONS, LLC**
**d/b/a WEAVTEL**

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2006

| | 2007 (Audited) | 2006 (Compiled) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss | $ (156,841) | $ (507,456) |
| Adjustments to reconcile net loss to net cash provided (used) by operating activities: | | |
| Depreciation of telecommunications plant | 163,625 | 86,244 |
| Amortization of other assets | 750 | 750 |
| Net change in operating assets and liabilities: | | |
| Increase in telecommunications accounts receivable | (51,233) | (362) |
| Increase in prepaid expenses | (2,449) | (1,363) |
| Increase in accounts payable | 41,034 | 247,930 |
| Increase in taxes, other than income taxes | 627 | 3,277 |
| Increase in accrued interest payable | 77,759 | 18,347 |
| **Net Cash Provided (Used) by Operating Activities** | 73,272 | (152,633) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Additions to telecommunications plant | (78,700) | (576,321) |
| Salvage on retired telecommunications plant | 7,000 | |
| Increase in certificate of deposit | | (415) |
| Due from related party | 7,702 | (38,382) |
| **Net Cash Used by Investing Activities** | (63,998) | (615,118) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from long-term debt | | 834,469 |
| Payments on long-term debt | (8,496) | (181,574) |
| Proceeds from member notes payable | 19,853 | 42,237 |
| Payments on member notes payable | (9,515) | (12,620) |
| Increase in note payable line of credit | 2,047 | 61,552 |
| **Net Cash Provided by Financing Activities** | 3,889 | 744,064 |
| **Net Increase (Decrease) in Cash** | 13,163 | (23,687) |
| **CASH AT BEGINNING OF YEAR** | 10,016 | 33,703 |
| **Cash at End of Year** | $ 23,179 | $ 10,016 |
| **SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION** | | |
| Cash paid during the year for: | | |
| Interest | $ 9,658 | $ 145,448 |
| Noncash investing activity - Telecommunication plant additions in accounts payable | $ 781,438 | $ 547,956 |

See accompanying notes to financial statements.

**WASHINGTON 547 WESTGATE**
**WESTGATE COMMUNICATIONS, LLC**
**d/b/a WEAVTEL**

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 (Audited) and 2006 (Compiled)

## NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Telephone Industry***
Westgate Communications, LLC, d/b/a WeavTel ("The Company") is a local exchange telecommunications company providing local exchange and other telecommunications services to customers in Stehekin, Washington and the surrounding vicinity in north central Washington State. The upper portion of the telecommunications exchange area is in the Chelan National Recreation Area which is regulated by the National Park Service.

Regulatory changes in the telecommunications industry have modified, or could modify, the manner in which the Company's approved telecommunication tariffed rates are calculated, as well as modify the manner in which the Company recovers its revenue requirements. Implementation of modifications and the outcome of regulatory proceedings may adversely affect certain current or future revenue streams of the Company.

***Organization***
Westgate Communications, LLC operates as a Washington Limited Liability Company and is comprised of 4 members. As an LLC, the members of the Company have limited personal liability for the obligations or debts of the Company.

***Regulation***
The Company is subject to the accounting rules and rate regulation policies of the Washington Utilities and Transportation Commission ("WUTC") and the Federal Communications Commission ("FCC") and, adheres to the FCC Uniform System of Accounts for a Class B telephone company as prescribed by the FCC under Part 32.

***Cash and Cash Equivalents***
For purposes of the statement of cash flows, the Company considers cash to be cash in checking and savings accounts.

***Unamortized Debt Issuance Expense***
Costs incurred to obtain financing for telecommunications plant additions are capitalized and amortized over the respective loan period.

***Telecommunications Plant***
Telecommunications plant is stated at cost and is depreciated on a straight-line basis for accounting purposes. Lives used for calculating depreciation are in accordance with the rules of the WUTC and are based on the estimated economic useful lives of the assets.

## NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Telecommunications Plant Retirements***
When an asset is retired or otherwise disposed of, the cost of the asset is removed from the asset account and charged to the related allowance for depreciation. Similarly, the cost of removal and salvage proceeds are charged or credited to the allowance for depreciation. Consequently, no gain or loss upon disposition is recognized.

***Accounting for the Impairment or Disposal of Long-Lived Assets***
The Company has adopted Statement of Financial Accounting Standards (SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 provides that long-lived assets such as property, plant, and equipment, and purchased intangibles other than goodwill subject to amortization be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell, and depreciation ceases. At December 31, 2007 and 2006, management has determined that there were no material impairment charges to be recorded as of those dates.

***Allowance for Funds Used During Construction***
Interest applicable to funds used for long-term construction projects is capitalized as a part of the cost of the asset and depreciated over the asset's estimated useful life. There was no interest capitalized in 2007. Interest capitalized totaled $80,595 in 2006.

***Revenue Recognition, Major Customers and Services***
Services provided by the Company include primarily local network and network access services. Network access service revenues, which represent a major portion of the Company's operating revenues, are derived from the provision of exchange access services to interexchange carriers or to an end user of telecommunications services beyond the Company's local network.

The Company, as a member of the National Exchange Carrier Association ("NECA"), filed preliminary interstate revenue requirement cost separation studies whereby the Company began to receive interstate common line support ("ICLS") and local switching support ("LSS") payments. The ICLS support was discontinued by Universal Service Access Company ("USAC") for the period July 2007 through June 2008 because the Company failed to meet reporting requirement deadlines. The Company has filed a waiver with the FCC requesting a waiver of the date specific deadline but the FCC has not acted upon this request.

## NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Revenue Recognition, Major Customers and Services** (Continued)*
USAC may request a refund for the ICLS support payments for the period July 2006 through June 2007 because the Company was not providing traditional network access services, even though the Company was providing the supported local network access services to its subscribers. USAC has not made a decision regarding this matter, and no provision has been made in the financial statements for repayment to USAC or the potential ICLS recovery if the FCC grants the requested waiver.

The Company will be eligible to receive ICLS support payments beginning July 2008 due to the timely filing of the required preliminary interstate revenue requirement data for 2008.

The Company was a member of NECA in 2007 but was temporarily suspended because NECA determined that the Company was not providing traditional network access services to its customers. The Company was unable to provide 2007 and 2006 interstate interexchange carrier access minutes and revenues to NECA in order to receive pooled interstate revenue requirement settlements. As of December 2007, the Company was reinstated as a member of NECA and began receiving its interstate pooled access settlements.

The Company should be eligible for High Cost Loop support payments in January 2009.

Revenues for intrastate access service are normally received through tariffed access charges filed by the Company and the Washington Exchange Carrier Association ("WECA") and approved by Washington Utilities Telecommunication Commission ("WUTC"). The access charges are billed by the Company to intrastate interexchange carriers. The carrier common line and state universal service fund revenues are pooled with all WECA member companies. The traffic sensitive revenues are considered bill and keep based on tariffed rates.

In May 2006, the WUTC denied the initial intrastate tariff filing for the Company. In 2007, the Company negotiated with the WUTC a temporary intrastate tariff filing. Pooled support payments through WECA began in July 2007 and will run through February 2009 as extended. The WUTC has requested a new intrastate revenue requirement filing based on actual data for 2007. The Company has negotiated with the WUTC for a filing deadline of August 31, 2008 for delivery of the 2007 audited financial statements and October 15, 2008 for network traffic studies and the proposal for a permanent intrastate revenue objective. The WUTC has indicated that future intrastate access support will be reduced by available interstate high cost loop support.

For some of the services that the Company provides to its customers, the Company relies upon services and facilities supplied to it by other companies. Any material disruption of the services or facilities supplied to the Company by other companies could potentially have an adverse effect upon the Company's operating results.

## NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Federal Income Taxes***

The Company has elected to be taxed as a partnership under the LLC provisions of the Internal Revenue Code. Therefore, taxable earnings and losses of the Company are flowed through to the Company's member tax returns and taxed at the applicable tax rate of the members and no provision for federal income taxes is recorded in the financial statements.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions used in preparing the accompanying financial statements.

## NOTE 2 - GOING CONCERN

At December 31, 2007, the Company was not in compliance with its financial obligation to RUS, which has suspended the Company's ability to draw additional funds, was in default with its loan terms with Great Plains Capital Corporation, is currently suspended from receiving ICLS revenues from USAC and may be required to repay amounts previously received for the ICLS support and local switching support. The Company experienced a loss of $156,841 for the year ended December 31, 2007 and has a negative working capital of $1,223,704.

The Company will be eligible to receive ICLS support payments beginning in July 2008 and management is working towards restoring its ability to draw additional RUS loan funds. The ability of the Company to continue as a going concern is dependent on many factors, one of which is restoring the availability of the RUS loan funds that will allow the Company to complete suspended construction projects necessary to meet the original revenue requirement projections, make payment on the Great Plains Capital Corporation outstanding loan and make payment on outstanding vendor accounts payable.

## NOTE 3 - CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at three financial institutions in northeastern Washington State, each insured by the Federal Deposit Insurance Corporation up to $100,000. The Company periodically maintains cash balances in excess of the federally insured limits. At December 31, 2007 and 2006, the Company's cash balances did not exceed the insured amount.

## NOTE 3 - CONCENTRATION OF CREDIT RISK (Continued)

The Company's telecommunications accounts receivable are subject to potential credit risk as they are concentrated in and around Stehekin, Washington, and are unsecured.

## NOTE 4 - TELECOMMUNICATIONS ACCOUNTS RECEIVABLE

The telecommunications accounts receivable balance consists of:

| | 2007 | 2006 |
|---|---|---|
| Due from customers and agents | $ 12,839 | $ 2,667 |
| Due from exchange carriers and exchange carrier associations | 41,061 | ____ |
| | $ 53,900 | $ 2,667 |

The Company extends credit to its business and residential customers based upon a written credit policy. Service interruption is the primary vehicle for controlling losses. Telecommunications accounts receivable are recorded when subscriber bills, carrier access bills, and exchange carrier associations settlement statements are rendered and are presented in the balance sheet net of the allowances for doubtful accounts. Certain exchange carrier associations' settlements are subject to out-of-period adjustments and are recorded during the year in which they become determinable. Telecommunications accounts receivable are written off when they are determined to be uncollectible. There are no allowances for doubtful accounts established because management believes all accounts receivable are collectible. As of December 31, 2007 and 2006, there were no significant outstanding accounts receivable over ninety days or more after the date of the invoice on which they were first billed.

## NOTE 5 - TELECOMMUNICATIONS PLANT IN SERVICE AND DEPRECIATION

Telecommunications plant in service is stated at cost. Listed below are the major classes of the telecommunications plant as of December 31:

| | 2007 | 2006 |
|---|---|---|
| General support facilities | $ 551,662 | $ 559,867 |
| Central office equipment | 1,433,951 | 1,140,537 |
| Cable and wire facilities | 182,508 | 182,508 |
| | $ 2,168,121 | $ 1,882,912 |

## NOTE 5 - TELECOMMUNICATIONS PLANT IN SERVICE AND DEPRECIATION (Continued)

Provision has been made for depreciation of the major classes of the telecommunications plant at straight-line rates as follows:

| | |
|---|---|
| General support facilities | |
| Buildings | 4.00% |
| Furniture and office equipment | 15.00% - 25.00% |
| Vehicles and other work equipment | 16.00% |
| Central office equipment | 9.00% - 11.19% |
| Cable and wire facilities | 4.55% - 20.40% |

## NOTE 6 - NOTE PAYABLE LINE OF CREDIT

The Company has a line of credit with Wells Fargo Bank in the amount of $60,000 with an annual interest rate of 15%. As of December 31, 2007 and 2006, the Company owed $63,599 and $61,552, respectively, and was over the allowed line of credit limit by $3,599 and $1,552, respectively. As of the date of this report, Wells Fargo Bank has requested repayment in full on the line of credit. The line of credit is secured by a guarantee by two members of the Company.

The Company has a Cash Secured Letter of Credit in the amount of $10,880 which is secured by the certificate of deposit for the benefit of vendor SES Americom, Inc. that was established on June 15, 2005. Interest income of $431 and $415 was earned on the account for the year ended December 31, 2007 and 2006, respectively. SES Americom, Inc. has not pursued collection of these funds as of the date of this report. Amounts owed to SES Americom, Inc. as of December 31, 2007 and 2006 are included in accounts payable in the amount of $43,658 and $30,558, respectively. The Company is currently negotiating repayment terms with SES Americom, Inc.

## NOTE 7 - LONG-TERM DEBT

Long-term debt consists of the following:

| | Principal Amount 2007 | Principal Amount 2006 |
|---|---|---|
| Rural Utilities Service (RUS) first mortgage notes | | |
| 5.0% - due November 2020 | $ 505,927 | $ 505,927 |
| 5.0% - due November 2020 | 531,829 | 531,829 |
| 5.0% - due November 2020 | 71,126 | 71,126 |
| 5.0% - due November 2020 | 231,514 | 231,514 |
| | 1,340,396 | 1,340,396 |
| Great Plains Capital Corporation with an interest rate of 5.0% and is currently due (2006 - Bank of America), collateralized by all loan proceeds made to the Company by RUS | 504,003 | 512,499 |
| Aerotek, Inc. with an interest rate of prime plus 2% if not paid by November 2008 | 25,000 | |
| | 1,869,399 | 1,852,895 |
| Less principal installments of long-term debt due within one year | 1,869,399 | 1,852,895 |
| | $ | $ |

The Company is not in compliance with its financial obligation to RUS. RUS has suspended the Company's ability to draw additional funds until the Company becomes current with its payments to RUS, provides the required audited financial statements and management letters, and reimburses the construction fund cash account $184,953. The Company is also not in compliance with various Sections of its Loan Agreement with RUS including but not limited to the Company's providing timely audited financial statements and related management letters as required by RUS, maintaining a times interest earned ratio (TIER) of at least 1.0, becoming current with its obligations to RUS, and reimbursing the construction fund cash account for the disallowed cash disbursement of $184,953. Due to the loan violations, the entire RUS debt is classified as current for purposes of the financial statement presentation.

The Company disagrees with RUS in relation to a disallowed cash disbursement of $184,953 and is reviewing the applicable loan and contract documents in its discussions with RUS.

**NOTE 7 - LONG-TERM DEBT** (Continued)

Originally, the RUS suspended the Company's ability to draw additional loan funds when the WUTC denied the Company's intrastate revenue requirement filing which was later amended and approved in early 2007. The Company's inability to draw the additional loan funds slowed and/or stopped construction projects that were needed to complete the budgeted construction projects and meet the original revenue requirement projections.

RUS could call the loan due to the compliance issues noted above. But in the event that RUS does not call the loan, at December 31, 2007, maturities on long-term debt in the next five years and thereafter are as follows:

| | |
|---|---|
| 2008 | $ 608,572 |
| 2009 | 77,367 |
| 2010 | 81,324 |
| 2011 | 85,485 |
| 2012 | 89,858 |
| Thereafter | 926,793 |
| | $ 1,869,399 |

Substantially all of the Company's telecommunications plant now owned and hereafter acquired is subject to a first mortgage executed to the RUS. The terms of the mortgage agreement restrict distributions to members, redemptions of member's equity, and investments in affiliated companies. Allowable distributions are based on minimum net worth requirements defined in the agreements.

In February 2006, the Company defaulted on a loan with Bank of America. The loan was transferred to Great Plains Capital Corporation as of April 2007 with a principal balance of $512,499. The Company negotiated an interest rate of 5% and received a waiver of the unpaid interest and agreed to $5,500 monthly payments starting in June 2007.

The loan to Great Plains Capital Corporation became in default in September 2007, with the principal balance owing as of December 31, 2007 of $504,003. Great Plains Capital Corporation has not pursued collection of the balance due as of the date of this report. Bank of America also continues to be noted as a secured party to the debt obligation.

## NOTE 8 - LEASE AND SERVICE AGREEMENTS

The Company leases office space in Chelan, Washington. The annual lease expired in March 2008 and was renewed for one year to March 2009. The current monthly payment is $310 per month, with the potential of estimated costs allocable to the premises as noted in the lease.

The Company has a single channel per carrier service agreement with SES Americom, Inc. with a projected termination date of March 2011 as amended. The service agreement has certain bandwidth allocations, service level and power level requirements as defined in the agreement. The agreement requires monthly payments of $5,044 and an irrevocable line of credit of $10,880 secured by the certificate of deposit (see Note 6). The Company is in default of the service agreement and is negotiating repayment terms of the amount outstanding of $43,658 at December 31, 2007.

## NOTE 9 - RELATED PARTY TRANSACTIONS

The Company is affiliated with WeavNet, through common ownership. The Company has paid for equipment and internet services on behalf of WeavNet in the amount of $30,680 and $38,382 as of December 31, 2007 and 2006, respectively.

Advances from two members are subordinated to the notes payable to Great Plains Capital Corporation and the RUS notes payable and bear interest at the applicable federal rate as determined by the Internal Revenue Service. The Company owes the members' $75,003 and $64,665 as of December 31, 2007 and 2006, respectively.

## NOTE 10 - COMMITMENTS AND CONTINGENCIES

WeavTel operates as an incumbent local exchange and as such is eligible to be a member of NECA and participate in interstate pools and to receive high cost loop support from the universal service fund. However, the Company did not become eligible to receive this support until it began providing traditional interstate network access services. As of December 2007, the Company started providing such services and became eligible to participate in the interstate pooling process as a member of NECA and will be eligible to receive high cost loop support beginning in January 2009.

## NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued)

***Chelan County Claim***

The Chelan County Commissioners scheduled a zone change hearing for the Stehekin wire center in May 2006. Chelan County denied the Company's request to amend the floodplain map for placement of the Company's telecommunication structures in Stehekin. In June 2006, the Company filed an appeal to the denial in Chelan County Superior Court. In September 2006, Chelan County Superior Court ordered Chelan County to grant the Petitioner's Application. The Company's second administrative use permit application was approved by the Board of County Commissioners on September 25, 2006.

The Company filed a complaint in late 2007 in United States District Court Eastern District of Washington against Chelan County for compensatory damages of $2,000,000 for the mishandling and timeliness of the processing the routine administrative use permit application. The court has set the matter for trial in September 2009. Chelan County is seeking recovery of its attorney fees in this matter. No adjustments have been made to the Company's financial statements as the ultimate outcome is still not known.

***National Park Service***

In June 2006, the Company filed suit against the National Park Service ("NPS") in the Eastern District of Washington Federal Court seeking an order that would require the NPS to issue the Company a Special Use Permit for its facilities. Per a memo from the NPS, the NPS would consider issuing a letter of authorization to the Company to test new technology subject to a satisfactory proposal. The Company submitted its proposal to NPS on July 17, 2006.

The Company and NPS settled and agreed to the Consent Order and Judgment in 2007. NPS will issue a Special Use Permit to the Company to install, maintain and operate a wireless telecommunications system after a field meeting is scheduled to verify the location to confirm the specific terms of the Special Use Permit. The Company paid NPS $10,558 for the balance owing on the first Environmental Assessment of $6,876 and the second Environmental Assessment of $3,682 as of the date of this report.

## NOTE 11 - PRIOR PERIOD ADJUSTMENT

The 2006 financial statements have been restated to correct for the over accrual of accrued interest in the amount of $22,401. Accounts payable, fixed charges, net loss and members' deficit were reduced by $22,401 to correct for the error on the previously issued 2006 financial statements.