

## APPENDIX 2

# Allband Communications Cooperative

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Financial Data and Other Information Supporting Allband's Wavier Request

**Section 1: Density and Other Characteristics of Robbs Creek Exchange that Contribute to High Cost**

Allband currently operates in one previously unserved exchange, Robbs Creek, which covers approximately 177.4 square miles in the following counties/townships:

<u>County</u>	<u>Township</u>	<u>Square Miles</u>
Alcona	Alcona	3.0
	Caledonia	18.3
	Hawes	13.9
	Mitchell	49.7
Alpena	Green	20.1
	Ossineke	32.5
Montmorency	Rust	18.4
Oscoda	<u>Clinton</u>	<u>21.5</u>
	<b>Total</b>	<b>177.4</b>

Robbs Creek is 85 miles from a non-rural area and 35 miles southwest of Alpena, MI, the closest rural city. Robbs Creek meets the definition of a remote area per RUS<sup>1</sup> evaluation standards.

The topography in Robbs Creek is generally flat to hilly with large sections of private and government owned forest with multiple ponds, lakes, streams and wetlands throughout the area. Northern seasonal conditions provide for short construction seasons and extreme winter weather, which prompted Allband to bury all of its fiber optic plant as opposed to aerial infrastructure to limit long-term maintenance expense. Fiber to the Home was selected as opposed to copper plant for three main reasons; (1) the high cost of copper at the time would have increased construction costs, (2) recent advances in Passive Optical Networking allowed Allband to purchase lower count fiber for less and reach the same amount of people that direct fiber runs would have provided, and (3) due to the green-field nature of the project, it made sense to install fiber optics rather than copper. Due to the long life of the fiber and its ability to accommodate advanced services in the future, fiber made the most sense.

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<sup>1</sup> Remote Area – An unserved, rural area 50 miles from the limits of a non-rural area. Pg. 4  
<http://www.broadbandusa.gov/files/BIP%20Application%20Guide%20-%20FINAL%20071009%201500.pdf>

As of year-end 2010, Allband had 163 access lines in its 177.4 square mile exchange. The Cooperative has constructed approximately 255 miles of buried fiber optic cable, which equates to 1.09 subscribers/square miles and 0.64 subscribers/fiber miles. It is not uncommon for Allband to install over one mile of fiber to a single resident in order to provide access to universal services. A traditional ILEC in this situation often will request costly construction fees from interested subscribers to offset the cost of construction. These fees are often cost prohibitive for those requesting service and ultimately, the potential subscriber is forced to live without a telephone. This scenario had prevented the investment of infrastructure in Robbs Creek for decades and would still not be possible without Allband's ability to utilize USF cost recovery to install service lines at affordable rates to the subscriber.

The Robbs Creek exchange has a mix of state, county and mainly private roads. While the exact total of private trails is unknown due in inaccessible areas, Allband has installed cable on approximately 8 miles of state roads (the only paved road in the entire exchange) and approximately 54 miles of county roads in the exchange. Of the 255 total miles installed, 193 miles consist of private trails (154 miles) and interoffice fiber trunking (35 miles) outside of the exchange. When combined with private trails, state roads and county roads that Allband has installed within Robbs Creek, Allband has 0.73 subscribers/road mile. The abundance of privately owned trails and other Right of Way (ROW) that do not allow for utility corridors has been one of the primary challenges Allband has faced in its efforts to increase its telephone subscriptions.

Back-haul access in Robbs Creek is not available from secondary providers and is only available outside of the Robbs Creek Exchange. In order for Allband to access the Public Switched Telephone Network (PSTN) and per RUS loan requirements, Allband had to build 25 miles of fiber into Hillman, MI, the closest interconnection point to Robbs Creek in order to interconnect with a partner carrier. Microwave and other wireless backhaul solution was not an option due to the hilly and forested terrain, which would have affected signal and service quality.

The primary factors that contribute to Allband's high-cost loop support are (a) the population density per mile of cable plant and the (b) the length of service drops from central service lines and (c) the lack of depreciation of the plant because Allband is a new provider. Due to the green-field nature of the plant, high-cost support is expected to be higher due to the abundance of new infrastructure whereas older incumbents typically have larger portions of depreciated plant, which reduces net investment and thus contributes to lower high-cost support.

## **Section 2: Allband is the Only Provider of Voice and Broadband Throughout the Robbs Creek Exchange**

On November 5, 2003, Allband Communications Cooperative (Allband) was incorporated as a non-profit cooperative to provide telecommunications services to previously unserved areas in Michigan. Like the numerous Cooperatives that were

formed in the past all over the United States, Allband's objective was to serve the public interest and to fulfill the universal service goals of the Communications Act by bringing telecommunications services to its members/customers in unserved areas of Michigan.

Customers in the unserved areas only had access to (a) unreliable, expensive and non-carrier compliant<sup>2</sup> cell phone service, (b) had no reliable or affordable access to universal services, (c) were not able to call 911 and needed to drive for miles to get help if there was a medical emergency, and (d) had no access to advanced services. With encouragement and assistance from various non-profit groups, Michigan State University and governmental entities, including Michigan Senate and House Representatives, customers in the unserved area decided to incorporate Allband as a non-profit cooperative. Allband is the first telephone cooperative in the state of Michigan and the State's first newly formed rural Incumbent Local Exchange Carrier (ILEC) in decades. Allband's ultimate goal is not only to provide reliable and affordable basic telephone and make advanced services available to its customers, but to also provide a robust network that overtime will improve the quality of life, economic, educational and health care opportunities for residents in Northeast Michigan.

Until Allband activated in first customer in 2006, an ILEC was not present in what was then a green-field territory. The rate centers around what is now Robbs Creek, which was once owned by General Telephone, Verizon and now Frontier were never expanded to assimilate Allband's current territory, leaving a 177 square mile void that lacked basic telecommunication infrastructure. Allband is the incumbent carrier and is the only LEC serving the Robbs Creek rate center.

Due to a lack of infrastructure to support tower communications, cellular and fixed wireless providers have never invested infrastructure in the previously unserved area and to date have not contacted Allband with interest to do so. Allband does not provide cellular phone service and has no plans to add such a service to its portfolio. Due to the lack of wireless coverage, wireless service is spotty and/or non-functional in most portions of Robbs Creek and is not a dependable form of communications for life-saving 911 services.

Currently, there are no Competitive Local Exchange Providers in Robbs Creek or no other form of terrestrial voice communication alternatives available other than undependable cellular coverage.

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<sup>2</sup> Due to a lack of wire line service in the area, cell phone service was not obtainable. In order to make calls, many residents who would eventually become Allband subscribers, purchased small towers and analog boosters for cell phones, which they wired to the phone lines of their premise. These boosters allowed them to make and receive calls, but were highly unreliable. Once cell phone carriers moved to all digital technology, this method, commonly called bag phone boosters, became obsolete and left the residents without phone service. This solution was not approved or endorsed by the cell phone providers according to the residents interviewed by Allband.

In theory, satellite phones would work in the area, but due to the high cost of satellite telephony, Allband does not know of any resident utilizing the service or even trying it. Additionally, the harsh weather in Northern Michigan would render satellite phones unreliable due to interference and the terrain.

Therefore, as the only universal service provider of dependable voice communications in the Robbs Creek exchange, a reduction in universal service support, as ordered by the Commission, would cause Allband to become financially insolvent as shown in Appendix 1. Allband would have to cease operations of its telephone network resulting in a loss of voice services and 911 capabilities in the Robbs Creek exchange.

### **Section 3: Accounting and Assignment of Unused or Spare Equipment or Facilities**

For assignment of equipment costs to the separations categories, including spares, Allband follows the FCC Part 36 Jurisdictional Cost Allocation Rules (Part 36). Allband's procedures for assignment of the costs of spare facilities for Cable and Wire (CWF) and Central Office Equipment (COE) are explained below.

The following table summarizes Allband's categorized costs for Cable and Wire (CWF), based on the 2010 Annual Cost Study.

**Categorized Cable and Wire Investment Summary**

Category	Amount
1 - Subscriber Loop	\$5,311,694
2 and 3 - Wideband and Toll	\$64,874
Total	\$5,376,568

As shown in the table above, approximately 99% of the total CWF investment is for provision of joint subscriber loops. Allband has a single interoffice route with two segments that carry toll and DSL/Internet traffic. For the interoffice route segments, four fibers are used. Allband has reserved 4 spare fibers for interoffice.<sup>3</sup> For categorization purposes, the costs of eight fibers (4 used and 4 spare) are included in the assignment. One route segment consists of 24 total fibers or \$93,000 of total investment and the other route segment consists of 48 fibers or \$203,000 of total investment. Assignment of costs to Categories 2 and 3 - Wideband and Toll consist of: 33% (8/24) of the 24 fiber or \$31,033 and 16.7% (8/48) of the 48 fiber or \$33,841. The total of the two route segments represents \$64,874 as shown in the

<sup>3</sup> Section 36.153 of the FCC's rules acknowledge that certain CWF investment that is "reserved" can be categorized based on an analysis of company records. " 47 C.F.R. Section 36.153(a)(1)(i)(A) states that cost assignment can be determined "From an analysis of cable engineering and assignment records, determine in terms of equivalent gauge the number of pairs in use or reserved for each category."

table above. The remaining fibers on the interoffice routes feed digital loop carrier equipment and are categorized as subscriber loop.

Regarding allocation of Central Office Equipment costs, the table below summarizes Allband's categorized costs determined pursuant to the Part 36 Rules.

Category	Amount
3 - Local Switching	\$433,828
4.11 Subscriber Wideband/DSL	\$188,785
4.13 Joint Subscriber Loop	\$188,785
4.22 Interoffice Wideband	\$53,030
4.23 Interoffice Toll	\$5,382
CALEA - Excluded from Regulated	\$11,573
Total	\$881,383

All categorization is based on the functionality of the equipment and related costs are determined from underlying records (primarily work orders). For example, all costs of switching equipment are assigned to Category 3 Local Switching and all costs of Fiber to the Home equipment is apportioned to 4.11 Subscriber Wideband and 4.13 Joint Subscriber Loop. To the extent there may be spare capacity in the equipment, any cost that may be associated with it would be included in the amount for each respective COE category. Allband also maintains some spare COE in the materials and supply inventory in the event that a piece of equipment fails. The current value of the COE materials and supplies is \$75,362.55.

#### **Section 4: Details of Corporate Operational Expenses**

Allband currently employs 7 full-time employees, 1 part-time employee and is directed by 6 Board members. Salaries and wages are reasonable in terms of company size and amount of access lines.

<b>Position</b>	<b>Salary or Wage</b>	<b>Benefits?</b>
General Manager/IT Manager	\$72,000 per year	YES
Operations Manager	\$42,000 per year	YES
Office Manager	\$35,000 per year	NO
Controller	\$25 per hour (part time)	NO
OSP Supervisor	\$15 per hour	NO
OSP Technician	\$10 per hour	NO
OSP Technician	\$10 per hour	NO
Network Administrator	\$12 per hour	NO

Allband charged \$185,453.57 in payroll and \$20,059.19 in benefits to corporate expense in 2010 and \$171,777.80 and \$43,646.83 in 2011 respectively.

Board Members do not receive compensation for meetings or service, but are offered health insurance if needed. Currently, only two Board Members utilize Allband's health insurance and four utilize dental only.

Despite the size of Allband, a specific amount of corporate operating expense is required to properly operate and maintain a wire line telephone company. Allband management believes that Allband's corporate expenses are within reason and require an acceptable and justifiable amount of high cost support. The following table provides a detailed comparison of 2010 and 2011 corporate expenses as of December 31 and is followed by a summary/analysis of each account.

Expense Account	Description	2011 (Unaudited)	2010 (Audited)	Difference (+/-)	Percent Change
671100	Executive	\$ 12,961.90	\$ 67,347.82	\$ (54,385.92)	-81%
672000	General and Admin	\$ 210,229.17	\$ 146,349.86	\$ 63,879.31	44%
672100	Accounting & Finance	\$ 52,136.96	\$ 62,942.89	\$ (10,805.93)	-17%
672200	Cost Study	\$ 55,340.00	\$ 41,775.00	\$ 13,565.00	32%
672500	Legal	\$ 35,594.08	\$ 45,174.95	\$ (9,580.87)	-21%
672810	Insurance	\$ 17,482.98	\$ 14,875.75	\$ 2,607.23	18%

### **Executive**

Consists of time spent on executive matters by the General Manager. This expense drastically decreased in 2011 due to the amount of time spent on General and Administrative expenses.

### **General and Administrative**

Consists of various expenses including, but not limited to office supplies, company cell phones, printing services, shipping, mailings, staff per diem and payroll allocation from the Operations Manager, Office Manager, outside plant staff and the General Manager. Expense increase is due to more payroll allocation from the General Manager position, who has spent less time on executive matters in 2011.

### **Accounting & Finance**

Consists of the payroll allocation of Allband's Controller and fees associated with Audit services. Expense decreased due to an increase in responsibilities of Allband's Controller, which resulted in a reduction of outsourcing to an accounting firm that was assisting with Allband's financials.

### **Cost Study**

Expense associated with cost study consulting and preparation as required by USAC and NECA. Expense increased due to USF and USAC government inquires and preparation for the FCC's USF reform which required assistance from Allband's cost consultant.

### **Legal**

Consists of legal fees from Allband's general attorney and its specialized cooperative attorney. Expense decreased from a general lack of need for legal services, but is

subject to change due to levels of regulatory activity including the FCC's current USF and Intercarrier compensation reforms.

**Insurance**

Consists of fees from insurance carrier for coverage of its vehicles, buildings, equipment and employee/Board liability coverage.

**Section 5: Allband Rates**

Note: per our service agreement and bylaws, cooperative members are required to subscribe to telephone service and cannot subscribe to Internet service without a telephone account.

**Basic Local Exchange Service - \$19.90/month**

Allband's standard phone service and the most common subscribed to regulated voice service. Includes free incoming, local (EAS/AEC) included, all features included (Caller ID, voicemail, three-way calling, call waiting, call forwarding), can be paired with Unlimited Long Distance

**Restricted - \$9.99/month**

Regulated voice service for customers who only require 911 access and incoming calls. All outgoing calls are charged on a per minute basis. This service is rarely subscribed to and if used, only for a short time.

Includes: 911 emergency, free incoming calls, free on-network calling  
FEATURES NOT INCLUDED: (caller ID, voicemail, three-way calling)

Cannot be paired with Unlimited Long Distance

Local (EAS/AEC) NOT INCLUDED

Outgoing intrastate/interstate: \$.099/min

Add-on Features: Caller ID/Call Waiting - \$3.99/month

3-Way Calling - \$3.99/month

Call Forwarding - \$3.99/month

Voicemail - \$3.99/month

**Unlimited Long Distance - \$24.99/month**

Unlimited Domestic Calling - Includes Alaska, Hawaii, and Puerto Rico

**High-Speed Internet - \$34.99/month**

6 Mbps Down/512 Kbps Up

Dedicated fiber to the home access

Unlimited downloads/uploads

**Section 6: Other Services Provided Over the Universal Service Supported Plant**

The only service that Allband currently offers on loops supported by USF is access to high-speed Internet. Allband, through an affiliate, offers one package for \$34.99 per month at speeds of 6 Mbps down and 512 Kbps up. As of January 1, 2012, Allband has 72 Internet subscribers, a take rate of 71%.

Allband does not offer access to video services due to high implementation cost and a lack of subscribership to support the endeavor

**Section 7: Cost Allocation Procedures between Regulated & Non-Regulated (CAM)**

See Attachment 1.

**Section 8: Audited Financial Statements**

Audited Financial Statements for 2008, 2009 and 2010 are provided in Attachment 2.

**Section 9: Information Regarding USDA Loans**

Allband currently has one loan with the United States Department of Agriculture Rural Utilities Service for \$8,076,000, executed on October 19, 2005. The interest rate of the loan is 5% annum with a maturity date of 21 years. Per the loan agreement, payments on the principle of the loan commenced two years from the date of the loan. Attachment 3 contains an amortization schedule showing the principle and interest payments associated with the RUS loan. For verification purposes, Attachment 4 contains the promissory note between Allband Communications Cooperative and the United States of America (RUS). As explained in Allband's waiver request and as demonstrated in Appendix 1, Allband will not be able to meet its debt obligations if subject to the USF support reductions. Currently, there is no discussion with RUS regarding the restructuring of the loan.

Schedule 1 of the Loan Agreement (See Attachment 5) required Allband to maintain a TIER of 1.42 throughout the life of the loan. If Allband does not receive its waiver, it will not be able to maintain the required TIER.

Per Article IV of Schedule 1, certain conditions of lending had to be met before RUS would allow advances to Allband, which included the following:

- (1) Evidence that the Borrower (Allband) has been granted by the Federal Communications Commission the right to receive immediate Universal Service Fund support from the National Exchange Carrier Association.

The requirement was met with approval by the Commission on August 11, 2005. This requirement was critical to RUS; without the USF revenues, the loan could not be repaid. Allband joined the NECA pools in December 2006 and began receiving support in January 2008.

- (2) Borrower has been granted approval by the Michigan Public Service Commission to operate as an eligible telephone carrier.

This requirement was met on November 10, 2005 in Order No. U-14659.

- (3) Evidence that the borrower has entered into, in form and substance satisfactory to RUS, an agreement,

- (A) for a long term lease for a headquarters building;

Allband owns the building and property of its central office. It currently leases its headquarters building via a 20-year lease.

- (B) with (a carrier) to provide T-1 facilities;

Allband has several T1s that provide trunking to its tandem carrier.

- (C) with (a carrier) to interconnect in Hillman, Michigan via a 25-mile fiber-optic cable utilizing OC-12 toll and transport electronics.

Due to the green field nature of the exchange, the neighboring ILEC did not have colocation facilities needed for PSTN access near Allband's exchange. Therefore, a 25-mile fiber run was built to the nearest town called Hillman, in order to connect to the PSTN via a fiber-meet point.

#### **Section 10: Identification of the Specific Facilities that will be Taken Out of Service Absent Grant of the Requested Waiver**

If Allband is not granted its waiver, all of its network equipment and facilities will be taken out of service due to Allband's inability to repay its loans and pay its expenses, which includes expenses related to PSTN interconnection. This will result in a complete loss of telephone and 911 services for all of its subscribers.



**Allband Communications Cooperative  
Regulated and Non-regulated Cost Identification Processes  
(Cost Allocation Manual)**



**Allband Communications Cooperative  
Regulated and Non-regulated Cost Identification Processes**

Allband Communications Cooperative is a non-profit corporation that provides regulated telephone service. Allband Multimedia, LLC is a wholly owned subsidiary of Allband Communications Cooperative and provides non-regulated services. Non-regulated services provided by Allband Multimedia are identified below. Each company maintains separate accounting books and records. All personnel that perform work functions for both companies are employees of Allband Communications Cooperative. Pursuant to an affiliate agreement, Allband Communications Cooperative provides services, consisting primarily of labor, to Allband Multimedia. Allband Multimedia directly accounts for all expenses and revenues associated with their operations, other than the costs associated with services provided under the affiliate agreement. Services provided by Allband Communications Cooperative to Allband Multimedia are directly identified or identified based on cost allocation procedures. This document describes the accounting and cost procedures that Allband Communications Cooperative utilizes to account for investments, reserves, expenses and taxes associated with non-regulated services. Additionally, this document explains affiliate transactions between Allband Communications Cooperative and Allband Multimedia that support non-regulated services provided by Allband Multimedia and the accounting process for those transactions.

Both entities are treated under 501(c)12 of the Internal Revenue Service Code and are income tax exempt.

**Non-regulated Services Provided by Allband Communications Cooperative and  
Allband Multimedia LLC**

1. Non-regulated services provided and accounted for by Allband Communications Cooperative:
  - a. Inside Wire – installation, maintenance and repair of customer premise inside wire.
  - b. Long Distance –Allband Communications Cooperative, in 2006, began providing Interstate and Intrastate long distance services to customers in its service area. This service is provided on a resale basis – Allband Communications Cooperative resells the services of a facilities-based long distance carrier.
2. Non-regulated services provided and accounted for by Allband Multimedia LLC:
  - a. High Speed Internet Services – FTTH Internet services are provided in Allband Communications Cooperatives telephone service area. Allband Multimedia purchases DSL/FTTH access lines from Allband

Communications Cooperative based on rates and terms contained in the NECA Access Services Tariff.

- b. Dial-up Internet
  - c. Telephone systems (Key, PBX, etc.) sales, installation and maintenance.
  - d. Voice Mail Service and Calling Features
  - e. Computer/Security equipment sales and service
  - f. IT Network Design and Consulting
3. Affiliate Services - pursuant to an Affiliate Agreement (See Exhibit 1), Allband Communications Cooperative provides the following services to Allband Multimedia:
- a. Installation and maintenance of high-speed Internet Service and Dial-up Internet
  - b. Wholesale bandwidth for Internet access
  - c. Customer service and billing and collection
  - d. Management and administration

**FCC Rules for Assignment of Costs to Non-regulated Services and Affiliate Services**

Allband Communications Cooperative accounts for costs associated with providing non-regulated services in conformance with the FCC Part 64 FCC Rules. These rules govern the assignment and/or allocation of costs between regulated and non-regulated services. The requirements contained in the rules for small LECs are general guidelines. In assigning costs to regulated and non-regulated activities, carriers must follow these principles:

- ❑ Tariff services provided to a non-regulated activity will be charged at the tariff rates and credited to the regulated revenue account for that service.
- ❑ Costs shall be directly assigned to regulated or non-regulated activities whenever possible.
- ❑ Costs which cannot be directly assigned to either regulated or non-regulated are considered common and must be allocated based on the following criteria:
  - Common costs should be first allocated based upon direct analysis of their origin.

- When direct analysis is not possible, common costs should be allocated based upon a cost causative linkage or another cost category for which direct analysis is possible.
- If neither of the above are possible, the common costs should be allocated based upon a general allocator computed by using the ratio of all expenses directly assigned or attributed to regulated and non-regulated activities.

Allband Communications Cooperative also accounts for transactions with affiliates in accordance with the FCC Part 32 Rules (Uniform System of Accounts). Generally, the FCC Part 32 Rules require that services provided to affiliates be accounted for based on fully allocated costs.

### **Overview of Allband Communications Cooperative's Procedures for Assignment of Costs to Non-regulated Operations**

Consistent with the FCC Rules, Allband Communications Cooperative has implemented accounting procedures that directly identify or account for the majority of non-regulated costs or identify non-regulated costs on a cost-causative allocation basis. A significant portion of the non-regulated investments and related depreciation amounts are used solely for non-regulated services and are accounted for directly on the separate books and records of the Allband Multimedia affiliate. A high level summary of the non-regulated cost identification process is shown in Table 1 below. General Support Facility and Local Switching Investments of Allband Communications Cooperative, which are used jointly for regulated and non-regulated services, are assigned to non-regulated services based on special studies. These studies are discussed in further detail below. Labor related costs are assigned to non-regulated services based on time reporting procedures. Such assignments are based on the number of work hours associated with non-regulated services reported on employee time sheets. A portion of the jointly used facility related expenses are assigned to non-regulated services based on the assignment of the underlying or related investments. Other categories of costs are assigned to non-regulated services based on special studies. All non-regulated costs, identified on the basis of assignment or allocation procedures, are removed from account balances prior to application of jurisdictional separations procedures. The procedures for identification of non-regulated costs are presented in more detail below.

**Table 1 – Overview of Non-Regulated Accounting Procedures**

Category	Separate Accounting Records	Cost Causative Assignment Procedures		
		Time Reporting	Related Investment	Special Study
<b>Investments, Reserves and Depreciation Expense</b>				
-Voicemail	X			
-Land	X			X
-Buildings	X			X
-Motor Vehicles				X
-Tools & Oth Wk. Eq.				X
-Furniture				X
-Office Equipment				X
-Computers				X
<b>Service Related Expense</b>				
-Term Equipment I&R.		X		
-Voice Mail		X		
-Long Distance		X		
-Internet		X		
-Security Equipment		X		
-IT Consulting		X		
-Computer Sales and Repair		X		
<b>Facility Related Exp.</b>				
-Buildings			X	
-Motor Vehicles		X		
-Tools & Other Wk. Eq.		X		
-Furniture			X	
-Office Equipment			X	
-Computers			X	
<b>Other Expenses</b>				
-Billing and Collection				X
-Benefits		X		
-General and Admin		X		
- Advertising	X			
- Property Taxes	X		X	

### Assignment of Investments and Associated Reserves to Non-regulated Services

Allband Communications Cooperative maintains accounts for assets associated with non-regulated operations. Allband Multimedia LLC does not own or account directly for any facilities. Receivable/payable accounts are maintained to record amounts billed and received by Allband Communications Cooperative from Allband Multimedia that are associated with non-regulated services. Below are the accounts that Allband Communications Cooperative maintains for investments pertaining to non-regulated services and operations:

- ❑ Account 1402.1 - Non-regulated Investment – Accumulated Affiliate Earnings
- ❑ Account 1190.3 - Non-regulated Investment – Accounts Receivable

- Account 4000.05 - Non-regulated Investment – Accounts Payable
- Account 7365.1 - Non-regulated Investment – Equity Income/Loss

General support facility investments that are jointly used to provide both regulated and non-regulated services, including related reserves, attributable to non-regulated Services are allocated in the annual cost study process as indicated in Table 2:

**Table 2 – Investment/Reserve Non-regulated Allocation Methods**

<b>Account</b>	<b>Description</b>	<b>Allocation Method</b>
2111	Land	Special Study
2112	Motor Vehicles	Time Study
2114	Other Work Equipment	Time Study
2121	Buildings	Special Study
2123	Office Equipment	Time Study
2124	General Purpose Computers	Time Study

A sample of the allocation of the other investments, shown in Table 2, to non-regulated services is included in Exhibit 2. All other general support investments are allocated based on time studies. Motor vehicle investments are assigned based on time studies for management and outside field employees. Tools and other work equipment investments are assigned based on time reporting for outside field employees. Office equipment, and general-purpose computer investments are assigned based on time reporting for inside/office employees. As shown in Exhibit 2, and as discussed in further detail below, other costs that are applicable to general support facilities investments (i.e., maintenance and depreciation) are allocated to non-regulated services based on the assignment of the related investment accounts.

#### **Assignment of Expenses to Non-regulated Services**

Allband Communications Cooperative has implemented accounting processes that directly identifies and accounts for the majority of non-regulated expenses. For goods and services attributable to non-regulated services that are invoiced, such as inventory purchases or vendor billings, the related costs are moved into an Allband Multimedia receivable account (see account below) on Allband Communications Cooperative's records. The expenses related to such purchases are recorded in Allband Multimedia's expense accounts. Purchases are recorded as a payable to Allband Communications Cooperative (see below) on Allband Multimedia's records. Labor-related expenses are directly accounted for based on time reporting of employees that are involved with the provisioning and/or administration of non-regulated services. Benefit costs and certain overheads are assigned to non-regulated services based on the associated payroll wages. Allband Communications Cooperative utilizes clearing accounts for assignment of such costs.

- Account 1190.3 – Allband Multimedia – Accounts Receivable

- Account 4000.05 – Allband Communications Cooperative – Accounts Payable

Allband Multimedia, LLC is a wholly owned subsidiary of Allband Communications Cooperative. When a parent company either directly or indirectly controls majority interest of the subsidiary, consolidated financial statements must be presented. When creating consolidated financial statements, elimination entries are required to move the effects of inter-company transactions. See an example of consolidated financial statements as Exhibit 3. In the consolidated financial statements, all Allband Multimedia expenses and revenues are recorded in non-regulated accounts in the consolidated financial statements and inter-company payables and receivables are cleared, combining net income and losses.

**Description of Time Reporting and Allocation System Used by Allband Communications Cooperative to Directly Account for Labor-Related Non-Regulated Costs.**

Allband Communications Cooperative has implemented and maintains a time-reporting system to capture labor-related costs associated with providing non-regulated services. The time reporting and accounting processes implemented by Allband Communications Cooperative captures the payroll and other costs that are assigned to non-regulated services. This system captures both the non-regulated costs within Allband Communications Cooperative and also those associated with services provided to Allband Multimedia. The following labor related costs for non-regulated services provided by Allband Communications Cooperative are captured or assigned based on the time reporting process:

- Gross payroll costs
- Benefit Costs (Social Security, health insurance, pension, and Other benefits)
- Motor vehicle expenses
- Other work equipment expenses
- Allband Communications Cooperative employees, including administrative and management personnel, prepare time sheets that account for the amount of time the employee has spent on non-regulated services. Plant or Field Technicians prepare time sheets on a daily basis. An example of this time sheet is included as Exhibit 4. Once the daily time sheets are turned into management, the Operations Manager enters the daily time sheet data into a weekly account summary sheet. An example of the weekly account time sheet is included as Exhibit 5. On a quarterly basis, the Controller enters the weekly time sheet data in a quarterly summary for each employee and totals the accounts in a quarterly summary sheet. Examples of both sheets are included as Exhibit 6. The time sheets indicate appropriate accounts that identify regulated and non-regulated functions

attributable to work functions performed by Allband Communication Cooperative's employees. For each employee, the gross salary and wages are assigned to non-regulated services based on the respective amount of work hours spent on non-regulated services. Non-productive time (vacation, sick time, etc.) is separately assigned to Allband Communication Cooperative's regulated accounts on a per employee basis based on hours worked or payroll hours. In addition to gross payroll costs, payroll taxes (FICA and unemployment), benefits and overheads (motor vehicle expenses and other work equipment) are assigned to both regulated and non-regulated accounts. These distributions are also based on payroll hours.

### **Other Allband Communications Cooperative Non-regulated Expense Allocations and Assignments**

General support expenses attributable to Non-regulated Services are allocated in the annual cost study process as indicated in Table 3:

**Table 3 – Investment/Reserve Non-regulated Allocation Methods**

<b>Account</b>	<b>Description</b>	<b>Allocation Method</b>
6561	Depreciation Expense - Buildings	Building Investment
6561	Depreciation Expense - Motor Vehicles	Motor Vehicle Investment
6561	Depreciation Expense – Tools and Other Work Equipment	Tools and Other Work Equipment Investment
6561	Depreciation Expense - Furniture	Furniture Investment
6561	Depreciation Expense – Office Equipment	Office Equipment Investment
6561	Depreciation Expense – General Purpose Computers	Computer Investment
6121	Land & Building Expense	Building Investment
6122	Furniture Expense	Furniture Investment
6123	Office Equipment Expense	Office Equipment Investment
6124	Computer Expense	Computer Investment
7240.3	Other Taxes – Property	Investment

A sample of the allocation of the other expenses, shown in Table 3, to non-regulated services is included in Exhibit 2. As indicated in the above table, the depreciation and facility related expenses are allocated to non-regulated services based on the percentage assignment of the related investment accounts to non-regulated services.

**EXHIBIT 1**

ALLBAND COMMUNICATIONS COOPERATIVE AND  
ALLBAND MULTIMEDIA, LLC

AFFILIATE AGREEMENT FOR THE FURNISHING OF SERVICES

OPERATING AGREEMENT  
BETWEEN  
ALLBAND COMMUNICATIONS COOPERATIVE  
AND  
ALLBAND MULTIMEDIA LLC

THIS AGREEMENT is entered into on Mar 12, 2009, by and between ALLBAND COMMUNICATIONS COOPERATIVE (hereinafter called "ALLBAND" or "Member") a non-profit corporation organized under the laws of the State of Michigan and ALLBAND MULTIMEDIA LLC, a limited liability company organized under the laws of the State of Michigan, as a subsidiary wholly owned by ALLBAND.

WHEREAS, ALLBAND operates a communications system in and around the Robbs Creek Exchange, and such exchanges or areas that may be added in the future, and ALLBAND is organized, staffed and equipped, and authorized to render ISP, facilities, labor and other services as herein provided; and

WHEREAS, ALLBAND MULTIMEDIA LLC will undertake the retail sales of communications and related services, including DSL, broadband, wireless, cable TV, IP video, voice mail, other internet services, and such other additional services to be determined, and will require the use of ALLBAND transmission facilities for the provision of said services; and

WHEREAS, ALLBAND and ALLBAND MULTIMEDIA LLC seek to obtain the economies to be derived from a joint use of facilities, labor, and other services by agreement, and therefore deem it advisable to enter into this Agreement; and

WHEREAS ALLBAND is authorized to utilize its properties, facilities, services, and resources of ALLBAND, and to enter into this Agreement, as an independent contractor and not as an agent of ALLBAND MULTIMEDIA LLC; and

WHEREAS, subject to the terms and conditions herein described, ALLBAND is willing, upon request by ALLBAND MULTIMEDIA LLC, to render such services and provide such property, facilities, services, and resources to ALLBAND MULTIMEDIA LLC on a wholesale or cost basis, taking into consideration the fulfillment of each party's responsibilities; and

WHEREAS, ALLBAND and ALLBAND MULTIMEDIA LLC agree that costs associated with facilities, labor, and other services provided under this agreement will be accounted for in accordance with FCC Part 32 and FCC Part 64 rules.

NOW, THEREFORE, for valid consideration received, and in consideration of the mutual agreements herein, the parties agree as follows:

1. **Formation; Name; Purpose.** ALLBAND MULTIMEDIA LLC has been formed pursuant to the provisions of the Michigan Limited Liability Company Act, as amended ("Act"), by the execution and filing of its articles of organization (as the same may be amended, the "Articles") with the Michigan Department of Labor &

Economic Growth, Bureau of Commercial Services ("Department"). The name, purpose and duration of ALLBAND MULTIMEDIA LLC are as set forth in the articles, as the same may be changed from time to time in accordance with the Act.

2. **Offices.** The principal office and any additional offices of ALLBAND MULTIMEDIA LLC will be at such place or places inside or outside the State of Michigan as the Member may designate from time to time. The initial registered office of ALLBAND MULTIMEDIA LLC and its resident agent are set forth in the Articles and may be changed from time to time in accordance with the provisions of the Act.
3. **Member.** ALLBAND MULTIMEDIA LLC has been formed as a limited liability company with one member, namely, ALLBAND, as set forth on the signature page. ALLBAND is the sole owner of ALLBAND MULTIMEDIA LLC. In the event any additional persons or entities shall become members of ALLBAND MULTIMEDIA LLC, then all of its members shall execute a new or revised operation agreement, as contemplated by the Act, before any such additional members shall have any rights as members of ALLBAND MULTIMEDIA LLC.
4. **Management of the Company.** The Member, in accordance with its Articles and Bylaws, and all applicable laws, will have management authority over the business of ALLBAND MULTIMEDIA LLC, and will have all powers necessary or advisable to carry out the business of ALLBAND MULTIMEDIA LLC. The Member shall have the authority to take any and all action on behalf of ALLBAND MULTIMEDIA LLC to the fullest extent permitted by the Act. The Member may appoint, employ, or otherwise contract with any persons for the transaction of the business of ALLBAND MULTIMEDIA LLC, or the performance of services for or on behalf of ALLBAND MULTIMEDIA LLC, and the Member may delegate to any such person (who may be designated an officer of ALLBAND MULTIMEDIA LLC) such authority to act on behalf of ALLBAND MULTIMEDIA LLC as the Member may from time to time deem appropriate.
5. **Furnishing of Labor, Equipment, Materials and/or Supplies.**
  - a. The responsibility for management, operation, maintenance, and provision of the retail services covered by this Agreement shall be that of ALLBAND MULTIMEDIA LLC; nothing herein shall be construed to alter such responsibility.
  - b. On request of ALLBAND MULTIMEDIA LLC, ALLBAND shall furnish employees to perform installation, maintenance, and administrative duties for ALLBAND MULTIMEDIA LLC as an independent contractor and not as the agent of ALLBAND MULTIMEDIA LLC. In the event of scheduling conflicts, work required by ALLBAND shall take precedence.

- c. ALLBAND shall furnish vehicles, tools, test equipment, computer billing equipment, office machines or such other items as are required and necessary to the operation, construction, installation and maintenance activity contemplated herein, upon reasonable request by ALLBAND MULTIMEDIA LLC. However, whenever ALLBAND requires such equipment and assets for ALLBAND's own use, ALLBAND'S requirements shall take precedence.
- d. Time spent by ALLBAND employees for installation, maintenance, construction, administration or administrative duties for ALLBAND MULTIMEDIA LLC shall be directly accounted for through the payroll and time reporting process. As such, affected ALLBAND employees performing functions for ALLBAND MULTIMEDIA LLC will account for and report all time spent to the time reporting codes designated for functions performed for ALLBAND MULTIMEDIA LLC.
- e. Notwithstanding any other term or provision hereof, priority at all times in the allocation and/or commitment of facilities, resources, equipment, materials, supplies and/or services shall be given to ALLBAND'S provision of regulated telecommunications or public utility services.

**6. Furnishing of Other Services and Facilities.**

a. Digital Subscriber Line ("DSL") Access Service:

ALLBAND will provide Interstate DSL wholesale access service to ALLBAND MULTIMEDIA LLC pursuant to the relevant rates, terms and conditions contained in the NECA Interstate Access Service Tariff No. 5, Section 8 – Digital Subscriber Line Access Services. This service, as described in the NECA Tariff, will provide ALLBAND MULTIMEDIA LLC with transmission service over local exchange facilities that can be used for simultaneous voice and data communications. ALLBAND will provide such service to ALLBAND MULTIMEDIA LLC where available, between the customer-designated premises and designated Telephone Company Serving Wire Centers. Accordingly, ALLBAND MULTIMEDIA LLC will pay ALLBAND for this service based on the wholesale rates contained in the NECA Tariff for DSL Access Service.

b. Internet and Other Services:

ALLBAND will provide equipment, services, and transmission and access services to ALLBAND MULTIMEDIA LLC on a wholesale or cost basis (or tariff basis if applicable) to enable ALLBAND MULTIMEDIA LLC to provide a wide range of retail services, including DSL, broadband, wireless, cable TV, IP Video, voice mail, internet service, and such other services as the parties determine.

c. **Billing and Collection, Accounting and Computer Related Services:**

ALLBAND will provide billing and collection, and accounting services on behalf of ALLBAND MULTIMEDIA LLC pursuant to a separate agreement pertaining to these services. Labor related costs for ALLBAND employees that provide accounting functions and other administrative functions on behalf of ALLBAND MULTIMEDIA LLC will be charged based on the actual work hours reported on the time sheets of ALLBAND employees performing these functions.

d. **Customer Services:**

ALLBAND personnel will provide customer services on behalf of ALLBAND MULTIMEDIA LLC. These services include: service orders, and handling customer inquires concerning service and maintenance. The applicable ALLBAND customer service costs will be charged to ALLBAND MULTIMEDIA LLC based on actual work hours reported on the time sheets of ALLBAND employees that perform customer service functions for ALLBAND MULTIMEDIA LLC.

e. **Other Costs:**

All other ALLBAND costs that may be attributable to ALLBAND MULTIMEDIA LLC, not covered above, shall be allocated directly, whenever possible; when direct allocation is not possible, amounts will be allocated to ALLBAND MULTIMEDIA LLC based upon a cost-causative linkage or another cost category for which direct analysis is possible. If neither of the above is possible, costs shall be allocated on the assignment of expenses.

**7. Payments.**

Payment by ALLBAND MULTIMEDIA LLC for services covered herein is due and payable upon invoice from ALLBAND and shall be determined in accordance with the following:

- a. Payments for labor shall be at the same rate incurred by ALLBAND in the applicable month based on ALLBAND's payroll accounting procedures as described in ALLBAND's Cost Allocation Manual. These procedures require adjustment of the labor rates to include other wage-related expenses, including social security taxes, federal and state unemployment taxes, group insurances, and workman compensation. Also, the labor rates are adjusted for any and all costs associated with use of vehicles and other work equipment.
- b. Payment for ALLBAND's use of other services and facilities shall be made based on the costs identified pursuant to the methods defined above.

**8. Deposit of Monies Collected by Allband.**

ALLBAND will submit payment monthly to ALLBAND MULTIMEDIA LLC to provide them with the revenue associated with services that ALLBAND has billed on behalf of ALLBAND MULTIMEDIA LLC. This check will be submitted by ALLBAND to ALLBAND MULTIMEDIA LLC on a monthly basis.

**9. Capital Contributions: Accounting.**

- a. In exchange for the Member's interest, the Member will contribute One Thousand Dollars (\$1,000.00) to the capital of ALLBAND MULTIMEDIA LLC. Any additional capital contributions must be so designated in writing by the Member and ALLBAND MULTIMEDIA LLC. Any funds contributed to or advances made on behalf of ALLBAND MULTIMEDIA LLC by the Member that are not designated as capital contributions will be loans payable by ALLBAND MULTIMEDIA LLC to the Member on demand together with interest at the prime rate from the date of the contribution or advance until repaid in full. The Member will not have the right to withdraw, or receive a return on the Member's capital contribution. ALLBAND MULTIMEDIA LLC shall reimburse the Member for all expenses of the activities of ALLBAND MULTIMEDIA LLC reasonably incurred and paid for by the Member on behalf of ALLBAND MULTIMEDIA LLC.
- b. The fiscal year of ALLBAND MULTIMEDIA LLC will be the same as the fiscal year of the Member. The books and records of ALLBAND MULTIMEDIA LLC will be maintained in accordance with the consistent recognized accounting practices.
- c. Real and personal property owned by ALLBAND MULTIMEDIA LLC will be held, and conveyance made, in ALLBAND MULTIMEDIA LLC's name. Funds of ALLBAND MULTIMEDIA LLC will be deposited in the name of ALLBAND MULTIMEDIA LLC with the financial institutions and in the accounts as determined by the Member, subject to authorized signatures that the Member may determine.

**10. Assignments of Interest in ALLBAND MULTIMEDIA LLC.**

The Member, in accordance with its own Articles and Bylaws, may sell, assign, pledge, or otherwise transfer or encumber (collectively "transfer") all, but not less than all, of the Member's interest in ALLBAND MULTIMEDIA LLC by written instrument signed by the transferring Member and the transferee. The Member may transfer a portion of the Member's interest in ALLBAND MULTIMEDIA LLC, but only if the Articles of ALLBAND MULTIMEDIA LLC are amended and a new operating agreement is entered into that provides for voting rights, allocations of profit and loss, timing of distributions, designation of a tax matters member [partner], and other matters customarily addressed in a limited liability

company operating agreement. Any proposed or attempted transfer of a portion of the Member's interest without amending the Articles and entering into such an operating agreement, as described above, will be void. Neither party shall have the right to unilaterally assign this Agreement without consent in writing of the other party.

11. **Withdrawal and Dissolution**

The Member will have the right to withdraw from ALLBAND MULTIMEDIA LLC upon such terms and conditions as agreed between the Member, pursuant to its Articles and Bylaws, and ALLBAND MULTIMEDIA LLC. The Member may evidence withdrawal from ALLBAND MULTIMEDIA LLC by filing a certificate of dissolution with the Department as contemplated by the Act. In the event ALLBAND MULTIMEDIA LLC is dissolved, the assets of ALLBAND MULTIMEDIA LLC, will be distributed as provided by the Act, or in a manner consistent with the Act as determined by the Member acting in accordance with its Articles and Bylaws.

12. **Additional Members.**

ALLBAND MULTIMEDIA LLC may admit one or more additional Members upon such terms and conditions, and for such capital contributions, as may be determined by ALLBAND MULTIMEDIA LLC and the Member. No additional members may be admitted unless the Articles of ALLBAND MULTIMEDIA LLC are amended and a new operating agreement is adopted by all members of ALLBAND MULTIMEDIA LLC as required in paragraph 10 above. Any proposed or attempted admission of an additional member without such actions will be void.

13. **Distributions.**

Distributions of cash or other assets of ALLBAND MULTIMEDIA LLC will be made at such times and in such amounts as the Member may determine, in accordance with its Articles and Bylaws, provided, however, that a distribution will not be made if such a distribution would be violative of the Act.

14. **Limitation on Liability.**

Unless otherwise provided by law expressly assumed, the Member is not liable for the acts, debts or obligations of ALLBAND MULTIMEDIA LLC.

15. **Indemnification.**

The monetary liability of the Member for breach of any duty established under the Act, including Section 404 of the Act, is limited to the fullest extent permitted by the Act. ALLBAND MULTIMEDIA LLC will indemnify and hold harmless the Member, namely, ALLBAND, from and against any and all losses, expenses, claims, and demands sustained by reason of any acts or omissions or alleged acts

or omissions of the Member, including judgments, settlements, penalties, fines, or expenses incurred in a proceeding to which the Member is a party or threatened to be made a party because the person is or was a Member, to the fullest extent permitted by law or contract and not subject to any restriction by the Agreement.

16. **Amendment.**

This Agreement may be amended only in writing signed by the Member, ALLBAND, and ALLBAND MULTIMEDIA LLC, specifically stating that this Agreement is amended. ALLBAND at all times must obtain authority to enter into amendments to this Agreement in accordance with its governance procedures established by its Articles and Bylaws.

17. **Severability.**

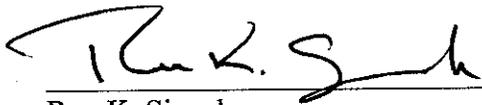
If any term or provision of this Agreement shall be invalid or unenforceable in any respect under the laws governing this Agreement, the remainder of this Agreement shall not be affected thereby, and each remaining term or provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

18. **Effect and Term.**

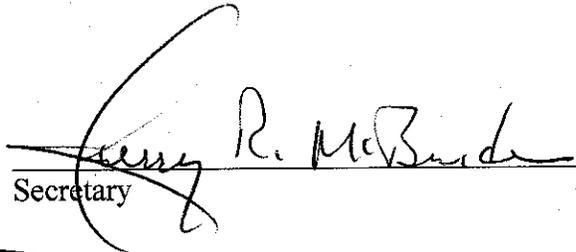
This Agreement shall become effective upon approval thereof by the parties and shall, from such effective date, continue in force until terminated by either party giving six (6) months notice in writing of its desire to terminate the Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed in their respective corporate names, by their respective officers, as of the day, month and year first above written.

ALLBAND COMMUNICATIONS COOPERATIVE

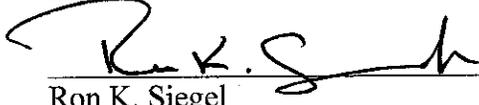
By:   
Ron K. Siegel  
General Manager

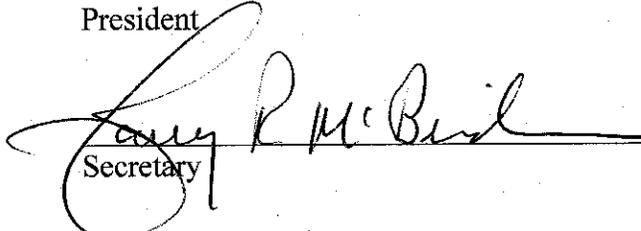
  
Witness

  
Secretary

  
Witness

ALLBAND MULTIMEDIA LLC

By:   
Ron K. Siegel  
President

  
Secretary

**EXHIBIT 2**

ALLBAND COMMUNICATIONS COOPERATIVE  
EXAMPLE OF NON-REGULATED ALLOCATION OF GENERAL SUPPORT  
ASSETS, RESERVES AND EXPENSES

Allband Communications Cooperative  
 ALLOCATION OF LAND & BUILDINGS TO NON-REGULATED ACTIVITIES  
 STUDY FOR THE YEAR ENDED DECEMBER 31, 2010

Prepared by FW&A, Inc.  
 5/20/11

ROBBS CREEK AS A PERCENTAGE OF TOTAL LAND & BUILDING

	ROBBS CREEK			
	ONLY	TOTAL	PERCENTAGE	
LAND	9,886.63	9,886.63	1.000000	(4)
BUILDING	269,698.54	269,698.54	1.000000	(5)
	<u>279,585.17</u>	<u>279,585.17</u>	<u>1.000000</u>	(6)

PORTION OF ALL LAND ALLOCATED TO NONREGULATED

PORTION OF ROBBS CREEK ALLOCATED TO NONREG	(3)	0.029557	
ROBBS CREEK AS A PERCENTAGE OF TOTAL	(4)	<u>1.000000</u>	
		<u>0.029557</u>	(7)

PORTION OF ALL BUILDINGS ALLOCATED TO NONREGULATED

PORTION OF ROBBS CREEK ALLOCATED TO NONREG	(3)	0.029557	
ROBBS CREEK AS A PERCENTAGE OF TOTAL	(5)	<u>1.000000</u>	
		<u>0.029557</u>	(8)

PORTION OF LAND AND BUILDING EXPENSES TO NONREGULATED

PORTION OF ROBBS CREEK ALLOCATED TO NONREG	(3)	0.029557	
ROBBS CREEK AS A PERCENTAGE OF TOTAL L & B	(6)	<u>1.000000</u>	
		<u>0.029557</u>	(9)

PORTION OF PROPERTY TAXES TO BE ALLOCATED TO GENERAL SUPPORT ASSETS

INVESTMENT IN GENERAL SUPPORT ASSETS (LAND AND BUILDINGS)	\$279,585
TOTAL TELEPHONE PLANT IN SERVICE	<u>\$6,657,253</u>
PERCENTAGE	0.041997
TOTAL PROPERTY TAXES	<u>\$70,249</u>
Property taxes allocated to General Support Assets (Robbs Creek Central Office)	\$2,950

SUMMARY OF ALLOCATIONS TO NONREGULATED

	TOTAL	PERCENTAGE	NONREGULATED	
LAND - ROBBS CREEK CO ONLY	\$9,887	0.029557	(\$292)	TPA #6
BUILDINGS - ROBBS CREEK CO ONLY	\$269,699	0.029557	(\$7,971)	TPA #6
ACCUM DEPR - BUILDING (ROBBS CREEK CO)	\$33,742	0.029557	(\$997)	TPA #6
LAND & BUILDING EXPENSE (EXCLUDING BUILDING LEASE)	\$11,357	0.029557	(\$336)	SSA #12
LAND & BUILDING EXPENSE (LEASE PORTION)	\$44,586	0.000000	\$0	SSA #12
DEPR. EXPENSE - BUILDING (ROBBS CREEK CO)	\$13,485	0.029557	(\$399)	SSA #12
PROPERTY TAX EXPENSE	\$2,950	0.029557	(\$87)	SSA #12

**Allband Communications Cooperative**

ALLOCATION OF OTHER GENERAL SUPPORT ASSETS TO NON-REGULATED ACTIVITIES  
 STUDY FOR THE YEAR ENDED DECEMBER 31, 2010

Prepared by FW&A, Inc.

05/20/11

TIME SUMMARY

(INSIDE EMPLOYEES ONLY)

	AMOUNT	PERCENTAGE	
REGULATED ACTIVITIES	1822.25	0.970443	
NONREGULATED ACTIVITIES	55.50	0.029557	(1)
<b>TOTAL</b>	<b>1877.75</b>	<b>1.000000</b>	

Property taxes to be allocated to General Support Assets:

Investment in General Support Assets (Commercial Office)	\$23,787
Total Telephone Plant In Service	<u>\$6,657,253</u>
PERCENTAGE	0.003573
Total Property Taxes	<u>\$70,249</u>
Property taxes allocated to General Support Assets (Commercial Office)	\$251

SUMMARY OF ALLOCATIONS TO NONREGULATED

	TOTAL	PERCENTAGE	NONREGULATED	
<b>FURNITURE/ARTWORK:</b>				
ASSET	\$0	0.029557	\$0	TPA #7
ACCUMULATED DEPRECIATION	\$0	0.029557	\$0	TPA #7
EXPENSES RELATED TO ASSET	\$0	0.029557	\$0	SSA #13
DEPRECIATION EXPENSE	\$0	0.029557	\$0	SSA #13
<b>OTHER OFFICE EQUIPMENT</b>				
ASSET	\$19,700	0.029557	(\$582.26)	TPA #7
ACCUMULATED DEPRECIATION	\$3,183	0.029557	(\$94.07)	TPA #7
EXPENSES RELATED TO ASSET	\$772	0.029557	(\$22.82)	SSA #13
DEPRECIATION EXPENSE	\$1,428	0.029557	(\$42.21)	SSA #13
<b>GENERAL PURPOSE COMPUTERS :</b>				
ASSET	\$4,087	0.029557	(\$120.80)	TPA #7
ACCUMULATED DEPRECIATION	\$1,198	0.029557	(\$35.41)	TPA #7
EXPENSES RELATED TO ASSET	\$274	0.029557	(\$8.09)	SSA #13
DEPRECIATION EXPENSE	\$536	0.029557	(\$15.84)	SSA #13
<b>PROPERTY TAX EXPENSE</b>	<b>\$251</b>	<b>0.029557</b>	<b>(\$7.42)</b>	<b>SSA #13</b>

**Allband Communications Cooperative****ALLOCATION OF VEHICLES & OTHER WORK EQUIPMENT TO NON-REGULATED ACTIVITIES  
STUDY FOR THE YEAR ENDED DECEMBER 31, 2010****TIME SUMMARY**

( OUTSIDE EMPLOYEES ONLY )

	AMOUNT	PERCENTAGE	
REGULATED ACTIVITIES	1,955.75	0.931842	
NON-REGULATED ACTIVITIES	143.05	0.068158	( 1 )
TOTAL	<u>2,098.80</u>	<u>1.000000</u>	

Property taxes to be allocated to General Support Assets:

Investment in General Support Assets (Vehicles & OWE)	\$84,528
Total Telephone Plant In Service	<u>\$6,657,253</u>

PERCENTAGE 0.012697

Total Property Taxes \$70,249

Property taxes allocated to General Support Assets (Vehicles &amp; OWE) \$892

**SUMMARY OF ALLOCATIONS TO NON-REGULATED**

	TOTAL	PERCENTAGE NONREG (1)	NON-REG.	
<b>MOTOR VEHICLES</b>				
ASSET	\$36,674	0.068158	(\$2,500)	TPA #8
ACCUMULATED DEPRECIATION	\$20,417	0.068158	(\$1,392)	TPA #8
EXPENSES RELATED TO ASSET	\$0	0.068158	\$0	SSA #14
DEPRECIATION EXPENSE	\$3,667	0.068158	(\$250)	SSA #14
<b>OTHER WORK EQUIPMENT</b>				
ASSET	\$47,854	0.068158	(\$3,262)	TPA #8
ACCUMULATED DEPRECIATION	\$12,573	0.068158	(\$857)	TPA #8
EXPENSES RELATED TO ASSET	\$0	0.068158	\$0	SSA #14
DEPRECIATION EXPENSE	\$4,573	0.068158	(\$312)	SSA #14
<b>PROPERTY TAX EXPENSE</b>	<b>\$892</b>	<b>0.068158</b>	<b>(\$61)</b>	<b>SSA #14</b>

(1) Refer to time study for detail of time related to nonregulated activities.

**EXHIBIT 3**

ALLBAND COMMUNICATIONS COOPERATIVE  
EXAMPLE OF CONSOLIDATED BALANCE SHEET

ALLBAND COMMUNICATIONS COOPERATIVE  
(A Michigan Mutual Company)  
CURRAN, MICHIGAN

BALANCE SHEETS  
DECEMBER 31, 2010

ASSETS

	Allband Communications Cooperative	Allband Multimedia, LLC	Eliminations	Consolidated
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 129,024	\$ 1,866	\$ 0	\$ 130,890
Accounts receivable - telecommunications	138,900	583	0	139,483
Accounts receivable - affiliate	46,899	27,084	73,983	0
Materials and supplies	288,548			288,548
Loan origination fees - current	2,750			2,750
Prepayments	4,815			4,815
Total current assets	<u>610,936</u>	<u>29,533</u>	<u>73,983</u>	<u>566,486</u>
<b>NONCURRENT ASSETS:</b>				
Deferred charges	39,187			39,187
Investment - affiliated	(17,366)		(17,366)	0
Total noncurrent assets	<u>21,821</u>	<u>0</u>	<u>(17,366)</u>	<u>39,187</u>
<b>PROPERTY, PLANT, AND EQUIPMENT:</b>				
Telecommunications plant in service	6,657,254			6,657,254
Telecommunications plant under construction	236,969			236,969
	<u>6,894,223</u>	<u>0</u>	<u>0</u>	<u>6,894,223</u>
Less: Depreciation reserve	984,868			984,868
Net book value	<u>5,909,355</u>	<u>0</u>	<u>0</u>	<u>5,909,355</u>
Total assets	<u>\$ 6,542,112</u>	<u>\$ 29,533</u>	<u>\$ 56,617</u>	<u>\$ 6,515,028</u>

(The accompanying notes are an integral part of these financial statements)

**EXHIBIT 4**

ALLBAND COMMUNICATIONS COOPERATIVE  
FIELD TECHNICIAN DAILY TIME SHEET



**EXHIBIT 5**

ALLBAND COMMUNICATIONS COOPERATIVE

WEEKLY SEPERATIONS TIME SHEET

**Allband Communications Cooperative  
Payroll Timesheet**



Week Ending \_\_\_\_\_

Acct	Description	Sun	M	Tu	W	Th	F	Sat	Total
623200	Circuit Equipment Expense								
623201	Circuit Equipment-Subscriber								
623202	Circuit Equipment - Trunk								
642200	Fiber Optic Cable Expense								
642300	Buried Cable Expense								
642310	Buried Drop Expense								
642311	Conduit System								
791102	Customer Premise Work (non-reg)								
621200	Digital Electronic Switching Expense								
636201	Network Monitoring								
653200	Network Administration Expense								
612400	General Purpose Computers Expense								
612100	Land and Building Expense								
611400	Other Work Equipment Expense								
611200	Motor Vehicle Expense								
612300	Office Equipment Expense								
662300	Customer Service Expense								
662301	- Directory								
662302	- Payment and Collection								
662303	- Billing Inquiry								
662304	- Service Order								
662305	- Other Regulated								
791101	- Non-regulated (LD, Internet, VMail)								
662200	Number Service Expense								
653500	Engineering Expense								
653501	Work Orders								
653400	Plant Operation Admin Expense								
661300	Advertising Expense								
672500	Legal Expense								
672100	Accounting and Finance Expense								
672000	General and Admin Expense								
671100	Executive Expense								
671101	- Regulated Services								
671102	- Non-regulated Services								
<b>Payroll Timesheet Total</b>									

\_\_\_\_\_  
Employee signature

\_\_\_\_\_  
Approved

**EXHIBIT 6**

ALLBAND COMMUNICATIONS COOPERATIVE

QUARTERLY SEPERATIONS TIME SHEET - EMPLOYEE



**EXHIBIT 7**

ALLBAND COMMUNICATIONS COOPERATIVE

QUARTERLY SEPERATIONS TIME SHEET - SUMMARY

**Allband Communications Cooperative  
Payroll Timesheet**



**Quarter Ending December 31, 2010**

Acct	Description	10/1	10/15	10/29	11/12	11/26	12/10	12/24	Total
623200	Circuit Equipment Expense								0
623201	Circuit Equipment-Subscriber								0
623202	Circuit Equipment - Trunk								0
642200	Fiber Optic Cable Expense								0
642300	Buried Cable Expense								0
642310	Buried Drop Expense								0
642311	Conduit System								0
791102	Customer Premise Work (non-reg)								0
621200	Digital Electronic Switching Expense								0
636201	Network Monitoring								0
653200	Network Administration Expense								0
612400	General Purpose Computers Expense								0
612100	Land and Building Expense								0
611400	Other Work Equipment Expense								0
611200	Motor Vehicle Expense								0
612300	Office Equipment Expense								0
662300	Customer Service Expense								0
662301	- Directory								0
662302	- Payment and Collection								0
662303	- Billing Inquiry								0
662304	- Service Order								0
662305	- Other Regulated								0
791101	- Non-regulated (LD, Internet, VMail)								0
662200	Number Service Expense								0
653500	Engineering Expense								0
653501	Work Orders								0
653400	Plant Operation Admin Expense								0
661300	Advertising Expense								0
672500	Legal Expense								0
672100	Accounting and Finance Expense								0
672000	General and Admin Expense								0
671100	Executive Expense								0
671101	- Regulated Services								0
671102	- Non-regulated Services AMM								0
<b>Payroll Timesheet Total</b>		0	0	0	0	0		0	0

Employee signature

Approved

Allband Communications Cooperative  
2008 Audited Financial Statements

Michigan 570 - Allband  
ALLBAND COMMUNICATIONS COOPERATIVE  
(A Michigan Mutual Company)  
CURRAN, MICHIGAN  
FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2008, AND 2007

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To the Board of Directors  
Allband Communications Cooperative  
6491 North M-65  
Curran, Michigan 48728

#### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheets of ALLBAND COMMUNICATIONS COOPERATIVE (A Michigan Mutual Company) as of December 31, 2008, and 2007, and the related statements of operations, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of Allband Communications Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 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 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 Allband Communications Cooperative at December 31, 2008, the results of its operations, and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated April 30, 2009, on our consideration of Allband Communications Cooperative's internal control over financial reporting and our tests of its 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.

KIESLING ASSOCIATES LLP  
Madison, Wisconsin  
April 30, 2009

*Kiesling Associates LLP*

ALLBAND COMMUNICATIONS COOPERATIVE  
(A Michigan Mutual Company)  
CURRAN, MICHIGAN

BALANCE SHEETS  
DECEMBER 31, 2008, AND 2007

ASSETS

	2008	2007
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,987	\$ 40,726
Accounts receivable - telecommunications	118,396	26,595
Materials and supplies	159,521	282,877
Loan origination fees - current	2,750	2,750
Prepayments	20,463	2,515
Total current assets	304,117	355,463
<b>NONCURRENT ASSETS:</b>		
Deferred charges	44,688	47,438
<b>PROPERTY, PLANT, AND EQUIPMENT:</b>		
Telecommunications plant in service	4,850,603	3,097,744
Telecommunications plant under construction	57,124	103,198
	4,907,727	3,200,942
Less: Depreciation reserve	368,603	176,275
Net book value	4,539,124	3,024,667
 Total assets	 \$ 4,887,929	 \$ 3,427,568

(The accompanying notes are an integral part of these financial statements)

## LIABILITIES AND MEMBERS' EQUITY

	2008	2007
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,036,788	\$ 187,946
Accounts payable - related party	60,212	81,844
Accounts payable - NECA	0	424,994
Current portion - long-term debt	157,000	50,000
Accrued taxes	6,673	135
Total current liabilities	1,260,673	744,919
<b>LONG-TERM DEBT:</b>		
RUS mortgage notes	4,200,055	3,499,693
Note payable	50,000	0
Total long-term liabilities	4,250,055	3,499,693
<b>MEMBERS' EQUITY:</b>		
Memberships issued	1,760	1,120
Patronage capital (deficit)	(624,559)	(818,164)
Total members' equity (deficit)	(622,799)	(817,044)
Total liabilities and members' equity	\$ 4,887,929	\$ 3,427,568

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE

STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2008, AND 2007

	<u>2008</u>	<u>2007</u>
<b>OPERATING REVENUES:</b>		
Basic local network services	\$ 15,985	\$ 6,114
Network access services	1,037,594	475,945
Miscellaneous	10,888	6,219
Total operating revenues	<u>1,064,467</u>	<u>488,278</u>
<b>OPERATING EXPENSES:</b>		
Plant specific operations	128,906	145,445
Plant nonspecific operations	16,543	33,344
Depreciation and amortization	195,079	177,808
Customer operations	38,698	33,650
Corporate operations	230,491	236,395
Total operating expenses	<u>609,717</u>	<u>626,642</u>
<b>GROSS OPERATING MARGINS (LOSS)</b>	454,750	(138,364)
<b>OPERATING TAXES:</b>		
Other operating taxes	<u>69,385</u>	<u>73,477</u>
<b>OPERATING MARGINS (LOSS)</b>	<u>385,365</u>	<u>(211,841)</u>
<b>NONOPERATING INCOME (DEDUCTIONS):</b>		
Interest income	237	533
Interest expense	(187,197)	(166,522)
Other expenses	<u>(4,800)</u>	<u>0</u>
Total nonoperating income (deductions)	<u>(191,760)</u>	<u>(165,989)</u>
<b>NET MARGINS (LOSS)</b>	<u>\$ 193,605</u>	<u>\$ (377,830)</u>

(The accompanying notes are an integral part of these financial statements)

ALLBAND COMMUNICATIONS COOPERATIVE  
 STATEMENTS OF MEMBERS' EQUITY  
 FOR THE YEARS ENDED DECEMBER 31, 2008, AND 2007

	<u>MEMBERSHIP</u>	<u>PATRONAGE CAPITAL (DEFICIT)</u>	<u>TOTAL</u>
BEGINNING BALANCE - JANUARY 1, 2007	\$ 1,120	\$ (440,334)	\$ (439,214)
Memberships issued	0		0
Net loss		<u>(377,830)</u>	<u>(377,830)</u>
ENDING BALANCE - DECEMBER 31, 2007	<u>\$ 1,120</u>	<u>\$ (818,164)</u>	<u>\$ (817,044)</u>
Memberships issued	640		640
Net income		<u>193,605</u>	<u>193,605</u>
ENDING BALANCE - DECEMBER 31, 2008	<u>\$ 1,760</u>	<u>\$ (624,559)</u>	<u>\$ (622,799)</u>

(The accompanying notes are an integral part of these financial statements)

**ALLBAND COMMUNICATIONS COOPERATIVE**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>OPERATING ACTIVITIES:</b>		
Net margins (loss)	\$ 193,605	\$ (377,830)
Adjustments to reconcile net margins (loss) to net cash provided by operating activities:		
Depreciation and amortization	195,079	177,808
Changes in operating assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(91,801)	77,858
Inventories	123,356	(121,853)
Other current assets	(17,948)	(243)
Increase (Decrease) in:		
Accounts payable	848,840	(739,823)
Accounts payable - related party	(21,632)	69,729
Accounts payable - NECA	(424,994)	334,994
Accrued taxes	6,538	(2,823)
	<u>811,043</u>	<u>(582,183)</u>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
	<u>811,043</u>	<u>(582,183)</u>
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant, and equipment	<u>(1,706,784)</u>	<u>(153,177)</u>
<b>FINANCING ACTIVITIES:</b>		
Increase in memberships	640	0
Proceeds from borrowings on long-term debt	936,207	717,181
Principal payments on long-term debt	<u>(78,845)</u>	<u>0</u>
<b>NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>		
	<u>858,002</u>	<u>717,181</u>
<b>(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(37,739)</u>	<u>(18,179)</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<u>40,726</u>	<u>58,905</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 2,987</u>	<u>\$ 40,726</u>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Interest paid (\$9,816 and \$0 capitalized respectively)	\$ 197,013	\$ 166,522
Income taxes paid	\$ 0	\$ 0

(The accompanying notes are an integral part of these financial statements)

# ALLBAND COMMUNICATIONS COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Allband Communications Cooperative (herein referred to as "the company") provides telecommunication services to member subscribers in the northeast portion of the lower peninsula of Michigan. The company started plant construction in 2005, with the first customer service occurring on November 30, 2006.

The accounting policies of the company conform to U.S. generally accepted accounting principles and reflect practices appropriate to the telephone industry. The accounting records were maintained in accordance with the Uniform System of Accounts for Class A and Class B Telephone Companies prescribed by the Michigan Public Service Commission.

#### Tax Status -

The company operates as a Section 501(c)(12) Corporation as defined by the Internal Revenue Code.

#### Concentrations of Credit Risk -

The company grants credit to member subscribers, substantially all of whom are located in the Curran, Michigan area. The company will also grant credit to connecting toll companies located throughout the United States.

The company received 97% of its 2008 revenues from access revenues and assistance provided by the Federal Universal Services 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.

#### Use of Estimates -

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

#### Cash and Cash Equivalents -

The company considers highly liquid investments with maturities of ninety days or less to be cash equivalents. Securities with maturities between ninety days and one year are considered temporary investments.

#### Accounts Receivable -

Accounts receivable are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis, thus accounts receivable do not bear interest. Accounts receivable are periodically evaluated for collectibility based on past credit history with customers.

#### Materials and Supplies -

Inventories are stated at cost on the first-in, first-out (FIFO) method. A physical inventory was taken by management effective December 31, 2008. Materials and supplies consist primarily of fiber cable purchased for future plant construction.

ALLBAND COMMUNICATIONS COOPERATIVE  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Telephone Plant and Depreciation -

Telephone plant in service and under construction is capitalized at original cost. The company provided for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life.

At the time the plant is retired, the retirements credited to telephone plant together with removal costs less salvage are charged to the depreciation reserve unless the retirement is of an extraordinary or abnormal nature.

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.

Revenue Recognition -

Network access services are furnished in conjunction with AT&T, Verizon, and other long-distance carriers. Access settlements include interstate NECA pooled settlements on an actual cost reimbursement basis. Access and local service revenues are substantially recognized when such services are performed.

The company recognizes taxes charged to customers on a net basis in the Statements of Operations.

Maintenance -

Accounting for maintenance and repairs was in conformity with the Uniform System of Accounts prescribed by the Michigan Public Service Commission.

Advertising -

Advertising costs are expensed to operations when incurred. Advertising expense for 2008 and 2007 totaled \$1,354 and \$0, respectively.

2. INVESTMENT IN TELEPHONE PLANT AND CABLE ASSETS:

Telephone plant in service was stated at cost. Listed below are the major classes of the telephone plant as of December 31, 2008, and 2007:

	<u>2008</u>	<u>2007</u>
Land	\$ 9,887	\$ 9,887
Buildings	269,699	269,699
General purpose computers	2,210	623
Office equipment	6,154	6,154
Network equipment	857,651	644,666
Cable	3,649,639	2,111,352
Vehicles	35,799	35,799
Other work equipment	<u>19,564</u>	<u>19,564</u>
Telephone plant in service	<u>\$4,850,603</u>	<u>\$3,097,744</u>

ALLBAND COMMUNICATIONS COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

2. INVESTMENT IN TELEPHONE PLANT AND CABLE ASSETS (Continued):

The company provided for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its estimated useful life. The projected composite depreciation rate is approximately 5.3% during the first five years. Estimated useful life for the major asset classes are as follows:

Buildings	20 Years
General purpose computers	10 Years
Network equipment	10 Years
Cable	22 Years
Other work equipment	15 Years

3. CONSTRUCTION IN PROGRESS:

During 2005, the company began the operations and started construction on the central office equipment and distribution plant. Phase 1 and 2 of plant under construction was completed as of December 31, 2008. Total construction cost of the entire project is expected to be \$8,067,000.

4. ASSETS PLEDGED:

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

5. LONG-TERM DEBT:

Long-term debt consists of notes payable to the United States of America through the Rural Utilities Service (RUS). The notes are collateralized by substantially all of the telephone plant. The loan allows draws until December 31, 2009, with a total loan amount of \$8,067,000; the interest rate on the loan is 5% per annum. As of December 31, 2008, the total amount drawn on the loan was \$4,357,055, with a remaining available balance of \$3,709,945. Interest is paid quarterly, with principal payments beginning June 2008.

Scheduled maturities of existing long-term debt for each of the next five years are as follows:

2009	\$157,000
2010	\$160,000
2011	\$163,000
2012	\$166,000
2013	\$169,000

The mortgage to the United States of America, underlying the RUS 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 RUS noteholders.

At December 31, 2008, the company met the minimum times interest earned ratio (TIER) as defined in Section 5.12 of the RUS loan agreement. At December 31, 2007 the company did not meet the TIER ratio. In accordance with Section 5.13 of the RUS loan agreement the cooperative provided to RUS a written plan to achieve the RUS specified TIER and RUS has accepted the plan.

ALLBAND COMMUNICATIONS COOPERATIVE

NOTES TO FINANCIAL STATEMENTS

5. LONG-TERM DEBT (continued):

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 RUS may authorize. All payments from the trust accounts are subject to RUS approval.

6. INTEREST COST:

The company follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. This allowance for funds used during construction ("AFUDC") amounted to \$9,817 of the total interest of \$197,013 accrued during 2008. There was no AFUDC during 2007.

7. RELATED PARTY TRANSACTIONS:

During 2007, management has awarded back pay for reaching certain performance targets to both current and former employees. The unpaid balance was \$60,212 and \$81,844 at December 31, 2008, and 2007, respectively.

The company obtained a loan for \$50,000 from the president of the company, during 2008. 10% interest is to be paid monthly. The loan is unsecured and will be due in 2013.

8. LEASES:

Circuit equipment: Total circuit equipment lease expense for 2008 and 2007 was \$42,000. The lease is a 36-month lease, which started August 2006.

Equipment: The company signed a lease on December 23, 2008, for various types of equipment to aid in the installation of fiber. No payments were made in 2008. The lease is a 60-month lease which started in January 2009

Future minimum lease payments for the five succeeding years are as follows:

2009	\$75,496
2010	\$47,496
2011	\$47,496
2012	\$47,496
2013	\$47,496

9. FEDERAL TAX STATUS:

This company operates as a tax-exempt corporation as defined by the Internal Revenue Code Section 501(c)(12).

10. SUBSEQUENT EVENTS:

In 2009, the company created a single member LLC named Allband Multimedia, LLC. This company will provide multimedia services to the subscribers of Allband Communications Cooperative.



**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  
Allband Communications Cooperative  
Curran, Michigan

We have audited the accompanying financial statements of Allband Communications Cooperative as of and for the year ended December 31, 2008, and have issued our report thereon dated April 30, 2009. 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**

In planning and performing our audit of the financial statements of Allband Communications Cooperative as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Allband Communications Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

- **Comment:** While the company has obtained an awareness of the implication of fraud in their business, they have yet to develop a formal antiraid program with stated control processes.

**Management's Response:** The Cooperative has given consideration to this matter and currently believes this is adequately addressed through strong management oversight in light of the relatively small size of the Cooperative.

- **Comment:** The Cooperative has a limited number of personnel, as a result, it has utilized accounting assistance from another party to assist with preparation of certain normal annual closing entries.

**Management's Response:** The Cooperative reviews and approves the results of these activities and believes this approach provides a cost effective solution in light of their limited resources.

- **Comment:** The Cooperative's limited resources and personnel also limits their ability to have a formal internal control and information technology system and segregation of duties.

**Management's Response:** The Cooperative periodically performs an informal risk assessment and monitors the business risk associated with assignment of personnel to various activities.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe all of the above significant deficiencies constitute material weaknesses as described above:

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Allband Communications Cooperative's financial statements are free of material misstatement, we performed tests of its 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 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 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.

*Kiesling Associates LLP*

Madison, Wisconsin  
April 30, 2009



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Suite 301  
Madison, WI 53717

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Fax: 608.664.9112  
www.kiesling.com

To the Board of Directors  
Allband Communications Cooperative  
Curran, Michigan

We have audited the financial statements of Allband Communications Cooperative for the year ended December 31, 2008, and have issued our report thereon dated April 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and 7 CFR 1773, Policy on Audits of Rural Utilities Service (RDUP) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Allband Communications Cooperative for the year ended December 31, 2008, we considered their internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. A significant deficiency involves a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

We noted certain matters involving the internal control over financial reporting and its operation that we have reported to the board of directors of Allband Communications Cooperative in a separate letter dated April 30, 2009.

7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RDUP loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RDUP loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RDUP loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RDUP loan and security instrument provisions set forth in 7 CFR 1773.33(e)(2), related party transactions and investments.

In addition, our audit of the financial statements also included, where applicable, the procedures specified in 7 CFR 1773.38-.45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RDUP loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditors' report and our independent auditors' report on internal control over financial reporting and on compliance and other matters, both dated April 30, 2009) have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RDUP loan and security instrument provisions, and other additional matters, as required by 7 CFR 1773.33, are presented below.

#### **COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING**

We noted no matters, other than those discussed in our report on internal control over financial reporting and on compliance and other matters dated April 30, 2009, regarding Allband Communications Cooperative's internal control over financial reporting and its operation that we consider to be a material weakness, as previously defined, with respect to:

- The accounting procedures and records.
- The process for accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement and maintenance or other expense accounts.
- The materials control.

#### **COMMENTS ON COMPLIANCE WITH SPECIFIC RDUP LOAN AND SECURITY INSTRUMENT PROVISIONS**

At your request, we have performed, where applicable, the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grant agreements. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement or lease between the borrower and an affiliate for the year ended December 31, 2008, of Allband Communications Cooperative:

**COMMENTS ON COMPLIANCE WITH SPECIFIC RDUP LOAN AND SECURITY INSTRUMENT PROVISIONS (Continued)**

- Obtained and read a schedule of new written contracts, agreements or leases entered into during the year between the borrower and an affiliate as defined in 7 CFR 1773.33(e)(2)(i).
- Read board of directors' minutes to ascertain whether board-approved written contracts are included in the schedule.
- Noted the existence of written RDUP approval of each contract listed by the borrower.
- Procedure performed with respect to the requirement to submit RDUP Operating Report to the RDUP as addressed in 7 CFR 1773.33(e)(2)(ii):
  - Agreed amounts reported in RDUP Operating Report to Allband Communications Cooperative's records.

The results of our tests indicate that, with respect to the items tested, Allband Communications Cooperative complied, except as noted below, in all material respects, with the specific RDUP loan and security instrument provisions referred to below. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has obtained written approval of the RDUP to enter into any contract, agreement or lease with an affiliate as defined in 7 CFR 1773.33(e)(2)(i).
- The borrower has represented its RDUP Operating Report has been submitted to the RDUP. The Operating Report, "Financial and Statistical Report," as of December 31, 2008, is in agreement with the Allband Communications Cooperative's audited records in all material respects.

**COMMENTS ON OTHER ADDITIONAL MATTERS**

In connection with our audit of the financial statements of Allband Communications Cooperative, nothing came to our attention that caused us to believe that Allband Communications Cooperative failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33(c)(1).
- The clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33(c)(2).
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4).
- The approval of the sale, lease or transfer of capital assets and disposition of proceeds from the sale or lease of plant, material or scrap addressed at 7 CFR 1773.33(c)(5).

To the Board of Directors  
Allband Communications Cooperative  
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**COMMENTS ON OTHER ADDITIONAL MATTERS (Continued)**

- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standard No. 57, "Related Party Transactions," for the year ended December 31, 2008, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33(f).

The Company has made no investments in affiliated companies through December 31, 2008.

This report is intended solely for the information and use of the board of directors, management, 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.

*Kiesling Associates LLP*

Madison, Wisconsin  
April 30, 2009

This board of director's letter is prepared to communicate those matters which are required to be communicated to your board of directors in accordance with Professional Standard (SAS 114) and the RDUP policy on audits of RDUP borrowers-7 CFR 1773.20(b).

While this letter should be provided to your board of directors, the RDUP does not require a copy of this letter. 7 CFR 1773.21 (b) requires that the borrower furnish RDUP with three (3) copies of the auditors' report, report on compliance and on internal controls over financial reporting, and RDUP management letter.

The borrowers should send the audit package to the following:

Mr. Kenneth M. Ackerman  
Assistant Administrator  
Program Accounting and Regulatory Analysis  
Rural Development Utilities Programs  
Stop 1523  
1400 Independence Avenue, SW  
Washington, DC 20250-1523

Should you, or any of your directors, need any further information regarding this communication, we would be happy to respond.

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To the Board of Directors  
Allband Communications Cooperative  
Curran, Michigan

We have audited the financial statements of Allband Communications Cooperative as of and for the year ended December 31, 2008, and have issued our report thereon dated April 30, 2009.

Professional standards and the Rural Development Utilities Program's (RDUP) Policy on Audits of RDUP Borrowers (7 CFR 1773.20) require the auditor to communicate certain matters to the board of directors. In addition to meeting the RDUP's requirements, the following comments regarding our responsibilities and results of our audit of the financial statements of Allband Communications Cooperative for the year ended December 31, 2008, will assist you in overseeing the financial reporting and disclosure process for which management is responsible.

#### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

Our responsibility as described by professional standards and stated in our engagement letter, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Allband Communications Cooperative. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. We are also responsible for communicating matters required by law, regulation, agreement or other requirements applicable to the engagement to you.

#### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

## **Significant Audit Findings**

### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies.

The significant accounting policies of the Cooperative are described in footnotes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2008.

There were no transactions entered into by the Cooperative during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from management's current judgments.

There are no sensitive accounting estimates, other than depreciation rates as described in Note 1, included in the financial statements for the year ended December 31, 2008. As part of our audit, we compared the Cooperative's depreciation rates to average rates used within the telecommunications industry. We have also discussed with management the Cooperative's long-range plant replacement plans and have determined the current depreciation rates to be consistent with those plans.

### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Our management letter and our independent auditors' report on internal control over financial reporting and on compliance and other matters both dated April 30, 2009, comment on other findings and recommendations.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit that individually or in the aggregate were of such significance that reference to the subject matter would have been made in our reports.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 30, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cooperative's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cooperative's auditor. However, these communications occurred in the normal course of our professional relationship and to our knowledge our responses were not a condition to our retention.

This letter is intended solely for the information and use of the board of directors and management of the Cooperative and is not intended to be and should not be used by anyone other than these specified parties.

*Kiesling Associates LLP*

Madison, Wisconsin  
April 30, 2009

**Allband Communications Cooperative  
Grouping Schedule Report  
Financials**

	Adjusted Balance Dec 31, 2007	Adjusted Balance Dec 31, 2008
<b>005 Cash</b>		
<b>005, No Subcodes</b>		
112000 - Checking account - Besser Credit Union	0.00	0.00
112001 - Savings account - Besser Credit Union	0.00	0.00
112002 - Savings account - Besser Credit Union	0.00	0.00
112003 - Savings - Besser Credit Union	0.00	0.00
113001 - Checking account - Bank of Alpena	0.01	0.01
113002 - Checking account - Bank of Alpena	3,671.19	0.00
113003 - Checking account - Bank of Alpena	664.45	28.80
113004 - Checking account - Bank of Alpena	36,389.49	2,958.78
113005 - Checking - Bank of Alpena	0.00	0.00
<b>Total no subcodes</b>	40,725.14	2,987.59
<b>005 Cash Total</b>	<u>40,725.14</u>	<u>2,987.59</u>
<b>010 Accounts receivable</b>		
<b>010, No Subcodes</b>		
117000 - Due from customers	793.64	183.92
117100 - Allowance for doubtful accounts	0.00	0.00
119010 - Accounts receivable - NECA	22,423.00	111,398.94
119020 - Accounts Receivable - CABS	3,378.06	6,813.34
<b>Total no subcodes</b>	26,594.70	118,396.20
<b>010 Accounts receivable Total</b>	<u>26,594.70</u>	<u>118,396.20</u>
<b>015 A/R - Affiliates</b>		
<b>015 A/R - Affiliates Total</b>	<u>0.00</u>	<u>0.00</u>
<b>020 A/R - Other</b>		
<b>020 A/R - Other Total</b>	<u>0.00</u>	<u>0.00</u>
<b>025 Materials &amp; supplies</b>		
<b>025, No Subcodes</b>		
122000 - Materials and supplies	282,877.83	159,521.16
<b>Total no subcodes</b>	282,877.83	159,521.16
<b>025 Materials &amp; supplies Total</b>	<u>282,877.83</u>	<u>159,521.16</u>
<b>030 Prepaid expenses</b>		
<b>030, No Subcodes</b>		
131000 - Prepaid insurance	1,700.00	7,638.16
133000 - Prepaid other	815.16	12,825.17
133001 - Loan fees - current portion	2,750.00	2,750.00
141000 - Deferred charges - loan origination fees	50,187.50	47,437.50
141001 - Loan fees - current portion	(2,750.00)	(2,750.00)
<b>Total no subcodes</b>	52,702.66	67,900.83
<b>030 Prepaid expenses Total</b>	<u>52,702.66</u>	<u>67,900.83</u>
<b>035 Investment</b>		
<b>035 Investment Total</b>	<u>0.00</u>	<u>0.00</u>
<b>040 Plant under construction</b>		
<b>040, No Subcodes</b>		
200300 - Telecommunications plant under construction	103,197.72	57,124.24
<b>Total no subcodes</b>	103,197.72	57,124.24
<b>040 Plant under construction Total</b>	<u>103,197.72</u>	<u>57,124.24</u>
<b>045 Plant in service</b>		
<b>045, No Subcodes</b>		
211100 - Land	9,886.63	9,886.63

**Allband Communications Cooperative  
Grouping Schedule Report  
Financials**

	Adjusted Balance Dec 31, 2007	Adjusted Balance Dec 31, 2008
211200 - Motor vehicles	35,798.72	35,798.72
211400 - Other work equipment	19,564.10	19,564.10
212100 - Buildings	269,698.54	269,698.54
212200 - Furniture	0.00	0.00
212300 - Office equipment	6,154.24	6,154.24
212400 - General purpose computers	623.28	2,209.55
221200 - Digital electronic switching	460,172.10	467,712.10
223200 - Circuit equipment	135,176.80	333,646.82
223210 - Internet equipment	49,317.87	56,291.93
241100 - Poles	0.00	0.00
242100 - Aerial cable	0.00	0.00
242110 - Aerial drops	0.00	0.00
242200 - Fiber optic cable	2,111,352.02	3,597,144.00
242300 - Buried cable	0.00	0.00
242310 - Buried drops	0.00	52,495.03
244100 - Conduit systems	0.00	0.00
<b>Total no subcodes</b>	<b>3,097,744.30</b>	<b>4,850,601.66</b>
<b>045 Plant in service Total</b>	<b>3,097,744.30</b>	<b>4,850,601.66</b>
<b>055 Depreciation reserve</b>		
<b>055, No Subcodes</b>		
311200 - Accum. depr. - motor vehicles	(2,386.58)	(9,546.32)
311400 - Accum. depr. - other work equipment	(2,030.95)	(3,987.36)
312100 - Accum. depr. - buildings	(6,655.56)	(13,456.53)
312200 - Accum. depr. - furniture	0.00	0.00
312300 - Accum. depr. - office equipment	(256.43)	(871.85)
312400 - Accum. depr. - general purpose computers	(124.66)	(393.53)
321200 - Accum. depr. - digital electronic switching	(39,307.94)	(81,256.00)
323200 - Accum. depr. - circuit equipment	(10,281.67)	(25,558.51)
323210 - Accum. depr. - internet equipment	(4,483.44)	(9,072.55)
341100 - Accum. depr. - poles	0.00	0.00
342100 - Accum. depr. - aerial cable	0.00	0.00
342110 - Accum. depr. - aerial drops	0.00	0.00
342200 - Accum. depr. - fiber optic cable	(110,746.80)	(224,022.44)
342300 - Accum. depr. - buried cable	0.00	0.00
342310 - Accum. depr. - buried drops	0.00	(437.46)
344100 - Accum. depr. - conduit systems	0.00	0.00
<b>Total no subcodes</b>	<b>(176,274.03)</b>	<b>(368,602.55)</b>
<b>055 Depreciation reserve Total</b>	<b>(176,274.03)</b>	<b>(368,602.55)</b>
<b>100 Accounts payable</b>		
<b>100, No Subcodes</b>		
400000 - Accounts payable - trade	(187,946.29)	(818,917.80)
400001 - Additional payables	0.00	(217,868.76)
401000 - Accounts payable - retainage	0.00	0.00
<b>Total no subcodes</b>	<b>(187,946.29)</b>	<b>(1,036,786.56)</b>
<b>100 Accounts payable Total</b>	<b>(187,946.29)</b>	<b>(1,036,786.56)</b>
<b>110 Customer deposits</b>		
<b>110, No Subcodes</b>		
404000 - Customer deposits	0.00	0.00
<b>Total no subcodes</b>	0.00	0.00
<b>110 Customer deposits Total</b>	<b>0.00</b>	<b>0.00</b>
<b>115 N/P Current portion</b>		
<b>115, No Subcodes</b>		
405010 - Notes payable - RUS - current portion	0.00	(157,000.00)
<b>Total no subcodes</b>	<b>0.00</b>	<b>(157,000.00)</b>

**Allband Communications Cooperative  
Grouping Schedule Report  
Financials**

	<u>Adjusted Balance Dec 31, 2007</u>	<u>Adjusted Balance Dec 31, 2008</u>
<b>115 N/P Current portion Total</b>	<u>0.00</u>	<u>(157,000.00)</u>
<b>120 Accrued taxes and expense</b>		
<b>120, No Subcodes</b>		
401010 - Accounts payable - federal w/h	1,751.18	(1,747.01)
401020 - Accounts payable - state w/h	57.73	(498.08)
401022 - Taxes - State Use Tax	0.00	(181.56)
401030 - Accounts payable - FICA	0.00	0.00
401040 - Accounts payable - state use tax	0.00	0.00
401050 - Accounts payable - federal excise tax	(338.79)	(163.09)
401090 - Taxes - Alpena County	(1,591.25)	(3,983.91)
401100 - AP - NECA	(424,994.00)	0.00
408010 - Accrued employer FICA	0.00	0.00
408020 - Accrued MESC taxes	(13.77)	(43.21)
408030 - Accrued FUTA taxes	0.00	(55.96)
408040 - Accrued MI Withholding	0.00	0.00
408050 - Property Tax	0.00	0.00
413000 - Rent payable	0.00	0.00
413010 - Accrued wages	0.00	0.00
413040 - Deferred revenue	0.00	0.00
430001 - Manager payable - Paul Hartman	(60,211.92)	(60,211.92)
430002 - Manager payable - Ronald Siegel	(21,632.04)	0.00
430003 - Officer payable - John Reigle	0.00	(50,000.00)
<b>Total no subcodes</b>	<u>(506,972.86)</u>	<u>(116,884.74)</u>
<b>120 Accrued taxes and expense Total</b>	<u>(506,972.86)</u>	<u>(116,884.74)</u>
<b>125 Notes Payable</b>		
<b>125, No Subcodes</b>		
405000 - Notes payable - RFTC - current portion	0.00	0.00
421000 - Notes payable - RFTC - long-term	0.03	0.00
421001 - Notes payable - RFTC - current contra	0.00	0.00
421010 - Notes payable - RUS - long-term	(3,549,693.00)	(4,357,054.72)
421011 - Notes payable - RUS - current contra	0.00	157,000.00
<b>Total no subcodes</b>	<u>(3,549,692.97)</u>	<u>(4,200,054.72)</u>
<b>125 Notes Payable Total</b>	<u>(3,549,692.97)</u>	<u>(4,200,054.72)</u>
<b>130 Deferred Income Tax</b>		
<b>130 Deferred Income Tax Total</b>	<u>0.00</u>	<u>0.00</u>
<b>150 Members</b>		
<b>150, No Subcodes</b>		
451000 - Memberships	(1,120.00)	(1,760.00)
<b>Total no subcodes</b>	<u>(1,120.00)</u>	<u>(1,760.00)</u>
<b>150 Members Total</b>	<u>(1,120.00)</u>	<u>(1,760.00)</u>
<b>155 Patronage capital</b>		
<b>155, No Subcodes</b>		
455000 - Retained earnings - beginning year	440,333.51	818,163.80
<b>Total no subcodes</b>	<u>440,333.51</u>	<u>818,163.80</u>
<b>155 Patronage capital Total</b>	<u>440,333.51</u>	<u>818,163.80</u>
<b>200 Local service revenue</b>		
<b>200, No Subcodes</b>		
500100 - Local service revenue	(4,960.42)	(11,851.98)
506000 - Other local service revenue	0.00	0.00
506010 - E911 - billed	0.00	0.00
506020 - E911 - reported	0.00	0.00
506030 - E911 - settlements	0.00	0.00
506040 - Other	(40.38)	(45.33)

**Allband Communications Cooperative  
Grouping Schedule Report  
Financials**

	<u>Adjusted Balance Dec 31, 2007</u>	<u>Adjusted Balance Dec 31, 2008</u>
508100 - End User Common Line Revenue	(1,114.32)	(4,087.55)
<b>Total no subcodes</b>	(6,115.12)	(15,984.86)
<b>200 Local service revenue Total</b>	<u>(6,115.12)</u>	<u>(15,984.86)</u>
<b>205 Access service revenue</b>		
<b>205, No Subcodes</b>		
506900 - High Cost Loop Support	0.00	(410,381.00)
508110 - End user rev - interstate - billed	0.00	0.00
508120 - End user rev - interstate - reported	0.00	0.00
508130 - End user rev - interstate - settlements	0.00	0.00
508210 - Switched access rev - interstate - billed	0.00	0.00
508220 - Switched access rev - interstate - reported	0.00	0.00
508230 - Switched access rev - TS interstate - settlements	(202,962.66)	(185,878.33)
508240 - Switched access rev - CCL interstate settlements	(262,555.00)	(404,436.00)
508310 - Special access rev - interstate - billed	0.00	(5,380.69)
508320 - Special access rev - interstate - reported	0.00	0.00
508400 - Interstate USF settlements	0.00	0.00
508430 - Switch access rev - CCL intrastate	0.00	(22,382.36)
509100 - Intrastate prior period adjustments	0.00	0.00
509110 - End user rev - intrastate - billed	0.00	0.00
509120 - End user rev - intrastate - reported	0.00	0.00
509210 - Switched access rev - intrastate - billed	0.00	0.00
509220 - Switched access rev - intrastate - reported	0.00	0.00
509310 - Special access rev - intrastate - billed	0.00	0.00
509320 - Special access rev - intrastate - reported	0.00	0.00
510010 - Toll revenue - billed	(6,551.89)	(7,324.24)
510020 - Toll revenue - reported	0.00	0.00
510030 - Other	(3,873.80)	(1,811.64)
<b>Total no subcodes</b>	(475,943.35)	(1,037,594.26)
<b>205 Access service revenue Total</b>	<u>(475,943.35)</u>	<u>(1,037,594.26)</u>
<b>210 Miscellaneous revenue</b>		
<b>210, No Subcodes</b>		
520000 - Miscellaneous revenues	(30.95)	0.00
523000 - Directory revenues	0.00	0.00
526020 - Other	364.04	0.00
526100 - Other	(26.11)	(257.40)
527010 - Billing and collection - interstate	0.00	0.00
528020 - Billing and collection - intrastate	0.00	0.00
528200 - Sale of non-regulated equipment	0.00	0.00
528310 - Internet revenue	(4,859.03)	(10,631.17)
528350 - Internet adjustments	(1,667.22)	0.00
582100 - Internet revenue	0.00	0.00
<b>Total no subcodes</b>	(6,219.27)	(10,888.57)
<b>210 Miscellaneous revenue Total</b>	<u>(6,219.27)</u>	<u>(10,888.57)</u>
<b>215 Uncollectable revenue</b>		
<b>215, No Subcodes</b>		
530000 - Uncollectable revenue	0.00	0.00
<b>Total no subcodes</b>	0.00	0.00
<b>215 Uncollectable revenue Total</b>	<u>0.00</u>	<u>0.00</u>
<b>300 Plant expense</b>		
<b>300, No Subcodes</b>		
611200 - Motor vehicle expense	0.00	0.00
611400 - Other work equipment expense	0.00	0.00
612100 - Land and building expense	20,126.44	21,332.45
612120 - Building rent	0.00	350.00
612200 - Furniture expense	0.00	0.00
612300 - Office equipment expense	316.94	322.19

**Allband Communications Cooperative  
Grouping Schedule Report  
Financials**

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	Adjusted Balance Dec 31, 2007	Adjusted Balance Dec 31, 2008
612400 - General purpose computers expense	0.00	878.85
621200 - Digital electronic switching expense	34,007.04	33,898.58
623200 - Circuit equipment expense	13,361.04	16,425.27
623210 - Circuit equipment lease	59,458.19	53,886.11
623220 - Access charge	26.00	0.00
636201 - Network monitoring	1,208.50	571.78
636211 - Toll resale	2,089.19	1,240.64
641100 - Poles expense	733.00	0.00
642100 - Aerial cable expense	0.00	0.00
642110 - Aerial drops expense	0.00	0.00
642200 - Fiber optic cable expense	14,118.20	0.00
642300 - Buried cable expense	0.00	0.00
642310 - Buried drop expense	0.00	0.00
644100 - Conduit systems expense	0.00	0.00
<b>Total no subcodes</b>	<b>145,444.54</b>	<b>128,905.87</b>
<b>300 Plant expense Total</b>	<b>145,444.54</b>	<b>128,905.87</b>
<b>305 Plant nonspecific</b>		
<b>305, No Subcodes</b>		
651200 - Provisioning expense	0.00	0.00
653100 - Power expense	4,419.90	4,326.70
653200 - Network administration expense	0.00	150.00
653300 - Testing expense	0.00	0.00
653400 - Plant oper. Admin. Expense	0.00	5,513.64
653500 - Engineering expense	28,666.34	4,240.00
654000 - Access expense	258.49	2,312.29
<b>Total no subcodes</b>	<b>33,344.73</b>	<b>16,542.63</b>
<b>305 Plant nonspecific Total</b>	<b>33,344.73</b>	<b>16,542.63</b>
<b>310 Depreciation</b>		
<b>310, No Subcodes</b>		
656100 - Depreciation expense	175,058.00	192,328.52
656500 - Amortization expense	2,750.00	2,750.00
<b>Total no subcodes</b>	<b>177,808.00</b>	<b>195,078.52</b>
<b>310 Depreciation Total</b>	<b>177,808.00</b>	<b>195,078.52</b>
<b>315 Customer operations</b>		
<b>315, No Subcodes</b>		
657001 - Benefits cleared	0.00	0.00
657010 - Benefits clearing - FICA	0.00	0.00
657020 - Benefits clearing - MESC	0.00	0.00
657030 - Benefits clearing - FUTA	0.00	0.00
657040 - Benefits clearing - health	0.00	0.00
657050 - Benefits clearing - pension	0.00	0.00
657060 - Benefits clearing - work. comp.	0.00	0.00
661300 - Advertising expense	0.00	1,354.04
662100 - Call completion service expense	0.00	0.00
662200 - Number service expense	1,282.81	452.63
662300 - Customer service expense	32,366.90	36,890.79
<b>Total no subcodes</b>	<b>33,649.71</b>	<b>38,697.46</b>
<b>315 Customer operations Total</b>	<b>33,649.71</b>	<b>38,697.46</b>
<b>320 Corporate operations</b>		
<b>320, No Subcodes</b>		
671100 - Executive expense	97,910.31	32,210.07
672000 - General and admin expense	29,413.14	13,705.23
672100 - Accounting and finance expense	40,918.23	67,603.26
672200 - Cost study expenses	34,255.00	89,665.00
672500 - Legal expense	22,770.00	15,306.23

**Allband Communications Cooperative  
Grouping Schedule Report  
Financials**

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	<u>Adjusted Balance Dec 31, 2007</u>	<u>Adjusted Balance Dec 31, 2008</u>
672810 - Insurance expense	11,128.33	12,001.50
701000 - Payroll clearing	<u>0.00</u>	<u>0.00</u>
<b>Total no subcodes</b>	236,395.01	230,491.29
<b>320 Corporate operations Total</b>	<u><u>236,395.01</u></u>	<u><u>230,491.29</u></u>
<b>350 Operating taxes</b>		
<b>350, No Subcodes</b>		
724030 - Operating taxes - Ad Valorum	73,477.02	69,384.95
724040 - Operating taxes - other	<u>0.00</u>	<u>0.00</u>
<b>Total no subcodes</b>	73,477.02	69,384.95
<b>350 Operating taxes Total</b>	<u><u>73,477.02</u></u>	<u><u>69,384.95</u></u>
<b>355 Federal income taxes</b>		
<b>355 Federal income taxes Total</b>	<u><u>0.00</u></u>	<u><u>0.00</u></u>
<b>360 Nonoperating &amp; nonreg</b>		
<b>360, 271 Interest income</b>		
731000 - Interest income	<u>(354.61)</u>	<u>(237.27)</u>
<b>Total Interest income</b>	<u><u>(354.61)</u></u>	<u><u>(237.27)</u></u>
<b>360, 272 Dividend income</b>		
732000 - Dividend income	<u>(178.32)</u>	<u>0.00</u>
<b>Total Dividend income</b>	<u><u>(178.32)</u></u>	<u><u>0.00</u></u>
<b>360, 273 Other income</b>		
999 - Undistributed	0.00	0.00
730000 - Non-operating income and expense	0.00	0.00
950000 - Suspense account	<u>0.00</u>	<u>0.00</u>
<b>Total Other income</b>	<u><u>0.00</u></u>	<u><u>0.00</u></u>
<b>360, 274 Other charges</b>		
737000 - Special charges	92.76	0.00
799162 - Voice Mail Expense	<u>0.00</u>	<u>4,800.00</u>
<b>Total Other charges</b>	<u><u>92.76</u></u>	<u><u>4,800.00</u></u>
<b>360, 275 Income taxes</b>		
<b>Total Income taxes</b>	<u><u>0.00</u></u>	<u><u>0.00</u></u>
<b>360 Nonoperating &amp; nonreg Total</b>	<u><u>(440.17)</u></u>	<u><u>4,562.73</u></u>
<b>370 Interest expense</b>		
<b>370, No Subcodes</b>		
734000 - Allowance for Funds Used During Construction	0.00	(9,816.00)
751000 - Interest expense - RFTC	0.00	4,583.37
751010 - Interest expense - RUS	<u>166,429.19</u>	<u>192,429.96</u>
<b>Total no subcodes</b>	166,429.19	187,197.33
<b>370 Interest expense Total</b>	<u><u>166,429.19</u></u>	<u><u>187,197.33</u></u>
<b>Financials Total</b>	<u><u>0.00</u></u>	<u><u>0.00</u></u>
<b>Profit/(Loss)</b>	<u><u>(377,830.29)</u></u>	<u><u>193,606.91</u></u>

**Allband Communications Cooperative  
Grouping Schedule Report  
Unassigned Accounts**

**All accounts have been assigned.**

Allband Communications Cooperative  
2009 Audited Financial Statements

**Michigan 570 - Allband**  
**ALLBAND COMMUNICATIONS COOPERATIVE**  
**(A Michigan Non-Profit Cooperative)**  
**CURRAN, MICHIGAN**  
**FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2009 AND 2008**

ALLBAND COMMUNICATIONS COOPERATIVE  
CURRAN, MICHIGAN

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Allband Communications Cooperative  
Curran, Michigan

We have audited the accompanying balance sheets of Allband Communications Cooperative (a Michigan Non-Profit Cooperative) as of December 31, 2009 and 2008, and the related statements of margins, 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 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 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 Allband Communications Cooperative as of December 31, 2009 and 2008, 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.

In accordance with Government Auditing Standards, we have also issued a report dated June 21, 2010, on our consideration of Allband Communications Cooperative's internal control over financial reporting and our tests of its 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.

*Kiesling Associates LLP*

Madison, Wisconsin  
June 21, 2010

**ALLBAND COMMUNICATIONS COOPERATIVE**  
**(A Michigan Non-Profit Cooperation)**  
**CURRAN, MICHIGAN**

**BALANCE SHEETS**  
**DECEMBER 31, 2009 AND 2008**

**ASSETS**

	2009	2008
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 83,537	\$ 2,987
Accounts receivable - telecommunications	20,113	118,396
Materials and supplies	330,097	159,521
Loan origination fees - current	2,750	2,750
Prepayments	7,262	20,463
Total current assets	443,759	304,117
<b>NONCURRENT ASSETS:</b>		
Deferred charges	41,938	44,688
<b>PROPERTY, PLANT, AND EQUIPMENT:</b>		
Telecommunications plant in service	5,840,797	4,850,603
Telecommunications plant under construction	559,261	57,124
	6,400,058	4,907,727
Less: Depreciation reserve	650,512	368,603
Net book value	5,749,546	4,539,124
<b>Total assets</b>	<b>\$ 6,235,243</b>	<b>\$ 4,887,929</b>

(The accompanying notes are an integral part of these financial statements)

**LIABILITIES AND MEMBERS' EQUITY**

	2009	2008
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 887,972	\$ 1,036,788
Accounts payable - related party	60,212	60,212
Accounts payable - NECA	27,035	0
Current portion - RUS debt	240,000	157,000
Current portion - John Reigle debt	21,520	0
Accrued taxes and wages	3,718	6,673
Total current liabilities	1,240,457	1,260,673
<b>LONG-TERM DEBT:</b>		
RUS mortgage notes	5,902,744	4,200,055
John Reigle note payable	81,010	50,000
Total long-term liabilities	5,983,754	4,250,055
<b>MEMBERS' EQUITY:</b>		
Memberships issued	2,520	1,760
Patronage capital (deficit)	(991,488)	(624,559)
Total members' equity (deficit)	(988,968)	(622,799)
Total liabilities and members' equity	\$ 6,235,243	\$ 4,887,929

(The accompanying notes are an integral part of these financial statements)

**ALLBAND COMMUNICATIONS COOPERATIVE**  
**STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES:</b>		
Basic local network services	\$ 28,757	\$ 11,897
Network access services	960,368	1,032,546
Long distance services	15,030	9,136
Miscellaneous	21,770	10,888
Total operating revenues	<u>1,025,925</u>	<u>1,064,467</u>
<b>OPERATING EXPENSES:</b>		
Plant specific operations	204,863	133,706
Plant nonspecific operations	38,413	16,543
Depreciation and amortization	284,659	195,079
Customer operations	36,033	38,698
Corporate operations	429,897	230,491
Total operating expenses	<u>993,865</u>	<u>614,517</u>
<b>GROSS OPERATING MARGINS</b>	32,060	449,950
<b>OPERATING TAXES:</b>		
Other operating taxes	<u>80,050</u>	<u>69,385</u>
<b>OPERATING MARGINS (LOSS)</b>	<u>(47,990)</u>	<u>380,565</u>
<b>NONOPERATING INCOME (DEDUCTIONS):</b>		
Interest income	198	237
Interest expense - RUS	(253,380)	(182,614)
Interest expense - other	(8,633)	(4,583)
Other expenses	<u>(57,124)</u>	<u>0</u>
Total nonoperating income (deductions)	<u>(318,939)</u>	<u>(186,960)</u>
<b>NET MARGINS (LOSS)</b>	<u>\$ (366,929)</u>	<u>\$ 193,605</u>

(The accompanying notes are an integral part of these financial statements)

**ALLBAND COMMUNICATIONS COOPERATIVE**  
**STATEMENTS OF MEMBERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>MEMBERSHIP</u>	<u>PATRONAGE CAPITAL (DEFICIT)</u>	<u>TOTAL</u>
<b>BEGINNING BALANCE - JANUARY 1, 2008</b>	<b>\$ 1,120</b>	<b>\$ (818,164)</b>	<b>\$ (817,044)</b>
<b>Memberships issued</b>	<b>640</b>		<b>640</b>
<b>Net margin</b>		<u><b>193,605</b></u>	<u><b>193,605</b></u>
<b>ENDING BALANCE - DECEMBER 31, 2008</b>	<u><b>\$ 1,760</b></u>	<u><b>\$ (624,559)</b></u>	<u><b>\$ (622,799)</b></u>
<b>Memberships issued</b>	<b>760</b>		<b>760</b>
<b>Net loss</b>		<u><b>(366,929)</b></u>	<u><b>(366,929)</b></u>
<b>ENDING BALANCE - DECEMBER 31, 2009</b>	<u><b>\$ 2,520</b></u>	<u><b>\$ (991,488)</b></u>	<u><b>\$ (988,968)</b></u>

(The accompanying notes are an integral part of these financial statements)

**ALLBAND COMMUNICATIONS COOPERATIVE**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>OPERATING ACTIVITIES:</b>		
Net margins (loss)	\$ (366,929)	\$ 193,605
Adjustments to reconcile net margins (loss) to net cash provided by operating activities:		
Depreciation and amortization	284,659	195,079
Changes in operating assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	98,283	(91,801)
Materials and supplies	(170,576)	123,356
Other current assets	15,951	(17,948)
Increase (Decrease) in:		
Accounts payable	(148,817)	848,840
Accounts payable - related party	0	(21,632)
Accounts payable - NECA	27,035	(424,994)
Accrued taxes and wages	(5,705)	6,538
	<u>(266,099)</u>	<u>811,043</u>
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>		
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant, and equipment	<u>(1,492,331)</u>	<u>(1,706,784)</u>
<b>FINANCING ACTIVITIES:</b>		
Increase in memberships	760	640
Proceeds from borrowings on long-term debt - RUS	1,981,111	886,207
Proceeds from borrowings on other long-term debt	59,956	50,000
Principal payments on long-term debt	<u>(202,847)</u>	<u>(78,845)</u>
	<u>1,838,980</u>	<u>858,002</u>
<b>NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>		
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	80,550	(37,739)
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<u>2,987</u>	<u>40,726</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 83,537</u>	<u>\$ 2,987</u>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Interest paid (\$16,030 and \$9,816 capitalized respectively)	\$ 278,043	\$ 197,013
Income taxes paid	\$ 0	\$ 0

(The accompanying notes are an integral part of these financial statements)

**ALLBAND COMMUNICATIONS COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The Allband Communications Cooperative (herein referred to as "the cooperative") provides telecommunication services to member subscribers in the northeast portion of the lower peninsula of Michigan. The cooperative started plant construction in 2005, with the first customer service occurring on November 30, 2006.

The accounting policies of the cooperative conform to U.S. generally accepted accounting principles and reflect practices appropriate to the telephone industry. The accounting records were maintained in accordance with the Uniform System of Accounts for Class A and Class B Telephone Companies prescribed by the Michigan Public Service Commission.

**Subsequent Events -**

Management has evaluated subsequent events through June 21, 2010, the date the financial statements were available for issue.

**Tax Status -**

The cooperative operates as a Section 501(c)(12) Corporation as defined by the Internal Revenue Code.

**Concentrations of Credit Risk -**

The cooperative grants credit to member subscribers, substantially all of whom are located in the Curran, Michigan area. The cooperative will also grant credit to connecting toll companies located throughout the United States.

The cooperative received 94% of its 2009 revenues from access revenues and assistance provided by the Federal Universal Services 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.

**Use of Estimates -**

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Cash and Cash Equivalents -**

The cooperative considers highly liquid investments with maturities of ninety days or less to be cash equivalents. Securities with maturities between ninety days and one year are considered temporary investments.

**Accounts Receivable -**

Accounts receivable are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis, thus accounts receivable do not bear interest. Accounts receivable are periodically evaluated for collectibility based on past credit history with customers.

**ALLBAND COMMUNICATIONS COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**Materials and Supplies -**

Inventories are stated at cost on the first-in, first-out (FIFO) method. A physical inventory was taken by management effective December 31, 2009 and 2008. Materials and supplies consist primarily of fiber cable purchased for future plant construction.

**Telephone Plant and Depreciation -**

Telephone plant in service and under construction is capitalized at original cost. The cooperative provided for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life.

At the time the plant is retired, the retirements credited to telephone plant together with removal costs less salvage are charged to the depreciation reserve unless the retirement is of an extraordinary or abnormal nature.

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.

**Revenue Recognition -**

Network access services are anticipated to be furnished in conjunction with AT&T, Verizon, and other long-distance carriers, however, connection agreements have not been finalized. Access settlements include NECA pooled settlements on an actual cost reimbursement basis. Access and local service revenues are substantially recognized when such services are performed.

The cooperative recognizes taxes charged to customers on a net basis in the Statement of Operations.

**Maintenance -**

Accounting for maintenance and repairs was in conformity with the Uniform System of Accounts prescribed by the Michigan Public Service Commission.

**Advertising -**

Advertising costs are expensed to operations when incurred. Advertising expense for 2009 and 2008 totaled \$15,998 and \$1,354, respectively.

**Allband Multimedia, LLC -**

In 2009, the cooperative created a single member LLC named Allband Multimedia, LLC. This company will provide multimedia services to the subscribers of Allband Communications Cooperative. As of December 31, 2009, there was no activity in Allband Multimedia, LLC.

**ALLBAND COMMUNICATIONS COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**

**2. INVESTMENT IN TELEPHONE PLANT AND CABLE ASSETS:**

Telephone plant in service was stated at cost. Listed below are the major classes of the telephone plant as of December 31, 2009, and 2008:

	<u>2009</u>	<u>2008</u>
Land	\$ 9,887	\$ 9,887
Buildings	269,699	269,699
General purpose computers	2,210	2,210
Office equipment	10,401	6,154
Network equipment	882,751	857,651
Cable	4,585,576	3,649,639
Vehicles	36,674	35,799
Other work equipment	<u>43,599</u>	<u>19,564</u>
Telephone plant in service	<u>\$5,840,797</u>	<u>\$4,850,603</u>

The cooperative provided for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its estimated useful life. The projected composite depreciation rate is approximately 5.3% during the first six years. Estimated useful life for the major asset classes are as follows:

Buildings	20 Years
General purpose computers	10 Years
Network equipment	10 Years
Cable	22 Years
Other work equipment	15 Years

**3. CONSTRUCTION IN PROGRESS:**

During 2005, the cooperative began the operations and started construction on the central office equipment and distribution plant. Phase 1 and 2 of plant under construction was completed as of December 31, 2008. Phase 3 of plant under construction was completed as of December 31, 2009. Total construction cost of the entire project is expected to be \$8,067,000.

**4. ASSETS PLEDGED:**

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

**ALLBAND COMMUNICATIONS COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**

**5. LONG-TERM DEBT:**

Long-term debt consists of notes payable to the United States of America through the Rural Utilities Service (RUS). The notes are collateralized by substantially all of the telephone plant. The loan allows draws until September 2010, with a total loan amount of \$8,067,000; the interest rate on the loan is 5% per annum. As of December 31, 2009, the total amount drawn on the loan was \$6,437,492, with a remaining available balance of \$1,629,508. Interest is paid quarterly, with principal payments beginning June 2008.

Scheduled maturities of existing RUS long-term debt for each of the next five years are as follows:

2010	\$240,000
2011	\$252,000
2012	\$265,000
2013	\$279,000
2014	\$293,000

The mortgage to the United States of America, underlying the RUS 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 RUS note holders.

At December 31, 2009, the cooperative did not meet the minimum times interest earned ratio (TIER) as defined in Section 5.12 of the RUS loan agreement. In accordance with Section 5.13 of the RUS loan agreement, the cooperative provided to RUS a written plan to achieve the RUS specified TIER. RUS has accepted the plan. At December 31, 2008, the cooperative met the minimum times interest earned ratio (TIER) as defined in Section 5.12 of the RUS loan agreement.

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 RUS may authorize. All payments from the trust accounts are subject to RUS approval.

The cooperative's loan from John Reigle for 2009 and 2008 totaled \$102,530 and \$50,000, respectively. Payments including interest at 10% and 12% are to be paid monthly. The loan is unsecured.

Scheduled maturities of existing additional long-term debt for each of the next five years are as follows:

2010	\$21,520
2011	\$26,760
2012	\$6,885
2013	\$7,600
2014	\$8,400

**6. INTEREST COST:**

The cooperative follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. This allowance for funds used during construction ("AFUDC") for 2009 and 2008 amounted to \$16,030 and \$9,816, respectively. Total interest paid for 2009 and 2008 amounted to \$278,043 and \$197,013, respectively.

**ALLBAND COMMUNICATIONS COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**

**7. RELATED PARTY TRANSACTIONS:**

During 2007, management has awarded back pay for reaching certain performance targets to both current and former employees. The unpaid balance was \$60,212 and \$60,212 at December 31, 2009, and 2008, respectively.

**8. OPERATING LEASES:**

**Circuit equipment:** Total circuit equipment lease expense for 2009 and 2008 was \$42,000.

**Equipment:** The cooperative signed a lease on December 23, 2008, for various types of equipment to aid in the installation of fiber. Total equipment lease expense for 2009 was \$66,300. The lease is a 60-month lease which started in January 2009.

**Building:** The cooperative signed a lease on April 29, 2009, for property which is being used as the cooperative's office main office. Total building lease for 2009 was \$31,200. The lease is a 20 year lease which started in April 2009.

Future minimum lease payments for the five succeeding years are as follows:

2010	\$114,153
2011	\$115,589
2012	\$117,067
2013	\$118,590
2014	\$125,400

**9. FEDERAL TAX STATUS:**

This cooperative operates as a tax-exempt corporation as defined by the Internal Revenue Code Section 501(c)(12).