

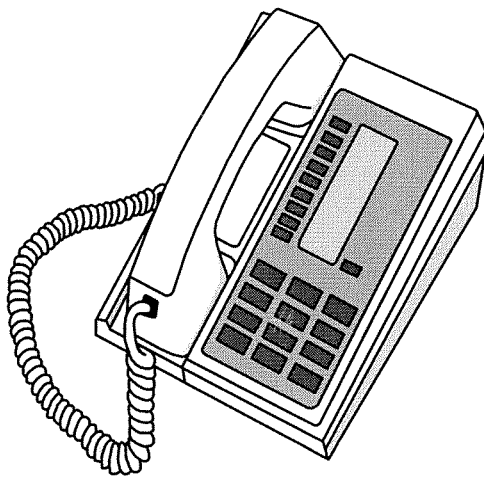
YEAR 2001
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PUBLIC SERVICE
COMMISSION

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

ORIGINAL INCLUDES
PROPRIETARY MATERIAL

Telephone Annual Report

Instructions

General

1. A Microsoft EXCEL 97 workbook of the annual report is being provided on computer disk for your convenience. The workbook contains the schedules of the annual report. Each schedule is on the worksheet named that schedule. For example, Schedule 1 is on the sheet titled "Schedule 1". By entering your company name in the cell named "Company" of the first worksheet, the spreadsheet will put your company name on all the worksheets in the workbook. The same is true for inputting the year of the report in the cell named "YEAR". You can "GOTO" the proper cell by using the F5 key and selecting the name of the cell.
2. The workbook contains input sections that are unprotected, and non-input sections that are protected. Cell protection can be disabled or enabled through "TOOLS – PROTECTION – UNPROTECT SHEET" on your toolbar. Formulas and checks are built into most of the templates.
3. Use of the disk is optional. The disk and the report cover shall be returned when the report is filed. There are macros built into the workbook to assist you with the report. An explanation of the macros is on the "Control" worksheet at the front of the workbook. The explanations start at cell A1.
4. All forms must be filled out in permanent ink and be legible. Note: Even if the computer disk is used, a printed version of the report shall be filed. **Please submit one unbound copy of the annual report along with the regular number of annual reports that you submit.** This aids in scanning the report so that it may be published on our web site. The orientation and margins are set up on each individual worksheet and should print on one page. If you elect not to use the disk, please format your reports to fit on one 8.5" by 11" page with the left binding edge (top if landscaped) set at .85", the right edge (bottom if landscaped) set at .4", and the remaining two margins at .5". You may select specific schedules to print – See the worksheet "CONTROL".
5. Unless otherwise indicated, all information required in these schedules shall be from the accounts prescribed in 47 C.F.R. Part 32 and the definitions and instructions therein will apply to this report wherever applicable.
6. Information on financial schedules may be rounded to thousands of dollars for companies with over 5,000 access lines. Companies submitting schedules rounded to thousands should so indicate at the top of the schedule.
7. Where more space is needed or more than one schedule is needed additional schedules may be attached and should be included directly behind the original schedule to which it pertains and be labeled accordingly (for example, Schedule 1A).

8. The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further information as is necessary to make the required schedules not misleading.

9. The following schedules should be filled out with information on a total company basis:

Schedules 1 - 4
Schedule 10
Schedules 13 - 17
Schedule 19
Schedule 20, Page 1 of 2
Schedules 33 and 34

All other schedules should be filled out with Montana specific data. Financial schedules should include all amounts originating in Montana or allocated to Montana from other jurisdictions.

10. All companies owned by another company shall attach a corporate structure chart of the holding company.

11. The following schedules are not required to be filled out or submitted by companies with less than 5,000 access lines:

Schedule 6
Schedules 17 and 18
Schedule 21

12. Schedules that have no activity during the year or are not applicable to the respondent should be marked as not applicable and submitted with the report.

13. Companies with under 5,000 lines may use summary accounts and should leave lines for subaccounts blank. Summary accounts are noted with an asterisk and subaccounts that are not required are noted with a caret.

14. Companies with over 5,000 lines must complete schedules to all required subaccount detail.

15. FCC Form M sheets may not be substituted in lieu of completing annual report schedules.

16. Common sense must be used when filling out all schedules.

Specific Instructions

Schedules 3 through 9

1. **Schedules 3, 4, and 9** should include all notes to the financial statements required by the FCC or included in the financial statements issued as audited financial statements. These notes should be included in the report directly behind the schedules and should be labeled appropriately (Schedule 3A, etc.).
2. **Schedule 5** may be omitted for companies doing business only in Montana.
3. **Schedule 6** is not required for companies with under 5,000 lines.
4. **Schedule 7** must be completed by all companies. For companies under 5,000 lines, this schedule may be completed on a total state basis. Any such company completing the form on a total state basis shall indicate this fact clearly on the form.
5. **Schedule 8** - Companies with less than 5,000 lines are not required to fill out the intrastate portion. The regulated rate base must be separated from the deregulated rate base but this may be done on a total state basis. Any company so doing shall clearly indicate this on the form.
6. Only accounts designated on **Schedule 8** may be included in rate base. Only companies who have specifically been authorized in a Commission order to include cash working capital in rate base may fill out line 8 on Schedule 8. Cash working capital must be calculated using the methodology approved in the Commission order. The most recent Commission Order, and Docket, specifying cash working capital shall be noted on the schedule.
7. **Schedule 9** - Instructions to complete are similar to those used for the Statement of Cash Flows in the FCC Form M.

Schedule 10

1. For the purpose of this schedule, nonofficial companies shall include any company in which the respondent has an ownership interest which does not meet the definition of an affiliated company set out in 47 C.F.R. Section 32.9000. This schedule shall not include telecommunications accounts receivable from other customers.

Schedule 11

1. All amounts listed in Column f that represent individual items for which the higher of cost or market value was in excess of \$50,000 for companies with under 5,000 lines and in excess of \$100,000 for companies with over 5,000 lines must be fully explained in notes to this schedule. The explanation must include the plant description and location, the original cost, the net book cost, the market value, the value at which it was transferred or the price at which it was sold, and the party to which it was transferred or sold.

Schedule 12

1. Respondents shall list each item amounting individually to \$100,000 or more and report all others in the aggregate.

2. Amounts in Column f relating to individual items exceeding \$50,000 shall be fully explained.

Schedule 15

1. Line 1 must be completed by all companies for the most recent calendar year. The retention and price/earnings ratios shall be calculated on a year end basis. Enter the actual year end market price in the "Year Ended" row. If the computer disk is used, enter the year end market price in the "High" column.
2. Lines starting at 9 shall be completed for each of the twelve months of the report year for all companies with over 5,000 access lines. Earnings per share and dividends per share shall be reported on a quarterly basis and entries shall be made only to the months that end the respective quarters (for example, March, June, September, and December.)

Schedule 19

1. All companies are required to submit this form. Companies with more than one plan (for example, both a retirement plan and a deferred savings plan) shall complete a schedule for each plan.
2. Companies with defined benefit plans must complete the entire form using FASB 87 and 132 guidelines.
3. Interest rate percentages shall be listed to two decimal places.

Schedule 20

1. All changes to the employee benefit plans shall be explained in a narrative on lines 15 and 16. All cost containment measures implemented in the reporting year shall be explained and quantified in a narrative on lines 15 & 16. All assumptions used in quantifying cost containment results shall be disclosed.
2. The schedule shall be filled out using FASB 106 and 132 guidelines.

Schedule 21

1. Respondents shall disclose all payments made during the year where the aggregate payment to the recipient was \$25,000 or more. Payments must include fees, retainers, commissions, gifts, contributions, assessments, bonuses, subscriptions, allowances for expenses or any other form of payment for services or as a donation.

Schedule 23

1. Respondents shall provide an attached sheet detailing the type and corresponding number of access lines for all entries in Column L (Other).

Schedule 24

1. Column (b). For each wire center that has a configuration of "Remote", Column (b) shall also reflect the respective "Host".
2. Column (c). Examples of Types of Switches are: Digital, Step by Step, and Crossbar.

Schedule 25

1. This schedule must be completed by all companies for the year following the reporting year.

Schedule 26

1. Respondents shall either report construction technicians and splicers as separate categories or footnote the appropriate categories and indicate the number of (1) construction technicians; and (2) splicers.

Schedule 27

1. Include in column (d) ALL additional forms of compensation, including, but not limited to: deferred compensation, deferred savings plan, profit sharing, supplemental or non-qualified retirement plan, employee stock ownership plan, restricted stock, stock options, stock appreciation rights, performance share awards, dividend equivalent shares, mortgage payments, use of company cars or car lease payments, tax preparation consulting, financial consulting, home security systems, company-paid physicals, subscriptions to periodicals, memberships, association or club dues, tuition reimbursement, employee discounts, and spouse travel.
2. The above compensation items shall be listed separately. Where more space is needed additional schedules may be attached and shall be included directly behind the original schedule to which it pertains.
3. If respondent is claiming protected status of salary information both a proprietary and non-proprietary copy of this schedule shall be filed. On the non-proprietary copy respondent shall indicate which columns respondent maintains are proprietary. A note stating that such information is being provided separately shall be included on the schedule. In no case shall either Column (a) - Name/Position, or Column (g) - Percent Increase Total Compensation, be considered proprietary. Respondent shall provide all requested information on the proprietary copy.

Schedule 28

1. Respondents shall provide all executive compensation information in conformance with that required by the Securities and Exchange Commission (SEC) (Regulation S-K Item 402, Executive Compensation).
2. Include in column (d) ALL additional forms of compensation, including, but not limited to: deferred compensation, deferred savings plan, profit sharing, supplemental or non-qualified retirement plan, employee stock ownership plan, restricted stock, stock options, stock appreciation rights, performance share awards, dividend equivalent shares, mortgage payments, use of company cars or car lease payments, tax preparation consulting, financial consulting, home security systems, company-paid physicals, subscriptions to periodicals, memberships, association or club dues, tuition reimbursement, employee discounts, and spouse travel.
3. All items included in Column (d) - Other Compensation shall be listed separately. Where more space is needed additional schedules may be attached and shall be included directly behind the original schedule.
4. In addition, respondents shall attach a copy of the executive compensation information provided to the SEC.

Schedule 29

1. Information from this schedule is consolidated with information from other Utilities and reported to the National Association of Regulatory Utility Commissioners (NARUC). Your assistance in completing this schedule, even though information may be located in other areas of the annual report, expedites reporting to the NARUC and is appreciated.

Schedules 33 and 34

1. Respondents shall report all transactions with affiliated companies.
2. Column (c). Respondents shall indicate in column (c) the method used to determine the price. Respondents shall indicate if a contract is in place between the Affiliate and the Utility. If a contract is in place, respondents shall indicate the year the contract was initiated, the term of the contract and the method used to determine the contract price.
3. Column (c). If the method used to determine the price is different than the previous year, respondents shall provide an explanation, including the reason for the change.

Schedule 35

1. Respondents shall provide an attached sheet detailing the account and the amount for all entries made to Lines 9 and 16.
2. Only companies who have specifically been authorized in a Commission Order to include cash working capital in rate base may include cash working capital in lines 9 or 16. Cash working capital must be calculated using the methodology approved in the Commission Order. The Commission Order specifying cash working capital shall be noted on the attached sheet.
3. Respondents shall indicate, for each adjustment on lines 30 through 42, if the amount is updated or if it is from the last rate case. All adjustments shall be calculated using Commission methodology.

Schedule 36

1. Respondents shall list the amount of tax accrued or paid for the fiscal year attributable to Montana sources for each of the listed taxes

Schedule 37

1. Respondents shall list the amount of Universal Service Funds received from Montana and from the federal government.

Telephone Annual Report

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General Information

Year: 2001

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
3			
4			
5			
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7			
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17			
18	Chairman of the Board:	Robert G. Helming	
19			
20			

Officers

Year: 2001

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
6			
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Total Company Balance Sheet

Year: 2001

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: 2001

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
41		CURRENT LIABILITIES:		
42	4010	Accounts Payable	(See Attached Audited Financials)	
43	4020	Notes Payable		
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		

Total Company Income Statement

Year: 2001

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		REVENUES:		
2	5000	Basic Local Service Revenues	(See Attached Audited Financials)	
3	5080	Network Access Revenues		
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, 2001 AND 2000**

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Seafirst Financial Center
601 West Riverside, Suite 1800
Spokane, WA 99201-0663

Phone 509.747.2600
Toll Free 1.800.888.4065
FAX 509.624.5129

Offices in Principal Cities of
Washington, Oregon and California

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, 2001 and 2000, 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, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 25, 2002, 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.


Spokane, Washington
January 25, 2002

A member of
**Moore
Rowland
INTERNATIONAL**

An association of independent
accounting firms throughout the world.

Schedule 4.4

SOUTHERN MONTANA TELEPHONE COMPANY
BALANCE SHEET

ASSETS

	December 31,	
	2001	2000
CURRENT ASSETS		
Cash and cash equivalents	\$ 476,313	\$ 478,649
Investment in certificates of deposit at amortized cost	602,415	570,837
Subscriber receivables	65,486	63,676
Income tax receivable	16,329	-
Other accounts receivable	222,334	166,689
Material and supplies	35,853	41,337
Other current assets	14,263	64,136
Total current assets	1,432,993	1,385,324
NONCURRENT ASSETS		
Investment in available for sale securities	395,885	623,374
Investment in certificates of deposit, long-term at amortized cost	634,719	449,514
Investment in held to maturity securities	100,000	100,000
Investment in affiliate	1,276	1,276
Investment in nonaffiliates	485,558	465,831
Nonregulated investments	87,118	61,206
Other noncurrent assets	17,286	22,670
	1,721,842	1,723,871
PROPERTY, PLANT, AND EQUIPMENT		
Telecommunications plant in service	7,588,436	7,436,726
Telecommunications plant under construction	5,434	61,247
	7,593,870	7,497,973
Less accumulated depreciation and amortization	3,542,368	3,178,752
	4,051,502	4,319,221
	\$ 7,206,337	\$ 7,428,416

**SOUTHERN MONTANA TELEPHONE COMPANY
BALANCE SHEET**

LIABILITIES AND STOCKHOLDER'S EQUITY

	December 31,	
	2001	2000
CURRENT LIABILITIES		
Accounts payable	\$ 122,236	\$ 117,046
Advance billing and customer deposits	9,410	10,323
Current maturities of long-term debt	305,944	290,688
Other accrued taxes	38,197	38,146
Other accrued liabilities	114,422	110,201
Accrued interest payable	9,001	9,010
Income taxes payable	-	3,922
Total current liabilities	599,210	579,336
LONG-TERM DEBT	2,784,289	3,105,112
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred investment tax credits	57,569	66,322
Deferred income taxes	854,286	917,952
	911,855	984,274
STOCKHOLDER'S EQUITY		
Common stock, \$10 par value; authorized 5,000 shares		
2,907 shares issued	29,070	29,070
Paid-in capital	3,290	3,290
Retained earnings	5,574,398	5,366,424
	5,606,758	5,398,784
Less treasury stock, 2,297 shares at cost	(2,581,408)	(2,581,408)
Unrealized gain (loss) on available for sale securities	(114,367)	(57,682)
	2,910,983	2,759,694
	\$ 7,206,337	\$ 7,428,416

See accompanying notes.

Schedule 4.6

SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF INCOME

	Year Ended December 31,	
	2001	2000
OPERATING REVENUES		
Local network services	\$ 176,396	\$ 162,808
Interstate access revenue	1,336,246	1,228,320
Intrastate access revenue	386,756	414,566
Carrier billing and collection	30,057	35,714
Miscellaneous	2,015	1,698
Nonregulated services	30,747	1,874
Uncollectible	(2,113)	(350)
	<u>1,960,104</u>	<u>1,844,630</u>
OPERATING EXPENSES		
Plant specific operations	323,948	274,539
Plant nonspecific operations	289,318	237,084
Depreciation and amortization	447,632	362,223
Customer operations	92,727	83,699
Corporate operations	300,018	356,121
Other operating taxes	53,265	50,220
Nonregulated	10,577	6,648
	<u>1,517,485</u>	<u>1,370,534</u>
Operating income	<u>442,619</u>	<u>474,096</u>
Nonoperating income (expense)		
Interest and dividend income	109,099	142,335
Gain (loss) on sale of investments	(10,957)	8,661
Interest expense	(121,187)	(105,330)
Other nonoperating expense	(94,231)	(8,298)
	<u>(117,276)</u>	<u>37,368</u>
Income before taxes	325,343	511,464
Income taxes	<u>117,369</u>	<u>185,805</u>
NET INCOME	<u>\$ 207,974</u>	<u>\$ 325,659</u>

Schedule 4.7

SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF STOCKHOLDER'S EQUITY

	<u>Total</u>	<u>Stockholder's Equity</u>	<u>Accumulated Comprehensive Income (Loss)</u>	<u>Comprehensive Income (Loss)</u>
Balance, December 31, 1999	\$ 4,197,454	\$ 4,156,717	\$ 40,737	
Net income	325,659	325,659	-	\$ 325,659
Unrealized loss on available for sale securities, net of tax	(98,419)	-	(98,419)	(98,419)
Purchase of 457 shares of stock for the treasury at cost	<u>(1,665,000)</u>	<u>(1,665,000)</u>	<u>-</u>	<u>-</u>
Comprehensive income				<u>\$ 227,240</u>
Balance, December 31, 2000	2,759,694	2,817,376	(57,682)	
Net income	207,974	207,974	-	\$ 207,974
Unrealized loss on available for sale securities, net of tax	(56,685)	-	(56,685)	(56,685)
Reclassification adjustment, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,504)</u>
Comprehensive income				<u>\$ 148,785</u>
Balance, December 31, 2001	<u>\$ 2,910,983</u>	<u>\$ 3,025,350</u>	<u>\$ (114,367)</u>	

See accompanying notes.

Schedule 4.8

SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 207,974	\$ 325,659
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	452,604	365,301
Noncash patronage dividends	(2,707)	(2,455)
Amortization of discount on certificates of deposit	(48,405)	(47,985)
Amortization of deferred investment tax credit	(8,753)	(9,227)
Decrease in cash surrender value of life insurance	5,384	1,729
Net realized loss on securities available for sale	60,611	42,982
Loss on disposal of nonregulated assets	(258)	-
Change in assets and liabilities:		
Accounts receivable	(57,455)	102,363
Federal income tax (receivable) payable	(20,251)	(53,768)
Supplies	5,484	357
Other assets	49,873	(14,623)
Accounts payable and accrued expenses	9,453	(79,975)
Advance payments and customer deposits	(913)	1,934
Deferred income taxes	(63,666)	(33,418)
Net cash provided by operating activities	<u>588,975</u>	<u>598,874</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to telephone plant	(180,112)	(127,193)
Additions (deductions) to nonregulated plant	(42,126)	7,177
Proceeds from disposals of plant	11,700	16,500
Proceeds from sales of investments	930,105	1,447,307
Purchase of investments	(1,005,312)	(1,131,470)
Net cash provided (used) by investing activities	<u>(285,745)</u>	<u>212,321</u>

Schedule 4.9

SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2001	2000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of long-term debt	\$ -	\$ 665,000
Principal payments of long-term debt	(305,566)	(264,556)
Repurchase of stock for the treasury	-	(1,665,000)
Net cash used by financing activities	(305,566)	(1,264,556)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,336)	(453,361)
Cash and cash equivalents at beginning of year	478,649	932,010
Cash and cash equivalents at end of year	\$ 476,313	\$ 478,649
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	\$ 120,873	\$ 104,135
Income taxes	\$ 160,943	\$ 232,167

See accompanying notes.

SOUTHERN MONTANA TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

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.

**SOUTHERN MONTANA TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS**

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 2001 or 2000.
- * 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 2001 or 2000.

SOUTHERN MONTANA TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

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.

Note 2 - Property, Plant, and Equipment

Property, plant, and equipment balances together with accumulated depreciation and amortization consist of the following at December 31, 2001 and 2000:

	Plant Account	Accumulated Depreciation	2001 Net Balance	2000 Net Balance
Plant in service	\$ 7,588,436	\$ 3,542,368	\$ 4,046,068	\$ 4,257,974
Plant under construction	5,434	-	5,434	61,247
TOTAL	\$ 7,593,870	\$ 3,542,368	\$ 4,051,502	\$ 4,319,221

SOUTHERN MONTANA TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

Note 2 - Property, Plant, and Equipment (Continued)

Telecommunications plant in-service balances together with accumulated depreciation consists of the following at December 31, 2001 and 2000:

	Plant Account	Accumulated Depreciation	2001 Net Balance	2000 Net Balance
General support assets:				
Land	\$ 38,451	\$ -	\$ 38,451	\$ 38,451
Motor vehicles	243,005	243,005	-	(15,000)
Other work equipment	449,023	377,488	71,535	(436)
Buildings	597,192	263,214	333,978	354,599
Furniture and office equipment	4,365	4,365	-	-
Furniture and office equipment (five-year assets)	15,139	14,222	917	1,831
General purpose computer	47,025	1,046	45,979	54,252
Official stations	18,527	10,694	7,833	9,429
Central office assets:				
Digital switching	1,175,588	325,175	850,413	914,903
Transmission equipment	721,373	217,631	503,742	539,321
Cable facilities:				
Buried cable	2,786,792	1,744,740	1,042,052	1,140,826
Fiber optic cable	1,491,956	340,788	1,151,168	1,219,798
	<u>\$ 7,588,436</u>	<u>\$ 3,542,368</u>	<u>\$ 4,046,068</u>	<u>\$ 4,257,974</u>

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:

	2001	2000
Amortized cost	\$ 1,237,134	\$ 1,020,351
Gross unrealized gain (loss)	<u>811</u>	<u>(1,137)</u>
ESTIMATED FAIR VALUE	<u>\$ 1,237,945</u>	<u>\$ 1,019,214</u>

SOUTHERN MONTANA TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS
Note 3 - Certificates of Deposit (Continued)

Maturities of certificates of deposit by contractual maturity as of December 31, 2001, are as follows:

	Amortized Cost	Estimated Fair Value
Maturing in one to five years	<u>\$1,237,134</u>	<u>\$1,237,945</u>

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, 2001		
	Cost	Gross Unrealized Gain (Loss)	Estimated Fair Value
Available for Sale			
Equity securities	<u>\$ 551,394</u>	<u>\$ (182,069)</u>	<u>\$ 369,325</u>
Mutual funds	<u>37,515</u>	<u>(10,955)</u>	<u>26,560</u>
	<u>\$ 588,909</u>	<u>\$ (193,024)</u>	<u>\$ 395,885</u>
	December 31, 2000		
Equity securities	<u>\$ 604,221</u>	<u>\$ (87,355)</u>	<u>\$ 516,866</u>
Mutual funds	<u>106,096</u>	<u>412</u>	<u>106,508</u>
	<u>\$ 710,317</u>	<u>\$ (86,943)</u>	<u>\$ 623,374</u>

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

	December 31, 2001		
	Cost	Gross Unrealized Losses	Estimated Fair Value
Held to Maturity			
Other interest-bearing securities	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>
	December 31, 2000		
Other interest-bearing securities	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>

SOUTHERN MONTANA TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

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

Maturities of securities held to maturity by contractual maturity as of December 31, 2001, are as follows:

	Amortized Cost	Estimated Fair Value
Maturing in one to five years	\$100,000	\$100,000

An unrealized loss on investment securities during the years ended December 31, 2001 and 2000, was reported as a separate component of stockholder's equity and consisted of the following:

	2001	2000
Unrealized holding losses	\$ 193,024	\$ 87,243
Deferred tax effect related to unrealized holding losses	(78,657)	(29,561)
	\$ 114,367	\$ 57,682

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

	2001	2000
Available for sale securities:		
Realized gains (losses)	\$ (10,957)	\$ 8,661
Amortization of discount	66,631	47,985
Interest earned	19,856	69,686
Dividends received	22,611	24,664
	\$ 98,141	\$ 150,996

Note 5 - Investments in Nonaffiliates

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

	2001	2000
Montana Advanced Information Network	\$ 440,100	\$ 415,100
Other nonmarketable telephone stocks and investments	45,458	50,731
	\$ 485,558	\$ 465,831

SOUTHERN MONTANA TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 6 - Long-Term Debt

Long-term debt is as follows at December 31:

	Interest Rate	Maturity Dates	2001	2000
Rural Utilities Service (RUS)	2.00% - fixed	2016	\$ 2,168,863	\$ 2,297,834
Rural Telephone Finance Cooperative (RTFC)	5.50% - variable	2004	322,218	450,778
Notes payable, former stockholder	7.50% - fixed	2010	599,152	647,188
			3,090,233	3,395,800
Less current portion			305,944	290,688
			<u>\$ 2,784,289</u>	<u>\$ 3,105,112</u>

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:

2002	
2003	\$ 305,944
2004	319,591
2005	263,851
2006	203,442
Later years	211,286
	<u>1,786,119</u>
	<u>\$ 3,090,233</u>

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, 2001 and 2000, was \$62,907 and \$53,526, respectively.

The "savings plan" is a noncontributory defined contribution plan. The Company's contributions were \$27,436 and \$19,725 for the years ended December 31, 2001 and 2000, respectively.

SOUTHERN MONTANA TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

Note 8 - Income Taxes

Components of provision (benefit) for income tax expense:

	<u>2001</u>	<u>2000</u>
Current:		
Federal	\$ 121,403	\$ 139,601
State	25,768	29,821
Deferred:		
Federal	(20,910)	5,194
State	(2,413)	2,863
Prior year under (over) accrual	(6,479)	8,326
	<u>\$ 117,369</u>	<u>\$ 185,805</u>

Classification of expense:

	<u>2001</u>	<u>2000</u>
Operating	\$ 126,714	\$ 155,003
Nonoperating	(15,704)	32,720
Nonregulated benefit	6,359	(1,918)
	<u>\$ 117,369</u>	<u>\$ 185,805</u>

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.

SOUTHERN MONTANA TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS

Note 8 - Income Taxes (Continued)

The components of the net deferred tax asset (liability) recorded in the accompanying balance sheet at December 31, 2001 and 2000, are:

	2001	2000
Deferred tax assets:		
Accrued employee benefits	\$ 34,197	\$ 34,914
Aid to construction	3,255	10,832
Unrealized loss on available for sale securities	78,657	29,561
	<u>116,109</u>	<u>75,307</u>
Deferred tax liabilities:		
Prepaid insurance	(1,365)	(1,311)
Tax depreciation greater than book	(960,605)	(983,947)
Other	(8,425)	(8,001)
	<u>(970,395)</u>	<u>(993,259)</u>
Deferred investment tax credit	<u>(57,569)</u>	<u>(66,322)</u>
NET DEFERRED TAX LIABILITY	<u>\$ (911,855)</u>	<u>\$ (984,274)</u>

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

For the year ended December 31, 2001, there were income taxes receivable of \$16,329. For the year ended December 31, 2000, there were income taxes payable of \$3,922.

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.

**SOUTHERN MONTANA TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS**

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, 2001 and 2000.

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, 2006. Following is a summary of minimum rental payments under the current lease for the year subsequent to December 31, 2001:

2002	\$ 26,400
2003	26,400
2004	26,400
2005	26,400
2006	26,400
	<hr/>
	\$ 132,000

Note 12 - Stock Redemption

On September 15, 2000, the Company redeemed to treasury 457 of the 1,067 outstanding shares of common stock from one of the Company's former stockholders. The total redemption price was \$1,665,000 of which \$1,000,000 was paid in cash and the remaining balance of \$665,000 will be paid in monthly installments over ten years with interest at 7.5% per year.

Montana Total State Income Statement

Year: 2001

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 In Montana Only)	
3	5080	Network Access Revenues		
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: 2001

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 In Montana Only)	
3	5080	Network Access Revenues		
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: 2001

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 In Montana Only)	
3	5080	Network Access Revenues		
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: 2001

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service	7573297	7421587
2	3100	Accumulated Depreciation	3528146	3165444
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies	35853	41337
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)	4081004	4297480

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: 2001

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:		
5	Depreciation & Amortization	(See Attached Statement of 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

at: 2001

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	ADC										3860
2	Advanced Fiber										14545
3	Airspan										15124
4	Am. Superconductor										9517
5	America Online										9309
6	Antec										6807
7	Apache										27369
8	Citigroup										132206
9	Corning										10450
10	Dana										9162
11	Emagin										14592
12	General Electric										10651
13	Household Intl										19688
14	12 Technologies										9895
15	Ishares (Basic Materials)										10469
16	Ishares (Financials)										9836
17	Idacorp										12242
18	Intel										17565
19	Intermap										5092
20	Intuit										11272
21	Iomega										5013
22	Kids Ent.										5778
23	Lucent										39959
24	Microsoft										6565
25	Montana Power										7890
26	Motorola										4633
27	Nortel										7106
28	Oracle										11552
29	Pacific Century LTD										5860
30	Totals										454007

Company Name: Southern Montana Telephone Company

SCHEDULE 10

Receivables and Investments-Affiliated & Nonaffiliated Companies at: 2001

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	QQQ calls										4594
2	RTFC										30000
3	Solectron										35737
4	Teledyne										11540
5	Texas Instruments										17819
6	USA Biomass										8489
7	Ubrandit										3015
8	Walmart										4771
9											
10											
11											
12											
13											
14											
15											
16											
17											
18											
19											
20											
21											
22											
23											
24											
25											
26											
27											
28											
29											
30	Totals	0	0	0	0	0	0	0	0	0	115965

Net Plant in Service - Detail

Year:2001

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	*	Land and Support Assets	1274977	164403	45179		1394201	903341	490860
2	^	Land	38451				38451		38451
3	^	Motor Vehicles	236794	39918	33707		243005	243005	
4	^	Aircraft							
5	^	Special Purpose Vehicles							
6	^	Garage Work Equipment							
7	^	Other Work Equipment	327024	122000			449024	377489	71535
8	^	Buildings	594707	2485			597192	263214	333978
9	^	Furniture							
10	^	Office Equipment	23504		4000		19504	18587	917
11	^	General Purpose Computers	54497		7472		47025	1046	45979
12		Analog Electronic Switching							
13		Digital Electronic Switching	1192121	38110	54644		1175587	325175	850412
14		Electro-Mechanical Switching							
15		Operator Systems							
16		Radio Systems							
17		Circuit Equipment	700487	25278	4392		721373	217631	503742
18	*	Information Orig & Term Equip	18527				18527	10694	7833
19	^	Station Apparatus	18527				18527	10694	7833
20	^	Customer Premises Wiring							
21	^	Large Private Branch Exchanges							
22	^	Public Telephone Term. Equip.							
23	^	Other Terminal Equipment							
24		Poles							
25	*	Cable and Wire Facilities	4250614	28134			4278748	2085528	2193220
26	^	Aerial Cable	33375				33375	11175	22200
27	^	Underground Cable							
28	^	Buried Cable	4217239	28134			4245373	2074353	2171020
29	^	Submarine Cable							
30	^	Deep Sea Cable							
31	^	Intrabuilding Network Cable							
32		Aerial Wire							
33		Conduit Systems							
34		Totals	7436726	255925	104215		7588436	3542369	4046067

^ Subaccount of the account marked with a *.

Company Name: Southern Montana Telephone Company

SCHEDULE 12

Analysis of Plant Held for Future Use

Year: 2001

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	NONE						
2							
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: 2001

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				2168863		44538		2.05%
2	Rural Tel Finance Corp	May-99	May-04	600000				322218		30106		9.34%
3	Note Payable	Oct-01	Sep-10	665000				599152		46220		7.71%
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				3090233		120864		3.91%

Company Name: Southern Montana Telephone Company

SCHEDULE 14

Cost of Preferred Stock

Year: 2001

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	NONE											
2												
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: 2001

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) Low (h)	Price/Earnings Ratio (i)
1	Year Ended December 31:	610	4280.3					
2		*PRIVATELY HELD STOCK*-There is no market for this stock						
3								
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								

Company Name: Southern Montana Telephone Company

SCHEDULE 16

Capital Stock and Funded Debt Reacquired or Retired During the Year **Year: 2001**

Line No.	Description of Security (a)	Call or Retirement Date (b)	Number of Shares (c)	Principal Amount (d)	Reacquisition or Retirement Cost (e)	Gain or (Loss) (f)	Retirement or Reacquisition (g)
1	NONE						
2							
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

SCHEDULE 17
Page 1 of 2
Year:2001

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	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)					
2	^	6112 Motor Vehicle Expense						
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

SCHEDULE 17
Page 2 of 2
Year: 2001

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	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)					
36	6510	Other Property Expenses						
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

SCHEDULE 18
Page 1 of 2
Year: 2001

Line No.	Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
1	*	Network Support Expense	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)					
2	6110	Motor Vehicle Expense						
3	6113	Aircraft Expense						
4	6114	Special Purpose Vehicles Expense						
5	6115	Garage Work Equipment Expense						
6	6116	Other Work Equipment Expense						
7	*	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	*	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	*	Central Office Transmission Expense						
18	6231	Radio Systems Expense						
19	6232	Circuit Equipment Expense						
20	*	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	*	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

SCHEDULE 18
Page 2 of 2
Year: 2001

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	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)					
36	6510	Other Property Expenses						
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: 2001

1	Plan Name - NTCA Retirement & Security Plan			
2	Defined Benefit Plan? ____yes____		Defined Contribution Plan? ____yes____	
3	Actuarial Cost Method? _____		IRS Code: ____51330____	
4	Annual Contribution by Employer: ____\$90,343____		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)

	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

	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: 2001

Part 1. Expenses for Persons Other Than Employees Year: 2001					
Line No.	Name of Recipient (a)	Nature of Service (b)	Total Company Cost (c)	Total State Cost (d)	Intrastate Cost (e)
1	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)				
2					
3					
4					
5					
6					
7					
8					
9					
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36					
37					
38					
39					
40					
41					
42					
43					
44					
45					
46					
47					
48					
49	Total				

Subscriber Line Usage Data

Year: 2001

Line No.	Description (a)	This Year (b)	% of Total (c)	Last Year (d)	% of Total (e)
1	Toll Usage:	3470736	55.75%	3458252	54.07%
2	Interstate, InterLATA				
3	Interstate, IntraLATA				
4	Total Interstate Usage	3470736	55.75%	3458252	54.07%
5	Intrastate, InterLATA	598125	9.61%	625757	9.78%
6	Intrastate, IntraLATA	2156733	34.64%	2311965	36.15%
7	Total Intrastate Usage	2754858	44.25%	2937722	45.93%
8	Total Toll Usage	6225594	100.00%	6395974	100.00%
9	Centrex				
10	Local				
11	Total Minutes	6225594	100.00%	6395974	100.00%

Company Name: Southern Montana Telephone Company

SCHEDULE 23

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Central Office and Access Line Statistics

Year: 2001

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	<i>DIVIDE</i>	<i>DIGITAL</i>	83			1		7			1		93.5%	91
2	<i>GRANT</i>	<i>DIGITAL</i>	105					3			1		89.0%	109
3	<i>JACKSON</i>	<i>DIGITAL</i>	243					24		2	2		91.1%	271
4	<i>WISDOM</i>	<i>DIGITAL</i>	231			1		22		4	1		92.3%	258
5	<i>WISE RIVER</i>	<i>DIGITAL</i>	221			2		39		2	1		89.7%	263
6														
7														
8														
9														
10														
11														
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28														
29														
30														
31														
32														
33	Total		883			4		95		8	6		4.556	992

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

Central Office and Switch Information

Year: 2001

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							
10							
11							
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48							

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

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Construction Budget - Montana

Year: 2002

Line No.	Description (a)	2002 (b)
1	Central Office Assets:	
2	Equipment Upgrade	100,000
3		
4		
5		
6		
7		
8		
9		
10		
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22		
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: 2001

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			
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14			
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36			
37			
38			
39			
40			
41			
42			
43	Totals (Sum of Lines 1 through 42)	6	6

Compensation of Top 10 Montana Based Employees

Year:

Line No.	Name/Title (a)	Base Salary (b)	Bonuses (c)	Other Compensation (d)	Total Compensation (e)	Total Compensation Last Year (f)	% Increase Total Compensation (g)
1	<div> CONFIDENTIAL & PROPRIETARY FILED SEPARATELY ON YELLOW PAPER </div>						
2							
3							
4							
5							
6							
7							
8							
9							
10							
11	Totals (Sum L.1 to L.10)						

Compensation of Top 5 Corporate Employees - SEC Information

Line No.	Name/Title (a)	Base Salary (b)	Bonuses (c)	Other Compensation (d)	Total Compensation (e)	Total Compensation Last Year (f)	% Increase Total Compensation (g)
1	* CONFIDENTIAL & PROPRIETARY * (FILED SEPARATELY ON YELLOW PAPER)						
2							
3							
4							
5							
6	Totals (Sum L.1 to L.5)						

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

Montana Composite Statistics

Year: 2001

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: 2001

Line No.	Acct No. (a)	Description (b)	Composite Rate % (c)	Total Expense \$ (d)
1	2112	Motor Vehicles	33.0%	4,918
2	2114	Special Purpose Vehicles		
3	2115	Garage Work Equipment		
4	2116	Other work Equipment	13.4%	50,029
5	2121	Buildings	4.2%	23,106
6	2122	Furniture		
7	2123.1	Office Support Equipment	11.7%	914
8	2123.2	Company Communications Equipment	9.3%	1,596
9	2124	General Purpose Computers	20.0%	8,073
10	2211	Analog Electronic Switching Equipment		
11	2212	Digital Electronic Switching Equipment	10.0%	102,600
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%	60,857
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%	194,003
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%	1,536
33	2441	Conduit Systems		
34				
35		COMPOSITE TOTAL		
36				
37	Have these rates been approved by the Commission? <input checked="" type="checkbox"/> X YES <input type="checkbox"/> NO			
38				
39	If yes: _____ Docket Number _____ Order Number			
40				

Montana Regulatory Capital Structure & Costs

Year: 2001

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			

Network Access - Charges and Revenues

Year: 2001

Line No.	Description (a)	Access Charges Paid (b)	Access Revenues Received (c)
1	Montana - Total State		383092
2			
3	Montana - Intrastate		383092
4			
5	Montana - Intrastate Regulated		383092
6			
7			
8			
9			
10			
11			
12			
13			

Company Name: Southern Montana Telephone Company

SCHEDULE 33

Affiliate Transactions - Products & Services Provided to Utility

Year: 2001

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 <					

Affiliate Transactions - Products & Services Provided by Utility

Year: 2001

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	NONE					
2						
3						
4						
5						
6						
7						
8						
9						
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11						
12						
13						
14						
15						
16						
17						
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23						
24						
25						
26						
27						
28						
29						
30	TOTAL					

NOT APPLICABLE-Would require hiring of outside consultants to prepare separations cost study.

Montana Intrastate Regulated Earned Rate of Return

Year: 2001

Line No.	Description Rate Base (a)	This Year (b)	Last Year (c)	Percent Change (d)
1				
2	2001 Plant in Service			
3	2002 Prop. Held for Future Telecommunications Use			
4	3100-3200 (Less) Accumulated Depreciation			
5	Plant in Service			
6				
7	Additions			
8	1220 Materials & Supplies			
9	1280 Prepayments			
10	Other Additions			
11	TOTAL Additions			
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			
20	TOTAL Rate Base			
21				
22	Net Earnings			
23				
24	Rate of Return on Average Rate Base			
25				
26	Rate of Return on Average Equity			
27				
28	Major Normalizing Adjustments & Commission			
29	<u>Ratemaking adjustments to Utility Operations</u>			
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: 2001

Line No.	Description (a)	Last Year (b)	This Year (c)
1	Montana Telephone Company License Tax		
2	Montana Public Service Commission Tax	1322	1319
3	Montana Consumer Counsel Tax	410	395
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	1747	1729

Company Name: Southern Montana Telephone Company

SCHEDULE 37

Universal Service Funds Received

Year: 2001

Line No.	Description (a)	Last Year (b)	This Year (c)
13	Funds received from Montana Sources		
14	Funds received from Federal Sources	279912	302876
15			
16			
17			
18			
19			
20			
21			
22			
23			
24	Total	279912	302876