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RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS
Years ended December 31, 2009 and 2008**

REDACTED

**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rural Telephone Company and Subsidiaries
Glenns Ferry, Idaho

We have audited the accompanying consolidated balance sheets of Rural Telephone Company (an Idaho corporation) and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rural Telephone Company and subsidiaries as of December 31, 2009 and 2008, 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.

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for limited liability companies in 2008.

In accordance with Government Auditing Standards, we have also issued a report dated May 5, 2010, on our consideration of Rural Telephone Company and subsidiaries' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. 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.

A handwritten signature in cursive script that reads 'Kiesling Associates LLP'.

Colorado Springs, Colorado
May 5, 2010

**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**CONSOLIDATED BALANCE SHEETS
December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents		
Special construction account		
Marketable securities		
Accounts receivable:		
Due from customers		
Interexchange carriers		
Affiliates		
Other		
Notes receivable		
Materials and supplies at average cost		
Inventory at average cost		
Prepayments		
OTHER NONCURRENT ASSETS		
Marketable securities		
Investment in lenders		
Other investments		
Deferred charges		
Intangibles		
PROPERTY, PLANT AND EQUIPMENT		
Telephone plant in service		
Other property		
Plant acquisition adjustment, net		
Less accumulated depreciation		
Plant under construction		
Property held for future use		
TOTAL ASSETS		

The accompanying notes are an integral part of these consolidated financial statements.

**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**CONSOLIDATED BALANCE SHEETS
December 31, 2009 and 2008**

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES		
Current portion of long-term debt		
Accounts payable:		
Interexchange carriers		
Affiliates		
Other		
Advance billing and payments		
Customer deposits		
Accrued taxes		
Accrued interest		
Other accrued liabilities		
LONG-TERM DEBT, LESS CURRENT PORTION		
STOCKHOLDERS' EQUITY		
Common stock -		
Other capital		
Retained earnings		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		

The accompanying notes are an integral part of these consolidated financial statements.

RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO

CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Local network services		
Network access services		
Long distance services		
Internet services		
Cable television services		
Other nonregulated services		
Miscellaneous		
Uncollectible		
OPERATING EXPENSES		
Cost of long distance services		
Cost of internet services		
Cost of cable television services		
Plant specific operations		
Plant nonspecific operations		
Depreciation and amortization		
Customer operations		
Corporate operations		
General taxes		
OPERATING INCOME		
OTHER INCOME (EXPENSE)		
Interest and dividend income		
Interest during construction		
Equity in income of investee		
Interest expense		
Other, net		
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE		
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE		
NET INCOME		

The accompanying notes are an integral part of these consolidated financial statements.

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**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2009 and 2008**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>
Balance at December 31, 2007			
Net income			
Dividends paid			
Balance at December 31, 2008			
Net income			
Dividends paid			
Balance at December 31, 2009			

The accompanying notes are an integral part of these consolidated financial statements.

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**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2009 and 2008**

<u>Total Stockholders' Equity</u>	<u>Annual Comprehensive Income</u>
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The accompanying notes are an integral part of these consolidated financial statements.

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**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		
Amortization		
Patronage in business conducted with cooperatives		
Equity income in unconsolidated affiliates		
Distributions received from unconsolidated affiliates		
Interest during construction		
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable		
Material and supplies		
Prepayments		
Increase (Decrease) in:		
Accounts payable		
Accrued taxes		
Advanced billings		
Other		
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures		
Purchase of other investments		
Purchase of equity investments		
Proceeds from sales of marketable equity securities		
Collections of notes receivable		
Salvage, net of cost of removing plant		
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowing		
Repayment of long-term debt		
Change in special construction account		
Dividends paid		
Net cash used in financing activities		
Net Decrease in Cash and Cash Equivalents		
Cash and Cash Equivalents at Beginning of Year		
Cash and Cash Equivalents at End of Year		

The accompanying notes are an integral part of these consolidated financial statements.

**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Rural Telephone Company and subsidiaries (herein referred to as "the Company") are providers of telecommunications exchange, local access, internet, cable television and long distance services in a service area located in southern Idaho, northern Nevada, northeast Washington, and northwest Oregon.

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management has evaluated subsequent events through May 5, 2010, the date the financial statements were available for issue. Telephone operations reflect practices appropriate to the telephone industry. The accounting records of the telephone company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Federal Communications Commission (FCC) as modified by the Idaho Public Utilities Commission (IPUC), Washington Utilities Commission (WUC) and Public Utility Commission of Oregon (PUCO).

Principles of Consolidation

The consolidated financial statements include the accounts of the parent company Rural Telephone Company and its 100% owned subsidiaries, Nehalem Telecommunications, Inc. and Pend Oreille Telephone Company. All material intercompany transactions have been eliminated in consolidation.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. At December 31, 2009, management has determined that all receivables will be collected and no allowance has been recorded.

Inventory

Inventory is stated at the lower of cost or market with cost determined by the average cost method. Inventory consists of various nonregulated equipment that is purchased by the Company primarily for sale to customers.

**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Debt and marketable securities bought and held principally for selling in the near future are classified as trading securities and carried at fair value. Unrealized holding gains and losses on trading securities are reported in earnings. Marketable securities classified as available-for-sale are carried at fair value with unrealized holding gains and losses recorded as a separate component of stockholders' equity. Debt securities for which the Company has both the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. The Company uses the specific identification method of computing realized gains and losses. As of December 31, 2009 and 2008, all marketable securities have been categorized as held to maturity.

Nonmarketable equity investments, over which the Company has significant influence are reflected on the equity method. Other nonmarketable equity investments are stated at cost.

Property, Plant and Equipment

Telephone plant is capitalized at original cost including the capitalized cost of salaries and wages, materials, certain payroll taxes, employee benefits and interest incurred during the construction period.

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property as approved by the IPUC, WUC and PUCO. These estimates are subject to change in the near term.

Renewals and betterments of units of telephone property are charged to telephone plant in service. When telephone plant is retired, its cost is removed from the asset account and charged against accumulated depreciation less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable telephone property. Repairs and renewals of minor items of telephone property are included in plant specific operations expense.

Repairs of other property, as well as renewals of minor items, are charged to plant specific operations expense. A gain or loss is recognized when other property is sold or retired.

**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset Retirement Obligations

Generally accepted accounting principles require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

The Company has determined it does not have a material legal obligation to remove long-lived assets, and accordingly, there have been no liabilities recorded for the years ended December 31, 2009 and 2008.

Software

The Company capitalizes costs (including right-to-use fees) associated with externally acquired software for internal use. Software maintenance and training costs are expensed as incurred. Capitalized software is generally amortized on a straight-line basis over its useful life, not to exceed five years.

Long-Lived Assets

The Company would provide for impairment losses on long-lived assets when no longer cost of service regulated, indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Income Taxes

The Company adopted new accounting guidance related to accounting for uncertainty in income taxes on January 1, 2009. In accordance with the guidance, the Company has evaluated its income tax positions. The Company has determined that there are no uncertain income tax positions that need to be recorded or reported in the financial statements at December 31, 2009.

Revenue Recognition

The Company recognizes revenues when earned regardless of the period in which they are billed. The Company is required to provide telephone service to subscribers within its defined service territory.

**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Local network service, cable television and internet revenues are recognized over the period a subscriber is connected to the network.

Network access and long distance service revenues are derived from charges for access to the Company's local exchange network. The interstate portion of access revenues is based on a cost separation procedure settlement formula administered by the National Exchange Carrier Association (NECA) which is regulated by the FCC. The intrastate portion of access revenues are billed based on an individual company tariff access charge structure approved by the IPUC, WUC and PUCO. The tariffs developed from this structure are used to charge the connecting carrier and recognize revenues in the period the traffic is transported based on the minutes of traffic carried. Long distance revenues are recognized at the time a call is placed based on the minutes of traffic processed at contracted rates.

Reported network access revenues are estimates subject to settlement adjustments in the near term resulting from changes in expense and plant investment levels and rate of return experience.

Revenues from network access and long distance network services were increased/(decreased) by approximately \$ and \$ in 2009 and 2008, respectively, as a result of adjustments to prior years' estimates.

The Company recognizes taxes charged to customers on a net basis in the statement of income.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$ and \$ in 2009 and 2008, respectively.

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**RURAL TELEPHONE COMPANY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

Recent accounting guidance for financial assets and liabilities presented at fair value defines "fair value", establishes a framework for measuring fair value, and expands disclosures related to fair value measurements. The guidance does not expand the use of fair value measurements in financial statements, but rather standardizes its definition and application in generally accepted accounting principles. The guidance provides for the use of three levels of input in determining fair value measurements. (Level 1 - quoted market prices; Level 2 - observable inputs of quoted market prices for similar or inactive items; and Level 3 - unobservable inputs.) The company deferred until January 1, 2009 the adoption of this guidance for all non-financial assets and liabilities that are recognized or disclosed on a non-recurring basis. This includes goodwill, intangibles and non-financial long-lived assets that are measured at fair value in impairment testing.

Reclassifications

Certain reclassifications have been made to the 2008 consolidated financial statements to conform with the 2009 presentation.

**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 2. MARKETABLE SECURITIES

The amortized cost and fair value of held-to-maturity securities are:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2009:</u>				
Held-to-Maturity:				
US Government obligations				
Amounts classified as:				
Current marketable securities				
Noncurrent marketable securities				
Total				
 <u>December 31, 2008:</u>				
Held-to-Maturity:				
US Government obligations				
Amounts classified as:				
Current marketable securities				
Noncurrent marketable securities				
Total				

The amortized cost and fair value of debt and marketable equity securities at December 31, 2009, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Amortized Cost	Fair Value
Held-to-Maturity:		
Due in one year or less		
Due after one year through three years		

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**RURAL TELEPHONE COMPANY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 3. OTHER INVESTMENTS

Other investments consist of the following at December 31:

	<u>2009</u>	<u>2008</u>
National Rural Telecommunications Cooperative patronage capital certificates		
Other		

The following is a summary of condensed financial information pertaining to the investment described above:

Assets
Liabilities
Equity

Revenues
Expenses
Net Income

Investment in lenders consists of the following at December 31:

RTFC patronage certificates

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**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 3. OTHER INVESTMENTS (Continued)

Because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs, management has determined it is not practical to estimate the fair value of these investments. However, management believes that the carrying amount of these investments at December 31, 2009, included in other investments is not impaired.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	2009	2008
Telephone plant in service:		
Land		
Buildings		
Furniture and office equipment		
Vehicles and work equipment		
Switching equipment		
Outside plant		
Leasehold improvements		
Subtotal		
Other property:		
Internet equipment		
Wireless equipment		
CATV equipment		
Other		
Subtotal		
Plant acquisition adjustment, net		
 Total property, plant and equipment		

Depreciation on depreciable property resulted in composite rates of % and % for 2009 and 2008, respectively.

Plant acquisition adjustments of \$ have been approved by the state regulatory authorities and are included as a component of property, plant and equipment due to the underlying assets which produced the adjustment. The adjustments are being amortized over 15 years.

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**RURAL TELEPHONE COMPANY
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 4. PROPERTY, PLANT AND EQUIPMENT (Continued)

Estimated amortization expense for the next five years is:

2010	\$
2011	
2012	
2013	
2014	

NOTE 5. LONG-TERM DEBT

Long-term debt consists of:

	2009	2008
RDUP mortgage notes - 2%		
RDUP mortgage notes - 5%		
Less unadvanced funds		
Total long-term debt		
Less current portion		

The annual requirements for principal payments on long-term debt for the next five years are as follows:

2010	\$
2011	
2012	
2013	
2014	

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**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 5. LONG-TERM DEBT (Continued)

Substantially all assets of the Company are pledged as security for the long-term debt under certain loan agreements with the Rural Development Utilities Program (RDUP) and . These mortgage notes are to be repaid in equal monthly and quarterly installments covering principal and interest beginning after date of issue and expiring by 2024.

The mortgage to the United States of America, underlying the RDUP notes, contains certain restrictions on the declaration or payment of cash dividends, redemption of capital stock or investment in affiliated companies except as might be specifically authorized in writing in advance by the RDUP noteholders.

Cash paid for interest net of amounts capitalized for 2009 and 2008 totaled \$) and \$), respectively.

Under the provisions of the loan contract, advances of loan funds shall be deposited in a special construction account and held in trust for the government until disbursed. The loan contract restricts disbursements to such expenditures as RDUP may authorize. All payments from the trust accounts are subject to RDUP approval.

NOTE 6. EMPLOYEE BENEFITS

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**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 7. RELATED PARTY TRANSACTIONS

NOTE 8. CONCENTRATIONS OF CREDIT RISK

The Company grants credit to local service customers, all of whom are located in the franchised service area, and telecommunications intrastate and interstate long distance carriers. The Company is subject to competition for telecommunications services including telecommunications exchange services offered by other providers in the franchised area.

The Company received approximately 70% of its 2009 revenues from access revenues and assistance provided by the Federal Universal Service Fund. As a result of the Telecommunications Act of 1996, the manner in which access revenues and Universal Service Funds are determined is currently being modified by regulatory bodies.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents. The Company places its cash equivalents in several financial institutions which limits the amount of credit exposure in any one financial institution.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

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**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009 and 2008**

NOTE 9. REGULATORY ACCOUNTING

For its telephone operations, the Company follows generally accepted accounting principles for regulated enterprises. Accordingly, the Company defers certain cost and obligations and depreciates plant and equipment over lives approved by regulators. While the Company continues to believe the current regulatory and competitive environment supports this accounting treatment, should conditions change the Company would be required to write-off these deferred cost and obligations and evaluate the net carrying value of its plant and equipment for any impairment losses absent the future recovery currently permitted by the regulators.

SUPPLEMENTARY INFORMATION



**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION**

To the Board of Directors
Rural Telephone Company and Subsidiaries
Glenns Ferry, Idaho

Our report on our audits of the consolidated financial statements of Rural Telephone Company and subsidiaries, for 2009 and 2008, appears on page 1. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating supplementary information, appearing on pages 22 through 27, is presented as required by the United States Department of Agriculture, Rural Utilities Service. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Kiesling Associates LLP

Colorado Springs, Colorado
May 5, 2010

**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**CONSOLIDATING BALANCE SHEET
December 31, 2009**

ASSETS

	Rural Telephone Company	Nehalem Telecommuni cations	Pend Oreille Telephone	Intercompany Eliminations	Consolidated
CURRENT ASSETS					
Cash and cash equivalents					
Special construction account					
Marketable securities					
Accounts receivable:					
Due from customers					
Interexchange carriers					
Affiliates					
Other					
Notes receivable					
Materials and supplies at average cost					
Inventory at average cost					
Prepayments					
OTHER NONCURRENT ASSETS					
Investment in affiliates					
Marketable securities					
Investment in lenders					
Other investments					
Deferred charges					
Intangibles					
PROPERTY, PLANT AND EQUIPMENT					
Telephone plant in service					
Other property					
Plant acquisition adjustment, net					
 Less accumulated depreciation					
 Plant under construction					
Property held for future use					
TOTAL ASSETS					

See Independent Auditors' Report on Supplementary Information

**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**CONSOLIDATING BALANCE SHEET
December 31, 2009**

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>Rural Telephone Company</u>	<u>Nehalem Telecommuni cations</u>	<u>Pend Oreille Telephone</u>	<u>Intercompany Eliminations</u>	<u>Consolidated</u>
CURRENT LIABILITIES					
Current portion of long-term debt					
Accounts payable:					
Interexchange carriers					
Affiliates					
Other					
Advance billing and payments					
Customer deposits					
Accrued taxes					
Accrued interest					
Other accrued liabilities					
 LONG-TERM DEBT, LESS CURRENT PORTION					
 STOCKHOLDERS' EQUITY					
Common stock					
Other capital					
Retained earnings					
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY					

See Independent Auditors' Report on Supplementary Information

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**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**CONSOLIDATING STATEMENT OF INCOME
Year Ended December 31, 2009**

	<u>Rural Telephone Company</u>	<u>Nehalem Telecommuni- cations</u>	<u>Pend Oreille Telephone</u>	<u>Intercompany Eliminations</u>	<u>Consolidated</u>
OPERATING REVENUES					
Local network services					
Network access services					
Long distance services					
Cable television services					
Internet services					
Other nonregulated services					
Miscellaneous					
Uncollectible					
OPERATING EXPENSES					
Cost of internet services					
Cost of long distance services					
Cost of cable television services					
Plant specific operations					
Plant nonspecific operations					
Depreciation and amortization					
Customer operations					
Corporate operations					
General taxes					
OPERATING INCOME					
OTHER INCOME (EXPENSE)					
Interest and dividend income					
Interest during construction					
Equity in income of investee					
Interest expense					
Other, net					
INCOME BEFORE EQUITY EARNINGS OF SUBSIDIARIES					
EQUITY EARNINGS OF SUBSIDIARIES					
NET INCOME					

See Independent Auditors' Report on Supplementary Information

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**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**CONSOLIDATING BALANCE SHEET
December 31, 2008**

ASSETS

	Rural Telephone Company	Nehalem Telecommuni- cations	Pend Oreille Telephone	Intercompany Eliminations	Consolidated
CURRENT ASSETS					
Cash and cash equivalents					
Special construction account					
Marketable securities					
Accounts receivable:					
Due from customers					
Interexchange carriers					
Affiliates					
Other					
Notes receivable					
Materials and supplies at average cost					
Inventory at average cost					
Prepayments					
 OTHER NONCURRENT ASSETS					
Investment in affiliates					
Marketable securities					
Investment in lenders					
Other investments					
Deferred charges					
Intangibles					
 PROPERTY, PLANT AND EQUIPMENT					
Telephone plant in service					
Other property					
Plant acquisition adjustment, net					
 Less accumulated depreciation					
 Plant under construction					
Property held for future use					
 TOTAL ASSETS					

See Independent Auditors' Report on Supplementary Information

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**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**CONSOLIDATING BALANCE SHEET
December 31, 2008**

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>Rural Telephone Company</u>	<u>Nehalem Telecommuni cations</u>	<u>Pend Oreille Telephone</u>	<u>Intercompany Eliminations</u>	<u>Consolidated</u>
CURRENT LIABILITIES					
Current portion of long-term debt					
Accounts payable:					
Interexchange carriers					
Affiliates					
Other					
Advance billing and payments					
Customer deposits					
Accrued taxes					
Accrued interest					
Other accrued liabilities					
LONG-TERM DEBT, LESS CURRENT PORTION					
STOCKHOLDERS' EQUITY					
Common stock					
Other capital					
Retained earnings					
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY					

See Independent Auditors' Report on Supplementary Information

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**RURAL TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**CONSOLIDATING STATEMENT OF INCOME
Year Ended December 31, 2008**

	<u>Rural Telephone Company</u>	<u>Nehalem Telecommunica tions</u>	<u>Pend Oreille Telephone</u>	<u>Intercompany Eliminations</u>	<u>Consolidated</u>
OPERATING REVENUES					
Local network services					
Network access services					
Long distance services					
Cable television services					
Internet services					
Other nonregulated services					
Miscellaneous					
Uncollectible					
OPERATING EXPENSES					
Cost of internet services					
Cost of long distance services					
Cost of cable television services					
Plant specific operations					
Plant nonspecific operations					
Depreciation and amortization					
Customer operations					
Corporate operations					
General taxes					
OPERATING INCOME					
OTHER INCOME (EXPENSE)					
Interest and dividend income					
Interest during construction					
Equity in income of investee					
Interest expense					
Other, net					
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE AND EQUITY EARNINGS OF SUBSIDIARIES					
EQUITY EARNINGS OF SUBSIDIARIES					
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE					
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE					
NET INCOME					

See Independent Auditors' Report on Supplementary Information

REDACTED



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Rural Telephone Company and Subsidiaries
Glenns Ferry, Idaho

We have audited the accompanying consolidated financial statements of Rural Telephone Company and subsidiaries as of and for the year ended December 31, 2009, and have issued our report thereon dated May 5, 2010. We conducted our audit 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.

Internal Control Over Financial Reporting

REDACTED

To the Board of Directors
Rural Telephone Company and Subsidiaries

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Telephone Company and subsidiaries' consolidated financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the board of directors, management, and the Rural Development Utilities Program, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Kinley Associates LLP

Colorado Springs, Colorado
May 5, 2010

REDACTED