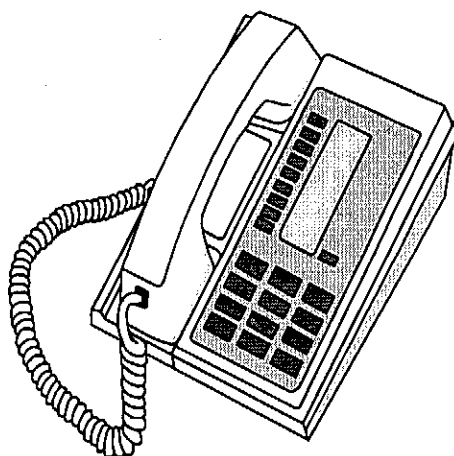


YEAR ENDING DECEMBER 2007

ANNUAL REPORT
OF
SOUTHERN MONTANA TELEPHONE COMPANY

TELEPHONE UTILITY



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

2007 Telephone Annual Report

Instructions

General

1. A Microsoft EXCEL workbook of the annual report is being provided on our website 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. You may also obtain these instructions and the report in both an Adobe Acrobat[®] format and as an EXCEL[®] file from our website at <http://psc.mt.gov/> under the "Reports" section on that page. Please be sure you use the 2006 report form.
2. Use of the EXCEL[®] file is optional. There are macros built into the workbook to assist you with the report.
3. 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".
4. 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.
5. 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.
6. 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).
7. 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.

8. 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.

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

10. 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

11. 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.

12. 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.

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

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

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

Specific Instructions

Schedules 6, 7, 8, 18, 29, 30 and 35

1. The Montana Public Service Commission approved intrastate depreciation rates must be utilized in the preparation of these schedules.

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). At the company's option, it may file for this information to be considered proprietary, however, the totals are not considered proprietary and need to be filed in the public annual report.

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 25a

1. This schedule should reflect the amount of total dollars spent in Montana during the reporting year and booked to the accounts listed on the schedule per the Code of Federal Regulations (CFR), Title 47, Chapter 1, Part 32. Universal System of Accounts.

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.

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.

Schedule 30 and 30a

1. If the total of lines 35 on these schedules differs from Line 31 on Schedule 7 please reconcile the difference.

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

2. 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: 2007

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:	Steve Kramer, 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 PO Box 205; Wisdom, MT 59761	9,000
2	Conrad Eklund PO Box 205; Wisdom, MT 59761	7,500
3	Tara Helming PO Box 205; Wisdom, MT 59761	1,500
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17		
18	Chairman of the Board: Robert G. Helming	
19		
20		

Officers

Year: 2007

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, Wisdom, MT 59761
2	Secretary/Treasurer*	All Departments	Conrad Eklund, Wisdom, MT 59761
3	Secretary/Treasurer	All Departments	Tara Helming, Wisdom, MT 59761
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6	* Conrad is gone now.		
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Total Company Balance Sheet

Year: 2007

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		CURRENT ASSETS:		
2	1120	Cash and Equivalents	(See attached Audited Financials for all of SCHEDULE 3)	
3	1180	Telecommunications Accounts Receivable - Net		
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: 2007

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
41		CURRENT LIABILITIES:		
42	4010	Accounts Payable		
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		

prepared with Schedule 3

ASSETS

	December 31,	
	2007	2006
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,038,474	\$ 761,478
Investment in certificates of deposit at amortized cost	851,026	762,437
Subscriber receivables	71,627	69,598
Settlements and access accounts receivable, net of allowance for doubtful accounts of \$20,266 in 2007 and \$-0- in 2006	287,898	320,072
Material and supplies	63,538	56,428
Other current assets	9,129	9,029
	<u>2,321,692</u>	<u>1,979,042</u>
NONCURRENT ASSETS		
Investment in available for sale securities	-	222,513
Investment in certificates of deposit at amortized cost	-	90,000
Investment in held to maturity securities	40,000	40,000
Investment in affiliate	-	1,276
Investment in nonaffiliates	313,729	297,191
Nonregulated investments	41,628	41,896
	<u>395,357</u>	<u>692,876</u>
PROPERTY, PLANT, AND EQUIPMENT		
Telecommunications plant in service	11,176,235	8,734,344
Telecommunications plant under construction	367,366	142,011
	<u>11,543,601</u>	<u>8,876,355</u>
Less accumulated depreciation and amortization	5,971,996	5,440,934
	<u>5,571,605</u>	<u>3,435,421</u>
	<u>\$ 8,288,654</u>	<u>\$ 6,107,339</u>

SOUTHERN MONTANA TELEPHONE COMPANY
BALANCE SHEET

Goals with Schedule 3

LIABILITIES AND STOCKHOLDER'S EQUITY

	December 31,	
	2007	2006
CURRENT LIABILITIES		
Accounts payable	\$ 129,539	\$ 280,095
Advance billing and customer deposits	27,663	37,158
Current maturities of long-term debt	304,936	215,899
Other accrued taxes	26,350	30,916
Other accrued liabilities	165,931	161,703
Accrued interest payable	552	5,513
	<u>654,971</u>	<u>731,284</u>
LONG-TERM DEBT	<u>3,738,976</u>	<u>1,566,764</u>
COMMITMENTS AND CONTINGENCY (Note 10)		
STOCKHOLDER'S EQUITY		
Common stock, \$10 par value; 2,703 shares authorized and 610 shares issued and outstanding at December 31, 2007 and 2006	6,100	6,100
Paid-in capital	3,290	3,290
Retained earnings	<u>3,885,317</u>	<u>3,810,506</u>
	<u>3,894,707</u>	<u>3,819,896</u>
Unrealized loss on available for sale securities	<u>-</u>	<u>(10,605)</u>
	<u>3,894,707</u>	<u>3,809,291</u>
	<u>\$ 8,288,654</u>	<u>\$ 6,107,339</u>

**SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF STOCKHOLDER'S EQUITY**

goes with Schedule 3

	Total	Common Stock	Paid in Capital	Retained Earnings	Accumulated Comprehensive Income (Loss)	Comprehensive Income (Loss)
Balance, December 31, 2005	\$ 3,873,626	\$ 6,100	\$ 3,290	\$ 3,942,535	\$ (78,299)	
Net income	172,530	-	-	172,530	-	\$ 172,530
Change in unrealized loss on available for sale securities	17,491	-	-	-	17,491	17,491
Reclassification adjustment	50,203	-	-	-	50,203	<u>50,203</u>
Comprehensive income	-	-	-	-		<u>\$ 240,224</u>
Distributions	<u>(304,559)</u>	<u>-</u>	<u>-</u>	<u>(304,559)</u>	<u>-</u>	
Balance, December 31, 2006	3,809,291	6,100	3,290	3,810,506	(10,605)	
Net income	214,351	-	-	214,351	-	\$ 214,351
Change in unrealized loss on available for sale securities	26,100	-	-	-	26,100	26,100
Reclassification adjustment	(15,495)	-	-	-	(15,495)	<u>(15,495)</u>
Comprehensive income	-	-	-	-		<u>\$ 224,956</u>
Distributions	<u>(139,540)</u>	<u>-</u>	<u>-</u>	<u>(139,540)</u>	<u>-</u>	
Balance, December 31, 2007	<u>\$ 3,894,707</u>	<u>\$ 6,100</u>	<u>\$ 3,290</u>	<u>\$ 3,885,317</u>	<u>\$ -</u>	

See accompanying notes.

Total Company Income Statement

Year: 2007

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 for all of SCHEDULE 4)	
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)		
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)		
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)		

^ Subaccount of the account marked with a *.

**SOUTHERN MONTANA TELEPHONE COMPANY
BALANCE SHEET**

goes with Schedule 4

Year Ended December 31,

	2007	2006
OPERATING REVENUES		
Local network services	\$ 186,075	\$ 184,121
Interstate access revenue	1,609,451	1,513,405
Intrastate access revenue	405,697	410,630
Long distance services	96,590	70,930
Carrier billing and collection	4,087	6,829
Miscellaneous	1,549	2,574
Nonregulated services	158,300	132,266
Uncollectible	(1,660)	(1,371)
	2,460,089	2,319,384
OPERATING EXPENSES		
Plant specific operations	483,618	448,324
Plant nonspecific operations	299,760	452,388
Depreciation	597,530	553,281
Customer operations	53,034	64,672
Corporate operations	586,597	415,690
Other operating taxes	46,986	45,501
Nonregulated	199,278	157,309
	2,266,803	2,137,165
Operating income	193,286	182,219
Nonoperating income (expense)		
Interest and dividend income	82,935	102,718
Gain (loss) on sale of investments	15,495	(50,203)
Allowance for funds used during construction	15,248	-
Interest expense	(91,589)	(56,390)
Other nonoperating expense	(1,024)	(5,814)
	21,065	(9,689)
NET INCOME	\$ 214,351	\$ 172,530

See accompanying notes.

Montana Total State Income Statement

Year: 2007

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		REVENUES:		
2	5000	Basic Local Service Revenues	See Schedule 4, only in MT	
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)		
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)		

^ Subaccount of the account marked with a *.

Montana Intrastate Income Statement

Year: 2007

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		REVENUES:		
2	5000	Basic Local Service Revenues	Company is under 5,000 access lines	
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)		
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)		

^ Subaccount of the account marked with a *.

Montana Intrastate Regulated Income Statement

Year: 2007

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		REVENUES:		
2	5000	Basic Local Service Revenues	Under 5,000 lines, see Total State	
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)		
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)		

^ Subaccount of the account marked with a *.

Average Rate Base - Total State

Year: 2007

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service	9955287	8364788
2	3100	Accumulated Depreciation	5706463	5232020
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies (regulated & nonregulated)	59983	56523
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)	4308807	3189290.5

Average Rate Base - Intrastate

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service	have by total company	
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	have by total company	
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: 2007

Line No.	Item Description (a)	Amount (b)	Amount (c)
1	Increase/(decrease) in Cash & Cash Equivalents		
2	Cash Flows from Operating Activities:	(See attached Statement of Cash Flows)	
3	Net Income		
4	Reconciliation Adjustments:		
5	Depreciation & Amortization		
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		

SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF CASH FLOWS

goes with Schedule 9

	Year Ended December 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 214,351	\$ 172,530
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	597,530	553,281
Nonregulated depreciation	267	267
Noncash patronage and stock dividends	(16,668)	(14,581)
Allowance for doubtful accounts	20,266	-
Amortization of discount on certificates of deposit	(32,160)	(43,037)
Allowance for funds used during construction	(15,248)	-
Realized (gain) loss on sale of investments	(15,495)	50,203
Change in assets and liabilities:		
Accounts receivable	9,878	(139,619)
Material and supplies	30,417	189
Other assets	(100)	18,726
Accounts payable and accrued liabilities	(155,855)	205,217
Advance payments and customer deposits	(9,495)	14,048
Net cash provided by operating activities	<u>627,688</u>	<u>817,224</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net additions to telephone plant	(2,755,989)	(931,690)
Proceeds from sales of investments	1,475,070	1,726,336
Proceeds from sale of nonregulated investments	-	22,051
Purchase of investments	(1,191,482)	(949,391)
Net cash used by investing activities	<u>(2,472,401)</u>	<u>(132,694)</u>

SOUTHERN MONTANA TELEPHONE COMPANY
STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments of long-term debt	\$ (1,118,880)	\$ (211,952)
Proceeds from long-term debt	3,380,129	-
Equity distributions	(139,540)	(304,559)
Net cash provided (used) by financing activities	<u>2,121,709</u>	<u>(516,511)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	276,996	168,019
Cash and cash equivalents at beginning of year	<u>761,478</u>	<u>593,459</u>
Cash and cash equivalents at end of year	<u>\$ 1,038,474</u>	<u>\$ 761,478</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 93,589</u>	<u>\$ 56,711</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Net increase in unrealized loss on available for sale securities	<u>\$ 26,100</u>	<u>\$ 17,491</u>
Salvage of telephone plant to materials and supplies	<u>\$ 37,527</u>	<u>\$ -</u>

See accompanying notes.

Receivables and Investments-Affiliated & Nonaffiliated Companies

Year: 2007

Line No.	Name of Affiliate or Company (a)	Account 1160 Temporary Investments (b)	Account 1180 Telecom. Accounts Receivable (c)	Account 1181 Accts. Rec. 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	Vision Net										279861
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										279861

Net Plant in Service - Detail

Year: 2007

Line No.	Account No.	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	1460927	149840	56918	-74240	1479609	1199884	279725
2	^ 2111	Land	38451				38451		38451
3	^ 2112	Motor Vehicles	286114	121328	56918	-74240	276284	276284	
4	^ 2113	Aircraft							
5	^ 2114	Special Purpose Vehicles							
6	^ 2115	Garage Work Equipment	467578				467578	470897	-3319
7	^ 2116	Other Work Equipment	622793	6720			629513	415077	214436
8	^ 2121	Buildings							
9	^ 2122	Furniture							
10	^ 2123	Office Equipment (inc. furniture)	19504	21792			41296	20200	21096
11	^ 2124	General Purpose Computers	26487				26487	17426	9061
12	^ 2211	Analog Electronic Switching							
13	^ 2212	Digital Electronic Switching							
14	^ 2215	Electro-Mechanical Switching	1551721	53191	7334	-6350	1591228	1045872	545356
15	^ 2220	Operator Systems							
16	^ 2231	Radio Systems							
17	^ 2232	Circuit Equipment	726784	468466	17622	70	1177698	576489	601209
18	* 2310	Information Orig & Term Equip	18527				18527	18527	
19	^ 2311	Station Apparatus	18527				18527	18527	
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	4976380	1915554		17239	6909173	3131223	3777950
26	^ 2421	Aerial Cable	33375				33375	21048	12327
27	^ 2422	Underground Cable	4943005	1915554		17239	6875798	3110175	3765623
28	^ 2423	Buried Cable							
29	^ 2424	Submarine Cable							
30	^ 2425	Deep Sea Cable							
31	^ 2426	Intrabuilding Network Cable							
32	^ 2431	Aerial Wire							
33	^ 2441	Conduit Systems							
34		Totals	8734339	2587051	81874	-63281	11176235	5971995	5204240

^ Subaccount of the account marked with a *

Analysis of Plant Held for Future Use

Year: 2007

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)

Year: 2007

Average Cost of Long Term Debt

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 Sheet (h)	Yield to Maturity (i)	Annual Net Cost (j)	Amortization of Premium or Discount (k)	Total Cost (%) (l)
1	RUS	Aug-81	2016-2023	4087000				1338732		54035		2.00%
2	Note Payable	Oct-01	2010	665000				225051		21191		7.50%
3	RDUP	Mar-07	2026	2480129				2480129		16141		5.00%
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			7232129				4043912		91367		2.26%

Year: 2007

Cost of Preferred Stock

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												
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16												
17												
18												
19												
20												
21												
22												
23												
24												
25												
26												
27												
28												
29												
30	Totals (Sum L.1 to L.29)											

Analysis of Common Stock

Year: 2007

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:							
2								
3		Privately Held Stock.						
4								
5								
6								
7								
8	Month by Month Data:							
9	January							
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: 2007

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)						

Total Company Expense Matrix

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 5,000 access lines					
2	^	Motor Vehicle Expense						
3	^	Aircraft Expense						
4	^	Special Purpose Vehicles Expense						
5	^	Garage Work Equipment Expense						
6	^	Other Work Equipment Expense						
7	*	General Support Expense						
8	^	Land and Building Expense						
9	^	Furniture and Artworks Expense						
10	^	Office Equipment Expense						
11	^	General Purpose Computers Expense						
12	*	Central Office Switching Expense						
13	^	Analog Electronic Expense						
14	^	Digital Electronic Expense						
15	^	Electro-Mechanical Expense						
16	^	Operator Systems Expense						
17	*	Central Office Transmission Expense						
18	^	Radio Systems Expense						
19	^	Circuit Equipment Expense						
20	*	Information Origination/Termination Expense						
21	^	Station Apparatus Expense						
22	^	Large Private Branch Exchange Expense						
23	^	Public Telephone Terminal Equipment Exp.						
24	^	Other Terminal Equipment Expense						
25	*	Cable and Wire Facilities Expense						
26	^	Poles Expense						
27	^	Aerial Cable Expense						
28	^	Underground Cable Expense						
29	^	Buried Cable Expense						
30	^	Submarine Cable Expense						
31	^	Deep Sea Cable Expense						
32	^	Intrabuilding Network Cable Expense						
33	^	Aerial Wire Expense						
34		Subtotals						

^ Subaccount of the account marked with a *

Total Company Expense Matrix

Line No.	Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
35	^	Conduit Systems Expense						
36		Other Property Expenses						
37	*	Network Operations Expense						
38	^	Power Expense						
39	^	Network Administration Expense						
40	^	Testing Expense						
41	^	Plant Operations Expense						
42	^	Engineering Expense						
43		Access Expense						
44		Depreciation - Telecomm. Plant in Service						
45		Depreciation-Prop. for Future Telecom. Use						
46		Amortization Expense - Tangible						
47		Amortization Expense - Intangible						
48		Amortization - Other						
49	*	Marketing						
50	^	Product Management						
51	^	Sales						
52	^	Product Advertising						
53		Call Completion Services						
54		Number Services						
55		Customer Services						
56		Executive						
57		Planning						
58		Accounting and Finance						
59		External Relations						
60		Human Relations						
61		Information Management						
62		Legal						
63		Procurement						
64		Research and Development						
65		Other General and Administrative						
66		Provision for Uncollectible Notes Receivable						
67		Totals						

^ Subaccount of the account marked with a *

Total State Expense Matrix

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 5,000 access lines					
2	^	Motor Vehicle Expense						
3	^	Aircraft Expense						
4	^	Special Purpose Vehicles Expense						
5	^	Garage Work Equipment Expense						
6	^	Other Work Equipment Expense						
7	*	General Support Expense						
8	^	Land and Building Expense						
9	^	Furniture and Artworks Expense						
10	^	Office Equipment Expense						
11	^	General Purpose Computers Expense						
12	*	Central Office Switching Expense						
13	^	Analog Electronic Expense						
14	^	Digital Electronic Expense						
15	^	Electro-Mechanical Expense						
16		Operator Systems Expense						
17	*	Central Office Transmission Expense						
18	^	Radio Systems Expense						
19	^	Circuit Equipment Expense						
20	*	Information Origination/Termination Expense						
21	^	Station Apparatus Expense						
22	^	Large Private Branch Exchange Expense						
23	^	Public Telephone Terminal Equipment Exp.						
24	^	Other Terminal Equipment Expense						
25	*	Cable and Wire Facilities Expense						
26	^	Poles Expense						
27	^	Aerial Cable Expense						
28	^	Underground Cable Expense						
29	^	Buried Cable Expense						
30	^	Submarine Cable Expense						
31	^	Deep Sea Cable Expense						
32	^	Intrabuilding Network Cable Expense						
33	^	Aerial Wire Expense						
34		Subtotals						

^ Subaccount of the account marked with a *

Total State Expense Matrix

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						
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: 2007

1	Plan Name			
2	Defined Benefit Plan? Yes	Defined Contribution Plan? _____		
3	Actuarial Cost Method? _____	IRS Code: _____		
4	Annual Contribution by Employer: \$76,888	Is the Plan Over Funded? _____		
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			
48	Not Covered by the Plan			
49	Active			
50	Retired			
51	Deferred Vested Terminated			

Other Post Employment Benefits (OPEBS)

Item	Current Year	Last Year	% Change
1 Regulatory Treatment:	Not Applicable		
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: 2007

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 5,000 access lines				
3					
4					
5					
6					
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43					
44					
45					
46					
47					
48					
49	Total				

Subscriber Line Usage Data

Year: 2007

Line No.	Description (a)	This Year (b)	% of Total (c)	Last Year (d)	% of Total (e)
1	Toll Usage:				
2	Interstate, InterLATA	3621721	49.65%	3820780	57.25%
3	Interstate, IntraLATA	235	0.00%	85	0.00%
4	Total Interstate Usage	3621956	49.65%	3820865	57.25%
5	Intrastate, InterLATA	514050	7.05%	435933	6.53%
6	Intrastate, IntraLATA*	3158669	43.30%	2417348	36.22%
7	Total Intrastate Usage	3672719	50.35%	2853281	42.75%
8	Total Toll Usage	7294675	100.00%	6674146	100.00%
9	Centrex				
10	Local				
11	Total Minutes	7294675	100.00%	6674146	100.00%

* includes intraMTA usage total of 669,984, wireless traffic.

Central Office and Access Line Statistics

Year: 2007

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	81			1		8	4	1				94
2	Grant	Digital	88			1		10	3	1				102
3	Jackson	Digital	274					24	9	1				308
4	Wisdom	Digital	181			1		19	28	2				230
5	Wise River	Digital	244			3		17	13	1				275
6														
7														
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29														
30														
31														
32														
33	Total		868			6		78	57	6				1009

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

Central Office and Switch Information

Year: 2007

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
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48							

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

Construction Budget - Montana

Year: 2008

Line No.	Description (a)	2008 (b)
1	Central Office Assets:	
2		
3		
4		
5		
6		
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24		
25		
26		
27	Total Switching and Central Office Projects over \$500,000	
28	Miscellaneous Central Office Projects not over \$500,000	\$ 302,000
29	Total Central Office Budget (Total of Line 27 & Line 28)	\$ 302,000
30	Other Projects over \$500,000:	
31	Grant/Tash Outside Plant Upgrade project	\$ 966,217
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)	302000

Montana Total State Construction Expenditures

Line No.	FCC Part 32 Account No. (a)	Description (b)	This Year (c)	Last Year (d)	Percent Change (e)
1	2110	General Support Assets	149840	145471	3.00%
2	2210	Central Office Assets	53191	165178	-67.80%
3	2220	Operator Systems		0	
4	2230	Central Office Transmission	468466	0	
5	2310	Information/Termination Assets		0	
6	2410	Cable and Wire Facilities Assets	1915554	627153	205.44%
7	2680	Amortizable Tangible Assets		0	
8	2690	Intangibles		0	
9		Total Construction Expenditures	2587051	937802	175.86%

Montana Employee Counts

Year: 2007

Line No.	Category (a)	Beginning of Year (b)	End of Year (c)
1	Executive	1	2
2	Office	3	4
3	Outside Plant/COE includes construction technicians and splicers	3	3
4			
5			
6			
7	<i>note: this is the employee count on the payroll at year end.</i>		
8			
9			
10			
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42			
43	Totals (Sum of Lines 1 through 42)	7	9

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	Not applicable						
2							
3							
4							
5							
6	Totals (Sum L.1 to L.5)						

Montana Composite Statistics

Year: 2007

Line No.	Account No.	Description (a)	Amount (b)
1		Plant (Intrastate Only) (000 Omitted)	
2	2001	Plant in Service	Not available-Not able to provide this information This would require hiring outside consultants
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 divided by Line 27)	
32		Other Statistics (Intrastate Only)	
33		Average Residential Monthly Bill	
34		Gross Plant Investment per Access Line	

Depreciation - Montana Intrastate Regulated

Year: 2007

Line No.	Acct No. (a)	Description (b)	Composite Rate % (c)	Total Expense \$ (d)
1	2112	Motor Vehicles	33.0%	58,219
2	2114	Special Purpose Vehicles		
3	2115	Garage Work Equipment		
4	2116	Other work Equipment	13.37%	
5	2121	Buildings	4.2%	26,184
6	2122	Furniture		
7	2123.1	Office Support Equipment (includes furniture)	11.7%	696
8	2123.2	Company Communications Equipment	9.25%	
9	2124	General Purpose Computers	20.0%	5,297
10	2211	Analog Electronic Switching Equipment		
11	2212	Digital Electronic Switching Equipment (software is 33%)	10.0%	150,531
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%	83,083
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	5.0%	171,777
25	2422	Underground Cable Nonmetallic (fiber optic)	5.0%	100,213
26	2423	Buried Cable Metallic		
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%	1,530
33	2441	Conduit Systems		
34				
35		COMPOSITE TOTAL		597,530
36				
37	Please list the Montana Public Service Commission Docket Order No. approving these depreciation rates			
38				
39	Docket Number 86.5.22 Order Number 5213			
40				

Amortization - Montana Intrastate Regulated

Year: 2007

Line No.	Acct No. (a)	Description (b)	Composite Rate % (c)	Total Expense \$ (d)
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
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23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35		COMPOSITE TOTAL		
36	<p>Please list the Montana Public Service Commission Docket Order No. approving these amortization rates</p> <p>Docket Number _____ Order Number _____</p>			
37				
38				
39				
40				

Montana Regulatory Capital Structure & Costs

Year: 2007

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: 2007

Line No.	Description (a)	Access Charges Paid (b)	Access Revenues Received (c)
1	Montana - Total State (both switched & special access)		405697
2			
3	Montana - Intrastate		405697
4			
5	Montana - Intrastate Regulated		405697
6			
7			
8			
9			
10			
11			
12			
13			

Year: 2007

Affiliate Transactions - Products & Services Provided to Utility

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						
2	National Information Systems	Computer Service Bureau (Billing, CABs, acct & plant, software maintenance)	Varies			\$ 182,328
3						
4						
5						
6	GVNW	Consultants (Cost Studies, Separations, Traffic Studies, etc)	Hourly Rate			38,420
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					\$220,748

Affiliate Transactions - Products & Services Provided by Utility

Year: 2007

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						
3						
4						
5						
6						
7						
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10						
11						
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13						
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25						
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27						
28						
29						
30	TOTAL					

Montana Intrastate Regulated Earned Rate of Return

Year: 2007

Line No.	Description Rate Base (a)	This Year (b)	Last Year (c)	Percent Change (d)
1				
2	2001 Plant in Service	9,955,290	8,364,788	19.01%
3	2002 Prop. Held for Future Telecommunications Use			
4	3100-3200 (Less) Accumulated Depreciation	(5,706,465)	(5,232,020)	-9.07%
5	Plant in Service	4,248,825	3,132,768	35.63%
6				
7	Additions			
8	1220 Materials & Supplies	59,983	56,523	6.12%
9	1280 Prepayments			
10	Other Additions			
11	TOTAL Additions	59,983	56,523	6.12%
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	4,308,808	3,189,291	35.10%
21				
22	Net Earnings	193,351	196,196	-1.45%
23				
24	Rate of Return on Average Rate Base	4.49%	6.15%	-27.06%
25				
26	Rate of Return on Average Equity			
27				
28	Major Normalizing Adjustments & Commission			
29	<u>Ratemaking adjustments to Utility Operations</u>			
30				
31	this represents year end balances divided by 2, please call 209-955-6103, Lorrie Bernstein			
32	if you need more			
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: 2007

Line No.	Description (a)	Last Year (b)	This Year (c)
1	Montana Telephone Company License Tax	-	
2	Montana Public Service Commission Tax (PSC TX)	1,350	907
3	Montana Consumer Counsel Tax (Consum Coun TX)	376	247
4	911 Emergency Telephone Fee (in payables)	1,485	3,473
5	Montana Telecommunications Access Service (TDD) payab	297	297
6	Montana Corporate License Tax		
7	Personal Property Tax		
8	Real Property Tax	43,281	45,543
9	FCC Reg Fee	494	288
10			
11			
12	Total	47,283	50755

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Universal Service Funds Received

Year: 2007

Line No.	Description (a)	Last Year (b)	This Year (c)
13	Funds received from Montana Sources		
14	Funds received from Federal Sources	281,381	284,658
15			
16			
17			
18			
19			
20			
21			
22			
23			
24	Total	281,381	284658