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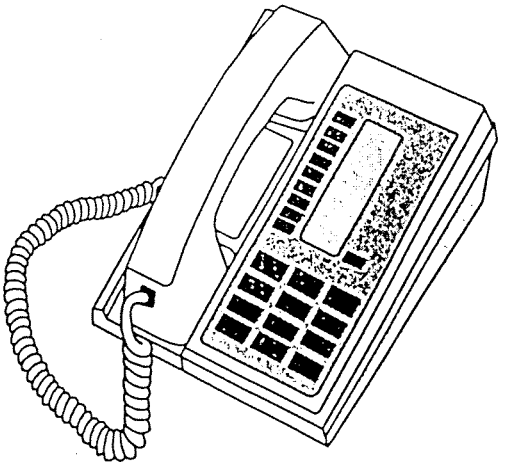
PUBLIC SERVICE
COMMISSION

YEAR 2002

ANNUAL REPORT
OF
Southern Montana Telephone Co.

TELEPHONE UTILITY



TO THE
PUBLIC SERVICE COMMISSION
STATE OF MONTANA
1701 PROSPECT AVENUE
P.O. BOX 202601
HELENA, MT 59620-2601

REVISED JULY 28, 1998

Company Name: **Southern Montana Telephone Company** **SCHEDULE 1**

General Information

Year: **2002**

1. Legal Name of Respondent: Southern Montana Telephone Company
2. Name Under Which Respondent Does Business: Southern Montana Telephone Company
3. Date of Incorporation: 1944
4. Address to send Correspondence Concerning Report: PO Box 205, Wisdom, MT 59761
5. Person Responsible for This Report: Conrad Eklund, General Manager

5a. Telephone Number: 406-689-3333

Control Over Respondent

1. If direct control over the respondent was held by another entity at the end of year provide the following:
   1a. Name and address of the controlling organization or person:

   1b. Means by which control was held:

   1c. Percent Ownership:

Board of Directors

Line No.	Name of Director and Address (City, State) (a)		Fees Paid During Year (b)
1	Robert G. Helming	Wisdom, MT 59761	9000
2	Conrad Eklund	Wisdom, MT 59761	9000
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18	**Chairman of the Board:**	Robert G. Helming	
19			
20			

Company Name: Southern Montana Telephone Company **SCHEDULE 2**

Officers

Year: 2002

Line No.	Title of Officer (a)	Department Over Which Jurisdiction is Exercised (b)	Name and Address of Person Holding Office at Year End (c)
1	President	All Departments	Robert G. Helming
2			Wisdom, MT 59761
3			
4	Secretary/Treasurer	All Departments	Conrad Eklund
5			Wisdom, MT 59761
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Company Name: **Southern Montana Telephone Company**

Total Company Balance Sheet

Year: 2002

Line No.		Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1			**CURRENT ASSETS:**		
2		1120	Cash and Equivalents		
3		1180	Telecommunications Accounts Receivable - Net	(See Attached Audited Financials)	
4		1190	Other Accounts Receivable - Net		
5		1200	Notes Receivable - Net		
6		1210	Interest and Dividends Receivable		
7		1220	Materials and Supplies		
8	*	1280	Prepayments		
9	^	1290	Prepaid Rents		
10	^	1300	Prepaid Taxes		
11	^	1310	Prepaid Insurance		
12	^	1320	Prepaid Directory Expenses		
13	^	1330	Other Prepayments		
14		1350	Other Current Assets		
15			**Total Current Assets**		
16			**NONCURRENT ASSETS:**		
17		1401	Investments in Affiliated Companies		
18		1402	Investments in Nonaffiliated Companies		
19		1406	Nonregulated Investments		
20		1407	Unamortized Debt Issuance Expense		
21		1408	Sinking Funds		
22		1410	Other Noncurrent Assets		
23		1438	Deferred Maintenance and Retirements		
24		1439	Deferred Charges		
25		1500	Other Jurisdictional Assets - Net		
26			**Total Noncurrent Assets**		
27			**PROPERTY, PLANT, & EQUIPMENT:**		
28		2001	Telecommunications Plant in Service		
29		2002	Property Held for Future Telecommunications Use		
30		2003	Plant Under Construction - Short Term		
31		2004	Plant Under Construction - Long Term		
32		2005	Telecommunications Plant Adjustment		
33		2006	Nonoperating Plant		
34		2007	Goodwill		
35		3100	Accumulated Depreciation		
36		3200	Accumulated Depreciation - Held for Future Use		
37		3300	Accumulated Depreciation - Nonoperating		
38		3400	Accumulated Amortization		
39			**Net Property, Plant, & Equipment**		
40			**TOTAL ASSETS**		

^ Subaccount of account marked with a *.

Total Company Balance Sheet

Year: 2002

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
41		**CURRENT LIABILITIES:**		
42	4010	Accounts Payable		
43	4020	Notes Payable	(See Attached Audited Financials)	
44	4030	Advance Billing and Payments		
45	4040	Customer Deposits		
46	4050	Current Maturities - Long Term Debt		
47	4060	Current Maturities - Capital Leases		
48	4070	Income Taxes - Accrued		
49	4080	Other Taxes - Accrued		
50	4100	Net Current Deferred Operating Income Taxes		
51	4110	Net Current Deferred Nonoperating Income Taxes		
52	4120	Other Accrued Liabilities		
53	4130	Other Current Liabilities		
54		**Total Current Liabilities**		
55		**LONG-TERM DEBT:**		
56	4210	Funded Debt		
57	4220	Premium on Long-Term Debt		
58	4230	Discount on Long-Term Debt		
59	4240	Reacquired Debt		
60	4250	Obligations Under Capital leases		
61	4260	Advances From Affiliated Companies		
62	4270	Other Long-Term Debt		
63		**Total Long-Term Debt**		
64		**OTHER LIABILITIES AND DEFERRED CREDITS:**		
65	4310	Other Long-Term Liabilities		
66	4320	Unamort. Oper. Invest. Tax Credits - Net		
67	4330	Unamort. Nonoper. Invest. Tax Credits - Net		
68	4340	Net Noncurrent Deferred Oper. Income Taxes		
69	4350	Net Noncurrent Deferred Nonoper. Income Taxes		
70	4360	Other Deferred Credits		
71	4370	Other Jurisdictional Liab. and Def. Credits		
72		**Total Other Liabilities and Deferred Credits**		
73		**STOCKHOLDERS' EQUITY:**		
74	4510	Capital Stock		
75	4520	Additional Paid-In Capital		
76	4530	Treasury Stock		
77	4540	Other Capital		
78	4550	Retained Earnings		
79		**Total Stockholders' Equity**		
80		**TOTAL LIAB. AND STOCKHOLDERS' EQUITY**		

Company Name: Southern Montana Telephone Company **SCHEDULE 4**

Total Company Income Statement

Year: 2002

Line No.		Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1			**REVENUES:**		
2		5000	Basic Local Service Revenues		
3		5080	Network Access Revenues	(See Attached Audited Financials)	
4	*	5100	Long Distance Message Revenue		
5	^	5110	Unidirectional Long Distance Revenue		
6	^	5120	Long Distance Private Network Revenue		
7	^	5160	Other Long Distance Revenue		
8	^	5169	Other Long Distance Revenue Settlements		
9	*	5200	Miscellaneous Revenue		
10	^	5230	Directory Revenue		
11	^	5240	Rent Revenue		
12	^	5250	Corporate Operations Revenue		
13	^	5260	Miscellaneous Revenue		
14	^	5270	Carrier Billing and Collection Revenue		
15	^	5280	Nonregulated Revenue		
16		5300	Uncollectible Revenue		
17			**Total Revenues (L.2+L.3+L.4+L.9-L.16)**	#VALUE!	
18			**OPERATING EXPENSES:**		
19		6110	Network Support Expense		
20		6120	General Support Expense		
21		6210	Central Office Switching Expense		
22		6220	Operator Systems Expense		
23		6230	Central Office Transmission Expense		
24		6310	Information Origination/Termination Expense		
25	*	6410	Cable and Wire Facilities Expense		
26	^	6431	Aerial Wire Expense		
27	^	6441	Conduit Systems Expense		
28		6510	Other Property, Plant & Equipment Expense		
29		6530	Network Operations Expense		
30		6540	Access Expense		
31		6560	Depreciation and Amortization Expense		
32		6610	Marketing		
33		6620	Services		
34		6710	Executive and Planning		
35		6720	General and Administrative		
36		6790	Provision for Uncollectible Notes Receivable		
37			**Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)**		
38		7100	Other Operating Income and Expense		
39		7200	Operating Taxes		
40			**Net Operating Income (L.17-L.37+L.38-L.39)**	#VALUE!	
41		7300	Nonoperating Income and Expense		
42		7400	Nonoperating Taxes		
43		7500	Interest and Related Items		
44		7600	Extraordinary Items		
45		7910	Effects of Juris. Ratemaking Diff. - Net		
46		7990	Nonregulated Net Income		
47			**NET INCOME (L.40+L.41-L.42-L.43-L.44+L.45-L.46)**	#VALUE!	

^ Subaccount of the account marked with a *.

Schedule 4.1

INDEPENDENT AUDITOR'S REPORT
and
FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

Schedule 4.2

MOSS-ADAMS LLP mri

CERTIFIED PUBLIC ACCOUNTANTS

601 West Riverside, Suite 1800
Spokane, WA 99201-0663

Phone 509.747.2600
Toll Free 1.800.888.4065
FAX 509.624.5129
www.mossadams.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southern Montana Telephone Company
Wisdom, Montana

We have audited the accompanying balance sheets of Southern Montana Telephone Company as of December 31, 2002 and 2001, and the related statements of income, stockholder's 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 Southern Montana Telephone Company, 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 a report dated January 24, 2003, on our consideration of Southern Montana Telephone 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.

Moss Adams LLP

Spokane, Washington
January 24, 2003

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accounting firms throughout
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Offices
Principal Cities
Washington, Oreg
and Californ

Schedule 4.3

SOUTHERN MONTANA TELEPHONE COMPANY
BALANCE SHEET

ASSETS

	December 31, 2002	December 31, 2001
CURRENT ASSETS		
Cash and cash equivalents	$ 544,248	$ 476,313
Investment in certificates of deposit at amortized cost	749,807	602,415
Subscriber receivables	57,310	65,486
Income tax receivable	-	16,329
Settlements and access accounts receivable	114,518	115,082
Other accounts receivable	52,553	107,252
Material and supplies	39,211	35,853
Other current assets	43,716	14,263
Total current assets	1,601,363	1,432,993
NONCURRENT ASSETS		
Investment in available for sale securities	514,622	395,885
Investment in certificates of deposit at amortized cost	504,060	634,719
Investment in held to maturity securities	130,014	100,000
Investment in affiliate	1,276	1,276
Investment in nonaffiliates	280,592	485,558
Nonregulated investments	74,459	87,118
Other noncurrent assets	12,655	17,286
	1,517,678	1,721,842
PROPERTY, PLANT, AND EQUIPMENT		
Telecommunications plant in service	7,624,280	7,588,436
Telecommunications plant under construction	10,001	5,434
	7,634,281	7,593,870
Less accumulated depreciation and amortization	3,888,078	3,542,368
	3,746,203	4,051,502
	$ 6,865,244	$ 7,206,337

Schedule 4.4

SOUTHERN MONTANA TELEPHONE COMPANY
BALANCE SHEET

LIABILITIES AND STOCKHOLDER'S EQUITY

	December 31, 2002	December 31, 2001
CURRENT LIABILITIES		
Accounts payable	$ 122,411	$ 122,236
Advance billing and customer deposits	18,813	9,410
Current maturities of long-term debt	314,150	305,944
Other accrued taxes	36,222	38,197
Other accrued liabilities	122,482	114,422
Accrued interest payable	7,400	9,001
Income taxes payable	14,174	-
Total current liabilities	635,652	599,210
LONG-TERM DEBT	2,455,991	2,784,289
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred investment tax credits	48,816	57,569
Deferred income taxes	730,467	854,286
	779,283	911,855
COMMITMENT AND CONTINGENCY (Notes 10 and 11)		
STOCKHOLDER'S EQUITY		
Common stock, $10 par value; authorized 2,703 and 5,000 shares at December 31, 2002 and 2001, respectively; 610 and 2,907 shares issued and outstanding at December 31, 2002 and 2001, respectively	6,100	29,070
Paid-in capital	3,290	3,290
Retained earnings	3,062,810	5,574,398
	3,072,200	5,606,758
Less treasury stock, 2,297 shares at cost	-	(2,581,408)
Unrealized loss on available for sale securities	(77,882)	(114,367)
	2,994,318	2,910,983
	$ 6,865,244	$ 7,206,337

See accompanying notes.

Schedule 4.5

SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF INCOME

	Year Ended December 31, 2002	Year Ended December 31, 2001
OPERATING REVENUES		
Local network services	$ 191,662	$ 176,396
Interstate access revenue	1,393,230	1,336,246
Intrastate access revenue	382,653	386,756
Carrier billing and collection	20,663	30,057
Miscellaneous	4,060	2,015
Nonregulated services	1,779	30,747
Uncollectible	(67,217)	(2,113)
	1,926,830	1,960,104
OPERATING EXPENSES		
Plant specific operations	319,070	323,948
Plant nonspecific operations	291,459	289,318
Depreciation and amortization	513,002	447,632
Customer operations	73,023	92,727
Corporate operations	331,055	300,018
Other operating taxes	57,717	53,265
Nonregulated	8,673	10,577
	1,593,999	1,517,485
Operating income	332,831	442,619
Nonoperating income (expense)		
Interest and dividend income	87,429	109,099
Loss on sale of investments	(16,574)	(10,957)
Interest expense	(100,122)	(121,187)
Decrease in carrying value of investment in common stock	(200,000)	-
Other nonoperating expense	(49,174)	(94,231)
	(278,441)	(117,276)
Income before taxes	54,390	325,343
Income taxes	7,540	117,369
NET INCOME	$ 46,850	$ 207,974

See accompanying notes.

Schedule 4.6

SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF STOCKHOLDER'S EQUITY

	Total	Common Stock
Balance, December 31, 2000	$ 2,759,694	$ 29,070
Net income	207,974	-
Unrealized loss on available for sale securities, net of tax	(56,685)	-
Reclassification adjustment, net of tax	-	-
Comprehensive income		
Balance, December 31, 2001	2,910,983	29,070
Net income	46,850	-
Unrealized gain on available for sale securities, net of tax	36,485	-
Retirement of 2,297 shares of stock from Treasury	-	(22,970)
Reclassification adjustment, net of tax	-	-
Comprehensive income		
Balance, December 31, 2002	$ 2,994,318	$ 6,100

Schedule 4.7

SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF STOCKHOLDERS' EQUITY

Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Comprehensive Income (Loss)	Comprehensive Income (Loss)
$ 3,290	$ 5,366,424	$ (2,581,408)	$ (57,682)	
-	207,974	-	-	$ 207,974
-	-	-	(56,685)	(56,685)
-	-	-	-	(2,504)
				$ 148,785
3,290	5,574,398	(2,581,408)	(114,367)	
-	46,850	-	-	$ 46,850
-	-	-	36,485	36,485
-	(2,558,438)	2,581,408	-	
-	-	-	-	(8,672)
				$ 74,663
$ 3,290	$ 3,062,810	$ -	$ (77,882)	

See accompanying notes.

Schedule 4.8

SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF CASH FLOWS

	Year Ended December 31, 2002	Year Ended December 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 46,850	$ 207,974
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	514,345	452,604
Noncash patronage dividends	(2,069)	(2,707)
Amortization of discount on certificates of deposit	(49,873)	(48,405)
Amortization of deferred investment tax credit	(8,753)	(8,753)
Decrease in cash surrender value of life insurance	4,631	5,384
Net realized loss on securities available for sale	14,638	60,611
Decrease in carrying value of investment in common stock	200,000	-
(Gain) loss on disposal of nonregulated assets	1,938	(258)
Deferred income taxes	(148,911)	(63,666)
Change in assets and liabilities:		
Accounts receivable	63,438	(57,455)
Federal income tax (receivable) payable	30,503	(20,251)
Supplies	(3,358)	5,484
Other assets	(29,453)	49,873
Accounts payable and accrued expenses	4,659	9,453
Advance payments and customer deposits	9,403	(913)
Net cash provided by operating activities	647,988	588,975
CASH FLOWS FROM INVESTING ACTIVITIES		
Net additions to telephone plant	(231,298)	(180,112)
Net additions to nonregulated plant	(22,525)	(42,126)
Proceeds from disposals of plant	55,500	11,700
Proceeds from sales of investments	998,163	930,105
Purchase of investments	(1,059,801)	(1,005,312)
Net cash used by investing activities	(259,961)	(285,745)

Schedule 4.9

SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2002	2001
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments of long-term debt	$ (320,092)	$ (305,566)
Net cash used by financing activities	(320,092)	(305,566)
NET CHANGE IN CASH AND CASH EQUIVALENTS	67,935	(2,336)
Cash and cash equivalents at beginning of year	476,313	478,649
Cash and cash equivalents at end of year	$ 544,248	$ 476,313
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	$ 101,448	$ 120,873
Income taxes	$ 146,343	$ 160,943

See accompanying notes.

Schedule 4.10

Note 1 - Significant Accounting Policies

Nature of operations:
Southern Montana Telephone Company (the Company) is a local exchange carrier (LEC) providing local telephone service, internet access, and access to long-distance telecommunications services. The Company serves commercial and residential customers in the southwestern Montana exchanges of Divide, Grant, Jackson, Wisdom, and Wise River. The Company is subject to the rules and regulations of the Federal Communications Commission (FCC) and the Montana Public Service Commission.

Accounting policies:
The financial statements of Southern Montana Telephone Company have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to regulated public utilities. Such accounting principles are consistent in all material respects with accounting prescribed by the FCC.

Cash equivalents:
Cash and cash equivalents are defined as short-term, highly liquid investments that were purchased with an original maturity of three months or less and are readily convertible into cash. Cash equivalents are stated at cost and primarily consist of money market funds.

Nonregulated services:
The Company accounts for its nonregulated activities as follows:

Nonregulated activities involving the joint use of regulated assets are accounted for within the prescribed regulated system of accounts for telephone company operations. These activities include internet and directory services and other income items incidental to the provision of regulated telephone services.

Nonregulated activities not involving the joint use of regulated assets are accounted for separately from regulated activities. Plant facilities and other property and equipment are recorded as nonregulated investments. Operating revenues and the related expenses are separately presented as nonregulated revenues and expenses. These activities include payphone services.

Supplies:
Supplies are stated at the lower of average cost or replacement market.

Local service revenue:
Billings for local service revenue are rendered monthly in advance. Advance billings are recorded as a liability and subsequently transferred to income in the period earned.

Schedule 4.11

Note 1 - Significant Accounting Policies (Continued)

Property, plant, and equipment:
Property, plant, and equipment are stated at cost. The cost of additions and substantial betterments of property, plant, and equipment is capitalized. The cost of maintenance and repairs is charged to operating expenses.

Property, plant, and equipment are depreciated using straight-line methods in accordance with rates as approved by the Montana Public Service Commission, generally ranging from 3 to 29 years. In accordance with composite group depreciation methodology, when a portion of the Company's depreciable property, plant, and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation.

Investment securities:
The Company's policy for investment securities is as follows:

* Trading securities: Trading securities consist of debt and equity securities that are bought and held principally for the purpose of selling in the near term and are reported at fair value, with unrealized gains and losses included in earnings. The Company did not hold any trading securities during 2002 or 2001.

* Securities held to maturity: Debt securities for which the Company has the positive intent and ability to hold to maturity are classified as held to maturity. Held to maturity securities are stated at amortized cost.

* Securities available for sale: Securities not classified as held to maturity or trading are classified as available for sale. Available for sale securities are stated at fair value, with any unrealized gains and losses, net of deferred taxes, reported as a separate component of stockholder's equity.

Valuation of accounts receivable:
An estimate of collectibility of accounts receivable is made annually. Specific accounts are charged to bad debt expense when it is determined that the account will not be collected. The result of this method does not materially differ from accounting principles generally accepted in the United States of America.

Allowance for funds used during construction (AFUDC):
The Company records as income and capitalizes as a cost of construction the cost of financing large construction projects spanning a period greater than two months. The Company uses a weighted-average interest rate based on total Company long-term debt. No such costs were capitalized in 2002 or 2001.

Schedule 4.12

Note 1 - Significant Accounting Policies (Continued)

Income taxes:
Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets relate primarily to employee benefit accruals and the unrealized loss on available for sale securities. Deferred tax liabilities relate primarily to the use of accelerated depreciation methods for tax purposes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Investment tax credits, which were deferred prior to the TRA '86, are being amortized over the regulatory or service life of the assets which produced the credits.

Concentration of credit risk:
At various times throughout the year, cash balances exceed federally insured limits in individual financial institutions. 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.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include depreciation expense and interstate access revenue settlements.

New accounting standards:
Effective January 1, 2002, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets which addresses accounting and reporting of all long-lived assets, except goodwill, that are either held and used, or disposed of through sale or other means. The adoption of this statement had no impact on the Company's results of operations, financial position, or cash flows.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, *Accounting for Asset Retirement Obligations* effective for fiscal years beginning after June 15, 2002. This statement provides accounting guidance for legal obligations associated with the retirement of long-lived assets. Management is currently assessing its legal obligations but believes there will be no material impact on the Company's results of operations, financial position, or cash flows.

Reclassifications:
Certain accounts have been classified differently than as originally reported on the 2001 financial statements. The effect of these reclassifications made to conform to 2002 classifications is immaterial.

Schedule 4.13

Note 2 - Property, Plant, and Equipment

Property, plant, and equipment balances together with accumulated depreciation and amortization consist of the following at December 31, 2002 and 2001:

	Plant Account	Accumulated Depreciation	2002 Net Balance	2001 Net Balance
Plant in service	$ 7,624,280	$ 3,888,078	$ 3,736,202	$ 4,046,068
Plant under construction	10,001	-	10,001	5,434
TOTAL	$ 7,634,281	$ 3,888,078	$ 3,746,203	$ 4,051,502

Telecommunications plant in-service balances together with accumulated depreciation consists of the following at December 31, 2002 and 2001:

	Plant Account	Accumulated Depreciation	2002 Net Balance	2001 Net Balance
General support assets:				
Land	$ 38,451	$ -	$ 38,451	$ 38,451
Motor vehicles	195,400	200,773	(5,373)	-
Other work equipment	509,629	440,688	68,941	71,535
Buildings	597,192	288,296	308,896	333,978
Furniture and office equipment	4,365	4,365	-	-
Furniture and office equipment (five-year assets)	15,139	15,139	-	917
General purpose computer	40,197	458	39,739	45,979
Official stations	18,527	12,407	6,120	7,833
Central office assets:				
Digital switching	1,130,769	356,314	774,455	850,413
Transmission equipment	734,542	284,956	449,586	503,742
Software	52,100	-	52,100	-
Cable facilities:				
Buried cable	2,796,013	1,869,297	926,716	1,042,052
Fiber optic cable	1,491,956	415,385	1,076,571	1,151,168
	$ 7,624,280	$ 3,888,078	$ 3,736,202	$ 4,046,068

Schedule 4.14

Note 3 - Certificates of Deposit

The amortized cost, unrealized losses, and estimated fair value of certificates of deposit as of December 31 are summarized as follows:

	2002	2001
Amortized cost	$ 1,253,867	$ 1,237,134
Gross unrealized gain (loss)	(246)	811
ESTIMATED FAIR VALUE	$ 1,253,621	$ 1,237,945

Maturities of certificates of deposit by contractual maturity as of December 31, 2002, are as follows:

	Amortized Cost	Estimated Fair Value
Maturing in less than one year	$ 749,887	$ 749,681
Maturing in one to five years	503,980	503,940
TOTAL	$1,253,867	$1,253,621

Note 4 - Investment in Debt and Marketable Equity Securities

The following is a summary of the Company's investment in available for sale securities:

	December 31, 2002		
Available for Sale	Cost	Gross Unrealized Loss	Estimated Fair Value
Equity securities	$ 608,554	$ (129,287)	$ 479,267
Mutual funds	37,515	(2,160)	35,355
	$ 646,069	$ (131,447)	$ 514,622

Schedule 4.15

Note 4 - Investment in Debt and Marketable Equity Securities (Continued)

	December 31, 2001		
Equity securities	$ 551,394	$ (182,069)	$ 369,325
Mutual funds	37,515	(10,955)	26,560
	$ 588,909	$ (193,024)	$ 395,885

The following is a summary of the Company's investment in securities held to maturity:

	December 31, 2002		
Held to Maturity	Cost	Gross Unrealized Loss	Estimated Fair Value
Bonds	$ 30,014	$ (100)	$ 29,914
Other interest-bearing securities	100,000	-	100,000
	$ 130,014	$ (100)	$ 129,914

	December 31, 2001		
Other interest-bearing securities	$ 100,000	$ -	$ 100,000

Maturities of securities held to maturity by contractual maturity as of December 31, 2002, are as follows:

	Amortized Cost	Estimated Fair Value
Maturing in one to five years	$130,014	$129,914

An unrealized loss on investment securities during the years ended December 31, 2002 and 2001, was reported as a separate component of stockholder's equity and consisted of the following:

	2002	2001
Unrealized holding losses	$ 131,447	$ 193,024
Deferred tax effect related to unrealized holding losses	(53,565)	(78,657)
	$ 77,882	$ 114,367

Schedule 4.16

Note 4 - Investment in Debt and Marketable Equity Securities (Continued)

A summary of investment earnings recognized in income during the years ended December 31 is as follows:

	2002	2001
Available for sale securities:		
Realized losses	$ (14,636)	$ (10,957)
Amortization of discount	64,001	66,631
Interest earned	10,827	19,856
Dividends received	12,601	22,611
	$ 72,793	$ 98,141

Note 5 - Investments in Nonaffiliates

Montana Advanced Information Network, Inc. (MAIN) was formed to pursue the development of an intrastate toll network. The Company joined a consortium of Montana local exchange carriers with the purpose of constructing and operating a fiber optic transmission system. The investment is maintained on the cost method of accounting.

During 2002, Southern Montana Telephone Company evaluated the carrying value of its investment due to recurring operating losses since MAIN was established. As a result of this evaluation, management reduced the carrying value of its investment by $200,000.

Investments in nonaffiliates consist of the following assets at December 31:

	2002	2001
Montana Advanced Information Network	$ 240,000	$ 440,000
Other nonmarketable telephone stocks and investments	40,592	45,558
	$ 280,592	$ 485,558

Schedule 4.17

Note 6 - Long-Term Debt

Long-term debt is as follows at December 31:

	Interest Rate	Maturity Dates	2002	2001
Rural Utilities Service (RUS)	2.00% - fixed	2016	$ 2,037,315	$ 2,168,863
Rural Telephone Finance Cooperative (RTFC)	5.75% - variable	2004	184,895	322,218
Notes payable, former stockholder	7.50% - fixed	2010	547,931	599,152
			2,770,141	3,090,233
Less current portion			314,150	305,944
			$ 2,455,991	$ 2,784,289

Substantially all assets of the Company are pledged to secure the RUS notes.

The terms of the mortgage agreements contain restrictions on the declaration or payment of cash dividends, redemption of capital stock, or investment in affiliated companies.

Aggregate maturities or payments required on principal under long-term debt obligations for each of the succeeding five years are as follows:

2003	$ 314,150
2004	256,872
2005	204,031
2006	211,854
2007	220,124
Later years	1,563,110
	$ 2,770,141

Note 7 - Retirement Plans

The Company participates in two multi-employer pension plans with the National Telephone Cooperative Association that cover substantially all of its employees.

The "retirement and security program" is a defined benefit plan. The Company's regular contribution to the retirement and security program and the amount charged to pension expense for the years ended December 31, 2002 and 2001, was $61,228 and $62,907, respectively.

Schedule 4.18

Note 7 - Retirement Plans (Continued)

The "savings plan" is a noncontributory defined contribution plan. The Company's contributions were $25,088 and $27,436 for the years ended December 31, 2002 and 2001, respectively.

Note 8 - Income Taxes

Components of provision for income tax expense:

	2002	2001
Current:		
Federal	$ 139,015	$ 121,403
State	30,109	25,768
Deferred:		
Federal	(132,998)	(20,910)
State	(24,666)	(2,413)
Prior year overaccrual	(3,920)	(6,479)
	$ 7,540	$ 117,369

	2002	2001
Operating	$ 18,800	$ 126,714
Nonoperating	(8,657)	(15,704)
Nonregulated benefit	(2,603)	6,359
	$ 7,540	$ 117,369

Classification of expense:
The provision for income taxes differs from the amount computed by applying the current statutory federal income tax rate to earnings before taxes due to the effects of state taxes (net of federal benefit), nondeductible items, and prior year over or under accruals.

Schedule 4.19

Note 8 - Income Taxes (Continued)

The components of the net deferred tax asset (liability) recorded in the accompanying balance sheet at December 31, 2002 and 2001, are:

	2002	2001
Deferred tax assets:		
Accrued employee benefits	$ 41,881	$ 34,197
Aid to construction	81,500	3,255
Unrealized loss on available for sale securities	53,565	78,657
Other	10,534	-
	187,480	116,109
Deferred tax liabilities:		
Tax depreciation greater than book	(900,883)	(960,605)
Other	(17,064)	(9,790)
	(917,947)	(970,395)
Deferred investment tax credit	(48,816)	(57,569)
NET DEFERRED TAX LIABILITY	$ (779,283)	$ (911,855)

Deferred investment tax credits are amortized over the regulatory life of the property which produced the deferred taxes.

For the year ended December 31, 2002, there were income taxes payable of $14,174. For the year ended December 31, 2001, there were income taxes receivable of $16,329.

Note 9 - Access Revenues

The Company's access revenues are determined by industry-regulated procedures for originating and terminating long-distance calls.

Intrastate:
Revenues for intrastate access are based on the Company's tariffed rates. Rates are regulated by the Montana State Public Commission and billed to interexchange carriers.

Schedule 4.20

Note 9 - Access Revenues (Continued)

Interstate:
Revenues for interstate toll services are based on the Company's participation in the revenue pools administered by the National Exchange Carrier Association (NECA) which is regulated by the FCC. Revenues are determined by annually prepared separations and interstate access cost studies. Revenues for the current year are based on estimates prior to the submission of the cost study reporting actual results of operations and network traffic measurements. Additionally, the studies are subject to a 24-month pool adjustment period and a final review and acceptance by pool administrators. Management does not anticipate significant adjustments to recorded revenues for the years ended December 31, 2002 and 2001.

Note 10 - Workers' Compensation

The Company is a member of the Montana Electric and Telephone Systems Self-Insured Workers' Compensation Pool (the Pool). The Pool covers potential liability for workers' compensation and occupational disease to employees and dependents of deceased employees of all members in the Pool. The Company is jointly and severally liable with the other members for the full amount of all known and unknown claims.

Note 11 - Related Party Transactions

The Company leases its office building from Robert G. Helming, sole stockholder, officer, and director of the Company. The lease calls for monthly payments of $2,200 through December 31, 2007. Following is a summary of minimum rental payments under the current lease for the year subsequent to December 31, 2002:

2003	$ 26,400
2004	26,400
2005	26,400
2006	26,400
2007	26,400
	$ 132,000

Note 12 - Treasury Stock

During 2002, management determined that the 2,297 shares of stock held in the Treasury will not be re-issued. The Company has executed the necessary amendment to the articles of incorporation, retiring and canceling the outstanding Treasury stock, and reducing the number of authorized shares from 5,000 to 2,703.

Company Name: **Southern Montana Telephone Company** **SCHEDULE 5**

Montana Total State Income Statement

Year: 2002

Line No.		Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1			**REVENUES:**		
2		5000	Basic Local Service Revenues	(Not Applicable-Doing Business	
3		5080	Network Access Revenues	In Montana Only)	
4	*	5100	Long Distance Message Revenue		
5	^	5110	Unidirectional Long Distance Revenue		
6	^	5120	Long Distance Private Network Revenue		
7	^	5160	Other Long Distance Revenue		
8	^	5169	Other Long Distance Revenue Settlements		
9	*	5200	Miscellaneous Revenue		
10	^	5230	Directory Revenue		
11	^	5240	Rent Revenue		
12	^	5250	Corporate Operations Revenue		
13	^	5260	Miscellaneous Revenue		
14	^	5270	Carrier Billing and Collection Revenue		
15	^	5280	Nonregulated Revenue		
16		5300	Uncollectible Revenue		
17			**Total Revenues (L.2+L.3+L.4+L.9-L.16)**	#VALUE!	
18			**OPERATING EXPENSES:**		
19		6110	Network Support Expense		
20		6120	General Support Expense		
21		6210	Central Office Switching Expense		
22		6220	Operator Systems Expense		
23		6230	Central Office Transmission Expense		
24		6310	Information Origination/Termination Expense		
25	*	6410	Cable and Wire Facilities Expense		
26	^	6431	Aerial Wire Expense		
27	^	6441	Conduit Systems Expense		
28		6510	Other Property, Plant & Equipment Expense		
29		6530	Network Operations Expense		
30		6540	Access Expense		
31		6560	Depreciation and Amortization Expense		
32		6610	Marketing		
33		6620	Services		
34		6710	Executive and Planning		
35		6720	General and Administrative		
36		6790	Provision for Uncollectible Notes Receivable		
37			**Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)**		
38		7100	Other Operating Income and Expense		
39		7200	Operating Taxes		
40			**Net Operating Income (L.17-L.37+L.38-L.39)**	#VALUE!	

^ Subaccount of the account marked with a *.

Montana Intrastate Income Statement

Year: 2002

Line No.		Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1			**REVENUES:**		
2		5000	Basic Local Service Revenues	(Not Applicable-Doing Business	
3		5080	Network Access Revenues	In Montana Only)	
4	*	5100	Long Distance Message Revenue		
5	^	5110	Unidirectional Long Distance Revenue		
6	^	5120	Long Distance Private Network Revenue		
7	^	5160	Other Long Distance Revenue		
8	^	5169	Other Long Distance Revenue Settlements		
9	*	5200	Miscellaneous Revenue		
10	^	5230	Directory Revenue		
11	^	5240	Rent Revenue		
12	^	5250	Corporate Operations Revenue		
13	^	5260	Miscellaneous Revenue		
14	^	5270	Carrier Billing and Collection Revenue		
15	^	5280	Nonregulated Revenue		
16		5300	Uncollectible Revenue		
17			**Total Revenues (L.2+L.3+L.4+L.9-L.16)**	#VALUE!	
18			**OPERATING EXPENSES:**		
19		6110	Network Support Expense		
20		6120	General Support Expense		
21		6210	Central Office Switching Expense		
22		6220	Operator Systems Expense		
23		6230	Central Office Transmission Expense		
24		6310	Information Origination/Termination Expense		
25	*	6410	Cable and Wire Facilities Expense		
26	^	6431	Aerial Wire Expense		
27	^	6441	Conduit Systems Expense		
28		6510	Other Property, Plant & Equipment Expense		
29		6530	Network Operations Expense		
30		6540	Access Expense		
31		6560	Depreciation and Amortization Expense		
32		6610	Marketing		
33		6620	Services		
34		6710	Executive and Planning		
35		6720	General and Administrative		
36		6790	Provision for Uncollectible Notes Receivable		
37			**Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)**		
38		7100	Other Operating Income and Expense		
39		7200	Operating Taxes		
40			**Net Operating Income (L.17-L.37+L.38-L.39)**	#VALUE!	

^ Subaccount of the account marked with a *.

Montana Intrastate Regulated Income Statement

Year: 2002

Line No.		Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1			**REVENUES:**		
2		5000	Basic Local Service Revenues	(Not Applicable-Doing Business	
3		5080	Network Access Revenues	In Montana Only)	
4	*	5100	Long Distance Message Revenue		
5	^	5110	Unidirectional Long Distance Revenue		
6	^	5120	Long Distance Private Network Revenue		
7	^	5160	Other Long Distance Revenue		
8	^	5169	Other Long Distance Revenue Settlements		
9	*	5200	Miscellaneous Revenue		
10	^	5230	Directory Revenue		
11	^	5240	Rent Revenue		
12	^	5250	Corporate Operations Revenue		
13	^	5260	Miscellaneous Revenue		
14	^	5270	Carrier Billing and Collection Revenue		
15	^	5280	Nonregulated Revenue		
16		5300	Uncollectible Revenue		
17			**Total Revenues (L.2+L.3+L.4+L.9-L.16)**	#VALUE!	
18			**OPERATING EXPENSES:**		
19		6110	Network Support Expense		
20		6120	General Support Expense		
21		6210	Central Office Switching Expense		
22		6220	Operator Systems Expense		
23		6230	Central Office Transmission Expense		
24		6310	Information Origination/Termination Expense		
25	*	6410	Cable and Wire Facilities Expense		
26	^	6431	Aerial Wire Expense		
27	^	6441	Conduit Systems Expense		
28		6510	Other Property, Plant & Equipment Expense		
29		6530	Network Operations Expense		
30		6540	Access Expense		
31		6560	Depreciation and Amortization Expense		
32		6610	Marketing		
33		6620	Services		
34		6710	Executive and Planning		
35		6720	General and Administrative		
36		6790	Provision for Uncollectible Notes Receivable		
37			**Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)**		
38		7100	Other Operating Income and Expense		
39		7200	Operating Taxes		
40			**Net Operating Income (L.17-L.37+L.38-L.39)**	#VALUE!	

^ Subaccount of the account marked with a *.

Average Rate Base - Total State

Year: 2002

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service	7609141	7573297
2	3100	Accumulated Depreciation	3872939	3528146
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies	39211	35853
6	4340	Noncurrent Deferred Operating Income Taxes		
7		Pre-1971 Unamortized Investment Tax Credits		
8		Cash Working Capital (if allowed by Commission)		
9		**Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8)**	3775413	4081004

Average Rate Base - Intrastate

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service		
2	3100	Accumulated Depreciation		
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies		
6	4340	Noncurrent Deferred Operating Income Taxes		
7		Pre-1971 Unamortized Investment Tax Credits		
8		Cash Working Capital (if allowed by Commission)		
9		**Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8)**		

Average Rate Base - Regulated Intrastate

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service		
2	3100	Accumulated Depreciation		
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies		
6	4340	Noncurrent Deferred Operating Income Taxes		
7		Pre-1971 Unamortized Investment Tax Credits		
8		Cash Working Capital (if allowed by Commission)		
9		**Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8)**		

Statement of Cash Flows

Year: 2002

Line No.	Item Description (a)	Amount (b)	Amount (c)
1	**Increase/(decrease) in Cash & Cash Equivalents**		
2	**Cash Flows from Operating Activities:**		
3	Net Income		
4	Reconciliation Adjustments:	(See Attached Statement of	
5	Depreciation & Amortization	Cash Flows)	
6	Provision for Accounts Receivable Losses		
7	Deferred Income Taxes - Net		
8	Unamortized Investment Tax Credits (ITCs) - Net		
9	Allowance for Funds Used During Construction (AFUDC)		
10	Change in Operating Receivables - Net		
11	Change in Materials, Supplies & Inventories - Net		
12	Change in Operating Payables & Accrued Liabilities - Net		
13	Change in Other Assets & Deferred Credits - Net		
14	Change in Other Liabilities & Deferred Credits - Net		
15	Other (explained on back of this page)		
16	Total Adjustments		
17	**Net Cash Provided by/(Used in) Operating Activities**		
18	**Cash Inflows/Outflows From Investing Activities:**		
19	Construction/Acquisition of Property, Plant & Equipment (net of		
20	AFUDC & Capital Lease Related Acquisitions)		
21	Proceeds from Disposals of Property, Plant & Equipment		
22	Investments In & Advances to Affiliates		
23	Proceeds from Repayment of Advances		
24	Other Investing Activities (explained on back of this page)		
25	**Net Cash Provided by/(Used in) Investing Activities**		
26	**Cash Flows from Financing Activities:**		
27	Net Incr./(Decr.) in Short-Term Debt, Original maturity < = 3 mo.		
28	Advances from Affiliates		
29	Repayment of Advances from Affiliates		
30	Proceeds from Issuances of Long-Term Debt		
31	Repayment of Long-Term Debt		
32	Payment of Capital Lease Obligations		
33	Proceeds from Issuing Common Stock/Parent Co. Equity Investment		
34	Repurchase of Treasury Shares		
35	Dividends Paid		
36	Other Financing Activities (explained on back of this page)		
37	**Net Cash Provided by Financing Activities**		
38	**Effect of Exchange Rate Changes on Cash**		
39	**Net Increase/(Decrease) in Cash & Cash Equivalents**		
40	**Cash & Cash Equivalents at Beginning of Period**		
41	**Cash & Cash Equivalents at End of Period**		

Company Name: Southern Montana Telephone Company **SCHEDULE 10**

Receivables and Investments-Affiliated & Nonaffiliated Companies

:ar: 2002

Line No.	Name of Affiliate or Company (a)	Account 1160 Temporary Investments (b)	Account 1180 Telecom. Accounts Receivable (c)	Account 1181 Accts. Rec. Telecom. Allowance (d)	Account 1190 Other Accounts Receivable (e)	Account 1191 Accounts Receivable Allow. - Other (f)	Account 1200 Notes Receivable (g)	Account 1201 Notes Receivable Allowance (h)	Account 1210 Interest and Dividends Receivable (i)	Account 1401 Investments in Affil. Companies (j)	Account 1402 Investments in Nonaffil. Companies (k)
1	DA Davidson:										
2	Small Mid Cap Fund										99266
3	Equity Fund										94298
4	Various Stocks										270550
5											
6	E-Trade:										
7	Various Stocks										181568
8											
9											
10											
11											
12											
13											
14											
15											
16											
17											
18											
19											
20											
21											
22											
23											
24											
25											
26											
27											
28											
29											
30	**Totals**										645682

Company Name: Southern Montana Telephone Company **SCHEDULE 11**

Net Plant in Service - Detail

Year:2002

Line No.	Account (a)		Description (b)	Beginning of Year Balance (c)	Additions (d)	Retirements (e)	Sales & Transfers (f)	End of Year Account 2001 Balance (g)	Year End Accumulated Depreciation (h)	End of Year Net Plant Balance (i)
1	*	2110	Land and Support Assets	1394201	110643	104473		1400371	949718	450653
2	^	2111	Land	38451				38451		38451
3	^	2112	Motor Vehicles	243005	31542	79148		195399	200773	-5374
4	^	2113	Aircraft							
5	^	2114	Special Purpose Vehicles							
6	^	2115	Garage Work Equipment							
7	^	2116	Other Work Equipment	449024	76079	15475		509628	440688	68940
8	^	2121	Buildings	597192				597192	288296	308896
9	^	2122	Furniture							
10	^	2123	Office Equipment	19504				19504	19504	
11	^	2124	General Purpose Computers	47025	3022	9850		40197	457	39740
12		2211	Analog Electronic Switching							
13		2212	Digital Electronic Switching	1175587	147459	140177		1182869	356315	826554
14		2215	Electro-Mechanical Switching							
15		2220	Operator Systems							
16		2231	Radio Systems							
17		2232	Circuit Equipment	721373	79381	66212		734542	284955	449587
18	*	2310	Information Orig & Term Equip	18527				18527	12408	6119
19	^	2311	Station Apparatus	18527				18527	12408	6119
20	^	2321	Customer Premises Wiring							
21	^	2341	Large Private Branch Exchanges							
22	^	2351	Public Telephone Term. Equip.							
23	^	2362	Other Terminal Equipment							
24		2411	Poles							
25	*	2420	Cable and Wire Facilities	4278748	24399	15178		4287969	2284682	2003287
26	^	2421	Aerial Cable	33375				33375	12844	20531
27	^	2422	Underground Cable							
28	^	2423	Buried Cable	4245373	24399	15178		4254594	2271838	1982756
29	^	2424	Submarine Cable							
30	^	2425	Deep Sea Cable							
31	^	2426	Intrabuilding Network Cable							
32		2431	Aerial Wire							
33		2441	Conduit Systems							
34			**Totals**	7588436	361882	326040		7624278	3888078	3736200

^ Subaccount of the account marked with a *.

Company Name: Southern Montana Telephone Company **SCHEDULE 12**

Analysis of Plant Held for Future Use

Year:2002

Line No.	Location and Description of Property (a)	Date Included in Account 2002 (b)	Book Cost of Property at Beginning of Year (c)	Additions During the Year (d)	Retirements During the Year (e)	Transfers and Adjustments Charges and (Credits) (f)	Book Cost of Property at End of Year (g)
1							
2	NONE						
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30	**Totals (Sum L.1 to L.29)**						

Company Name: Southern Montana Telephone Company **SCHEDULE 13**

Average Cost of Long Term Debt

Year:2002

Line No.	Description (a)	Issue Date (b)	Maturity Date (c)	Principal Amount (d)	Gross Proceeds (e)	Net Proceeds (f)	Net Per $100 (g)	Outstanding Per Balance Sheet (h)	Yield to Maturity (i)	Annual Net Cost (j)	Amortization of Premium or Discount (k)	Total Cost (%) (l)
1	U.S. Of America	Aug-81	Aug-17	4087000				2037315		42391		2.08%
2	Rural Tel Finance Corp	May-99	May-04	600000				184895		15583		8.43%
3	Note Payable	Oct-01	Sep-10	665000				547931		43474		7.93%
4												
5												
6												
7												
8												
9												
10												
11												
12												
13												
14												
15												
16												
17												
18												
19												
20												
21												
22												
23												
24												
25												
26												
27												
28												
29												
30	**Total**			5352000				2770141		101448		3.66%

Company Name: Southern Montana Telephone Company **SCHEDULE 14**

Cost of Preferred Stock

Year:2002

Line No.	Description (a)	Date of Issuance (b)	Method of Offering (c)	Call Redemption Price (d)	Par Value Of Issue (e)	Gross Proceeds Amounts (f)	Net Proceeds Amounts (g)	Net Proceeds Per $100 (h)	Cost of Money (i)	Principal Outstanding (j)	Annual Cost (k)	Embedded Cost (l)
1												
2	NONE											
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												
13												
14												
15												
16												
17												
18												
19												
20												
21												
22												
23												
24												
25												
26												
27												
28												
29												
30	**Totals (Sum L.1 to L.29)**											

Company Name: Southern Montana Telephone Company **SCHEDULE 15**

Analysis of Common Stock

Year:2002

Line No.	(a)	Avg. Number of Shares Outstanding (b)	Book Value (per share) (c)	Earnings (per share) (d)	Dividends (per share) (e)	Retention Ratio (f)	Market Price High (g)	Market Price Low (h)	Price/ Earnings Ratio (i)
1	Year Ended December 31:	610	4909						
2									
3		*PRIVATELY HELD STOCK*-There is no market for this stock							
4									
5									
6									
7									
8	Month by Month Data:								
9	January	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)							
10	February								
11	March								
12	April								
13	May								
14	June								
15	July								
16	August								
17	September								
18	October								
19	November								
20	December								
21									
22									
23									

Capital Stock and Funded Debt Reacquired or Retired During the Year

Year:2002

Line No.	Description of Security (a)	Call or Retirement Date (b)	Number of Shares (c)	Principal Amount (d)	Reaquisition or Retirement Cost (e)	Gain or (Loss) (f)	Retirement or Reaquisition (g)
1							
2	NONE						
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30	**Totals (Sum L.1 to L.29)**						

Company Name: Southern Montana Telephone Company

Total Company Expense Matrix

Year:2002

Line No.		Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
1	*	6110	Network Support Expense						
2	^	6112	Motor Vehicle Expense	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)					
3	^	6113	Aircraft Expense						
4	^	6114	Special Purpose Vehicles Expense						
5	^	6115	Garage Work Equipment Expense						
6	^	6116	Other Work Equipment Expense						
7	*	6120	General Support Expense						
8	^	6121	Land and Building Expense						
9	^	6122	Furniture and Artworks Expense						
10	^	6123	Office Equipment Expense						
11	^	6124	General Purpose Computers Expense						
12	*	6210	Central Office Switching Expense						
13	^	6211	Analog Electronic Expense						
14	^	6212	Digital Electronic Expense						
15	^	6215	Electro-Mechanical Expense						
16		6220	Operator Systems Expense						
17	*	6230	Central Office Transmission Expense						
18	^	6231	Radio Systems Expense						
19	^	6232	Circuit Equipment Expense						
20	*	6310	Information Origination/Termination Expense						
21	^	6311	Station Apparatus Expense						
22	^	6341	Large Private Branch Exchange Expense						
23	^	6351	Public Telephone Terminal Equipment Exp.						
24	^	6362	Other Terminal Equipment Expense						
25	*	6410	Cable and Wire Facilities Expense						
26	^	6411	Poles Expense						
27	^	6421	Aerial Cable Expense						
28	^	6422	Underground Cable Expense						
29	^	6423	Buried Cable Expense						
30	^	6424	Submarine Cable Expense						
31	^	6425	Deep Sea Cable Expense						
32	^	6426	Intrabuilding Network Cable Expense						
33	^	6431	Aerial Wire Expense						
34			**Subtotals**						

^ Subaccount of the account marked with a *.

Company Name: Southern Montana Telephone Company

Total Company Expense Matrix

Year:2002

Line No.		Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
35	^	6441	Conduit Systems Expense						
36		6510	Other Property Expenses	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)					
37	*	6530	Network Operations Expense						
38	^	6531	Power Expense						
39	^	6532	Network Administration Expense						
40	^	6533	Testing Expense						
41	^	6534	Plant Operations Expense						
42	^	6535	Engineering Expense						
43		6540	Access Expense						
44		6561	Depreciation - Telecomm. Plant in Service						
45		6562	Depreciation-Prop. for Future Telecom. Use						
46		6563	Amortization Expense - Tangible						
47		6564	Amortization Expense - Intangible						
48		6565	Amortization - Other						
49	*	6610	Marketing						
50	^	6611	Product Management						
51	^	6612	Sales						
52	^	6613	Product Advertising						
53		6621	Call Completion Services						
54		6622	Number Services						
55		6623	Customer Services						
56		6711	Executive						
57		6712	Planning						
58		6721	Accounting and Finance						
59		6722	External Relations						
60		6723	Human Relations						
61		6724	Information Management						
62		6725	Legal						
63		6726	Procurement						
64		6727	Research and Development						
65		6728	Other General and Administrative						
66		6790	Provision for Uncollectible Notes Receivable						
67			**Totals**						

^ Subaccount of the account marked with a *.

Company Name: Southern Montana Telephone Company

Total State Expense Matrix

Year:2002

Line No.		Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
1	*	6110	Network Support Expense						
2	^	6112	Motor Vehicle Expense	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)					
3	^	6113	Aircraft Expense						
4	^	6114	Special Purpose Vehicles Expense						
5	^	6115	Garage Work Equipment Expense						
6	^	6116	Other Work Equipment Expense						
7	*	6120	General Support Expense						
8	^	6121	Land and Building Expense						
9	^	6122	Furniture and Artworks Expense						
10	^	6123	Office Equipment Expense						
11	^	6124	General Purpose Computers Expense						
12	*	6210	Central Office Switching Expense						
13	^	6211	Analog Electronic Expense						
14	^	6212	Digital Electronic Expense						
15	^	6215	Electro-Mechanical Expense						
16		6220	Operator Systems Expense						
17	*	6230	Central Office Transmission Expense						
18	^	6231	Radio Systems Expense						
19	^	6232	Circuit Equipment Expense						
20	*	6310	Information Origination/Termination Expense						
21	^	6311	Station Apparatus Expense						
22	^	6341	Large Private Branch Exchange Expense						
23	^	6351	Public Telephone Terminal Equipment Exp.						
24	^	6362	Other Terminal Equipment Expense						
25	*	6410	Cable and Wire Facilities Expense						
26	^	6411	Poles Expense						
27	^	6421	Aerial Cable Expense						
28	^	6422	Underground Cable Expense						
29	^	6423	Buried Cable Expense						
30	^	6424	Submarine Cable Expense						
31	^	6425	Deep Sea Cable Expense						
32	^	6426	Intrabuilding Network Cable Expense						
33	^	6431	Aerial Wire Expense						
34			**Subtotals**						

^ Subaccount of the account marked with a *.

Company Name: Southern Montana Telephone Company

Total State Expense Matrix

Year:2002

Line No.		Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
35	^	6441	Conduit Systems Expense						
36		6510	Other Property Expenses	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)					
37	*	6530	Network Operations Expense						
38	^	6531	Power Expense						
39	^	6532	Network Administration Expense						
40	^	6533	Testing Expense						
41	^	6534	Plant Operations Expense						
42	^	6535	Engineering Expense						
43		6540	Access Expense						
44		6561	Depreciation - Telecomm. Plant in Service						
45		6562	Depreciation-Prop. for Future Telecom. Use						
46		6563	Amortization Expense - Tangible						
47		6564	Amortization Expense - Intangible						
48		6565	Amortization - Other						
49	*	6610	Marketing						
50	^	6611	Product Management						
51	^	6612	Sales						
52	^	6613	Product Advertising						
53		6621	Call Completion Services						
54		6622	Number Services						
55		6623	Customer Services						
56		6711	Executive						
57		6712	Planning						
58		6721	Accounting and Finance						
59		6722	External Relations						
60		6723	Human Relations						
61		6724	Information Management						
62		6725	Legal						
63		6726	Procurement						
64		6727	Research and Development						
65		6728	Other General and Administrative						
66		6790	Provision for Uncollectible Notes Receivable						
67			**Totals**						

^ Subaccount of the account marked with a *.

Pension Costs

Year: 2002

1	Plan Name			
2	Defined Benefit Plan? _____yes_____	Defined Contribution Plan? __yes_____		
3	Actuarial Cost Method? _____	IRS Code: ___51330_____		
4	Annual Contribution by Employer: ___$86,316_____	Is the Plan Over Funded? __yes_____		
5				
	Item	Current Year	Last Year	% Change
6	**Change in Benefit Obligation**			
7	Benefit obligation at beginning of year			
8	Service cost			
9	Interest Cost			
10	Plan participants' contributions			
11	Amendments			
12	Actuarial Gain			
13	Acquisition			
14	Benefits paid			
15	Benefit obligation at end of year			
16	**Change in Plan Assets**			
17	Fair value of plan assets at beginning of year			
18	Actual return on plan assets			
19	Acquisition			
20	Employer contribution			
21	Plan participants' contributions			
22	Benefits paid			
23	Fair value of plan assets at end of year			
24	**Funded Status**			
25	Unrecognized net actuarial loss			
26	Unrecognized prior service cost			
27	Prepaid (accrued) benefit cost			
28				
29	**Weighted-average Assumptions as of Year End**			
30	Discount rate			
31	Expected return on plan assets			
32	Rate of compensation increase			
33				
34	**Components of Net Periodic Benefit Costs**			
35	Service cost			
36	Interest cost			
37	Expected return on plan assets			
38	Amortization of prior service cost			
39	Recognized net actuarial loss			
40	Net periodic benefit cost			
41				
42	**Montana Intrastate Costs:**			
43	Pension Costs			
44	Pension Costs Capitalized			
45	Accumulated Pension Asset (Liability) at Year End			
46	**Number of Company Employees:**			
47	Covered by the Plan	6	6	
48	Not Covered by the Plan			
49	Active	6	6	
50	Retired			
51	Deferred Vested Terminated			

Other Post Employment Benefits (OPEBS)

Year: 2002

	Item	Current Year	Last Year	% Change
1	**Regulatory Treatment:**			
2	Commission authorized - most recent			
3	Docket number: _____			
4	Order number: _____			
5	Amount recovered through rates			
6	**Weighted-average Assumptions as of Year End**			
7	Discount rate			
8	Expected return on plan assets			
9	Medical Cost Inflation Rate			
10	Actuarial Cost Method			
11	Rate of compensation increase			
12	**List each method used to fund OPEBs (ie: VEBA, 401(h)) and if tax advantaged:**			
13				
14				
15	**Describe any Changes to the Benefit Plan:**			
16				
17	**TOTAL COMPANY**			
18	**Change in Benefit Obligation**			
19	Benefit obligation at beginning of year			
20	Service cost			
21	Interest Cost			
22	Plan participants' contributions			
23	Amendments			
24	Actuarial Gain			
25	Acquisition			
26	Benefits paid			
27	Benefit obligation at end of year			
28	**Change in Plan Assets**			
29	Fair value of plan assets at beginning of year			
30	Actual return on plan assets			
31	Acquisition			
32	Employer contribution			
33	Plan participants' contributions			
34	Benefits paid			
35	Fair value of plan assets at end of year			
36	**Funded Status**			
37	Unrecognized net actuarial loss			
38	Unrecognized prior service cost			
39	Prepaid (accrued) benefit cost			
40	**Components of Net Periodic Benefit Costs**			
41	Service cost			
42	Interest cost			
43	Expected return on plan assets			
44	Amortization of prior service cost			
45	Recognized net actuarial loss			
46	Net periodic benefit cost			
47	**Accumulated Post Retirement Benefit Obligation**			
48	Amount Funded through VEBA			
49	Amount Funded through 401(h)			
50	Amount Funded through Other _____			
51	TOTAL			
52	Amount that was tax deductible - VEBA			
53	Amount that was tax deductible - 401(h)			
54	Amount that was tax deductible - Other _____			
55	TOTAL			

Other Post Employment Benefits (OPEBS) Continued

Year: 2002

	Item	Current Year	Last Year	% Change
1	**Number of Company Employees:**			
2	Covered by the Plan			
3	Not Covered by the Plan			
4	Active			
5	Retired			
6	Spouses/Dependants covered by the Plan			
7	**Montana**			
8	**Change in Benefit Obligation**			
9	Benefit obligation at beginning of year			
10	Service cost			
11	Interest Cost			
12	Plan participants' contributions			
13	Amendments			
14	Actuarial Gain			
15	Acquisition			
16	Benefits paid			
17	Benefit obligation at end of year			
18	**Change in Plan Assets**			
19	Fair value of plan assets at beginning of year			
20	Actual return on plan assets			
21	Acquisition			
22	Employer contribution			
23	Plan participants' contributions			
24	Benefits paid			
25	Fair value of plan assets at end of year			
26	**Funded Status**			
27	Unrecognized net actuarial loss			
28	Unrecognized prior service cost			
29	Prepaid (accrued) benefit cost			
30	**Components of Net Periodic Benefit Cccosts**			
31	Service cost			
32	Interest cost			
33	Expected return on plan assets			
34	Amortization of prior service cost			
35	Recognized net actuarial loss			
36	Net periodic benefit cost			
37	**Accumulated Post Retirement Benefit Obligation**			
38	Amount Funded through VEBA			
39	Amount Funded through 401(h)			
40	Amount Funded through other _____			
41	TOTAL			
42	Amount that was tax deductible - VEBA			
43	Amount that was tax deductible - 401(h)			
44	Amount that was tax deductible - Other			
45	TOTAL			
46	**Montana Intrastate Costs:**			
47	Pension Costs			
48	Pension Costs Capitalized			
49	Accumulated Pension Asset (Liability) at Year End			
50	**Number of Montana Employees:**			
51	Covered by the Plan			
52	Not Covered by the Plan			
53	Active			
54	Retired			
55	Spouses/Dependants covered by the Plan			

Payments for Services to Persons Other Than Employees

Year: 2002

Line No.	Name of Recipient (a)	Nature of Service (b)	Total Company Cost (c)	Total State Cost (d)	Intrastate Cost (e)
1					
2	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)				
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
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21					
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40					
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42					
43					
44					
45					
46					
47					
48					
49	**Total**				

Subscriber Line Usage Data

Year: 2002

Line No.	Description (a)	This Year (b)	% of Total (c)	Last Year (d)	% of Total (e)
1	Toll Usage:				
2	Interstate, InterLATA	3620247	55.50%	3470736	55.75%
3	Interstate, IntraLATA				
4	**Total Interstate Usage**	3620247	55.50%	3470736	55.75%
5	Intrastate, InterLATA	727080	11.15%	598125	9.61%
6	Intrastate, IntraLATA	2175908	33.36%	2156733	34.64%
7	**Total Intrastate Usage**	2902988	44.50%	2754858	44.25%
8	**Total Toll Usage**	6523235	100.00%	6225594	100.00%
9	Centrex				
10	Local				
11	**Total Minutes**	6523235	100.00%	6225594	100.00%

Company Name: Southern Montana Telephone Company

SCHEDULE 23
Page 1 of

Cental Office and Access Line Statistics

Year: 2002

Line No.	Wire Center (a)	Type of Office (b)	Residential (c)	ISDN (d)	ADSL (e)	Lifeline Customers (f)	Residential LMS Customers (g)	Single Line Business (h)	Multi-Line Business (i)	Customer Owned Coin (j)	Company Owned Coin (k)	Other (l)	% of Lines w/ T. Tone (m)	Total Access Lines (n)
1	*DIVIDE*	*DIGITAL*	*80*			*1*		*6*	*12*		*1*		*99.9%*	99
2	*GRANT*	*DIGITAL*	*100*					*8*	*4*		*1*		*99.9%*	113
3	*JACKSON*	*DIGITAL*	*238*					*20*	*27*	*2*	*2*		*99.9%*	289
4	*WISDOM*	*DIGITAL*	*208*			*1*		*14*	*42*	*4*	*1*		*99.9%*	269
5	*WISE RIVER*	*DIGITAL*	*229*			*2*		*14*	*29*	*2*	*1*		*99.9%*	275
6														
7														
8														
9														
10														
11														
12														
13														
14														
15														
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27														
28														
29														
30														
31														
32														
33	**Total**		855			4		62	114	8	6		4.995	1045

NOTE: Additional blank schedules are being provided for your convenience.

Company Name: Southern Montana Telephone Company

SCHEDULE 24
Page 1 of

Central Office and Switch Information

Year: 2002

Line No.	Wire Center (a)	Office Configuration (Host, Remote, Stand alone) (b)	Type of Switch (c)	Switch Vendor/ Manufacturer (d)	Switch Model No. (e)	Switch Line Capacity (f)	Year Deployed (g)
1	406-267	REMOTE	DIGITAL	NTI	DMS-10	512	1990
2	406-832	REMOTE	DIGITAL	NTI	DMS-10	512	1983
3	406-689-S	REMOTE	DIGITAL	NTI	DMS-10	512	1983
4	406-689	HOST	DIGITAL	NTI	DMS-10	640	1983
5	406-834-J	REMOTE	DIGITAL	NTI	DMS-10	512	1983
6	406-834-T	REMOTE	DIGITAL	NTI	DMS-10	512	1983
7	406-681	REMOTE	DIGITAL	NTI	DMS-10	512	1983
8							
9							
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48							

NOTE: Additional blank schedules are being provided for your convenience.

Construction Budget - Montana

Year: 2003

Line No.	Description (a)	2003 (b)
1	**Central Office Assets:**	
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
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23		
24		
25		
26		
27	Total Switching and Central Office Projects over $500,000	
28	Miscellaneous Central Office Projects not over $500,000	
29	**Total Central Office Budget (Total of Line 27 & Line 28)**	
30	**Other Projects over $500,000:**	
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		
41	Total Other Projects over $500,000	
42	Miscellaneous projects not over $500,000	
43	**Total Construction Budget (Total of Lines 29, 41 & 42)**	

Montana Employee Counts

Year: 2002

Line No.	Category (a)	Beginning of Year (b)	End of Year (c)
1	Executive	1	1
2	Office	3	3
3	Outside Plant/COE	2	2
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
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35			
36			
37			
38			
39			
40			
41			
42			
43	**Totals (Sum of Lines 1 through 42)**	6	6

Company Name: Southern Montana Telephone Company **SCHEDULE 29**

NOT APPLICABLE-Not able to provide this information. Would require hiring outside consultants.

Montana Composite Statistics

Year: 2002

Line No.	Account No.	Description (a)	Amount (b)
1		**Plant (Intrastate Only) (000 Omitted)**	
2	2001	Plant in Service	
3	2003 - 2004	Construction Work in Progress	
4	2005	Plant Acquisition Adjustments	
5	2002	Plant Held for Future Use	
6	1220	Materials & Supplies	
7		(Less):	
8	3100 - 3400	Depreciation & Amortization Reserves	
9	4360.2	Contributions in Aid of Construction	
10		**NET BOOK COSTS**	
11		**Revenues & Expenses (Intrastate Only) (000 Omitted)**	
12	5000 - 5300	Operating Revenues	
13	6560	Depreciation & Amortization Expenses	
14		Federal & State Income Taxes	
15		Other Taxes	
16		Other Operating Expenses	
17		TOTAL Operating Expenses	
18		Net Operating Income	
19		Other Income	
20		Other Deductions	
21		**NET INCOME**	
22		**Access Lines in Service (Intrastate Only)**	
23		Residential Access Lines	
24		Business Access Lines	
25		PBX Access Lines	
26		Other Access Lines	
27		**Total Number of Access Lines**	
28		**Average Number of Calls Per Access Line**	
29		Local Calls	
30		Toll Calls (Intra- or Interstate)	
31		**Total Number of Calls Per Access Line (Total of Line 29 & Line 30)**	
32		**Other Statistics (Intrastate Only)**	
33		Average Residential Monthly Bill	
34		Gross Plant Investment per Access Line	

Depreciation - Montana Intrastate Regulated

Year: 2002

Line No.	Acct No. (a)	Description (b)	Composite Rate % (c)	Total Expense $ (d)
1	2112	Motor Vehicles	33.0%	6,416
2	2114	Special Purpose Vehicles		
3	2115	Garage Work Equipment		
4	2116	Other work Equipment	13.4%	63,578
5	2121	Buildings	4.2%	25,082
6	2122	Furniture		
7	2123.1	Office Support Equipment	11.7%	917
8	2123.2	Company Communications Equipment	9.3%	1,714
9	2124	General Purpose Computers	20.0%	9,261
10	2211	Analog Electronic Switching Equipment		
11	2212	Digital Electronic Switching Equipment	10.0%	116,674
12	2215	Step By Step Switching Equipment		
13	2215	Crossbar Switching Equipment		
14	2220	Operator System		
15	2231	Radio Systems		
16	2232	Circuit DDS		
17	2232	Circuit Digital	10.0%	72,550
18	2232	Circuit Analog		
19	2351	Public Telephone Terminating Equipment		
20	2362	Other Terminal Equipment		
21	2411	Poles		
22	2421	Aerial Cable Metallic		
23	2421	Aerial Cable Nonmetallic		
24	2422	Underground Cable Metallic		
25	2422	Underground Cable Nonmetallic		
26	2423	Buried Cable Metallic	5.0%	212,663
27	2423	Buried Cable Nonmetallic		
28	2424	Submarine Cable Metallic		
29	2424	Submarine Cable Nonmetallic		
30	2426	Intrabuilding Network Cable Metallic		
31	2426	Intrabuilding Network Cable Nonmetallic		
32	2431	Aerial Wire	5.0%	1,669
33	2441	Conduit Systems		
34				
35		**COMPOSITE TOTAL**		
36				
37		Have these rates been approved by the Commission? __X___YES _____ NO		
38				
39		If yes: _____ Docket Number _____ Order Number		
40				

Company Name: **Southern Montana Telephone Company**

SCHEDULE 31

Montana Regulatory Capital Structure & Costs

Year: 2002

Line No.	Description (a)	% Cap. Str. (b)	% Cost Rate (c)	Weighted Cost (d)
	Commission Accepted - Most Recent			
1	Docket Number			
2	Order Number			
3				
4	Common Equity			
5	Preferred Stock			
6	Long Term Debt			
7	Other			
8	**Total**			
9				
10	**Actual at Year End**			
11				
12	Common Equity			
13	Preferred Stock			
14	Long Term Debt			
15	Other			
16	**Total**			

Company Name: **Southern Mont**

SCHEDULE 32

Network Access - Charges and Revenues

Year: 2002

Line No.	Description (a)	Access Charges Paid (b)	Access Revenues Received (c)
1	Montana - Total State		377941
2			
3	Montana - Intrastate		377941
4			
5	Montana - Intrastate Regulated		377941
6			
7			
8			
9			
10			
11			
12			
13			

Company Name: Southern Montana Telephone Company **SCHEDULE 33**

Affiliate Transactions - Products & Services Provided to Utility

Year: 2002

Line No.	Affiliate Name (a)	Products & Services (b)	Method to Determine Price (c)	Charges to Utility (d)	% Total Affil. Revenues (e)	Charges to MT Utility (f)
1	National Information Systems	Computer Service Bureau (Billing Acctg & Plant Software Maintenance)	Varies	50,868		50,868
5	GVNW	Consultants (Cost Studies, Separations, Traffic Studies, Etc.)	Hourly Rate	41,887		41,887
30	**TOTAL**			$92,755		$92,755

Company Name: Southern Montana Telephone Company **SCHEDULE 34**

Affiliate Transactions - Products & Services Provided by Utility

Year: 2002

Line No.	Affiliate Name (a)	Products & Services (b)	Method to Determine Price (c)	Charges to Affiliate (d)	% Total Affil. Revenues (e)	Charges to MT Utility (f)
1						
2	NONE					
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30	**TOTAL**					

Company Name: Southern Montana Telephone Company

SCHEDULE 35

* 2002 numbers not available until July, 2003 after cost studies have been completed *

Montana Intrastate Regulated Earned Rate of Return

Year: 2002

Line No.	Description Rate Base (a)	This Year (b)	Last Year (c)	Percent Change (d)
1				
2	2001 Plant in Service		2,554,602	-100.00%
3	2002 Prop. Held for Future Telecommunications Use			
4	3100-3200 (Less) Accumulated Depreciation		(1,190,232)	100.00%
5	**Plant in Service**		1,364,370	-100.00%
6				
7	**Additions**			
8	1220 Materials & Supplies		14,783	-100.00%
9	1280 Prepayments			
10	Other Additions			
11	**TOTAL Additions**		14,783	-100.00%
12				
13	**Deductions**			
14	4100 Current Deferred Operating Income Taxes			
15	4320 Unamortized Operating Investment Tax Credits			
16	4340 Noncurrent Deferred Operating Income Taxes			
17	Customer Advances for Construction			
18	Other Deductions			
19	**TOTAL Deductions**		302,074	-100.00%
20	**TOTAL Rate Base**		1,077,079	-100.00%
21				
22	**Net Earnings**			
23				
24	**Rate of Return on Average Rate Base**		5.290%	-100.00%
25				
26	**Rate of Return on Average Equity**		4.240%	-100.00%
27				
28	Major Normalizing Adjustments & Commission			
29	Ratemaking adjustments to Utility Operations			
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42				
43	**Adjusted Rate of Return on Average Rate Base**			
44				
45	**Adjusted Rate of Return on Average Equity**			

Other Taxes Paid

Year: 2002

Line No.	Description (a)	Last Year (b)	This Year (c)
1	Montana Telephone Company License Tax		
2	Montana Public Service Commission Tax	1319	1079
3	Montana Consumer Counsel Tax	395	391
4	911 Emergency Telephone Fee		
5	Montana Telecommunications Access Service (TDD)		
6	Montana Corporate License Tax	15	15
7	Personal Property Tax		
8	Real Property Tax		
9			
10			
11			
12	**Total**	1729	1485

Company Name: **Southern Montana Telephone Company**

Universal Service Funds Received

Year: 2002

Line No.	Description (a)	Last Year (b)	This Year (c)
13	Funds received from Montana Sources		
14	Funds received from Federal Sources	302876	279855
15			
16			
17			
18			
19			
20			
21			
22			
23			
24	**Total**	302876	279855