ATTACHMENT E - PROJECT PLAN (KEY PHASES AND MILESTONES TO DEMONSTRATE DEGREE OF COMPLETION)

- Use the following table to list the major network build-out phases and milestones that can demonstrate that your entire project will be substantially complete by the end of [redacted] and fully complete by the end of [redacted] This is to be done at the aggregate level (combining all proposed funded service areas.)

- Indicate how the milestones listed below will demonstrate these completion objectives. The applicant should consider such project areas as: a) network design; b) securing all relevant licenses and agreements; c) site preparation; d) equipment procurement; e) inside plant deployment; f) outside plant deployment; g) equipment deployment; h) network testing; i) network complete and operational. The applicant may provide any other milestones that it believes showcase progress.

- Project inception (Year 0) starts at the date when the applicant receives notice that the project has been approved for funding.

- In the table, provide any information (e.g., facts, analysis) to: a) demonstrate the reasonableness of these milestones; b) substantiate the ability to reach the milestones by the quarters indicated.

- On a separate sheet, describe the key challenges, if any, to a timely completion of the project, including any applicable mitigation plans.

Time Period	Quarter	List All Relevant Milestones	Support for Reasonableness/Data Points
[redacted]		• [redacted] Network Design Completed • [redacted] All relevant licenses secured • [redacted] Finalize American Tower, SBA Towers, and Dukenet Master Lease Agreements. [redacted] • [redacted] Order core network infrastructure and wireless infrastructure for Phase I Deployment. [redacted]	• Enables BIT to meet [redacted] build out plans for [redacted] All vendor agreements are pre-negotiated and equipment will be ordered once notice of funding is received. • Master Lease agreements are negotiated to allow BIT to attach to any available tower owned by American Tower, SBA Towers and Dukenet. Site Lease Agreements are executed depending on when the site is scheduled for construction. • BIT has an agreement with Dukenet to negotiate tower and site acquisition. Dukenet will act on behalf of BIT to formalize agreements and ensure compliance with all necessary laws and regulations. Outsourcing this will ensure that BIT meets its Qtr. 1 milestone of all Phase I tower sites secured.

Year 1	Qtr 1	• Execute Master Lease Agreements with American Tower, SBA Tower and Dukenet, and complete Site Lease Agreements for all Phase I deployment. (4 weeks from receipt of funds) • [redacted] and inside plant deployment. [redacted] from receipt of funds) • [redacted] Select contractor for site building construction [redacted] from receipt of funds)	• All Phase I sites are acquired and tower site lease agreements completed. • [redacted] is installed, tested, and ready to accept network traffic at the end of [redacted] • All equipment manufacturers for BIT core network design are ready to accept and process purchase orders and can ship equipment within [redacted] • BIT has built into the deployment plan time to account for any schedule or equipment delays.

	Qtr 2	• Complete [redacted] sites.
		  ○ [redacted] weeks from receipt of funds)
		  ○ [redacted] weeks from receipt of funds)
		  ○ [redacted] weeks from receipt of funds)
		  ○ [redacted] weeks from receipt of funds)
		  ○ [redacted] weeks from receipt of funds)
		• [redacted] (24 weeks from receipt of funds)
		  ○ Complete [redacted] support retail and wholesale operations in the [redacted].
			• BIT and its systems integrator, [redacted], will coordinate installation of wireless equipment after all site construction has been completed. Site construction consists of installing [redacted]
			• [redacted]
			• [redacted]

	Qtr 3	• [redacted]
		  ○ [redacted] weeks from receipt of funds)
		  ○ [redacted] weeks from receipt of funds)
		  ○ [redacted] weeks from receipt of funds)
		  ○ [redacted] weeks from receipt of funds)
		• Start Phase II Site Lease Agreement Process ([redacted] weeks from receipt of funds)
			• BIT has built into the deployment plan time to account for schedule or equipment delays.
			• Start application process to acquire tower site lease agreements for Phase II network deployments.

	Qtr 4	• [redacted] sites ○ [redacted] weeks from receipt of funds) ○ [redacted] weeks from receipt of funds) ○ [redacted] weeks from receipt of funds) ○ [redacted] weeks from receipt of funds) ○ [redacted] weeks from receipt of funds) • [redacted] weeks from receipt of funds) ○ [redacted] • [redacted] [redacted]	• [redacted] • [redacted] • [redacted]
Year 2	Qtr 1	• Start Phase II [redacted] • [redacted] receipt of funds) • [redacted] Sites ○ [redacted] weeks from receipt of funds) ○ [redacted] weeks from receipt of funds) ○ [redacted] weeks from receipt of funds) ○ [redacted] weeks from receipt of funds)	○ Phase II agreements completed by Dukenet and ready for construction to begin.
	Qtr 2	• [redacted]) broadband sites ○ [redacted] weeks from receipt of funds) ○ [redacted] weeks from receipt of funds) ○ [redacted] weeks from receipt of funds) ○ [redacted] weeks from receipt of funds) ○ [redacted] weeks from receipt of funds)	
	Qtr 3	○ [redacted] sites ○ [redacted]weeks from receipt of funds) ○ [redacted] weeks from receipt of funds) ○ [redacted] weeks from receipt of funds)	[redacted]

	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
	Qtr 2	[redacted] – Continue subscriber installs and operations	[redacted]
	Qtr 3	[redacted] – Continue subscriber installs and operations	[redacted]
	Qtr 4	[redacted] – Continue subscriber installs and operations	[redacted]
Year 4	Qtr 1	[redacted] – Continue subscriber installs and operations	[redacted]
	Qtr 2	[redacted] – Continue subscriber installs and operations	[redacted]
	Qtr 3	[redacted] – Continue subscriber installs and operations	[redacted]
	Qtr 4	[redacted] – Continue subscriber installs and operations	[redacted]
Year 5	Qtr 1	Evaluate new technologies and make plant investments as needed.	Project 100% complete
	Qtr 2	Evaluate new technologies and make plant investments as needed.	Project 100% complete
	Qtr 3	Evaluate new technologies and make plant investments as needed.	Project 100% complete
	Qtr 4	Evaluate new technologies and make plant investments as needed.	Project 100% complete

Describe the key challenges, if any, to a timely completion of the project, including any applicable mitigation plans.

Buggs Island Telephone Cooperative has completed an extensive project build-out plan that takes into consideration several key challenges that may be encountered during deployment phases. To overcome each potential challenge, BIT has developed a mitigation plan that will enable the project to be completed in a timely manner.

Due to the inherent nature of construction, delays during the course of a project are inevitable. To compensate for any delays in the project schedule, BIT has [redacted]. This means that the project could be [redacted] This flextime is meant to allow for delays as a result of weather, construction difficulties, permitting, or other unforeseen issues that may arise during network deployment. BIT has further ensured that the project will be administratively closed out by the end [redacted] instead of the required "substantially complete" status. If more time is required then the [redacted] allotted, the project can proceed into [redacted] and still meet to classification of substantially complete.

An additional key challenge is the assumption [redacted] at the time construction is ready to start. [redacted] However, due to the flexibility of the 700 MHz spectrum that BIT is utilizing for the deployment of its wireless network, if the anticipated tower [redacted], BIT can attach to any other tower [redacted] and still meet the coverage requirements outlined in the NOFA. The flexibility BIT has to acquire new tower sites as needed, because of the 700 MHz spectrum, allows it to effectively address any challenges that may arise from a tower site becoming unavailable prior to construction.

[redacted] for this initiative is another key obstacle BIT has identified during the planning of this project. [redacted] To facilitate the development of a readily accessible workforce, BIT has partnered with [redacted] deliver specialized training that provides the skill sets required for this project. With unemployment above 9% throughout the service area, this program will provide skills to the existing workforce that will allow BIT access to the personnel needed. Specially trained personnel will enhance the project's potential for success. To further address personnel needs, BIT will outsource helpdesk and engineering related functions that require large amounts of manpower. Additionally, outside contractors have been identified to assist with subscriber installations and system construction on an "as needed" basis. This assistance will cover any gaps that BIT's staff is unable to fill while still meeting our project timeline.

The final key challenge that BIT may face in this deployment is the [redacted] The equipment in the 700 MHz spectrum is primarily provided by [redacted]

However, with the rapid development of the LTE (Long Term Evolution) mobile wireless standard and other manufacturers developing 700 MHz [redacted] equipment, BIT will simply purchase equipment from other manufacturers that conform to the [redacted] standard. This inconvenience would only impose minor delays as competition in the market has increased significantly as a result of the broadband stimulus funding, BIT does not anticipate a problem in acquiring the necessary infrastructure in a timely manner.

Many of the potential challenges will not happen; however, it is critical that a plan be in place to address setbacks if and when they do occur. BIT is committed to providing the rural residents and businesses of Southside Virginia with broadband access. In accordance with this mission, BIT has developed the necessary policy and procedures to address the key challenges listed above, and its management team has the experience and capability to resolve any issues that may occur during the deployment process.

SUBSCRIBER PROJECTION TABLE AND RATE PLANS VOICE SERVICES

COMPLETE THE CHART BELOW FOR EACH PROPOSED FUNDED SERVICE AREA. FOR ALL OTHER SERVICE AREAS, PLEASE PREPARE A CHART THAT AGGREGATES THIS INFORMATION

SERVICE AREA NAME: [redacted], *Virginia*

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted]	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0

SERVICE AREA NAME: [redacted] *County, Virginia*

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted] Town	0	0	[redacted]	[redacted]	0	0	0	0	0	0
2	[redacted] Town	[redacted]	[redacted]	0	0	0	0	0	0	0	0
3	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0

SERVICE AREA NAME: [redacted] *County, Virginia*

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted] Town	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
2	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0

SERVICE AREA NAME: [redacted] *County, Virginia*

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted] Town	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0
2	[redacted] Town	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0
3	[redacted] Town	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0
4	[redacted] Town	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0
5	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0

SERVICE AREA NAME: [redacted] *County, Virginia*

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted] Town	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
2	[redacted]	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0

SERVICE AREA NAME: [redacted] ***County, Virginia***

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted] Town	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0
2	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0

SERVICE AREA NAME: [redacted] ***County, Virginia***

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted] Town	0	0	0	0	0	0	0	0	0	0
2	[redacted] Town	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0
3	[redacted] Town	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0	0
4	[redacted] Town	0	0	0	0	0	0	0	0	0	0
5	[redacted] Town	0	0	[redacted]	[redacted]	0	0	0	0	0	0
6	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0

SERVICE AREA NAME: [redacted] ***County, Virginia***

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted] CDP	0	0	[redacted]	[redacted]	[redacted]	0	0	0	0	0
2	[redacted] Town	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
3	[redacted] Town	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
4	[redacted]	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0

SERVICE AREA NAME: [redacted] ***County, Virginia***

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted] Town	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0
2	[redacted] Town	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0
3	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0

SERVICE AREA NAME: [redacted] ***County, Virginia***

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted] Town	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0
2	[redacted] Town	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0
3	[redacted] Town	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0
4	[redacted] Area	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0

SERVICE AREA NAME: [redacted] *County, Virginia*

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted]	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
2	[redacted]	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
3	[redacted]	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
4	[redacted]	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0

SERVICE AREA NAME: [redacted] *County, Virginia*

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted] Town	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
2	[redacted]	0	0	[redacted]	[redacted]	[redacted]	0	0	0	0	0
3	[redacted] Town	0	0	[redacted]	[redacted]	[redacted]	0	0	0	0	0
4	[redacted]	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0

SERVICE AREA NAME: [redacted] *County, Virginia*

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted]	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
2	[redacted] Town	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
3	[redacted] Town	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
4	[redacted] Town	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
5	[redacted] Town	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
6	[redacted] Town	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
7	[redacted]	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0

SERVICE AREA NAME: [redacted] *County, Virginia*

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted] Town	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
2	[redacted] Town	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
3	[redacted]	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0
4	[redacted]	0	0	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0

SERVICE AREA NAME: [redacted] *County, Virginia*

	Census Community	Year 1		Year 2		Year 3		Year 4		Year 5	
		Res	Bus	Res	Bus	Res	Bus	Res	Bus	Res	Bus
1	[redacted]	0	0	0	0	0	0	0	0	0	0
2	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0
3	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0
4	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0	0	0
5	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	0	0	0	0

Rates:

Residential Service: [redacted] (Includes voicemail, caller id, call waiting, and unlimited long distance).

Business Service: [redacted] (Includes voicemail, caller id, call waiting, and unlimited long distance).

Other (Specify): Critical community facilities and anchor institutions are offered services at residential rates.

Note: Complete a separate table for each service area.

VIDEO SERVICES
SUBSCRIBER PROJECTS AND RATE PLANS
COMPLETE THE CHART BELOW FOR EACH PROPOSED FUNDED SERVICE AREA. FOR ALL OTHER SERVICE AREAS, PLEASE PREPARE A CHART THAT AGGREGATES THIS INFORMATION

SERVICE AREA NAME:

	Census Community	**Year 1**			**Year 2**			**Year 3**			**Year 4**			**Year 5**		
		Pkg 1	Pkg 2	Other	Pkg 1	Pkg 2	Other	Pkg 1	Pkg 2	Other	Pkg 1	Pkg 2	Other	Pkg 1	Pkg 2	Other
1																
2																
3																
4																
5																
6																
7																
8																
9																
10																
TOTAL																

Rates:

Package 1: (ex. 150 basic channels / $35)

Package 1: (ex. 150 basic channels and Premium / $60)

Other (Specify):

Note: Complete a separate table for each service area. Column headings should be changed to reflect the name of the service package to be offered. Additional columns may be added for each year if more than three package are offered.

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS
Years ended December 31, 2007 and 2006

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

Contents

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Buggs Island Telephone Cooperative and Subsidiary
Bracey, Virginia

We have audited the accompanying consolidated balance sheets of Buggs Island Telephone Cooperative (a Virginia corporation) and subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of operations, members' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Buggs Island Telephone Cooperative and subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated May 16, 2008, on our consideration of Buggs Island Telephone Cooperative and subsidiary's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Kiesling Associates LLP

West Des Moines, Iowa
May 16, 2008

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 894,285	$ 884,386
Accounts receivable:		
Due from customers		
Less allowance of $11,455 and $13,748, respectively	343,942	323,385
Interexchange carriers		
Less allowance of $29,328	238,455	196,642
Other	9,772	1,845
Notes receivable	5,987	46,400
Materials and supplies at average cost	114,175	94,407
Inventory at average cost	18,865	9,970
Prepayments	72,092	78,594
	1,697,573	1,635,629
OTHER NONCURRENT ASSETS		
Investment in Virginia Independent Telephone Alliance, LLC	81,830	81,830
Investment in lenders	2,000	2,000
Notes receivable, less current portion	7,416	6,024
Deferred charges	37,654	-
Other noncurrent assets	10,000	-
	138,900	89,854
PROPERTY, PLANT AND EQUIPMENT		
Telephone plant in service	13,259,440	12,543,382
Nonregulated telephone plant in service	205,594	205,594
	13,465,034	12,748,976
Less accumulated depreciation	8,487,580	7,450,358
	4,977,454	5,298,618
Plant under construction	382,280	440,584
	5,359,734	5,739,202
TOTAL ASSETS	$ 7,196,207	$ 7,464,685

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

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006

	2007	2006
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 248,079	$ 287,782
Accounts payable	240,377	187,631
Advance billing and payments	170,676	88,138
Customer deposits	26,845	22,140
Accrued taxes	132	10,925
Other	40,044	125,281
	726,153	721,897
LONG-TERM DEBT, less current portion	2,861,599	3,095,817
OTHER NONCURRENT LIABILITIES AND DEFERRED CREDITS		
Accrued post-retirement benefits	1,659,118	767,469
Asset retirement obligations	61,003	58,177
Other deferred credits	59,672	61,405
	1,779,793	887,051
MEMBERS' EQUITY		
Patronage capital assigned	3,415,363	3,452,050
Patronage capital assignable	(845,016)	(692,130)
Accumulated Other Comprehensive Income:		
Unrealized loss on post-employment benefits	(741,685)	-
	1,828,662	2,759,920
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 7,196,207	$ 7,464,685

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

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Local network services	$ 974,249	$ 794,958
Network access services	2,176,848	2,027,841
Long distance services	520,273	544,798
Internet services	615,087	620,259
Nonregulated revenues	80,882	112,198
Miscellaneous revenue	112,921	128,436
	4,480,260	4,228,490
OPERATING EXPENSES		
Plant specific operations	694,938	782,934
Plant nonspecific operations	376,732	563,136
Cost of long distance services	234,173	247,691
Cost of internet services	529,038	398,472
Cost of nonregulated services	201,611	165,371
Depreciation and accretion	1,040,048	986,260
Customer operations	536,376	397,085
Corporate operations	847,691	846,789
General taxes	36,423	49,226
	4,497,030	4,436,964
OPERATING LOSS	(16,770)	(208,474)
OTHER INCOME (EXPENSE)		
Interest and dividend income	10,810	10,721
Gain from redemption of Rural Telephone Bank stock	-	56,163
Interest expense	(155,079)	(154,411)
Allowance for funds used during construction	14,403	66,398
Other, net	(6,250)	6,933
	(136,116)	(14,196)
NET LOSS	$ (152,886)	$ (222,670)

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

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
Years ended December 31, 2007 and 2006

	Patronage Capital Assigned	Margins Assignable	Accumulated Other Comprehensive Income	Total Members' Equity	Annual Comprehensive Income
Balance at December 31, 2005	$ 3,491,792	$ (469,460)	$ -	$ 3,022,332	
Net loss	-	(222,670)	-	(222,670)	$ (222,670)
Retirement of patronage capital	(39,742)	-	-	(39,742)	
Balance at December 31, 2006	3,452,050	(692,130)	-	2,759,920	$ (222,670)
Net loss	-	(152,886)	-	(152,886)	$ (152,886)
Retirement of patronage capital	(36,687)	-	-	(36,687)	
Unrealized loss on post-employment benefits	-	-	(741,685)	(741,685)	(741,685)
Balance at December 31, 2007	$ 3,415,363	$ (845,016)	$ (741,685)	$ 1,828,662	$ (894,571)

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

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (152,886)	$ (222,670)
Adjustments to reconcile net loss		
to net cash provided by operating activities:		
Depreciation and accretion	1,040,048	986,260
Gain from redemption of Rural Telephone Bank stock	-	(56,163)
Net activity in RUS advance payment accounts	-	14,675
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(80,297)	(42,622)
Materials and supplies	(28,663)	56,324
Prepayments	6,502	(78,594)
Increase (Decrease) in:		
Accounts payable	4,296	(369,470)
Accrued taxes	(10,793)	4,430
Accrued post-retirement benefits	149,964	110,860
Other	273	(60,931)
Net cash provided by operating activities	928,444	342,099
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(646,958)	(996,675)
Proceeds from sale of Rural Telephone Bank stock	-	70,000
Issuance of notes receivable	(16,388)	(57,618)
Collections of notes receivable	55,409	48,694
Salvage, net of cost of removing plant	-	20,892
Net cash used in investing activities	(607,937)	(914,707)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowing	-	1,162,000
Repayment of long-term debt	(273,921)	-
Patronage capital retired	(36,687)	(39,742)
Net cash provided by (used in) financing activities	(310,608)	1,122,258
Net Increase in Cash and Cash Equivalents	9,899	549,650
Cash and Cash Equivalents at Beginning of Year	884,386	334,736
Cash and Cash Equivalents at End of Year	$ 894,285	$ 884,386

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

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Buggs Island Telephone Cooperative and subsidiary (herein referred to as "the Company") are providers of telecommunications exchange and local access, long distance, internet and telecommunication equipment in a service area located in Bracey, Virginia and surrounding rural areas.

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Telephone operations reflect practices appropriate to the telephone industry. The accounting records of the telephone company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Federal Communications Commission (FCC) as modified by the state regulatory authority.

Principles of Consolidation

The consolidated financial statements include the accounts of the parent company Buggs Island Telephone and its 100%-owned subsidiary, BIT, LLC. All material intercompany transactions have been eliminated in consolidation.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected.

Inventory

Inventory is stated at the lower of cost or market with cost determined by the average cost method.

Investments

Nonmarketable equity investments are stated at cost.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

Property, plant and equipment is capitalized at original cost including the capitalized cost of salaries and wages, materials, certain payroll taxes, employee benefits and interest incurred during the construction period.

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property as approved by the state regulatory authority. These estimates are subject to change in the near term.

Renewals and betterments of units of property are charged to plant in service. When plant is retired, its cost is removed from the asset account and charged against accumulated depreciation less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable property. Repairs and renewals of minor items of property are included in plant specific operations expense.

Repairs of other property, as well as renewals of minor items, are charged to plant specific operations expense. A gain or loss is recognized when other property is sold or retired.

Asset Retirement Obligations

Generally accepted accounting principles require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

Income Taxes

The parent company (the Company) is organized under the cooperative laws of the State of Virginia. The Company has obtained an exemption from federal income taxes under code section 501(c)12. With respect to cooperative operations, the financial statements reflect no provision or liability for income taxes.

BIT, LLC, the subsidiary, is not recognized separately for tax purposes by the taxing authorities and, therefore, it is combined with Buggs Island Telephone Cooperative in its tax filing.

Revenue Recognition

The Company recognizes revenues when earned regardless of the period in which they are billed. The Company is required to provide telephone service to subscribers within its defined service territory.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Local network service and internet revenues are recognized over the period a subscriber is connected to the network.

Network access and long distance service revenues are derived from charges for access to the Company's local exchange network. The interstate portion of access revenues is based on an average schedule company settlement formula administered by the National Exchange Carrier Association (NECA) which is regulated by the FCC. The intrastate portion of access revenues is billed on individual company tariff access charge structure based on expense and plant investment of the Company as approved by the state regulatory authority. The tariffs developed from these formulas are used to charge the connecting carrier and recognize revenues in the period the traffic is transported based on the minutes of traffic carried. Long distance revenues are recognized at the time a call is placed based on the minutes of traffic processed at contracted rates.

Revenues from system sales and services are derived from the sale, installation, and servicing of communications systems. Customer contracts of sales and installations are recognized using the completed-contract method which recognizes income when the contract is substantially complete. Rental revenues are recognized over the rental period. Credit is granted to customers, substantially all of whom are located in Bracey, Virginia.

Patronage Capital

Revenues in excess of costs and expenses are assigned to patrons on a patronage basis in accordance with the Company's bylaws and are represented by patronage capital.

Reclassifications

Certain reclassifications have been made to the 2006 consolidated financial statements to conform with the 2007 presentation.

NOTE 2. INVESTMENTS

In 2005, the Rural Telephone Bank (RTB) board announced plans to redeem the outstanding stock of the bank and liquidate the bank. The RTB Class B stock was originally purchased as a condition of obtaining long-term financing. Under the plan, the RTB's outstanding loans will be transferred to the RUS. The RTB stock held by the Company was redeemed in 2006 for $70,000, resulting in a before tax gain of $56,163.

The Company owns a 3.4% interest in the Virginia Independent Telephone Alliance, L.C. (VITAL). VITAL was established in 1993 as a joint venture by independent telephone companies in Virginia for the purpose of providing and selling SS7 network services. This investment is appropriately accounted for using the cost method, and the $81,830 represents the capital the Company has contributed in the form of cash. Management assesses this investment annually and has determined that its value has not been impaired.

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 3. NOTES RECEIVABLE

Notes receivable consist of:

	2007	2006
Rural Economic Development note	$ -	$ 18,750
Computers note receivable	13,403	33,674
Total notes receivable	13,403	52,424
Less current portion	5,987	46,400
	$ 7,416	$ 6,024

Principal maturities of notes receivable for the next two years are as follows:

2008	$	5,987
2009		7,416

The Rural Economic Development note consisted of a loan made to a local commission to assist in economic development in the Company's service area. The note was non-interest bearing and was repayable in equal annual installments of $18,750. The source of funding for the note was a Rural Economic Development loan made to the Company.

In 2006, the Company began selling computers to broadband internet subscribers. The Company allows for the customers to pay for the computers over a 24 month period with no interest.

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	2007	2006
Telephone plant in service:		
Land	$ 35,364	$ 35,364
Buildings	574,433	574,433
Furniture and office equipment	479,608	453,698
Vehicles and work equipment	440,400	351,310
Switching equipment	5,370,519	5,120,355
Outside plant	6,283,953	5,933,059
Organization	1,758	1,758
Leasehold improvements	73,405	73,405
Subtotal	13,259,440	12,543,382
Nonregulated telephone plant in service:		
Paystations	165,086	165,086
Other	40,508	40,508
Subtotal	205,594	205,594
Total property, plant and equipment	$ 13,465,034	$ 12,748,976

Depreciation on depreciable property resulted in composite rates of 7.96% and 8.28% for 2007 and 2006, respectively.

NOTE 5. ASSET RETIREMENT OBLIGATION

The Company has determined that asset retirement obligations exist as there is a legal obligation to remove switching equipment at the time the Company discontinues its use. The Company's cost to remove these assets is accrued over the life of the assets. Accordingly, the Company has recorded a liability of $61,003 and $58,177 on December 31, 2007 and 2006, respectively. The expense in 2007 and 2006 for the accretion and depreciation related to asset retirement obligations is $9,551 and $7,398, respectively.

NOTE 6. LONG-TERM DEBT

Long-term debt consists of:

	2007	2006
RUS mortgage notes - 2%	$ 1,400	$ 4,263
RUS mortgage notes - 5%	417,974	487,331
FFB mortgage notes - 4.222%	341,953	368,689
FFB mortgage notes - 4.363%	116,750	125,789
FFB mortgage notes - 4.478%	275,372	296,520
FFB mortgage notes - 4.530%	628,649	676,752
FFB mortgage notes - 4.544%	894,043	962,385
FFB mortgage notes - 5.043%	311,045	334,000
FFB mortgage notes - 5.251%	122,492	131,400
Rural Economic Development loan	-	18,750
Total long-term debt	3,109,678	3,405,879
Less advanced payments	-	22,280
	3,109,678	3,383,599
Less current portion	248,079	287,782
	$ 2,861,599	$ 3,095,817

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

2008	$ 248,079
2009	249,159
2010	180,281
2011	240,961
2012	291,928

Substantially all assets of the Company are pledged as security for the long-term debt under certain loan agreements with the Rural Utilities Service (RUS) and the Federal Financing Bank (FFB). The RUS mortgage notes are to be repaid in equal quarterly installments covering principal and interest beginning three years after date of issue and expiring by 2015. The FFB mortgage notes are to be repaid in equal quarterly installments covering principal and interest beginning the first quarter after advancement of funds and expiring by 2021.

The mortgage to the United States of America, underlying the RUS and FFB notes, contains certain restrictions on the declaration or payment of cash dividends, redemption of capital stock or investment in affiliated companies, except as might be specifically authorized in writing in advance by the RUS and FFB noteholders. The Company has reported to the RUS and FFB that it has failed to comply with the Times Interest Earned Ratio (TIER) required to be in compliance with the RUS and FFB loan agreements.

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 6. LONG-TERM DEBT (Continued)

Cash paid for interest, net of amounts capitalized, for 2007 and 2006 totaled $174,976 and $47,673, respectively.

At December 31, 2007, of the funds available for long-term notes and lines of credit, all funds were advanced.

NOTE 7. DEFINED BENEFIT PENSION PLAN

The Company has a noncontributory, defined benefit pension plan covering most employees. The multi-employer retirement programs are with the National Telephone Cooperative Association (NTCA) and have been approved by the Internal Revenue Service. Pension costs expensed and capitalized for December 31, 2007 and 2006 were $136,418 and $131,103, respectively. The Company makes annual contributions to the plan equal to amounts accrued for pension expense.

NOTE 8. POST-RETIREMENT BENEFIT PLAN

The Company has a benefit plan for retirees that provides hospitalization insurance benefits that are provided by the payment of 60% of insurance premiums on behalf of eligible retirees. The plan anticipates that benefits offered under the plan will be adjusted periodically in accordance with the changes adopted for the active employees.

In 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. SFAS No. 158 requires an employer that sponsors defined benefit plans to report the current economic status (the overfunded or underfunded status) of the plan in its balance sheet, to measure the plan assets and plan obligations as of the balance sheet date, and to include enhanced disclosures about the plan. The Company adopted the recognition and disclosure provisions of SFAS No. 158 for the year ending December 31, 2007. The Company will be required to adopt the measurement date provision for the fiscal year ending December 31, 2008. The Company does not anticipate adopting the provisions of SFAS No. 158 prior to those periods.

The Company uses a December 31 measurement date for its plans.

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 8. **POST-RETIREMENT BENEFITS (Continued)**

The following table sets forth information about the benefit plan for the year ended December 31:

	2007	2006
Change in benefit obligations:		
Benefit obligations at beginning of year	$ 1,515,290	$ 1,267,962
Service cost	105,367	227,946
Interest cost	88,420	73,944
Benefits paid	(49,959)	(54,562)
Benefit obligations at end of year	1,659,118	1,515,290
Change in plan assets:		
Fair value of plan assets at beginning of year	-	-
Employer contributions	49,959	54,562
Benefits paid	(49,959)	(54,562)
Fair value of plan assets at end of year	-	-
Funded status	1,659,118	1,515,290
Unrecognized:		
Net gain (loss)	-	(596,106)
Prior service cost	-	(151,715)
Net amount recognized	$ 1,659,118	$ 767,469

	2007	2006
Amounts recognized in accumulated other comprehensive income:		
Actuarial loss, net	$ 661,231	$ -
Prior service cost	80,454	-
Total	$ 741,685	$ -

	2007	2006
Estimated amounts to be amortized from Accumulated Other Comprehensive Income during 2008 fiscal year:		
Actuarial loss, net	$ 31,390	$ -
Prior service cost	35,630	-
Total	$ 67,020	$ -

	2007	2006
Weighted-average assumption:		
Discount rate	5.75 %	5.50 %
Medical cost trend rate	9.00 %	9.00 %
Assumed rate of increase in compensation levels	6.00 %	6.00 %

NOTE 8. POST-RETIREMENT BENEFITS (Continued)

The medical inflation rate assumption used is a series of annual inflation rates. The initial inflation rate of 9.0% is anticipated to decline over the next 4 years as other sectors of the U.S. economy compete for the resources currently being consumed by health care. The medical inflation rate is assumed to decline gradually until it reaches a level of 5.0% per year. One measure of credibility of a set of assumptions is the projected relationship between the medical care and non-medical care sectors of the economy.

Impact of SFAS 158

The incremental effect of applying SFAS Statement No. 158 on individual line items in the Balance Sheet as of December 31, 2007 are as follows:

	Before Application of Statement 158	Adjustments	After Application of Statement 158
Liability for benefits	$ 916,913	$ 741,685	$ 1,658,598
Deferred income taxes	-	-	-
Total liabilities	$ 916,913	$ 741,685	$ 1,658,598
Accumulated other comprehensive income	$ -	$ (741,685)	$ (741,685)
Total Members' Equity	$ 2,570,347	$ (741,685)	$ 1,828,662

NOTE 9. CONCENTRATIONS OF CREDIT RISK

The Company grants credit to local service customers, all of whom are located in the franchised service area, and telecommunications intrastate and interstate long distance carriers.

The Company received 49% of its 2007 revenues from access revenues and assistance provided by the Federal Universal Service Fund. As a result of the Telecommunications Act of 1996, the manner in which access revenues and Universal Service Funds are determined is currently being modified by regulatory bodies.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 10. PENDING LITIGATION

A former employee has brought action against Buggs Island Telephone Cooperative in the state Circuit Court for Mecklenburg County, Virginia. The Plaintiff is seeking $500,000 in compensatory damages, including lost wages, lost retirement benefits and non-economic damages, and $200,000 in punitive damages. Management feels that it is unlikely the Plaintiff will receive damages equal to the amount disclosed.

NOTE 11. PURCHASE COMMITMENTS

The Company has entered into purchase commitments totaling $1,132,000 for wireless spectrum licenses and $1,065,886 for plant to be placed into service during 2008.

NOTE 12. NONCASH INVESTING ACTIVITIES

Noncash investing activities included $13,390 and $2,594 during the years ended December 31, 2007 and 2006, respectively, relating to plant and equipment additions placed in service during 2007 and 2006, respectively, and $37,264 during the year ended December 31, 2007 relating to the acquisition of wireless spectrum, which are reflected in accounts payable at year end.

NOTE 13. SUBSEQUENT EVENTS

In 2008 the Company entered into a purchase commitment totaling $1,132,000 for wireless spectrum licenses in Virginia. In connection with the acquisition of wireless spectrum, in April 2008 the Company obtained a line-of-credit loan for $750,000 from the Rural Telephone Finance Coopertaive (RTFC).

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Buggs Island Telephone Cooperative and Subsidiary
Bracey, Virginia

Our report on our audits of the consolidated financial statements of Buggs Island Telephone Cooperative and subsidiary, for 2007 and 2006, appears on page 1. Those audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating supplementary information, appearing on pages 19 through 21, is presented as required by the United States Department of Agriculture Rural Utilities Service. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Kiesling Associates LLP

West Des Moines, Iowa
May 16, 2008

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

CONSOLIDATING BALANCE SHEET
December 31, 2007

ASSETS

	Buggs Island Telephone	BIT, LLC	Intercompany Eliminations	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	$ 894,285	$ -	$ -	$ 894,285
Accounts receivable:				
Due from customers				
Less allowance of $11,455	343,942	-	-	343,942
Interexchange carriers				
Less allowance of $29,328	238,455	-	-	238,455
Affiliates	66,763	-	(66,763)	-
Other	9,772	-	-	9,772
Notes receivable	5,987	-	-	5,987
Materials and supplies at average cost	114,175	-	-	114,175
Inventory at average cost	18,865	-	-	18,865
Prepayments	72,092	-	-	72,092
	1,764,336	-	(66,763)	1,697,573
OTHER NONCURRENT ASSETS				
Investment in Virginia Independent Telephone Alliance, LLC	81,830	-	-	81,830
Investment in lenders	2,000	-	-	2,000
Notes receivable, less current portion	7,416	-	-	7,416
Deferred charges	37,654	-	-	37,654
Other noncurrent assets	10,000	-	-	10,000
	138,900	-	-	138,900
PROPERTY, PLANT AND EQUIPMENT				
Telephone plant in service	13,259,440	-	-	13,259,440
Nonregulated telephone plant in service	205,594	-	-	205,594
	13,465,034	-	-	13,465,034
Less accumulated depreciation	8,487,580	-	-	8,487,580
	4,977,454	-	-	4,977,454
Plant under construction	382,280	-	-	382,280
	5,359,734	-	-	5,359,734
TOTAL ASSETS	$ 7,262,970	$ -	$ (66,763)	$ 7,196,207

See Independent Auditors' Report on Supplementary Information

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

CONSOLIDATING BALANCE SHEET
December 31, 2007

LIABILITIES AND MEMBERS' EQUITY

	Buggs Island Telephone	BIT, LLC	Intercompany Eliminations	Consolidated
CURRENT LIABILITIES				
Current portion of long-term debt	$ 248,079	$ -	$ -	$ 248,079
Accounts payable:				
Affiliates	-	66,763	(66,763)	-
Accounts payable	240,377	-	-	240,377
Advance billing and payments	170,676	-	-	170,676
Customer deposits	26,845	-	-	26,845
Accrued taxes	132	-	-	132
Other	40,044	-	-	40,044
	726,153	66,763	(66,763)	726,153
LONG-TERM DEBT, less current portion	2,861,599	-	-	2,861,599
OTHER NONCURRENT LIABILITIES AND DEFERRED CREDITS				
Accrued post-retirement benefits	1,659,118	-	-	1,659,118
Asset retirement obligations	61,003	-	-	61,003
Other deferred credits	59,672	-	-	59,672
	1,779,793	-	-	1,779,793
MEMBERS' EQUITY				
Patronage capital assigned	3,482,126	-	(66,763)	3,415,363
Patronage capital assignable	(845,016)	(66,763)	66,763	(845,016)
Accumulated Other Comprehensive Income: Unrealized loss on post-employment benefits	(741,685)	-	-	(741,685)
	1,895,425	(66,763)	-	1,828,662
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 7,262,970	$ -	$ (66,763)	$ 7,196,207

See Independent Auditors' Report on Supplementary Information

BUGGS ISLAND TELEPHONE COOPERATIVE
BRACEY, VIRGINIA

CONSOLIDATING STATEMENT OF OPERATIONS
Year ended December 31, 2007

	Buggs Island Telephone	BIT, LLC	Intercompany Eliminations	Consolidated
OPERATING REVENUES				
Local network services	$ 974,249	$ -	$ -	$ 974,249
Network access services	2,176,848	-	-	2,176,848
Long distance services	520,273	-	-	520,273
Internet services	615,087	-	-	615,087
Nonregulated revenues	80,882	-	-	80,882
Miscellaneous revenue	112,921	-	-	112,921
	4,480,260	-	-	4,480,260
OPERATING EXPENSES				
Plant specific operations	694,938	-	-	694,938
Plant nonspecific operations	376,732	-	-	376,732
Cost of long distance services	234,173	-	-	234,173
Cost of internet services	529,038	-	-	529,038
Cost of nonregulated services	201,611	-	-	201,611
Depreciation and accretion	1,040,048	-	-	1,040,048
Customer operations	536,376	-	-	536,376
Corporate operations	847,691	-	-	847,691
General taxes	36,423	-	-	36,423
	4,497,030	-	-	4,497,030
OPERATING LOSS	(16,770)	-	-	(16,770)
OTHER INCOME (EXPENSE)				
Interest and dividend income	10,810	-	-	10,810
Interest expense	(155,079)	-	-	(155,079)
Allowance for funds used during construction	14,403	-	-	14,403
Other, net	(6,250)	-	-	(6,250)
	(136,116)	-	-	(136,116)
LOSS BEFORE EQUITY EARNINGS OF SUBSIDIARY	(152,886)	-	-	(152,886)
EQUITY EARNINGS OF SUBSIDIARY	-	-	-	-
NET LOSS	$ (152,886)	$ -	$ -	$ (152,886)

See Independent Auditors' Report on Supplementary Information

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Buggs Island Telephone Cooperative and Subsidiary
Bracey, Virginia

We have audited the accompanying consolidated financial statements of Buggs Island Telephone Cooperative and subsidiary as of and for the year ended December 31, 2007, and have issued our report thereon dated May 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements of Buggs Island Telephone Cooperative and subsidiary as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Buggs Island Telephone Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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

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

- The Company has limited resources and personnel that restricts its ability to implement effective controls in certain areas and as a result has:

  -Utilized accounting assistance from another party to draft its financials statements and assist with preparation of certain normal closing entries.

  -Utilized income tax assistance from another party to compute tax liabilities and assist with preparation of annual income tax entries and filings.

  The Company reviews and approves the results of these activities and believes this approach provides a cost effective solution in light of their limited resources.

- Because of the limited resources and personnel:

  -Segregation of duties among employees is difficult to implement causing employees to perform certain duties which are incompatible.

  -The Company is limited in their ability to have a formal internal control and information technology system. A formal risk assessment and monitoring system may not be practical from a cost benefit standpoint.

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

- Because of the limited resources and personnel:

  -Segregation of duties among employees is difficult to implement causing employees to perform certain duties which are incompatible.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Buggs Island Telephone Cooperative and subsidiary's consolidated financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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 instances of noncompliance and other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, board of directors, management, and 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. However, this report is a matter of public record and its distribution is not limited.

Kiesling Associates LLP

West Des Moines, Iowa
May 16, 2008

Kiesling
foresight for your future

To the Board of Directors
Buggs Island Telephone Cooperative and Subsidiary
Bracey, Virginia

We have audited the consolidated financial statements of Buggs Island Telephone Cooperative and subsidiary, as of and for the year ended December 31, 2007, and have issued our report thereon dated May 16, 2008.

Professional standards and the Rural Utilities Service's (RUS) Policy on Audits of RUS Borrowers (7 CFR 1773.20) require the auditor to communicate certain matters to the board of directors. In addition to meeting the RUS's requirements, the following comments regarding our responsibilities and results of our audit of the consolidated financial statements of Buggs Island Telephone Cooperative and subsidiary for the year ended December 31, 2007, will assist you in overseeing the financial reporting and disclosure process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards

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

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

Other Client Information Presented with the Consolidated Financial Statements

Our responsibility with respect to the supplementary information included with the consolidated financial statements is as described in our report thereon dated May 16, 2008.

Planned Scope and Timing of the Audit

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

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management has the responsibility for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

The significant accounting policies of the Company are described in footnotes to the consolidated financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2007.

There were no transactions entered into by the Company during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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

The only sensitive accounting estimates included in the consolidated financial statements for the year ended December 31, 2007, relate to the estimate for service lives of property, plant and equipment. As part of our audit, we compared the Company's depreciation rates to average rates used within the telecommunications industry. We have also discussed with management the Company's long-range plant replacement plans and have determined the current depreciation rates to be consistent with those plans.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 16, 2008.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Kiesling Associates LLP

West Des Moines, Iowa
May 16, 2008

To the Board of Directors
Buggs Island Telephone Cooperative and Subsidiary
Bracey, Virginia

We have audited the consolidated financial statements of Buggs Island Telephone Cooperative and subsidiary for the year ended December 31, 2007, and have issued our report thereon dated May 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and 7 CFR 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

In planning and performing our audit of the consolidated financial statements of Buggs Island Telephone Cooperative and subsidiary for the year ended December 31, 2007, we considered their internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting.

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

We noted certain matters involving the internal control over financial reporting and its operation that we have reported to the board of directors of Buggs Island Telephone Cooperative and subsidiary in a separate letter dated May 16, 2008.

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

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

No reports (other than our independent auditors' report and our independent auditors' report on internal control over financial reporting and on compliance and other matters, both dated May 16, 2008) have been furnished to management.

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

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

We noted no matters, other than those discussed in our report on internal control over financial reporting and on compliance and other matters dated May 16, 2008, regarding Buggs Island Telephone Cooperative and subsidiary's internal control over financial reporting and its operation that we consider to be a material weakness, as previously defined, with respect to:

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

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

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

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement or lease between the borrower and an affiliate for the year ended December 31, 2007, of Buggs Island Telephone Cooperative and subsidiary:

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

- Obtained and read a schedule of new written contracts, agreements or leases entered into during the year between the borrower and an affiliate as defined in 7 CFR 1773.33(e)(2)(i).
- Read board of directors' minutes to ascertain whether board-approved written contracts are included in the schedule.
- Noted the existence of written RUS approval of each contract listed by the borrower.

- Procedure performed with respect to the requirement to submit RUS Operating Report to the RUS:
  - Agreed amounts reported in RUS Operating Report to Buggs Island Telephone Cooperative's records.

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

- The borrower has obtained written approval of the RUS to enter into any contract, agreement or lease with an affiliate as defined in 7 CFR 1773.33(e)(2)(i).
- The borrower has represented its RUS Operating Report has been submitted to the RUS. The Operating Report, "Financial and Statistical Report," as of December 31, 2007, is in agreement with the Buggs Island Telephone Cooperative's audited records in all material respects.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the consolidated financial statements of Buggs Island Telephone Cooperative and subsidiary, nothing came to our attention that caused us to believe that Buggs Island Telephone Cooperative and subsidiary failed to comply with respect to:

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

COMMENTS ON OTHER ADDITIONAL MATTERS (Continued)

- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standard No. 57, "Related Party Transactions," for the year ended December 31, 2007, in the consolidated financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33(e).
- The detailed schedule of investments.

DETAILED SCHEDULE OF INVESTMENTS

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

BUGGS ISLAND TELEPHONE COOPERATIVE AND SUBSIDIARY
SCHEDULE OF SUBSIDIARY AND AFFILIATE INVESTMENTS
December 31, 2007 and 2006

Entity Name	BIT, LLC	Virginia Independent Telephone Alliance
Principal Business	Inactive	Shared advanced signaling services
Ownership Percentage	100%	3%
Accounting Method	Consolidated	Cost
Year ended December 31, 2006		
Original Investment	$ -	$ 30,600
Investment advances		
Prior years	66,763	51,230
Earnings (losses)		
Prior years	(100)	-
Book value of investment December 31, 2006	66,663	81,830
Year ended December 31, 2007		
Book value of investment December 31, 2007	$ 66,663	$ 81,830

This report is intended solely for the information and use of the audit committee, 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. However, this report is a matter of public record and its distribution is not limited.

Kiesling Associates LLP

West Des Moines, Iowa
May 16, 2008