

TC04-040

KC/AB

TC04-040

DOCKET NO.

In the Matter of

IN THE MATTER OF THE JOINT APPLICATION OF SIOUX VALLEY TELEPHONE COMPANY AND HILLS TELEPHONE COMPANY, INC. REGARDING THE SALE BY SIOUX VALLEY TELEPHONE COMPANY OF ITS VALLEY SPRINGS, EAST VALLEY SPRINGS AND NORTH LARCHWOOD EXCHANGES TO HILLS TELEPHONE COMPANY, INC.

Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
3/2 04	<i>Filed and docketed;</i>
3/4 04	<i>Weekly filing;</i>
3/30 04	<i>Response to data request;</i>
3/31 04	<i>Notice of sale;</i>
4/8 04	<i>Supplement to joint application for approval of sale of telephone exchanges;</i>
4/9 04	<i>Affidavit of Publication (Argus Leader);</i>
4/12 04	<i>Affidavit of Publication (Brandon Valley Challenged);</i>
5/13 04	<i>Second Supplement to Joint Application for Approval of Sale of Telephone Exchanges;</i>
7/8 04	<i>Order Approving Sale of Telephone Exchanges;</i>
7/8 04	<i>Docket Closed.</i>

RECEIVED

MAR 02 2004

BEFORE THE SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

IN THE MATTER OF THE JOINT
APPLICATION FOR APPROVAL OF THE
SALE OF THE VALLEY SPRINGS, EAST
VALLEY SPRINGS, AND NORTH
LARCHWOOD EXCHANGES BY SIOUX
VALLEY TELEPHONE COMPANY TO
HILLS TELEPHONE COMPANY, INC.

DOCKET NO. _____

JOINT APPLICATION FOR
APPROVAL OF A SALE OF
TELEPHONE EXCHANGES

COME NOW, the Applicants, Hills Telephone Company, Inc. ("Hills") and Sioux Valley Telephone Company ("Sioux Valley"), by and through their undersigned counsel, and jointly request that pursuant to the provisions of SDCL § 49-31-59, the South Dakota Public Utilities Commission (the "Commission") approve the sale of the local telephone exchange facilities serving the Valley Springs, East Valley Springs, and North Larchwood local exchanges as depicted on Exhibit A attached hereto and incorporated herein by this reference (collectively the "Exchanges") from Sioux Valley to Hills in accordance with the provisions of the Agreement for the Purchase and Sale of Telephone Exchange (the "Purchase Agreement"), attached hereto as Exhibit B and incorporated herein by this reference.

IN SUPPORT THEREOF, Applicants do state and declare as follows:

1. The Valley Springs Exchange is located entirely within the State of South Dakota and provides local exchange service to approximately 508 access lines. The North Larchwood Exchange is located entirely within the State of South Dakota and provides local exchange service to approximately 2 access lines. The East Valley Springs Exchange is located entirely

within the State of Minnesota and provides local exchange service to approximately 47 access lines. The total number of access lines served by the Exchanges is approximately 557.

2. Applicant Hills is a Minnesota corporation headquartered in Garretson, South Dakota, and is a wholly-owned subsidiary of Alliance Communications Cooperative, Inc. (“Alliance”). Alliance is a South Dakota cooperative also headquartered in Garretson, South Dakota. Hills presently operates six local telephone exchanges having approximately 2,754 access lines in the States of Minnesota and Iowa. Hills does not presently serve any local telephone exchange customers in the State of South Dakota. However, Hills’ parent corporation, Alliance, presently operates six local telephone exchanges serving approximately 8,439 access lines located primarily in the State of South Dakota, and also in the States of Minnesota and Iowa. In addition, Alliance administers another wholly-owned subsidiary, Splitrock Properties, Inc. (“Splitrock”), which operates two local telephone exchanges having approximately 1,512 access lines in the State of South Dakota. Hills, Alliance, and Splitrock are under common management, have identical boards of directors, and are administered from the same headquarters in Garretson, South Dakota. Hills, Alliance, and Splitrock all operate under the trade name “Alliance Communications” in their respective service areas and will operate under that trade name in the Exchange following the approval of the sale.

3. Applicant Sioux Valley is a South Dakota corporation headquartered in Dell Rapids, South Dakota. Sioux Valley presently operates nine local telephone exchanges, including the Exchanges, located primarily in the State of South Dakota and also in Minnesota.

4. Hills and Sioux Valley have entered into the Purchase Agreement which provides that, contingent upon the receipt of all necessary regulatory and lender approvals:

(i) Hills will purchase all of the telephone facilities physically located in the Exchanges, as well as, the associated property and contract rights used or useful in the operation of the Exchanges, from Sioux Valley, all as more fully described in the Purchase Agreement; and

(ii) the transactions contemplated in the Purchase Agreement will close as soon as practicable following the receipt of all necessary regulatory and lender approvals, and that Hills will operate the Exchanges and provide local telephone exchange service within the exchange commencing on the first day of the next succeeding calendar month immediately following the closing of the Purchase Agreement.

5. The Exchanges are contiguous with Hills' existing Hills, Minnesota Exchange and Larchwood, Iowa Exchange and Alliance's Brandon and Garretson, South Dakota Exchanges. The City of Valley Springs, South Dakota is less than five miles from Alliance's office in Brandon, South Dakota and approximately twelve miles from the headquarters of both Hills and Alliance in Garretson, South Dakota. None of Sioux Valley's other local telephone exchanges are contiguous with the Exchanges.

6. Hills, Alliance, and Splitrock each presently provide enhanced 911 service in all of their local telephone exchanges and Hills will provide it in the Exchanges. In addition to telephony services, Alliance offers various other communications services in its own service territory and those of Hills and Splitrock. These additional services include: (i) high-speed DSL internet access service to 1,432 subscribers; (ii) cable television service to approximately 3,326 subscribers in the Cities of Brandon, Carthage, Corson, Garretson, Howard, Oldham, Ramona, and Sherman, South Dakota, Hills, Minnesota, and Larchwood and Inwood, Iowa; and (iii) DBS

television service to 2,127 subscribers in northeastern Minnehaha County, South Dakota and all of Rock County, Minnesota. Following the approval of this transaction, Alliance will offer high-speed DSL internet access service in the Exchanges and cable television service in the City of Valley Springs, South Dakota. Alliance already offers DBS television service in the Exchanges.

7. The public interest will not be harmed by the sale of the Exchanges from Sioux Valley to Hills. There will be no discontinuance, reduction, or impairment of any of the services presently offered by Sioux Valley in the Exchanges following its purchase by Hills. There will be no change in rates for local telephone services offered in the Exchanges following its purchase by Hills resulting solely from the transaction. However, Hills may change its local service rates in the Exchanges in the future in conjunction with company wide changes in local service rates. Hills will be subject to the same methods of calculating and paying taxes to the State of South Dakota as those to which Sioux Valley is subject, and there will therefore be no reduction in tax revenues to the State of South Dakota resulting solely from the purchase and sale of the Exchanges. Following the purchase of the Exchanges, Hills will provide 911 and enhanced 911 services in the Exchanges. Hills and its parent, Alliance, presently have four and eighteen service technicians, respectively, who will be available to maintain and serve the Exchanges. Since the Exchanges are contiguous with an existing local telephone exchange of Hills and two existing local telephone exchanges of Alliance, there will be a very short response time to any service calls in the Exchanges. Finally, patrons will have greater convenience with both a branch office and headquarters closer to their homes following the sale.

8. In conjunction with the filing of this Application, Hills has also filed an application with the Commission for a certificate of public convenience and necessity to provide local

telephone exchange services in those portions of the Exchanges located within the State of South Dakota and for approval of its proposed tariff submitted with that application.

9. In connection with the proposed transaction, Hills has also filed an application with the Federal Communications Commission for the approval of the removal of the Exchanges from the South Dakota study area of Sioux Valley and the placement of the Exchanges in a newly created study area for Hills.

WHEREFORE, Applicants respectfully request that the Commission grant as follows:

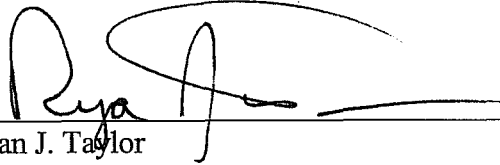
A. Approval pursuant to SDCL § 49-31-59 of the proposed purchase and sale of the Exchanges from Sioux Valley Telephone Company to Hills Telephone Company, Inc., in the manner set forth in this Application and in the Purchase Agreement;

B. The consent of the Commission to the close the proposed purchase and sale of the Exchanges from Sioux Valley Telephone Company to Hills Telephone Company, Inc., as soon as all necessary regulatory and lender approvals have been obtained, at which time, applicants will provide the Commission with notification prior to the effectiveness of such transaction; and

C. Such other relief, consents, or authorizations as the Commission deems necessary or appropriate and in the public interest to consummate the transactions described in this Application.

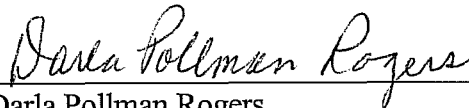
Dated this 2nd day of ^{March}~~February~~, 2004.

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VALLEY SPRINGS EXCHANGE

ALLIANCE COMMUNICATIONS
GARRESTON EXCHANGE

SOUTH DAKOTA
MINNESOTA

U.S. WEST
BEAVER CREEK
EXCHANGE

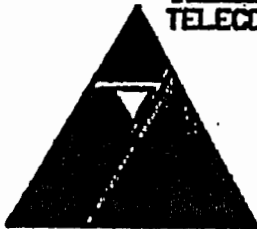
ALLIANCE COMMUNICATIONS
BRANDON EXCHANGE

U. VALLEY SPRINGS

HILLS TELEPHONE CO.
HILLS, MN. EXCHANGE

U.S. WEST
SIOUX FALLS
EXCHANGE

ALLIANCE
TELECOMMUNICATIONS CORPORATION



PROJECT NO.

S535

SIOUX VALLEY TELEPHONE

DRAWN BY: RLK | DATE: 5/10/

HASTAD ENGINEERING COMPANY, E

**AGREEMENT FOR THE PURCHASE
AND SALE OF TELEPHONE EXCHANGE**

THIS AGREEMENT FOR THE PURCHASE AND SALE OF TELEPHONE EXCHANGE (the "Agreement") is made and entered into as of this ____ day of _____, 2004, by and between Sioux Valley Telephone Company, a South Dakota corporation ("Sioux Valley"), and Hills Telephone Company, Inc., a Minnesota corporation ("Hills").

RECITALS

WHEREAS, Sioux Valley possesses certain rights to provide and operate wire-line telecommunication services pursuant to operating authorities issued by the South Dakota Public Utilities Commission and the Minnesota Public Utilities Commission (collectively the "Commission") in the Valley Springs Exchange, the East Valley Springs Exchange, and the North Larchwood Exchange, which contain approximately 550 access lines (collectively referred to as the "Exchange"), and which are depicted on the exchange map attached hereto as Exhibit A and incorporated herein by this reference; and

WHEREAS, Hills desires to acquire Sioux Valley's right to provide and operate wireline telecommunication services in the Exchange (the "Business") and to purchase the Transferred Assets (as defined below), and Sioux Valley wishes to sell, assign and transfer such right and Transferred Assets to Hills.

NOW THEREFORE, for and in consideration of the mutual representations, warranties, covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Sioux Valley and Hills agree as follows:

ARTICLE 1

PURCHASE AND SALE OF EXCHANGE

1.1 Purchase and Sale of Transferred Assets. Upon the terms and subject to the conditions hereinafter set forth, at the Closing described in Article 2, Sioux Valley agrees to sell, convey, transfer, assign and deliver all of Sioux Valley's right, title and interest in and to the Transferred Assets to Hills as of the Effective Date, and Hills agrees to purchase and receive all of Sioux Valley's right, title and interest in and to the Transferred Assets from Sioux Valley as of the Effective Date. Except as specifically set forth in Section 1.2 hereof, Sioux Valley shall transfer the Transferred Assets to Hills on the Closing Date free and clear of any and all mortgages, security interests, charges, liens, restrictions and encumbrances (collectively "Encumbrances"), and Hills shall not, by virtue of its purchase of the Transferred Assets, assume or become responsible for any debts, liabilities or obligations of Sioux Valley. The Transferred Assets, as such term is used in this Agreement shall include:

- (i) the real property, including any buildings, structures, or improvements located thereon and appurtenant thereto, which is situated in Minnehaha County,

South Dakota, and which is more particularly described on Exhibit B attached hereto and incorporated herein by this reference (the “Real Property”);

(ii) that portion of the 12 fiber cable connecting Sioux Valley’s Dell Rapids Central Office located in Dell Rapids, South Dakota, and Sioux Valley’s Valley Springs Central Office located in Valley Springs, South Dakota, as described in the Agreement for Ownership and Usage of 12-Fiber Transport Facility attached hereto as Exhibit B to this Agreement and incorporated herein by this reference (the “Fiber”);

(iii) all of the telephone plant and equipment and other items of personal property which are used in the operation of the Exchange and which are physically located within the geographic boundaries of the Exchange as certificated by the Commission; and

(iv) all contracts, agreements, leases, easements, rights-of-way, licenses, permits, authorizations, franchises, warranties, guarantees, and other intangible items, assets, or rights which are necessary for the operation of the Exchange or the Fiber by Hills following the consummation of the transaction contemplated herein, and which are set forth on Exhibit C attached hereto and incorporated herein by this reference (collectively the “Contracts”).

1.2 Assumption of Obligations. Hills covenants and agrees that, on the Closing Date, it shall execute and deliver to Sioux Valley an Assumption Agreement in substantially the form of Exhibit D attached hereto and incorporated herein by this reference (the “Assumption Agreement”), pursuant to which it will assume and agree to perform and discharge the following liabilities and obligations of Sioux Valley (collectively, the “Assumed Liabilities”) following the Effective Date:

(i) All liabilities and obligations of Sioux Valley arising under the Contracts, except that Hills shall not assume any liabilities or obligations for any breach of it by, or payment obligation of, Sioux Valley under such Contracts occurring or arising on or prior to the Closing Date;

(ii) All liabilities and obligations of Sioux Valley related to unperformed service obligations, right-of-way relocation obligations, and construction in progress as of the Closing Date;

(iii) All liabilities and obligations imposed on Sioux Valley by the Public Utilities Commissions of the States of South Dakota and/or Minnesota (collectively the “State Regulatory Authorities”) in connection with the operation of the Exchange, including without limitation, obligations to provide E-911 emergency services;

(iv) All federal, state, county, municipal, foreign or other taxing jurisdiction sales, use, transfer, gross receipts, consumer levy, privilege or similar taxes, duties, excises or governmental charges, including any penalties and interest thereon, arising out

of the sale of the Transferred Assets by Sioux Valley to Hills hereunder, excluding any income tax liability of Sioux Valley (collectively, "Transfer Taxes"); and

(v) All liabilities and obligations arising under Environmental Laws with respect to the real property included in the Transferred Assets.

1.3 Purchase Price.

1.4 Determination of Taxes, Rents and other Periodic Charges and Expenses. All taxes, rents, or other periodic charges and expenses arising from the normal operations of the Business will be prorated to December 31, 2003. Sioux Valley shall pay all taxes levied or due on the assets on or prior to December 31, 2003, and Hills shall pay all subsequent taxes.

1.5 Transfer Taxes. Hills shall be responsible for paying all Transfer Taxes imposed by the State of South Dakota.

ARTICLE 2

CLOSING

2.1 Closing. The Closing shall occur as soon as is reasonably practicable following the receipt of all necessary regulatory and lender approvals required to consummate the transactions contemplated herein, in the offices of Sioux Valley Telephone Company located in Dell Rapids, South Dakota, at a time which is reasonably acceptable to each of the parties hereto, or at such other place as may be mutually agreed upon by the parties (the "Closing" or the "Closing Date"). Regardless of the actual date of Closing, the effective date of the transaction shall be the first day of the next succeeding calendar month immediately following the Closing Date (the "Effective Date").

2.2 Deliveries by Sioux Valley to Hills. At or prior to the Closing, Sioux Valley will deliver the following items to Hills:

(i) two certified copies of Sioux Valley's resolution authorizing the execution of this Agreement, including any additional contracts, agreements, documents, instruments, certificates, or other items reasonably necessary for the consummation of the transactions contemplated herein, and the consummation of the transactions contemplated herein by Sioux Valley;

(ii) a duly executed Bill of Sale conveying title to all of the items comprising, the Fiber, the telephone plant and equipment, and the other items of personal property described Sections 1.1(ii) and (iii) hereof to Hills as of the Effective Date, substantially in the form attached hereto as Exhibit E and incorporated herein by this reference;

(iii) Warranty Deed(s) conveying title to all of the Real Property from Sioux Valley to Hills in fee simple as of the Effective Date, which Warranty Deeds shall be substantially in the form attached hereto as Exhibit F and incorporated herein by this reference;

(iv) two duly executed Assumption Agreements transferring all of Sioux Valley's right, title, and interest in and to all of the items identified in Section 1.1(iv) as of the Effective Date;

(v) Releases, satisfactions or terminations of all mortgages, financing statements or other Encumbrances on any of the Transferred Assets;

(vi) two duly executed originals of this Agreement;

(vii) the consent and partial release of the United States Department of Agriculture, Rural Utilities Service ("RUS") and CoBank, ACB ("CoBank") to the transactions contemplated hereby and releasing their respective security interests in the Transferred Assets; and

(viii) such other documents and items as are reasonably necessary or appropriate to effect the consummation of the transactions contemplated herein or which may be customary under local law.

2.3 Deliveries by Hills to Sioux Valley. At or prior to the Closing, Hills will deliver the following items to Sioux Valley:

(i) the Purchase Price and any transfer taxes or any other amounts to be paid by Hills;

(ii) two certified copies of Hills's resolution authorizing the execution of this Agreement, including any additional contracts, agreements, documents, instruments, certificates, or other items reasonably necessary for the consummation of the transactions contemplated herein, and the consummation of the transactions contemplated herein by Hills;

(iii) two duly executed originals of this Agreement;

(iv) two duly executed originals of the Assumption Agreement, as required by Section 1.2 hereof; and

(v) such other documents and items as are reasonably necessary or appropriate to effect the consummation of the transactions contemplated herein or which may be customary under local law.

ARTICLE 3

CONDITIONS PRECEDENT

3.1 Conditions to Obligations of Each Party to Effect the Transactions. The respective obligations of each party to this Agreement to effect the transactions contemplated herein shall be subject to the satisfaction at or prior to the Closing Date of the following conditions:

(i) No Injunctions or Restraints; Illegality. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition shall have been issued and be in effect restraining or prohibiting the consummation of the transactions contemplated herein; nor shall any action have been taken by any governmental entity or any federal, state or foreign statute, rule, regulation, executive order, decree or injunction shall have been enacted, entered, promulgated or enforced by any governmental entity or arbitrator, which is in effect and has the effect of making the transactions contemplated herein illegal or otherwise prohibiting the consummation of such transactions; and

(ii) Consents. All authorizations, consents, orders or approvals of, or declaration or filings with, and all expirations of waiting periods imposed by, any governmental body, agency or official (collectively "Consents") which are necessary for the consummation of the transactions contemplated hereby, other than immaterial Consents which the failure to obtain would have no material adverse effect on the consummation of the transactions contemplated hereby, shall have been filed, have occurred, and have been obtained.

3.2 Conditions to Hills's Obligations. The obligation of Hills to consummate the transactions contemplated herein shall be subject to the satisfaction, on or prior to the Closing Date, of the following conditions, any of which may be waived by Hills:

(i) Representations and Warranties. Except for representations and warranties which speak as of a date specified, the representations and warranties of Sioux Valley contained in this Agreement and its disclosure schedules thereto, without giving effect to any supplement or amendment thereto, or in any other document delivered pursuant hereto shall be true and correct in all material respects (provided that any such representation or warranty, which by its terms is qualified as to materiality, shall be true and correct in all respects) on and as of the Closing Date with the same effect as if made on and as of the Closing Date;

(ii) Other Documents. Sioux Valley shall have delivered the resolutions, ancillary agreements, deeds, and other documents required under Section 2.2 of this Agreement; and

(iii) Performance. Sioux Valley shall have performed and complied with, in all material respects, each agreement, covenant and obligation required by this Agreement to be so performed or complied with at or before the Closing.

3.3 Conditions to Sioux Valley's Obligations. The obligation of Sioux Valley to consummate the Transaction shall be subject to the satisfaction, on or prior to the Closing Date, of each of the following conditions, any of which may be waived by Sioux Valley:

(i) Representations and Warranties. Except for representations and warranties which speak as of a date specified, the representations and warranties of Hills contained in this Agreement and its disclosure schedules thereto, without giving effect to any supplement or amendment thereto, or in any other document delivered pursuant hereto shall be true and correct in all material respects (provided that any such representation or warranty, which by its terms is qualified as to materiality, shall be true and correct in all respects) on and as of the Closing Date with the same effect as if made on and as of the Closing Date;

(ii) Payment of Purchase Price. Hills shall have made payment of the Purchase Price in full to Sioux Valley by either check or wire transfer on or before the Closing Date as set forth in Section 1.3;

(iii) Certificates and Other Documents. Hills shall have delivered the certificates, resolutions, ancillary agreements, and other documents required under Section 2.3 of this Agreement; and

(iv) Performance. Hills shall have performed and complied with, in all material respects, each agreement, covenant and obligation required by this Agreement to be so performed or complied with at or before the Closing.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES OF HILLS

As of the date of this Agreement and as of the Closing Date, Hills represents, warrants, and covenants to Sioux Valley as follows:

4.1 Organization and Powers. Hills is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota. Hills has all requisite company power and authority to carry on its business as it has been and is now being conducted and to own, lease and operate the properties and assets used in connection therewith. Hills is duly qualified to conduct business as a foreign corporation within the States of South Dakota and Iowa.

4.2 Authority; Binding Effect. Hills has all requisite corporate power and authority to execute and deliver this Agreement and any ancillary certificates, documents, and agreements required to be delivered in conjunction therewith, and to consummate the transactions contemplated thereby. All necessary corporate action required to have been taken by or on behalf of Hills by applicable law, its articles of incorporation, or its bylaws to authorize the performance of its obligations hereunder and the consummation of the transactions contemplated herein have been taken. This Agreement, as it relates to Hills, will comply fully with all applicable laws and will constitute the legal, valid and binding obligation of Hills, enforceable against Hills in accordance with its terms.

4.3 No Conflict. Except as set forth on Schedule 4.3, attached hereto, the execution and delivery of this Agreement does not, and the consummation of the transactions contemplated herein will not, (a) violate or conflict with Hills' articles of incorporation or bylaws; (b) violate, conflict with or result in the breach of any term, condition or provision of, or require the consent of any other individual, cooperative, corporation, limited liability company, partnership, estate, trust, sole proprietorship, unincorporated society or association, or any entity or organization, including a governmental entity (hereinafter a "Person") under (i) any existing law, ordinance, or governmental rule or regulation to which Hills is subject, (ii) any judgment, order, writ, injunction, decree or award of any governmental entity which is applicable to Hills, or (iii) any mortgage, indenture, agreement, contract, commitment, lease, plan, authorization, or other instrument, document or understanding, oral or written, to which Hills is a party, by which Hills may have rights or by which Hills may be bound or affected, or give any party with rights thereunder the right to terminate, modify, accelerate or otherwise change the existing rights and obligations thereunder; (c) constitute a breach or default (or an event that with notice or lapse of time or both would become a breach or default) or give rise to any lien, third party right of termination, cancellation, material modification or acceleration, or loss of any benefit, under any contract to which Hills is a party or by which it is bound; or (d) conflict with or result in a violation of any permit, concession, franchise or license, or any law, rule or regulation applicable to Hills or any of its properties or assets, except for any such breaches, defaults, liens, third party rights, cancellations, modifications, accelerations or losses of benefits, conflicts or violations which would not impair the ability of Hills to perform its obligations under this Agreement or prevent or delay the consummation of any of the transactions contemplated hereby.

4.4 Consents and Approvals. Except as set forth on Schedule 4.4, neither the execution and delivery of this Agreement or of any ancillary certificate, document, instrument, or agreement, by Hills, nor the performance of the transactions contemplated hereby, requires the consent or approval of any Person nor constitutes a default or causes any payment obligation to arise under (a) any law or court order to which Hills is subject, or (b) any contract, agreement, understanding or other document to which Hills is a party or by which Hills may be subject.

4.5 Condition of Assets. Hills acknowledges and agrees that Hills and its officers are knowledgeable and familiar with the condition and operation of the telephone facilities and equipment currently in place in the Exchange and that Hills has had ample opportunity to further investigate and examine the telephone facilities and equipment currently in use in the Exchange and is taking such telephone facilities in an "as is" condition.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES OF SIOUX VALLEY

As of the date of this Agreement and as of the Closing Date, Sioux Valley represents, warrants, and covenants to Hills as follows:

5.1 Organization and Powers. Sioux Valley is a corporation duly organized, validly existing and in good standing under the laws of the State of South Dakota. Sioux Valley has all requisite company power and authority to carry on its business as it has been and is now being conducted and to own, lease and operate the properties and assets used in connection therewith. Sioux Valley is duly qualified to conduct business as a foreign corporation within the State of Minnesota.

5.2 Authority; Binding Effect. Sioux Valley has all requisite corporate power and authority to execute and deliver this Agreement and any ancillary certificates, documents, and agreements required to be delivered in conjunction therewith, and to consummate the transactions contemplated thereby. All necessary corporate action required to have been taken by or on behalf of Sioux Valley by applicable law, its articles of incorporation, or its bylaws to authorize the performance of its obligations hereunder and the consummation of the transactions contemplated herein have been taken. This Agreement, as it relates to Sioux Valley, will comply fully with all applicable laws and will constitute the legal, valid and binding obligation of Sioux Valley, enforceable against Sioux Valley in accordance with its terms.

5.3 No Conflict. Except as set forth on Schedule 5.3, attached hereto, the execution and delivery of this Agreement does not, and the consummation of the transactions contemplated herein will not, (a) violate or conflict with Sioux Valley's articles of incorporation or bylaws; (b) violate, conflict with or result in the breach of any term, condition or provision of, or require the consent of any other Person under (i) any existing law, ordinance, or governmental rule or regulation to which Sioux Valley is subject, (ii) any judgment, order, writ, injunction, decree or award of any governmental entity which is applicable to Sioux Valley, or (iii) any mortgage, indenture, agreement, contract, commitment, lease, plan, authorization, or other instrument, document or understanding, oral or written, to which Sioux Valley is a party, by which Sioux Valley may have rights or by which Sioux Valley may be bound or affected, or give any party with rights thereunder the right to terminate, modify, accelerate or otherwise change the existing rights and obligations thereunder; (c) constitute a breach or default (or an event that with notice or lapse of time or both would become a breach or default) or give rise to any lien, third party right of termination, cancellation, material modification or acceleration, or loss of any benefit, under any contract to which Sioux Valley is a party or by which it is bound; or (d) conflict with or result in a violation of any permit, concession, franchise or license, or any law, rule or regulation applicable to Sioux Valley or any of its properties or assets, except for any such breaches, defaults, liens, third party rights, cancellations, modifications, accelerations or losses of benefits, conflicts or violations which would not impair the ability of Sioux Valley to perform its obligations under this Agreement or prevent or delay the consummation of any of the transactions contemplated hereby.

5.4 Consents and Approvals. Except as set forth set forth on Schedule 5.4, neither the execution and delivery of this Agreement or of any ancillary certificate, document, instrument, or agreement, by Sioux Valley, nor the performance of the transactions contemplated hereby, requires the consent or approval of any Person nor constitutes a default or causes any payment obligation to arise under (a) any law or court order to which Sioux Valley is subject, or (b) any contract, agreement, understanding or other document to which Sioux Valley is a party or by which Sioux Valley may be subject.

5.5 Title to Property and Liens. Sioux Valley has good and marketable title to all of the Transferred Assets, free and clear of all mortgages, security interests, charges, liens, restrictions and encumbrances, except for (i) easements and other encumbrances of record in regard to the Real Property, and (ii) liens set forth on Schedule 5.5 hereto, if any, which shall be satisfied to the reasonable satisfaction of Hills at or prior to Closing. Prior to Closing, Sioux Valley and Hills shall obtain a title insurance commitment for the Real Property evidencing that title to the Real Property is held in the name of Sioux Valley in fee simple, free of any and all mortgages, security interests, charges, liens, restrictions and encumbrances, except as referred to in Subsections 5.5(i) and (ii) hereof. The cost of such title insurance policy shall be shared equally by Sioux Valley and Hills.

5.6 Condition and Suitability of Assets. Each of the Transferred Assets is in good operating condition or repair and is suitable for the purpose for which it is presently being used by Sioux Valley without the need for any material repairs or replacements.

5.7 Absence of Litigation; Claims. Except as set forth on Schedule 5.7, there are no claims, actions, suits, proceedings or investigations pending or, to the knowledge of Sioux Valley, threatened against Sioux Valley or any properties or rights of Sioux Valley, before any governmental entity or arbitrator, which, if decided adversely to Sioux Valley, would have a material adverse effect on the Business or the Exchange or impair the ability of Sioux Valley to perform its obligations under this Agreement or prevent or delay the consummation of any of the transactions contemplated hereby, nor is there any judgment, decree, injunction, rule or order of any governmental Entity or arbitrator outstanding against Sioux Valley having or which, insofar as reasonably can be foreseen, in the future would have such effect.

ARTICLE 6

POST CLOSING MATTERS

6.1 Post Closing. In order to effectuate an orderly transition in the provision of telecommunications services to customers in the Exchange, Hills and Sioux Valley agree to utilize the measures set forth below:

(i) Collection of Accounts. Hills agrees to exercise commercially reasonable efforts for a period of 120 days following the Effective Date to collect all accounts receivable due to Sioux Valley as of the Effective Date from customers in the Exchange. Hills shall reflect such unpaid balances on its billings to customers following the

Effective Date, and shall remit to Sioux Valley all amounts collected with respect to such customer accounts receivable following the Effective Date. In addition to collecting accounts receivable due to Sioux Valley from customers in the Exchange, Hills agrees to exercise commercially reasonable efforts for a period of 180 days following the Effective Date to collect all receivables due to Sioux Valley under inter-exchange carrier settlements relating to periods prior to the Effective Date (the "Carrier Settlements"). At the conclusion of such 180 day period, Sioux Valley and Hills agree to negotiate in good faith to agree upon an amount which shall be paid by Hills to Sioux Valley in satisfaction of all remaining Carrier Settlements (the "Settlement Payment"). The Settlement Payment shall be discounted to reflect the likelihood of collecting any Carrier Settlements which remain outstanding. In conjunction with the payment of the Settlement Payment by Hills, Sioux Valley shall assign to Hills the right to collect and retain for its own benefit any Carrier Settlements which remain outstanding;

(ii) Notice to Customers. Sioux Valley shall provide written notification, which notification shall be reasonably acceptable to Hills, in its final bill to each customer affected by this Agreement, that Sioux Valley is no longer the customer's telecommunications provider and advising the customer of the name, address and telephone number of Hills. Sioux Valley and Hills shall agree upon appropriate service cut-off dates with respect to the Exchange;

(iii) Customer Deposits. As of the Closing Date, all customer deposits and advance payments for future services made to Sioux Valley by residential and business customers in the Exchange shall be retained by Sioux Valley and applied to such customers' unpaid balances or refunded to such customers, if so required under the rules of the State Regulatory Authorities, within 30 business days after the Closing Date. Claims for refunds of such deposits made to Hills, whether written or oral, shall be referred to Sioux Valley, in writing, within three business days after receipt;

(iv) Customer Records. From and after Closing for a period of one year, to the extent not previously provided to Hills, Sioux Valley shall use commercially reasonable efforts to make available, upon reasonable request from Hills, all readily available billing and service records for goods sold or services provided to customers of the Exchange prior to Closing;

(v) Directory Publishing and 911 Emergency Services. Hills shall continue to comply with the covenants set forth herein following the Closing Date, as appropriate, to the extent necessary to accomplish the intent of such covenants;

(vi) Accounting Practices. Hills shall comply with all FCC and state regulatory accounting practices. Hills will not seek recovery of an acquisition adjustment through its regulated interstate or intrastate rates, including from federal or state universal service funds;

(vii) 911 Emergency Services. Hills shall provide 911 emergency services within the Exchange following the Closing Date of this Agreement;

(viii) Tariffs. In conjunction with the Closing of this Agreement, Hills will file with the Commission, and any other regulatory bodies having valid jurisdiction, a tariff for the Exchange using the average of all cost studies then in place for all local exchange carriers in the State of South Dakota for intrastate, intra-LATA toll access; and

(ix) Extended Area Service. All existing extended area service agreements relating to the Exchange shall remain in full force and effect following the Closing Date, unless otherwise agreed by the parties.

6.2 Further Assurances. Each of the parties hereto agrees to use its best efforts to take, or cause to be taken, all appropriate action, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws, statutes, ordinances, codes, rules, and regulations to consummate and make effective the transactions contemplated by this Agreement in the most expeditious manner practicable, including but not limited to the satisfaction of all conditions precedent to the effectiveness of this Agreement set forth in Article III hereof, and the execution and delivery of all additional or ancillary documents or agreements which are reasonably necessary to consummate the transactions contemplated herein.

6.3 Cooperation. Each of the parties hereto shall deliver or cause to be delivered to the opposite party on the Closing Date, and at such other times and places as shall be reasonably agreed to, such additional documents, instruments, certificates and agreements as the other may reasonably request for the purpose of carrying out the transactions contemplated in this Agreement. The parties shall each cooperate on and after the Closing Date with respect to any tax matters relating to this Agreement or the transactions contemplated herein.

ARTICLE 7

INDEMNIFICATION

7.1 General Indemnification by Sioux Valley. On and after the Closing Date, Sioux Valley covenants and agrees that it will indemnify, defend, protect and hold harmless Hills and its officers, shareholders, agents, employees, successors and assigns, from and against all claims, damages, losses, liabilities, actions, suits, proceedings, demands, assessments, adjustments, costs, and expenses (including specifically, but without limitation, reasonable attorneys' fees and expenses of investigation) (collectively, "Losses"), incurred by Hills as a result of or arising from (i) any breach of the representations and warranties made by Sioux Valley set forth herein or in any agreement, exhibit, schedule, document, instrument, or certificates delivered in connection herewith; (ii) any non-fulfillment of any covenant or agreement on the part of Sioux Valley under this Agreement; or (iii) any claim, demand, or cause of action of a third party arising out of the Business or the ownership and operations of the Exchange prior to the Effective Date.

7.2 General Indemnification by Hills. On and after the Closing Date, Hills covenants and agrees that it will indemnify, defend, protect and hold harmless Sioux Valley and its officers, shareholders, agents, employees, successors and assigns, from and against all Losses incurred by Sioux Valley as a result of or arising from (i) any breach of the representations and warranties

made by Hills set forth herein or on the schedules, exhibits, documents, instruments, or certificates delivered in connection herewith; (ii) any non-fulfillment of any covenant or agreement on the part of Hills under this Agreement; or (iii) any claim, demand, or cause of action of a third party arising out of the Business or the ownership and operations of the Exchange after the Effective Date.

ARTICLE VIII

GENERAL

8.1 Benefit. This Agreement shall bind the parties hereto and shall inure to and be binding upon their respective legal representatives, successors, heirs and permitted assigns.

8.2 Entire Agreement; Waiver. This Agreement, including any exhibits or schedules or other documents attached hereto or incorporated herein, contains the entire agreement of the parties as to the subject matter contained herein.

8.3 Severability. The parties agree that if any part, term, paragraph, or provision of this Agreement is in any manner held to be invalid, illegal, void, or in any manner unenforceable, or to be in conflict with any applicable law of the States of South Dakota or Minnesota or of the United States of America, then the validity of the remaining portions or provisions of this Agreement shall not be affected, and such part, term, paragraph or provision shall be construed and enforced in a manner designed to effectuate the intent expressed in this Agreement to the maximum extent permitted by law.

8.4 Assignment. Except as otherwise provided in this Agreement, this Agreement is made for the sole benefit of the parties hereto, and no party may assign this Agreement, or any part thereof, or delegate any duty or obligation imposed by this Agreement to any other person or entity without the express written consent of the opposite party or parties hereto; provided however, that no such consent of the opposite party shall be required in the event of an assignment or delegation to a parent, subsidiary, sister corporation or other affiliated entity.

8.5 Captions. The captions and titles utilized in this Agreement are for convenience of reference only, and shall not be deemed to define or limit any of the terms, conditions, or provisions of this Agreement.

8.6 Governing Law; Forum. This Agreement and all obligations created hereunder or required to be created hereby shall be governed by and construed and enforced in accordance with the laws of the State of South Dakota, and the parties consent that the Second Judicial Circuit Court situated in Minnehaha County, South Dakota, or the United States District Court for the District of South Dakota, Southern Division, shall be the exclusive jurisdiction and venue of any disputes relating to this Agreement.

8.7 Notices. All notices required to be given by this Agreement shall be made in writing either by (i) personal delivery to the party requiring notice and securing a written receipt; or (ii) mailing notice in the United States mail to the address of the party requiring notice which

is set forth below, by certified mail, return receipt requested. The effective date of the notice shall be the date of the written receipt or the date of the return receipt, as applicable. The refusal of a party to accept a certified mail letter shall be treated as the delivery of the letter on the date of refusal.

If to Sioux Valley:

Sioux Valley Telephone Company
Attn: Denny Law
P.O. Box 98
Dell Rapids, SD 57022
Telephone: (605) 428-5421
Facsimile: (605) 428-3132

If to Hills:

Hills Telephone Company, Inc.
Attn: Don Snyders
612 3rd Street
P.O. Box 349
Garretson, SD 57030
Telephone: (605) 594-3411
Facsimile: (605) 594-6776

or to such other address as the parties may specify in writing by sending notice thereof to the opposite party.

8.8 Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of when duly executed and delivered shall be deemed an original and all of which shall constitute one and the same instrument. This Agreement may be executed and delivered by facsimile, which facsimile signature pages shall be deemed originals.

THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK.

SIGNATURE PAGE FOLLOWS.

WHEREFORE, THE PARTIES HERETO, have executed this Agreement as of the date first written above for the purposes herein contained.

SIOUX VALLEY TELEPHONE
COMPANY

By: _____
Its: _____

HILLS TELEPHONE COMPANY, INC.

By: _____
Its: _____

AGREEMENT FOR PURCHASE AND SALE OF TELEPHONE EXCHANGE

EXHIBIT B

REAL ESTATE TRANSFERRED

Lots Eight (8), Nine (9), the south 50 feet and the west 23 feet of the north 84 feet of Lot Ten (10), and Lots Eleven (11) and Twelve (12), all in Block Fourteen (14) of the Town of Valley Springs, Minnehaha County, South Dakota.

RECEIVED

MAR 02 2004

BEFORE THE SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION**

IN THE MATTER OF THE JOINT
APPLICATION FOR APPROVAL OF
THE SALE OF THE VALLEY
SPRINGS, EAST VALLEY SPRINGS,
AND NORTH LARCHWOOD
EXCHANGES BY SIOUX VALLEY
TELEPHONE COMPANY TO HILLS
TELEPHONE COMPANY, INC.

DOCKET NO. _____

**REQUEST FOR CONFIDENTIAL
TREATMENT OF INFORMATION**

COME NOW, Hills Telephone Company, Inc. ("Hills") and Sioux Valley Telephone Company ("Sioux Valley"), by and through their undersigned counsel, and jointly request that pursuant to the provisions of A.R.S.D. 20:10:01:39 through A.R.S.D. 20:10:01:41, the South Dakota Public Utilities Commission (the "Commission") accord confidential treatment to Section 1.3 of the Agreement for the Purchase and Sale of the Telephone Exchange (the "Purchase Agreement"), which is attached as Exhibit B to the Joint Application for Approval of a Sale of Telephone Exchanges submitted simultaneously with this Request to the Commission.

IN SUPPORT OF THIS REQUEST, Hills and Sioux Valley state and declare as follows:

1. The information for which confidential treatment is desired is contained within the Purchase Agreement submitted to this Commission in conjunction with the Joint Application filed by Hills and Sioux Valley. The Purchase Agreement contains information relating to the purchase price agreed upon between Hills and Sioux Valley for the sale of those local telephone exchanges specified in the Joint Application.
2. Hills and Sioux Valley request that the information for which this request is being made be accorded confidential treatment in perpetuity.


3. The Commission may contact the following individual regarding the confidentiality request:

Ryan J. Taylor
Counsel for Hills Telephone Company, Inc.
100 N. Phillips Ave., 9th Floor
Sioux Falls, SD 57101
(605) 335-4950.

4. Confidentiality is requested pursuant to A.R.S.D. 20:10:01:41 and is authorized pursuant to A.R.S.D. 20:10:01:39(6).
5. The information for which Hills and Sioux Valley are requesting confidentiality relates to the purchase price negotiated between the parties for the sale of local telephone exchange facilities. The parties believe this information is relevant only to their Joint Application and should not be released to the public because it could result in damage to the parties' financial and/or competitive position.


Dated this 2nd day of ^{March}~~February~~, 2004.

CUTLER & DONAHOE, LLP
Attorneys at Law



Ryan J. Taylor
100 N. Phillips Ave., 9th Floor
Sioux Falls, South Dakota 57104-6725
Telephone (605) 335-4950
Attorneys for Applicant Hills Telephone Company

RITER, ROGERS, WATTIER & BROWN, LLP
Attorneys at Law



Darla Pollman Rogers
Professional & Executive Building
319 South Coteau Street
P.O. Box 280
Pierre, SD 57501-0280
Telephone (605) 224-5825
Attorneys for Applicant Sioux Valley Telephone Company

CONFIDENTIAL

1

South Dakota Public Utilities Commission
WEEKLY FILINGS
For the Period of February 26, 2004 through March 3, 2004

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact
Delaine Kolbo within five business days of this report. Phone: 605-773-3201

ELECTRIC

EL04-006 In the Matter of the Filing by Otter Tail Power Company for Approval of Tariff Revisions.

Application by Otter Tail Power Company (Otter Tail) for approval to revise its tariffed Summary List of Contracts with Deviations. The existing contract with the City of Hetland will expire on April 1, 2004. Otter Tail states the new agreement does not contain any deviations from Otter Tail's currently filed tariff and therefore requests that reference to a contract with the City of Hetland be removed from the Summary List of Contracts with Deviations.

Staff Analyst: Dave Jacobson
Staff Attorney: Karen Cremer
Date Filed: 02/26/04
Intervention Deadline: 03/19/04

EL04-007 In the Matter of the Filing by Otter Tail Power Company for Approval of Tariff Revisions.

Application by Otter Tail Power Company (Otter Tail) for approval to revise its tariffed Summary List of Contracts with Deviations. The existing contract with the City of Lake Preston will expire on April 1, 2004. Otter Tail states the new agreement does not contain any deviations from Otter Tail's currently filed tariff and therefore requests that reference to a contract with the City of Lake Preston be removed from the Summary List of Contracts with Deviations.

Staff Analyst: Dave Jacobson
Staff Attorney: Karen Cremer
Date Filed: 02/26/04
Intervention Deadline: 03/19/04

EL04-008 In the Matter of the Filing by Otter Tail Power Company for Approval of Tariff Revisions.

Application by Otter Tail Power Company (Otter Tail) for approval to revise its tariffed Summary List of Contracts with Deviations. The existing contract with the City of Trent will expire on April 1, 2004. Otter Tail states the new agreement does not contain any deviations from Otter Tail's currently filed tariff and therefore requests that reference to a contract with the City of Trent be removed from the Summary List of Contracts with Deviations.

Staff Analyst: Dave Jacobson
Staff Attorney: Karen Cremer
Date Filed: 02/26/04
Intervention Deadline: 03/19/04

South Dakota Public Utilities Commission
WEEKLY FILINGS
For the Period of February 26, 2004 through March 3, 2004

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact
Delaine Kolbo within five business days of this report. Phone: 605-773-3201

ELECTRIC

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Staff Analyst: Dave Jacobson
Staff Attorney: Karen Cremer
Date Filed: 02/26/04
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Staff Analyst: Dave Jacobson
Staff Attorney: Karen Cremer
Date Filed: 02/26/04
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Staff Analyst: Dave Jacobson
Staff Attorney: Karen Cremer
Date Filed: 02/26/04
Intervention Deadline: 03/19/04

CUTLER & DONAHOE, LLP
ATTORNEYS AT LAW

Telephone (605) 335-4950

Fax (605) 335-4961

JEAN BROCKMUELLER, CPA (Inact)
BUSINESS MANAGER

* Also licensed to practice
in Minnesota

** Also licensed to practice
in Minnesota and Iowa

† Also licensed to practice
in Nebraska

†† Also licensed to practice
in Minnesota and Missouri

*† Also licensed as a Certified
Public Accountant

RICHARD A. CUTLER
KENT R. CUTLER
BRIAN J. DONAHOE *
MARK E. SALTER *
STEVEN J. SARBACKER ††
JAYNA M. VOSS
MICHAEL D. BORNITZ †
TRENT A. SWANSON *
KIMBERLY R. WASSINK
RYAN J. TAYLOR *†
MEREDITH A. MOORE
DAVID L. EDWARDS
TORREY D. SUNDALL

March 26, 2004

RECEIVED

MAR 30 2004

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Mr. Harlan Best
Utility Analyst
South Dakota Public Utilities Commission
500 E. Capitol Avenue
Pierre, SD 57501-5070

Re: *Joint Application for Approval of the Valley Springs Exchange, TC 04-040*

Dear Harlan:

Pursuant to your request of March 5, 2004, please consider this letter to be the joint response of Hills Telephone Company, Inc. ("Hills") and Sioux Valley Telephone Company ("Sioux Valley"). Pursuant to your request, I am providing you with three additional copies of this response. The responses contained in this letter are numbered in the order in which they were presented in your March 5, 2004 letter.

1. Hills Telephone Company, Inc. plans to file its application for a certificate of public convenience and necessity during the week of March 29, 2004;
2. I am in the process of reconciling the discrepancies between the exchange boundary map submitted in conjunction with the joint application and that which is on file with the South Dakota Public Utilities Commission. I will forward you a signed exchange boundary map as soon as I obtain a signed copy back from Qwest;
3. Hills and Sioux Valley filed a joint application for approval of the transaction with the Minnesota Public Utilities Commission on March 19, 2004. To date no response other than a returned file stamped copy, has been received from the Minnesota Public Utilities Commission;
4. I have enclosed a signed copy of the agreement for the purchase and sale of telephone exchange with this letter;
5. Sioux Valley presently offers DSL in the Valley Springs exchange. However, the equipment used to provide this service is the property of Alliance and is leased to Sioux Valley;

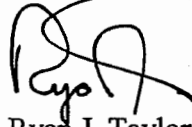
6. Alliance Communications Cooperative, Inc. provides all DSL and internet services within the Alliance Communications organization (including Alliance Communications Cooperative, Inc., Split Rock Properties, Inc. and Hills Telephone Company, Inc.) regardless of which entity provides local telephone services in that particular area;
7. Hills will pay for the purchase out of its existing operating funds and does not plan on borrowing any additional money for this transaction;
8. Prior to July 7, 2003, Hills Telephone Company, Inc. was a wholly owned subsidiary of Alliance Telecommunications Corporation and had a December 31st year-end. On July 7, 2003 Hills Telephone Company, Inc. was acquired by Alliance Communications Cooperative, Inc. and its fiscal year-end was then changed to September 30, 2003. I have therefore attached copies of the last three audit reports of Hills Telephone Company, dated as of September 30, 2003, December 31, 2002, and December 31, 2001;
9. No pro forma financial statements or projections have been prepared by Hills Telephone Company, Inc. in regard to the proposed transaction;
10. In addition to the notification which will be included in the final bills that Sioux Valley sends to the affected customers, the following measures have been taken to ensure that all of the affected telephone customers are aware of the transaction:
 - i) Alliance Communications Cooperative, Inc. announced the pending transaction at its 2004 Annual Meeting held on March 20, 2004;
 - ii) Alliance Communications will send the attached letter marked as Exhibit A to the customers immediately following the closure of the transaction; and
 - iii) Sioux Valley and Alliance will jointly send the attached letter marked as Exhibit B in the near future.

Mr. Harlan Best
March 26, 2004
Page 3

If you have any questions, please feel free to contact me at your convenience at (605)335-4989. Thank you for your assistance and consideration of this matter. I look forward to working with you.

Sincerely,

CUTLER & DONAHOE, LLP



Ryan J. Taylor
For the Firm

RJT:jak
Enclosures

cc: Don Snyders (w/o enclosures)
Denny Law (w/o enclosures)
George Strandell (w/o enclosures)
Darla Rogers (w/o enclosures)

**AGREEMENT FOR THE PURCHASE
AND SALE OF TELEPHONE EXCHANGE**

THIS AGREEMENT FOR THE PURCHASE AND SALE OF TELEPHONE EXCHANGE (the "Agreement") is made and entered into as of this 16 day of January, 2004, by and between Sioux Valley Telephone Company, a South Dakota corporation ("Sioux Valley"), and Hills Telephone Company, Inc., a Minnesota corporation ("Hills").

RECITALS

WHEREAS, Sioux Valley possesses certain rights to provide and operate wire-line telecommunication services pursuant to operating authorities issued by the South Dakota Public Utilities Commission and the Minnesota Public Utilities Commission (collectively the "Commission") in the Valley Springs Exchange, the East Valley Springs Exchange, and the North Larchwood Exchange, which contain approximately 550 access lines (collectively referred to as the "Exchange"), and which are depicted on the exchange map attached hereto as Exhibit A and incorporated herein by this reference; and

WHEREAS, Hills desires to acquire Sioux Valley's right to provide and operate wireline telecommunication services in the Exchange (the "Business") and to purchase the Transferred Assets (as defined below), and Sioux Valley wishes to sell, assign and transfer such right and Transferred Assets to Hills.

NOW THEREFORE, for and in consideration of the mutual representations, warranties, covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Sioux Valley and Hills agree as follows:

ARTICLE 1

PURCHASE AND SALE OF EXCHANGE

1.1 Purchase and Sale of Transferred Assets. Upon the terms and subject to the conditions hereinafter set forth, at the Closing described in Article 2, Sioux Valley agrees to sell, convey, transfer, assign and deliver all of Sioux Valley's right, title and interest in and to the Transferred Assets to Hills as of the Effective Date, and Hills agrees to purchase and receive all of Sioux Valley's right, title and interest in and to the Transferred Assets from Sioux Valley as of the Effective Date. Except as specifically set forth in Section 1.2 hereof, Sioux Valley shall transfer the Transferred Assets to Hills on the Closing Date free and clear of any and all mortgages, security interests, charges, liens, restrictions and encumbrances (collectively "Encumbrances"), and Hills shall not, by virtue of its purchase of the Transferred Assets, assume or become responsible for any debts, liabilities or obligations of Sioux Valley. The Transferred Assets, as such term is used in this Agreement shall include:

- (i) the real property, including any buildings, structures, or improvements located thereon and appurtenant thereto, which is situated in Minnehaha County,

South Dakota, and which is more particularly described on Exhibit B attached hereto and incorporated herein by this reference (the "Real Property");

(ii) that portion of the 12 fiber cable connecting Sioux Valley's Dell Rapids Central Office located in Dell Rapids, South Dakota, and Sioux Valley's Valley Springs Central Office located in Valley Springs, South Dakota, as described in the Agreement for Ownership and Usage of 12-Fiber Transport Facility attached hereto as Exhibit B to this Agreement and incorporated herein by this reference (the "Fiber");

(iii) all of the telephone plant and equipment and other items of personal property which are used in the operation of the Exchange and which are physically located within the geographic boundaries of the Exchange as certificated by the Commission; and

(iv) all contracts, agreements, leases, easements, rights-of-way, licenses, permits, authorizations, franchises, warranties, guarantees, and other intangible items, assets, or rights which are necessary for the operation of the Exchange or the Fiber by Hills following the consummation of the transaction contemplated herein, and which are set forth on Exhibit C attached hereto and incorporated herein by this reference (collectively the "Contracts").

1.2 Assumption of Obligations. Hills covenants and agrees that, on the Closing Date, it shall execute and deliver to Sioux Valley an Assumption Agreement in substantially the form of Exhibit D attached hereto and incorporated herein by this reference (the "Assumption Agreement"), pursuant to which it will assume and agree to perform and discharge the following liabilities and obligations of Sioux Valley (collectively, the "Assumed Liabilities") following the Effective Date:

(i) All liabilities and obligations of Sioux Valley arising under the Contracts, except that Hills shall not assume any liabilities or obligations for any breach of it by, or payment obligation of, Sioux Valley under such Contracts occurring or arising on or prior to the Closing Date;

(ii) All liabilities and obligations of Sioux Valley related to unperformed service obligations, right-of-way relocation obligations, and construction in progress as of the Closing Date;

(iii) All liabilities and obligations imposed on Sioux Valley by the Public Utilities Commissions of the States of South Dakota and/or Minnesota (collectively the "State Regulatory Authorities") in connection with the operation of the Exchange, including without limitation, obligations to provide E-911 emergency services;

(iv) All federal, state, county, municipal, foreign or other taxing jurisdiction sales, use, transfer, gross receipts, consumer levy, privilege or similar taxes, duties, excises or governmental charges, including any penalties and interest thereon, arising out

of the sale of the Transferred Assets by Sioux Valley to Hills hereunder, excluding any income tax liability of Sioux Valley (collectively, "Transfer Taxes"); and

(v) All liabilities and obligations arising under Environmental Laws with respect to the real property included in the Transferred Assets.

1.3 Purchase Price. Hills shall pay to Sioux Valley as consideration for the transfer of Sioux Valley's right to provide and operate wire-line telecommunication service in the Exchange and the sale of the Transferred Assets, a purchase price of \$ [REDACTED].00 (the "Purchase Price"), to be paid by check or wire transfer on the closing date of this Agreement.

1.4 Determination of Taxes, Rents and other Periodic Charges and Expenses. All taxes, rents, or other periodic charges and expenses arising from the normal operations of the Business will be prorated to December 31, 2003. Sioux Valley shall pay all taxes levied or due on the assets on or prior to December 31, 2003, and Hills shall pay all subsequent taxes.

1.5 Transfer Taxes. Hills shall be responsible for paying all Transfer Taxes imposed by the State of South Dakota.

ARTICLE 2

CLOSING

2.1 Closing. The Closing shall occur as soon as is reasonably practicable following the receipt of all necessary regulatory and lender approvals required to consummate the transactions contemplated herein, in the offices of Sioux Valley Telephone Company located in Dell Rapids, South Dakota, at a time which is reasonably acceptable to each of the parties hereto, or at such other place as may be mutually agreed upon by the parties (the "Closing" or the "Closing Date"). Regardless of the actual date of Closing, the effective date of the transaction shall be the first day of the next succeeding calendar month immediately following the Closing Date (the "Effective Date").

2.2 Deliveries by Sioux Valley to Hills. At or prior to the Closing, Sioux Valley will deliver the following items to Hills:

(i) two certified copies of Sioux Valley's resolution authorizing the execution of this Agreement, including any additional contracts, agreements, documents, instruments, certificates, or other items reasonably necessary for the consummation of the transactions contemplated herein, and the consummation of the transactions contemplated herein by Sioux Valley;

(ii) a duly executed Bill of Sale conveying title to all of the items comprising, the Fiber, the telephone plant and equipment, and the other items of personal property described Sections 1.1(ii) and (iii) hereof to Hills as of the Effective Date, substantially in the form attached hereto as Exhibit E and incorporated herein by this reference;

(iii) Warranty Deed(s) conveying title to all of the Real Property from Sioux Valley to Hills in fee simple as of the Effective Date, which Warranty Deeds shall be substantially in the form attached hereto as Exhibit F and incorporated herein by this reference;

(iv) two duly executed Assumption Agreements transferring all of Sioux Valley's right, title, and interest in and to all of the items identified in Section 1.1(iv) as of the Effective Date;

(v) Releases, satisfactions or terminations of all mortgages, financing statements or other Encumbrances on any of the Transferred Assets;

(vi) two duly executed originals of this Agreement;

(vii) the consent and partial release of the United States Department of Agriculture, Rural Utilities Service ("RUS") and CoBank, ACB ("CoBank") to the transactions contemplated hereby and releasing their respective security interests in the Transferred Assets; and

(viii) such other documents and items as are reasonably necessary or appropriate to effect the consummation of the transactions contemplated herein or which may be customary under local law.

2.3 Deliveries by Hills to Sioux Valley. At or prior to the Closing, Hills will deliver the following items to Sioux Valley:

(i) the Purchase Price and any transfer taxes or any other amounts to be paid by Hills;

(ii) two certified copies of Hills's resolution authorizing the execution of this Agreement, including any additional contracts, agreements, documents, instruments, certificates, or other items reasonably necessary for the consummation of the transactions contemplated herein, and the consummation of the transactions contemplated herein by Hills;

(iii) two duly executed originals of this Agreement;

(iv) two duly executed originals of the Assumption Agreement, as required by Section 1.2 hereof; and

(v) such other documents and items as are reasonably necessary or appropriate to effect the consummation of the transactions contemplated herein or which may be customary under local law.

ARTICLE 3

CONDITIONS PRECEDENT

3.1 Conditions to Obligations of Each Party to Effect the Transactions. The respective obligations of each party to this Agreement to effect the transactions contemplated herein shall be subject to the satisfaction at or prior to the Closing Date of the following conditions:

(i) No Injunctions or Restraints; Illegality. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition shall have been issued and be in effect restraining or prohibiting the consummation of the transactions contemplated herein; nor shall any action have been taken by any governmental entity or any federal, state or foreign statute, rule, regulation, executive order, decree or injunction shall have been enacted, entered, promulgated or enforced by any governmental entity or arbitrator, which is in effect and has the effect of making the transactions contemplated herein illegal or otherwise prohibiting the consummation of such transactions; and

(ii) Consents. All authorizations, consents, orders or approvals of, or declaration or filings with, and all expirations of waiting periods imposed by, any governmental body, agency or official (collectively "Consents") which are necessary for the consummation of the transactions contemplated hereby, other than immaterial Consents which the failure to obtain would have no material adverse effect on the consummation of the transactions contemplated hereby, shall have been filed, have occurred, and have been obtained.

3.2 Conditions to Hills's Obligations. The obligation of Hills to consummate the transactions contemplated herein shall be subject to the satisfaction, on or prior to the Closing Date, of the following conditions, any of which may be waived by Hills:

(i) Representations and Warranties. Except for representations and warranties which speak as of a date specified, the representations and warranties of Sioux Valley contained in this Agreement and its disclosure schedules thereto, without giving effect to any supplement or amendment thereto, or in any other document delivered pursuant hereto shall be true and correct in all material respects (provided that any such representation or warranty, which by its terms is qualified as to materiality, shall be true and correct in all respects) on and as of the Closing Date with the same effect as if made on and as of the Closing Date;

(ii) Other Documents. Sioux Valley shall have delivered the resolutions, ancillary agreements, deeds, and other documents required under Section 2.2 of this Agreement; and

(iii) Performance. Sioux Valley shall have performed and complied with, in all material respects, each agreement, covenant and obligation required by this Agreement to be so performed or complied with at or before the Closing.

3.3 Conditions to Sioux Valley's Obligations. The obligation of Sioux Valley to consummate the Transaction shall be subject to the satisfaction, on or prior to the Closing Date, of each of the following conditions, any of which may be waived by Sioux Valley:

(i) Representations and Warranties. Except for representations and warranties which speak as of a date specified, the representations and warranties of Hills contained in this Agreement and its disclosure schedules thereto, without giving effect to any supplement or amendment thereto, or in any other document delivered pursuant hereto shall be true and correct in all material respects (provided that any such representation or warranty, which by its terms is qualified as to materiality, shall be true and correct in all respects) on and as of the Closing Date with the same effect as if made on and as of the Closing Date;

(ii) Payment of Purchase Price. Hills shall have made payment of the Purchase Price in full to Sioux Valley by either check or wire transfer on or before the Closing Date as set forth in Section 1.3;

(iii) Certificates and Other Documents. Hills shall have delivered the certificates, resolutions, ancillary agreements, and other documents required under Section 2.3 of this Agreement; and

(iv) Performance. Hills shall have performed and complied with, in all material respects, each agreement, covenant and obligation required by this Agreement to be so performed or complied with at or before the Closing.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES OF HILLS

As of the date of this Agreement and as of the Closing Date, Hills represents, warrants, and covenants to Sioux Valley as follows:

4.1 Organization and Powers. Hills is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota. Hills has all requisite company power and authority to carry on its business as it has been and is now being conducted and to own, lease and operate the properties and assets used in connection therewith. Hills is duly qualified to conduct business as a foreign corporation within the States of South Dakota and Iowa.

4.2 Authority; Binding Effect. Hills has all requisite corporate power and authority to execute and deliver this Agreement and any ancillary certificates, documents, and agreements required to be delivered in conjunction therewith, and to consummate the transactions contemplated thereby. All necessary corporate action required to have been taken by or on behalf of Hills by applicable law, its articles of incorporation, or its bylaws to authorize the performance of its obligations hereunder and the consummation of the transactions contemplated herein have been taken. This Agreement, as it relates to Hills, will comply fully with all applicable laws and will constitute the legal, valid and binding obligation of Hills, enforceable against Hills in accordance with its terms.

4.3 No Conflict. Except as set forth on Schedule 4.3, attached hereto, the execution and delivery of this Agreement does not, and the consummation of the transactions contemplated herein will not, (a) violate or conflict with Hills' articles of incorporation or bylaws; (b) violate, conflict with or result in the breach of any term, condition or provision of, or require the consent of any other individual, cooperative, corporation, limited liability company, partnership, estate, trust, sole proprietorship, unincorporated society or association, or any entity or organization, including a governmental entity (hereinafter a "Person") under (i) any existing law, ordinance, or governmental rule or regulation to which Hills is subject, (ii) any judgment, order, writ, injunction, decree or award of any governmental entity which is applicable to Hills, or (iii) any mortgage, indenture, agreement, contract, commitment, lease, plan, authorization, or other instrument, document or understanding, oral or written, to which Hills is a party, by which Hills may have rights or by which Hills may be bound or affected, or give any party with rights thereunder the right to terminate, modify, accelerate or otherwise change the existing rights and obligations thereunder; (c) constitute a breach or default (or an event that with notice or lapse of time or both would become a breach or default) or give rise to any lien, third party right of termination, cancellation, material modification or acceleration, or loss of any benefit, under any contract to which Hills is a party or by which it is bound; or (d) conflict with or result in a violation of any permit, concession, franchise or license, or any law, rule or regulation applicable to Hills or any of its properties or assets, except for any such breaches, defaults, liens, third party rights, cancellations, modifications, accelerations or losses of benefits, conflicts or violations which would not impair the ability of Hills to perform its obligations under this Agreement or prevent or delay the consummation of any of the transactions contemplated hereby.

4.4 Consents and Approvals. Except as set forth on Schedule 4.4, neither the execution and delivery of this Agreement or of any ancillary certificate, document, instrument, or agreement, by Hills, nor the performance of the transactions contemplated hereby, requires the consent or approval of any Person nor constitutes a default or causes any payment obligation to arise under (a) any law or court order to which Hills is subject, or (b) any contract, agreement, understanding or other document to which Hills is a party or by which Hills may be subject.

4.5 Condition of Assets. Hills acknowledges and agrees that Hills and its officers are knowledgeable and familiar with the condition and operation of the telephone facilities and equipment currently in place in the Exchange and that Hills has had ample opportunity to further investigate and examine the telephone facilities and equipment currently in use in the Exchange and is taking such telephone facilities in an "as is" condition.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES OF SIOUX VALLEY

As of the date of this Agreement and as of the Closing Date, Sioux Valley represents, warrants, and covenants to Hills as follows:

5.1 Organization and Powers. Sioux Valley is a corporation duly organized, validly existing and in good standing under the laws of the State of South Dakota. Sioux Valley has all requisite company power and authority to carry on its business as it has been and is now being conducted and to own, lease and operate the properties and assets used in connection therewith. Sioux Valley is duly qualified to conduct business as a foreign corporation within the State of Minnesota.

5.2 Authority; Binding Effect. Sioux Valley has all requisite corporate power and authority to execute and deliver this Agreement and any ancillary certificates, documents, and agreements required to be delivered in conjunction therewith, and to consummate the transactions contemplated thereby. All necessary corporate action required to have been taken by or on behalf of Sioux Valley by applicable law, its articles of incorporation, or its bylaws to authorize the performance of its obligations hereunder and the consummation of the transactions contemplated herein have been taken. This Agreement, as it relates to Sioux Valley, will comply fully with all applicable laws and will constitute the legal, valid and binding obligation of Sioux Valley, enforceable against Sioux Valley in accordance with its terms.

5.3 No Conflict. Except as set forth on Schedule 5.3, attached hereto, the execution and delivery of this Agreement does not, and the consummation of the transactions contemplated herein will not, (a) violate or conflict with Sioux Valley's articles of incorporation or bylaws; (b) violate, conflict with or result in the breach of any term, condition or provision of, or require the consent of any other Person under (i) any existing law, ordinance, or governmental rule or regulation to which Sioux Valley is subject, (ii) any judgment, order, writ, injunction, decree or award of any governmental entity which is applicable to Sioux Valley, or (iii) any mortgage, indenture, agreement, contract, commitment, lease, plan, authorization, or other instrument, document or understanding, oral or written, to which Sioux Valley is a party, by which Sioux Valley may have rights or by which Sioux Valley may be bound or affected, or give any party with rights thereunder the right to terminate, modify, accelerate or otherwise change the existing rights and obligations thereunder; (c) constitute a breach or default (or an event that with notice or lapse of time or both would become a breach or default) or give rise to any lien, third party right of termination, cancellation, material modification or acceleration, or loss of any benefit, under any contract to which Sioux Valley is a party or by which it is bound; or (d) conflict with or result in a violation of any permit, concession, franchise or license, or any law, rule or regulation applicable to Sioux Valley or any of its properties or assets, except for any such breaches, defaults, liens, third party rights, cancellations, modifications, accelerations or losses of benefits, conflicts or violations which would not impair the ability of Sioux Valley to perform its obligations under this Agreement or prevent or delay the consummation of any of the transactions contemplated hereby.

5.4 Consents and Approvals. Except as set forth set forth on Schedule 5.4, neither the execution and delivery of this Agreement or of any ancillary certificate, document, instrument, or agreement, by Sioux Valley, nor the performance of the transactions contemplated hereby, requires the consent or approval of any Person nor constitutes a default or causes any payment obligation to arise under (a) any law or court order to which Sioux Valley is subject, or (b) any contract, agreement, understanding or other document to which Sioux Valley is a party or by which Sioux Valley may be subject.

5.5 Title to Property and Liens. Sioux Valley has good and marketable title to all of the Transferred Assets, free and clear of all mortgages, security interests, charges, liens, restrictions and encumbrances, except for (i) easements and other encumbrances of record in regard to the Real Property, and (ii) liens set forth on Schedule 5.5 hereto, if any, which shall be satisfied to the reasonable satisfaction of Hills at or prior to Closing. Prior to Closing, Sioux Valley and Hills shall obtain a title insurance commitment for the Real Property evidencing that title to the Real Property is held in the name of Sioux Valley in fee simple, free of any and all mortgages, security interests, charges, liens, restrictions and encumbrances, except as referred to in Subsections 5.5(i) and (ii) hereof. The cost of such title insurance policy shall be shared equally by Sioux Valley and Hills.

5.6 Condition and Suitability of Assets. Each of the Transferred Assets is in good operating condition or repair and is suitable for the purpose for which it is presently being used by Sioux Valley without the need for any material repairs or replacements.

5.7 Absence of Litigation; Claims. Except as set forth on Schedule 5.7, there are no claims, actions, suits, proceedings or investigations pending or, to the knowledge of Sioux Valley, threatened against Sioux Valley or any properties or rights of Sioux Valley, before any governmental entity or arbitrator, which, if decided adversely to Sioux Valley, would have a material adverse effect on the Business or the Exchange or impair the ability of Sioux Valley to perform its obligations under this Agreement or prevent or delay the consummation of any of the transactions contemplated hereby, nor is there any judgment, decree, injunction, rule or order of any governmental Entity or arbitrator outstanding against Sioux Valley having or which, insofar as reasonably can be foreseen, in the future would have such effect.

ARTICLE 6

POST CLOSING MATTERS

6.1 Post Closing. In order to effectuate an orderly transition in the provision of telecommunications services to customers in the Exchange, Hills and Sioux Valley agree to utilize the measures set forth below:

(i) Collection of Accounts. Hills agrees to exercise commercially reasonable efforts for a period of 120 days following the Effective Date to collect all accounts receivable due to Sioux Valley as of the Effective Date from customers in the Exchange. Hills shall reflect such unpaid balances on its billings to customers following the

Effective Date, and shall remit to Sioux Valley all amounts collected with respect to such customer accounts receivable following the Effective Date. In addition to collecting accounts receivable due to Sioux Valley from customers in the Exchange, Hills agrees to exercise commercially reasonable efforts for a period of 180 days following the Effective Date to collect all receivables due to Sioux Valley under inter-exchange carrier settlements relating to periods prior to the Effective Date (the "Carrier Settlements"). At the conclusion of such 180 day period, Sioux Valley and Hills agree to negotiate in good faith to agree upon an amount which shall be paid by Hills to Sioux Valley in satisfaction of all remaining Carrier Settlements (the "Settlement Payment"). The Settlement Payment shall be discounted to reflect the likelihood of collecting any Carrier Settlements which remain outstanding. In conjunction with the payment of the Settlement Payment by Hills, Sioux Valley shall assign to Hills the right to collect and retain for its own benefit any Carrier Settlements which remain outstanding;

(ii) Notice to Customers. Sioux Valley shall provide written notification, which notification shall be reasonably acceptable to Hills, in its final bill to each customer affected by this Agreement, that Sioux Valley is no longer the customer's telecommunications provider and advising the customer of the name, address and telephone number of Hills. Sioux Valley and Hills shall agree upon appropriate service cut-off dates with respect to the Exchange;

(iii) Customer Deposits. As of the Closing Date, all customer deposits and advance payments for future services made to Sioux Valley by residential and business customers in the Exchange shall be retained by Sioux Valley and applied to such customers' unpaid balances or refunded to such customers, if so required under the rules of the State Regulatory Authorities, within 30 business days after the Closing Date. Claims for refunds of such deposits made to Hills, whether written or oral, shall be referred to Sioux Valley, in writing, within three business days after receipt;

(iv) Customer Records. From and after Closing for a period of one year, to the extent not previously provided to Hills, Sioux Valley shall use commercially reasonable efforts to make available, upon reasonable request from Hills, all readily available billing and service records for goods sold or services provided to customers of the Exchange prior to Closing;

(v) Directory Publishing and 911 Emergency Services. Hills shall continue to comply with the covenants set forth herein following the Closing Date, as appropriate, to the extent necessary to accomplish the intent of such covenants;

(vi) Accounting Practices. Hills shall comply with all FCC and state regulatory accounting practices. Hills will not seek recovery of an acquisition adjustment through its regulated interstate or intrastate rates, including from federal or state universal service funds;

(vii) 911 Emergency Services. Hills shall provide 911 emergency services within the Exchange following the Closing Date of this Agreement;

(viii) Tariffs. In conjunction with the Closing of this Agreement, Hills will file with the Commission, and any other regulatory bodies having valid jurisdiction, a tariff for the Exchange using the average of all cost studies then in place for all local exchange carriers in the State of South Dakota for intrastate, intra-LATA toll access; and

(ix) Extended Area Service. All existing extended area service agreements relating to the Exchange shall remain in full force and effect following the Closing Date, unless otherwise agreed by the parties.

6.2 Further Assurances. Each of the parties hereto agrees to use its best efforts to take, or cause to be taken, all appropriate action, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws, statutes, ordinances, codes, rules, and regulations to consummate and make effective the transactions contemplated by this Agreement in the most expeditious manner practicable, including but not limited to the satisfaction of all conditions precedent to the effectiveness of this Agreement set forth in Article III hereof, and the execution and delivery of all additional or ancillary documents or agreements which are reasonably necessary to consummate the transactions contemplated herein.

6.3 Cooperation. Each of the parties hereto shall deliver or cause to be delivered to the opposite party on the Closing Date, and at such other times and places as shall be reasonably agreed to, such additional documents, instruments, certificates and agreements as the other may reasonably request for the purpose of carrying out the transactions contemplated in this Agreement. The parties shall each cooperate on and after the Closing Date with respect to any tax matters relating to this Agreement or the transactions contemplated herein.

ARTICLE 7

INDEMNIFICATION

7.1 General Indemnification by Sioux Valley. On and after the Closing Date, Sioux Valley covenants and agrees that it will indemnify, defend, protect and hold harmless Hills and its officers, shareholders, agents, employees, successors and assigns, from and against all claims, damages, losses, liabilities, actions, suits, proceedings, demands, assessments, adjustments, costs, and expenses (including specifically, but without limitation, reasonable attorneys' fees and expenses of investigation) (collectively, "Losses"), incurred by Hills as a result of or arising from (i) any breach of the representations and warranties made by Sioux Valley set forth herein or in any agreement, exhibit, schedule, document, instrument, or certificates delivered in connection herewith; (ii) any non-fulfillment of any covenant or agreement on the part of Sioux Valley under this Agreement; or (iii) any claim, demand, or cause of action of a third party arising out of the Business or the ownership and operations of the Exchange prior to the Effective Date.

7.2 General Indemnification by Hills. On and after the Closing Date, Hills covenants and agrees that it will indemnify, defend, protect and hold harmless Sioux Valley and its officers, shareholders, agents, employees, successors and assigns, from and against all Losses incurred by Sioux Valley as a result of or arising from (i) any breach of the representations and warranties

made by Hills set forth herein or on the schedules, exhibits, documents, instruments, or certificates delivered in connection herewith; (ii) any non-fulfillment of any covenant or agreement on the part of Hills under this Agreement; or (iii) any claim, demand, or cause of action of a third party arising out of the Business or the ownership and operations of the Exchange after the Effective Date.

ARTICLE VIII

GENERAL

8.1 Benefit. This Agreement shall bind the parties hereto and shall inure to and be binding upon their respective legal representatives, successors, heirs and permitted assigns.

8.2 Entire Agreement; Waiver. This Agreement, including any exhibits or schedules or other documents attached hereto or incorporated herein, contains the entire agreement of the parties as to the subject matter contained herein.

8.3 Severability. The parties agree that if any part, term, paragraph, or provision of this Agreement is in any manner held to be invalid, illegal, void, or in any manner unenforceable, or to be in conflict with any applicable law of the States of South Dakota or Minnesota or of the United States of America, then the validity of the remaining portions or provisions of this Agreement shall not be affected, and such part, term, paragraph or provision shall be construed and enforced in a manner designed to effectuate the intent expressed in this Agreement to the maximum extent permitted by law.

8.4 Assignment. Except as otherwise provided in this Agreement, this Agreement is made for the sole benefit of the parties hereto, and no party may assign this Agreement, or any part thereof, or delegate any duty or obligation imposed by this Agreement to any other person or entity without the express written consent of the opposite party or parties hereto; provided however, that no such consent of the opposite party shall be required in the event of an assignment or delegation to a parent, subsidiary, sister corporation or other affiliated entity.

8.5 Captions. The captions and titles utilized in this Agreement are for convenience of reference only, and shall not be deemed to define or limit any of the terms, conditions, or provisions of this Agreement.

8.6 Governing Law; Forum. This Agreement and all obligations created hereunder or required to be created hereby shall be governed by and construed and enforced in accordance with the laws of the State of South Dakota, and the parties consent that the Second Judicial Circuit Court situated in Minnehaha County, South Dakota, or the United States District Court for the District of South Dakota, Southern Division, shall be the exclusive jurisdiction and venue of any disputes relating to this Agreement.

8.7 Notices. All notices required to be given by this Agreement shall be made in writing either by (i) personal delivery to the party requiring notice and securing a written receipt; or (ii) mailing notice in the United States mail to the address of the party requiring notice which

is set forth below, by certified mail, return receipt requested. The effective date of the notice shall be the date of the written receipt or the date of the return receipt, as applicable. The refusal of a party to accept a certified mail letter shall be treated as the delivery of the letter on the date of refusal.

If to Sioux Valley:

Sioux Valley Telephone Company
Attn: Denny Law
P.O. Box 98
Dell Rapids, SD 57022
Telephone: (605) 428-5421
Facsimile: (605) 428-3132

If to Hills:

Hills Telephone Company, Inc.
Attn: Don Snyders
612 3rd Street
P.O. Box 349
Garretson, SD 57030
Telephone: (605) 594-3411
Facsimile: (605) 594-6776

or to such other address as the parties may specify in writing by sending notice thereof to the opposite party.

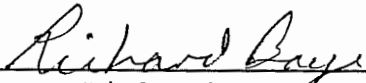
8.8 Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of when duly executed and delivered shall be deemed an original and all of which shall constitute one and the same instrument. This Agreement may be executed and delivered by facsimile, which facsimile signature pages shall be deemed originals.

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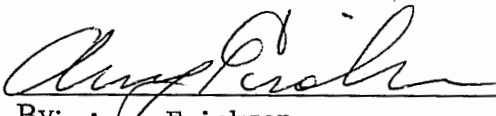
SIGNATURE PAGE FOLLOWS.

WHEREFORE, THE PARTIES HERETO, have executed this Agreement as of the date first written above for the purposes herein contained.

SIOUX VALLEY TELEPHONE
COMPANY


By: Richard Bave
Its: President

HILLS TELEPHONE COMPANY, INC.


By: Amy Erickson
Its: President

AGREEMENT FOR PURCHASE AND SALE OF TELEPHONE EXCHANGE

EXHIBIT B

REAL ESTATE TRANSFERRED

Lots Eight (8), Nine (9), the south 50 feet and the west 23 feet of the north 84 feet of Lot Ten (10), and Lots Eleven (11) and Twelve (12), all in Block Fourteen (14) of the Town of Valley Springs, Minnehaha County, South Dakota.

**MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.**

***FINANCIAL STATEMENTS
SEPTEMBER 30, 2003 AND 2002***

MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.

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Consultants • Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Hills Telephone Company, Inc.
Hills, Minnesota

We have audited the accompanying balance sheets of **Hills Telephone Company, Inc.** as of September 30, 2003 and 2002, and the related statements of income, stockholders' equity and cash flows for the twelve month periods then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Hills Telephone Company, Inc.** as of September 30, 2003 and 2002, and the results of its operations and its cash flows for the twelve month periods 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 December 17, 2003, on our consideration of the company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

EideBailly LLP

December 17, 2003
Sioux Falls, South Dakota

	<u>2003</u>	<u>2002</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 650,000	\$ 80,000
Accounts payable	84,088	98,906
Payable to affiliates	738,340	211,913
Customer deposits	2,760	224
Accrued taxes - income	-	28,968
Accrued taxes - other	16,485	(11,215)
Other current liabilities	78,820	51,141
	<u>1,570,493</u>	<u>459,937</u>
LONG-TERM DEBT, LESS CURRENT MATURITIES	<u>5,638,496</u>	<u>1,479,862</u>
DEFERRED CREDITS	<u>515,631</u>	<u>546,709</u>
STOCKHOLDERS' EQUITY		
Common stock - \$100 par value, 2000 shares authorized, 1,430 shares issued and outstanding	143,000	143,000
Retained earnings	<u>1,741,586</u>	<u>2,454,368</u>
	<u>1,884,586</u>	<u>2,597,368</u>
Total stockholders' equity	<u>\$ 9,609,206</u>	<u>\$ 5,083,876</u>

**MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
STATEMENTS OF INCOME
FOR THE TWELVE MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Local network access	\$ 304,662	\$ 295,681
Network access services	2,720,176	2,589,511
Billing and collection services	25,357	34,592
Miscellaneous revenue	162,269	240,596
Nonregulated revenue	206,524	190,659
Uncollectible revenue	(19,374)	(131,960)
Total operating revenues	<u>3,399,614</u>	<u>3,219,079</u>
OPERATING EXPENSES		
Plant specific operations	398,881	377,372
Plant nonspecific operations	63,927	96,090
Depreciation	458,356	482,706
Customer operations	172,102	196,822
Corporate operations	328,431	229,265
Nonregulated expense	191,919	147,435
Operating taxes, other	57,382	30,271
Total operating expenses	<u>1,670,998</u>	<u>1,559,961</u>
OPERATING INCOME	<u>1,728,616</u>	<u>1,659,118</u>
NONOPERATING INCOME		
Interest and dividend income	31,317	29,467
Equity earnings in partnerships and limited liability companies	201,966	129,190
Total nonoperating income	<u>233,283</u>	<u>158,657</u>
INCOME BEFORE INTEREST EXPENSE AND INCOME TAXES	<u>1,961,899</u>	<u>1,817,775</u>
INTEREST EXPENSE	<u>207,303</u>	<u>135,052</u>
NET INCOME BEFORE INCOME TAXES	<u>1,754,596</u>	<u>1,682,723</u>
INCOME TAXES	<u>704,913</u>	<u>639,923</u>
NET INCOME	<u>\$ - 1,049,683</u>	<u>\$ 1,042,800</u>

MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE TWELVE MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002

	Common Stock		Retained
	Shares	Amount	Earnings
BALANCE, SEPTEMBER 30, 2001	1,430	\$ 143,000	\$ 2,311,568
Net income	-	-	1,042,800
Cash dividends	-	-	(900,000)
BALANCE, SEPTEMBER 30, 2002	1,430	143,000	2,454,368
Net income	-	-	1,049,683
Cash dividends	-	-	(1,762,465)
BALANCE, SEPTEMBER 30, 2003	<u>1,430</u>	<u>\$ 143,000</u>	<u>\$ 1,741,586</u>

MINNESOTA 583

HILLS TELEPHONE COMPANY, INC.

STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTH PERIODS ENDED SEPTEMBER 30, 2003 AND 2002

	2003	2002
OPERATING ACTIVITIES		
Net income	\$ 1,049,683	\$ 1,042,800
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	458,356	482,706
Equity (earnings) in partnerships and limited liability companies	(201,966)	(129,190)
Change in assets and liabilities		
RUS construction fund	4,184	21
Due from customers	39,332	(1,879)
Receivable from affiliates	(142,750)	-
Other accounts receivable	77,941	47,235
Materials and supplies	100,655	(100,655)
Prepaid expenses	15,554	(3,479)
Accounts payable	(14,818)	(164,836)
Payable to affiliates	526,427	203,844
Accrued taxes - income	(28,968)	(4,755)
Accrued taxes - other	27,700	(25,119)
Other accrued liabilities	27,679	(5,664)
Deferred income taxes	(31,078)	(55,371)
NET CASH FROM OPERATING ACTIVITIES	<u>1,907,931</u>	<u>1,285,658</u>
INVESTING ACTIVITIES		
Net additions to plant	(479,594)	(362,481)
(Increase) decrease in other investments	(3,191,676)	143,399
Decrease in other notes receivable	-	73
Decrease (increase) in other assets	39,558	(15,984)
NET CASH FOR INVESTING ACTIVITIES	<u>(3,631,712)</u>	<u>(234,993)</u>
FINANCING ACTIVITIES		
Increase (decrease) in customer deposits	2,536	(700)
Advances on long-term debt	4,811,815	-
Principal payments on long-term debt	(83,181)	(76,637)
Dividends paid	(1,762,465)	(900,000)
NET CASH FOR FINANCING ACTIVITIES	<u>- 2,968,705</u>	<u>(977,337)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,244,924	73,328
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>748,601</u>	<u>675,273</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,993,525</u>	<u>\$ 748,601</u>

MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

The company's primary line of business is to provide local telephone service and access to long-distance telephone service throughout its local exchange network. The principal market for these telecommunications services are local residential and business customers residing in each of the exchanges the company serves.

Basis of accounting

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, including certain accounting practices prescribed by the Federal Communications Commission (FCC) and the state regulatory commissions where the company operates.

Telecommunications and other plant

These assets are stated at cost. The cost of additions to plant includes contracted work, direct labor and materials, 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 replacements and renewal of items determined to be less than units of property are charged to maintenance.

Depreciation

Depreciation is computed using the straight-line method based upon the estimated useful lives of the various classes of property.

Goodwill

The Cooperative has adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under this rule, goodwill and other indefinite lived intangible assets are no longer amortized but are reviewed annually, or sooner if deemed necessary, for impairment.

Investments

Investments are stated at cost in companies that are not intended for resale or readily marketable. The company follows the equity method of accounting for investments in partnerships, limited liability companies, and in 20%-50% owned operating companies.

Revenue recognition

Revenues are recognized when earned. Interstate access service is based on average schedule settlements with the National Exchange Carrier Association. Local and intrastate access services are based on tariffs filed with the state regulatory commissions in Minnesota and Iowa.

Cash and cash equivalents

For purposes of reporting cash flows, the company considers all commercial paper, certificates of deposit and money market funds with an original maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

NOTES TO FINANCIAL STATEMENTS

Accounting estimates

The preparation of financial statements in conformity with accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts receivable

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. The receivables are non interest bearing. Payments on trade receivables are applied to the applicable unpaid invoices. The carrying amount of the trade receivables is reduced by an amount that reflects management's best estimate of the amounts that will not be collected.

Business credit risk

The company provides telephone service on account to its members located in southwestern Minnesota and northwestern Iowa. The company also provides access and billing services on account to various long distance companies which provide toll service to the company's customers.

The company places its cash and temporary cash investments with high credit quality institutions and, by policy, generally limits the amount of exposure at any one financial institution. The accounts at these institutions are generally insured by deposit insurance up to \$100,000. At times during the twelve month period, the company's balances at certain institutions exceeded this limit.

Income taxes and investment tax credits

The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

For financial statement purposes, deferred investment tax credits and excess deferred income taxes relating to depreciation of regulated assets are being amortized as a reduction of the provision for income taxes over the estimated useful or remaining lives of the related property, plant and equipment.

NOTE 2 - SIGNIFICANT TRANSACTIONS AND CHANGE IN OWNERSHIP

Effective July 1, 2003 the company's stock changed ownership. The company had previously been a 100% owned subsidiary of Ollig Utilities Company, a 100% owned subsidiary of Alliance Telecommunications Corporation. The company was split-off from Ollig Utilities Company to a 12% owner of Alliance Telecommunications Corporation; Alliance Communications Cooperative, Inc. Alliance Communications Cooperative, Inc. exchanged its 12% ownership interest in Alliance Telecommunications Corporation for 100% ownership of the Hills Telephone Company stock.

NOTES TO FINANCIAL STATEMENTS

In connection with and prior to the split-off, the company was involved in several significant transactions. The company assumed approximately \$4.8 million of long-term debt from CoBank, which had previously been held by Ollig Utilities. The company acquired an ownership interest in Midwest Wireless Holdings, LLC with a fair market value of approximately \$2.8 million. In connection with the CoBank debt, the company acquired approximately \$513,000 of CoBank stock. These transactions were netted and included in the financial statements as a net dividend to Ollig Utilities. The split-off transaction was done as a tax free exchange under Internal Revenue Code Section 355.

NOTE 3 - RELATED PARTY TRANSACTIONS

Effective January 1, 2003, the company entered into a contract with Alliance Telecommunications Cooperative, Inc. for all its management and operations services. The company paid Alliance Communications Cooperative, Inc., its parent, approximately \$87,000 in 2003 for contracted management and accounting services. The company paid Alliance Communications Cooperative, Inc. approximately \$284,000 in 2003 for direct labor, overhead and transportation and equipment costs. In addition, the parent company billed the company for certain actual expenses attributable to the company such as insurance premiums and legal fees.

Prior to January 1, 2003, the company exchanged goods and services with Ollig Utilities Company, its former parent, and other subsidiary companies of Ollig Utilities Company. The company paid Ollig Utilities Company approximately \$32,000 in 2003 and \$126,000 in 2002 for contracted management and accounting services. The company also paid Ollig Utilities Company \$16,000 in 2003 and \$62,000 in 2002 for data processing services. In addition, Ollig Utilities Company billed the company for certain actual expenses attributable to the company such as insurance premiums and legal fees.

The company had an agreement with Sioux Valley Telephone Company (a subsidiary of Ollig) to provide host-remote facilities. Under the agreement, the company was reimbursed by Sioux Valley Telephone Company for \$4,176 per month through December 31, 2002. In addition, the company was billed by Sioux Valley Telephone Company approximately \$32,000 in 2003 and \$102,000 in 2002 for labor and overheads.

The company was billed approximately \$21,000 in 2002 by Hastad Engineering Co. for engineering services. Hastad Engineering Co. is a subsidiary of Ollig Utilities Company.

The company leased vehicles and construction equipment from Ollig Utilities Company. Payments under these agreements were \$7,338 in 2002.

The company purchased construction services from Loretel Systems, Inc. (a subsidiary of Ollig) in 2001. Payments under this agreement were \$242,699 in 2002.

NOTES TO FINANCIAL STATEMENTS

The intercompany balances with Ollig Utilities Company relate primarily to the company's share of the consolidated income tax liabilities. The details of the intercompany balances at September 30, 2003 and 2002, are as follows:

	<u>2003</u>	<u>2002</u>
Receivable from related parties:		
Alliance Communications Cooperative, Inc.	<u>\$ 142,750</u>	<u>\$ -</u>
	<u>2003</u>	<u>2002</u>
Payable to related parties:		
Ollig Utilities Company	\$ 12,000	\$ 12,000
Alliance Telecommunications Corporation (parent of Ollig)	713,599	186,895
Hector Communications Corporation (parent of		
Alliance Telecommunications Corporation)	2,272	-
Sioux Valley Telephone Company (subsidiary of Ollig)	-	13,018
Loretel Systems, Inc. (subsidiary of Ollig)	<u>10,469</u>	<u>-</u>
	<u>\$ 738,340</u>	<u>\$ 211,913</u>

NOTE 4 - OTHER INVESTMENTS

Other investments consist of the following:

	<u>2003</u>	<u>2002</u>
CoBank - stock	\$ 513,068	\$ -
Iowa Network Services, Inc. (stock at cost)	94,595	94,595
NECA - (stock at cost)	25,000	25,000
Miscellaneous	<u>589</u>	<u>562</u>
	<u>\$ 633,252</u>	<u>\$ 120,157</u>

NOTE 5 - INVESTMENTS IN EQUITY INVESTEES

	<u>2003</u>	<u>2002</u>
Midwest Wireless Holdings, LLC:		
Equity in earnings of investee (.89% ownership)	\$ 1,364,569	\$ -
Goodwill	<u>1,413,402</u>	<u>-</u>
Total Midwest Wireless Holdings, LLC	<u>2,777,971</u>	<u>-</u>
Fibercom, L.C. (12.8% ownership)	- 497,125	432,585
Fibernet Communications, L.C. (12.6% ownership)	<u>541,787</u>	<u>503,751</u>
	<u>\$ 3,816,883</u>	<u>\$ 936,336</u>

NOTES TO FINANCIAL STATEMENTS

Through the split-off from Ollig Utilities, the company acquired a .89% interest in Midwest Wireless Holdings, LLC (Midwest) as of July 1, 2003. The difference between the equity in earnings of the investee and the fair market value of the interest at the time of acquisition is recorded as goodwill. The company recorded income of \$60,930 as its share of Midwest's earnings in 2003.

The company owns 12.8% of Fibernet Communications L.C. (Fibernet) which was formed to provide fiber optic transport facilities. The company recorded income of \$64,540 and \$74,839 in 2003 and 2002, respectively, as its share of Fibernet's earnings.

The company owns 12.6% of Fibercom, L.C. (Fibercom) which was formed to provide competitive local exchange carrier (CLEC) services. The company recorded income of \$76,495 in 2003 and \$90,968 in 2002, as its proportionate share of Fibercom's earnings. In addition, the company has agreed to guarantee its proportionate share of Fibercom's long-term debt which amounts to approximately \$320,000 at September 30, 2003.

Summarized financial information of equity investees as of September 30, 2003 is as follows:

	Midwest Wireless Holdings, LLC	Fibercom, L.C.	Fibernet Communications, L.C.	Total 2003
Revenues	\$ 168,651,000	\$ 4,223,000	\$ 1,219,000	\$ 172,874,000
Expenses	\$ 138,517,000	\$ 3,172,000	\$ 734,000	\$ 141,689,000
Net income	\$ 30,134,000	\$ 1,051,000	\$ 485,000	\$ 31,185,000
Total assets	\$ 325,693,000	\$ 7,406,000	\$ 4,513,000	\$ 333,099,000
Liabilities	\$ 172,492,000	\$ 3,474,000	\$ 286,000	\$ 175,966,000
Equity	\$ 153,201,000	\$ 3,932,000	\$ 4,227,000	\$ 157,133,000

NOTE 6 - PLANT AND EQUIPMENT

	Depreciable Lives	2003	2002
General support	10 - 39 years	\$ 683,304	\$ 674,824
Central office	10	3,374,398	3,312,410
Cable and wire facilities	5 - 20	4,187,780	3,810,674
Nonregulated telecommunications equipment	(fully depreciated)	74,783	71,464
In service		8,320,265	7,869,372
Under construction		20,390	-
		8,340,655	7,869,372
Less accumulated depreciation		(5,799,129)	(5,349,084)
		\$ 2,541,526	\$ 2,520,288

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - NONREGULATED ACTIVITIES

The following is a detailed summary of nonregulated income and expenses:

	<u>2003</u>	<u>2002</u>
Revenue:		
Internet revenue	\$ 182,246	\$ 163,838
Installation and repair revenue	15,329	25,210
Lease of customer premise equipment	6,549	1,611
Other	2,400	-
Total nonregulated revenue	<u>206,524</u>	<u>190,659</u>
Internet expenses	164,345	117,411
Installation and repair expense	23,560	29,635
Other	4,014	389
Total nonregulated expenses	<u>191,919</u>	<u>147,435</u>
Net revenue	<u>\$ 14,605</u>	<u>\$ 43,224</u>

NOTE 8 - LONG-TERM DEBT

	<u>2003</u>	<u>2002</u>
CoBank		
7.67% rate fixed through November 11, 2003 payable in quarterly installments through January 2013	\$ 1,950,973	\$ -
7.61% rate fixed through November 19, 2003 payable in quarterly installments through January 2013	650,324	-
7.45% rate fixed through December 14, 2008 payable in quarterly installments through January 2013	1,300,649	-
7.37% rate fixed through January 28, 2008 payable in quarterly installments through January 2013	260,130	-
2.94% variable rate at September 30, 2003 payable in quarterly installments through January 2013	649,739	-
	<u>4,811,815</u>	<u>-</u>
Rural Utilities Service (RUS) mortgage notes:		
2% notes due in quarterly installments through 2008	14,187	17,429
Rural Telephone Bank (RTB) mortgage notes:		
8.5%, due in quarterly installments through 2021	1,462,494	1,542,433
Total	<u>6,288,496</u>	<u>1,559,862</u>
Less current maturities	<u>650,000</u>	<u>80,000</u>
	<u>\$ 5,638,496</u>	<u>\$ 1,479,862</u>

In connection with the split-off from Ollig Utilities Company, the company incurred \$4,811,815 in long-term debt with CoBank. As a condition to securing the loans, the company acquired investments in CoBank, consisting of purchased stock and allocated patronage. The company's investment in CoBank stock at September 30, 2003 was \$513,068.

NOTES TO FINANCIAL STATEMENTS

The mortgage notes payable to the Rural Utilities Service (RUS) and to the Rural Telephone Bank (RTB) are secured by substantially all assets of the company. The RUS and RTB notes generally mature 35 years from the date of issuance.

During 2002 the company was approved for a new "D" loan with RUS totaling \$8,449,000. No funds have been advanced on this loan.

All loan funds are deposited in the RUS Construction Fund and disbursements are restricted to construction costs and other expenditures authorized by the loan agreement, subject to RUS approval.

RTB Class B stock was purchased pursuant to terms of a mortgage loan agreement with the RTB. The Class B stock will not be redeemed by RTB until all Class A stock has been redeemed.

The CoBank security agreement and the RUS and RTB mortgages place restrictions on dividend payments. At the current time, the company cannot make further dividend distributions. Dividend distributions during the audit periods were made prior to execution of the CoBank debt and were approved by RUS and RTB.

It is estimated that principal repayments on the above debt for the next five twelve month periods will be as follows:

	<u>Total</u>
2004	\$ 650,000
2005	600,000
2006	608,000
2007	618,000
2008	627,000

NOTE 9 - INCOME TAXES AND INVESTMENT TAX CREDITS

Income tax expense consists of the following:

	<u>2003</u>	<u>2002</u>
Current payable	\$ 735,991	\$ 695,294
Deferred	(31,078)	(55,371)
Total income tax provision	<u>704,913</u>	<u>639,923</u>
Allocation of expense related to nonregulated activities	<u>89,245</u>	<u>84,182</u>
Operating income tax expense	<u>\$ 615,668</u>	<u>\$ 555,741</u>

The company is a member of a group that files a consolidated income tax return. The consolidated amount of current and deferred tax expense is allocated to group members based on a method similar to applying SFAS No. 109 to each member of the group on an individual basis.

NOTES TO FINANCIAL STATEMENTS

Net deferred long-term tax liabilities as of September 30, 2003 and 2002, related to the following:

	<u>2003</u>	<u>2002</u>
Depreciation	\$ 374,092	\$ 374,918
Other	<u>141,539</u>	<u>171,791</u>
Total	<u>\$ 515,631</u>	<u>\$ 546,709</u>

NOTE 10 - RETIREMENT PLAN

As of January 1, 2003, the company participates in its parent's pension plan which is a noncontributory pension plan covering substantially all employees. The plan is funded through payments to the National Telephone Cooperative Association, (NTCA) which has established a trustee plan whereby annuities, effective upon retirement, will be available to participants in amounts established by the plan. In this master multiemployer plan, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The total cost to the company of the plan for 2003 was approximately \$8,000 and was charged to expense and other accounts on the basis of payroll distribution.

Previously, the company had a 401(k) Employee Savings Plan and Trust Plan. All employees who met certain age and service requirements were covered under this plan, which had discretionary and nondiscretionary sections.

Contributions from discretionary section were determined annually by the Board of Directors and were allocated based on employee salaries. Company expense for this section of the plan was approximately \$2,000 in 2003 and \$10,000 in 2002.

The nondiscretionary section allowed employees to contribute up to the maximum percentage allowable. The company contributed 100% of the participants first 3% of contributions. Company expense for the nondiscretionary section of the plan was approximately \$1,500 in 2003 and \$6,300 in 2002.

NOTE 11 - SUPPLEMENTAL CASH FLOW DISCLOSURES

	<u>2003</u>	<u>2002</u>
Cash payments for interest	<u>\$ 128,542</u>	<u>\$ 135,041</u>
Cash payments to Ollig Utilities for income taxes	<u>\$ 326,593</u>	<u>\$ 402,100</u>
Cash payments for state income taxes	<u>\$ 24,964</u>	<u>\$ 115,816</u>



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors
Hills Telephone Company, Inc.
Hills, Minnesota

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Except for that portion marked "not audited," on which we express no opinion, such information has been subjected to the auditing procedures applied in the 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.

Eide Bailly LLP

December 17, 2003
Sioux Falls, South Dakota

MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
SCHEDULE OF TELECOMMUNICATIONS PLANT
FOR THE TWELVE MONTH PERIOD ENDED SEPTEMBER 30, 2003

	Balance 10/1/02	Additions	Retirements	Transfers and Adjustments	Balance 9/30/03
General support:					
Organization	\$ 2,572	\$ -	\$ -	\$ -	\$ 2,572
Land	16,409				16,409
Vehicles and other work equipment	241,296	3,180			244,476
Buildings	383,843				383,843
Office equipment and computers	30,704	5,300			36,004
	<u>674,824</u>	<u>8,480</u>	<u>-</u>	<u>-</u>	<u>683,304</u>
Central office:					
Switching	1,664,270	4,183			1,668,453
Circuit equipment - subscriber	225,005	22,732			247,737
Circuit equipment - fiber electronic	1,229,710	35,073			1,264,783
Circuit equipment - other toll	193,425				193,425
	<u>3,312,410</u>	<u>61,988</u>	<u>-</u>	<u>-</u>	<u>3,374,398</u>
Cable and wire facilities:					
Poles	9,737				9,737
Aerial cable	19,166				19,166
Buried cable	3,170,132	283,700	6,499		3,447,333
Buried fiber optic cable	450,304	99,905			550,209
Buried toll cable	56,163				56,163
Buried station connections	39,189				39,189
Conduit systems	65,983				65,983
	<u>3,810,674</u>	<u>383,605</u>	<u>6,499</u>	<u>-</u>	<u>4,187,780</u>
Nonregulated plant	<u>71,464</u>	<u>3,319</u>			<u>74,783</u>
Total telecommunications plant in service	<u>\$ 7,869,372</u>	<u>\$ 457,392</u>	<u>\$ 6,499</u>	<u>\$ -</u>	<u>\$ 8,320,265</u>

<u>Transfers and Adjustments</u>	<u>Balance 9/30/03</u>	<u>Percent to Plant</u>	
\$ -	\$ 241,522	98.79	%
	213,133	55.53	
	30,200	83.88	
<u>-</u>	<u>484,855</u>	<u>72.98</u>	
	1,668,453	100.00	
	132,365	53.43	
	766,795	60.63	
	193,425	100.00	
<u>-</u>	<u>2,761,038</u>	<u>81.82</u>	
	9,737	100.00	
	19,166	100.00	
	2,082,753	60.42	
	287,829	52.31	
	40,441	72.01	
	39,189	99.99	
	6,427	9.74	
<u>-</u>	<u>2,485,542</u>	<u>59.35</u>	
	67,694		
<u>\$ -</u>	<u>\$ 5,799,129</u>	<u>69.86</u>	<u>%</u>

**MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
STATISTICAL AND ANALYTICAL INFORMATION
(NOT AUDITED)**

	12 months Ended					
	September 2003	September 2002	December 2001	December 2000	December 1999	December 1998
ACCESS LINES:						
Residential	2,136	2,154	2,188	2,163	2,096	2,030
Business	618	659	648	626	607	588
Total	2,754	2,813	2,836	2,789	2,703	2,618

TELECOMMUNICATIONS PLANT STATISTICS:

Total investment in service	\$ 8,320,265	\$ 7,869,372	\$ 7,515,492	\$ 7,399,743	\$ 6,944,723	\$ 6,696,812
Total per access line	\$ 3,021	\$ 2,798	\$ 2,775	\$ 2,653	\$ 2,569	\$ 2,558
Total per dollar of operating revenue	\$ 2.45	\$ 2.44	\$ 2.38	\$ 2.49	\$ 2.60	\$ 2.52
Additions to plant	\$ 479,594	\$ 362,481	\$ 101,941	\$ 455,020	\$ 247,911	\$ 942,869
Percent depreciated to date	69.7%	68.0%	65.7%	59.8%	5.6%	51.6%
Composite depreciation rate	5.6%	6.4%	7.1%	7.2%	6.7%	6.8%

FINANCIAL STATISTICS:

Net income per access line	\$ 381	\$ 371	\$ 425	\$ 353	\$ 228	\$ 273
Operating revenues per access line	\$ 1,234	\$ 1,144	\$ 1,085	\$ 1,063	\$ 988	\$ 1,015
Net income to equity	40.4%	40.1%	45.2%	33.5%	19.4%	20.6%
Equity to total assets	19.6%	51.1%	51.5%	51.7%	54.0%	55.8%
Debt to total assets	65.4%	30.7%	30.7%	32.8%	32.3%	32.0%
Cost of long-term debt	7.6%	8.5%	9.1%	8.4%	8.4%	8.4%
Current ratio	1.4/1.0	2.85/1.0	5.2/1.0	5.4/1.0	4.3/1.0	4.2/1.0
Times interest earned ratio	6.1	8.7	9.0	7.8	5.1	5.6

SUMMARY OF STATEMENT OF INCOME:

Local network revenue	\$ 304,662	\$ 295,681	\$ 298,912	\$ 289,277	\$ 278,339	\$ 263,718
Network access revenue	2,720,176	2,589,511	2,671,345	2,551,609	2,222,090	2,211,538
Other revenue	374,776	333,887	453,842	125,019	169,618	182,052
Total operating revenues	3,399,614	3,219,079	3,424,099	2,965,905	2,670,047	2,657,308
Total operating expenses	1,670,998	1,559,961	1,628,133	1,381,341	1,371,338	1,200,335
Operating income	1,728,616	1,659,118	1,795,966	1,584,564	1,298,709	1,456,973
Other income (loss), net	233,283	158,657	285,079	217,605	(154,474)	(25,457)
Interest expense	(207,303)	(135,052)	(151,074)	(145,475)	(150,745)	(155,545)
Income taxes	(704,913)	(639,923)	(724,923)	(673,262)	(378,083)	(562,215)
Net income	\$ 1,049,683	\$ 1,042,800	\$ 1,205,048	\$ 983,432	\$ 615,407	\$ 713,756

**BOOK VALUE PER SHARE OF
COMMON STOCK**

\$ 1,318	\$ 1,816	\$ 1,897	\$ 1,862	\$ 2,056	\$ 2,220
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors
Hills Telephone Company, Inc.
Hills, Minnesota

We have audited the financial statements of **Hills Telephone Company, Inc.** as of and for the twelve month period ended September 30, 2003, and have issued our report thereon dated December 17, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether **Hills Telephone Company, Inc.**'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Hills Telephone Company, Inc.**'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our 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 and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, the Rural Utilities Service and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

EideBailly LLP

December 17, 2003
Sioux Falls, South Dakota



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MANAGEMENT LETTER

The Board of Directors
Hills Telephone Company, Inc.
Hills, Minnesota

We have audited the financial statements of **Hills Telephone Company, Inc.** for the twelve month period ended September 30, 2003, and have issued our report thereon dated December 17, 2003. 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, 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, we considered **Hills Telephone Company, Inc.'s** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an 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 the specific internal control over financial reporting 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 and its operation that we consider to be a material weakness.

Code of Federal Regulations 7 CFR Part 1773.33 requires comments on specific aspects of the internal control structure 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 structure over financial reporting, of compliance with specific RUS loan and security instrument provisions and of additional matters. The specific aspects of the internal control structure 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 Part 1773.33(e)(2), related party transactions and investments. The additional matters tested also include a schedule of deferred debits and credits, upon which we express an opinion. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. Our objective was not to provide an opinion on these specific aspects of the internal control structure over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters and, accordingly, we express no opinion thereon.

No reports (other than our independent auditor's report, and our independent auditor's report on compliance and on internal control over financial reporting, all dated December 17, 2003) or summary of recommendations related to our audit have been furnished to management.

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

Comments On Certain Specific Aspects Of The Internal Control Structure

We noted no matters regarding **Hills Telephone Company, Inc.**'s internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

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

Comments On Compliance With Specific RUS Loan Security Instrument Provisions

Management's responsibility for compliance with laws, regulations, contracts, and grants is set forth in our independent auditor's report on compliance dated December 17, 2003. At your request, we have performed the following procedures with respect to compliance with certain provisions of laws, regulations contracts, and grants. The procedures we performed are summarized as follows:

- o Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement or lease between the borrower and an affiliate for the twelve month period ended September 30, 2003:
 - Obtained from management, representations that there were no new contracts, agreements or leases entered into during the twelve month period ended September 30, 2003, between the borrower and the affiliate as defined in 1773.33(e)(2)(i); and,
 - Reviewed Board of Director minutes to ascertain there were no such contracts entered into during the twelve month period ended September 30, 2003, between the borrower and an affiliate.

- o Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:
 - Agreed amounts reported in Form 479 to **Hills Telephone Company, Inc.**'s records.

The results of our tests indicate that, with respect to the items tested, **Hills Telephone Company, Inc.** complied, in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to our attention that caused us to believe that **Hills Telephone Company, Inc.** had not complied, in all material respects, with those provisions. The specific provisions tested include the requirements that:

- The borrower has obtained written approval of the RUS (and other mortgagees) to enter into any contract, agreement or lease with an affiliate as defined in 7 CFR Part 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, 2002, as represented by the company as having been submitted to RUS, is in agreement with **Hills Telephone Company, Inc.**'s records in all material respects and appears reasonable based on audit procedures performed.

Comments On Other Additional Matters

In connection with our audit of the financial statements of **Hills Telephone Company, Inc.**, nothing came to our attention that caused us to believe that **Hills Telephone Company, Inc.** failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR Part 1773.33(c)(3) and (4);
- The approval of sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material or scrap addressed at 7 CFR Part 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 twelve month period ended September 30, 2003, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(e); and,
- The detailed schedule of investments.

Our audit was made for the purposes of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments required by 7CFR Part 1773.33(i), and provided below, is presented for the 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

	<u>12.62% equity ownership in Fibercom, L.C.</u>	<u>12.82% equity ownership in Fibernet Communications, L.C.</u>	<u>.89% equity ownership in Midwest Wireless Holdings, LLC</u>
Book value of investment as of September 30, 2001	\$ 469,903	\$ 451,243	\$ -
Investment advances during twelve month period ended September 30, 2002			-
Distributions during the twelve month period ended September 30, 2002	(75,540)	(38,460)	-
Earnings during twelve month period ended September 30, 2002	<u>38,222</u>	<u>90,968</u>	<u>-</u>
Book value of investment as of September 30, 2002	432,585	503,751	-
Investment advances during twelve month period ended September 30, 2003	-	-	2,717,041
Distributions during the twelve month period ended September 30, 2003	-	(38,460)	-
Earnings during twelve month period ended September 30, 2003	<u>64,540</u>	<u>76,496</u>	<u>60,930</u>
Book value of investment as of September 30, 2003	<u>\$ 497,125</u>	<u>\$ 541,787</u>	<u>\$ 2,777,971</u>

This report is intended solely for the information and use of the board of directors, management, the Rural Utilities Service and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailey LLP

December 17, 2003
Sioux Falls, South Dakota

**MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.**

***FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001***

MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Hills Telephone Company, Inc.
Hills, Minnesota

We have audited the accompanying balance sheets of **Hills Telephone Company, Inc.** as of December 31, 2002 and 2001, and the related statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Hills Telephone Company, Inc.** as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2003, on our consideration of the company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Eide Bailly LLP

February 6, 2003
Sioux Falls, South Dakota

	<u>2002</u>	<u>2001</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 82,000	\$ 78,300
Accounts payable	82,553	94,945
Payable to affiliates	423,080	23,140
Customer deposits	186	849
Accrued taxes	27,657	24,591
Other current liabilities	44,565	63,580
Total current liabilities	<u>660,041</u>	<u>285,405</u>
LONG-TERM DEBT, LESS CURRENT MATURITIES	<u>1,457,972</u>	<u>1,539,909</u>
DEFERRED CREDITS	<u>484,411</u>	<u>733,604</u>
STOCKHOLDERS' EQUITY		
Common stock - \$100 par value, 2000 shares authorized, 1,430 shares issued and outstanding	143,000	143,000
Retained earnings	<u>2,670,313</u>	<u>2,569,467</u>
Total stockholders' equity	<u>2,813,313</u>	<u>2,712,467</u>
	<u>\$ 5,415,737</u>	<u>\$ 5,271,385</u>

**MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
OPERATING REVENUES		
Local network access	\$ 296,426	\$ 298,912
Network access services	2,601,653	2,671,345
Billing and collection services	31,446	44,089
Miscellaneous revenue	70,805	68,194
Nonregulated revenue	358,894	348,106
Uncollectible revenue	<u>(163,427)</u>	<u>(6,547)</u>
Total operating revenues	<u>3,195,797</u>	<u>3,424,099</u>
OPERATING EXPENSES		
Plant specific operations	349,286	424,841
Plant nonspecific operations	102,691	96,790
Depreciation	501,642	525,090
Customer operations	188,278	190,712
Corporate operations	228,851	213,276
Nonregulated expense	172,717	130,111
Operating taxes, other	<u>57,382</u>	<u>47,313</u>
Total operating expenses	<u>1,600,847</u>	<u>1,628,133</u>
OPERATING INCOME	<u>1,594,950</u>	<u>1,795,966</u>
NONOPERATING INCOME		
Interest and dividend income	30,352	34,606
Equity earnings in partnerships and limited liability companies	<u>51,546</u>	<u>250,473</u>
Total nonoperating income	<u>81,898</u>	<u>285,079</u>
INCOME BEFORE INTEREST EXPENSE AND INCOME TAXES	<u>1,676,848</u>	<u>2,081,045</u>
INTEREST EXPENSE	<u>133,465</u>	<u>151,074</u>
NET INCOME BEFORE INCOME TAXES	<u>1,543,383</u>	<u>1,929,971</u>
INCOME TAXES	<u>642,537</u>	<u>724,923</u>
NET INCOME	<u>\$ -900,846</u>	<u>\$ 1,205,048</u>

**MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	Common Stock		Retained
	Shares	Amount	Earnings
BALANCE, JANUARY 1, 2001	\$ 1,430	\$ 143,000	\$ 2,520,207
Net income			1,205,048
Cash dividends			(1,155,788)
BALANCE, DECEMBER 31, 2001	1,430	143,000	2,569,467
Net income			900,846
Cash dividends			(800,000)
BALANCE, DECEMBER 31, 2002	<u>\$ 1,430</u>	<u>\$ 143,000</u>	<u>\$ 2,670,313</u>

MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
OPERATING ACTIVITIES		
Net income	\$ 900,846	\$ 1,205,048
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	505,597	525,090
Equity (earnings) in partnerships and limited liability companies	(51,546)	(250,473)
Change in assets and liabilities		
RUS construction fund	21	
Due from customers	(1,273)	4,078
Receivable from affiliates		20,226
Other accounts receivable	(65,276)	107,015
Prepaid expenses	(3,290)	(1,790)
Prepaid income taxes	31,740	45,399
Accounts payable	(12,392)	(17,377)
Payable to affiliates	399,940	17,750
Accrued taxes	3,066	(542)
Other accrued liabilities	(19,015)	8,924
Deferred investment tax credits	-	-
Deferred income taxes	(249,193)	131,524
NET CASH FROM OPERATING ACTIVITIES	<u>1,439,225</u>	<u>1,794,872</u>
INVESTING ACTIVITIES		
Net additions to plant	(723,856)	(101,941)
Decrease (increase) in other investments	67,861	(199,501)
Decrease (increase) in other notes receivable	73	(14,936)
(Increase) in other assets	(3,504)	(36,147)
NET CASH FOR INVESTING ACTIVITIES	<u>(659,426)</u>	<u>(352,525)</u>
FINANCING ACTIVITIES		
(Decrease) in customer deposits	(663)	(150)
Principal payments on long-term debt	(78,237)	(72,080)
Dividends paid	(800,000)	(1,155,788)
NET CASH FOR FINANCING ACTIVITIES	<u>(878,900)</u>	<u>(1,228,018)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(99,101)	214,329
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,020,176</u>	<u>805,847</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 921,075</u>	<u>\$ 1,020,176</u>

MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

The company's primary line of business is to provide local telephone service and access to long-distance telephone service throughout its local exchange network. The principal market for these telecommunications services are local residential and business customers residing in each of the exchanges the company serves.

Basis of accounting

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, including certain accounting practices prescribed by the Federal Communications Commission (FCC) and the state regulatory commissions where the company operates.

Telecommunications and other plant

These assets are stated at cost. The cost of additions to plant includes contracted work, direct labor and materials, 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 replacements and renewal of items determined to be less than units of property are charged to maintenance.

Depreciation

Depreciation is computed using the straight-line method based upon the estimated useful lives of the various classes of property.

Investments

Investments are stated at cost in companies that are not intended for resale or readily marketable. The company follows the equity method of accounting for investments in partnerships, limited liability companies, and in 20%-50% owned operating companies.

Revenue recognition

Revenues are recognized when earned. Interstate access service is based on average schedule settlements with the National Exchange Carrier Association. Local and intrastate access services are based on tariffs filed with the state regulatory commissions in Minnesota and Iowa.

Cash and cash equivalents

For purposes of reporting cash flows, the company considers all commercial paper, certificates of deposit and money market funds with an original maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

NOTES TO FINANCIAL STATEMENTS

Accounting estimates

The preparation of financial statements in conformity with accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts receivable

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. The receivables are non interest bearing. Payments on trade receivables are applied to the applicable unpaid invoices. The carrying amount of the trade receivables is reduced by an amount that reflects management's best estimate of the amounts that will not be collected.

Business credit risk

The company provides telephone service on account to its members located in southwestern Minnesota and northwestern Iowa. The company also provides access and billing services on account to various long distance companies which provide toll service to the company's customers.

The company places its cash and temporary cash investments with high credit quality institutions and, by policy, generally limits the amount of exposure at any one financial institution. The accounts at these institutions are generally insured by deposit insurance up to \$100,000. At times during the year, the company's balances at certain institutions exceeded this limit.

Income taxes and investment tax credits

The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

For financial statement purposes, deferred investment tax credits and excess deferred income taxes relating to depreciation of regulated assets are being amortized as a reduction of the provision for income taxes over the estimated useful or remaining lives of the related property, plant and equipment.

NOTE 2 - RELATED PARTY TRANSACTIONS

The company exchanges goods and services with Ollig Utilities Company, its parent, and other subsidiary companies of Ollig Utilities Company. The company paid Ollig Utilities Company \$126,000 in 2002 and \$126,000 in 2001 for contracted management and accounting services. The company also paid Ollig Utilities Company \$62,340 in 2002 and \$62,340 in 2001 for data processing services. In addition, Ollig Utilities Company bills the company for certain actual expenses attributable to the company such as insurance premiums and legal fees.

NOTES TO FINANCIAL STATEMENTS

The company has an agreement with Sioux Valley Telephone Company to provide host-remote facilities. Under the agreement, the company is reimbursed by Sioux Valley Telephone Company for \$4,176 per month. In addition, the company was billed by Sioux Valley Telephone Company \$102,274 in 2002 and \$43,472 in 2001 for labor and overheads.

The company was billed \$77,238 in 2002 and \$70,121 in 2001 by Hastad Engineering Co. for engineering services. Hastad Engineering Co. is a subsidiary of Ollig Utilities Company.

The company leases vehicles and construction equipment from Ollig Utilities Company. Payments under these agreements were \$7,338 and \$42,916 in 2002 and 2001, respectively.

The company began purchasing construction services from Loretel Systems, Inc. in 2001. Payments under this agreement were \$242,699 in 2002 and \$75,336 in 2001.

The intercompany balances with Ollig Utilities Company relate primarily to the company's share of the consolidated income tax liabilities. The details of the intercompany balances at December 31, 2002 and 2001, are as follows:

	<u>2002</u>	<u>2001</u>
Payable to affiliates:		
Ollig Utilities Company	\$ 12,000	\$ 12,806
Alliance Communications Corporation	159,636	
Hector Communications Corporation	2,272	
Sioux Valley Telephone Company	6,563	10,323
Loretel Systems, Inc.	242,609	11
	<u>\$ 423,080</u>	<u>\$ 23,140</u>

NOTE 3 - OTHER INVESTMENTS

Other investments consist of the following:

	<u>2002</u>	<u>2001</u>
Iowa Network Services, Inc. (stock at cost)	\$ 94,595	\$ 94,595
Fibercom, L.C. (at equity)	397,795	451,060
Fibernet Communications, L.C. (at equity)	495,262	428,912
Wireless North LLC (at equity)	-	-
NECA - (stock at cost)	25,000	25,000
Miscellaneous	562	562
	<u>\$ 1,013,214</u>	<u>\$ 1,000,129</u>

The company owns 12.8% of Fibernet Communications L.C. (Fibernet) which was formed to provide fiber optic transport facilities. The company recorded income of \$104,810 and \$85,408 in 2002 and 2001, respectively, as its share of Fibernet's 2002 and 2001 earnings.

The company owns 12.6% of Fibercom, L.C. (Fibercom) which was formed to provide competitive local exchange carrier (CLEC) services. The company recorded a loss of \$53,625 in 2002 and income of 75,612 in 2001, as its proportionate share of Fibercom's 2002 and 2001 earnings. In addition, the company has agreed to guarantee its proportionate share of Fibercom's long-term debt which amounts to \$250,000 at December 31, 2002.

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

Wireless North LLC was formed to provide personal communication services in several communities in Minnesota and North Dakota. As part of the company's investment in Wireless North LLC, the company, along with other members, agreed to guarantee the debt of Wireless North LLC. The company's portion of the guarantee consisted of 4.09% of Wireless North's outstanding debt. In 2001, the company paid \$313,501 of the liability under the guarantee, or 4.09% of Wireless North's outstanding debt. The payment of the guarantee eliminated the investment and any future liabilities associated with the investment in Wireless North. The company's share of net losses was \$10,547 in 2001.

The company's other investments are recorded at cost as they are not readily marketable.

NOTE 4 - NONREGULATED ACTIVITIES

The following is a detailed summary of nonregulated income and expenses:

	<u>2002</u>	<u>2001</u>
Revenue:		
Internet revenue	\$ 168,521	\$ 152,985
Lease of transport facilities	160,617	164,584
Installation and repair revenue	25,847	28,155
Lease of customer premise equipment	1,509	1,925
Other	2,400	457
Total nonregulated revenue	<u>358,894</u>	<u>348,106</u>
Internet expenses	133,359	104,570
Installation and repair expense	34,205	22,225
Other	5,153	3,316
Total nonregulated expenses	<u>172,717</u>	<u>130,111</u>
Net revenue	<u>\$ 186,177</u>	<u>\$ 217,995</u>

NOTE 5 - PLANT AND EQUIPMENT

	Depreciable Lives	<u>2002</u>	<u>2001</u>
General support	10 - 39 years	\$ 674,824	\$ 618,160
Central office	10	3,332,251	3,053,255
Cable and wire facilities	5 - 20	4,187,779	3,773,113
Nonregulated telecommunications	-	71,465	70,964
In service		<u>8,266,319</u>	<u>7,515,492</u>
Less accumulated depreciation		<u>(5,490,591)</u>	<u>(4,958,023)</u>
		<u>\$ 2,775,728</u>	<u>\$ 2,557,469</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT

	2002	2001
Rural Utilities Service (RUS) mortgage notes:		
2% notes due in quarterly installments through 2008	\$ 16,625	\$ 19,818
Rural Telephone Bank (RTB) mortgage notes:		
8.5%, due in quarterly installments through 2021	1,523,347	1,598,391
Total	<u>1,539,972</u>	<u>1,618,209</u>
Less current maturities	<u>82,000</u>	<u>78,300</u>
	<u>\$ 1,457,972</u>	<u>\$ 1,539,909</u>

The mortgage notes payable to the Rural Utilities Service (RUS) and to the Rural Telephone Bank (RTB) are secured by substantially all assets of the company. The RUS and RTB notes generally mature 35 years from the date of issuance.

All loan funds are deposited in the RUS Construction Fund and disbursements are restricted to construction costs and other expenditures authorized by the loan agreement, subject to RUS approval. The RUS mortgage contracts restrict the payment of dividends and redemptions of equity capital. The allowable distribution of retained earnings at December 31, 2002, was approximately \$647,000.

RTB Class B stock was purchased pursuant to terms of a mortgage loan agreement with the RTB. The Class B stock will not be redeemed by RTB until all Class A stock has been redeemed.

It is estimated that principal repayments on the above debt for the next five years will be as follows:

	Total
2003	\$ 82,000
2004	89,000
2005	97,000
2006	105,000
2007	114,000

NOTE 7 - INCOME TAXES AND INVESTMENT TAX CREDITS

Income tax expense consists of the following:

	2002	2001
Current payable	\$ 891,730	\$ 593,399
Deferred	(249,193)	131,524
Total income tax provision	<u>642,537</u>	<u>724,923</u>
Allocation of expense related to nonregulated activities	<u>108,484</u>	<u>203,584</u>
Operating income tax expense	<u>\$ 534,053</u>	<u>\$ 521,339</u>

The company is a member of a group that files a consolidated income tax return. The consolidated amount of current and deferred tax expense is allocated to group members based on a method similar to applying SFAS No. 109 to each member of the group on an individual basis.

NOTES TO FINANCIAL STATEMENTS

Net deferred long-term tax liabilities and (assets) as of December 31, 2002 and 2001, related to the following:

	<u>2002</u>	<u>2001</u>
Depreciation	\$ 390,159	\$ 329,196
Other	<u>94,252</u>	<u>404,408</u>
Total	<u>\$ 484,411</u>	<u>\$ 733,604</u>

NOTE 8 - RETIREMENT PLAN

The company sponsors a 401(k) Employee Savings Plan and Trust Plan. All employees who meet certain age and service requirements are covered under this plan, which contains discretionary and nondiscretionary sections.

Contributions from discretionary section are determined annually by the Board of Directors and are allocated based on employee salaries. Company expense for this section of the plan was \$9,347 in 2002 and \$11,042 in 2001.

The nondiscretionary section allows employees to contribute up to the maximum percentage allowable. The company contributes 100% of the participants first 3% of contributions. Company expense for the nondiscretionary section of the plan was \$5,603 in 2002 and \$7,026 in 2001.

NOTE 9 - SUPPLEMENTAL CASH FLOW DISCLOSURES

	<u>2002</u>	<u>2001</u>
Cash payments for interest	<u>\$ 133,465</u>	<u>\$ 151,074</u>
Cash payments to Ollig Utilities for income taxes	<u>\$ 558,700</u>	<u>\$ 440,000</u>
Cash payments for state income taxes	<u>\$ 140,816</u>	<u>\$ 118,000</u>



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors
Hills Telephone Company, Inc.
Hills, Minnesota

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Except for that portion marked "not audited," on which we express no opinion, such information has been subjected to the auditing procedures applied in the 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.

Eide Bailly LLP

February 6, 2003
Sioux Falls, South Dakota

**MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
SCHEDULE OF TELECOMMUNICATIONS PLANT
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Balance 1/1/02	Additions	Retirements	Transfers and Adjustments	Balance 12/31/02
General support:					
Organization	\$ 2,572	\$ -	\$ -	\$ -	\$ 2,572
Land	16,409				16,409
Other work equipment	182,596	31,153	1,269	28,816	241,296
Buildings	381,561	4,783	2,500		383,844
Office equipment	35,022	1,054		(5,373)	30,703
	<u>618,160</u>	<u>36,990</u>	<u>3,769</u>	<u>23,443</u>	<u>674,824</u>
Central office:					
Switching	1,584,418	38,601		45,434	1,668,453
Circuit equipment - subscriber	209,534	20,343		(1,096)	228,781
Circuit equipment - fiber electronic	1,027,149	214,443			1,241,592
Circuit equipment - other toll	232,154	236		(38,965)	193,425
	<u>3,053,255</u>	<u>273,623</u>	<u>-</u>	<u>5,373</u>	<u>3,332,251</u>
Cable and wire facilities:					
Poles	9,737				9,737
Aerial cable	19,166				19,166
Buried cable	3,116,319	333,534	6,499	3,977	3,447,331
Buried fiber optic cable	466,556	87,681	50	(3,977)	550,210
Buried toll cable	56,163				56,163
Buried station connections	39,189				39,189
Conduit systems	65,983				65,983
	<u>3,773,113</u>	<u>421,215</u>	<u>6,549</u>	<u>-</u>	<u>4,187,779</u>
Nonregulated plant	<u>70,964</u>	<u>501</u>			<u>71,465</u>
Total telecommunications plant in service	<u>\$ 7,515,492</u>	<u>\$ 732,329</u>	<u>\$ 10,318</u>	<u>\$ 28,816</u>	<u>\$ 8,266,319</u>

<u>Transfers and Adjustments</u>	<u>Balance 12/31/02</u>	<u>Percent to Plant</u>	
\$ 28,816	\$ 225,475	93.44	%
	205,649	53.58	
	29,281	95.37	
<u>28,816</u>	<u>460,405</u>	<u>70.20</u>	
	1,652,286	99.03	
	114,801	50.18	
	673,675	54.26	
	187,576	96.98	
<u>-</u>	<u>2,628,338</u>	<u>78.88</u>	
	12,171	125.00	
	20,816	108.61	
	1,953,479	56.67	
	267,196	48.56	
	38,335	68.26	
	39,189	99.99	
	3,952	5.99	
<u>-</u>	<u>2,335,138</u>	<u>55.76</u>	
	66,710		
<u>\$ 28,816</u>	<u>\$ 5,490,591</u>	<u>66.57</u>	<u>%</u>

MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
STATISTICAL AND ANALYTICAL INFORMATION
FOR THE YEARS ENDED DECEMBER 31
(NOT AUDITED)

	2002	2001	2000	1999	1998	1997
ACCESS LINES:						
Residential	2,151	2,188	2,163	2,096	2,030	1,955
Business	677	648	626	607	588	567
Total	2,828	2,836	2,789	2,703	2,618	2,522

TELECOMMUNICATIONS PLANT STATISTICS:

Total investment in service	\$8,266,319	\$7,515,492	\$7,399,743	\$6,944,723	\$6,696,812	\$5,754,997
Total per access line	\$ 2,923	\$ 2,650	\$ 2,653	\$ 2,569	\$ 2,558	\$ 2,282
Total per dollar of operating revenue	\$ 2.59	\$ 2.19	\$ 2.49	\$ 2.60	\$ 2.52	\$ 1.79
Additions to plant	\$ 723,856	\$ 101,941	\$ 455,020	\$ 247,911	\$ 942,869	\$ 248,580
Percent depreciated to date	66.4%	65.7%	59.8%	5.6%	51.6%	52.8%
Composite depreciation rate	6.4%	7.1%	7.2%	6.7%	6.8%	6.7%

FINANCIAL STATISTICS:

Net income per access line	\$ 319	\$ 425	\$ 353	\$ 228	\$ 273	\$ 462
Operating revenues per access line	\$ 1,130	\$ 1,085	\$ 1,063	\$ 988	\$ 1,015	\$ 1,273
Net income to equity	33.2%	45.2%	33.5%	19.4%	20.6%	41.4%
Equity to total assets	51.9%	51.5%	51.7%	54.0%	55.8%	58.2%
Debt to total assets	28.4%	30.7%	32.8%	32.3%	32.0%	31.5%
Cost of long-term debt	8.5%	9.1%	8.4%	8.4%	8.4%	8.8%
Current ratio	2.2/1.0	5.2/1.0	5.4/1.0	4.3/1.0	4.2/1.0	9.9/1.0
Times interest earned ratio	7.7	9.0	7.8	5.1	5.6	7.9

SUMMARY OF STATEMENT OF INCOME:

Local network revenue	\$ 296,426	\$ 298,912	\$ 289,277	\$ 278,339	\$ 263,718	\$ 246,922
Network access revenue	2,601,653	2,671,345	2,551,609	2,222,090	2,211,538	2,789,470
Other revenue	297,718	453,842	125,019	169,618	182,052	174,103
Total operating revenues	3,195,797	3,424,099	2,965,905	2,670,047	2,657,308	3,210,495
Total operating expenses	1,600,847	1,628,133	1,381,341	1,371,338	1,200,335	1,194,423
Operating income	1,594,950	1,795,966	1,584,564	1,298,709	1,456,973	2,016,072
Other income (loss), net	81,898	285,079	217,605	(154,474)	(25,457)	40,270
Interest expense	(133,465)	(151,074)	(145,475)	(150,745)	(155,545)	(169,243)
Income taxes	(642,537)	(724,923)	(673,262)	(378,083)	(562,215)	(719,591)
Net income	\$ 900,846	\$ 1,205,048	\$ 983,432	\$ 615,407	\$ 713,756	\$ 1,167,508

**BOOK VALUE PER SHARE OF
COMMON STOCK**

	\$ 1,967	\$ 1,897	\$ 1,862	\$ 2,056	\$ 2,220	\$ 2,420
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors
Hills Telephone Company, Inc.
Hills, Minnesota

We have audited the financial statements of **Hills Telephone Company, Inc.** as of and for the year ended December 31, 2002, and have issued our report thereon dated February 6, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether **Hills Telephone Company, Inc.**'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Hills Telephone Company, Inc.**'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our 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 and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, the Rural Utilities Service and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

EideBailly LLP

February 6, 2003
Sioux Falls, South Dakota



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MANAGEMENT LETTER

The Board of Directors
Hills Telephone Company, Inc.
Hills, Minnesota

We have audited the financial statements of **Hills Telephone Company, Inc.** for the year ended December 31, 2002, and have issued our report thereon dated February 6, 2003. 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, 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, we considered **Hills Telephone Company, Inc.**'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an 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 the specific internal control over financial reporting 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 and its operation that we consider to be a material weakness.

Code of Federal Regulations 7 CFR Part 1773.33 requires comments on specific aspects of the internal control structure 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 structure over financial reporting, of compliance with specific RUS loan and security instrument provisions and of additional matters. The specific aspects of the internal control structure 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 Part 1773.33(e)(2), related party transactions and investments. The additional matters tested also include a schedule of deferred debits and credits, upon which we express an opinion. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-45. Our objective was not to provide an opinion on these specific aspects of the internal control structure over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters and, accordingly, we express no opinion thereon.

No reports (other than our independent auditor's report, and our independent auditor's report on compliance and on internal control over financial reporting, all dated February 6, 2003) or summary of recommendations related to our audit have been furnished to management.

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

Comments On Certain Specific Aspects Of The Internal Control Structure

We noted no matters regarding **Hills Telephone Company, Inc.**'s internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

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

Comments On Compliance With Specific RUS Loan Security Instrument Provisions

Management's responsibility for compliance with laws, regulations, contracts, and grants is set forth in our independent auditor's report on compliance dated February 6, 2003. At your request, we have performed the following procedures with respect to compliance with certain provisions of laws, regulations contracts, and grants. The procedures we performed are summarized as follows:

- o Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement or lease between the borrower and an affiliate for the year ended December 31, 2002:
 - Obtained from management, representations that there were no new contracts, agreements or leases entered into during the year ended December 31, 2002, between the borrower and the affiliate as defined in 1773.33(e)(2)(i); and,
 - Reviewed Board of Director minutes to ascertain there were no such contracts entered into during the year ended December 31, 2002, between the borrower and an affiliate.

- o Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:
 - Agreed amounts reported in Form 479 to **Hills Telephone Company, Inc.**'s records.

The results of our tests indicate that, with respect to the items tested, **Hills Telephone Company, Inc.** complied, in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to our attention that caused us to believe that **Hills Telephone Company, Inc.** had not complied, in all material respects, with those provisions. The specific provisions tested include the requirements that:

- The borrower has obtained written approval of the RUS (and other mortgagees) to enter into any contract, agreement or lease with an affiliate as defined in 7 CFR Part 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, 2002, as represented by the company as having been submitted to RUS, is in agreement with **Hills Telephone Company, Inc.**'s records in all material respects and appears reasonable based on audit procedures performed.

Comments On Other Additional Matters

In connection with our audit of the financial statements of **Hills Telephone Company, Inc.**, nothing came to our attention that caused us to believe that **Hills Telephone Company, Inc.** failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR Part 1773.33(c)(3) and (4);
- The approval of sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material or scrap addressed at 7 CFR Part 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, 2002, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(e); and,
- The detailed schedule of investments.

Detailed Schedule of Investments

Our audit was made for the purposes of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments required by 7CFR Part 1773.33(i), and provided below, is presented for the 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.

	12.62% equity ownership in Fibercom, L.C.	12.82% equity ownership in Fibernet Communications, L.C.	4.09% equity ownership in Wireless North LLC
Book value of investment as of December 31, 2001	\$ 350,988	\$ 381,964	\$ (302,954)
Investment advances during twelve month period ended December 31, 2001			302,954
Distributions during the twelve month period ended December 31, 2001	(75,540)	(38,460)	-
Earnings during twelve month period ended December 31, 2001	<u>175,612</u>	<u>85,408</u>	<u>-</u>
Book value of investment as of December 31, 2001	451,060	428,912	-
Investment advances during twelve month period ended December 31, 2002	-	-	-
Distributions during the twelve month period ended December 31, 2002	-	(38,460)	-
Earnings during twelve month period ended December 31, 2002	<u>(53,265)</u>	<u>104,810</u>	<u>-</u>
Book value of investment as of December 31, 2002	<u>\$ 397,795</u>	<u>\$ 495,262</u>	<u>\$ -</u>

This report is intended solely for the information and use of the board of directors, management, the Rural Utilities Service and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

February 6, 2003
Sioux Falls, South Dakota

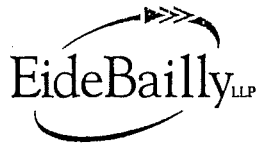
**MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.**

***FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000***

MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Hills Telephone Company, Inc.
Hills, Minnesota

We have audited the accompanying balance sheets of **Hills Telephone Company, Inc.** as of December 31, 2001 and 2000, and the related statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Hills Telephone Company, Inc.** as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2002, on our consideration of the company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Eide Bailly LLP

February 15, 2002
Sioux Falls, South Dakota

	<u>2001</u>	<u>2000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 78,300	\$ 72,200
Accounts payable	94,945	112,322
Payable to affiliates	23,140	5,390
Customer deposits	849	999
Accrued taxes	24,591	25,133
Other current liabilities	63,580	54,656
	<u>285,405</u>	<u>270,700</u>
LONG-TERM DEBT, LESS CURRENT MATURITIES	<u>1,539,909</u>	<u>1,618,089</u>
DEFERRED CREDITS	<u>733,604</u>	<u>602,080</u>
STOCKHOLDERS' EQUITY		
Common stock - \$100 par value, 2000 shares authorized, 1,430 shares issued and outstanding	143,000	143,000
Retained earnings	<u>2,569,467</u>	<u>2,520,207</u>
	<u>2,712,467</u>	<u>2,663,207</u>
Total stockholders' equity	<u>\$ 5,271,385</u>	<u>\$ 5,154,076</u>

**MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
OPERATING REVENUES		
Local network access	\$ 298,912	\$ 289,277
Network access services	2,671,345	2,551,609
Billing and collection services	44,089	59,827
Miscellaneous revenue	68,194	62,342
Uncollectible revenue	(6,547)	2,850
	<u>3,075,993</u>	<u>2,965,905</u>
OPERATING EXPENSES		
Plant specific operations	424,841	394,310
Plant nonspecific operations	96,790	85,562
Depreciation	525,090	513,475
Customer operations	190,712	149,755
Corporate operations	213,276	190,171
Operating taxes, income	521,339	587,547
Operating taxes, other	47,313	48,068
	<u>2,019,361</u>	<u>1,968,888</u>
NET OPERATING INCOME	<u>1,056,632</u>	<u>997,017</u>
NONOPERATING INCOME		
Interest and dividend income	34,606	32,344
Nonregulated activities, net	217,995	211,142
Equity earnings in partnerships and limited liability companies	250,473	80,514
Loss on impairment of asset		(106,395)
Income taxes	(203,584)	(85,715)
	<u>299,490</u>	<u>131,890</u>
NET INCOME BEFORE INTEREST EXPENSE	<u>1,356,122</u>	<u>1,128,907</u>
INTEREST EXPENSE	<u>151,074</u>	<u>145,475</u>
NET INCOME	<u>\$ 1,205,048</u>	<u>\$ 983,432</u>

MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	Common Stock		Retained Earnings
	Shares	Amount	
BALANCE, JANUARY 1, 2000	\$ 1,430	\$ 143,000	\$ 2,796,775
Net income			983,432
Cash dividends			(1,260,000)
BALANCE, DECEMBER 31, 2000	1,430	143,000	2,520,207
Net income			1,205,048
Cash dividends			(1,155,788)
BALANCE, DECEMBER 31, 2001	<u>\$ 1,430</u>	<u>\$ 143,000</u>	<u>\$ 2,569,467</u>

MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
OPERATING ACTIVITIES		
Net income	\$ 1,205,048	\$ 983,432
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	525,090	513,475
Equity (earnings) in partnerships and limited liability companies	(250,473)	(80,514)
Change in assets and liabilities		
Due from customers	4,078	9,621
Receivable from affiliates	20,226	63,458
Other accounts receivable	107,015	(58,590)
Prepaid expenses	(1,790)	(1,679)
Prepaid income taxes	45,399	82,100
Accounts payable	(17,377)	(96,952)
Payable to affiliates	17,750	(9,649)
Accrued taxes	(542)	858
Other accrued liabilities	8,924	(5,992)
Deferred investment tax credits	-	(1,021)
Deferred income taxes	131,524	166,532
NET CASH FROM OPERATING ACTIVITIES	<u>1,794,872</u>	<u>1,565,079</u>
INVESTING ACTIVITIES		
Net additions to plant	(101,941)	(455,020)
(Increase) decrease in other investments	(199,501)	165,318
(Increase) in other notes receivable	(14,936)	(35,137)
(Increase) in other assets	(36,147)	-
NET CASH FOR INVESTING ACTIVITIES	<u>(352,525)</u>	<u>(324,839)</u>
FINANCING ACTIVITIES		
(Decrease) in customer deposits	(150)	(685)
Principal payments on long-term debt	(72,080)	(66,168)
Dividends paid	(1,155,788)	(1,260,000)
NET CASH FOR FINANCING ACTIVITIES	<u>(1,228,018)</u>	<u>(1,326,853)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	214,329	(86,613)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>805,847</u>	<u>892,460</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,020,176</u>	<u>\$ 805,847</u>

MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

The company's primary line of business is to provide local telephone service and access to long-distance telephone service throughout its local exchange network. The principal market for these telecommunications services are local residential and business customers residing in each of the exchanges the company serves.

Basis of accounting

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, including certain accounting practices prescribed by the Federal Communications Commission (FCC) and the state regulatory commissions where the company operates.

Telecommunications and other plant

These assets are stated at cost. The cost of additions to plant includes contracted work, direct labor and materials, 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 replacements and renewal of items determined to be less than units of property are charged to maintenance.

Depreciation

Depreciation is computed using the straight-line method based upon the estimated useful lives of the various classes of property.

Investments

Investments are stated at cost in companies that are not intended for resale or readily marketable. The company follows the equity method of accounting for investments in partnerships, limited liability companies, and in 20%-50% owned operating companies.

Revenue recognition

Revenues are recognized when earned. Interstate access service is based on average schedule settlements with the National Exchange Carrier Association. Local and intrastate access services are based on tariffs filed with the state regulatory commissions in Minnesota and Iowa.

Cash and cash equivalents

For purposes of reporting cash flows, the company considers all commercial paper, certificates of deposit and money market funds with an original maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

NOTES TO FINANCIAL STATEMENTS

Accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Business credit risk

The company provides telephone service on account to its members located in southwestern Minnesota and northwestern Iowa. The company also provides access and billing services on account to various long distance companies which provide toll service to the company's customers.

The company places its cash and temporary cash investments with high credit quality institutions and, by policy, generally limits the amount of exposure at any one financial institution. The accounts at these institutions are generally insured by deposit insurance up to \$100,000. At times during the year, the company's balances at certain institutions exceeded this limit.

Income taxes and investment tax credits

The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

For financial statement purposes, deferred investment tax credits and excess deferred income taxes relating to depreciation of regulated assets are being amortized as a reduction of the provision for income taxes over the estimated useful or remaining lives of the related property, plant and equipment.

NOTE 2 - RELATED PARTY TRANSACTIONS

The company exchanges goods and services with Ollig Utilities Company, its parent, and other subsidiary companies of Ollig Utilities Company. The company paid Ollig Utilities Company \$126,000 in 2001 and \$126,000 in 2000 for contracted management and accounting services. The company also paid Ollig Utilities Company \$62,340 in 2001 and \$62,340 in 2000 for data processing services. In addition, Ollig Utilities Company bills the company for certain actual expenses attributable to the company such as insurance premiums and legal fees.

The company has an agreement with Sioux Valley Telephone Company to provide host-remote facilities. Under the agreement, the company is reimbursed by Sioux Valley Telephone Company for \$4,176 per month. In addition, the company was billed by Sioux Valley Telephone Company \$43,472 in 2001 and \$30,078 in 2000 for labor and overheads.

The company was billed \$70,121 in 2001 and \$41,829 in 2000 by Hastad Engineering Co. for engineering services. Hastad Engineering Co. is a subsidiary of Ollig Utilities Company.

NOTES TO FINANCIAL STATEMENTS

The company leases vehicles and construction equipment from Ollig Utilities Company. Payments under these agreements were \$42,916 and \$89,618 in 2001 and 2000, respectively.

The company began purchasing construction services from Loretel Systems, Inc. in 2001. Payments under this agreement were \$75,336 in 2001.

The intercompany balances with Ollig Utilities Company relate primarily to the company's share of the consolidated income tax liabilities. The details of the intercompany balances at December 31, 2001 and 2000, are as follows:

	<u>2001</u>	<u>2000</u>
Receivable from affiliates:		
Accounts receivable - Sioux Valley Telephone Company	\$ -	\$ 20,226
Accounts receivable - Ollig Utilities		-
	<u>\$ -</u>	<u>\$ 20,226</u>
Payable to affiliates:		
Ollig Utilities Company	\$ 12,806	\$ 5,345
Sioux Valley Telephone Company	10,323	-
Loretel Systems, Inc.	11	45
	<u>\$ 23,140</u>	<u>\$ 5,390</u>

NOTE 3 - OTHER INVESTMENTS

Other investments consist of the following:

	<u>2001</u>	<u>2000</u>
Iowa Network Services, Inc. (stock at cost)	\$ 94,595	\$ 94,595
Fibercom, L.C. (at equity)	451,060	350,988
Fibernet Communications, L.C. (at equity)	428,912	381,964
Wireless North LLC (at equity)		(302,954)
NECA - (stock at cost)	25,000	25,000
Miscellaneous	562	562
	<u>\$ 1,000,129</u>	<u>\$ 550,155</u>

The company owns 12.8% of Fibernet Communications L.C. (Fibernet) which was formed to provide fiber optic transport facilities. The company recorded income of \$85,408 and \$87,372 in 2001 and 2000, respectively, as its share of Fibernet's 2001 and 2000 earnings.

The company owns 12.6% of Fibercom, L.C. (Fibercom) which was formed to provide competitive local exchange carrier (CLEC) services. The company recorded income of \$175,612 and \$24,056 in 2001 and 2000, respectively, as its proportionate share of Fibercom's 2001 and 2000 earnings. In addition, the company has agreed to guarantee its proportionate share of Fibercom's long-term debt which amounts to \$250,000 at December 31, 2001.

NOTES TO FINANCIAL STATEMENTS

Wireless North LLC was formed to operate personal communication services. The company's share of operating losses were \$10,547 in 2001 and \$93,573 in 2000.

As part of the company's investment in Wireless North LLC, the company, along with other members, agreed to guarantee the debt of Wireless North LLC. The company's portion of the guarantee consisted of 4.09% of Wireless North's outstanding debt. In 2001, the company paid \$313,501 of the liability under the guarantee, or 4.09% of Wireless North's outstanding debt. The payment of the guarantee eliminated the investment and any future liabilities associated with the investment in Wireless North.

The company's other investments are recorded at cost as they are not readily marketable.

NOTE 4 - NONREGULATED ACTIVITIES

The following is a summary of nonregulated operations included in other income and expenses:

	<u>2001</u>	<u>2000</u>
Revenue:		
Lease of transport facilities	\$ 164,584	\$ 159,325
Lease of customer premise equipment	1,925	10,902
Equipment sales	-	404
Installation and repair revenue	28,155	29,172
Other nonregulated revenue	152,985	110,695
Payphone compensation	457	(34)
Total nonregulated revenue	<u>348,106</u>	<u>310,464</u>
Nonregulated expenses	130,111	99,322
Depreciation on pay phone equipment	-	-
Total nonregulated expenses	<u>130,111</u>	<u>99,322</u>
Net revenue	<u>\$ 217,995</u>	<u>\$ 211,142</u>

The related nonregulated assets (excluding pay phones), primarily customer premise equipment, are fully depreciated.

NOTE 5 - LONG-TERM DEBT

	<u>2001</u>	<u>2000</u>
Rural Utilities Service (RUS) mortgage notes:		
2% notes due in quarterly installments through 2008	\$ 19,818	\$ 22,948
Rural Telephone Bank (RTB) mortgage notes:		
8.5%, due in quarterly installments through 2021	1,598,391	1,667,341
Total	<u>1,618,209</u>	<u>1,690,289</u>
Less current maturities	<u>78,300</u>	<u>72,200</u>
	<u>\$ 1,539,909</u>	<u>\$ 1,618,089</u>

NOTES TO FINANCIAL STATEMENTS

The mortgage notes payable to the Rural Utilities Service (RUS) and to the Rural Telephone Bank (RTB) are secured by substantially all assets of the company. The RUS and RTB notes generally mature 35 years from the date of issuance. Unadvanced loan funds on RTB loan commitments of \$588,000 are available to the company at December 31, 2001.

All loan funds are deposited in the RUS Construction Fund and disbursements are restricted to construction costs and other expenditures authorized by the loan agreement, subject to RUS approval. The RUS mortgage contracts restrict the payment of dividends and redemptions of equity capital. The allowable distribution of retained earnings at December 31, 2001, was approximately \$604,000.

RTB Class B stock was purchased pursuant to terms of a mortgage loan agreement with the RTB. The Class B stock will not be redeemed by RTB until all Class A stock has been redeemed.

It is estimated that principal repayments on the above debt for the next five years will be as follows:

	<u>Total</u>
2002	\$ 78,300
2003	85,400
2004	92,500
2005	100,600
2006	108,700

NOTE 6 - INCOME TAXES AND INVESTMENT TAX CREDITS

Income tax expense consists of the following:

	<u>2001</u>	<u>2000</u>
Current payable	\$ 593,399	\$ 507,751
Deferred	131,524	166,532
Amortization of investment tax credits		(1,021)
Total income tax provision	<u>724,923</u>	<u>673,262</u>
Allocation of expense related to nonregulated activities	<u>203,584</u>	<u>85,715</u>
Operating income tax expense	<u>\$ 521,339</u>	<u>\$ 587,547</u>

The company is a member of a group that files a consolidated income tax return. The consolidated amount of current and deferred tax expense is allocated to group members based on a method similar to applying SFAS No. 109 to each member of the group on an individual basis.

NOTES TO FINANCIAL STATEMENTS

Net deferred long-term tax liabilities and (assets) as of December 31, 2001 and 2000, related to the following:

	<u>2001</u>	<u>2000</u>
Depreciation	\$ 329,196	\$ 439,708
Other	<u>404,408</u>	<u>162,372</u>
Total	<u>\$ 733,604</u>	<u>\$ 602,080</u>

NOTE 7 - RETIREMENT PLAN

The company sponsors a 401(k) Employee Savings Plan and Trust Plan. All employees who meet certain age and service requirements are covered under this plan which contains discretionary and nondiscretionary sections.

Contributions from discretionary section are determined annually by the Board of Directors and are allocated based on employee salaries. Company expense for this section of the plan was \$11,042 in 2001 and \$8,785 in 2000.

The nondiscretionary section allows employees to contribute up to the maximum percentage allowable. The company contributes 100% of the participants first 3% of contributions. Company expense for the nondiscretionary section of the plan was \$7,026 in 2001 and \$6,000 in 2000.

NOTE 8 - SUPPLEMENTAL CASH FLOW DISCLOSURES

	<u>2001</u>	<u>2000</u>
Cash payments for interest	<u>\$ 151,074</u>	<u>\$ 145,475</u>
Cash payments to Ollig Utilities for income taxes	<u>\$ 440,000</u>	<u>\$ 384,000</u>
Cash payments for state income taxes	<u>\$ 118,000</u>	<u>\$ 136,000</u>



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors
Hills Telephone Company, Inc.
Hills, Minnesota

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Except for that portion marked "not audited," on which we express no opinion, such information has been subjected to the auditing procedures applied in the 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.

Eide Bailly LLP

February 15, 2002
Sioux Falls, South Dakota

MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.

SCHEDULE OF TELECOMMUNICATIONS PLANT
FOR THE YEAR ENDED DECEMBER 31, 2001

	Balance 1/1/01	Additions	Retirements	Transfers and Adjustments	Balance 12/31/01
General Support:					
Organization	\$ 2,572	\$ -	\$ -	\$ -	\$ 2,572
Land	16,409				16,409
Other work equipment	163,665	8,675	1,743	\$ 12,000	182,597
Buildings	389,367	4,465	11,721	(550)	381,561
Office equipment	29,280	6,797	1,055		35,022
	<u>601,293</u>	<u>19,937</u>	<u>14,519</u>	<u>11,450</u>	<u>618,161</u>
Central Office:					
Switching	1,653,298	72,958	10,821	(131,017)	1,584,418
Circuit equipment - subscriber	170,711	20,128	644	19,339	209,534
Circuit equipment - fiber electronic	1,169,689	331		(142,871)	1,027,149
Circuit equipment - other toll	194,393	12,385	1,204	26,580	232,154
	<u>3,188,091</u>	<u>105,802</u>	<u>12,669</u>	<u>(227,969)</u>	<u>3,053,255</u>
Cable and Wire Facilities:					
Poles	9,737				9,737
Aerial cable	19,166				19,166
Buried cable	2,981,542	163,957	1,932	(27,247)	3,116,320
Buried fiber optic cable	460,710	50		5,796	466,556
Buried toll cable	59,361			(3,199)	56,162
Buried station connections	39,189				39,189
Conduit systems	40,654	1,797		23,532	65,983
	<u>3,610,359</u>	<u>165,804</u>	<u>1,932</u>	<u>(1,118)</u>	<u>3,773,113</u>
Total telecommunications plant in service	<u>\$ 7,399,743</u>	<u>\$ 291,543</u>	<u>\$ 29,120</u>	<u>\$ (217,637)</u>	<u>\$ 7,444,529</u>

<u>Transfers and Adjustments</u>	<u>Balance 12/31/01</u>	<u>Percent to Plant</u>
\$ -	\$ 145,646	79.76 %
(11,000)	198,186	51.94
(1,055)	28,226	80.60
<u>(12,055)</u>	<u>372,058</u>	<u>62.09</u>
	1,545,366	97.54
	93,151	44.46
(45,100)	566,448	55.15
	164,836	71.00
<u>(45,100)</u>	<u>2,369,801</u>	<u>77.62</u>
	12,172	125.01
	20,816	108.61
	1,796,684	57.65
	243,751	52.24
	35,526	63.26
	39,192	100.00
	1,313	1.99
-	<u>2,149,454</u>	<u>56.97</u>
<u>\$ (57,155)</u>	<u>\$ 4,891,313</u>	<u>65.87 %</u>

**MINNESOTA 583
HILLS TELEPHONE COMPANY, INC.**

**STATISTICAL AND ANALYTICAL INFORMATION
FOR THE YEARS ENDED DECEMBER 31
(NOT AUDITED)**

	2001	2000	1999	1998	1997	1996
ACCESS LINES:						
Residential	2,188	2,163	2,096	2,030	1,955	1,914
Business	648	626	607	588	567	552
Total	2,836	2,789	2,703	2,618	2,522	2,466

TELECOMMUNICATIONS PLANT STATISTICS:

Total investment in service	\$ 7,444,529	\$ 7,399,743	\$ 6,944,723	\$ 6,696,812	\$ 5,754,997	\$ 5,517,519
Total per access line	\$ 2,625	\$ 2,653	\$ 2,569	\$ 2,558	\$ 2,282	\$ 2,237
Total per dollar of operating revenue	\$ 2.42	\$ 2.49	\$ 2.60	\$ 2.52	\$ 1.79	\$ 2.34
Additions to plant	\$ 101,941	\$ 455,020	\$ 247,911	\$ 942,869	\$ 248,580	\$ 264,193
Percent depreciated to date	65.7%	59.8%	5.6%	51.6%	52.8%	48.6%
Composite depreciation rate	7.1%	7.2%	6.7%	6.8%	6.7%	7.0%

FINANCIAL STATISTICS:

Net income per access line	\$ 425	\$ 353	\$ 228	\$ 273	\$ 462	\$ 273
Operating revenues per access line	\$ 1,085	\$ 1,063	\$ 988	\$ 1,015	\$ 1,273	\$ 957
Return on rate base	54.1%	39.7%	31.7%	31.5%	53.4%	30.8%
Net income to equity	45.2%	33.5%	19.4%	20.6%	41.4%	25.4%
Equity to total assets	51.5%	51.7%	54.0%	55.8%	58.2%	51.9%
Debt to total assets	30.7%	32.8%	32.3%	32.0%	31.5%	36.2%
Cost of long-term debt	9.1%	8.4%	8.4%	8.4%	8.8%	8.5%
Current ratio	5.2/1.0	5.4/1.0	4.3/1.0	4.2/1.0	9.9/1.0	6.3/1.0
Times interest earned ratio	9.0	7.8	5.1	5.6	7.9	4.9

SUMMARY OF STATEMENT OF INCOME:

Local network revenue	\$ 298,912	\$ 289,277	\$ 278,339	\$ 263,718	\$ 246,922	\$ 235,430
Network access revenue	2,671,345	2,551,609	2,222,090	2,211,538	2,789,470	1,940,632
Other revenue	105,736	125,019	169,618	182,052	174,103	184,919
Total operating revenues	3,075,993	2,965,905	2,670,047	2,657,308	3,210,495	2,360,981
Total operating expenses	2,019,361	1,968,888	1,802,140	1,703,847	1,898,281	1,576,772
Operating income	1,056,632	997,017	867,907	953,461	1,312,214	784,209
Other income (loss), net	299,490	131,890	(101,755)	(84,160)	24,537	60,501
Interest expense	(151,074)	(145,475)	(150,745)	(155,545)	(169,243)	(170,830)
Net income	\$ 1,205,048	\$ 983,432	\$ 615,407	\$ 713,756	\$ 1,167,508	\$ 673,880

**BOOK VALUE PER SHARE OF
COMMON STOCK**

\$ 1,897	\$ 1,862	\$ 2,056	\$ 2,220	\$ 2,420	\$ 1,974
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors
Hills Telephone Company, Inc.
Hills, Minnesota

We have audited the financial statements of **Hills Telephone Company, Inc.** as of and for the year ended December 31, 2001, and have issued our report thereon dated February 15, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether **Hills Telephone Company, Inc.**'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Hills Telephone Company, Inc.**'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our 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 and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, the Rural Utilities Service and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

February 15, 2002
Sioux Falls, South Dakota



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MANAGEMENT LETTER

The Board of Directors
Hills Telephone Company, Inc.
Hills, Minnesota

We have audited the financial statements of **Hills Telephone Company, Inc.** for the year ended December 31, 2001, and have issued our report thereon dated February 15, 2002. 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, 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, we considered **Hills Telephone Company, Inc.**'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an 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 the specific internal control over financial reporting 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 and its operation that we consider to be a material weakness.

Code of Federal Regulations 7 CFR Part 1773.33 requires comments on specific aspects of the internal control structure 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 structure over financial reporting, of compliance with specific RUS loan and security instrument provisions and of additional matters. The specific aspects of the internal control structure 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 Part 1773.33(d)(2), related party transactions and investments. The additional matters tested also include a schedule of deferred debits and credits, upon which we express an opinion. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-45. Our objective was not to provide an opinion on these specific aspects of the internal control structure over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters and, accordingly, we express no opinion thereon.

No reports (other than our independent auditor's report, and our independent auditor's report on compliance and on internal control over financial reporting, all dated February 15, 2002) or summary of recommendations related to our audit have been furnished to management.

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

Comments On Certain Specific Aspects Of The Internal Control Structure

We noted no matters regarding **Hills Telephone Company, Inc.**'s internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

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

Comments On Compliance With Specific RUS Loan Security Instrument Provisions

Management's responsibility for compliance with laws, regulations, contracts, and grants is set forth in our independent auditor's report on compliance dated February 15, 2002. At your request, we have performed the following procedures with respect to compliance with certain provisions of laws, regulations contracts, and grants. The procedures we performed are summarized as follows:

- o Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement or lease between the borrower and an affiliate for the year ended December 31, 2001:
 - Obtained from management, representations that there were no new contracts, agreements or leases entered into during the year ended December 31, 2001, between the borrower and the affiliate as defined in 1773.33(d)(2)(i); and,
 - Reviewed Board of Director minutes to ascertain there were no such contracts entered into during the year ended December 31, 2001, between the borrower and an affiliate.

- o Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:
 - Agreed amounts reported in Form 479 to **Hills Telephone Company, Inc.**'s records.

The results of our tests indicate that, with respect to the items tested, **Hills Telephone Company, Inc.** complied, in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to our attention that caused us to believe that **Hills Telephone Company, Inc.** had not complied, in all material respects, with those provisions. The specific provisions tested include the requirements that:

- The borrower has obtained written approval of the RUS (and other mortgagees) to enter into any contract, agreement or lease with an affiliate as defined in 7 CFR Part 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, 2001, as represented by the company as having been submitted to RUS, is in agreement with **Hills Telephone Company, Inc.**'s records in all material respects and appears reasonable based on audit procedures performed.

Comments On Other Additional Matters

In connection with our audit of the financial statements of **Hills Telephone Company, Inc.**, nothing came to our attention that caused us to believe that **Hills Telephone Company, Inc.** failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR Part 1773.33(c)(3) and (4);
- The approval of sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material or scrap addressed at 7 CFR Part 1773.33(c)(5); and,
- 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, 2001, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(e).

Detailed Schedule of Investments

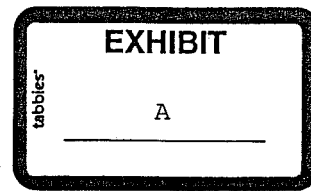
Our audit was made for the purposes of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments required by 7CFR Part 1773.33(i), and provided below, is presented for the purposes of additional analysis and is not a required part of the basic financial 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.

	<u>12.62% equity ownership in Fibercom, L.C.</u>	<u>12.82% equity ownership in Fibernet Communications, L.C.</u>	<u>4.09% equity ownership in Wireless North LLC</u>
Original investment cost	\$ 276,932	\$ 365,102	\$ (209,381)
Investment advances during the twelve month period ended December 31, 2000	50,000		
Distributions during the twelve month period ended December 31, 2000		(70,510)	
Earnings (losses) during twelve month period ended December 31, 2000	<u>24,056</u>	<u>87,372</u>	<u>(93,573)</u>
Book value of investment as of December 31, 2000	350,988	381,964	(302,954)
Investment advances during twelve month period ended December 31, 2001			302,954
Distributions during the twelve month period ended December 31, 2001	(75,540)	(38,460)	
Earnings during twelve month period ended December 31, 2001	<u>175,612</u>	<u>85,408</u>	
Book value of investment as of December 31, 2001	<u>\$ 451,060</u>	<u>\$ 428,912</u>	<u>\$ -</u>

This report is intended solely for the information and use of the board of directors, management, the Rural Utilities Service and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

February 15, 2002
Sioux Falls, South Dakota



Dear Valued Customer:

Alliance Communications has purchased the Valley Springs telephone exchange and the cable TV system from Sioux Valley Telephone. We are very excited by the opportunity to serve you and your neighbors.

What communities does Alliance Communications serve?

Alliance Communications has been serving the Alcester, Baltic, Brandon, Carhage, Crooks, Garretson, Howard, Hudson, Oldham and Ramona communities for many years. We began serving Alvord, Hills, Inwood, Larchwood, Lester and Steen in July of 2003. We're large enough to offer you reliable services at the lowest possible prices, but we're small enough to give you the attention you need.

Where are the business offices located, and what are the hours?

Alliance Communications has three business offices, with the headquarters based in Garretson, S.D. and satellite offices located in Baltic, S.D., and Brandon, S.D. All offices are open Monday through Friday 8 a.m. to 5 p.m., and the Brandon office also is open Saturday 8 a.m. to noon. You can call our office at any time, even at night or on weekends, to report service problems.

Alliance Communications will offer you quality service and products.

We are committed to providing you with reliable products at the best possible prices. Alliance offers Local and Long Distance Telephone along with a variety of calling features including voice mail, caller ID, and call waiting. We also offer dial-up Internet, high-speed DSL Internet and cable television service. For your convenience, you will receive only one bill for all these services from Alliance Communications.

All of us at Alliance Communications are excited to be serving you. If you have any questions, please don't hesitate to call us by dialing 811.

Sincerely,

Don Snyders
General Manager

Speak and you'll be heard.

March 26, 2004

Dear Customer:

This letter is to notify you that Sioux Valley Telephone Company has entered into an agreement with Hills Telephone Company, Inc. for the sale of the Valley Springs Telephone Exchange from Sioux Valley to Hills. This transaction requires the approval of the South Dakota and Minnesota Public Utilities Commissions and the Federal Communications Commission. As soon as those approvals have been obtained, the transaction will take effect and Hills Telephone Company, Inc. will begin providing your local telephone service.

Hills Telephone Company, Inc. is a wholly-owned subsidiary of Alliance Communications Cooperative, Inc., which is headquartered in Garretson, South Dakota. Hills Telephone Company, Inc. will be doing business in the Valley Springs Exchange under the trade name "Alliance Communications". There will be no other noticeable changes in your local telephone service or in your local telephone or long distance rates which occur as a result of this transaction.

If you have any questions regarding this transaction or its effect on you, please feel free to contact either of the following persons at the addresses indicated below:

Denny Law
General Manager
Sioux Valley Telephone Company
P.O. Box 98
Dell Rapids, SD 57022
Telephone # 605/428-5421

Mark Bahnson
Office Manager
Hills Telephone Company, Inc.
P.O. Box 349
Garretson, SD 57030
Telephone # 605/594-3411

If you wish to contact either the Minnesota or South Dakota Public Utilities Commissions regarding this transaction, they may be reached at the following addresses and telephone numbers:

Minnesota Public Utilities Commission
121 7th Place East – Suite 350
St. Paul, MN 55101-2147
Telephone # 651/296-7124

South Dakota Public Utilities Commission
500 E. Capitol Avenue
Pierre, SD 57501-5070
Telephone # 605/773-3201

Sincerely,

SIoux VALLEY TELEPHONE COMPANY

Sincerely,

HILLS TELEPHONE COMPANY, INC.

Denny Law, General Manager

Don Snyders, General Manager

**South Dakota Public Utilities Commission
WEEKLY FILINGS**

For the Period of September 23, 2004 through September 29, 2004

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this report. Phone: 605-773-3201

ELECTRIC

EL04-028 In the Matter of the Filing by Xcel Energy for Approval of its 2003 Economic Development Annual Report and 2004 Economic Development Plan.

On September 24, 2004, Xcel Energy filed its 2003 economic development report and 2004 proposed economic development plan for Commission approval. These reports are filed in accordance with the requirements in EL01-004.

Staff Analyst: Michele Farris
Staff Attorney: Karen Cremer and Sara Harens
Date Filed: 09/27/04
Intervention Deadline: 10/15/04

TELECOMMUNICATIONS

TC04-205 In the Matter of the Filing by Hills Telephone Company, Inc. for Approval of its Intrastate Switched Access Tariff and for an Exemption from Developing Company Specific Cost-Based Switched Access Rates.

On September 27, 2004, Hills Telephone Company, Inc. filed a petition asking for an ongoing exemption from developing company-specific cost-based switched access rates. The Applicant requests adopting rates based on a statewide average cost for telecommunications companies with under 100,000 access lines, in accordance with ARSD 20:10:27:12.

Staff Analyst: Keith Senger
Staff Attorney: Karen Cremer/Sara Harens
Date Docketed: 09/27/04
Intervention Deadline: 10/08/04

TC04-206 In the Matter of the Joint Application for Approval of the Sale of the Stock of Tri-County Telcom, Inc. from James O. Ekstrand to Hanson Communications, Inc., a Wholly Owned Subsidiary of McCook Cooperative Telephone Company.

On September 27, 2004, the Commission received a Joint Application for Approval of the Sale of Stock of Tri-County Telcom, Inc. from James O. Ekstrand to Hanson Communications, Inc. a Wholly Owned Subsidiary of McCook Cooperative Telephone Company. It is requested that (1) the Commission approve the purchase and sale of all of the issued and outstanding shares of all classes of stock of Tri-County Telcom, Inc. in accordance with the provisions of the Stock Purchase Agreement, dated as of September 16, 2004, and (2) to amend the Certificate of Authority previously issued to Tri-County Telcom, Inc. to reflect the change in ownership of the corporation.

Staff Analyst: Harlan Best
Staff Attorney: Karen E. Cremer
Date Docketed: 09/27/04
Intervention Deadline: 10/15/04

**You may receive this listing and other PUC publications via our website or via internet e-mail.
You may subscribe or unsubscribe to the PUC mailing lists at <http://www.state.sd.us/puc>**



Bob Sahr, Chair
Gary Hanson, Vice-Chair
Jim Burg, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

500 East Capitol Avenue
Pierre, South Dakota 57501-5070
www.state.sd.us/puc

Capitol Office
(605) 773-3201
(605) 773-3809 fax

Transportation/Warehouse
(605) 773-5280
(605) 773-3225 fax

Consumer Hotline
1-800-332-1782

March 31, 2004

faxed

The Argus Leader
Display Advertising Department
P. O. Box 5034
Sioux Falls, SD 57117-5034

Re: In the Matter of the Joint Application of Sioux Valley Telephone Company and Hills Telephone Company, Inc. Regarding the Sale by Sioux Valley Telephone Company of its Valley Springs, East Valley Springs and North Larchwood Exchanges to Hills Telephone Company, Inc.
Docket TC04-040

To whom it may concern:

Enclosed you will find Notice of Sale with reference to the above captioned matter. Please publish the enclosed Notice in your paper as a display advertisement for one issue by April 7, 2004.

Please send us your Affidavit of Publication and invoice as soon as possible. Thank you.

Very truly yours,

John Smith
Commission Counsel

JS:dk
Enc.



Bob Sahr, Chair
Gary Hanson, Vice-Chair
Jim Burg, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

500 East Capitol Avenue
Pierre, South Dakota 57501-5070
www.state.sd.us/puc

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(605) 773-5280
(605) 773-3225 fax

Consumer Hotline
1-800-332-1782

March 31, 2004

e-mail: tribune@delrapids.net

Brandon Valley Resident
Attention: Andrea
P. O. Box 257
Brandon, SD 57005-0257

Re: In the Matter of the Joint Application of Sioux Valley Telephone Company and Hills Telephone Company, Inc. Regarding the Sale by Sioux Valley Telephone Company of its Valley Springs, East Valley Springs and North Larchwood Exchanges to Hills Telephone Company, Inc.
Docket TC04-040

Dear Andrea:

Enclosed you will find Notice of Sale with reference to the above captioned matter. Please publish the enclosed Notice in your paper as a display advertisement for one issue by April 7, 2004.

Please send us your Affidavit of Publication and invoice as soon as possible. Thank you.

Very truly yours,

John Smith
Commission Counsel

JS:dk
Enc.

**SOUTH DAKOTA PUBLIC UTILITIES COMMISSION
NOTICE OF SALE BY SIOUX VALLEY TELEPHONE COMPANY OF THE VALLEY
SPRINGS, EAST VALLEY SPRINGS AND NORTH LARCHWOOD LOCAL
TELEPHONE EXCHANGES TO HILLS TELEPHONE COMPANY, INC.
PUC DOCKET NO. TC04-040**

On March 2, 2004, the South Dakota Public Utilities Commission (Commission) received a joint application from Hills Telephone Company, Inc. (Hills) and Sioux Valley Telephone Company (Sioux Valley) to approve the sale by Sioux Valley to Hills of the following local telephone exchanges: Valley Springs, East Valley Springs and North Larchwood. Hills is a wholly-owned subsidiary of Alliance Communications Cooperative, Inc. and is headquartered in Garretson, SD. Sioux Valley is a member of the Golden West group of companies and is headquartered in Dell Rapids, SD. The application states that as a result of the sale, the Valley Springs, East Valley Springs and North Larchwood local exchanges will continue to be managed by local employees, that local exchange, 911, E911 and customer services will not be diminished, that rates and practices will not change, that additional enhanced services will be provided and that the tax-paying status of the exchanges will not change.

The public is invited to participate by providing written or spoken comments to the Commission within 15 days of publication of this notice. If sufficient public interest is demonstrated or if requested by a party, the Commission may schedule a public input hearing on the application in the local exchange area. Any member of the public may petition for intervention as a formal party in the proceeding by following the procedure set forth in ARSD 20:10:01:15.02, which is available on the Commission's web site at www.state.sd.us/puc or may be obtained by calling or writing the Commission. Petitions for intervention must be received by the Commission within 15 days of publication of this notice. If no party requests a hearing and there are no contested issues, the Commission may render a final decision on the application at a regular or special meeting.

The public may offer comments or obtain copies of the application and other non-confidential filings in the case by contacting the South Dakota Public Utilities Commission, 500 E. Capitol Avenue, Pierre, SD 57501; ph. (800) 332-1782 or (605)773-3201; fax (605) 773-3809; e-mail: pam.bonrud@state.sd.us.



Bob Sahr, Chair
Gary Hanson, Vice-Chair
Jim Burg, Commissioner

**SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION**

500 East Capitol Avenue
Pierre, South Dakota 57501-5070
www.state.sd.us/puc

Capitol Office
(605) 773-3201
(605) 773-3809 fax

Transportation/Warehouse
(605) 773-5280
(605) 773-3225 fax

Consumer Hotline
1-800-332-1782

FACSIMILE TRANSMISSION

April 1, 2004

**TO: Thea
The Argus Leader**

FAX#: 605-331-2371

**FROM: Delaine Kolbo
South Dakota Public Utilities Commission
Fax: 605-773-3809**

This is page 1 of 6

These are the two notices I faxed yesterday. Thank you for taking care of this for me.

If there is a problem receiving this document, please contact our office at (605) 773-3201.

THIS COMMUNICATION IS INTENDED ONLY FOR THE USE OF THE INDIVIDUAL OR ENTITY TO WHICH IT IS ADDRESSED AND MAY CONTAIN INFORMATION THAT IS PRIVILEGED, CONFIDENTIAL AND EXEMPT FROM DISCLOSURE UNDER APPLICABLE LAW.

If the reader of this message is not the intended recipient or the employee or agent responsible for delivering this communication to the intended recipient, you are hereby notified that any distribution, use or copying of this communication is prohibited.

If you received this communication in error, please notify us immediately at (605) 773-3201.

LAW OFFICES
 Ritter, Rogers, Wattier & Brown, LLP

Professional & Executive Building
319 South Coteau Street
P.O. Box 280
Pierre, South Dakota 57501-0280
www.riterlaw.com

ROBERT C. RITER, Jr.
DARLA POLLMAN ROGERS
JERRY L. WATTIER
JOHN L. BROWN

OF COUNSEL:
Robert D. Hofer
E. D. Mayer
TELEPHONE
605-224-5825
FAX
605-224-7102

March 17, 2004

Ms. Pamela Bonrud
Executive Director
SD Public Utilities Commission
500 East Capitol Ave.
Pierre, South Dakota 57501

RECEIVED

APR 08 2004

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Re: Docket Number TC04-040
SIOUX VALLEY/HILLS TELEPHONE

Dear Pam:

Enclosed herein for filing are the original and ten copies of SUPPLEMENT TO JOINT APPLICATION FOR APPROVAL OF SALE OF TELEPHONE EXCHANGES for filing in the above docket.

Sincerely yours,



Darla Pollman Rogers
Attorney at Law

DPR/ph

Enclosures

CC: Ryan Taylor (with Enclosure)

RECEIVED

APR 08 2004

BEFORE THE SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

IN THE MATTER OF THE JOINT
APPLICATION FOR APPROVAL OF THE
SALE OF THE VALLEY SPRINGS, EAST
VALLEY SPRINGS, AND NORTH
LARCHWOOD EXCHANGES BY SIOUX
VALLEY TELEPHONE COMPANY TO
HILLS TELEPHONE COMPANY, INC.

DOCKET NO. TC04-040
SUPPLEMENT TO JOINT APPLICATION
FOR APPROVAL OF SALE OF
TELEPHONE EXCHANGES

COME NOW, the Applicants, Hills Telephone Company, Inc. ("Hills") and Sioux Valley Telephone Company ("Sioux Valley"), by and through their undersigned counsel, and jointly file this Supplement to Joint Application for Approval of Sale of Telephone Exchanges (the "Supplement") with the South Dakota Public Utilities Commission (the "Commission").

IN SUPPORT THEREOF, Applicants do state and declare as follows:

1. Applicants hereby restate Paragraphs 1 through 9 of the Joint Application For Approval of a Sale of Telephone Exchanges (the "Application") filed in this matter as though fully set forth herein. Capitalized terms used in this Supplement and not defined herein have the meanings ascribed to them in the Application.

2. Following the consummation of the transactions contemplated in the Purchase Agreement, Applicant Hills will provide modern, state-of-the-art telecommunications services that will help promote economic development, tele-medicine, and distance learning in the Exchanges in the same manner as Applicant Sioux Valley has in the past.

3. The respective General Managers of Applicant Hills and Applicant Sioux Valley certify as to the truth and accuracy of each of the statements, representations and warranties

contained in the Application and the Supplement, as evidenced by the Officer's Certification of Accuracy executed by the respective General Managers of Applicant Hills and Applicant Sioux Valley attached hereto as Exhibits A and B respectively.

WHEREFORE, Applicants respectfully request that the Commission grant as follows:

A. Approval pursuant to SDCL § 49-31-59 of the proposed purchase and sale of the Exchanges from Sioux Valley Telephone Company to Hills Telephone Company, Inc., in the manner set forth in this Application and in the Purchase Agreement;

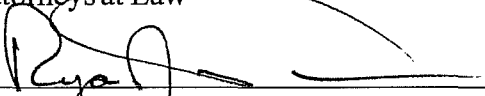
B. The consent of the Commission to the close the proposed purchase and sale of the Exchanges from Sioux Valley Telephone Company to Hills Telephone Company, Inc., as soon as all necessary regulatory and lender approvals have been obtained, at which time, applicants will provide the Commission with notification prior to the effectiveness of such transaction; and

C. Such other relief, consents, or authorizations as the Commission deems necessary or appropriate and in the public interest to consummate the transactions described in this Application.

Dated this 5th day of April, 2004.

Dated this 8th day of April, 2004.

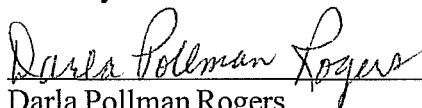
CUTLER & DONAHOE, LLP
Attorneys at Law



Ryan J. Taylor

100 N. Phillips Ave., 9th Floor
Sioux Falls, South Dakota 57104-6725
Telephone (605) 335-4950
Facsimile (605) 335-4961
Attorneys for Applicant Hills Telephone
Company, Inc.

RITER, ROGERS, WATTIER & BROWN
Attorneys at Law

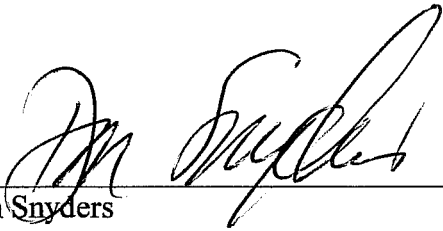


Darla Pollman Rogers

Professional & Executive Building
319 South Coteau Street
P.O. Box 280
Pierre, SD 57501-0280
Telephone (605) 224-5825
Facsimile (605) 224-7102
Attorneys for Applicant Sioux Valley Telephone
Company

Further your affiant sayeth naught.

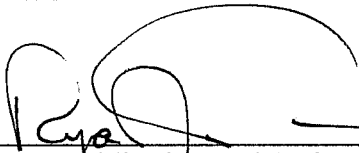
Dated this 5th day of April, 2004.



Don Snyder

Subscribed and sworn to before me this 5th day of April, 2004.

<SEAL>



Notary Public * South Dakota
My Commission Expires: _____

MY COMMISSION EXPIRES
JUNE 7, 2006

BEFORE THE SOUTH DAKOTA
PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE JOINT
APPLICATION FOR APPROVAL OF THE
SALE OF THE VALLEY SPRINGS, EAST
VALLEY SPRINGS, AND NORTH
LARCHWOOD EXCHANGES BY SIOUX
VALLEY TELEPHONE COMPANY TO
HILLS TELEPHONE COMPANY, INC.

DOCKET NO. TC04-040
OFFICER'S CERTIFICATION
OF ACCURACY

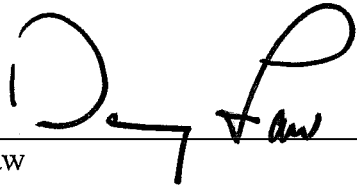
State of South Dakota)
) SS
County of Minnehaha)

Denny Law, being first duly sworn on his oath, deposes and states as follows:

1. That I am the General Manager of Sioux Valley Telephone Company;
2. That I have reviewed and approved the Joint Application for Approval of A Sale of Telephone Exchanges, including all exhibits thereto, jointly filed by the attorneys for Hills Telephone Company, Inc. and Sioux Valley Telephone Company on February 29, 2004 in Docket TC04-040 (collectively the "Application");
3. That I have reviewed and approved the Supplement to the Joint Application for Approval of A Sale of Telephone Exchanges, including all exhibits thereto, jointly filed by the attorneys for Hills Telephone Company, Inc. and Sioux Valley Telephone Company on April 5, 2004 in Docket TC04-040 (collectively the "Supplement"); and
4. That to the best of my knowledge and belief, and upon reasonable investigation and inquiry, each of the statements, representations and warranties contained in the Application and the Supplement are true and correct.

Further your affiant sayeth naught.

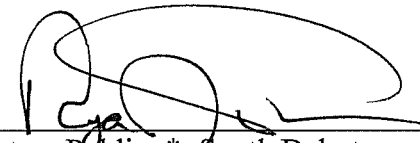
Dated this 5th day of April, 2004.



Denny Law

Subscribed and sworn to before me this 5th day of April, 2004.

<SEAL>



Notary Public * South Dakota
My Commission Expires: _____

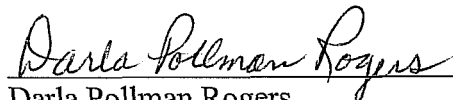
MY COMMISSION EXPIRES
JUNE 7, 2006

CERTIFICATE OF SERVICE

The undersigned hereby certifies that she hand-delivered the original and ten copies of the attached SUPPLEMENT TO JOINT APPLICATION FOR APPROVAL OF SALE OF TELEPHONE EXCHANGES upon the entity herein next designated, on the date below shown, to-wit:

South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, South Dakota 57501

Dated this eighth day of April, 2004.



Darla Pollman Rogers
Riter, Rogers, Wattier & Brown
P. O. Box 280
Pierre, South Dakota 57501
Telephone (605) 224-7889

CUSTOMER NUMBER:	44377	Argus Leader	P.O. Box 5034, Sioux Falls, S.D. 57117-5034
INVOICE NUMBER:			
RUN DATES:	Tuesday, April 6, 2004	AMOUNT DUE	\$534.00

SD PUBLIC UTILITIES
ATTN: JOHN SMITH
500 E CAPITOL AVE
PIERRE SD 57501-5070

RECEIVED

APR 9 9 2004

DETACH THIS STUB AND RETURN WITH PAYMENT

SOUTH DAKOTA
UTR PAYMENT DUE UPON RECEIPT

AFFIDAVIT OF PUBLICATION-

AFFIDAVIT OF PUBLICATION

STATE OF SOUTH DAKOTA

COUNTY OF MINNEHAHA } ss

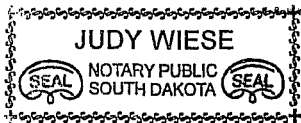
Beth Buchanan being duly sworn, says: That The Argus Leader is, and during all the times hereinafter mentioned was, a daily legal newspaper as defined by SDCL 17-2-21, as amended published at Sioux Falls, Minnehaha County, South Dakota; that affiant is and during all of said times, was an employee of the publisher of such newspaper and has personal knowledge of the facts stated in this affidavit; that the notice, order or advertisement, a printed copy of which is hereto attached, was published in said newspaper upon ...

Tuesday, the 6th day of April 2004,
_____, the _____ day of _____ 2004,
_____, the _____ day of _____ 2004,
_____, the _____ day of _____ 2004,
_____, the _____ day of _____ 2004,
_____, the _____ day of _____ 2004,
_____, the _____ day of _____ 2004,
_____, the _____ day of _____ 2004,

and that \$534.00 was charged for publishing the same for display advertising.

Beth Buchanan

Subscribed and sworn to before me April 6, 2004,



Judy Wiese
Notary Public, South Dakota

My Commission expires November 3, 2006

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION
NOTICE OF SALE BY SIOUX VALLEY TELEPHONE COMPANY OF THE VALLEY
SPRINGS, EAST VALLEY SPRINGS AND NORTH LARCHWOOD
LOCAL TELEPHONE EXCHANGES TO HILLS TELEPHONE COMPANY, INC.
PUC DOCKET NO. TC04-040

On March 2, 2004, the South Dakota Public Utilities Commission (Commission) received a joint application from Hills Telephone Company, Inc. (Hills) and Sioux Valley Telephone Company (Sioux Valley) to approve the sale by Sioux Valley to Hills of the following local telephone exchanges: Valley Springs, East Valley Springs and North Larchwood. Hills is wholly-owned subsidiary of Alliance Communications Cooperative, Inc. and is headquartered in Garretson, SD. Sioux Valley is a member of the Golden West group of companies and is headquartered in Dell Rapids, SD. The application states that as a result of the sale, the Valley Springs, East Valley Springs and North Larchwood local exchanges will continue to be managed by local employees, that local exchange, 911, E911 and customer services will not be diminished, that rates and practices will not change, that additional enhanced services will be provided and that the tax-paying status of the exchanges will not change.

The public is invited to participate by providing written or spoken comments to the Commission within 15 days of publication of this notice. If sufficient public interest is demonstrated or if requested by a party, the Commission may schedule a public input hearing on the application in the local exchange area. Any member of the public may petition for intervention as a formal party in the proceeding by following the procedure set forth in ARSD 20:10:01:15.02, which is available on the Commission's web site at www.state.sd.us/puc or may be obtained by calling or writing the Commission. Petitions for intervention must be received by the Commission within 15 days of publication of this notice. If no party requests a hearing and there are no contested issues, the Commission may render a final decision on the application at a regular or special meeting.

The public may offer comments or obtain copies of the application and other non-confidential filings in the case by contacting the South Dakota Public Utilities Commission, 500 E. Capitol Avenue, Pierre, SD 57501; ph. (800) 332-1782 or (605) 773-3201; fax (605) 773-3809; e-mail: pam.bonrud@state.sd.us.

CUSTOMER NUMBER:	127200	<h1>Prairie Publications</h1>
INVOICE NUMBER:	P10031	
RUN DATES: 4/7, 2004		AMOUNT DUE: \$52.25

SD Public Utilities Commission
c/o John Smith
500 E Capitol Ave
Pierre, SD 57105

RECEIVED
APR 12 2004
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

DETACH THIS STUB AND RETURN WITH PAYMENT

PAYMENT DUE UPON RECEIPT

AFFIDAVIT OF PUBLICATION-
Customer Number: 127200
Invoice Number: P10031

SD Public Utilities Commission

Prairie Publications AFFIDAVIT OF PUBLICATION

STATE OF SOUTH DAKOTA

COUNTY OF MINNEHAHA } ss

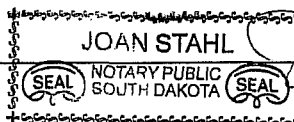
Vicki Kiel being duly sworn, says: That the **Brandon Valley Challenger** is, and during all the times hereinafter mentioned was, a weekly legal newspaper as defined by SDCL 17-2-2.1 through 17-2-2.4, as amended published at Dell Rapids, Minnehaha County, South Dakota; that affiant is and during all of said times, was an employee of the publisher of such newspaper and has personal knowledge of the facts stated in this affidavit; that the notice, order or advertisement, a printed copy of which is hereto attached, was published in said newspaper upon

Wednesday, the 7 day of April 2004,
_____, the _____ day of _____ 2004,
_____, the _____ day of _____ 2004,
_____, the _____ day of _____ 2004,
_____, the _____ day of _____ 2004,

and that \$52.25 was charged for publishing the same

Vicki Kiel

Subscribed and sworn to before 4/9/2004.



JOAN STAHL *Joan Stahl*
Notary Public, South Dakota

My Commission expires June 30th, 2005

Notice of Sale

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION NOTICE OF SALE BY SIOUX VALLEY TELEPHONE COMPANY OF THE VALLEY SPRINGS, EAST VALLEY SPRINGS AND NORTH LARCHWOOD LOCAL TELEPHONE EXCHANGES TO HILLS TELEPHONE COMPANY, INC.

PUC DOCKET NO. TC04-040

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C-April 7

PP10031

LAW OFFICES
RITER, ROGERS, WATTIER & BROWN, LLP
Professional & Executive Building
319 South Coteau Street
P.O. Box 280
Pierre, South Dakota 57501-0280
www.riterlaw.com

ROBERT C. RITER, Jr.
DARLA POLLMAN ROGERS
JERRY L. WATTIER
JOHN L. BROWN

OF COUNSEL:
Robert D. Hofer
E. D. Mayer
TELEPHONE
605-224-5825
FAX
605-224-7102

May 13, 2004

RECEIVED

MAY 13 2004

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION**

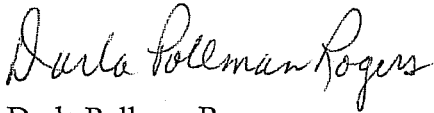
Ms. Pamela Bonrud
Executive Director
SD Public Utilities Commission
500 East Capitol Ave.
Pierre, South Dakota 57501

Re: Docket Number TC04-040

Dear Pam:

Enclosed herein are the original and ten copies of SECOND SUPPLEMENT TO JOINT APPLICATION FOR APPROVAL OF SALE OF TELEPHONE EXCHANGES.

Sincerely yours,



Darla Pollman Rogers
Attorney at Law

DPR/ph

Enclosures

CC: Ryan Taylor

RECEIVED

BEFORE THE SOUTH DAKOTA

MAY 13 2004

PUBLIC UTILITIES COMMISSION

**SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION**

IN THE MATTER OF THE JOINT
APPLICATION FOR APPROVAL OF THE
SALE OF THE VALLEY SPRINGS, EAST
VALLEY SPRINGS, AND NORTH
LARCHWOOD EXCHANGES BY SIOUX
VALLEY TELEPHONE COMPANY TO
HILLS TELEPHONE COMPANY, INC.

DOCKET NO. TC04-040

SECOND SUPPLEMENT TO JOINT
APPLICATION
FOR APPROVAL OF SALE OF
TELEPHONE EXCHANGES

COME NOW, the Applicants, Hills Telephone Company, Inc. ("Hills") and Sioux Valley Telephone Company ("Sioux Valley"), by and through their undersigned counsel, and jointly file this Second Supplement to Joint Application for Approval of Sale of Telephone Exchanges (the "Second Supplement") with the South Dakota Public Utilities Commission (the "Commission").

IN SUPPORT THEREOF, Applicants do state and declare as follows:

1. Applicants hereby restate Paragraphs 1 through 9 of the Joint Application For Approval of a Sale of Telephone Exchanges (the "Application") and Paragraphs 1 through 3 of the Supplement to Joint Application for Approval of Sale of Telephone Exchanges (the "Supplement") filed in this matter as though fully set forth herein. Capitalized terms used in this Second Supplement and not defined herein have the meanings ascribed to them in the Application and the Supplement.

2. Pursuant to the request of the General Counsel of the Commission, on April 2, 2004, Applicants jointly issued a letter to each of the persons and entities receiving local telephone exchange service in the Exchanges notifying such persons and entities of the transactions contemplated in the Purchase Agreement (the "Notification"). In addition, the Notification stated that the recipients could contact the Commission, the Minnesota Public

Utilities Commission, or either of the Applicants with any questions or concerns and provided the recipients with contact information for each such entity. A copy of the Notification is attached hereto as Exhibit A and incorporated herein by this reference.

WHEREFORE, Applicants respectfully request that the Commission grant as follows:

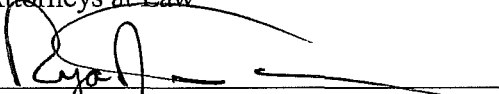
A. Approval pursuant to SDCL § 49-31-59 of the proposed purchase and sale of the Exchanges from Sioux Valley Telephone Company to Hills Telephone Company, Inc., in the manner set forth in the Application and in the Purchase Agreement;

B. The consent of the Commission to close the proposed purchase and sale of the Exchanges from Sioux Valley Telephone Company to Hills Telephone Company, Inc., as soon as all necessary regulatory and lender approvals have been obtained, at which time, applicants will provide the Commission with notification prior to the effectiveness of such transaction; and

C. Such other relief, consents, or authorizations as the Commission deems necessary or appropriate and in the public interest to consummate the transactions described in this Application.

Dated this 29th day of April, 2004.

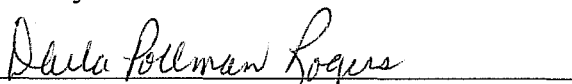
CUTLER & DONAHOE, LLP
Attorneys at Law



Ryan J. Taylor
100 N. Phillips Ave., 9th Floor
Sioux Falls, South Dakota 57104-6725
Telephone (605) 335-4950
Facsimile (605) 335-4961
Attorneys for Applicant Hills Telephone
Company, Inc.

Dated this 10th day of May, 2004.

RITER, ROGERS, WATTIER & BROWN
Attorneys at Law



Darla Pollman Rogers
Professional & Executive Building
319 South Coteau Street
P.O. Box 280
Pierre, SD 57501-0280
Telephone (605) 224-5825
Facsimile (605) 224-7102
Attorneys for Applicant Sioux Valley Telephone
Company

525 East Fourth Street
P. O. Box 98
Dell Rapids, SD 57022



SIoux VALLEY
TELEPHONE COMPANY

(605) 428-5421
1 (800) 952-3566
Fax (605) 428-3132

April 2, 2004

Dear Customer:

This letter is to notify you that Sioux Valley Telephone Company has entered into an agreement with Hills Telephone Company, Inc. for the sale of the Valley Springs Telephone Exchange from Sioux Valley to Hills. This transaction requires the approval of the South Dakota and Minnesota Public Utilities Commissions and the Federal Communications Commission. As soon as those approvals have been obtained, the transaction will take effect and Hills Telephone Company, Inc. will begin providing your local telephone service.

Hills Telephone Company, Inc. is a wholly-owned subsidiary of Alliance Communications Cooperative, Inc., which is headquartered in Garretson, South Dakota. Hills Telephone Company, Inc. will be doing business in the Valley Springs Exchange under the trade name "Alliance Communications". There will be no other noticeable changes in your local telephone service or in your local telephone or long distance rates as a result of this transaction.

If you have any questions regarding this transaction or its effect on you, please feel free to contact either of the following persons at the addresses indicated below:

Dennis Law
General Manager
Sioux Valley Telephone Company
P.O. Box 98
Dell Rapids, SD 57022
Telephone # 1-800-952-3566

Don Snyders
General Manager
Hills Telephone Company, Inc.
P.O. Box 349
Garretson, SD 57030
Telephone # 1-800-533-0011

If you wish to contact either the Minnesota or South Dakota Public Utilities Commissions regarding this transaction, they may be reached at the following addresses and telephone numbers:

Minnesota Public Utilities Commission
121 7th Place East – Suite 350
St. Paul, MN 55101-2147
Telephone # (651) 296-7124

South Dakota Public Utilities Commission
500 E. Capitol Avenue
Pierre, SD 57501-5070
Telephone # (605) 773-3201

Sincerely,

SIoux VALLEY TELEPHONE COMPANY

Dennis Law, General Manager

Sincerely,

HILLS TELEPHONE COMPANY, INC.

Don Snyders, General Manager

RICHARD A. CUTLER
KENT R. CUTLER
BRIAN J. DONAHOE **
MARK E. SALTER *
STEVEN J. SARBACKER ††
JAYNA M. VOSS
MICHAEL D. BORNITZ †
TRENT A. SWANSON *
KIMBERLY R. WASSINK
RYAN J. TAYLOR ††
MEREDITH A. MOORE
DAVID L. EDWARDS
TORREY D. SUNDALL

CUTLER & DONAHOE, LLP
ATTORNEYS AT LAW

Telephone (605) 335-4950

Fax (605) 335-4961

April 29, 2004

JEAN BROCKMUELLER, CPA (Inactive)
BUSINESS MANAGER

* Also licensed to practice
in Minnesota

** Also licensed to practice
in Minnesota and Iowa

† Also licensed to practice
in Nebraska

†† Also licensed to practice
in Minnesota and Missouri

**† Also licensed as a Certified
Public Accountant

Darla Pollman Rogers
Riter, Rogers, Wattier & Brown, LLP
P.O. Box 280
Pierre, South Dakota 57501-0280


Re: *South Dakota Public Utilities Commission Docket No. TC04-040*
Our File No. 280.21

Dear Darla:

Enclosed is a signed original of the Second Supplement to Joint Application for Approval of Sale of Telephone Exchanges in regard to the sale of the Valley Springs Telephone Exchange to Hills Telephone Company, Inc. John Smith asked that a supplementary filing be made to enter the notification letter into the record. If this meets with your approval, please sign where indicated and file the same with the South Dakota Public Utilities Commission. If you have any questions, please feel free to contact me at your convenience at (605) 335-4989. Thank you for your assistance.

Sincerely,

CUTLER & DONAHOE, LLP



Ryan J. Taylor
For the Firm

RJT:jak

Enclosures

cc: Don Snyders (w/enclosure)
Denny Law (w/enclosure)

CUTLER & DONAHOE, LLP
100 North Phillips Avenue – 9th Floor
Sioux Falls, South Dakota 57104-6725
Telephone (605) 335-4950
Fax (605) 335-4961

FAX TRANSMITTAL SHEET

DATE: June 7, 2004

TO: Karen Cremer
FAX NUMBER: (605) 773-3809
FROM: Ryan Taylor
Cutler & Donahoe, LLP
RE: Hills Telephone Company (Valley Springs Purchase)
Our Client No. 280.25
COMMENTS:

Faxed only Faxed & Mailed

Number of pages (including this cover sheet): 2

IMPORTANT NOTICE

***PRIVILEGED AND CONFIDENTIAL ATTORNEY/CLIENT INFORMATION:** The information contained in this facsimile transmission is privileged and confidential. It is intended only for the use of the individual or entity named above. If the reader of this message is not the intended recipient, you are hereby notified that any disseminations, copying, or distribution of this communication or any of the information contained herein is prohibited. If you have received this communication in error, please contact us immediately via collect telephone call. It would be appreciated if you could return the original message at the above address via U.S. Postal Service. We will reimburse you for the postage. Thank you.*

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer
 Marshall Johnson
 Kenneth Nickolai
 Phyllis Reha
 Gregory Scott

Chair
 Commissioner
 Commissioner
 Commissioner
 Commissioner

Service Date: **MAY 26 2004**
 Docket No. P533/562/PA-04-447

To: Brian J. Donahoe
 Ryan J. Taylor
 Cutler & Donahoe, LLP
 100 North Phillips Avenue, 9th Floor
 Sioux Falls, South Dakota 57104-6725

In the matter of a Joint Application of Hills Telephone Company, Inc. and Sioux Valley Telephone Company for Purchase and Sale of Telephone Exchanges.

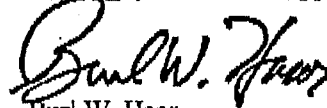
The above-entitled matter has been considered by the Commission and the following disposition made:

- **Approved the purchase and sale of the East Valley Springs Exchange from Sioux Valley Telephone Company to Hills Telephone Company; and**
- **Require Hills Telephone Company to notify the Commission of the actual transfer of the Exchanges following the closing of the transactions;**
- **Require Hills Telephone Company to submit a tariff change reflecting the Sioux Valley Telephone Company rates, terms and conditions of service being offered to the East Valley Springs Exchange;**
- **Cancel the local exchange operating authority of Sioux Valley Telephone Company upon receipt of notice that this transaction has closed.**

The Commission agrees with and adopts the recommendations of the Department of Commerce which are attached and hereby incorporated in this Order:

This decision is issued by the Commission's consent calendar subcommittee, under a delegation of authority granted under Minn. Stat. § 216A.03, subd. 8 (a). Unless a party, a participant, or a Commissioner files an objection to this decision within 10 days of receiving it, it will become the Order of the full Commission under Minn. Stat. § 216A.03, subd. 8 (b).

BY ORDER OF THE COMMISSION


 Burl W. Haar
 Executive Secretary

(SEAL)

This document can be made available in alternative formats (i.e., large print or audio tape) by calling (651) 297-4596 (Voice), (651) 297-1200 (TTY) or 1-800-627-3529 (TTY relay service).

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE JOINT APPLICATION)	ORDER APPROVING SALE
OF SIOUX VALLEY TELEPHONE COMPANY)	OF TELEPHONE
AND HILLS TELEPHONE COMPANY, INC.)	EXCHANGES
REGARDING THE SALE BY SIOUX VALLEY)	
TELEPHONE COMPANY OF ITS VALLEY)	TC04-040
SPRINGS, EAST VALLEY SPRINGS AND)	
NORTH LARCHWOOD EXCHANGES TO HILLS)	
TELEPHONE COMPANY, INC.)	

On March 2, 2004, Hills Telephone Company, Inc. (Hills) and Sioux Valley Telephone Company (Sioux Valley) filed a Joint Application (Application) requesting the South Dakota Public Utilities Commission (Commission) to approve the sale of Sioux Valley's local telephone exchange facilities serving the Valley Springs, East Valley Springs and North Larchwood local exchanges to Hills.

On March 4, 2004, the Commission electronically transmitted notice of the filing and the intervention deadline of March 19, 2004, to interested individuals and entities. No petitions to intervene or comments were filed. Notification of the pending sale of exchanges was published in the following papers: *Argus Leader*, April 6, 2004; *Brandon Valley Challenger*, April 7, 2004. No comments were received on the sale of the exchanges.

On March 30, April 8, and May 13, 2004, Hills and Sioux Valley supplemented their filing stating that Hills will provide the following:

1. adequate local telephone service;
2. reasonable rates for local service;
3. provisioning of 911, Enhanced 911, and other public safety services;
4. payment of taxes;
5. the ability of the local exchange company to provide access to modern, state-of-the-art telecommunications services that will help promote economic development, tele-medicine, and distance learning.

At its June 8, 2004, regularly scheduled meeting, the Commission considered this matter. The Commission has jurisdiction over the sale of the exchanges pursuant to SDCL Chapters 1-26 and 49-31, specifically 1-26-17.1, 49-31-3, 49-31-3.1, 49-31-4, 49-31-5.1, 49-31-7, 49-31-7.1, 49-31-11, 49-31-18, 49-31-19, 49-31-20, 49-31-21, and 49-31-59. Pursuant to SDCL 49-31-59, the Commission is required to separately vote on the sale of each exchange and to consider the following factors: the protection of the public interest; the adequacy of local telephone service; the reasonableness of rates for local service; the provision of 911, Enhanced 911, and other public safety services; the payment of taxes; and the ability of the local exchange company to provide access to modern, state-of-the-art telecommunications services that will help promote economic development, tele-medicine, and distance learning.

Commission Staff recommended approval of the sale of the above referenced exchanges, subject to:

1. That the sale of exchanges proceed substantially in accordance with the terms set forth in the Application as supplemented and the other documents submitted in support of the Application.
2. That Hills not recover any of the acquisition adjustment or good will associated with the purchase through its regulated interstate or intrastate rates, through its local rates, or through federal or state universal service funds;
3. That Hills honor all existing contracts, commitments, leases, licenses, and other agreements which relate to, arise from, or are used for the operation of the purchased exchanges;
4. That Hills continue to offer all services in those portions of the exchanges located in South Dakota that are currently offered by Sioux Valley to such customers; and
5. That Hills not discontinue any extended area service currently provided to those portions of the exchanges located in South Dakota without first obtaining approval from the Commission.

The Commission voted separately on the sale of each of the Sioux Valley exchanges. The sale of each of the Sioux Valley exchanges to Hills was separately approved by unanimous vote of the Commission, subject to the above-referenced conditions recommended by Commission Staff. The Commission further found that the public interest is protected.

It is therefore

ORDERED, that the sale of the Valley Springs, East Valley Springs and North Larchwood exchanges by Sioux Valley to Hills is approved, subject to the above-referenced conditions.

Dated at Pierre, South Dakota, this 8th day of July, 2004.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Melaine Kolbo

Date: 7/9/04

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

Robert K. Sahr
ROBERT K. SAHR, Chairman

Gary Hanson
GARY HANSON, Commissioner

James A. Burg
JAMES A. BURG, Commissioner