

DONALD A. NEGAARD
JAMES E. NOSTDAHL
CAROL K. LARSON
DAVID J. HOGUE
REED A. SODERSTROM
BRENT M. OLSON
DEBRA L. HOFFARTH
SCOTT M. KNUDSVIG
RYAN D. SANDBERG
MATTHEW H. OLSON
OF COUNSEL
HERBERT L. MESCHKE



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PRINGLE & HERIGSTAD, P.C.

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RETIRED
THOMAS A. WENTZ
MARK E. PURDY
JAN M. SEBBY

KENNETH G. PRINGLE
(1914-1983)
MITCHELL H. MAHONEY
(1929-1996)
ROGER O. HERIGSTAD
(1919-2003)

February 19, 2008

RECEIVED

FEB 20 2008

PUBLIC SERVICE COMMISSION

Illona A. Jeffcoat-Sacco, Executive Secretary
PUBLIC SERVICE COMMISSION
600 East Boulevard Avenue, Department 408
Bismarck, ND 58505-0480

**POLAR COMMUNICATIONS MUTUAL AID CORPORATION—APPLICATION FOR
CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY**

Enclosed for filing are an original and seven copies of an Application of Polar Communications Mutual Aid Corporation for Certificates of Public Convenience and Necessity together with the following attachments:

1. Certificate of Good Standing issued February 15, 2008.
2. Financial Statement as of December 31, 2006, and 2005, including Statement of Operations and Balance Sheet dated December 31, 2007.


Don Negaard

jt

Enclosures

cc/enc: Polar Communications Mutual Aid Corporation, Attention Dave Dunning

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

**Application of Polar Communications
Mutual Aid Corporation for Certificates of
Public Convenience and Necessity**

Case No. PU-_____

APPLICATION

I.

Polar Communications Mutual Aid Corporation, a North Dakota business corporation, under Certificates of Public Convenience and Necessity issued by the North Dakota Public Service Commission (hereinafter the "Commission"), is engaged in the business of providing local exchange telecommunications service, exchange access, and other telecommunications activities in the following North Dakota exchanges, which shall hereinafter be collectively referred to as the "Polar Service Area": Aneta, Arthur, Brocket, Cavalier, Crystal, Dahlen, Drayton, Edinburg, Fairdale, Galesburg, Hoople, Hunter, Inkster, Lankin, Michigan, Neche, Nekoma, Niagara, Park River, Petersburg, and St. Thomas.

II.

Polar Telecommunications, Inc., a subsidiary of Polar Communications Mutual Aid Corporation, (hereinafter "Subsidiary"), a North Dakota corporation, under a Certificate of Public Convenience and Necessity issued by the Commission, is engaged in the business of providing local exchange telecommunications service, exchange access, and other telecommunications services in the following exchanges: Gilby (PC&N Nos. 814 and 1264), Lakota (PC&N No. 3471), Fordville (PC&N No. 3448), Edmore (PC&N No. 3437), Adams, (PC&N No. 3418), Pembina (PC&N No. 4897), and St. Vincent. The Subsidiary has approximately 273 North Dakota access lines in the Gilby exchange, 623 in the Lakota exchange, 223 in the Fordville exchange, 257 in the Edmore exchange, 198 in the Adams exchange, 614 in the Pembina exchange, and 89 in the St. Vincent exchange.

III.

Following a vote of the cooperative's membership to merge Polar Communications Mutual Aid Corporation and the Subsidiary and operate as a single company, the Subsidiary merged with and into Polar Communications Mutual Aid Corporation and distribution of the assets to Polar Communications Mutual Aid Corporation, which includes current assets and facilities relating to the provision of local exchange telecommunications service, exchange access, and other telecommunications services in the Gilby, Adams, Edmore, Fordville, Lakota, Pembina, and St. Vincent exchanges. As of the effective date of said transaction (January 1, 2005) (hereinafter, the "Closing Date"), the Subsidiary

ceased doing business as a provider of local exchange telecommunications service and exchange access in the Gilby, Adams, Edmore, Fordville, Lakota, Pembina, and St. Vincent exchanges. In addition, as of the Closing Date, Polar Communications Mutual Aid Corporation engaged in the business of providing local exchange telecommunications service, exchange access, and other telecommunications activities in the Gilby, Adams, Edmore, Fordville, Lakota, Pembina, and St. Vincent exchanges.

IV.

The Subsidiary wishes to relinquish its Certificate of Public Convenience and Necessity Nos. 814 and 1264 for the Gilby exchange, No. 3471 for the Lakota exchange, No. 3448 for the Fordville exchange, No. 3437 for the Edmore exchange, No. 3418 for the Adams exchange, and No. 4897 for the Pembina exchange effective as of the Closing Date.

V.

All subscribers served by the Subsidiary in the Gilby, Adams, Edmore, Fordville, Lakota, Pembina, and St. Vincent exchanges prior to the Closing Date will be served by Polar beginning on the Closing Date. Polar intends to charge the same rates for basic local service in the Gilby, Adams, Edmore, Fordville, Lakota, Pembina, and St. Vincent exchanges as the Subsidiary is currently charging its subscribers in said exchanges.

VI.

There is a clear need for continuing quality telecommunications services in the Gilby, Adams, Edmore, Fordville, Lakota, Pembina, and St. Vincent exchanges. The relinquishment of the Subsidiary's Certificates of Public Convenience and Necessity will have no effect on other public utilities providing similar services, as there are no other public utilities providing similar services in the Gilby, Adams, Edmore, Fordville, Lakota, Pembina, and St. Vincent exchanges. Polar, having served the exchanges of Aneta, Arthur, Brocket, Cavalier, Crystal, Dahlen, Drayton, Edinburg, Fairdale, Galesburg, Hoople, Hunter, Inkster, Lankin, Michigan, Neche, Nekoma, Niagara, Park River, Petersburg, and St. Thomas and, through the Subsidiary, the exchanges of Gilby, Lakota, Fordville, Edmore, Adams, Pembina, and St. Vincent for many years, has demonstrated that it has the technical, financial, and managerial fitness and ability to provide adequate essential and nonessential telecommunications services in the four exchanges. The technical fitness and ability of Polar to provide services in these exchanges will be enhanced and facilitated by Polar's purchase of the assets that the Subsidiary is currently using to provide such services in the Gilby, Adams, Edmore, Fordville, Lakota, Pembina, and St. Vincent exchanges. The provision of adequate essential and nonessential telecommunications service in the Gilby, Lakota, Fordville, Edmore, Adams, Pembina, and St. Vincent exchanges will be facilitated and supported by the full current technical and financial capabilities of Polar, and by the full current technical and financial capabilities of the Subsidiary's parent, Polar Communications Mutual Aid Corporation.

VII.

The Commission has: (1) authority under N.D.C.C. § 49-21-01.7(7) to act upon applications dealing with certificates of public convenience and necessity and (2) authority under N.D.C.C. § 49-21-01.7(13) to designate geographic service areas for designated eligible telecommunications carriers for the purpose of determining universal service obligations and support mechanisms under the 1996 Act.

VIII.

WHEREFORE, the Subsidiary hereby applies to: (1) contract its designated geographical service area to no longer include the Gilby, Lakota, Fordville, Edmore, Adams, Pembina, and St. Vincent exchanges, pursuant to N.D.C.C. § 49-21-01.7(13), effective as of the Closing Date, and (2) relinquish its Certificates of Public Convenience and Necessity Nos. 814, 1264, 3471, 3448, 3437, 3418, and 4897, effective as of the Closing Date, pursuant to N.D.A.C. § 69-09-05-11(6).

IX.

WHEREFORE, Polar Communications Mutual Aid Corporation hereby applies to the Commission, pursuant to N.D.C.C. Ch. 49-03.1 and N.D.A.C. § 69-09-05-11, for Certificates of Public Convenience and Necessity for the Gilby, Lakota, Fordville, Edmore, Adams, Pembina, and St. Vincent exchanges, effective as of the Closing Date.

X.

WHEREFORE, pursuant to N.D.C.C. § 49-03.1-05, Applicants request that the Commission grant the above-requested relief without a hearing, if no interested party has requested a hearing on this application after receiving at least twenty (20) days notice of opportunity to request such a hearing.

Dated this 1st day of February, 2008.

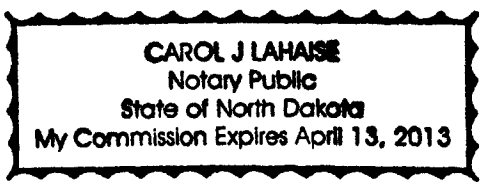
POLAR COMMUNICATIONS MUTUAL
AID CORPORATION



By: David Dunning, General Manager

STATE OF NORTH DAKOTA)
) ss.
COUNTY OF Wabak)

On this 4th day of February, 2008, before me, a Notary Public in and for said County and State, personally appeared David Dunning, known to me to be the General Manager of POLAR COMMUNICATIONS MUTUAL AID CORPORATION, the corporation that is described in and that executed the within instrument, and acknowledged to me that such corporation executed the same.



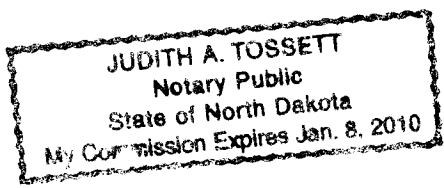
Carol J. LaHaise
Notary Public
For the State of North Dakota
My commission expires: 4-13-2013

PRINGLE & HERIGSTAD, P.C.

By: Don Negaard, ND Bar ID #03598
Attorneys for Applicant, Polar
Communications Mutual Aid Corporation
2525 Elk Drive
P.O. Box 1000
Minot, ND 58702-1000
Telephone (701) 852-0381
Fax (701) 857-1361

STATE OF NORTH DAKOTA)
) ss.
COUNTY OF WARD)

On this 19th day of February, 2008 before me, a Notary Public in and for said County and State, personally appeared Don Negaard, known to me to be the person who is described in and who executed the within instrument, and acknowledged to me that he executed the same.



Judith A. Tossett
Judith A. Tossett, Notary Public
For the State of North Dakota
My commission expires: 01-08-10

State of North Dakota

SECRETARY OF STATE



CERTIFICATE OF GOOD STANDING OF

POLAR COMMUNICATIONS MUTUAL AID CORPORATION

The undersigned, as Secretary of State of the State of North Dakota, hereby certifies that POLAR COMMUNICATIONS MUTUAL AID CORPORATION, a North Dakota COOPERATIVE ASSOCIATION, was incorporated in this office on March 13, 1952 and, according to the records of this office as of this date, has paid all fees due this office as required by North Dakota statutes governing a North Dakota COOPERATIVE ASSOCIATION.

ACCORDINGLY the undersigned, as such Secretary of State, and by virtue of the authority vested in him by law, hereby issues this Certificate of Good Standing to

POLAR COMMUNICATIONS MUTUAL AID CORPORATION

Issued: February 15, 2008

A handwritten signature in cursive script, reading "Alvin A. Jaeger".

Alvin A. Jaeger
Secretary of State

BEST

AVAILABLE

COPY

ARTICLES OF INCORPORATION OF
POLAR RURAL TELEPHONE MUTUAL AID CORPORATION

KNOW ALL MEN BY THESE PRESENTS, That we, the undersigned, have this day voluntarily associated ourselves together for the purpose of forming a mutual aid corporation under the provisions of Title 10 of the North Dakota Revised Code of 1943, and amendments thereto, and we hereby certify that:

Article I.

The name of said corporation shall be Polar Rural Telephone Mutual Aid Corporation.

Article II.

The purpose for which it is formed is to acquire, build, improve, expand, furnish, hold, develop and operate a Rural Telephone system and systems.

Article III.

The place where its principal business will be transacted is Petersburg, North Dakota.

Article IV.

The territory to be served by the corporation is located in the eastern portions of Nelson and Cavalier Counties, the western portion of Walsh and Pembina Counties and the northern portion of Grand Forks County, all in the State of North Dakota. The estimated length of its rural telephone lines is one thousand miles and the estimated cost thereof is One Million (\$1,000,000.00) Dollars.

Article V.

The corporation is organized without capital stock and the property rights and interests of the members shall be unequal. The general rules applicable to all members by which the property rights and interests respectively of each member shall be determined and fixed are as follows:

Upon dissolution, after (a) all debts and liabilities of the corporation shall have been paid, and (b) all capital furnished through patronage shall have been retired as provided in the by-laws, and remaining property and assets of the corporation shall be distributed among the members and former members in the proportion which the aggregate patronage of each bears to the total patronage of all such members.

Article VI.

The corporation is authorized to borrow money in an amount not to exceed Two Million Dollars (\$2,000,000.00)

Article VII.

The term of existence of this corporation shall be perpetual.

Article VIII.

The names and residences of the persons who shall constitute the first board of directors of the corporation and who shall serve until their successors are elected and qualified are:

<u>Denis O. Monson</u>	<u>Edinburg, North Dakota</u>
<u>Lloyd M. Gire</u>	<u>Edinburg, North Dakota</u>

Orlin T. Nelson	McInure, North Dakota
Andrew Slettebak	Petersburg, North Dakota
Robert A. McConnachie	Inkster, North Dakota
Irvin M. Hanson	Petersburg, North Dakota
W. H. Krueger	Niagara, North Dakota
E. K. Olafson	Mountain, North Dakota
Seal Selmer Mark	Petersburg, North Dakota

IN WITNESS WHEREOF, We have hereunto set our hands and seal this 14th day of March, 1952.

Denis O. Monson (SEAL)
Lloyd M. Gire (SEAL)
Orlin T. Nelson (SEAL)
Andrew Slettebak (SEAL)
Robert A. McConnachie (SEAL)
Irvin M. Hanson (SEAL)
W. H. Krueger (SEAL)
Selmer Mark (SEAL)

STATE OF NORTH DAKOTA
 COUNTY OF WALSH

On this 14th day of March, 1952, before me, W. T. DeFny, a Notary Public in and for Walsh County, State of North Dakota, personally appeared Denis O. Monson, Lloyd M. Gire, Orlin T. Nelson, Andrew Slettebak, Robert A. McConnachie, Irvin M. Hanson, W. H. Krueger, E. K. Olafson and Selmer Mark, known to me to be the persons whose names are subscribed to the foregoing instrument and severally duly acknowledged to me that they executed the same.

W. T. DeFny
 Notary Public, Walsh County, North Dakota

[Faint, mostly illegible text and signatures in the bottom section of the document, including what appears to be a notary seal area.]

3
DUPLICATE

No. 14063

PRIVATE CORPORATIONS



DEPARTMENT OF STATE AND FOREIGN AFFAIRS
State of North Dakota

To All to Whom these Presents shall Come,

Whereas, DENIS O. MONSON LLOYD H. GIRE ORLIN NELSON ANDREW SLETTERAK
ROBERT A. MC COMBACHIE IRVIN H. HANSON W. H. KRUEGER E. K. OLAFSON SAM MORK

and others have filed in this office a declaration in writing or ARTICLES OF INCORPORATION, as provided by the laws of this State, setting forth all the facts required to be stated therein, and have in all respects complied with the requirements of the law governing the formation of private corporations:

Now, therefore, I, THOMAS HALL, Secretary of State of the State of North Dakota, by virtue and authority of law, do hereby certify that said parties, their associates and successors, have become a body politic and corporate, under the Corporate name of
POLAR RURAL TELEPHONE FUNDING AND ASSOCIATION (PETERSBURG, NELSON CO.)

and by that name have a right to sue and be sued, purchase, hold and convey real and personal property, and to have and enjoy all the rights and privileges granted to a private corporation under the laws of this state, subject to their articles of incorporation, and all legal restrictions and liabilities in relation thereto.

SEAL

In Testimony Whereof, I have hereunto set my hand and affixed the Great Seal of the State, at the Capitol in the City of Bismarck, this THIRTEENTH day of MARCH A. D. 19 52.

THOMAS HALL
SECRETARY OF STATE
By CHARLES LIESSMAN
DEPUTY

93

4

CERTIFICATE

State of North Dakota

County of Walsh, ss.

We, the undersigned, being the Chairman and Secretary of the meeting of the members of the Polar Rural Telephone Mutual Aid Corporation, and all of the members of the Board of Directors of said corporation, do hereby certify and return; that the attached is a correct copy of the original minutes entered in the Minute Book of the Corporation of a special meeting of its members held August 28, 1953, pursuant to call thereof by the Directors, and that all members were present and acted throughout; that a Waiver of Notice of the meeting was signed by all of the members of the Corporation prior to the meeting and that the attached copy of Waiver of Notice is a correct copy of the original Waiver so signed.

We further certify and return that:

By the unanimous vote of all of the members of said Corporation, resolutions were adopted authorizing the borrowing by said Corporation from the United States of America of sums not exceeding in the aggregate of Ten Million Dollars for the construction and financing of a rural telephone system and to secure such loan (s) by a mortgage or mortgages upon the property of the Corporation, all as shown by the Resolutions contained in said minutes which Resolutions are, by reference, made a part hereof and which are and remain in full force and effect.

IN WITNESS WHEREOF, we have hereunto set our hands and affixed the seal of the Corporation this 28th day of August, 1953.

(Corporate Seal)

J. M. [Signature]
Chairman
W. H. [Signature]
Secretary
Lloyd [Signature]
L. C. [Signature]
Orlin [Signature]
Robert [Signature]
E. R. [Signature]

Being all of the Directors of Polar Rural Telephone Mutual Aid Corporation.

CERTIFICATE

State of North Dakota,
County of Walsh ss.

We, the undersigned, being the Chairman and Secretary of the meeting of the Directors and Members of the Polar Rural Telephone Mutual Aid Corporation held August 28, 1953 and being all of the Directors of said Corporation, do hereby certify and return:

That Article IV of the Articles of Incorporation of the Polar Rural Telephone Mutual Aid Corporation was amended on August 28, 1953 to provide as follows:

ARTICLE IV

The territory to be served by the Corporation is located in the Counties of Pembina, Walsh, Grand Forks, Traill, Cavalier, Nelson, Steele and Ramsey all in the State of North Dakota. The estimated length of the Rural Telephone lines is Five Thousand Miles and the estimated cost thereof is Five Million Dollars. The communities to be served by it include the cities and villages of Michigan, Petersburg, Niagara, Inkster, Park River, Drayton, Cavalier, Hoople, Crystal, Hensel, Neche, St. Thomas, Ewingsmont, Bathgate, Edinburg and including such cities and villages and connecting them and other and intermediate areas, communities, cities and villages.

We further certify and return:

That Article VI of the Articles of Incorporation of the Polar Rural Telephone Mutual Aid Corporation was amended on August 28, 1953 to provide as follows:

ARTICLE VI

The Corporation is authorized to borrow money in an amount not to exceed Ten Million (\$10,000,000.00) Dollars.

We further certify and return: that the meeting at which said amendments were adopted was duly and regularly called and held; that all directors and all members of the Corporation were in attendance and acted throughout; and that all directors and all members voted in favor of said amendments.

IN WITNESS WHEREOF, we have hereunto set our hands and affixed the seal of the Corporation this 28th day of August, 1953.

(Corporate Seal)

J. McLaughlin CHAIRMAN W. H. Housinger SECRETARY
Sammond Oliver Nelson
Lloyd Gire Andrew Stettin
James C. Moman Robt McLaughlin
E. K. Olson

Being all of the Directors of Polar Rural Telephone Mutual Aid Corporation.

DEPUY & HOMME
ATTORNEYS AT LAW
GRANDFORK, N. D.

CERTIFICATE OF AMENDMENT

DUPLICATE

№ 88

FEE \$ 6.00

United States of America

DEPARTMENT



OF STATE

State of North Dakota

To All to Whom these Presents shall Come,

WHEREAS, POLAR RURAL TELEPHONE MUTUAL AID CORPORATION (PETERSBURG, NELSON CO.)

has filed in this office a certificate as provided by the Laws of this State, setting forth all the facts required to be stated therein and has in all respects complied with the provisions of the Law governing the amendments of Articles of Incorporation and has amended its Articles of Incorporation as follows, to-wit: AMENDING ARTICLE IV AND ARTICLE VI.

Now therefore, I, THOMAS HALL, Secretary of State of the State of North Dakota, in virtue and by authority of Law, do hereby issue this Certificate of Amendment.

IN TESTIMONY WHEREOF, I have hereto set my hand and affixed the Great Seal

of the State at the Capitol in the City of Bismarck, this FIFTEENTH day of SEPTEMBER, 1953.

By CHARLES LIESSMAN DEPUTY.

THOMAS HALL Secretary of State.

Buy "Dakota Maid" Flour.

A7

ARTICLES OF AMENDMENT
TO THE
ARTICLES OF INCORPORATION
OF

POLAR RURAL TELEPHONE MUTUAL AID CORPORATION

Pursuant to the provisions of Chapter 10-15 of the North Dakota Century Code, as amended, the undersigned Association adopts the following Articles of Amendment to its Articles of Incorporation:

ARTICLE 1. The name of the cooperative association is Polar Rural Telephone Mutual Aid Corporation

ARTICLE 2. The following amendment of the Articles of Incorporation was adopted by the members of the association on June 8, 1968, in the manner prescribed by Chapter 10-15, North Dakota Century Code, as amended:

Article VI

The Corporation is authorized to borrow money in an amount not to exceed Twenty-five Million Dollars (\$25,000,000.00).

ARTICLE 3. The total number of members of the cooperative association are _____

ARTICLE 4. The number of members voted for such amendment was 141; and the number of members voted against such amendment was 40.

DATED June 17, 1968.

Polar Rural Telephone Mutual Aid Corporation
Name of Association

By Orlin Nelson
President
and W. H. [unclear]
Secretary

Orlin Nelson being first duly sworn says that he is the President and that he has read the foregoing application and knows the contents thereof, and verily believes the statements made therein to be true.

Orlin Nelson
Verifying Officer.

Subscribed and sworn to before me this 14th day of June, 1968.

[Signature]
Notary Public

State of North Dakota

My Commission expires Jan. 18, 1974

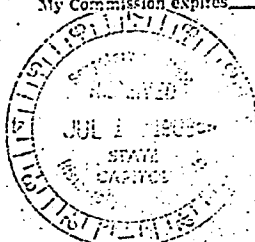
Fee \$12.00. Certificate No. 2566

Filing Date July 22 1968

Ben [unclear]
Secretary of State

By _____ Deputy

(551-5-65)



"Buy North Dakota Products"

9
Certificate No. 2566



CERTIFICATE OF AMENDMENT

OF

POLAR RURAL TELEPHONE MUTUAL AID CORPORATION

The undersigned, as Secretary of State of the State of North Dakota, hereby certifies that duplicate originals of Articles of Amendment to the Articles of Incorporation of

POLAR RURAL TELEPHONE MUTUAL AID CORPORATION

duly signed and verified pursuant to the provisions of the North Dakota

MUTUAL AID Corporation Act, have been received in this office and are found to conform to law.

ACCORDINGLY the undersigned, as such Secretary of State, and by virtue of the authority vested in him by law, hereby issues this Certificate of Amendment to the Articles of Incorporation of

POLAR RURAL TELEPHONE MUTUAL AID CORPORATION

INCREASE AND AUTHORIZATION TO BORROW MONEY TO \$25,000,000.00 and attaches hereto a duplicate original of the Articles of Amendment.

IN TESTIMONY WHEREOF, I have hereto set my hand and affixed the Great Seal of the State of North Dakota at the Capitol in the City of Bismarck, second day of JULY 1968

S E A L

BEN MEIER

Secretary of State

File No. 6936

By _____
Deputy

DUPLICATE

A10

AMENDMENTS — Cooperative Association
(Insert in duplicate)

ARTICLES OF AMENDMENT
TO THE
ARTICLES OF INCORPORATION
OF

POLAR RURAL TELEPHONE MUTUAL AID CORPORATION

Pursuant to the provisions of Chapter 10-15 of the North Dakota Century Code, as amended, the undersigned Association adopts the following Articles of Amendment to its Articles of Incorporation:

ARTICLE 1. The name of the cooperative association is POLAR RURAL TELEPHONE MUTUAL AID CORPORATION

ARTICLE 2. The following amendment of the Articles of Incorporation was adopted by the members of the association on June 20, 19 80, in the manner prescribed by Chapter 10-15, North Dakota Century Code, as amended:

- Article I. The name of said corporation shall be POLAR COMMUNICATIONS MUTUAL AID CORPORATION.
- Article II. The purpose for which it is formed is to acquire, improve, expand, furnish, hold, develop and operate a communication system and systems.
- Article IV. The territory to be served by the corporation is located in the Counties of Pembina, Walsh, Grand Forks, Traill, Cavalier, Nelson, Steele, Ramsey, Cass and Griggs, North Dakota, and the cities and communities situate therein.
- Article VI. The corporation is authorized to borrow money from time to time in such amounts as the Board of Directors determines.

ARTICLE 3. The total number of members of the cooperative association are 7942

ARTICLE 4. The number of members voted for such amendment was 348; and the number of members voted against such amendment was None

DATED June 23, 19 80

POLAR RURAL TELEPHONE MUTUAL AID CORPORATION
 Secretary of Association
 By Orville Hoopes
 President
 and Eugene Loftsgard
 Secretary

EUGENE LOFTSGARD being first duly sworn says that he is the Secretary and that he has read the foregoing application and knows the contents thereof, and verily believes the statements made therein to be true.

Eugene Loftsgard
EUGENE LOFTSGARD Verifying Officer

Subscribed and sworn to before me this 23rd day of June, 19 80

W. T. DePUY
 W. T. DePUY Notary Public
 State of North Dakota
 My Commission expires January 18, 19 86

Fee \$20.00
 Certificate No. 6434
 Filing Date 8-18, 19 80
John Meier
 Secretary of State
 by [Signature]
 Deputy

RECEIVED
 JUN 24 1980
 SECRETARY OF STATE
 SECRETARY OF STATE

Certificate No. 6434

SUPERIOR OFFICE

DEPARTMENT

OF STATE



State of North Dakota

CERTIFICATE OF AMENDMENT

OF

~~BOHEMIA TELEPHONE MUTUAL AID CORPORATION~~

The undersigned, as Secretary of State of the State of North Dakota, hereby certifies that duplicate originals of Articles of Amendment to the Articles of Incorporation of

~~BOHEMIA TELEPHONE MUTUAL AID CORPORATION~~

duly signed and verified pursuant to the provisions of the North Dakota ~~MUTUAL AID CORPORATION~~ Corporation Act, have been received in this office and are found to conform to law.

ACCORDINGLY the undersigned, as such Secretary of State, and by virtue of the authority vested in him by law, hereby issues this Certificate of Amendment to the Articles of Incorporation of ~~Amending Corporation file to: BOHEMIA TELEPHONE MUTUAL AID CORPORATION~~

~~BOHEMIA TELEPHONE MUTUAL AID CORPORATION~~

and attaches hereto a duplicate original of the Articles of Amendment.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State at the Capitol in the City of Bismarck, this 10th day of August, A.D., 1920.

BEN MEIER Secretary of State

By _____, Deputy

File No. 6936

DUPLICATE

POOR QUALITY ORIGINAL

Survivor 1,446,600 C

Non-Survivor 2,261,900 C

RECEIVED

JAN 03 2005

SEC. OF STATE

ARTICLES OF MERGER

Pursuant to the provisions of North Dakota Century Code Section 10-15-41, the undersigned cooperative associations have adopted the following articles of merger for the purpose of merging the subsidiary cooperative into its parent cooperative:

- 1) Polar Telecommunications, Inc. is a cooperative organized to do business under the laws of North Dakota and is a wholly owned subsidiary of Polar Communications Mutual Aid Corporation.
- 2) Polar Communications Mutual Aid Corporation is a cooperative association organized to do business under the laws of North Dakota and is the parent company of Polar Telecommunications, Inc.
- 3) Polar Communications Mutual Aid Corporation will be the name of the surviving cooperative association.
- 4) The following plan of merger was duly approved at a meeting by the directors of the surviving cooperative on July 31, 2003. A vote of the members was not required. However, the merger was approved by members of Polar at its annual meeting on June 10, 2004. The Articles of Association of Polar Communications Mutual Aid Corporation will not need to be amended.
- 5) The manner of the adoption of the plan of merger and the vote by which it was adopted constitute full legal compliance with the provisions of North Dakota Century Code Section 10-15-41 and with the articles of association and the bylaws of the subsidiary cooperative and the surviving cooperative.
- 6) The effective date of the merger is January 3, 2005.

Dated this 30th day of December, 2004.

Polar Telecommunications, Inc.

Polar Communications Mutual Aid Corporation

Mary Jean Holm

Lore Kalle

BY: ITS: President

BY: ITS: President

[Signature]
BY: ITS: Secy U.P.

Bruce Udby
BY: ITS: Vice President

Hodny Currie
LAWYERS
315 Briggs
Burlington, ND 58278

NORTH DAKOTA
filed 1-3 2005
[Signature]
Secretary of State



1
2
3 **MERGER AGREEMENT**
4
5

6 AGREEMENT of merger dated this 31st day of July, 2003, between Polar Communications
7 Mutual Aid Corporation, Inc., the surviving corporation, and Polar Telecommunications, Inc., the
8 absorbed corporation.

9 **RECITALS**

- 10 1) Polar Communications Mutual Aid Corporation, Inc., (Polar) a cooperative association
11 organized and existing under the laws of the State of North Dakota, having its principal
12 office at 110 4th St E, Park River, ND 58270.
- 13 2) Polar is a cooperative association and its customers are based on its members.
- 14 3) Polar Telecommunications, Inc., (PTI) is a cooperative association organized and existing
15 under the laws of the State of North Dakota, having its principal office at 110 4th St E, Park
16 River, ND 58270.
- 17 4) PTI has a capitalization of 10,000 authorized shares of common stock, having a par value
18 of One Hundred Dollars (\$100) per share, of which 10,000 shares are issued and outstanding,
19 and all shares are owned by Polar Communications.
- 20 5) The board of directors of the constituent cooperatives deem it advisable and in the best
21 interests of the cooperatives and their shareholders that PTI be merged into Polar, in
22 accordance with the provisions of N.D.C.C. §10-15-41.

23 **SECTION ONE**

24 **MERGER**

25 In consideration of the mutual covenants, and subject to the terms and conditions hereinafter
26 set forth, the constituent cooperatives agree as follows:

27 Polar Telecommunications, Inc., shall merge with and into Polar Communications Mutual
28 Aid Corporation, Inc., which shall be the surviving cooperative.

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3 SECTION TWO

4 TERMS AND CONDITIONS

5 On the effective date of the merger, the separate existence of the absorbed cooperative
6 association shall cease, and the surviving cooperative association shall succeed to all the rights,
7 privileges, immunities, and franchises, and all the property, real, personal and mixed, of the
8 absorbed corporation, without the necessity for any separate transfer. The surviving cooperative
9 shall thereafter be responsible and liable for all liabilities and obligations of the absorbed
10 cooperative, and neither the rights of creditors nor any liens on the property of the absorbed
11 cooperative shall be impaired by the merger.

12 SECTION THREE

13 CONVERSION OF SHARES

14 After the effective date of the merger, the shares of common stock of PTI shall be canceled.
15 All members of PTI will become members of Polar Communications Mutual Aid Corporation and
16 be entitled to all benefits of membership therein.

17 SECTION FOUR

18 ARTICLES OF ASSOCIATION

19 The articles of association of the surviving cooperative shall continue to be its articles of
20 association following the effective date of the merger, subject to the following amendments: None.

21 SECTION FIVE

22 BYLAWS

23 The bylaws of the surviving association shall continue to be its bylaws following the
24 effective date of the merger, subject to the following amendments: None.

25 SECTION SIX

26 DIRECTORS AND OFFICERS

27 The directors and officers of the surviving cooperative on the effective date of the merger
28 shall continue as the directors and officers of the surviving cooperative for the full unexpired terms
29 of their offices and until their successors have been elected or appointed and qualified.

SECTION SEVEN

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APPROVAL OF SHAREHOLDERS

This agreement of merger shall be submitted for the approval of the shareholders of the constituent cooperatives in the manner provided by applicable law at meetings to be held on or before June 10, 2004.

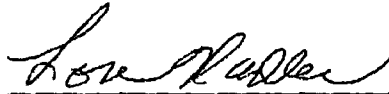
SECTION EIGHT

EFFECTIVE DATE

The effective date of this merger shall be January 1, 2005.

DATED this 31st day of July, 2003.

POLAR COMMUNICATIONS MUTUAL AID CORPORATION

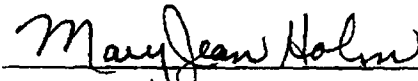


BY: President
ITS:

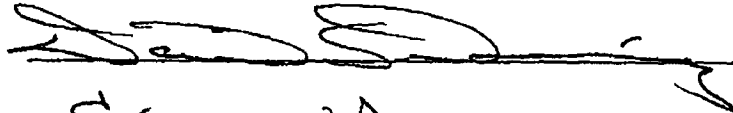


BY: Vice President
ITS:

POLAR TELECOMMUNICATIONS, INC.



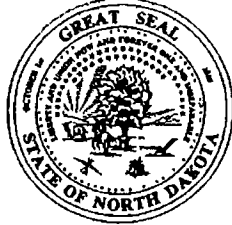
BY: President
ITS:



BY: Steve O'P
ITS:

State of North Dakota

SECRETARY OF STATE



CERTIFICATE OF MERGER OF DOMESTIC CORPORATIONS INTO

POLAR COMMUNICATIONS MUTUAL AID CORPORATION

The undersigned, as Secretary of State of the State of North Dakota,
hereby certifies that Articles of Merger of POLAR
TELECOMMUNICATIONS, INC. into

POLAR COMMUNICATIONS MUTUAL AID CORPORATION
a domestic corporation, duly signed and verified pursuant to North Dakota
statutes governing mergers, have been received in this office and are found
to conform to law.

ACCORDINGLY the undersigned, as such Secretary of State, and by
virtue of the authority vested in him by law, hereby issues this Certificate of
Merger of POLAR TELECOMMUNICATIONS, INC. into
POLAR COMMUNICATIONS MUTUAL AID CORPORATION.

Effective date of merger: January 3, 2004

Issued: January 3, 2005

A faint circular stamp of the Secretary of State is visible in the background, partially overlapping the signature.

Alvin A. Jaeger

Alvin A. Jaeger
Secretary of State



STATE OF NORTH DAKOTA
Office of Secretary of State

I hereby certify that this is a true and correct copy, consisting of 16 pages as taken from the original on file in this office. Originality of this certification can be determined by the color red.

DATED: 2-15-08

BY: [Signature]

Alvin A. Jaeger
SECRETARY OF STATE

**NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
PARK RIVER, NORTH DAKOTA
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2006 AND 2005
WITH INDEPENDENT AUDITOR'S REPORT**

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Polar Communications
and Subsidiaries
Park River, North Dakota

We have audited the accompanying consolidated balance sheet of Polar Communications and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in equities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Polar Communications and Subsidiaries as of December 31, 2006 and 2005, and the results of their operations, changes in equities and their 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 our report dated April 9, 2007, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

BRADY, MARTZ & ASSOCIATES, P.C.

April 9, 2007

BRADY, MARTZ & ASSOCIATES, P.C.
401 Demers Avenue Suite 400 P.O. Box 41296
Grand Forks, ND 58208-4296 (701) 775-4685 Fax: (701) 795-7196

OTHER OFFICES: Minot and Bismarck, ND
Itasca Falls, MN

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
As of December 31, 2006 and 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 3,360,590	\$ 4,096,604
Investment in Marketable Securities - Available for Sale	245,123	175,212
Telecommunications Accounts Receivable (Net of Allowance of \$27,617 in 2006 and \$25,845 in 2005)	123,401	134,515
Other Trade Accounts Receivable	1,263,343	1,180,332
Income Taxes Receivable	247,327	
Material and Supplies	1,846,232	1,867,400
Prepayments	63,731	130,955
Total Current Assets	\$ 7,149,747	\$ 7,585,018
INVESTMENTS AND NON-CURRENT ASSETS:		
Investments in Affiliated Companies	\$ 15,008,911	\$ 13,745,923
Investments in Non-Affiliated Companies	504,790	551,481
Non-Regulated Investment - CATV	2,131,198	2,263,453
Non-Regulated Investment - Customer Premise Equipment	738,573	683,315
Intangible Assets (Net of Amortization)	478,535	556,585
Goodwill	1,056,478	1,044,852
Deferred Charges	240,914	239,019
Other Investments	441,830	763,317
Deferred Taxes		77,058
Total Investments and Non-Current Assets	\$ 20,601,229	\$ 19,925,003
TELECOMMUNICATIONS PLANT:		
In Service	\$ 64,397,763	\$ 59,378,304
Plant Adjustment	2,727,109	2,727,109
Under Construction	92,039	169,833
Total Investment in Plant	\$ 67,216,911	\$ 62,275,246
Less Accumulated Depreciation and Amortization	(45,129,840)	(41,824,725)
Net Plant	\$ 22,087,071	\$ 20,450,521
TOTAL ASSETS	\$ 49,838,047	\$ 47,960,542
LIABILITIES AND EQUITIES		
CURRENT LIABILITIES:		
Current Maturities of Long-Term Debt	\$ 2,155,486	\$ 2,130,683
Current Portion of Post Retirement Benefit Obligation	162,500	151,500
Accounts Payable	1,977,834	1,206,007
Advance Billings and Payments	60,353	45,153
Income Taxes Accrued		3,751
Other Taxes Accrued	194,216	95,105
Accrued Compensated Absences	624,904	631,695
Total Current Liabilities	\$ 5,175,293	\$ 4,263,894
LONG-TERM DEBT, NET OF CURRENT MATURITIES	\$ 12,232,793	\$ 13,415,792
DEFERRED CREDITS:		
Deferred Income Taxes	\$ 1,152,621	\$ 907,201
Accumulated Provision for Pensions and Benefits	3,197,832	2,901,373
Deferred Compensation	246,475	259,058
Total Deferred Credits	\$ 4,596,928	\$ 4,067,632
EQUITIES		
Patronage Capital	\$ 10,002,997	\$ 10,212,842
Retained Earnings of Subsidiaries	(226,069)	(451,847)
Equity in Earnings of Affiliated Companies	11,277,774	9,758,619
Other Equities	6,701,973	6,696,913
Accumulated other Comprehensive Income	76,358	(3,303)
Total Equities	\$ 27,833,033	\$ 26,213,224
TOTAL LIABILITIES AND EQUITIES	\$ 49,838,047	\$ 47,960,542

See Accompanying Notes to Consolidated Financial Statements

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
For the Years Ended December 31, 2006 and 2005

	2006	2005
OPERATING REVENUE		
Local Network Services	\$ 2,909,122	\$ 2,706,122
Network Access Services	9,036,090	9,228,606
Long Distance Network Services	(1,989)	8,496
Billing and Collection	196,214	212,342
Miscellaneous	445,166	445,402
Less Uncollectible Revenue	(6,100)	(8,356)
Total Operating Revenues	\$ 12,578,503	\$ 12,592,612
OPERATING EXPENSES		
Plant Specific Operations	\$ 2,506,918	\$ 2,578,361
Plant Non-Specific Operations	1,057,108	1,143,096
Amortization	12,625	11,422
Depreciation	4,384,419	4,208,758
Customer Operations	1,131,250	1,147,731
Corporate Operations	1,921,188	1,827,226
Income Taxes	97,897	76,320
Miscellaneous Expenses	30,622	49,040
Operating Taxes - Other	102,165	86,675
Total Operating Expenses	\$ 11,244,192	\$ 11,128,629
OPERATING MARGIN	\$ 1,334,311	\$ 1,463,983
NON-OPERATING INCOME (EXPENSE)		
Dividend Income	\$ 225,844	\$ 391,210
Interest Income	165,701	78,849
Other Non-Operating Income	181,996	(90,296)
Loss from Non-Regulated Customer Premise Investments	(183,027)	(202,755)
Polar Cablevision Subsidiary Earnings	53,413	1,333
Undistributed Earnings from ND Long Distance, LLC	78,032	18,468
Undistributed Earnings from Dakota Carrier Network, LLC	330,756	270,902
Undistributed Earnings from TPC, Inc.	1,069,657	948,971
Undistributed Earnings from ND Telecom, LLC	3,411	3,819
Undistributed Earnings from North Plains Utility, LLC	37,299	
Non-Operating Taxes - Income	(167,232)	(142,664)
Total Non-Operating Income	\$ 1,795,850	\$ 1,277,837
MARGIN BEFORE INTEREST EXPENSE AND OTHER	\$ 3,130,161	\$ 2,741,820
INTEREST EXPENSE	(561,140)	(577,009)
NET MARGINS	\$ 2,569,021	\$ 2,164,811

See Accompanying Notes to Consolidated Financial Statements

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITIES
For the Years Ended December 31, 2006 and 2005

	Patronage Capital	Retained Earnings of Subsidiaries	Equity in Earnings of Affiliated Companies	Other Equities	Accumulated Other Comprehensive Income	Total
BALANCE DECEMBER 31, 2004	\$ 10,400,752	\$ 4,399,276	\$ 8,516,459	\$ 1,712,572	\$ (16,717)	\$ 25,012,342
Comprehensive Income						
Net Margins	814,689	107,962	1,242,160			2,164,811
Unrealized Gain on Marketable Securities, Net of Tax and Reclassification Adjustment					13,414	<u>13,414</u>
Total Comprehensive Income						\$ 2,178,225
Transfers		(4,959,085)		4,959,085		
Retirement of Capital Credits	<u>(1,002,599)</u>			<u>25,256</u>		<u>(977,343)</u>
BALANCE DECEMBER 31, 2005	<u>\$ 10,212,842</u>	<u>\$ (451,847)</u>	<u>\$ 9,758,619</u>	<u>\$ 6,696,913</u>	<u>\$ (3,303)</u>	<u>\$ 26,213,224</u>
Comprehensive Income						
Net Margins	\$ 824,088	\$ 225,778	\$ 1,519,155			\$ 2,569,021
Unrealized Gain on Marketable Securities, Net of Tax and Reclassification Adjustment					\$ 47,795	47,795
Realized Loss on Marketable Securities					31,866	<u>31,866</u>
Total Comprehensive Income						\$ 2,648,682
Retirement of Capital Credits	<u>(1,033,933)</u>			<u>\$ 5,060</u>		<u>(1,028,873)</u>
BALANCE DECEMBER 31, 2006	<u>\$ 10,002,997</u>	<u>\$ (226,069)</u>	<u>\$ 11,277,774</u>	<u>\$ 6,701,973</u>	<u>\$ 76,358</u>	<u>\$ 27,833,033</u>
Disclosure of Reclassification Amount			2006	2005		
Unrealized Gains Arising During the Period - Qwest Stock			\$ 79,658	\$ 22,357		
Less: Adjustment for Income Tax Effects			<u>(31,863)</u>	<u>(8,943)</u>		
Net Unrealized Gain on Securities			<u>\$ 47,795</u>	<u>\$ 13,414</u>		

See Accompanying Notes to Consolidated Financial Statements

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Margins	\$ 2,569,021	\$ 2,164,811
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	5,154,818	4,900,508
Equity in Earnings of Affiliated Companies	(1,472,011)	(1,293,680)
Gain on Disposal of Investments	(351,833)	
Post Retirement Benefit Obligation	307,459	441,018
Patronage Capital Allocated	(276)	(5,032)
Effects on Operating Cash Flows Due to Changes in:		
Telecommunications Accounts Receivable	122,198	(1,255)
Other Accounts Receivable	(205,721)	(18,555)
Inventory	24,862	
Income Taxes Receivable	(161,473)	
Materials and Supplies	(3,694)	223,951
Prepaid Expenses	67,224	(47,381)
Deferred Charges	(2,682)	(452)
Accounts Payable	771,827	(159,849)
Accrued Interest		(500)
Income Taxes Accrued	(89,605)	(370,144)
Other Taxes Accrued	99,111	(8,108)
Advance Billings and Payments	15,200	3,079
Compensated Absences	(6,791)	7,244
Deferred Compensation	(12,583)	(12,299)
Deferred Income Taxes	194,514	75,992
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ 7,019,565	 \$ 5,899,348
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds From Sale of Investment	\$ 1,105,115	
Dividends Received	556,167	\$ 574,237
Telecommunications Plant Additions and Replacements	(6,014,824)	(4,255,745)
Nonregulated Customer Premise Equipment Additions	(553,891)	(458,815)
CATV Plant Additions and Replacements	(66,819)	(47,108)
Cash Received from Capital Credits	35,742	28,456
Purchase of Intangible Assets		(17,180)
Purchase of Investments	(300,000)	(347)
Issuance of Notes Receivable	(330,000)	
Payments Received on Notes Receivable		10,639
 NET CASH USED BY INVESTING ACTIVITIES	 \$ (5,568,510)	 \$ (4,165,863)

See Accompanying Notes to Consolidated Financial Statements

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (CONT.)
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payment on Long-Term Debt	\$ (2,168,170)	\$ (2,102,399)
Proceeds From Long-Term Debt	1,009,974	1,514,356
Retirement of Capital Credits	<u>(1,028,873)</u>	<u>(977,343)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>\$ (2,187,069)</u>	<u>\$ (1,565,386)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (736,014)	\$ 168,099
CASH AND CASH EQUIVALENTS - JANUARY 1	<u>4,096,604</u>	<u>3,928,505</u>
CASH AND CASH EQUIVALENTS - DECEMBER 31	<u>\$ 3,360,590</u>	<u>\$ 4,096,604</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	\$ 550,788	\$ 574,574
Income Taxes	348,000	207,085

See Accompanying Notes to Consolidated Financial Statements

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2006 and 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations- Polar Communications, Polar Telcom, Inc. (subsidiary), and Wolverton Telephone (subsidiary) are local exchange carriers, which provide telecommunication services. Polar Cablevision, Inc. (subsidiary) provides cable television services. Polar Communications and its subsidiaries provide the above services to customers located primarily in Cass, Cavalier, Grand Forks, Nelson, Pembina, Steele, Ramsey, Traill, Walsh and Richland counties of north central North Dakota. The Corporation also serves members in counties of Kittson, Marshall and Wilkin, Minnesota.

General- The Corporation follows the Federal Communication Commission's (FCC) Uniform System of Accounts for Class A and B Telephone Companies as required by the Rural Utilities Service (RUS).

Rates charged to customers for local services are established by the Board of Directors and are subject to RUS review before becoming effective. Toll and access rates are subject to state and FCC regulation.

Principles of Consolidation- The consolidated financial statements include the accounts of Polar Communications and its wholly owned subsidiaries, Polar Cablevision, Polar Telcom and Wolverton Telephone. All assets and liabilities of the subsidiaries are consolidated with the assets and liabilities of Polar Communications. The net income of Polar Cablevision is shown in the non-operating margin section of the consolidated statement of operations and explained in detail in Note 6. All significant inter-company accounts have been eliminated. Investments in affiliates, representing 20 percent to 50 percent of the ownership of such companies, are accounted for under the equity method. Investments in affiliates, representing less than 20 percent of the ownership of such companies, are accounted for under the cost method.

Telecommunications and Other Plant- Additions to plant are recorded at cost, which includes contract work, direct labor, material and allocable overheads. When units of property are retired, sold or otherwise disposed of in the ordinary course of business, their average book cost, less net salvage, is charged to accumulated depreciation. Repairs and the replacement and renewal of items determined to be less than units of property are charged to maintenance.

Amortization- Effective January 1, 2002 SFAS, No. 142 requires the Corporation to cease amortizing goodwill and instead to test goodwill for impairment on an annual basis. If impairment has occurred, the Corporation is required to write down goodwill to the impaired value.

The covenant not to compete associated with the cable TV purchase is being amortized to operations over the life of the contract, which is five years.

Wireless internet licenses are being amortized to operations on a straight-line basis over a 10-year period.

Depreciation- Depreciation is computed on the straight-line method based upon estimated service lives of the depreciable assets. Such provisions, as a percentage of the average balance of depreciable property in service were as follows:

	2006	2005
Telecommunications Plant	7.1%	7.3%
CATV Plant	9.7%	9.5%
Nonregulated Customer Premise Plant	12.4%	11.1%

Cash and Cash Equivalents- For purposes of reporting cash flows, the Corporation considers all cash deposits and temporary cash investments with a maturity of three months or less, to be cash equivalents.

Trade Receivables- Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days.

Investments- The Corporation determines the classification of investments in marketable securities as held-to-maturity, available-for-sale or trading. Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Corporation classifies its marketable debt and equity securities as available for sale. These securities are carried in the financial statements at fair value (estimated based on quoted market prices). Unrealized gains and losses are reported as a separate component of equity. All other investments are stated at cost or equity method based on percentage of ownership (see Note 3, Note 4 and Note 9).

Material and Supplies- The inventories are stated at average cost.

Patronage Capital- The Corporation operates on a non-profit basis. Amounts received from the furnishing of telephones and other communications service in excess of operating costs and expenses are assigned to members on a patronage basis. All other amounts received from other non-operating activities (sale, lease and maintenance of non-regulated telecommunications plant) in excess of costs and expenses are also allocated to telephone patrons on a patronage basis to the extent they are not needed to offset current or prior deficits or allocated to a reserve for future losses. The Corporation amended its bylaws in 1996 to provide non-operating margins to be credited to a general unallocated reserve, at the discretion and determination of the Board of Directors.

Revenue Recognition- Revenue from local telephone and CATV service is reflected in the accounts only at the time such revenue is actually billed to customers. Local telephone revenue is billed on the first of each month for one month's service in advance. Toll and access revenue are accrued to the balance sheet date. The Corporation's toll settlements are based on the actual annual cost of providing toll service. The revenue resulting from the final true-up studies is recorded in the year the study results are agreed to by the parties involved.

Post Retirement Benefits- The policy is to fund pension cost accrued.

The Corporation provides certain health care benefits for all retired employee who meet eligibility requirements. The Corporation's share of the estimated costs of benefits that will be paid after retirement is being accrued by charges to expense and other accounts (based on payroll distribution) over the employees' active service periods to dates they are fully eligible for benefits.

Advertising Costs- Advertising costs are expensed as incurred.

Business and Credit Risk- The Corporation and its subsidiaries provide telephone and cable TV service on account to their members who are located primarily in Cass, Cavalier, Grand Forks, Nelson, Pembina, Steele, Ramsey, Traill, Walsh and Richland counties of north central North Dakota. The Corporation also serves members in counties of Kittson, Marshall and Wilkin, Minnesota.

The Corporation maintains its checking accounts with financial institutions located in Park River, North Dakota. The Federal Deposit Insurance Corporation insures the balances for up to \$100,000. At December 31, 2006, the Corporation's deposits in excess of FDIC limits were covered by insurance bonds held by the financial institutions.

Accounting Estimates- The preparation of financial statements in conformity with auditing standards generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes- The Corporation and its subsidiaries are required to file Federal and State corporate income tax returns.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2006</u>	<u>2005</u>
Cash - Checking	\$ 378,924	\$ 694,285
Cash - RUS Construction Fund	1,179	1,683
Petty Cash	580	580
Money Market Fund	1,668,517	504,096
Certificates of Deposit	304,079	100,000
CoBank		70,134
Wells Fargo	<u>1,007,311</u>	<u>2,725,826</u>
	<u>\$ 3,360,590</u>	<u>\$ 4,096,604</u>

NOTE 3 INVESTMENT IN MARKETABLE SECURITIES

Cost, gross unrealized gain (loss), and approximate market value consist of the following:

	2006		
	Amortized Cost	Gross Unrealized Gain (Loss)	Approximate Market Value
Qwest Stock	\$ 117,858	\$ 127,265	\$ 245,123
	2005		
	Amortized Cost	Gross Unrealized Gain (Loss)	Approximate Market Value
Qwest Stock	\$ 117,858	\$ 47,607	\$ 165,465
Pegasus Communications Corp	137,715	(127,968)	9,747
	<u>\$ 255,573</u>	<u>\$ (80,361)</u>	<u>\$ 175,212</u>

NOTE 4 INVESTMENT IN/EQUITY IN EARNINGS OF AFFILIATED COMPANIES

Investments in affiliated companies consists of the following at December 31:

	2006	2005
T.P.C., Inc. (3726 Shares Stock)	\$ 3,726,000	\$ 3,726,000
Accumulated Undistributed Earnings	9,336,518	8,671,861
Net Investment (Equity Method)	<u>\$ 13,062,518</u>	<u>\$ 12,397,861</u>
North Dakota Long Distance LLC (10% Ownership)	\$ 140,000	\$ 140,000
Accumulated Undistributed Earnings	79,326	51,294
Net Investment (Equity Method)	<u>\$ 219,326</u>	<u>\$ 191,294</u>
North Dakota Telecom LLC (25% Ownership)	\$ 21,250	\$ 21,250
Accumulated Undistributed Earnings	27,384	26,098
Net Investment (Equity Method)	<u>\$ 48,634</u>	<u>\$ 47,348</u>
Dakota Carrier Network LLC (7.145% Ownership)	\$ 626,135	\$ 863,026
Accumulated Undistributed Earnings / Investment Advances	714,999	246,394
Net Investment (Equity Method)	<u>\$ 1,341,134</u>	<u>\$ 1,109,420</u>
North Plains Utility LLC (25% Ownership)	\$ 300,000	
Accumulated Undistributed Earnings	37,299	
Net Investment (Equity Method)	<u>\$ 337,299</u>	
Total Investment in Affiliated Companies	<u>\$ 15,008,911</u>	<u>\$ 13,745,923</u>

Equity in earnings (losses) of affiliated companies consists of the following at December 31:

	<u>2006</u>	<u>2005</u>
T.P.C., Inc.	\$ 9,336,518	\$ 8,671,861
North Dakota Long Distance LLC	79,326	51,294
North Dakota Telecom LLC	27,384	26,098
Dakota Carrier Network LLC	564,999	246,394
North Plains Utility LLC	<u>37,299</u>	<u>-</u>
Total Undistributed Earnings of Affiliated Companies	<u>\$ 10,045,526</u>	<u>\$ 8,995,647</u>

During 1993, the Corporation and two other rural telephone cooperatives, Dakota Central Telecommunications Cooperative and United Telephone, formed a holding company (T.P.C., Inc.) to purchase the stock of Contel of North Dakota from GTE. The three cooperatives' ownership interests in the holding company are: United Telephone- 40.5 percent, Polar Communications- 40.5 percent and Dakota Central- 19 percent. The holding company formed an operating company, North Dakota Telephone Company, to operate the system.

During 1996, the Corporation and three other telecommunications companies, Dakota Central Telecommunications Cooperative, United Telephone and North Dakota Telephone Company, formed North Dakota Long Distance LLC and North Dakota Telcom, Inc. to start and operate a long distance telecommunications company. Polar owns 10% of North Dakota Long Distance LLC and 25% of North Dakota Telcom, Inc.

NOTE 5 INVESTMENTS IN NON-AFFILIATED COMPANIES

The balance consists of undistributed patronage capital allocations of other cooperatives.

NOTE 6 NON-REGULATED INVESTMENT- CATV

On September 1, 1981, the Corporation commenced cable television (CATV) operations under a separate operating division. Effective July 1, 1984, this division was incorporated as a wholly-owned subsidiary (Polar Cablevision) of Polar Communications. Total plant less accumulated depreciation is reported in the financial statements as a non-regulated investment. All other assets and liabilities of the subsidiary are combined with the assets and liabilities of the parent company. The net margin from CATV operations is reported in the statement of operations in the non-operating margin section.

The parent company (Polar) has an agreement for services with the subsidiary (Polar Cablevision) whereby Polar is to furnish all necessary labor, office space, premises, facilities, equipment and supplies as may be required by Polar Cablevision to operate its CATV and telecommunications marketing business. Compensation for such services is at Polar's actual cost thereof. The agreement is to continue in force until terminated by either party giving six months notice in writing of its desire to terminate the agreement.

Details of the CATV plant and operations are as follows:

	<u>2006</u>	<u>2005</u>
PLANT		
In Service	\$ 4,019,653	\$ 4,097,509
Acquisition	110,075	117,537
Total Plant	<u>\$ 4,129,728</u>	<u>\$ 4,215,046</u>
Less Accumulated Depreciation and Amortization	<u>(1,998,530)</u>	<u>(1,951,593)</u>
Net Plant	<u><u>\$ 2,131,198</u></u>	<u><u>\$ 2,263,453</u></u>
	<u>2006</u>	<u>2005</u>
OPERATING REVENUE		
Miscellaneous	\$ 1,376,112	\$ 1,350,090
Less Uncollectible Revenue	<u>(600)</u>	<u>(200)</u>
Total Operating Revenues	<u>\$ 1,375,512</u>	<u>\$ 1,349,890</u>
EXPENSES		
Plant Specific Operations	\$ 305,125	\$ 286,129
Amortization	9,463	9,463
Depreciation	214,027	219,159
Customer Operations	781,243	729,629
Corporate Operations	44,718	39,544
Income Taxes	26,308	11,605
Operating Taxes - Other	<u>5,497</u>	<u>5,489</u>
Total Operating Expenses	<u>\$ 1,386,381</u>	<u>\$ 1,301,018</u>
OPERATING INCOME (LOSS)	<u>\$ (10,869)</u>	<u>\$ 48,872</u>
NON-OPERATING INCOME (EXPENSE)		
Interest Income	\$ 13,247	\$ 3,980
Dakota Video Network Subsidiary Earnings	(46,963)	(51,519)
Gain on Sale of Equipment	<u>98,000</u>	<u> </u>
Total Non-operating Income	<u>\$ 64,284</u>	<u>\$ (47,539)</u>
INTEREST EXPENSE	<u>\$ (2)</u>	<u>\$ (29,291)</u>
NET INCOME (LOSS)	<u><u>\$ 53,413</u></u>	<u><u>\$ (27,958)</u></u>

NOTE 7 NON-REGULATED CUSTOMER PREMISE EQUIPMENT

The cost and accumulated depreciation of non-regulated equipment are reflected as non-regulated investments as follows:

	<u>2006</u>	<u>2005</u>
Lease Telephones, Telephones Held for Resale and Insided Wiring	\$ 4,299,806	\$ 3,748,350
Less Accumulated Depreciation	<u>(3,561,233)</u>	<u>(3,065,035)</u>
Net Investment	<u>\$ 738,573</u>	<u>\$ 683,315</u>

The revenues and expenses associated with non-regulated customer premise equipment are reflected in the statement of operations as non-operating income (loss) from non-regulated customer premise investments as follows:

	<u>2006</u>	<u>2005</u>
Revenues	\$ 3,278,067	\$ 2,946,115
Costs and Expenses	<u>\$ 3,461,094</u>	<u>3,148,870</u>
Net Loss	<u>\$ (183,027)</u>	<u>\$ (202,755)</u>

NOTE 8 INTANGIBLE ASSETS AND GOODWILL

Effective January 1, 2004, the Corporation applied FASB Statement No. 142, goodwill and other intangible assets. Among its provisions is a requirement that the Corporation classify its intangible assets between assets subject to amortization and assets not subject to amortization. The following is a summary of the Corporation's intangible assets:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	
		<u>2006</u>	<u>2005</u>
Subject to Amortization:			
Licenses	\$ 760,507	\$ 285,305	\$ 209,255
Non-Compete Agreement	<u>10,000</u>	<u>6,667</u>	<u>4,667</u>
Subtotal	<u>\$ 770,507</u>	<u>\$ 291,972</u>	<u>\$ 213,922</u>
Plant Acquisition	<u>\$ 2,727,109</u>	<u>\$ 1,241,942</u>	<u>\$ 1,060,154</u>
Not Subject to Amortization:			
Goodwill (Accumulated Amortization through January 1, 2002)	<u>\$ 1,056,478</u>	<u>\$ 147,232</u>	<u>\$ 147,232</u>

Amortization expense recognized on all amortizable intangibles totaled \$260,625 and \$258,204 for the years ended December 31, 2006 and 2005, respectively.

Estimated aggregate amortization expenses for each of the next five years is as follows:

Year Ending December 31,	
2007	\$ 259,839
2008	259,172
2009	257,839
2010	257,839
2011	202,652

FASB Statement No. 142 also requires the Corporation to cease amortization of goodwill effective January 1, 2002 and instead requires the Corporation to test goodwill for impairment. There was no change in the carrying amount of goodwill due to impairment for the year ended December 31, 2006.

NOTE 9 OTHER INVESTMENTS

Other investments consist of the following:

	<u>2006</u>	<u>2005</u>
Rural Telephone Bank (Stock)	\$ -	\$ 615,568
National Telecom Corporation Stock	10,000	10,000
North Central Regional Processing Center, Inc. (Stock)	11,000	11,000
NECA Services, Inc.	10,000	10,000
Rural Economic Development Loans	333,000	3,000
CoBank	<u>77,830</u>	<u>113,749</u>
	<u>\$ 441,830</u>	<u>\$ 763,317</u>

NOTE 10 TELECOMMUNICATIONS PLANT AND DEPRECIATION

Plant and depreciation consist of the following:

	<u>2006</u>		<u>2005</u>	
	Balance	Depreciation Rate	Balance	Depreciation Rate
General Support Assets	\$10,186,635	2.70-20.0%	\$ 10,149,472	2.70-20.0%
Central Office Assets	22,966,721	9.0-12.5	20,821,802	9.0-12.5
Information Origination/Termination Assets	443,965	10.0-16.0	443,965	10.0-16.0
Cable and Wire Facilities Assets	<u>30,800,442</u>	3.3-10.68	<u>27,963,065</u>	3.3-10.68
Total in Service	\$64,397,763		\$ 59,378,304	
Plant Adjustment	2,727,109	6.67	2,727,109	6.67
Under Construction	<u>92,039</u>		<u>169,833</u>	
Total Telecommunications Plant	<u>\$67,216,911</u>		<u>\$ 62,275,246</u>	

NOTE 11 LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2006</u>	<u>2005</u>
Rural Utilities Service (RUS) Mortgage Notes		
2%	\$ 16,407	\$ 101,010
5%	602,528	631,061
3.940%	1,410,003	1,613,403
5.071%	698,951	
4.363%	510,874	531,496
4.5495%	<u>480,949</u>	<u>500,000</u>
	\$ 3,719,712	\$ 3,376,970
RUS Advance Payments	<u>(31,675)</u>	<u>(30,140)</u>
RUS Notes (Net)	<u>\$ 3,688,037</u>	<u>\$ 3,346,830</u>
United States of America, Non-interest bearing	<u>\$ 300,000</u>	<u>\$</u>
Federal Financing Bank		
3.66%	<u>\$ 1,236,100</u>	<u>\$ 1,292,110</u>
Federal Financing Bank		
3.52%	<u>\$ 9,164,142</u>	<u>\$ 10,907,535</u>
	\$ 14,388,279	\$ 15,546,475
Less Current Maturities	<u>(2,155,486)</u>	<u>(2,130,683)</u>
Total Long-Term Debt	<u>\$ 12,232,793</u>	<u>\$ 13,415,792</u>

Substantially all assets are pledged as security for this debt. The notes mature 11-35 years from their respective dates and are scheduled to be fully repaid at various times through 2021. It is estimated that principal repayments for the next five years will be as follows:

	<u>RUS</u>	<u>FFB</u>	<u>Total</u>
2007	\$ 356,083	\$ 1,799,403	\$ 2,155,486
2008	384,876	1,836,727	2,221,603
2009	413,698	1,901,461	2,315,159
2010	437,873	1,968,476	2,406,349
2011	459,372	2,037,852	2,497,224

All loan funds advanced by RUS, Rural Telephone Bank (RTB) and Federal Financing Bank (FFB) are deposited in a special trust bank account, the disbursements from which are restricted by the provisions of the loan agreement to purposes approved by RUS, RTB and FFB. Unadvanced loan funds of \$34,486,695, \$14,200,000 and \$2,625,000 are available to the Corporation on loan commitments from RUS, RTB, and FFB, respectively.

The mortgage provisions restrict the Corporation's debt limit to \$50,000,000.

NOTE 12 EMPLOYEE BENEFIT PLANS

Pension Plan- The Corporation has a pension plan covering substantially all employees. The plan is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501 (a) of the Internal Revenue Code and is funded through payments to the National Telephone Cooperative Association which has established a trusted plan whereby annuities, effective upon retirement, will be available to participants in amounts established by the plan. In this master multi-employer plan, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The total cost of this plan for the years ended December 31, 2006 and 2005 approximated \$327,224 and \$306,588 respectively. Such cost was charged to expense and other accounts on the basis of payroll distribution.

Health Insurance Premiums- The Corporation sponsors a post retirement health care plan for all employees who meet certain eligibility requirements. The plan is contributory. The plan is unfunded. The Corporation's unfunded cost that existed at January 1, 1992, is being accrued primarily in a straight-line manner that will result in its full accrual by January 1, 2007. The plan entitled employees to receive discounts on premium of health and dental insurance, in accordance with the following schedule:

<u>Year of Service</u>	<u>Percentage of Discount</u>
15-19	27.5%
20-24	32.5
25-29	37.5
30-34	42.5
35-40	47.5
40 and Over	52.5

Effective January 1, 2003, the Corporation changed its post retirement health care benefits. Qualified persons who retire by December 31, 2007 will receive a 75% discount until age 65. After reaching age 65, the discount will follow the above schedule. Any employee retiring after December 31, 2007 will receive a discount based on the above schedule only until age 65. Employees hired after January 1, 2003 shall not be entitled to any retiree health care benefits.

Net periodic post retirement benefit cost included the following components for the years ended December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Service Cost (Benefits Attributable to Employee Service During the Year)	\$ 55,129	\$ 54,925
Interest Cost on Accumulated Postretirement Benefit Obligation	229,219	235,632
Amortization of Transition Obligation	<u>44,156</u>	<u>44,138</u>
	<u>\$ 328,504</u>	<u>\$ 334,695</u>

The liabilities for the post retirement benefits (unfunded) are as follows:

Accumulated Post Retirement Benefit Obligation:		
Retirees	\$ 1,384,501	\$ 1,558,473
Other Fully Eligible Participants	<u>1,975,831</u>	<u>1,538,556</u>
	\$ 3,360,332	\$ 3,097,029
Unrecognized Transition Obligation	<u>-</u>	<u>(44,156)</u>
	\$ 3,360,332	\$ 3,052,873
Obligation Included on Balance Sheet	\$ 3,360,332	\$ 3,052,873
Less Current Portion	<u>(162,500)</u>	<u>(151,500)</u>
	\$ 3,197,832	\$ 2,901,373
Long-Term Liability Included on Balance Sheet	<u>\$ 3,197,832</u>	<u>\$ 2,901,373</u>

For measurement purposes, the annual rate of increase in healthcare premiums was assumed at an 8 percent annual rate of increase for the next four years and 4 percent for the next five years and 2 percent increase thereafter.

The weighted average discount rate used in estimating the accumulated post retirement benefit obligation at December 31, 2006 and 2005, was 7.00%.

Benefits paid on behalf of retirees were \$181,687 for the year ending 2006. Benefits expected to be paid in each of the next five years and the aggregate for the next five years thereafter are as follows:

2007	\$ 162,500
2008	190,500
2009	239,000
2010	257,000
2011	273,000
2012-2016	1,114,000

Savings Plan- The Corporation has elected to participate in the National Telephone Cooperative Association (NTCA) savings plan. The Corporation contributes 2 percent of employee eligible salaries for bargain units and 3 percent for non-bargain units. The total cost of this plan for years ended December 31, 2006 and 2005, approximated \$80,973 and \$77,882, respectively.

NOTE 13 PATRONAGE CAPITAL

	<u>2006</u>	<u>2005</u>
Assigned to Date	\$ 28,378,388	\$ 27,794,122
Assignable	<u>824,088</u>	<u>584,266</u>
	\$ 29,202,476	\$ 28,378,388
Retired to Date	<u>(19,199,479)</u>	<u>(18,165,546)</u>
	<u>\$ 10,002,997</u>	<u>\$ 10,212,842</u>

The long-term debt agreements with the Rural Utilities Service provide that the Cooperative can (a) make patronage refunds on a cumulative basis of up to 60 percent of net margins since December 31, 1976, provided such refunds will leave the Corporation with an adjusted net worth equal to or greater than 10 percent of adjusted assets as of December 31, 1976, or the amount of actual adjusted net worth as of that date, whichever is higher, or (b) make distributions in any calendar year equal to 25 percent of net margins in the preceding calendar year. The equities, as a percentage of total assets, were 55.8 percent in 2006 and 54.7 percent in 2005, respectively.

NOTE 14 INCOME TAXES

Polar Communications was exempt from Federal income taxes under Section 501(c) (12) of the Internal Revenue Code prior to 1991 and was also exempt from payment of state income taxes. However, due to the issuance of a Technical Advice Memorandum by the Internal Revenue Service in 1991, the Corporation no longer meets the 85 percent-member-revenue requirement of Section 501(c) (12). As a result, the Corporation is subject to the payment of Federal and state income taxes on its "non-patronage sourced" income.

The wholly owned subsidiaries of Polar Cablevision, Polar Telcom and Wolverton Telephone are fully taxable at both the Federal and state levels.

Income tax expense is reflected in the statement of operations as follows:

	<u>2006</u>	<u>2005</u>
Current Income Tax	\$ 70,615	\$ 134,049
Deferred Income Tax (Benefit)	<u>194,514</u>	<u>84,935</u>
Net Provision	<u>\$ 265,129</u>	<u>\$ 218,984</u>
Operating	\$ 97,897	\$ 76,320
Non-Operating	<u>167,232</u>	<u>142,664</u>
	<u>\$ 265,129</u>	<u>\$ 218,984</u>

Deferred income taxes arise from differences between financial and tax accounting and are due to accelerated depreciation taken on tax returns and unrealized gains on marketable securities. At December 31, 2006 and 2005, gross deferred tax liabilities were \$1,152,621 and \$907,201, respectively. At December 31, 2006 and 2005, gross deferred tax assets were \$0 and \$77,058, respectively.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Polar Communications and Subsidiaries
Park River, North Dakota

Our report on our audits of the consolidated financial statements of Polar Communications and Subsidiaries for 2006 and 2005 appears on page one. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 22 through 26 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. The additional information on pages 27 through 29 also is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating and other accompanying information, except as noted in the following paragraph, have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

The information in the statistical and analytical section on page 29 relative to the number of access lines was taken directly from the Corporation's accounting records without verification. We do not, therefore, express an opinion on such quantities or the results of any of the computations based thereon.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.

April 9, 2007

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OTHER OFFICES: Fargo and Bismarck, ND
Park River, ND

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
DIRECTORS, OFFICERS, AND GENERAL MANAGER

Polar Communications

Brian Udby	President
Ron Steinke	Vice President
Beverly Jensen	Secretary-Treasurer
Peter K. McKenzie	Asst. Secretary-Treasurer
David Monson	Director
Eric Meberg	Director
Greg Steffes	Director
Amber Meyer	Director
Joe Torgerson	Director
David L. Dunning	General Manager/CEO

Polar Cablevision

Joe Torgerson	President
Peter K. McKenzie	Vice President
David Monson	Secretary-Treasurer
Greg Steffes	Director
Amber Meyer	Director
Beverly Jensen	Director
Eric Meberg	Director
Ron Steinke	Director
Brian Udby	Director
David L. Dunning	Executive Vice President

Polar Telcom

Ron Steinke	President
Peter K. McKenzie	Vice President
David Monson	Secretary-Treasurer
Amber Meyer	Director
Beverly Jensen	Director
Brian Udby	Director
Eric Meberg	Director
Greg Steffes	Director
Joe Torgerson	Director
David L. Dunning	Executive Vice President

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
DIRECTORS, OFFICERS, AND GENERAL MANAGER
(CONTINUED)

Wolverton Telephone Company

Beverly Jensen	President
Eric Meberg	Vice President
Greg Steffes	Secretary-Treasurer
Amber Meyer	Director
Peter K. McKenzie	Director
David Monson	Director
Ron Steinke	Director
Joe Torgerson	Director
Brian Udby	Director
David L. Dunning	Executive Vice President

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET WITH SUPPLEMENTARY
CONSOLIDATING INFORMATION
As of December 31, 2006

	<u>Polar</u> <u>Communications</u>	<u>Polar</u> <u>Cablevision</u>	<u>Polar</u> <u>Telcom</u>	<u>Wolverton</u> <u>Telephone</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS						
CURRENT ASSETS:						
Cash and Cash Equivalents	\$ 2,271,184	\$ 448,719	\$ 429,301	\$ 211,386		\$ 3,360,590
Investment in Marketable Securities - Available for Sale	245,123					245,123
Telecommunications Accounts Receivable (Net)	69,209		54,773	(581)		123,401
Other Trade Accounts Receivable	1,488,678	36,289	4,026	50,457	\$ (316,107)	1,263,343
Income Taxes Receivable	278,573	(61,188)	(2,828)	32,770		247,327
Material and Supplies	1,675,104	171,128				1,846,232
Prepayments	46,494	15,670	1,567			63,731
Total current assets	<u>\$ 6,074,365</u>	<u>\$ 610,618</u>	<u>\$ 486,839</u>	<u>\$ 294,032</u>	<u>\$ (316,107)</u>	<u>\$ 7,149,747</u>
INVESTMENTS AND NONCURRENT ASSETS:						
Investments in Affiliated Companies	\$ 22,075,478				\$ (7,066,567)	\$ 15,008,911
Investments in Non-Affiliated Companies	77,619	\$ 409,030		\$ 18,141		504,790
Non-Regulated Investment - CATV		2,131,198				2,131,198
Non-Regulated Investment - Customer Premise Equipment	614,748		\$ 108,744	15,081		738,573
Intangible Assets (Net of Amortization)	82,594	3,333	388,498	4,110		478,535
Goodwill	395,626	42,500		618,352		1,056,478
Deferred Charges	240,914					240,914
Other Investments	931,532				(489,702)	441,830
Total Investments and Non-Current Assets	<u>\$ 24,418,511</u>	<u>\$ 2,586,061</u>	<u>\$ 497,242</u>	<u>\$ 655,684</u>	<u>\$ (7,556,269)</u>	<u>\$ 20,601,229</u>
TELECOMMUNICATIONS PLANT:						
In Service	\$ 57,370,410		\$4,746,768	\$2,280,585		\$ 64,397,763
Plant Adjustment	1,888,685			838,424		2,727,109
Under Construction	88,777			3,262		92,039
Total Investment in Plant	\$ 59,347,872		\$4,746,768	\$3,122,271		\$ 67,216,911
Less Accumulated Depreciation and Amortization	(42,940,678)		(1,302,418)	(886,744)		(45,129,840)
Net Plant	<u>\$ 16,407,194</u>		<u>\$3,444,350</u>	<u>\$2,235,527</u>		<u>\$ 22,087,071</u>
TOTAL ASSETS	<u>\$ 46,900,070</u>	<u>\$ 3,196,679</u>	<u>\$4,428,431</u>	<u>\$3,185,243</u>	<u>\$ (7,872,376)</u>	<u>\$ 49,838,047</u>

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET WITH SUPPLEMENTARY
CONSOLIDATING INFORMATION (CONTINUED)
As of December 31, 2006

LIABILITIES AND EQUITIES	<u>Polar Communications</u>	<u>Polar Cablevision</u>	<u>Polar Telcom</u>	<u>Wolverton Telephone</u>	<u>Eliminations</u>	<u>Consolidated</u>
CURRENT LIABILITIES:						
Current Maturities of Long-Term Debt	\$ 1,944,061		\$ 276,546		\$ (65,121)	\$ 2,155,486
Current Portion of Postretirement Benefit Obligation	162,500					162,500
Accounts Payable	1,828,878	\$ 87,437	187,656	\$ 189,970	(316,107)	1,977,834
Advance Billings and Payments	55,499	650	4,204			60,353
Other Taxes Accrued	168,242	5,497	14,812	5,665		194,216
Accrued Compensated Absences	<u>624,904</u>					<u>624,904</u>
Total Current Liabilities	<u>\$ 4,784,084</u>	<u>\$ 93,584</u>	<u>\$ 483,218</u>	<u>\$ 195,635</u>	<u>\$ (381,228)</u>	<u>\$ 5,175,293</u>
 LONG-TERM DEBT, NET OF CURRENT MATURITIES	 <u>\$ 11,034,215</u>	 <u>\$</u>	 <u>\$1,623,159</u>		 <u>\$ (424,581)</u>	 <u>\$ 12,232,793</u>
DEFERRED CREDITS:						
Income Taxes	\$ 50,906	\$ 445,739	\$ 494,279	\$ 161,697		\$ 1,152,621
Accumulated Provision for Pensions and Benefits	3,197,832					3,197,832
Deferred Compensation				<u>246,475</u>		<u>246,475</u>
Total Deferred Credits	<u>\$ 3,248,738</u>	<u>\$ 445,739</u>	<u>\$ 494,279</u>	<u>\$ 408,172</u>		<u>\$ 4,596,928</u>
EQUITIES						
Capital Stock		\$ 90,000		\$ 100,000	\$ (190,000)	
Additional Paid-In Capital		2,510,137	\$2,514,632	2,077,867	(7,102,636)	
Patronage Capital	\$ 10,002,997					\$ 10,002,997
Retained Earnings of Subsidiaries	(226,069)	57,219	(686,857)	403,569	226,069	(226,069)
Equity in Earnings of Affiliated Companies	11,277,774					11,277,774
Other Equities	6,701,973					6,701,973
Accumulated Other Comprehensive Income	<u>76,358</u>					<u>76,358</u>
Total Equities	<u>\$ 27,833,033</u>	<u>\$ 2,657,356</u>	<u>\$1,827,775</u>	<u>\$2,581,436</u>	<u>\$ (7,066,567)</u>	<u>\$ 27,833,033</u>
 TOTAL LIABILITIES AND EQUITIES	 <u>\$ 46,900,070</u>	 <u>\$ 3,196,679</u>	 <u>\$4,428,431</u>	 <u>\$3,185,243</u>	 <u>\$ (7,872,376)</u>	 <u>\$ 49,838,047</u>

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS WITH SUPPLEMENTARY
CONSOLIDATING INFORMATION
For the Year Ended December 31, 2006

	Polar Communications	Polar Cablevision	Polar Telcom	Wolverton Telephone	Eliminations	Consolidated
OPERATING REVENUE						
Local Network Services	\$ 2,534,579		\$ 240,327	\$ 134,216		\$ 2,909,122
Network Access Services	8,220,558		322,218	493,314		9,036,090
Long Distance Network Services	(1,989)					(1,989)
Billing and Collection	196,214					196,214
Miscellaneous	394,078	\$ 1,376,112	31,632	19,456	\$ (1,376,112)	445,166
Less Uncollectible Revenue	(2,200)	(600)	(3,900)		600	(6,100)
Total Operating Revenues	<u>\$ 11,341,240</u>	<u>\$ 1,375,512</u>	<u>\$ 590,277</u>	<u>\$ 646,986</u>	<u>\$ (1,375,512)</u>	<u>\$ 12,578,503</u>
OPERATING EXPENSES:						
Plant Specific Operations	\$ 2,308,363	\$ 305,125	\$ 104,283	\$ 94,272	\$ (305,125)	\$ 2,506,918
Plant Non-Specific Operations	956,535		29,396	71,177		1,057,108
Amortization	12,111	9,463		514	(9,463)	12,625
Depreciation	3,766,974	214,027	443,686	173,759	(214,027)	4,384,419
Customer Operations	998,080	781,243	109,154	24,016	(781,243)	1,131,250
Corporate Operations	1,840,000	44,718	48,380	32,808	(44,718)	1,921,188
Income Taxes		26,308	1,017	96,880	(26,308)	97,897
Miscellaneous Expenses	30,622					30,622
Operating Taxes - Other	88,959	5,497	8,446	4,760	(5,497)	102,165
Total Operating Expenses	<u>\$ 10,001,644</u>	<u>\$ 1,386,381</u>	<u>\$ 744,362</u>	<u>\$ 498,186</u>	<u>\$ (1,386,381)</u>	<u>\$ 11,244,192</u>
OPERATING MARGIN	<u>\$ 1,339,596</u>	<u>\$ (10,869)</u>	<u>\$ (154,085)</u>	<u>\$ 148,800</u>	<u>\$ 10,869</u>	<u>\$ 1,334,311</u>
NON-OPERATING INCOME (EXPENSE):						
Dividend Income	\$ 225,844					\$ 225,844
Interest Income	171,641	\$ 13,247	\$ 10,327	\$ 7,796	\$ (37,310)	165,701
Other Non-Operating Income	183,896	98,000	(1,900)		(98,000)	181,996
Income from Non-Regulated Customer Premise Investments	(430,328)		234,313	12,988		(183,027)
Polar Telecommunications, Inc. Subsidiary Earnings						
Polar Cablevision Subsidiary Earnings	53,413					53,413
Polar Telcom Subsidiary Earnings	2,797				(2,797)	
Wolverton Telephone Subsidiary Earnings	169,568				(169,568)	
Undistributed Earnings from ND Long Distance, LLC	78,032					78,032
Undistributed Earnings from Dakota Carrier Network, LLC	330,756					330,756
Undistributed Earnings from TPC, Inc.	1,069,657					1,069,657
Undistributed Earnings from ND Telecom, LLC	3,411					3,411
Undistributed Earnings from North Plains Utility, LLC	37,299					37,299
Dakota Video Network Subsidiary Earnings		(46,963)			46,963	
Non-operating Taxes - Income	(167,232)					(167,232)
Total Non-operating Income	<u>\$ 1,728,754</u>	<u>\$ 64,284</u>	<u>\$ 242,740</u>	<u>\$ 20,784</u>	<u>\$ (260,712)</u>	<u>\$ 1,795,850</u>
MARGINS BEFORE INTEREST EXPENSE AND OTHER	<u>\$ 3,068,350</u>	<u>\$ 53,415</u>	<u>\$ 88,655</u>	<u>\$ 169,584</u>	<u>\$ (249,843)</u>	<u>\$ 3,130,161</u>
INTEREST EXPENSE	<u>(499,329)</u>	<u>(2)</u>	<u>(85,858)</u>	<u>(16)</u>	<u>24,065</u>	<u>(561,140)</u>
NET MARGINS	<u>\$ 2,569,021</u>	<u>\$ 53,413</u>	<u>\$ 2,797</u>	<u>\$ 169,568</u>	<u>\$ (225,778)</u>	<u>\$ 2,569,021</u>

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS WITH SUPPLEMENTARY
CONSOLIDATING INFORMATION
For the Year Ended December 31, 2006

	Polar Communications	Polar Cablevision	Polar Telcom	Wolverton Telephone Co.	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net Margins	\$ 2,569,021	\$ 53,413	\$ 2,797	\$ 169,568	\$ (225,778)	\$ 2,569,021
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:						
Depreciation and Amortization	4,321,424	201,074	458,047	174,273		5,154,818
Equity in Earnings of Affiliated Companies	(1,744,933)	47,144			225,778	(1,472,011)
Gain on Disposal of Investments	(253,833)	(98,000)				(351,833)
Patronage Capital Allocated				(276)		(276)
Post Retirement Benefit Obligation	307,459					307,459
Effects on Operating Cash Flows Due to Changes in:						
Telecommunications Accounts Receivable	1,459		108,442	12,297		122,198
Other Accounts Receivable	(266,351)	179,395			(118,765)	(205,721)
Inventory				24,862		24,862
Income Taxes Receivable	(161,473)					(161,473)
Materials and Supplies	9,102	(12,796)				(3,694)
Prepaid Expenses	72,414	(5,190)				67,224
Deferred Charges	(2,682)					(2,682)
Accounts Payable	458,766	(27,599)	128,520	93,375	118,765	771,827
Income Taxes Accrued		50,489	2,828	(142,922)		(89,605)
Other Taxes Accrued	87,543	8	6,607	4,953		99,111
Advance Billings and Payments	12,516	550	2,134			15,200
Compensated Absences	(6,791)					(6,791)
Deferred Compensation				(12,583)		(12,583)
Deferred Income Taxes		(68,476)	128,188	134,802		194,514
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,403,641</u>	<u>\$ 320,012</u>	<u>\$ 837,563</u>	<u>\$ 458,349</u>	<u>\$</u>	<u>\$ 7,019,565</u>

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS WITH SUPPLEMENTARY
CONSOLIDATING INFORMATION (CONTINUED)
For the Year Ended December 31, 2006

	<u>Polar Communications</u>	<u>Polar Cablevision</u>	<u>Polar Telcom</u>	<u>Wolverton Telephone Co.</u>	<u>Eliminations</u>	<u>Consolidated</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Proceeds From Sale of Investments	\$ 1,007,115	\$ 98,000				\$ 1,105,115
Dividends Received	556,167					556,167
Telecommunications Plant Additions and Replacements	(5,288,089)		\$ (188,534)	\$ (538,201)		(6,014,824)
Non-Regulated Customer Premise Equipment Additions	(495,589)		(58,393)	91		(553,891)
CATV Plant Additions and Replacements		\$ (66,819)				(66,819)
Cash Received from Capital Credits	35,742					35,742
Purchase of Investments	(300,000)					(300,000)
Issuance of Notes Receivable	(330,000)					(330,000)
Payments Received on Notes Receivable	56,894				\$ (56,894)	-
NET CASH USED BY INVESTING ACTIVITIES	<u>\$ (4,757,760)</u>	<u>\$ 31,181</u>	<u>\$ (246,927)</u>	<u>\$ (538,110)</u>	<u>\$ (56,894)</u>	<u>\$ (5,568,510)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Principal Payment on Long-Term Debt	\$ (1,964,770)		\$ (260,294)		\$ 56,894	\$ (2,168,170)
Proceeds From Long-Term Debt	1,009,974					1,009,974
Retirement of Capital Credits	(1,028,873)					(1,028,873)
NET CASH USED BY FINANCING ACTIVITIES	<u>\$ (1,983,669)</u>	<u>\$</u>	<u>\$ (260,294)</u>	<u>\$</u>	<u>\$ 56,894</u>	<u>\$ (2,187,069)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (1,337,788)	\$ 351,193	\$ 330,342	\$ (79,761)	\$	\$ (736,014)
CASH AND CASH EQUIVALENTS - JANUARY 1	<u>3,608,972</u>	<u>97,526</u>	<u>98,959</u>	<u>291,147</u>		<u>4,096,604</u>
CASH AND CASH EQUIVALENTS - DECEMBER 31	<u>\$ 2,271,184</u>	<u>\$ 448,719</u>	<u>\$ 429,301</u>	<u>\$ 211,386</u>	<u>\$</u>	<u>\$ 3,360,590</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:						
Cash Paid During the Year for:						
Interest	\$ 499,329	\$ 2	\$ 75,502	\$ 16	\$ (24,061)	\$ 550,788
Income Taxes	348,000					348,000

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS AND SUBSIDIARIES
SCHEDULE OF LONG-TERM DEBT – RUS, RTB AND FFB

Note	Date	Principal Amount	Principal Repayment	Unadvanced Amount	Net Obligation	
					2006	2005
POLAR COMMUNICATIONS						
<u>FFB (3.52%)</u>						
REA-2153	7/6/04	\$ 13,643,000	\$ 4,287,559	\$ 191,299	\$ 9,164,142	\$ 10,907,535
<u>FFB (3.66%)</u>						
F0010	12/31/03	\$ 1,346,000	\$ 109,900		\$ 1,236,100	\$ 1,292,110
<u>RUS (2%)</u>						
02160	6/12/71	\$ 1,514,000	\$ 1,514,000		\$ -	\$ 14,822
02170	6/29/72	1,674,000	1,657,593		16,407	86,188
	Total RUS 2%	\$ 3,188,000	\$ 3,171,593		\$ 16,407	\$ 101,010
<u>RUS (4.5%)</u>						
12221	8/01/03	\$ 500,000	\$ 19,051		\$ 480,949	\$ 500,000
<u>RUS (4.4%)</u>						
12220	8/01/03	\$ 538,150	\$ 27,276		\$ 510,874	\$ 531,496
<u>RUS (5%)</u>						
12240	9/1/99	\$ 200,000	\$ 48,110		\$ 151,890	\$ 162,465
12241	9/1/99	30,555	3,111		27,444	29,346
12230	8/1/03	445,650	22,456		423,194	439,250
	Total RUS 5%	\$ 676,205	\$ 73,677		\$ 602,528	\$ 631,061
<u>RUS (5.1%)</u>						
12222	8/1/03	\$ 709,974	\$ 11,023		\$ 698,951	\$ -
<u>RUS (Unadvanced)</u>						
12201	10/28/86	\$ 61,000		\$ 61,000		
12217	7/21/94	603,024		603,024		
12223	8/1/03	23,866,876		23,866,876		
12231	8/1/03	7,054,350		7,054,350		
12242	9/1/99	2,901,445		2,901,445		
	Total RUS Unadvanced	\$ 34,486,695		\$ 34,486,695		
<u>RUS Economic Development Loan (0%)</u>						
	10/13/05	\$ 300,000	\$ -		\$ 300,000	\$ -
<u>RTB (Unadvanced)</u>						
R040	8/1/2003	\$ 14,200,000		\$ 14,200,000		
		\$ 69,588,024	\$ 7,700,079	\$ 48,877,994	\$ 13,009,951	\$ 13,963,212
Less: Advance Payments			31,675		(31,675)	(30,140)
Total Long-Term Debt-Polar Communications			\$ 7,731,754		\$ 12,978,276	\$ 13,933,072
POLAR TELCOM INCORPORATED						
<u>RUS (3.94%)</u>						
N0001	1/2/2003	\$ 1,851,000	\$ 440,997		\$ 1,410,003	\$ 1,613,403
Total Long-Term Debt-Polar Telcom		\$ 1,851,000	\$ 440,997		\$ 1,410,003	\$ 1,613,403
Total Long-Term Debt		\$ 71,439,024	\$ 8,172,751	\$ 48,877,994	\$ 14,388,279	\$ 15,546,475

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS
STATISTICAL AND ANALYTICAL INFORMATION
FOR THE FIVE YEARS ENDED DECEMBER 31

	2006	2005	2004	2003	2002
TELECOMMUNICATIONS PLANT IN SERVICE (at December 31, in Thousands)	\$57,370	\$53,081	\$39,518	\$37,978	\$36,730
Investment Per Access Line	5,444	5,164	4,699	4,389	4,280
Investment Per Dollar of Revenue	5.06	4.71	4.90	4.49	4.70
TELECOMMUNICATIONS PLANT DEPRECIATION (thousands)	\$42,941	\$40,121	\$28,556	\$26,090	\$23,857
Percent of Plant in Service	74.8	75.6	72.3	68.7	65.0
Annual Depreciation	3,767	3,615	2,736	2,804	2,745
Percent of Annual Depreciation to Plant in Service	6.57	6.81	6.92	7.38	7.47
ANNUAL REVENUE PER ACCESS LINE:					
Local Service	\$241	\$227	\$172	\$167	\$167
Toll and Access	780	810	726	754	701
Other	56	59	62	56	43
Total Operating Revenue	<u>\$1076</u>	<u>\$1096</u>	<u>\$959</u>	<u>\$977</u>	<u>\$911</u>
SOURCES OF FUNDS INVESTED IN TOTAL ASSETS:					
Members and Other Equities	\$27,833	\$26,213	\$25,012	\$23,823	\$23,362
Long-Term Debt	12,978	13,933	12,807	14,450	15,096
Other Liabilities and Credits	5,759	5,061	6,898	4,527	4,007
Total Assets	<u>\$46,570</u>	<u>\$45,208</u>	<u>\$44,718</u>	<u>\$42,798</u>	<u>\$42,464</u>
Members and Other Equities	59.8	58.0	55.9	55.7	55.0
Long-Term Debt	27.9	30.8	28.6	33.8	35.6
Other Liabilities and Credits	12.4	11.2	15.4	10.6	9.4
Total Assets	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
NUMBER OF ACCESS LINES:					
Residence	6,384	6,569	6,386	6,643	6,555
Business	4,155	3,710	2,023	2,009	2,026
Total	<u>10,539</u>	<u>10,279</u>	<u>8,409</u>	<u>8,652</u>	<u>8,581</u>

NORTH DAKOTA 527 POLAR
POLAR COMMUNICATIONS
STATEMENT OF OPERATIONS EXPRESSED AS A PERCENTAGE OF
OPERATING REVENUE (AMOUNTS IN THOUSANDS)
FOR THE FIVE YEARS ENDED DECEMBER 31

	<u>2006</u>		<u>2005</u>		<u>2004</u>		<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
OPERATING REVENUE:										
Local Network	\$ 2,535	22.3%	\$ 2,334	20.7%	\$1,447	17.9%	\$ 1,448	17.1%	\$ 1,434	17.0%
Access and Toll Network	8,221	72.5	8,322	73.9	6,102	75.6	6,524	77.2	6,524	77.3
Miscellaneous	<u>586</u>	<u>5.2</u>	<u>611</u>	<u>5.4</u>	<u>518</u>	<u>6.4</u>	<u>482</u>	<u>5.7</u>	<u>482</u>	<u>5.7</u>
Total Operating Revenue	<u>\$11,341</u>	<u>100.0%</u>	<u>\$ 11,267</u>	<u>100.0%</u>	<u>\$8,067</u>	<u>100.0%</u>	<u>\$ 8,454</u>	<u>100.0%</u>	<u>\$ 8,440</u>	<u>100.0%</u>
COST OF SERVICE:										
Plant Specific Operations	\$ 2,308	20.4%	\$ 2,365	21.0%	\$1,996	24.7%	\$ 1,981	23.4%	\$ 1,711	20.3%
Plant Non-Specific Operations	4,736	41.8	4,645	41.2	3,690	45.7	3,680	43.5	4,736	56.1
Customer Operations	998	8.8	1,004	8.9	769	9.5	826	9.8	998	11.8
Corporate Operations	1,871	16.5	1,802	16.0	1,720	21.3	1,652	19.5	1,871	22.2
Operating Taxes	89	0.8	76	0.7	49	0.6	41	0.5	89	1.1
Interest on Long-Term Debt	<u>499</u>	<u>4.4</u>	<u>508</u>	<u>4.5</u>	<u>660</u>	<u>8.2</u>	<u>806</u>	<u>9.5</u>	<u>499</u>	<u>5.9</u>
Total Cost of Service	<u>\$10,501</u>	<u>92.6%</u>	<u>\$ 10,400</u>	<u>92.3%</u>	<u>\$8,883</u>	<u>110.1%</u>	<u>\$ 8,986</u>	<u>106.3%</u>	<u>\$ 9,903</u>	<u>117.3%</u>
NET OPERATING MARGIN	\$ 840	7.4%	\$ 867	7.7%	\$ (816)	(10.1)%	\$ (532)	(6.3)%	\$ (1,463)	(17.3)%
NON-OPERATING MARGIN	<u>1,729</u>	<u>15.2</u>	<u>1,298</u>	<u>11.5</u>	<u>2,891</u>	<u>35.8</u>	<u>1,886</u>	<u>22.3</u>	<u>1,729</u>	<u>20.5</u>
NET MARGIN	<u>\$ 2,569</u>	<u>22.7%</u>	<u>\$ 2,165</u>	<u>19.2%</u>	<u>\$2,075</u>	<u>25.7%</u>	<u>\$ 1,354</u>	<u>16.0%</u>	<u>\$ 266</u>	<u>3.1%</u>



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Directors
Polar Communications
and Subsidiaries
Park River, North Dakota

We have audited the financial statements of Polar Communications and Subsidiaries, as of and for the years ended December 31, 2006 and 2005 and have issued our report thereon dated April 9, 2007. 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, we considered Polar Communications and Subsidiaries' 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 Entity's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Grand Forks, ND 58208-4296 (701) 775-4685 Fax (701) 795-7498

OTHER OFFICES: Minot and Bismarck, ND
Thief River Falls, MN

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Polar Communications and Subsidiaries' financial statements are free of material misstatements, 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 management, the Board of Directors and the Rural Utilities Service and is not intended to be and should not be used by anyone other than these specified parties.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

April 9, 2007



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

MANAGEMENT LETTER

Board of Directors
Polar Communications
and Subsidiaries
Park River, North Dakota

We have audited the financial statements of Polar Communications and Subsidiaries for the year ended December 31, 2006 and have issued our report thereon dated April 9, 2007. 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 part 1773, Policy on Audits of Rural Utilities Service (RUS) 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 Polar Communications and Subsidiaries for the year ended December 31, 2006, we considered its 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. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS 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 RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR 1773.33 (e)(2), and related party transactions. In addition, our audit of the financial statements also included 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 RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

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No reports (other than our independent auditor's report, report on compliance and on internal control over financial reporting, all dated April 9, 2007) or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS 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 regarding Polar Communications and Subsidiaries, 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; and
- The materials control.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts, and grants. 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 for the operation or maintenance of the property, for the use of mortgaged property by others, or for services pertaining to toll traffic, operator assistance, or switching for the year ended December 31, 2006 of Polar Communications and Subsidiaries:
 1. Obtained and read a borrower-prepared schedule of new written contracts entered into during the year for the operation or maintenance of its property, or for the use of its property by others, or for services pertaining to toll traffic, operator assistance, or switching as defined in §1773.33 (e)(2)(i).
 2. Reviewed Board of Director minutes to ascertain whether Board-approved written contracts are included in the borrower-prepared schedule.
 3. Noted the existence of written RUS approval of each contract listed by the borrower.
- Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:
 - a. Agreed amounts reported in Form 479 to the Polar Communications and Subsidiaries.

The results of our tests indicate that, with respect to the items tested, Polar Communications and Subsidiaries complied, except as noted below, in all material respects, with the specific RUS 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 RUS to enter into any contract for the operation or maintenance of property, for the use of mortgaged property by others, or for services pertaining to toll traffic, operator assistance, or switching as defined in §1773.33 (e)(2)(i); and
- The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2006, represented by the borrower as having been submitted to RUS is in agreement with the Polar Communications and Subsidiaries, audited records in all material respects, appears reasonable based upon the audit procedures performed.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of Polar Communications and Subsidiaries, nothing came to our attention that caused us to believe that Polar Telecommunications, Inc., failed to comply with respect to:

- The reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33 (c)(1);
- The clearing of the 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);
- Sales of plant material, or scrap addressed at 7 CFR 1773.33 (c)(5);
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 2006 in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33 (f); and
- The detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments required by 7 CFR 1773.33(i), and provided below, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Detailed Schedule of Investments Recorded on the Equity Basis

	Polar Cablevision	Polar Telcom, Inc.	Wolverton Telephone Company	T.P.C., Inc.	North Dakota Telecom, LLC	North Dakota Long Distance, LLC	Dakota Carrier Network	North Plains Utility, LLC	Total
Original Investment Cost	\$ 90,000		\$ 100,000	\$ 3,726,000	\$ 21,250	\$ 140,000	\$ 626,135		\$ 4,703,385
Investment Advances as of 12/31/05	2,510,137	\$ 2,514,632	2,077,867				150,000		7,252,636
Dividends as of 12/31/05				(1,469,777)	(2,125)	(225,000)	(66,785)		(1,763,687)
Undistributed Earnings/(Loss) as of 12/31/05	3,806	(689,654)	234,001	10,141,638	28,223	276,294	400,070		10,394,378
Book Value of Investment as of 12/31/05	\$ 2,603,943	\$ 1,824,978	\$ 2,411,868	\$ 12,397,861	\$ 47,348	\$ 191,294	\$ 1,109,420		\$ 20,586,712
Investment Advances for 12/31/06								\$ 300,000	300,000
Dividends for 12/31/06				(405,000)	(2,125)	(50,000)	(99,042)		(556,167)
Undistributed Earnings/(Loss) for 12/31/06	53,413	2,797	169,568	1,069,657	3,411	78,032	330,756	37,299	1,744,933
Book Value of Investment as of 12/31/06	\$ 2,657,356	\$ 1,827,775	\$ 2,581,436	\$ 13,062,518	\$ 48,634	\$ 219,326	\$ 1,341,134	\$ 337,299	\$ 22,075,478

Polar Cablevision is a corporation that provides cable TV services. The Cooperative owns a 100% interest in the Corporation and accounts for the investment on the consolidated basis.

Polar Telcom, Inc. is a corporation that provides telecommunications services within its exchange territory. The Cooperative owns a 100% interest in the Corporation and accounts for the investment on the consolidated basis.

Wolverton Telephone Company is a corporation that provides telephone services. The Cooperative owns a 100% interest in the Corporation and accounts for the investment on the consolidated basis.

The Phone Company (T.P.C.), Inc. is a holding company that invests in long distance providers. The Cooperative owns a 40.5% interest in the Corporation and accounts for the investment on the equity basis.

North Dakota Telecom, LLC is a limited liability corporation that is invested in real estate holdings. The Cooperative has a 25% limited partnership interest in the Corporation and accounts for the investment on the equity basis.

North Dakota Long Distance, LLC is a limited liability corporation that provides long distance services. The Cooperative has a 10% limited partnership interest in the Corporation and accounts for the investment on the equity basis.

Dakota Carrier Network is a limited liability corporation that provides fiber optics access to other telephone service providers. The Cooperative has a 7.145% limited partnership interest in the Corporation and accounts for the investment on the equity basis.

North Plains, Utility, LLC is a limited liability that installs fiber optic cable for its member telephone service providers. The Cooperative has a 25% limited partnership interest and accounts for the investment on the equity basis.

OTHER MATTERS COMMUNICATED TO THE BOARD

Significant Accounting Policies

The significant audit policies as presented in the association's audited financial statements as of and for the year ended December 31, 2006 remain unchanged.

Management Judgments and Accounting Estimates

Estimates relating to plant useful lives and allowances for uncollectible accounts were reviewed by us and appear to be reasonable.

Significant Audit Adjustments

There were no significant audit adjustments.

Disagreements with Management

There were no disagreements with management.

Difficulties incurred with Management

There were no difficulties incurred with management

This report is intended solely for the information and use of the Board of Directors, management, and the RUS and supplemental lenders and is not intended for and should not be used by anyone other than these specified parties. However, upon receipt by RUS, this report is a matter of public record.

Brady, Martz

Brady, Martz & Associates, P.C.

April 9, 2007



Polar Communications and Subsidiaries
Consolidated Statement of Operations
December 31, 2007

	<u>Current</u>	<u>2007</u>	<u>2006</u>	<u>Difference</u>
Operating Revenue				
Local Network Service	232,169.47	2,616,275.77	2,668,794.22	(52,518.45)
Network Access and Toll Network	836,060.71	9,211,885.77	8,937,009.67	274,876.10
Billing and Collection	14,621.43	188,862.32	208,648.92	(19,786.60)
Miscellaneous	38,324.30	492,941.05	401,092.76	91,848.29
Uncollectible Revenues	0.00	(325.00)	(2,200.00)	1,875.00
Total Operating Revenues	1,121,175.91	12,509,639.91	12,213,345.57	296,294.34
Operating Expenses				
Plant Specific	162,938.49	2,311,421.89	2,402,633.71	(91,211.82)
Plant Non-specific	88,234.24	1,186,617.04	1,027,711.78	158,905.26
Depreciation/Amortization	338,737.97	4,024,423.72	3,894,235.43	130,188.29
Customer Operations	65,281.93	946,435.73	1,022,095.77	(75,660.04)
Corporate Operations	187,467.24	1,959,043.97	1,872,808.17	86,235.80
Total Operating Expenses	842,659.87	10,427,942.35	10,219,484.86	208,457.49
Taxes	17,437.69	182,599.99	190,598.08	(7,998.09)
Net Operating Margin	261,078.35	1,899,097.57	1,803,262.63	95,834.94
Non-Operating Income (Expense)				
Dividend and Interest Income	98,457.70	510,271.72	405,281.31	104,990.41
Cablevision Margins	(14,524.10)	(82,745.55)	53,413.19	(136,158.74)
Telcom Margins	18,966.63	102,112.06	2,796.16	99,315.90
Equity Earnings TPC	281,465.26	1,042,595.63	822,102.26	220,493.37
Equity Earnings ND Telcom	0.00	0.00	3,410.89	(3,410.89)
Equity Earnings DCN	67,583.05	367,142.38	330,755.95	36,386.43
Equity Earnings NDLD	10,025.01	32,898.71	78,031.89	(45,133.18)
Equity Earnings NPUC	(2,500.68)	42,010.64	37,299.41	4,711.23
Equity Earnings Bolt Data	(6,449.79)	(50,151.52)	0.00	(50,151.52)
Other Nonoperating Income	(58,005.76)	(405,607.33)	(99,916.50)	(305,690.83)
Income from Nonreg Activities	3,402.77	(326,407.55)	(420,570.56)	94,163.01
Total Non-operating Income	398,420.09	1,232,119.19	1,212,604.00	19,515.19
Interest Expense	47,336.98	493,547.57	499,274.04	(5,726.47)
Net Income	612,161.46	2,637,669.19	2,516,592.59	121,076.60
** CPA Audit Adjustments	0.00	0.00	52,427.30	(52,427.30)
Total Margin	612,161.46	2,637,669.19	2,569,019.89	68,649.30

2/15/2008

Polar Communications and Subsidiaries
Consolidated Balance Sheet
December 31, 2007

ASSETS

Cash	1,399,188.58
Temporary Investments	1,405,179.42
Telephone Acct Rec (Less Reserve)	165,183.56
Other Accounts Receivable	84,825.86
Accounts Receivable - Qwest	66,840.67
Accounts Receivable - AT&T	241,102.08
Accounts Receivable - NECA	215,820.02
Accounts Receivable - NCRPC	2,150.24
Accounts Receivable - Other Carriers	492,001.77
Accounts Receivable - United Telephone	26,858.92
Notes Receivable	292,441.55
Interest Receivable	8,186.80
Material	959,788.72
Prepaid Insurance	208,536.67
	<u>5,568,104.86</u>
Investments in Affiliated Companies	15,948,338.85
Other Investments	142,518.46
	<u>16,090,857.31</u>
Customer Premise Equipment	4,427,718.27
Acc. Deprec. - Customer Premise Equip	(3,989,192.26)
Inventory (Resale)	764,669.81
	<u>1,203,195.82</u>
Deferred Charges	<u>443,874.67</u>
Plant Under Construction	<u>255,323.39</u>
Telephone Plant in Service	78,555,132.12
Acc. Dep. - Telephone Plant in Service	(51,513,842.97)
	<u>27,041,289.15</u>
TOTAL ASSETS	<u><u>50,602,645.20</u></u>

2/15/2008

Polar Communications and Subsidiaries
Consolidated Balance Sheet
December 31, 2007

LIABILITIES

Accounts Payable	953,184.36
State Income Tax Payable	28,596.31
Excise Tax Payable	41.92
Sales Tax Payable	60,257.04
City Sales Tax Payable	3,468.89
County Sales Tax Payable	688.82
Accts Pay - US WEST	3,988.84
Accts Pay - NECA	299,813.84
Accts Pay - Onvoy	5,114.89
Customer Deposits	24,826.41
	<u>1,379,981.32</u>
Income Taxes Accrued	160,395.82
Other Taxes Accrued	95,986.47
Deferred Income Taxes	1,043,152.04
	<u>1,299,534.33</u>
Compensated Absences Payable (Vacation)	211,737.70
Compensated Absences Payable (Sick)	0.00
	<u>211,737.70</u>
RUS Notes Payable	14,666,879.15
Other Deferred Credits	3,612,908.49
	<u>18,279,787.64</u>
TOTAL LIABILITIES	<u><u>21,171,040.99</u></u>
MEMBERS EQUITY	
Unrealized Gain (Loss)	52,460.94
	<u>52,460.94</u>
Original Members Equity	55,560.00
	<u>55,560.00</u>
Donated Capital	431,670.22
Equity in Subsidiaries	6,100,689.40
Equity in Affiliated Companies	11,160,100.40
Unclaimed Capital Credits	42,393.48
	<u>17,734,853.50</u>
Patronage Capital Credits	8,951,060.58
	<u>8,951,060.58</u>
Year to Date Margins (Consolidated)	2,637,669.19
	<u>2,637,669.19</u>
TOTAL MEMBERS EQUITY	<u>29,431,604.21</u>
TOTAL LIABILITIES AND EQUITY	<u><u>50,602,645.20</u></u>

2/15/2008