

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
Years ended December 31, 2008 and 2007**

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Clay County Communications, LLC
Spencer, Iowa

We have audited the accompanying balance sheets of Clay County Communications, LLC (an Iowa limited liability company) as of December 31, 2008 and 2007, and the related statements of income, changes in members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 Clay County Communications, LLC as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Kiesling Associates LLP

West Des Moines, Iowa
March 18, 2009

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**BALANCE SHEETS
December 31, 2008 and 2007**

<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 182,393	\$ 66,568
Accounts receivable:		
Due from customers	-	92,086
Members	167,238	53,702
Other	1,073	1,292
Inventory	13,277	27,038
Prepayments	<u>11,030</u>	<u>11,384</u>
	<u>375,011</u>	<u>252,070</u>
OTHER NONCURRENT ASSETS		
Prepayments	<u>37,091</u>	<u>42,849</u>
PROPERTY, PLANT AND EQUIPMENT		
PCS plant in service	924,773	787,384
Less accumulated depreciation	<u>118,709</u>	<u>53,358</u>
	806,064	734,026
Plant under construction	<u>14,940</u>	<u>13,785</u>
	<u>821,004</u>	<u>747,811</u>
TOTAL ASSETS	<u>\$ 1,233,106</u>	<u>\$ 1,042,730</u>

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

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**STATEMENTS OF INCOME
Years ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Wireless services	\$ 769,734	\$ 479,171
Phone and accessory sales	90,332	91,198
Miscellaneous revenue	14,670	1,283
	<u>874,736</u>	<u>571,652</u>
 OPERATING EXPENSES		
Cost of wireless services	264,273	156,792
Cost of phone and accessory sales	190,158	264,607
Network operations	101,889	84,573
Depreciation and accretion	66,044	50,951
Customer operations	154,182	128,194
Corporate operations	38,764	27,607
General taxes	6,168	-
	<u>821,478</u>	<u>712,724</u>
 OPERATING INCOME (LOSS)	 <u>53,258</u>	 <u>(141,072)</u>
 OTHER INCOME		
Interest income	581	2,061
Allowance for funds used during construction	2,457	-
Donations	-	(331)
Interest expense	(4,832)	(7,190)
	<u>(1,794)</u>	<u>(5,460)</u>
 NET INCOME (LOSS)	 <u>\$ 51,464</u>	 <u>\$ (146,532)</u>

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

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**STATEMENTS OF CHANGES IN MEMBERS' EQUITY
Years ended December 31, 2008 and 2007**

	<u>Evertek, Inc.</u>	<u>Spencer Municipal Utilities</u>	<u>Total</u>
Ownership Percentage	50 %	50 %	100 %
Balance, December 31, 2006	\$ 371,583.50	\$ 371,583.50	\$ 743,167.00
Capital call	150,000.00	150,000.00	300,000.00
Net loss	<u>(73,266.00)</u>	<u>(73,266.00)</u>	<u>(146,532.00)</u>
Balance, December 31, 2007	448,317.50	448,317.50	896,635.00
Net income	<u>25,732.00</u>	<u>25,732.00</u>	<u>51,464.00</u>
Balance, December 31, 2008	<u>\$ 474,049.50</u>	<u>\$ 474,049.50</u>	<u>\$ 948,099.00</u>

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

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**STATEMENTS OF CASH FLOWS
Years ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 51,464	\$ (146,532)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and accretion	66,044	50,951
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(21,231)	(123,275)
Inventory	13,761	(6,771)
Prepayments	6,112	4,142
Increase (Decrease) in:		
Accounts payable	20,136	48,036
Accrued taxes	4,112	-
Other	10,718	35,678
Net cash provided by (used in) operating activities	<u>151,116</u>	<u>(137,771)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(138,506)</u>	<u>(108,989)</u>
Net cash used in investing activities	<u>(138,506)</u>	<u>(108,989)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	150,000	150,000
Repayment of long-term debt	(46,785)	(150,000)
Contributed capital	-	300,000
Net cash provided by financing activities	<u>103,215</u>	<u>300,000</u>
Net Increase in Cash and Cash Equivalents	115,825	53,240
Cash and Cash Equivalents at Beginning of Year	<u>66,568</u>	<u>13,328</u>
Cash and Cash Equivalents at End of Year	<u>\$ 182,393</u>	<u>\$ 66,568</u>

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

**CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 1. ORGANIZATION

Clay County Communications, LLC (an Iowa limited liability company, herein referred to as "the Company") was formed in 2006 to provide wireless telecommunications utilizing Personal Communications Services (PCS) spectrum in a service area located primarily in Clay County, Iowa. This service is provided by leasing licensed PCS spectrum from Evertex, Inc. Each member provides these services under their own name to the customers in their markets. Evertex, Inc. and Spencer Municipal Utilities (Communications Utility only) participate in this partnership, each with a 50% interest under an agreement filed in accordance with Iowa Code Chapter 28E. The members are entitled to equally share all profits and will equally be responsible for all losses of Clay County Communications, LLC. This agreement shall terminate on May 1, 2016, but may be extended by mutual agreement for an additional five years.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

The Company writes off accounts receivable as uncollectible at the time they are deemed to be uncollectible. At December 31, 2008 and 2007, management of the Company considers all receivables to be collectible. Accordingly, no allowance for doubtful accounts has been established.

Inventory

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

Property, Plant and Equipment

Property, plant and equipment 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.

CLAY COUNTY COMMUNICATIONS, LLC
SPENCER, IOWA

NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment (Continued)

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. These estimates are subject to change in the near term.

Renewals and betterments of units of property are charged to plant in service. When 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 property. Repairs and renewals of minor items of property are included in plant specific operations expense.

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.

Long-Lived Assets

The Company would provide for impairment losses on long-lived assets when 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

Under provisions of the Internal Revenue Code, the partners include their respective shares of Partnership income or loss on their individual tax returns. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The Company has deferred implementation of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, to its first fiscal year beginning after December 31, 2008, as currently allowed by FIN 48-3. Accordingly, the Company will continue to recognize income tax positions in accordance with accounting guidance that was authoritative immediately prior to the effective date of FIN 48.

**CLAY COUNTY COMMUNICATIONS, LLC
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**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Company earns wireless service revenues by providing access to its wireless network (access revenue) and for usage of its wireless system (airtime revenue). Access revenue from postpaid customers is billed either in advance or arrears and recognized ratably over the service period. Airtime revenue, including roaming revenue and long distance revenue, is billed in arrears based on minutes of use and is recognized when the service is rendered. Prepaid airtime sold to customers and revenue collected from pay-in-advance customers is recorded as deferred revenue prior to the commencement of services, and revenue is recognized when airtime is used or expires. Access and airtime services provided are billed throughout the month according to the bill cycle in which a particular subscriber is placed.

The Company offers enhanced services including caller ID, call waiting, call forwarding, three-way calling, no answer/busy transfer, text messaging and voice mail. Generally, these enhanced features generate additional service revenues through monthly subscription fees or increased wireless usage through utilization of the features. Other optional services may also be provided for a monthly fee. These enhanced features and optional services may be bundled with package rate plans or sold separately. Revenues for enhanced services and optional features are recognized as earned.

Equipment sales consist principally of revenues from the sale of wireless handsets and accessories to new and existing customers and to agents and other third-party distributors. The revenue and related expenses associated with the sale of wireless handsets and accessories through our indirect sales channels are recognized when the products are delivered and accepted by the agent or third-party distributor and probability of collection is likely. Shipping and handling costs for wireless handsets sold to agents and other third-party distributors are classified as costs of sales and services.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$22,418 and \$23,565 in 2008 and 2007, respectively.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform with the 2008 presentation.

**CLAY COUNTY COMMUNICATIONS, LLC
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**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	2008	2007
PCS plant in service:		
Buildings	\$ 47,694	\$ 47,694
Communications equipment	4,224	4,224
Wireless equipment	433,365	315,275
Towers	439,490	420,191
Total property, plant and equipment	\$ 924,773	\$ 787,384

Depreciation on depreciable property resulted in composite rates of 7.63% and 8.00% for 2008 and 2007, respectively.

NOTE 4. ASSET RETIREMENT OBLIGATION

The Company has determined that asset retirement obligations exist as there is a legal obligation to remove wireless cellular equipment at the time the Company discontinues its use. The Company's cost to remove these assets is accrued over the life of the assets. Accordingly, the Company has recorded a liability of \$14,750 and \$13,399 on December 31, 2008 and 2007, respectively. The expense in 2008 and 2007 for the accretion and depreciation related to asset retirement obligations is \$1,357 and \$1,069, respectively.

NOTE 5. LINE OF CREDIT

The Company entered into an agreement with State Bank in Spencer, Iowa for a line of credit up to \$200,000. The line of credit is secured by a security interest in all assets of the Company. Interest accrued at 7.50% on the principal balance through Friday, January 4, 2008. Subsequent to Friday, January 2008, the interest rate will be adjusted annually to 0.75% below the highest rate on corporate loans posted by at least 75% of the USA's thirty largest banks known as the Wall Street Journal Prime Rate. On February 1, 2008, this was converted to a loan.

NOTE 6. LONG-TERM DEBT

Long-term debt consists of:

	2008	2007
State Bank - 5.5%	\$ 103,215	\$ -
Less current portion	5,020	-
	\$ 98,195	\$ -

**CLAY COUNTY COMMUNICATIONS, LLC
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**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 6. LONG-TERM DEBT (Continued)

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

2009	\$	5,020
2010		5,304
2011		5,603
2012		5,919
2013		81,369

Substantially all assets of the Company are pledged as security for the long-term debt under certain loan agreements with State Bank in Spencer, Iowa. These mortgage notes are to be repaid in equal monthly installments covering principal and interest beginning after date of issue and expiring by February 2013.

Cash paid for interest, net of amounts capitalized, for 2008 and 2007 totaled \$2,375 and \$7,190, respectively.

At December 31, 2008, of the funds available for long-term notes and lines of credit, all funds were advanced.

NOTE 7. SPECTRUM LEASE

The Company leases licensed PCS spectrum from Evertek, Inc. The Company paid \$50,000 to lease this spectrum from August 2006 through June 2015. The Company amortizes this to expense monthly as the lease expires. The total amount expensed for leasing this spectrum was \$5,204 in the years ended December 31, 2008 and 2007.

Estimated lease expense for the next five years is:

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 5,204
2010	5,204
2011	5,204
2012	5,204
2013	5,204

**CLAY COUNTY COMMUNICATIONS, LLC
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**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE 8. RELATED PARTY TRANSACTIONS

During the course of normal operations, the Company had transacted business with its members. These transactions include equipment and management services purchased from Everttek, Inc. and Spencer Municipal Utilities as well as spectrum leased from Everttek, Inc. A summary of the related party activity is as follows:

	2008	2007
Equipment and Management Services Purchased:		
Everttek, Inc.	\$ 44,650	\$ 61,038
Spencer Municipal Utilities	<u>145,530</u>	<u>143,545</u>
	<u>\$ 190,180</u>	<u>\$ 204,583</u>

The Company had the following amounts included in accounts receivable for customer receivables, equipment and services purchased:

	2008	2007
Everttek, Inc.	\$ 36,850	\$ 12,863
Spencer Municipal Utilities	<u>130,388</u>	<u>40,839</u>
	<u>\$ 167,238</u>	<u>\$ 53,702</u>

The Company had the following amounts included in accounts payable for equipment and services purchased:

	2008	2007
Everttek, Inc.	\$ 6,261	\$ 5,629
Spencer Municipal Utilities	<u>19,764</u>	<u>18,863</u>
	<u>\$ 26,025</u>	<u>\$ 24,492</u>

NOTE 9. NONCASH INVESTING ACTIVITIES

Noncash investing activities included \$620 during the years ended December 31, 2007, relating to plant and equipment additions placed in service during 2007, which was reflected in accounts payable at December 31, 2007.