NOTE 8 - Profit Sharing Plan

During 1990, the Company established a qualified defined contribution profit sharing plan. Employees must be 21 years of age and employed by the company for one year before being eligible to join the plan. The plan has a five-year vesting schedule. The Company contributed $0, $33,726, $2,895, and $0 to the plan for the years ended 1997, 1996, 1995 and 1994 respectively.

NOTE 9 - Prior Period Adjustments

The following adjustments were made to the opening balances in the general ledger for the year 1994:

	Previously Reported	[1] Net Change	As Adjusted
Asset accounts:			
Cash and cash items	485,549	520,148 [2]	1,005,697
Security deposits		2,000 [2]	2,000
Telephone plant in service	4,454,726	(534,935) [3]	3,919,791
Telephone plant under construction	310,188	(14,150) [3]	296,038
Accumulated Depreciation	(1,641,635)	216,335 [3]	(1,425,300)
Liability and equity accounts:			
Accounts payable and customer deposits	(782,810)	464,103 [4]	(318,707)
Income taxes payable	48,588 [6]	(273,600) [5]	(225,012)
Retirement plan contribution payable	(37,958)	21,000 [7]	(16,958)
Capital stock	(208,519)	(3,916) [8]	(212,435)
Paid in capital	(1,409)	(6,600) [8]	(8,009)
Retained earnings	(904,654)	(390,385) [9]	(1,295,039)

[1] Differences summarized in reporting groups. Discussion following addresses the detail of the adjustments

[2] Several bank accounts of the Company were not recorded at December 31, 1993. Security deposits have been reported separately in the current report

[3] Plant and related depreciation:

	In Service	Under Construction	Accumulated Depreciation
Cable retire prior to 12-31-93 recorded in 1994	(24,500)		(24,500)
Cable placed in 1993 which was expensed at 12-31-93 and reversed during 1994	18,076		
Land in the Caineville exchange charged to plant in service in 1993. This exchange was still under construction at 12-31-93	(1,250)	1,250	
Removal of expenses which were charged to Construction in 1993		(15,400)	
Remove payable on switch not subsequently paid	(41,000)		
Unsupported basis in switches acquired from a related party in 1987 and 1990. See also [4]	(484,519)		(191,835)
Removal of intangible costs	(1,742)		
Total plant adjustment	(534,935)	(14,150)	(216,335)

NOTE 9 - Prior Period Adjustments (continued)

[4]:

Unsupported liability to related party recorded In 1987 and 1990. See also [3]	484,519
Remove payable on switch not subsequently Paid	41,000
Liability for retirement fund assets carried on Company records. These were separated in 1996	(61,416)
Net difference in accounts payable	464,103

[5] Income taxes relating to adjustments
[6] This amount reported previously as prepaid item – see [5]
[7] Removal of liability representing a charge for a non-qualified retirement plan
[8] Adjustment of capital accounts. There are 424,870 shares of capital stock issued and outstanding at $.50 per share
[9] Net adjustment to retained earnings. This is the total of the above adjustments

NOTE 10 - Due From Affiliated Company

Beehive Telephone Company, Inc. Nevada, (Affiliated Company), is wholly owned by the majority stockholder of the Company.

The Company and the Affiliated Company have an agreement whereby each may use the resources (employees, office space, premises, facilities, equipment and supplies), of the other as may be required for economy and convenience. The entity receiving the benefit of the resources is billed at cost plus a reasonable rate of return as may be set from time to time by the Boards of Directors of both companies.

The amount due from Affiliated Company represents the unpaid amount billed the Affiliated Company at each period end for resources provided.

NOTE 11 - Payable to Affiliates

Amounts due related parties at the end of the respective years are:

	1997	1996	1995	1994
Advances from officers	$55,167	52,444	934	467,981
Brothers Leasing	60,480	62,134	37,096	23,300
Total	**$115,647**	**114,578**	**38,030**	**491,281**

Advances from officers represent personal advances to the Company that remain unpaid at the close of the respective periods. There are no set terms for repayment of advances from officers. Total advances amounted to $1,338, $53,310, $27,041 and $31,902 for the years ended 1997, 1996, 1995 and 1994 respectively.

Brothers Leasing is a related party owned and operated by the majority shareholder of the Company. The amounts due Brothers Leasing represent charges for the hourly rental of a D7 Caterpillar tractor prior to the current lease arrangement described in Note 12. There are no set terms for the payment of this liability. Total amounts of these rentals were $14,605, $25,036, $13,798 and $23,300 for the years ended 1997, 1996, 1995 and 1994 respectively.

NOTE 12 - Lease Commitments

Related party leases:
The Company leases a D7 Caterpillar tractor and five motor vehicles from Brothers Leasing. The relationship with Brothers Leasing is described in Note 11. The future lease commitments for the next five years are:

1998	$48,486
1999	48,486
2000	48,486
2001	39,239
2002	25,036

Total lease payments to Brothers Leasing, in addition to the rentals described in Note 11, were $27,788, $6,812, $0 and $0 for the years ended 1997, 1996, 1995 and 1994 respectively.

Other leases:
The Company leased motor vehicles from non-related parties during the periods reported. The future commitment associated with such leases is:

1998	$2,722

Total lease payments to non-related parties were $12,792, $26,158, $24,938 and $21,676 for the years ended 1997, 1996, 1995 and 1994 respectively.

NOTE 13 - Subsequent Events

On June 1, 1998 the Federal Communications Commission (FCC) released a Memorandum Opinion and Order (Order) requiring the Company to lower its interstate tariffs for premium and non-premium local switching, local transport facility, and local transport termination rates. The Company is required to refund to its access customers, with compounded daily interest, the difference between revenues obtained from January 1, 1998 to June 6, 1998 under it's then existing tariffs and those revenues which would have been obtained under tariffs prescribed by the Order.

Management estimates that the amount of such refund is $470,000. The result of this order will not affect amounts reported herein.

NOTE 14 - Contingencies

The Company is currently defendant in a formal complaint before the FCC brought by AT&T Corp. AT&T has alleged that the Company's tariffed rates for terminating access services are unlawfully high and has sought an award of damages. The Company has contested the complaint vigorously. The amount of potential loss cannot be estimated.

The Company is also defendant in a civil action in the Utah District Court. The plaintiff, a former employee of the Company, alleges that the Company breached a contract with him to provide for certain educational benefits and that it failed to issue to him 5000 shares of Company stock. The Company has contested and intends to continue to contest the case vigorously through trial. In the event of an unfavorable outcome the maximum liability to the Company would be $120,000 plus the plaintiff's attorneys' fees.

The Company has received an underpayment assessment from the Internal Revenue Service as a result of an examination covering the tax years 1994 and 1995. The Company is contesting this assessment vigorously. The final outcome is undeterminable at this time. The amount of potential loss cannot be estimated.

Other Reports

MCNEIL DUNCAN
Certified Public Accountant
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Private Companies Practice Section

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS ISSUED BY THE GAO

The Board of Directors
Beehive Telephone Company, Inc.

I have audited the financial statements of Beehive Telephone Company, Inc., as of and for the years ended December 31, 1997, 1996, 1995, and 1994, and have issued my report thereon dated June 3, 1998.

I conducted my 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 I 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 Beehive Telephone Company, Inc., is the responsibility of Beehive Telephone Company, Inc.'s management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of Beehive Telephone Company, Inc.,'s compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion.

The results of my tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

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

McNeil Duncan
Certified Public Accountant

June 3, 1998

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AICPA Division for CPA Firms:
Private Companies Practice Section

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

The Board of Directors
Beehive Telephone Company, Inc.

I have audited the financial statements of Beehive Telephone Company, Inc., as of and for the years ended December 31, 1997, 1996, 1995, and 1994, and have issued my report thereon dated June 3, 1998.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of Beehive Telephone Company, Inc. 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 operation of policies and procedures may deteriorate.

In planning and performing my audit of the financial statements of Beehive Telephone Company, Inc. for the years ended December 31, 1997, 1996, 1995 and 1994 I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

REPORT ON INTERNAL CONTROL STRUCTURE (Continued)

My 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 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. I noted no matters involving the internal control structure and its operations that I consider to be material weaknesses as defined above.

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

McNeil Duncan
Certified Public Accountant

June 3, 1998

EXHIBIT 2

BEEHIVE TELEPHONE COMPANY, INC. NEVADA

Auditor's Reports
and
Financial Statements

For The Years Ended

December 31, 1997, 1996 and 1995

MCNEIL DUNCAN
Certified Public Accountant
1160 South State Street #150 Orem, Utah 84058

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Auditor's Report

MCNEIL DUNCAN
Certified Public Accountant
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AICPA Division for CPA Firms:
Private Companies Practice Section

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

Board of Directors
Beehive Telephone Co., Inc. Nevada

I have audited the accompanying balance sheets of Beehive Telephone Co., Inc. Nevada, at December 31, 1997, 1996 and 1995, and the related statements of net income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Beehive Telephone Co., Inc. Nevada, as of December 31, 1997, 1996 and 1995, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

McNeil Duncan

McNeil Duncan
Certified Public Accountant

June 3, 1998

Financial Statements

BEEHIVE TELEPHONE CO., INC. NEVADA
Balance Sheets
December 31, 1997, 1996 and 1995

Assets:	1997	1996	1995
Current assets:			
Cash and cash equivalents,	$222,152	213,718	422,252
Telecommunications accounts receivable less allowance of $2,709 in 1997; $5,150 in 1996 and $1,000 in 1995	47,882	127,797	97,622
Prepayments	665	1,897	2,154
Prepaid Income Tax	23,922	41,571	
Total current assets	**294,621**	**384,983**	**522,028**
Non-current assets:			
Receivable from affiliates	**17,932**	**17,932**	**17,932**
Telephone plant:			
In service	1,218,362	638,343	638,343
Under construction	50,786	426,843	179,817
Total telephone plant	**1,269,148**	**1,065,186**	**818,160**
Less accumulated depreciation	348,676	338,496	300,579
Net telephone plant	**920,472**	**726,690**	**517,581**
Total assets	**$1,233,025**	**1,129,605**	**1,057,541**

The accompanying notes are an integral part of the financial statements

BEEHIVE TELEPHONE CO., INC. NEVADA
Balance Sheets (Continued)
December 31, 1997, 1996 and 1995

Liabilities and shareholders equity:	1997	1996	1995
Current labilities:			
Current accounts payable	$73,540	65,359	43,507
Accrued taxes other than income taxes	18,320	16,163	4,519
Accrued income taxes			56,841
Customer deposits	300	300	
Current maturities of long-term debt			
Total current liabilities	**92,160**	**81,822**	**104,867**
Long-term liabilities:			
Long-term debt			
Less current maturities -long-term-debt			
Due to affiliated company	716,568	514,270	369,201
Payable to affiliates	11,630	11,630	11,630
Total long-term liabilities	**728,198**	**525,900**	**380,831**
Shareholders' equity:			
Common stock - $1.00 par value, authorized 100,000 shares, issued and outstanding 1,000 shares all years	1,000	1,000	1,000
Retained earnings	411,667	520,883	570,843
Total shareholder's equity	**412,667**	**521,883**	**571,843**
Total liabilities and shareholders' equity	**$1,233,025**	**1,129,605**	**1,057,541**

The accompanying notes are an integral part of the financial statements

BEEHIVE TELEPHONE CO., INC. NEVADA
Statement of Net Income and Retained Earnings
For the Years Ended December 31, 1997, 1996 and 1995

	1997	1996	1995
Operating revenue:			
Local network services revenue	$13,944	16,427	16,595
Network access revenue	100,899	76,949	93,724
Long distance network services revenues	58,348	92,300	137,485
Other miscellaneous operating revenues	4,929	7,612	13,903
Gross revenues	**178,120**	**193,288**	**261,707**
Less: uncollected operating revenues	0	5,997	3,882
Total operating revenues	**178,120**	**187,291**	**257,825**
Operating expense:			
Plant specific operations expense	98,797	119,382	86,877
Plant nonspecific operations expense	3,333	3,497	2,748
Depreciation and amortization	68,533	37,916	42,086
Customer operations expense	37,849	23,172	23,746
Corporate operations expense	140,553	77,316	46,662
Total operating expense	**349,065**	**261,283**	**202,119**
Operating taxes:			
Federal income taxes - operating	(60,462)	(24,314)	14,446
Property taxes	6,685	5,404	5,756
Other operating taxes	200	510	
Total operating taxes	**(53,577)**	**(18,400)**	**20,202**
Operating income	**(117,368)**	**(55,592)**	**35,504**
Other income and expense:			
Interest and other income, net of income tax (Note 5)	8,152	5,632	8,892
Net other income and expense	**8,152**	**5,632**	**8,892**
Net income	**(109,216)**	**(49,960)**	**44,396**
Retained earnings, beginning of year	**520,883**	**570,843**	**526,447**
Retained earnings, end of year	**$411,667**	**520,883**	**570,843**
Earnings per share of common stock - average	($109.21)	(49.96)	$44.39

The accompanying notes are an integral part of the financial statements

BEEHIVE TELEPHONE CO., INC. NEVADA
Statements of Cash Flows
For the Years Ended December 31, 1997, 1996 and 1995

Inflows or (outflows) of cash and cash equivalents

	1997	1996	1995
From operating activities:			
Cash received from customers	$258,035	157,116	227,877
Cash paid to supplies and employees	(275,848)	(195,527)	(173,248)
Cash received from interest	12,351	8,534	13,472
Cash (paid) refunded for income taxes	73,912	(77,000)	(108,625)
Net cash from operating activities	**68,450**	**(106,877)**	**(40,524)**
From investing activities:			
Construction and acquisition of telephone plant	(262,315)	(247,025)	(179,813)
Net cash from investing activities	**(262,315)**	**(247,025)**	**(179,813)**
From financing activities:			
Payment of long-term debt			(5,241)
Change in payable to affiliated company	202,299	145,068	340,365
Change in receivable/payable to affiliates			(51,349)
Increase (decrease) in customer deposits		300	
Net cash from financing activities	**202,299**	**145,368**	**283,775**
Net cash increase (decrease)	**8,434**	**(208,534)**	**63,438**
Cash and cash equivalents - beginning	**213,718**	**422,252**	**358,814**
Cash and cash equivalents - ending	**$222,152**	**213,718**	**422,252**

Reconciliation of net margins to net cash provided by operating activities:			
Net income	**($109,216)**	**(49,960)**	**44,396**
Depreciation and amortization	68,533	37,916	42,086
(Increase) decrease in receivables	79,915	(30,175)	(29,948)
(Increase) decrease in prepayments	1,232	257	(2,154)
Increase (decrease) in accounts payable	10,337	36,765	(8,573)
Increase (decrease) in income tax accruals	17,649	(101,680)	(86,331)
Net cash from operating activities	$68,450	(106,877)	(40,524)

BEEHIVE TELEPHONE CO., INC. NEVADA
Notes to Financial Statements

NOTE 1 - Summary of Accounting Policies (Some accounting policies are presented with the discussion relating to the item to which the policy is applicable.)

Nature of Operations
Beehive Telephone Co., Inc. Nevada (the "Company") is a local exchange telephone company operating in the Nevada counties of Elko and White Pine.

System of Accounts
The Company operates under the regulatory jurisdiction of the Nevada Public Service Commission and the Federal Communications Commission and has maintained its accounting records in accordance with Part 32, Uniform System of Accounts for Telephone companies as prescribed by the Federal Communication Commission.

Concentration of Credit Risk
The Company has deposits for the years ending 1997, 1996 and 1995 respectively of $101,266, $133,162, and $206,069, which are insured by the FDIC. Cash deposits exceeding the amounts insured by FDIC amount to $120,739, $80,556, $216,183 respectively.

Monthly reviews are made of all past due accounts and a customer deposit is required for non-established and slow paying accounts. Allowance for credit losses is maintained at a level considered adequate to provide for such losses based on management's assessment of various risk factors affecting the investment in receivables.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires 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 could differ from those estimates.

Cash and Cash Equivalents
For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Inventories:
Inventory of new and reusable materials and supplies are stated at the lower of cost or market, with cost determined by the average cost method. Non-reusable material is carried at estimated salvage value. Materials and supplies are normally purchased only as needed.

Notes to Financial Statements (continued)

NOTE 1 - Summary of Accounting Policies (continued)

Property, plant and equipment:
Telephone plant in service and under construction is stated at the original cost of construction, including the capitalized cost of salaries and wages, materials, certain payroll taxes and employee benefits.

Depreciation is charged on a straight-line basis at annual rates that will amortize the cost of property over its estimated useful life. Depreciation rates are approved by the Nevada Public Service Commission.

When telephone plant property is retired, its cost is removed from the asset account and charged against accumulated depreciation, together with costs of removing such plant less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable property with the exception of general support facilities.

Revenue Recognition
Local service, intrastate and interstate access revenues are recognized when billed.

NOTE 2 – Non-current Assets

	1997	1996	1995
Receivable from affiliates	$17,932	17,932	17,932

This receivable is an amount due from the sole shareholder of the company. There is no set repayment schedule for this amount.

NOTE 3 - Telephone plant

Major classes of telephone plant in service are as follows:

	1997	1996	1995
General supports assets	$211,863	199,062	199,062
Central office equipment	172,890	142,842	142,842
Cable and wire facilities	833,609	296,439	296,439
Total plant	**$ 1,218,362**	**638,343**	**638,343**

Individual telephone plant depreciation rates are as follows:

Buildings	2.29 %
Furniture and office equipment	6.09 %
Motor vehicles	11.13 %
Central office equipment	7.01 % to 10.07 %
Cable and conduit	2.1 % to 6.14 %

NOTE 4 - Long-term Liabilities

	1997	1996	1995
Due to affiliated company	$716,568	514,270	369,201
Payable to affiliates	11,630	11,630	11,630
Totals	**$728,198**	**525,900**	**380,831**

Beehive Telephone Company, Inc., (Affiliated Company), is controlled by the sole stockholder of the Company. The Company and the Affiliated Company have an agreement whereby each may use the resources (employees, office space, premises, facilities, equipment and supplies), of the other as may be required for economy and convenience. The entity receiving the benefit of the resources is billed at cost

NOTE 4 – Long-term Liabilities (continued)

The amount due to Affiliated Company represents the unpaid amount billed by the Affiliated Company at each period end for resources provided. There are no set terms for the repayment of this liability.

The amount payable to affiliates represents monies owed Brothers Leasing. Brothers Leasing is a related party owned and operated by the sole shareholder of the Company. These amounts represent charges for the hourly rental of a D7 Caterpillar tractor prior to 1995. There are no set terms for the payment of this liability. There were no charges for these rentals during the periods reported.

NOTE 5 - Income Taxes

Federal income taxes are charged to the year generating the taxable income or loss.

A summary of the allocation of each year's income taxes follows:

	1997	1996	1995
To operating income	($60,462)	(24,314)	14,446
To other income	4,199	2,902	4,580
Total income taxes	**($56,263)**	**(21,412)**	**19,026**

NOTE 6 - Profit Sharing Plan

During 1990, the Company established a qualified defined contribution profit sharing plan. Employees must be 21 years of age and employed by the company for one year before being eligible to join the plan. The plan has a five-year vesting schedule. The Company contributed $0, $4,733, and $0 to the plan for the years ended 1997, 1996 and 1995 respectively.

NOTE 7 - Subsequent Events

On June 1, 1998 the Federal Communications Commission (FCC) released a Memorandum Opinion and Order (Order) requiring the Company to lower its interstate tariffs for premium and non-premium local switching, local transport facility, and local transport termination rates. The Company is required to refund to its access customers, with compounded daily interest, the difference between revenues obtained from January 1, 1998 to June 6, 1998 under it's then existing tariffs and those revenues which would have been obtained under tariffs prescribed by the Order.

NOTE 8 - Contingencies

The Company is currently defendant together with the Affiliated Company in a formal complaint before the FCC brought by AT&T Corp. AT&T has alleged that the Company's tariffed rates for terminating access services are unlawfully high and has sought an award of damages. The Company has contested the complaint vigorously. The amount of potential loss cannot be estimated.

The Company has received an underpayment assessment from the Internal Revenue Service as a result of an examination covering the tax years 1994 and 1995. The Company is contesting this assessment vigorously. The final outcome is undeterminable at this time. The amount of potential loss cannot be estimated.

EXHIBIT 3

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Russell D. Lukas
Lukas, Nace, Guitierrez & Sachs
1111 Nineteenth Street, N.W. Suite 1200
Washington, D.C. 20036

Dear Mr. Lukas:

I have been asked to address the statement of the FCC in Background paragraph 3 of its Order in CCDocket No. 95-108 released June 30, 1998 in the Matter of Beehive Telephone Company, Inc., and Beehive Telephone, Inc. Nevada, which states, in part, "Beehive had stated in its direct case for Transmittal No 8 that its cost accounts and records had not been maintained in accordance with Part 32 of the Commission's rules", and the sentence in Discussion paragraph 8 of the same Order which says "The Commission concluded that Beehive had failed to maintain its cost accounts and records in accordance with Part 32 of the Commission's rules and had not explained the accounting procedures that were used to maintain its books to allow reliance on them".

Page 35 of the companies' Transmittal No 8 contains this sentence: "Specifically, with regard to years 1994-1996, the new CPA concluded that significant amounts of opening balances (at December 31, 1993) were different than had been reported on the 1993 year end financial statements and that the Beehive's transactions were not being recorded in accordance with FCC Part 32, especially with respect to revenue accounting. "

This conclusion attributed to me has been taken out of context and seems to be the basis for the statements of the Commission quoted above. The following is offered as clarification.

I became acquainted with these companies and their accounting systems beginning in April, 1996. For some time the companies had maintained general ledgers in general accordance with FCC Part 32.

The "significant amounts of opening balances" which were determined to be different than had been previously reported related to cash balances, plant investment and liabilities that were adjusted as of December 31, 1993. These differences are detailed in the companies' financial statements for the years 1994 through 1997 upon which I have rendered an unqualified opinion. .

As to "transactions ... not being recorded in accordance with FCC Part 32...", the significant deficiencies existing at that time which related to the requirements of Part 32 were (1) the timing and classification of the recording of revenues and , (2) the absence of expense matrix subsidiary accounts and (3) the lack of what Part 32 describes as *Basic Property Records* (continuing property records and their supplemental records).

The deficiency in revenue classification was immediately addressed and with the result that revenues for the year 1994 and all subsequent years have been classified and recorded in accordance with Part 32 requirements.

The absence of expense matrix subsidiary classifications has been addressed. The companies' accountant prepared a spread sheet classification of the expense accounts for the years 1994, 1995, and 1996. For the year 1997 and currently, the expense matrix subsidiaries are an integral part of the general ledger.

The required basic plant records have also been established. These records were compiled on the basis of the original costs recorded in the plant accounts of the companies together with a detailed subsidiary listing of such costs which had been maintained for depreciation purposes. Since 1982 the plant costs have been closely scrutinized by the Rural Electrification Administration, now the Rural Utilities Service. The cost list underwent further review for propriety and was adjusted for the differences at December 31, 1993 described above. Property units were determined through staking sheets and other available construction and completion data. All necessary adjustments to plant accounts which were identified as a result of this activity were recorded in the general ledger. The plant accounts for all years ending after December 31, 1993 are supported by continuing property records.

Construction projects are identified as needed. Direct materials are classified directly between plant construction and maintenance and operation. Labor costs are used as the basis for the allocation of overhead and other indirect costs.

Plant specific operations expenses other than those related to land and building expenses and general computer expense are classified as to inside plant (central office equipment) and outside plant (cable and wire facilities), and then to toll and local within the inside and outside plant classifications. This is a classification method used consistently for many years by the companies and has been approved by FCC and NECA in the past. The physical arrangement and usage assignments of the plant allow this to be a practicable classification.

The other expense accounts are also maintained as directed by Part 32.

The narrative on Page 35 of the companies' Transmittal No 8 continues: "Therefore, the company was required to rebuild its records for the years 1994, 1995, and a substantial part of 1996 in order to reflect the adjusted opening balances and to properly reflect Beehive's transactions in accordance with Part 32 Accounts."

The statements in the Order cited above seem to indicate that this part of the transmittal was overlooked. The deficiencies relating to Part 32 requirements were taken care of. The financial statements for the years 1994 through 1997, issued by the companies, and accompanied by my Accountants Report of June 3, 1998, were developed and reported in accordance with the requirements of Part 32.

Sincerely,

McNeil Duncan CPA
July 1, 1998

BEEHIVE TELEPHONE COMPANY, INC.
5160 WILEY POST WAY, SUITE 220
SALT LAKE CITY, UT 84116
VOICE - 801-596-9512
FAX - 801-596-9504

July 1, 1998

Russell D Lukas
Lukas, Nace, Gutierrez & Sachs
1111 Nineteenth Street, N. W. Suite 1200
Washington, D. C. 20036

Dear Mr. Lukas:

The accounting for the Beehive Telephone Companies does and always has followed Part 32 of the FCC rules.[1] Payroll and overhead items are assigned to either operations and maintenance expense, or construction costs based on worksheets provided by our outside plant people. Actual purchases are assigned to the proper expense or plant account according to instructions on the purchase order.

There have been several accountants here over the years, and the degree to which Beehives accounting procedures followed Part 32 may have varied slightly depending on each accountant's knowledge of those rules.

When I became the Controller here in November 1995, I found that the accounting was not up to date. Upon further investigation I found that I needed to review the 1994 accounting data, and start over with 1995, rather than rely on what was already in the accounting records. In my review of the 1994 records, I did find some entries that I disagreed with and made changes. For the most part everything in 1994 was accounted for properly. There were some problems in verifying 12/31/93 balances so that our new CPA could conduct his audits. Most of these problems dealt with inadequate continuing property records. These records have all been completed and are being maintained on a current basis now.

It has taken me two full years, to bring all of the accounting to a current level. Because the balance sheet accounts carry forward from year to year, each year had to be completed consecutively. Income and expense items were entered on an ongoing basis, but allocations and other entries were done on a monthly basis as each accounting period was closed.

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[1] Refer to Beehives direct case page 35 paragraph 2. – The statement that our new CPA concluded that Beehive's transactions were not being recorded in accordance with FCC Part 32, is taken completely out of context. The former company accountant for Beehive had some items classified to the wrong accounts, but overall the accounting was done in accordance with Part 32 rules.

Although I have 20 years of accounting experience, it was not in telephone accounting. There have been many things for me to learn. Therefore as my understanding has increased, I have gone back and made changes to the way entries were originally booked. I have kept in close contact with our CPA, Mr. McNeil Duncan, who has over 30 years of telephone accounting experience. Whenever I have a question about the proper accounting for something I will consult with him first.

Beehive has been direct assigning its costs to toll and local expenses. Both FCC and NECA have approved this. This assignment is based on worksheets and other information provided by our outside plant technicians, and our chief engineer.

In the matter of providing subsidiary records to FCC, Beehive is a Class B company, and I was unaware that I was supposed to be keeping subsidiaries. In order to provide this data, I had to review an average of 13,500 entries per year. Now that I know that FCC may require this information, I am using subsidiary accounts in 1998. I have also gone back to 1997 and reclassified the entries into subsidiary accounts.

In summary Beehive Telephone Company accounting records do conform to Part 32 rules.

Sincerely,

Wayne A McCulley

Wayne A McCulley
Controller