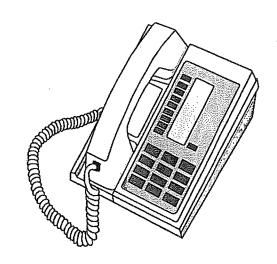
YEAR ENDING 2011

RECEIVED BY

ANNUAL REPORT

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

General Information

Year: 2011 Legal Name of Respondent: Southern Montana Telephone Company Name Under Which Respondent Does Business: **SAME** Date of Incorporation: Address to send Correspondence Concerning Report: P.O. Box 205 Wisdom MT Person Responsible for This Report: Richard Knight Acct./Office Manager Telephone Number: 406 689 3333 Control Over Respondent 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	Name of Director	Fees Paid During Year
No.	and Address (City, State)	
1	(a)	(b)
	Robert G. Helming P.O. Box 205 Wisdom, MT 59761 Owner and President	9000
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18	Chairman of the Board: Robert G. Helming	
19		
20		

		Officers	Year: 2011
Line	Title	Department Over Which	Name and Address of Person
No.	of Officer	Jurisdiction is Exercised	Holding Office at Year End
1	President (a)	(b) All Departments	(c)
2	resident	An Departments	Robert G. Helming Wisdom, MT 59761
3			Wisdom, Wil 39701
4			
5	Secretary/Vice-President	All Departments	Larry B. Mason
6		·	Wisdom, MT 59761
7			
8			
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11 12			
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Page 1 of 2

			Total Company Balance Sheet		Year: 2011
Line		Acct.		This	Last
1 1		No.	Description	Year	Year
No.		(a)	(b)	(c)	(d)
1			CURRENT ASSETS:	See Attached Audited	
2		1120	Cash and Equivalents		
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 *.

Page 2 of 2

Year: 2011

Total Company Balance Sheet

		Total Company Dalance Sheet		
Line	Acct.		This	Last
No.	No.	Description	Year	Year
	(a)	(b)	(c)	(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	4210	OTHER LIABILITIES AND DEFERRED CREDITS:		
65	4310	Other Long-Term Liabilities		
66 67	4320 4330	Unamort, Oper, Invest, Tax Credits - Net		
68	4340	Unamort. Nonoper. Invest. Tax Credits - Net Net Noncurrent Deferred Oper. Income Taxes		
69	4340	Net Noncurrent Deferred Oper. Income Taxes Net Noncurrent Deferred Nonoper. Income Taxes		
70	4360	Other Deferred Credits		
71	4370	Other Jurisdictional Liab. and Def. Credits		
72	+3/0	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

			total Company Income Statement		Teal. 2011
Line		Acct.		This	Last
No.		No.	Description	Year	Year
110.		(a)	(b)	(c)	(d)
1			REVENUES:	See Attached Aud	
2		5000	Basic Local Service Revenues		
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	٨	5260	Miscellaneous Revenue		
14	^	5270	Carrier Billing and Collection Revenue		
15	^	5280	Nonregulated Revenue		
16		5300	Uncollectible Revenue		
17		3300	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	٨	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		0770	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		, 200	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		1,7,70	NET INCOME (L.40+L.41-L.42-L.43-L.44+L.45-L.46)		
^ Cul		L	the account montred with a *		

[^] Subaccount of the account marked with a *.

Montana Total State Income Statement

Line		Acct.		This	Last
No.		No.	Description	Year	Year
110.		(a)	(b)	(c)	(d)
1			REVENUES:	See Attached Audite	ed Financials
2		5000	Basic Local Service Revenues		
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

			Triontana intrastate income Statement	T	1 Car. 2011
Line		Acct.		This	Last
No.		No.	Description	Year	Year
		(a)	(b)	(c)	(d)
1			REVENUES:	See Attached Audit	ed Financials
2		5000	Basic Local Service Revenues		
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)		
A C.,					

[^] Subaccount of the account marked with a *.

* ^ ^ ^ * ^ ^	Acct. No. (a) 5000 5080 5100 5110 5120 5160 5169 5200	Description (b) REVENUES: Basic Local Service Revenues Network Access Revenues Long Distance Message Revenue Unidirectional Long Distance Revenue Long Distance Private Network Revenue Other Long Distance Revenue Other Long Distance Revenue	This Year (c) See Attached Audi	Last Year (d) ted Financials
^ ^ ^ * ^	(a) 5000 5080 5100 5110 5120 5160 5169	(b) REVENUES: Basic Local Service Revenues Network Access Revenues Long Distance Message Revenue Unidirectional Long Distance Revenue Long Distance Private Network Revenue Other Long Distance Revenue	(c)	(d)
^ ^ ^ * ^	5000 5080 5100 5110 5120 5160 5169	REVENUES: Basic Local Service Revenues Network Access Revenues Long Distance Message Revenue Unidirectional Long Distance Revenue Long Distance Private Network Revenue Other Long Distance Revenue		
^ ^ ^ * ^	5080 5100 5110 5120 5160 5169	Basic Local Service Revenues Network Access Revenues Long Distance Message Revenue Unidirectional Long Distance Revenue Long Distance Private Network Revenue Other Long Distance Revenue	See Attached Audi	ted Financials
^ ^ ^ * ^	5080 5100 5110 5120 5160 5169	Network Access Revenues Long Distance Message Revenue Unidirectional Long Distance Revenue Long Distance Private Network Revenue Other Long Distance Revenue		
^ ^ ^ * ^	5100 5110 5120 5160 5169	Long Distance Message Revenue Unidirectional Long Distance Revenue Long Distance Private Network Revenue Other Long Distance Revenue		
^ ^ ^ * ^	5110 5120 5160 5169	Unidirectional Long Distance Revenue Long Distance Private Network Revenue Other Long Distance Revenue		
^ ^ * ^	5120 5160 5169	Long Distance Private Network Revenue Other Long Distance Revenue		
^ * ^	5160 5169	Other Long Distance Revenue		
^ * ^	5169	•		
* ^		Other Long Distance Pavenue Sattlements	1	
^	5200	Other Long Distance Revenue Settlements		
		Miscellaneous Revenue		
$^{\prime}$	5230	Directory Revenue		1
- 1	5240	Rent Revenue		
^	5250	Corporate Operations Revenue		
^	5260	Miscellaneous Revenue		
^	5270	Carrier Billing and Collection Revenue		
^	5280	=		
	5300	Uncollectible Revenue		
		Total Revenues (L.2+L.3+L.4+L.9-L.16)		
		OPERATING EXPENSES:		
1	6110	Network Support Expense		
ı	6120	General Support Expense		
	6210	Central Office Switching Expense		
- [6220	Operator Systems Expense		
- 1	6230	Central Office Transmission Expense		
	6310	Information Origination/Termination Expense		
*	6410	Cable and Wire Facilities Expense		
^	6431	Aerial Wire Expense		
^	6441	Conduit Systems Expense		
	6510	Other Property, Plant & Equipment Expense		
	6530	Network Operations Expense		
	6540	Access Expense		
	6560	Depreciation and Amortization Expense		
	6610	Marketing		
-	6620	Services		
-	6710	Executive and Planning		
	6720	General and Administrative		***
_	6790	Provision for Uncollectible Notes Receivable		
		Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)		
	7100	Other Operating Income and Expense		
	7200	Operating Taxes		
		Net Operating Income (L.17-L.37+L.38-L.39)		
211	* ^ ^	5260 5270 5280 5300 6110 6120 6210 6220 6230 6310 6441 6510 6530 6540 6560 6610 6620 6720 6790 7100 7200	Miscellaneous Revenue Carrier Billing and Collection Revenue Nonregulated Revenue Total Revenues (L.2+L.3+L.4+L.9-L.16) OPERATING EXPENSES: Network Support Expense General Support Expense Central Office Switching Expense Central Office Transmission Expense Cable and Wire Facilities Expense Cable and Wire Facilities Expense Catal Wire Expense Conduit Systems Expen	A 5260 Miscellaneous Revenue Carrier Billing and Collection Revenue Nonregulated Revenue Uncollectible Revenue Total Revenues (L.2+L.3+L.4+L.9-L.16) OPERATING EXPENSES: 6110 Network Support Expense 6210 General Support Expense 6220 Operator Systems Expense 6230 Central Office Transmission Expense 6310 Information Origination/Termination Expense 6310 Information Origination/Termination Expense 6410 Cable and Wire Facilities Expense A 6431 Aerial Wire Expense Conduit Systems Expense 6510 Other Property, Plant & Equipment Expense 6520 Network Operations Expense 6540 Access Expense 6560 Depreciation and Amortization Expense 6610 Marketing 6620 Services 6710 Executive and Planning 6720 General and Administrative Provision for Uncollectible Notes Receivable Total Operating Expenses (Sum L.19 to L.36-L.26-L.27) 7100 Other Operating Income (L.17-L.37+L.38-L.39)

Average Rate Base - Total State

Line	Acct.		This	Last
No.	No.	Description	Year	Year
140.	(a)	(b)	(c)	(d)
1	2001	Telecommunications Plant in Service	23034898	19417901
2	3100	Accumulated Depreciation	8410896	8075658
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies	123949	124820
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)	14747951	11467063

Average Rate Base - Intrastate

Line	Acct.		This	Last
No.	No.	Description	Year	Year
INO.	(a)	(b)	(c)	(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	Acct.		This	Last
No.	No.	Description	Year	Year
NO.	(a)	(b)	(c)	(d)
1	2001	Telecommunications Plant in Service	23034898	19417901
2	3100	Accumulated Depreciation	8410896	8075658
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies	123949	124820
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)	14747951	11467063

Statement of Cash Flows

	Statement of Cash Flows		Year: 2011
Line	Item Description	Amount	Amount
No.	(a)	(b)	(c)
1	Increase/(decrease) in Cash & Cash Equivalents		
2	Cash Flows from Operating Activities:		
3	Net Income	See ATTACHED S	TATEMENT
4	Reconciliation Adjustments:	OF CASH FLOWS	
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)	randale diamente mei mari parti un sul un mienzi de la controlemente de la controlemente de la controlemente d	
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 Conital Lagra Obligations		
32 33	Payment of Capital Lease Obligations 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		
		 And the property of the control of the	

Company Name: Southern Montana Telephone Company

			Rece	ivables and	Investment	Receivables and Investments-Affiliated & Nonaffiliated Companies	& Nonaffili	ated Comp	anies		ar: 2011
		Account 1160	Account 1180	Account 1181	Account 1190	Account 1191	Account 1200	Account 1201	Account 1210	Account 1401	Account 1402
			Telecom.	Accts. Rec.	Other	Accounts		Notes	Interest and	Investments	Investments
Line	Name of	Temporary	Accounts	Telecom.	Accounts	Receivable	Notes	Receivable	Dividends	in Affil.	in Nonaffil.
So.	Affiliate or Company	Investments	Receivable	Allowance	Receivable	Allow Other	Receivable	Allowance	Receivable	Companies	Companies
	(a)	(g)	(3)	(g)	(e)	(£)	(g)	(u)	(I)	3	(K)
	Telecom Customers		69595		327911						i d
٠ ر	VisionNet Investment										34776
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27											
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3	1 Otalis		07070		32/711						100410

Company Name: Southern Montana Telephone Company

Account	Additions (d) 45544	Si Retirements Tr	Sales &	End of Year	Year End	End of Year
Account	Additions (d) 45544			1111		
Account	Additions (d) 45544		-	ווווויסטער	Accumulated	Net Plant
* 2110 Land and Support Assets 2111 Land 2112 Motor Vehicles 2113 Aircraft 2114 Special Purpose Vehicles 2115 Garage Work Equipment 2116 Other Work Equipment 2120 Garage Work Equipment 2121 Buildings 2121 Analog Electronic Switching 2212 General Purpose Computers 2124 General Purpose Computers 2215 Buildings 2216 Analog Electronic Switching 2217 Cander Bettronic Switching 2220 Operator Systems 2231 Radio Systems 2231 Radio Systems 2232 Circuit Equipment 2232 Circuit Equipment 2231 Castomer Premises Wiring 2331 Station Apparatus 2341 Large Private Branch Exchanges 2351 Customer Premises Wiring 2351 Customer Premises Wiring 2351 Customer Premises Wiring 2351 Customer Premise Branch Exchanges 2351 Public Telephone Term. Equip. 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable	45544		Transfers (f)	Balance (g)	Depreciation (h)	Balance (i)
 2111 Land 2112 Motor Vehicles 2113 Aircraft 2114 Special Purpose Vehicles 2115 Garage Work Equipment 2116 Other Work Equipment 2121 Buildings 2122 Furniture 2123 Office Equipment 2124 General Purpose Computers 2127 General Purpose Computers 2218 Analog Electronic Switching 2219 Digital Electronic Switching 2210 Digital Electronic Switching 2211 Analog Electronic Switching 2220 Operator Systems 2221 Radio Systems 2221 Radio Systems 2222 Circuit Equipment 2231 Radio Systems 2231 Radio Systems 2232 Circuit Equipment 2321 Customer Premises Wiring 2321 Large Private Branch Exchanges 2321 Customer Premises Wiring 2321 Customer Premise Branch Exchanges 2321 Customer Premise Branch Exchanges 2321 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable 		35808		1537953		1537953
 2112 Motor Vehicles 2113 Aircraft 2114 Special Purpose Vehicles 2115 Garage Work Equipment 2116 Other Work Equipment 2120 Other Work Equipment 2121 Buildings 2122 Furmiture 2123 Office Equipment 2124 General Purpose Computers 2212 Digital Electronic Switching 2220 Operator Systems 2220 Operator Systems 2231 Radio Systems 2232 Circuit Equipment 2231 Radio Systems 2232 Circuit Equipment 2231 Customer Premises Wiring 2321 Customer Premises Wiring 2321 Customer Premise Branch Exchanges 2341 Customer Perminal Equipment 2341 Public Telephone Term. Equip. 2352 Other Terminal Equipment 2411 Poles 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable 				38451		38451
 2113 Aircraft 2114 Special Purpose Vehicles 2116 Other Work Equipment 2121 Buildings 2122 Furniture 2123 Office Equipment 2124 General Purpose Computers 2212 Analog Electronic Switching 2213 Digital Electronic Switching 2214 Analog Electronic Switching 2220 Operator Systems 2231 Electro-Mechanical Switching 2220 Operator Systems 2231 Radio Systems 2232 Circuit Equipment 2232 Circuit Equipment 2231 Information Orig & Term Equip 2321 Customer Premises Wiring 2321 Customer Premises Wiring 2321 Customer Premises Wiring 2321 Customer Premise Branch Exchanges 2321 Customer Terminal Equipment 2321 Cuble and Wire Facilities 2421 Poles 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable 	42550	35808	•	320258	320258	
 2114 Special Purpose Vehicles 2115 Garage Work Equipment 2116 Other Work Equipment 2121 Buildings 2122 Furniture 2124 General Purpose Computers 2127 Analog Electronic Switching 2218 Electro-Mechanical Switching 2219 Digital Electronic Switching 2210 Operator Systems 2220 Operator Systems 2231 Radio Systems 2232 Circuit Equipment 2231 Information Orig & Term Equip 2321 Station Apparatus 2321 Large Private Branch Exchanges 2331 Customer Premises Wiring 2341 Large Private Branch Exchanges 2352 Other Terminal Equipment 2411 Poles 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable 						
 2115 Garage Work Equipment 2126 Other Work Equipment 2121 Buildings 2122 Furniture 2123 Office Equipment 2124 General Purpose Computers 2215 Inmiga Electronic Switching 2216 Digital Electronic Switching 2217 Digital Electronic Switching 2218 Electro-Mechanical Switching 2220 Operator Systems 2231 Radio Systems 2231 Radio Systems 2232 Circuit Equipment 2231 Information Orig & Term Equip 2331 Station Apparatus 2331 Customer Premises Wiring 2331 Large Private Branch Exchanges 2341 Large Private Branch Exchanges 2352 Other Terminal Equipment 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable 		 	***************************************			
 2116 Other Work Equipment 2121 Buildings 2122 Furniture 2123 Office Equipment 2124 General Purpose Computers 2215 Analog Electronic Switching 2216 Digital Electronic Switching 2217 Electro-Mechanical Switching 2218 Electro-Mechanical Switching 2220 Operator Systems 2231 Radio Systems 2231 Radio Systems 2232 Circuit Equipment 2331 Station Apparatus 2331 Station Apparatus 2331 Customer Premises Wiring 2331 Large Private Branch Exchanges 2331 Public Telephone Term. Equip. 2352 Other Terminal Equipment 2410 Poles 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable 		***************************************				
 2121 Buildings 2122 Furniture 2123 Office Equipment 2124 General Purpose Computers 2212 Analog Electronic Switching 2212 Digital Electronic Switching 2215 Electro-Mechanical Switching 2220 Operator Systems 2220 Operator Systems 2231 Radio Systems 2232 Circuit Equipment 2231 Radio Systems 2231 Circuit Equipment 2321 Customer Premises Wiring 2322 Customer Premises Wiring 2321 Customer Premises Wiring 2322 Customer Premises Wiring 2323 Customer Premises Wiring 2324 Customer Premises Wiring 2324 Anied Cable 2324 Submarine Cable 2322 Customer Premises Wiring 2323 Customer Premises Wiring 2324 Submarine Cable 2324 Submarine Cable 2325 Customer Premises Wiring 2326 Customer Premises Wiring 2327 Customer Premises Wiring 2328 Customer Premises Wiring 2329 Customer Premises Wiring 2321 Customer Premises Wiring 2321 Customer Premises Wiring 2322 Custo		***************************************		457279	457279	
 2122 Furniture 2123 Office Equipment 2124 General Purpose Computers 2211 Analog Electronic Switching 2212 Digital Electronic Switching 2215 Electro-Mechanical Switching 2220 Operator Systems 2220 Operator Systems 2231 Radio Systems 2232 Circuit Equipment 232 Customer Premises Wiring 232 Customer Premises Wiring 232 Customer Premises Wiring 232 Customer Premises Wiring 232 Customer Premise Suiring 232 Customer Premise Suiring 232 Customer Premise Cable 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable 2424 Submarine Cable 		••••		657630	523557	134073
 2123 Office Equipment 2124 General Purpose Computers 2211 Analog Electronic Switching 2212 Digital Electronic Switching 2215 Electro-Mechanical Switching 2220 Operator Systems 2231 Radio Systems 2232 Circuit Equipment 2232 Circuit Equipment 2231 Information Orig & Term Equip 2321 Station Apparatus 2321 Customer Premises Wiring 2321 Large Private Branch Exchanges 2321 Public Telephone Term. Equip. 2322 Other Terminal Equipment 2411 Poles 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable 2425 Submarine Cable 	-	··········		39694	39694	
 2124 General Purpose Computers 2211 Analog Electronic Switching 2212 Digital Electronic Switching 2213 Electro-Mechanical Switching 2220 Operator Systems 2231 Radio Systems 2231 Radio Systems 2232 Circuit Equipment 2331 Information Orig & Term Equip 2311 Station Apparatus 2321 Customer Premises Wiring 2321 Customer Premises Wiring 2321 Customer Premises Wiring 2321 Customer Premise Branch Exchanges 2321 Customer Premise Branch Exchanges 2321 Customer Premise Branch Exchanges 2321 Customer Premise Gapinent 2421 Poles 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable 2424 Submarine Cable 			·········			
2211 Analog Electronic Switching 2212 Digital Electronic Switching 2215 Electro-Mechanical Switching 2220 Operator Systems 2231 Radio Systems 2231 Circuit Equipment 2231 Information Orig & Term Equip 2321 Customer Premises Wiring 2321 Customer Premise Capic 2321 Customer Premise Cable 2321 Customer Cable 2321 Aerial Cable 2422 Underground Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable	2994			24641	14653	8866
2212 Digital Electronic Switching 2215 Electro-Mechanical Switching 2220 Operator Systems 2231 Radio Systems 2232 Circuit Equipment 2331 Information Orig & Term Equip 2331 Station Apparatus 2331 Customer Premises Wiring 2331 Customer Premises Wiring 2331 Large Private Branch Exchanges 2341 Large Private Branch Exchanges 2351 Public Telephone Term. Equip. 2352 Other Terminal Equipment 2411 Poles 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable			********	····		
2215 Electro-Mechanical Switching 2220 Operator Systems 2231 Radio Systems 2232 Circuit Equipment 2232 Circuit Equipment 2331 Information Orig & Term Equip 2331 Station Apparatus 2331 Customer Premises Wiring 2331 Customer Premises Wiring 2331 Large Private Branch Exchanges 2341 Large Private Branch Exchanges 2351 Public Telephone Term. Equip. 2352 Other Terminal Equipment 2411 Poles 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable		858976		858359	593244	265115
2220 Operator Systems 2231 Radio Systems 2232 Circuit Equipment 2232 Circuit Equipment 2231 Information Orig & Term Equip 2331 Station Apparatus 2341 Large Private Branch Exchanges 2341 Large Private Branch Exchanges 2341 Large Private Branch Exchanges 2355 Other Terminal Equipment 2411 Poles 2411 Poles 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable			••••	***************************************		
* 2231 Radio Systems 2232 Circuit Equipment 2232 Circuit Equipment 2310 Information Orig & Term Equip 2321 Customer Premises Wiring 2321 Customer Premises Wiring 2321 Large Private Branch Exchanges 2331 Public Telephone Term. Equip. 2352 Other Terminal Equipment 2411 Poles 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable						
* 2332 Circuit Equipment * 2310 Information Orig & Term Equip > 2311 Station Apparatus > 2321 Customer Premises Wiring > 2341 Large Private Branch Exchanges > 2351 Public Telephone Term. Equip. > 2352 Other Terminal Equipment 2411 Poles * 2420 Cable and Wire Facilities > 2421 Aerial Cable > 2422 Underground Cable > 2423 Buried Cable > 2424 Submarine Cable				***************************************		
* 2310 Information Orig & Term Equip > 2311 Station Apparatus > 2321 Customer Premises Wiring > 2341 Large Private Branch Exchanges > 2351 Public Telephone Term. Equip. > 2362 Other Terminal Equipment 2411 Poles * 2420 Cable and Wire Facilities > 2421 Aerial Cable > 2422 Underground Cable > 2423 Buried Cable > 2424 Submarine Cable	1118033	15028		3404617	1147138	2257479
 2311 Station Apparatus 2321 Customer Premises Wiring 2341 Large Private Branch Exchanges 2351 Public Telephone Term. Equip. 2362 Other Terminal Equipment 2411 Poles 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable 2424 Submarine Cable 				18527	18527	
 2321 Customer Premises Wiring 2341 Large Private Branch Exchanges 2351 Public Telephone Term. Equip. 2362 Other Terminal Equipment 2411 Poles 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable 2424 Submarine Cable 				18527	18527	
 2341 Large Private Branch Exchanges 2351 Public Telephone Term. Equip. 2362 Other Terminal Equipment 2411 Poles 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable 2424 Submarine Cable 		***************************************				***************************************
 2351 Public Telephone Term. Equip. 2362 Other Terminal Equipment 2411 Poles 2420 Cable and Wire Facilities 2421 Aerial Cable 2422 Underground Cable 2423 Buried Cable 2424 Submarine Cable 2424 Submarine Cable 						
^ 2362 Other Terminal Equipment 2411 Poles * 2420 Cable and Wire Facilities 135 ^ 2421 Aerial Cable ^ 2422 Underground Cable ^ 2423 Buried Cable ^ 2424 Submarine Cable		***************************************				
* 2411 Poles * 2420 Cable and Wire Facilities 135 ^ 2421 Aerial Cable ^ 2422 Underground Cable ^ 2423 Buried Cable ^ 2424 Submarine Cable	•	***************************************				***************************************
* 2420 Cable and Wire Facilities 135 > 2421 Aerial Cable > 2422 Underground Cable > 2423 Buried Cable > 2424 Submarine Cable						
^ 2421 Aerial Cable	3538274	***************************************		17040454	5281877	11758577
 ^ 2422 Underground Cable ^ 2423 Buried Cable ^ 2424 Submarine Cable 		··········		33375	27723	5652
^ 2423 Buried Cable		············				
^ 2424	3538274			17007079	5254154	11752925

30 ^ 2425 Deep Sea Cable						
^ 2426						
32 2431 Aerial Wire			*****			***************************************
2441 Conduit Systems						
34 Totals 19067871	4701851	909812		22859910	8396227	14463683

Company Name: Southern Montana Telephone Company

	······································		
Year:2011	Book Cost of Property at End of Year (g)		
	Transfers and Adjustments Charges and (Credits) (f)		
	Retirements During the Year (e)		
Future Use	Additions During the Year (d)		
of Plant Held for Future Use	Book Cost of Property at Beginning of Year (c)		
Analysis	Date Included in Account 2002 (b)		
	Location and Description of Property (a)		Totals (Sum L.1 to L.29)
	Line No.	F-1	30

Company Name: Southern Montana Telephone Company

11	ਕ ±		3.47%	8.94%
Year:2011	Total Cost	%) (E)	4. 4.	8.9
Yea	Amortization of Premium	or Discount (k)		
	Annual	Net Cost (j)	997030	997030
	Yield to	Maturity (i)		
-	Outstanding Per Balance	Sheet (h)	11150379	11150379
erm Deb	Net	Per \$100 (g)		
of Long Te	Net	Proceeds (f)		
Average Cost of Long Term Debt	Gross	Proceeds (e)		
Av	Principal	Amount (d)		
	Maturity	Date (c)	Various	
	Issue	Date (b)	Various	
		Description (a)	Rural Utilities Service	Total
	ou: I	No.	1 2 3 3 3 4 4 4 7 7 7 7 11 11 11 11 12 13 14 17 17 17 18 18 19 10 10 10 10 10 10 10 10 10 10 10 10 10	30

Company Name: Southern Montana Telephone Company

Cost of Preferred Stock	1CallGrossNetNetNetNetRedemptionPar ValueProceedsProceedsProceedsProceedsProceedsProceedsProceedsPrincipalAnnualEmbeddedgPriceOf IssueAmountsAmountsPer \$100MoneyOutstandingCostCost(d)(e)(f)(g)(h)(i)(k)(l)	
d Stock	Net Proceeds Amounts (g)	
f Preferre	Gross Proceeds Amounts (f)	
Cost o	Par Value Of Issue (e)	
	Call Redemption Price (d)	
	Method of Offering (c)	
	Date of Issuance (b)	
	Description (a)	cable
	П	Not Applicable

Company Name: Southern Montana Telephone Company

Avg. Number	Avg. Numbe	12	Book	Analys	Analysis of Common Stock	Stock	Market	et	Year:2011 Price/
		Value		Earnings	Dividends	Retention			Earnings
(a) (b) (c)		(per share) (c)		(per share)	(per share) (e)	Ratio (f)	High (g)	Low (h)	Ratio (i)
Year Ended December 31:									
5 Privately Held StockNot Publically Traded	lly Traded								
7 Not Applicable-Under 5000 Access Lines	s Lines								
Month by Month Data:									
9 January	and a Marcal Popular								
February									
March									
April	in an about								
May						.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,			
June	man district of								
July	1.004.00 e4-11								
August									
September									
October									
19 November						* July Lond			
December									

Page 1 of 2

Company Name: Southern Montana Telephone Company

PAGE 18 Year:2011 Total Θ Clearances \mathfrak{g} Expenses Other Rents (e) Total Company Expense Matrix Benefits 9 Inder 5000 Access Lines NOT APPLICABLEand Wages Salaries nformation Origination/Termination Expense Public Telephone Terminal Equipment Exp. Large Private Branch Exchange Expense Intrabuilding Network Cable Expense General Purpose Computers Expense Central Office Transmission Expense Other Terminal Equipment Expense Special Purpose Vehicles Expense Garage Work Equipment Expense Cable and Wire Facilities Expense Other Work Equipment Expense Central Office Switching Expense Furniture and Artworks Expense Electro-Mechanical Expense **Juderground Cable Expense** Description Land and Building Expense Office Equipment Expense Circuit Equipment Expense Station Apparatus Expense Analog Electronic Expense Digital Electronic Expense Submarine Cable Expense Operator Systems Expense Network Support Expense Deep Sea Cable Expense General Support Expense Motor Vehicle Expense Radio Systems Expense Buried Cable Expense Aerial Cable Expense Subaccount of the account marked with a *. Aerial Wire Expense Aircraft Expense Poles Expense Subtotals 6112 6113 6114 6115 6116 6120 6122 6123 6124 6210 6211 6212 6215 6220 6230 6232 6310 6362 6410 6423 6424 6425 6426 6121 6311 6411 6422 Acct. 6231 6341 6351 6421 Š. (a) < < < < < < < * < < < < < ж < < < < * < < < < < < Line So.

Company Name: Southern Montana Telephone Company

				1 m	• •				Page 2 of 2
			To	Total Company Expense Matrix	ense Matrix				Year:2011
Line		Acct.		Salaries			Other		
No.		No.	Description	and Wages	Benefits	Rents	Expenses	Clearances	Total
	ŀ	(a)	(q)	(c)	(b)	(e)	(‡)	(g)	(u)
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						
45		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						
99		6711	Executive						
57		6712	Planning						
28		6721	Accounting and Finance						,
59		6722	External Relations						
09		6723	Human Relations						
61		6724	Information Management						
62	_	6725	Legal			**********			
63		6726	Procurement						
64	_	6727	Research and Development						
65	_	6728	Other General and Administrative						
99	_	6790	Provision for Uncollectible Notes Receivable						
<i>L</i> 9			Totals						
^ Suba	ccount	t of the	Subaccount of the account marked with a *.						
									C C C

Page 1 of 2

Company Name: Southern Montana Telephone Company

Year:2011 **#VALUE!** Total =Clearances (a) Expenses \oplus Rents (e) Benefits 9 Total State Expense Matrix Under 5000 Access Lines NOT APPLICABLEand Wages **#VALUE!** Salaries information Origination/Termination Expense Public Telephone Terminal Equipment Exp. Large Private Branch Exchange Expense Intrabuilding Network Cable Expense General Purpose Computers Expense Central Office Transmission Expense Other Terminal Equipment Expense Special Purpose Vehicles Expense Garage Work Equipment Expense Cable and Wire Facilities Expense Central Office Switching Expense Other Work Equipment Expense Furniture and Artworks Expense Electro-Mechanical Expense Underground Cable Expense Description Land and Building Expense Circuit Equipment Expense Station Apparatus Expense Analog Electronic Expense Office Equipment Expense Digital Electronic Expense Submarine Cable Expense Operator Systems Expense Network Support Expense Deep Sea Cable Expense General Support Expense Radio Systems Expense Motor Vehicle Expense Buried Cable Expense Aerial Cable Expense Aerial Wire Expense Aircraft Expense Poles Expense Subtotals 6113 6114 6115 6116 6120 6122 6124 6210 6212 6215 6220 6230 6232 6310 6410 Acct. 6112 6123 6362 6424 6426 6121 6211 6231 6311 6341 6351 6411 6421 6422 6423 6425 < < < < * < < < < * < < < < < < < < < * < < < < < < Line Š.

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Subaccount of the account marked with a *.

Company Name: Southern Montana Telephone Company

			Total State Expense Matrix	Aatrix				Year:2011
<u> </u>	Acct.		Salaries			Other		
·····	No.	Description (A)	and Wages	Benefits	Rents	Expenses	Clearances	Total
4	^ (a)	Conduit Systems Expense	(2)	(p)	(2)		(3)	(11)
	6510	Other Property Expenses						
*	* 6530	Network Operations Expense						
	^ 6531	Power Expense						
	^ 6532	Network Administration Expense						
_	^ 6533	Testing Expense						
	^ 6534	Plant Operations Expense						
	^ 6535	Engineering Expense						
	6540	Access Expense						
	6561	Depreciation - Telecomm. Plant in Service						
	6562	Depreciation-Prop. for Future Telecom. Use						
	6563	Amortization Expense - Tangible						
	6564	Amortization Expense - Intangible						
	6565	Amortization - Other						
*	* 6610	Marketing						
<	^ 6611	Product Management						
<	^ 6612	Sales						
<	^ 6613	Product Advertising						
	6621	Call Completion Services						
	6622	Number Services						
	6623	Customer Services						
	6711	Executive						
	6712	Planning						
	6721	Accounting and Finance						
	6722	External Relations						
	6723	Human Relations						
	6724	Information Management						
	6725	Legal						
	6726	Procurement						
	6727	Research and Development						
****	6728	Other General and Administrative						,
	6790	Provision for Uncollectible Notes Receivable						
		Totale	TILL I I I I I I I I I I I I I I I I I I					I LITTA T TITLE

Company Name: Southern Montana Telephone Company

Year:2011	Retirement or	Reaquisition (g)	
the Year	Gain	(Loss) (f)	
Capital Stock and Funded Debt Reacquired or Retired During the Year	Reaquisition or Retirement	Cost (e)	
ebt Reacquired o	Principal	Amount (d)	
ck and Funded I	Number of	Shares (c)	
Capital Sto	Call or Retirement	Date (b)	
		Description of Security (a)	Totals (Sum L.1 to L.29)
		No.	30

Pension Costs

1	Plan Name National Telephone Cooperative			
2	Defined Benefit Plan? _YES	Defined Contribution	n Plan?	-
	Actuarial Cost Method?	IRS Code:	***************************************	
4	Annual Contribution by Employer: _\$ 126,043	Is the Plan Over Fu	nded? _NO	
5				
	Item	Current Year	Last Year	% Change
	Change in Benefit Obligation			
	Benefit obligation at beginning of year			
	Service cost			
	Interest Cost			
	Plan participants' contributions			
	Amendments			
	Actuarial Gain			
	Acquisition			
	Benefits paid			
	Benefit obligation at end of year			
	Change in Plan Assets			
	Fair value of plan assets at beginning of year			
	Actual return on plan assets			
	Acquisition			
	Employer contribution			
	Plan participants' contributions			
	Benefits paid			1
	Fair value of plan assets at end of year			
	Funded Status			
	Unrecognized net actuarial loss			
	Unrecognized prior service cost			
	Prepaid (accrued) benefit cost			
28				
	Weighted-average Assumptions as of Year End Discount rate			
	Expected return on plan assets			
	Rate of compensation increase			
33				
	Components of Net Periodic Benefit Costs			
	Service cost			
	Interest cost			
	Expected return on plan assets			
	Amortization of prior service cost			
	Recognized net actuarial loss			
	Net periodic benefit cost			1
41				
	Montana Intrastate Costs:			
43				
44				
45	ŧ			
	Number of Company Employees:			
47		-		
48				
49				
50	Retired			
51	Deferred Vested Terminated			1

Page 1of 2 Year: 2011

Other Post Employment Benefits (OPEBS)

	Item	Current Year	Last Year	% Change
	Regulatory Treatment:			
2	Commission authorized - most recent	NOT APPLICABLE		
3	Docket number:			
4	Order number:			
	Amount recovered through rates			
	Weighted-average Assumptions as of Year End			
1	Discount rate			
	Expected return on plan assets			
	Medical Cost Inflation Rate			
10	Actuarial Cost Method			
	Rate of compensation increase			
	List each method used to fund OPEBs (ie: VEBA, 401(i	h)) and if tax advanta	ged:	
13				
14				
	Describe any Changes to the Benefit Plan:			
16				
17	TOTAL COMPANY	7		
	Change in Benefit Obligation			
	Benefit obligation at beginning of year			
	Service cost			
	Interest Cost			
	Plan participants' contributions			
23	Amendments			
	Actuarial Gain			
	Acquisition			
	Benefits paid			
	Benefit obligation at end of year			
	Change in Plan Assets			
	Fair value of plan assets at beginning of year			
	Actual return on plan assets			
	Acquisition			
	Employer contribution			
	Plan participants' contributions			
	Benefits paid			
35	Fair value of plan assets at end of year		***************************************	
	Funded Status			
	Unrecognized net actuarial loss			
	Unrecognized prior service cost			
	Prepaid (accrued) benefit cost			
	Components of Net Periodic Benefit Costs			
	Service cost			
	Interest cost			
	Expected return on plan assets			
	Amortization of prior service cost			
	Recognized net actuarial loss Net periodic benefit cost			
	Accumulated Post Retirement Benefit Obligation			
	Amount Funded through VEBA			
	Amount Funded through VEBA Amount Funded through 401(h)			
50	, ,			
51	•			
52				
53				
54	, ,			
55	***************************************			
J	101/12	; I		

Other Post Employment Benefits (OPEBS) Continued

Year: 2011 Item Current Year Last Year % Change 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 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: Covered by the Plan 51 52 Not Covered by the Plan 53 Active 54 Retired 55 Spouses/Dependants covered by the Plan

Page 1 of Year: 2011

Payments for Services to Persons Other Than Employees

T		TO TO TO TO THE TANK	Total	Total	
1	Name of	Nature of			Introstato
Line	Paginiant	Nature of	Company	State	Intrastate
No.	Recipient	Service	Cost	Cost	Cost
L	(a)	(b)	(c)	(d)	(e)
1					
2 3					
3	NOT APPLICABLEUnder 5000 Ac	cess Lines			
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					
31					
32					
33					
34					
35					
36					
37					
38					
40			:		
40					
41 42					
42					
43					
45					
46					
47					
48					
	Total				
L 72	A VOMA				1

'ear: 2011

Subscriber Line Usage Data

	This	% of	Last	% of
Description	Year	Total	Year	Total
(a)	(b)	(c)	(d)	(e)
Toll Usage:				
Interstate, InterLATA	2849163	55.16%	3041813	55.84%
Interstate, IntraLATA			10	0.00%
,	e.			
Total Interstate Usage	2849163	55.16%	3041823	55.84%
Intrastate Interl ATA	337742	6 519	358000	6.59%
•				
Intrastate, IntraLATA	1978501	38.30%	2046646	37.57%
Total Intrastate Usage	2316243	44.84%	2405645	44.16%
Total Toll Usage	5165406	100.00%	5447468	100.00%
Centrex				
Local				
Total Minutes	5165406	100.00%	5447468	100.00%
	Toll Usage: Interstate, InterLATA Interstate, IntraLATA Total Interstate Usage Intrastate, IntraLATA Intrastate, IntraLATA Intrastate, IntraLATA Intrastate Usage Total Intrastate Usage Centrex Local	Description (a) (b) Toll Usage: Interstate, InterLATA Interstate, IntraLATA Total Interstate Usage Intrastate, IntraLATA Intrastate, IntraLATA Intrastate, IntraLATA Intrastate, IntraLATA Intrastate, IntraLATA Intrastate Usage Total Intrastate Usage Total Toll Usage Centrex Local	This Year Total Total (b) (c)	This Year Total Year Year (d)

Company Name: Southern Montana Telephone Company

SCHEDULE 23
Page 1 of

Total	Access	Lines (n)	320	418	401	149	116		1404
fo %	Lines w/	T. Tone	100.0%	100 001	100 0%	100.0%	100.0%		5
		Other							
Company	Owned	Coin (k)	7	2	7 ~	, _	. /		9
Customer	Owned	Coin	3						
Multi-	Line	Business	15	-	12	1			27
	Line	Business (h)	57	73	48	8/	15		211
Residential	LMS	Customers	á						
	Lifeline	Customers (f)		:	1	•	1		3
	ADSL	٦	901	132	101	58	29		446
	ISDN	Ð							
	Type of Residential	(3)	1/+1	1110	210	72	7.7		714
	Type of	Office	Digital	Digital	Digital	Digital	Digital		
		Wire Center	Wisdom	lockson	Vise River	Divide	Grant		Total
	Line	Š.	+-					8	╫

Page 1 of Year: 2011

Central Office and Switch Information

		ai Oince and Swi		22244			1. 2011
		Office					
		Configuration		Switch		Switch	
Line		(Host, Remote,	Type of	Vendor/	Switch	Line	Year
No.	Wire Center	Stand alone)	Switch	Manufacturer	Model No.	Capacity	Deployed
140.	(a)	(b)	(c)	(d)			
<u> </u>	WISDOM	HOST			(e)	(f)	(g)
1			Digital	Nortel	CS1500	5,000	2011
2	WISE RIVER	Remote	Digital	Nortel	RSLE	512	1983
3	DIVIDE	Remote	Digital	Nortel	RSLE	512	1990
4	SQUAW CREEK	Remote	Digital	Nortel	RSLE	512	1983
5							
6							
7							
8							
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37							
38							
30							
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40							
41							
42							
43							
44							
45			-				
46							
47							
48							

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

,	Construction Budget - Montana	Year: 2012
Line	Description	2012
No.	(a)	(b)
1	Central Office Assets:	(-/
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	Total Switching and Central Office Projects over \$500,000	
28	Miscellaneous Central Office Projects not over \$500,000	339000
29	Total Central Office Budget (Total of Line 27 & Line 28)	339000
30	Other Projects over \$500,000:	
31		
	Fiber Optic Placement-Fiber to the Premise	1190000
33		
34 35		
36		
37		
38		
39		
40		
41	Total Other Projects over \$500,000	1190000
42	Miscellaneous projects not over \$500,000	1.00000
43	Total Construction Budget (Total of Lines 29, 41 & 42)	1529000

Montana Total State Construction Expenditures

	FCC				
	Part 32				Percent
Line	Account No.	Description	This Year	Last Year	Change
No.	(a)	(b)	(c)	(d)	(e)
1	2110	General Support Assets 101		158787	-36.19%
2	2210	Central Office Assets			
3	2220	Operator Systems			
4	2230	Central Office Transmission	339000	477813	-29.05%
5	2310	Information/Termination Assets			
6	2410	Cable and Wire Facilities Assets	1190000	2226325	-46.55%
7	2680	Amortizable Tangible Assets			
8	2690	Intangibles			
9		Total Construction Expenditures	1630325	2862925	-43.05%

Line			Year: 2011
		Beginning	End
No.	Category	of Year	of Year
	(a)	(b)	(c)
	Executive	2 3	2
	Office	3	3
	Outside PlantCOE	3	2 3 3 0.5
4 J 5	Janitorial		0.5
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17 18			
19			
20			
21			
22			
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27			
28			
29 30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41			
42	Totals (Sum of Lines 1 through 42)	8	8.5

Compensation of Top 10 Montana Based Employees

				ana pasta .	<u> </u>		car. Zorr
Line		Base		Other	Total	Total Compensation	% Increase Total
No.	Name/Title	Salary	Bonuses	Compensation	Compensation	Last Year	Compensation
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1							
2							
3							
4							
5							
			l `				
6							
7							
						S-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1	
						and the same of th	
						4400	
8							
9							
	•						
10							
							·
11	Totals (Sum L.1 to L.10)						
							DAGE 21

Year: 2011

Compensation of Top 5 Corporate Employees - SEC Information

y	Compensation of re	P C COLPO	THE RILL	Jioj Cos S			
						Total	% Increase
I inc		Base		Other	Total	Compensation	Total
Line	Name/Title	Salary	Bonuses	Compensation		Last Year	Compensation
No.	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	(11)	(0)	(0)	<u> </u>		(1)	(5)
1	NOT APPLICABLE						
	NOT APPLICABLE						
1							
2							
3							
4							
5							
~							
	Tradala (Same V 4 da V 7)						
6	Totals (Sum L.1 to L.5)			<u> </u>			

Montana Composite Statistics

		Widness Composite Statistics	1 Car. 2011
Line	Account		
1 1	No.	Description	Amount
No.		(a)	(b)
		Plant (Intrastate Only) (000 Omitted)	(0)
1		Figur (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	1220	(Less):	
8	3100 - 3400	Depreciation & Amortization Reserves	
1 1			
9	4360.2	Contributions in Aid of Construction	
10		NET BOOK COSTS	
11		Revenues & Expenses (Intrastate Only) (000 Omitted)	
12	5000 - 5300	Operating Revenues	
'~		operating revenues	
13	6560	Depreciation & Amortization Expenses	
1 1	0300		
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	
20		Other Deductions	
2,		NIET INCOME	
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	
~		11.01.020 1.1dilibot of Calif I of McCotts Line	
20		Local Calls	
29	-		
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	
		The state of the s	
		L	L

	Depreciation - Montana Intrastate Regulated Year: 2011								
			Composite	Total					
Line	Acct	Description	Rate	Expense					
1	No.	•	%	\$					
No.	(a)	(b)	(c)	(d)					
1	2112	Motor Vehicles	33.0%	59,361					
2	2114	Special Purpose Vehicles							
3	2115	Garage Work Equipment							
4	2116	Other work Equipment	13.4%						
5	2121	Buildings	4.2%	27,620					
6	2122	Furniture		·					
7	2123.1	Office Support Equipment	11.7%	4,643					
8	2123.2	Company Communications Equipment	9.3%	·					
9	2124	General Purpose Computers	20.0%	4,586					
10	2211	Analog Electronic Switching Equipment	·						
11	2212	Digital Electronic Switching Equipment	10.0%	362,759					
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							
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%	315,799					
27	2423	Buried Cable Nonmetallic	5.0%	421,264					
28	2424	Submarine Cable Metallic		,					
29	2424	Submarine Cable Nonmetallic							
30	2426	Intrabuilding Network Cable Metallic							
31	2426	Intrabuilding Network Cable Nonmetallic							
32	2431	Aerial Wire	5.0%	1,669					
33	2441	Conduit Systems		-,					
34		,							
35		COMPOSITE TOTAL							
36		Let un annual		and the second of the property of the second					
37	Pleas	e list the Montana Public Service Commssion Docket Ord	ler No. approving these d	lepreciation rates					
38				1					
39		Docket Number Order Num	ber						
40			**************************************						

Year: 2011

Amortization - Montana Intrastate Regulated

ГТ				Total
		5	Composite	Total
Line	Acct	Description	Rate	Expense
No.	No.		%	\$
110.	(a)	(b)	(c)	(d)
1				
2	3410	Amortize 3 Rivers IRU 20 year life	5.0%	8,750
3	5.10		3.070	0,700
4				
5				
6				
7				
8				
9				
10				
11				
12				
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23				
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25				
26				
27				
28				
29				
30				
31				
32				
33				
, ,				
34		COMPOGUEE TOTAL		
35		COMPOSITE TOTAL	<u> </u>	
36				
37	Please li	st the Montana Public Service Commission Docket Orde	r No. approving these	amortization rates
38				
39		Docket Number Order Nu	ımber	
40		NAME OF THE PARTY		
				DACE 24a

Year: 2011

Montana Regulatory Capital Structure & Costs

				1001. 2011
Line No.	Description	% Cap. Str.	% Cost Rate	Weighted Cost
1,0.	(a)	(b)	(c)	(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				
	Common Equity			
1	Preferred Stock			
14	Long Term Debt			
	Other	***************************************		· · · · · · · · · · · · · · · · · · ·
16	Total			

Company Name: Southern Mont

SCHEDULE 32

	Network Access - Charges and Revenue	es	Year: 2011
		Access	Access
Line		Charges	Revenues
No.	Description	Paid	Received
140.	(a)	(b)	(c)
1 2	Montana - Total State		315981
_	Montana - Intrastate		315981
5	Montana - Intrastate Regulated		
6 7			
8 9			
10			
11			
13			

Company Name: Southern Montana Telephone Company

		Affiliate Transactions -	Affiliate Transactions - Products & Services Provided to Utility	ovided to Util	ity	Year: 2011
Line No.	Affliate Name (a)	Products & Services (b)	Method to Determine Price (c)	Charges to Utility (d)	% Total Affil. Revenues (e)	Charges to MT Utility (f)
- 7 % 4 % 9 1	National Information Systems	Computer Service Bureau-Accounting support Custoemer Billing, Plant, Software Support CABS Billing	Varies			69,848
8 9 11 11 11 11	GVNW, Inc.	Management Consultantx Cost Studies Seperations	Hourly Rate			85,711
22	AKT, LLP	Audit, Management Consultants	Hourly rate			43,644
30	TOTAL					\$199,203

Company Name: Southern Montana Telephone Company

SCHEDULE 34

		Affiliate Transactions -	Affiliate Transactions - Products & Services Provided by Utility	ovided by Util	ity	Year: 2011
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	PLICA					
30	TOTAL					

	Montana Intrastate Regulated Earne	d Rate of Return	Y	ear: 2011
Line	Description	This	Last	Percent
No.	Rate Base	Year	Year	Change
	(a)	(b)	(c)	(d)
1				
2	2001 Plant in Service	23,034,898	19,417,901	18.63%
3	1	52,191	228,147	-77.12%
1 1	3100-3200 (Less) Accumulated Depreciation	(8,410,896)	(8,075,658)	-4.15%
5	Plant in Service	14,676,193	11,570,390	26.84%
6	A diditations			-
7 8		122 040	124 820	0.700/
9	<u> </u>	123,949	124,820	-0.70%
10	1	41,315		
11	TOTAL Additions	165.264	124 920	22 400/
12	TOTAL Additions	165,264	124,820	32.40%
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	14,841,457	11,695,210	26.90%
21				
22				
23 24				
25	5			
26				
27				
1	Major Normalizing Adjustments & Commission			
•	Ratemaking adjustments to Utility Operations			
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42				
43	<u> </u>			
44 45				
43	Adjusted Rate of Return on Average Equity			

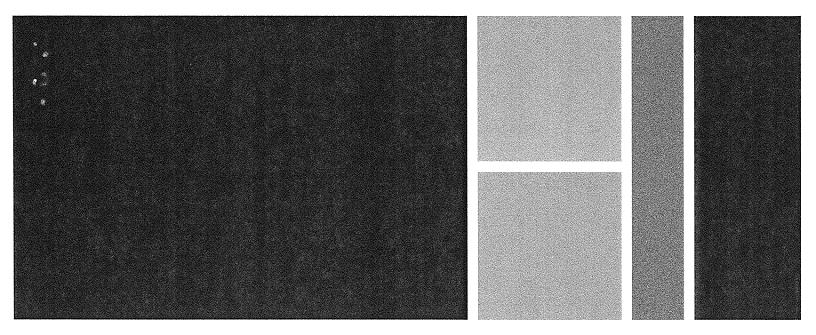
Other Taxes Paid

	Other Taxes Paid		Year: 2011
Line	Description	Last Year	This Year
No.	(a)	(b)	(c)
1	Montana Telephone Company License Tax		
2	Montana Public Service Commission Tax	1293	1779
3	Montana Consumer Counsel Tax	154	547
4	911 Emergency Telephone Fee	11394	11273
5	Montana Telecommunications Access Service (TDD)	1140	1127
6	Montana Corporate License Tax		
7	Personal Property Tax		
8	Real Property Tax	103656	116108
9			
10			
11			
12	Total	117637	130834

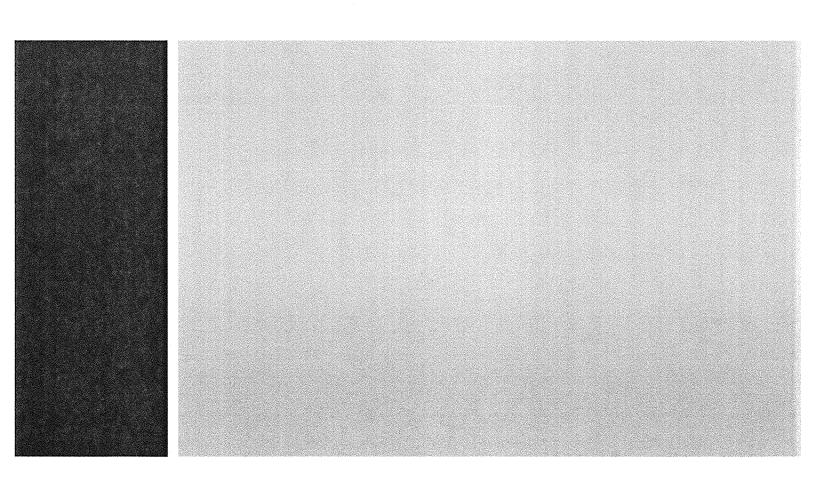
SCHEDULE 37

Universal Service Funds Received

	Universal Service Funds	s Received	Year: 2011
Line	Description	Last Year	This Year
No.	(a)	(b)	(c)
13	Funds received from Montana Sources		
14	Funds received from Federal Sources	1486646	2633655
15			
16			
17			
18			
19			
20			
21			
22			
23			
24	Total	1486646	2633655



Financial Statements

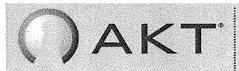


Financial Statements

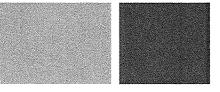
Years Ended December 31, 2011 and 2010

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Financial Statements:	
Balance Sheets	2
Statements of Income	3
Statements of Changes in Stockholders' Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6







INDEPENDENT AUDITORS' REPORT

To the Board of Directors Southern Montana Telephone Company Wisdom, Montana

We have audited the accompanying balance sheets of Southern Montana Telephone Company (the Company) as of December 31, 2011 and 2010, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits 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, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 2, 2012 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, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. 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 audits.

AKTLLP

Salem, Oregon March 2, 2012

Balance Sheets

December 31, 2011 and 2010

Other Investments 382,310 350,514 Property, Plant, and Equipment: 330,34,899 19,420,128 Nonregulated 157,976 - Under construction 52,191 228,147 Less accumulated depreciation 8,418,811 8,075,656 Property, Plant, and Equipment, net 14,826,255 11,572,619 Property, Plant, and Equipment net 14,826,255 11,572,619 ***Current Liabilities** ***Syspension** \$530,351 **Current portion of long-term debt \$688,790 \$530,351 **Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 **Accrued expenses 358,279 287,990 **Total Current Liabilities 1,222,158 1,055,283 **Long-Term Debt 11,180,713 8,410,572	ASSETS		2011	_	2010
Accounts receivable, less allowance for doubtful accounts of zero in 2011 and 2010 397,507 471,167 Materials and supplies 133,556 131,031 Prepaid expenses 41,314 43,918 Total Current Assets 1,626,607 1,667,754 Other Investments 382,310 350,514 Property, Plant, and Equipment: 23,034,899 19,420,128 Nonregulated 157,976 - Under construction 52,191 228,147 Less accumulated depreciation 8,418,811 8,075,656 Property, Plant, and Equipment, net 14,826,255 11,572,619 *** Institutes** *** 11,572,619 *** 13,590,887 *** LABILITIES AND STOCKHOLDERS' EQUITY *** 14,826,255 11,572,619 *** Current portion of long-term debt \$688,790 \$530,351 *** Accounts payable 154,645 222,366 *** Advance billing and customer deposits 20,444 14,576 *** Accounts payable 154,645 222,366 *** Accounted expenses 358,279 287,990 *** Total Current Liabilities 1,222,158 1,055,283 *** Long-Ter	Current Assets:				
accounts of zero in 2011 and 2010 397,507 471,167 Materials and supplies 133,556 131,031 Prepaid expenses 41,314 43,918 Total Current Assets 1,626,607 1,667,754 Other Investments 382,310 350,514 Property, Plant, and Equipment: 23,034,899 19,420,128 Nonregulated 157,976 - Under construction 52,191 228,147 Less accumulated depreciation 8,418,811 8,075,656 Property, Plant, and Equipment, net 14,826,255 11,572,619 \$ 16,835,172 \$ 13,590,887 LIABILITIES AND STOCKHOLDERS' EQUITY Current portion of long-term debt 688,790 \$ 530,351 Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,065,283 Long-Term Debt 11,180,713 8,410,572	Cash and cash equivalents	\$	1,054,230	\$	1,021,638
Materials and supplies 133,556 131,031 Prepaid expenses 41,314 43,918 Total Current Assets 1,626,607 1,667,754 Other Investments 382,310 350,514 Property, Plant, and Equipment: 23,034,899 19,420,128 Nonregulated 157,976 - Under construction 52,191 228,147 Less accumulated depreciation 8,418,811 8,075,656 Property, Plant, and Equipment, net 14,826,255 11,572,619 *** Table Intries* *** 13,590,887 *** LIABILITIES AND STOCKHOLDERS' EQUITY *** *** *** Current portion of long-term debt \$688,790 \$530,351 Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572	Accounts receivable, less allowance for doubtful				
Prepaid expenses 41,314 43,918 Total Current Assets 1,626,607 1,667,754 Other Investments 382,310 350,514 Property, Plant, and Equipment: 23,034,899 19,420,128 Nonregulated 157,976 - Under construction 52,191 228,147 Less accumulated depreciation 8,418,811 8,075,656 Property, Plant, and Equipment, net 14,826,255 11,572,619 Property, Plant, and Equipment a	accounts of zero in 2011 and 2010		397,507		471,167
Total Current Assets 1,626,607 1,667,754 Other Investments 382,310 350,514 Property, Plant, and Equipment: 23,034,899 19,420,128 Nonregulated 157,976 - Under construction 52,191 228,147 Less accumulated depreciation 8,418,811 8,075,656 Property, Plant, and Equipment, net 14,826,255 11,572,619 LIABILITIES AND STOCKHOLDERS' EQUITY \$ 16,835,172 \$ 13,590,887 Current Liabilities: 20,444 14,576 Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	* *		133,556		131,031
Other Investments 382,310 350,514 Property, Plant, and Equipment: 23,034,899 19,420,128 Nonregulated 157,976 - Under construction 52,191 228,147 Less accumulated depreciation 8,418,811 8,075,656 Property, Plant, and Equipment, net 14,826,255 11,572,619 Property, Plant, and Equipment in the image in the	Prepaid expenses		41,314	_	43,918
Property, Plant, and Equipment: Telecommunications 23,034,899 19,420,128 Nonregulated 157,976 - Under construction 52,191 228,147 Less accumulated depreciation 8,418,811 8,075,656 Property, Plant, and Equipment, net 14,826,255 11,572,619 *** 16,835,172 *** 13,590,887 *** Current Liabilities: **** 22,366 Current portion of long-term debt \$688,790 \$530,351 Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	Total Current Assets		1,626,607	-	1,667,754
Telecommunications 23,034,899 19,420,128 Nonregulated 157,976 - Under construction 52,191 228,147 Less accumulated depreciation 8,418,811 8,075,666 Property, Plant, and Equipment, net 14,826,255 11,572,619 LIABILITIES AND STOCKHOLDERS' EQUITY \$ 16,835,172 \$ 13,590,887 Current Liabilities: Current portion of long-term debt \$ 688,790 \$ 530,351 Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	Other Investments	_	382,310	-	350,514
Nonregulated Under construction 157,976 52,191 - Less accumulated depreciation 23,245,066 8,418,811 19,648,275 8,075,656 Property, Plant, and Equipment, net 14,826,255 11,572,619 Property, Plant, and Equipment, net \$ 16,835,172 \$ 13,590,887 LIABILITIES AND STOCKHOLDERS' EQUITY STOUTHOUS TOURDED TOURDE	Property, Plant, and Equipment:				
Under construction 52,191 228,147 Less accumulated depreciation 8,418,811 8,075,656 Property, Plant, and Equipment, net 14,826,255 11,572,619 * 16,835,172 \$ 13,590,887 LIABILITIES AND STOCKHOLDERS' EQUITY *** Current Liabilities: Current portion of long-term debt Accounts payable Advance billing and customer deposits Accounts payable Advance billing and customer deposits Accrued expenses 358,279 222,366 Advance payable Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	Telecommunications		23,034,899		19,420,128
Less accumulated depreciation 23,245,066 19,648,275 Property, Plant, and Equipment, net 14,826,255 11,572,619 * 16,835,172 * 13,590,887 LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities: ***Current portion of long-term debt* \$688,790 \$530,351 Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	Nonregulated		157,976		-
Less accumulated depreciation 8,418,811 8,075,656 Property, Plant, and Equipment, net 14,826,255 11,572,619 \$ 16,835,172 \$ 13,590,887 LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities: Current portion of long-term debt \$ 688,790 \$ 530,351 Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	Under construction	_	52,191	_	228,147
Less accumulated depreciation 8,418,811 8,075,656 Property, Plant, and Equipment, net 14,826,255 11,572,619 \$ 16,835,172 \$ 13,590,887 LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities: Current portion of long-term debt \$ 688,790 \$ 530,351 Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:			23 245 066		10 648 275
Property, Plant, and Equipment, net 14,826,255 11,572,619 \$ 16,835,172 \$ 13,590,887 LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities: Current portion of long-term debt \$ 688,790 \$ 530,351 Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	Less accumulated depreciation				
\$ 16,835,172 \$ 13,590,887 LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities: Current portion of long-term debt \$ 688,790 \$ 530,351 Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	2000 documented deprediction			-	0,070,000
LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities: Current portion of long-term debt \$ 688,790 \$ 530,351 Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	Property, Plant, and Equipment, net		14,826,255	_	11,572,619
Current Liabilities: Current portion of long-term debt \$ 688,790 \$ 530,351 Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:		\$ _	16,835,172	\$ =	13,590,887
Current portion of long-term debt \$ 688,790 \$ 530,351 Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts payable 154,645 222,366 Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	Current Liabilities:				
Advance billing and customer deposits 20,444 14,576 Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	Current portion of long-term debt	\$	688,790	\$	530,351
Accrued expenses 358,279 287,990 Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	Accounts payable		154,645		222,366
Total Current Liabilities 1,222,158 1,055,283 Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	Advance billing and customer deposits		20,444		14,576
Long-Term Debt 11,180,713 8,410,572 Stockholders' Equity:	Accrued expenses	_	358,279	_	287,990
Stockholders' Equity:	Total Current Liabilities		1,222,158		1,055,283
· •	Long-Term Debt		11,180,713		8,410,572
· •	Stockholders' Equity:				
Common stock, \$10 par value, 2,703 shares authorized and	Common stock, \$10 par value, 2,703 shares authorized and				
610 shares issued and outstanding 6,100 6,100	610 shares issued and outstanding		6,100		6,100
Paid-in capital 3,290 3,290	Paid-in capital		3,290		3,290
Retained earnings <u>4,422,911</u> <u>4,115,642</u>	Retained earnings		4,422,911	_	4,115,642
Total Stockholders' Equity 4,432,301 4,125,032	Total Stockholders' Equity		4,432,301	_	4,125,032
\$ <u>16,835,172</u> \$ <u>13,590,887</u>		\$_	16,835,172	\$_	13,590,887

Statements of Income

		2011	2010
Operating Revenues:			
Local network	\$	206,340	\$ 190,615
Interstate access		3,250,622	2,929,065
Intrastate access		330,179	346,845
Nonregulated		455,720	420,371
Miscellaneous	****	5,380	 (4,699)
Total Operating Revenues		4,248,241	3,882,197
Operating Expenses:			
Plant specific operations		492,620	472,522
Plant nonspecific operations		337,257	322,316
Customer		156,411	137,000
Corporate		677,522	725,948
Depreciation and amortization		1,208,678	1,082,693
Other operating taxes		126,128	114,715
Nonregulated		380,984	 353,032
Total Operating Expenses		3,379,600	 3,208,226
Operating Income	_	868,641	 673,971
Other Income:			
Other income		3,650	9,361
Allowance for funds used during construction		18,771	33,212
Total Other Income		22,421	42,573
Income Available for Fixed Charges		891,062	716,544
Fixed Charges - Interest on Long-Term Debt		385,331	319,620
Net Income	\$_	505,731	\$ 396,924

Statements of Changes in Stockholders' Equity

	Capita	l Stock			
	Shares		Paid-in	Retained	
	Issued	Amount	Capital	Earnings	Total
Balance, December 31, 2009	610	\$ 6,100	\$ 3,290 \$	3,867,582 \$	3,876,972
Distributions	-	-	-	(148,864)	(148,864)
Net income	_	-	-	396,924	396,924
Balance, December 31, 2010	610	6,100	3,290	4,115,642	4,125,032
Distributions	-	-	-	(198,462)	(198,462)
Net income	-	-	-	505,731	505,731
Balance, December 31, 2011	610_5	\$6,100	\$ 3,290 \$	4,422,911 \$	4,432,301

Statements of Cash Flows

Cash Flows from Operating Activities: \$ 505,731 \$ 396,924 Adjustments to reconcile net income to net cash provided by operating activities: 1,082,693 1,082,693 Depreciation and amortization 1,208,678 1,082,693 Depreciation, IPTV 7,916 - Patronage capital credits, noncash (1,459) (7,236) Changes in assets and liabilities: 3,660 (89,808) Materials and supplies (2,525) (57,071) Prepaid expenses 2,604 (43,918) Accounts payable (229,517) (639,420) Advance billing and customer deposits 5,868 (1,771) Accrued expenses 70,288 (136,269) Net Cash Provided by Operating Activities 1,641,244 504,124 Cash Flows from Investing Activities: (4,308,435) (2,005,732) Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments - 3,389 Net Cash Used by Investing Activities 4,338,772 (2,002,343) Cash Flows from Financing Activities: - 3,540			2011	-	2010
Adjustments to reconcile net income to net cash provided by operating activities: Depreciation and amortization 1,208,678 1,082,693 Depreciation, IPTV 7,916 - 7,916 1 7,916 1,082,693 Patronage capital credits, noncash (1,459) (7,236) Changes in assets and liabilities: Accounts receivable 73,660 (89,808) Materials and supplies (2,525) (57,071) Prepaid expenses 2,604 (43,918) Accounts payable (229,517) (639,420) Advance billing and customer deposits 5,868 (1,771) Accrued expenses 70,288 (136,269) Net Cash Provided by Operating Activities 5,968 (13,724) Purchase of other investments (4,308,435) (2,005,732) Purchase of other investments (30,337) - 9 Proceeds from sale of marketable securities and investments (4,338,772) (2,002,343) Proceeds from Ing-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities (2,730,120) 1,606,381 Net Increase in Cash and Cash Equivalents (3,540,957) (3,540,	Cash Flows from Operating Activities:				
provided by operating activities: 1,208,678 1,082,693 Depreciation and amortization 1,208,678 1,082,693 Depreciation, IPTV 7,916 - Patronage capital credits, noncash (1,459) (7,236) Changes in assets and liabilities: - - Accounts receivable 73,660 (89,808) Materials and supplies (2,525) (57,071) Prepaid expenses 2,604 (43,918) Accounts payable (229,517) (639,420) Advance billing and customer deposits 5,868 (1,771) Accrued expenses 70,288 (136,269) Net Cash Provided by Operating Activities 1,641,244 504,124 Cash Flows from Investing Activities: (4,308,435) (2,005,732) Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments 2 3,389 Net Cash Used by Investing Activities: (4,308,435) (2,002,343) Cash Flows from Financing Activities 2 2,272,475 Payments on long-term debt	Net income	\$	505,731	\$	396,924
Depreciation and amortization 1,208,678 1,082,693 Depreciation, IPTV 7,916 - Patronage capital credits, noncash (1,459) (7,236) Changes in assets and liabilities: 3,660 (89,808) Accounts receivable 73,660 (89,808) Materials and supplies (2,525) (57,071) Prepaid expenses 2,604 (43,918) Accounts payable (229,517) (639,420) Advance billing and customer deposits 5,868 (1,771) Accrued expenses 70,288 (136,269) Net Cash Provided by Operating Activities 1,641,244 504,124 Cash Flows from Investing Activities: (4,308,435) (2,005,732) Purchase of other investments (4,308,435) (2,005,732) Proceeds from sale of marketable securities and investments (4,338,772) (2,002,343) Proceeds from Financing Activities: (4,338,772) (2,002,343) Cash Flows from Financing Activities: (4,338,772) (2,702,304) Proceeds from long-term debt (512,375) (517,230)	Adjustments to reconcile net income to net cash				
Depreciation, IPTV 7,916 - Patronage capital credits, noncash (1,459) (7,236) Changes in assets and liabilities: Accounts receivable 73,660 (89,808) Materials and supplies (2,525) (57,071) Prepaid expenses 2,604 (43,918) Accounts payable (229,517) (639,420) Advance billing and customer deposits 5,868 (1,771) Accrued expenses 70,288 (136,269) Net Cash Provided by Operating Activities 1,641,244 504,124 Cash Flows from Investing Activities: (4,308,435) (2,005,732) Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments - 3,389 Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities: - 3,540,957 2,272,475 Payments on long-term debt 3,540,957 2,272,475 Payments on long-term debt (612,375) (517,230) Equity distributions (198,462) 1	provided by operating activities:				
Patronage capital credits, noncash (1,459) (7,236) Changes in assets and liabilities: Accounts receivable 73,660 (89,808) Materials and supplies (2,525) (57,071) Prepaid expenses 2,604 (43,918) Accounts payable (229,517) (639,420) Advance billing and customer deposits 5,868 (1,771) Accrued expenses 70,288 (136,269) Net Cash Provided by Operating Activities 1,641,244 504,124 Cash Flows from Investing Activities: (4,308,435) (2,005,732) Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments 3,389 Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities: Proceeds from long-term debt (612,375) (517,230) Payments on long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381 Net Increase in Cash and Cash Equivalents	Depreciation and amortization		1,208,678		1,082,693
Changes in assets and liabilities: 73,660 (89,808) Accounts receivable 73,660 (89,808) Materials and supplies (2,525) (57,071) Prepaid expenses 2,604 (43,918) Accounts payable (229,517) (639,420) Advance billing and customer deposits 5,868 (1,771) Accrued expenses 70,288 (136,269) Net Cash Provided by Operating Activities 1,641,244 504,124 Cash Flows from Investing Activities: (4,308,435) (2,005,732) Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments - 3,389 Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities 2 (4,338,772) (2,002,343) Cash Flows from Ing-term debt (612,375) (517,230) Payments on long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381	Depreciation, IPTV		7,916		-
Accounts receivable 73,660 (89,808) Materials and supplies (2,525) (57,071) Prepaid expenses 2,604 (43,918) Accounts payable (229,517) (639,420) Advance billing and customer deposits 5,868 (1,771) Accrued expenses 70,288 (136,269) Net Cash Provided by Operating Activities 3,641,244 504,124 Cash Flows from Investing Activities: (4,308,435) (2,005,732) Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments - 3,389 Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities: - 3,540,957 2,272,475 Payments on long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381 Net Increase in Cash and Cash Equivalents 32,592 108,162 Cash and Cash Equivalents, beginning 1,021,638 913,476	Patronage capital credits, noncash		(1,459)		(7,236)
Materials and supplies (2,525) (57,071) Prepaid expenses 2,604 (43,918) Accounts payable (229,517) (639,420) Advance billing and customer deposits 5,868 (1,771) Accrued expenses 70,288 (136,269) Net Cash Provided by Operating Activities 1,641,244 504,124 Cash Flows from Investing Activities: (2,005,732) (2,005,732) Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments - 3,389 Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities: - 3,540,957 2,272,475 Payments on long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381 Net Increase in Cash and Cash Equivalents 32,592 108,162 Cash and Cash Equivalents, beginning 1,021,638 913,476 Cash and Cash Equivalents, ending 1,054,230 <t< td=""><td>Changes in assets and liabilities:</td><td></td><td></td><td></td><td></td></t<>	Changes in assets and liabilities:				
Prepaid expenses 2,604 (43,918) Accounts payable (229,517) (639,420) Advance billing and customer deposits 5,868 (1,771) Accrued expenses 70,288 (136,269) Net Cash Provided by Operating Activities 1,641,244 504,124 Cash Flows from Investing Activities: (4,308,435) (2,005,732) Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments - 3,389 Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities: - 3,540,957 2,272,475 Payments on long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381 Net Increase in Cash and Cash Equivalents 32,592 108,162 Cash and Cash Equivalents, beginning 1,021,638 913,476 Cash and Cash Equivalents, ending 1,054,230 \$ 1,021,638 Cash Paid During the Year for Interest, net of amount capita	Accounts receivable		73,660		(89,808)
Accounts payable (229,517) (639,420) Advance billing and customer deposits 5,868 (1,771) Accrued expenses 70,288 (136,269) Net Cash Provided by Operating Activities 1,641,244 504,124 Cash Flows from Investing Activities: (4,308,435) (2,005,732) Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments - 3,389 Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities: - 3,540,957 2,272,475 Payments on long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381 Net Increase in Cash and Cash Equivalents 32,592 108,162 Cash and Cash Equivalents, beginning 1,021,638 913,476 Cash and Cash Equivalents, ending 1,021,638 1,021,638 Cash Paid During the Year for Interest, net of amount capitalized 366,560 286,408	Materials and supplies		(2,525)		(57,071)
Advance billing and customer deposits 5,868 (1,771) Accrued expenses 70,288 (136,269) Net Cash Provided by Operating Activities 1,641,244 504,124 Cash Flows from Investing Activities: 2 2 Capital expenditures (4,308,435) (2,005,732) Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments - 3,389 Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities: 2 2 Proceeds from long-term debt 3,540,957 2,272,475 Payments on long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381 Net Increase in Cash and Cash Equivalents 32,592 108,162 Cash and Cash Equivalents, beginning 1,021,638 913,476 Cash and Cash Equivalents, ending 1,054,230 1,021,638 Cash Paid During the Year for Interest, net of amount capitalized 366,560 </td <td>Prepaid expenses</td> <td></td> <td>2,604</td> <td></td> <td>(43,918)</td>	Prepaid expenses		2,604		(43,918)
Accrued expenses 70,288 (136,269) Net Cash Provided by Operating Activities 1,641,244 504,124 Cash Flows from Investing Activities: (4,308,435) (2,005,732) Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments - 3,389 Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities: Secondary of the proceeds from long-term debt 3,540,957 2,272,475 Payments on long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381 Net Increase in Cash and Cash Equivalents 32,592 108,162 Cash and Cash Equivalents, beginning 1,021,638 913,476 Cash and Cash Equivalents, ending 1,054,230 \$ 1,021,638 Cash Paid During the Year for Interest, net of amount capitalized \$ 366,560 \$ 286,408	Accounts payable		(229,517)		(639,420)
Net Cash Provided by Operating Activities 1,641,244 504,124 Cash Flows from Investing Activities: (4,308,435) (2,005,732) Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments - 3,389 Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities: - 3,540,957 2,272,475 Payments on long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381 Net Increase in Cash and Cash Equivalents 32,592 108,162 Cash and Cash Equivalents, beginning 1,021,638 913,476 Cash and Cash Equivalents, ending 1,054,230 1,021,638 Cash Paid During the Year for Interest, net of amount capitalized \$ 366,560 286,408	Advance billing and customer deposits		5,868		(1,771)
Cash Flows from Investing Activities: Capital expenditures (4,308,435) (2,005,732) Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments - 3,389 Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities: - 3,540,957 2,272,475 Proceeds from long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381 Net Increase in Cash and Cash Equivalents 32,592 108,162 Cash and Cash Equivalents, beginning 1,021,638 913,476 Cash and Cash Equivalents, ending 1,054,230 1,021,638 Cash Paid During the Year for Interest, net of amount capitalized 366,560 286,408	Accrued expenses		70,288	-	(136,269)
Capital expenditures (4,308,435) (2,005,732) Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments - 3,389 Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities: - - Proceeds from long-term debt 3,540,957 2,272,475 Payments on long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381 Net Increase in Cash and Cash Equivalents 32,592 108,162 Cash and Cash Equivalents, beginning 1,021,638 913,476 Cash and Cash Equivalents, ending 1,054,230 1,021,638 Cash Paid During the Year for Interest, net of amount capitalized 366,560 286,408	Net Cash Provided by Operating Activities		1,641,244		504,124
Purchase of other investments (30,337) - Proceeds from sale of marketable securities and investments - 3,389 Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities: - - Proceeds from long-term debt 3,540,957 2,272,475 Payments on long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381 Net Increase in Cash and Cash Equivalents 32,592 108,162 Cash and Cash Equivalents, beginning 1,021,638 913,476 Cash and Cash Equivalents, ending 1,054,230 1,021,638 Cash Paid During the Year for Interest, net of amount capitalized 366,560 286,408	Cash Flows from Investing Activities:				
Proceeds from sale of marketable securities and investments - 3,389 Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities: Standard Standa	Capital expenditures		(4,308,435)		(2,005,732)
Net Cash Used by Investing Activities (4,338,772) (2,002,343) Cash Flows from Financing Activities: Proceeds from long-term debt 3,540,957 2,272,475 Payments on long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381 Net Increase in Cash and Cash Equivalents 32,592 108,162 Cash and Cash Equivalents, beginning 1,021,638 913,476 Cash and Cash Equivalents, ending \$ 1,054,230 \$ 1,021,638 Cash Paid During the Year for Interest, net of amount capitalized \$ 366,560 \$ 286,408	Purchase of other investments		(30,337)		-
Cash Flows from Financing Activities: 3,540,957 2,272,475 Proceeds from long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381 Net Increase in Cash and Cash Equivalents 32,592 108,162 Cash and Cash Equivalents, beginning 1,021,638 913,476 Cash and Cash Equivalents, ending \$ 1,054,230 \$ 1,021,638 Cash Paid During the Year for Interest, net of amount capitalized \$ 366,560 \$ 286,408	Proceeds from sale of marketable securities and investments		-		3,389
Proceeds from long-term debt 3,540,957 2,272,475 Payments on long-term debt (612,375) (517,230) Equity distributions (198,462) (148,864) Net Cash Provided by Financing Activities 2,730,120 1,606,381 Net Increase in Cash and Cash Equivalents 32,592 108,162 Cash and Cash Equivalents, beginning 1,021,638 913,476 Cash and Cash Equivalents, ending \$ 1,054,230 \$ 1,021,638 Cash Paid During the Year for Interest, net of amount capitalized \$ 366,560 \$ 286,408	Net Cash Used by Investing Activities	*****	(4,338,772)	_	(2,002,343)
Payments on long-term debt Equity distributions Net Cash Provided by Financing Activities Net Increase in Cash and Cash Equivalents Cash and Cash Equivalents, beginning Cash and Cash Equivalents, ending Cash Paid During the Year for Interest, net of amount capitalized (612,375) (517,230) (148,864) (148,864) 1,606,381 1,021,638 913,476 1,021,638 913,476 286,408	Cash Flows from Financing Activities:				
Payments on long-term debt Equity distributions Net Cash Provided by Financing Activities Net Increase in Cash and Cash Equivalents Cash and Cash Equivalents, beginning Cash and Cash Equivalents, ending Cash Paid During the Year for Interest, net of amount capitalized (612,375) (517,230) (148,864) (148,864) 1,606,381 1,021,638 913,476 1,021,638 913,476 286,408	Proceeds from long-term debt		3,540,957		2,272,475
Equity distributions(198,462)(148,864)Net Cash Provided by Financing Activities2,730,1201,606,381Net Increase in Cash and Cash Equivalents32,592108,162Cash and Cash Equivalents, beginning1,021,638913,476Cash and Cash Equivalents, ending\$ 1,054,230\$ 1,021,638Cash Paid During the Year for Interest, net of amount capitalized\$ 366,560\$ 286,408	Payments on long-term debt		(612,375)		(517,230)
Net Increase in Cash and Cash Equivalents32,592108,162Cash and Cash Equivalents, beginning1,021,638913,476Cash and Cash Equivalents, ending\$ 1,054,230\$ 1,021,638Cash Paid During the Year for Interest, net of amount capitalized\$ 366,560\$ 286,408	Equity distributions		(198,462)		
Cash and Cash Equivalents, beginning 1,021,638 913,476 Cash and Cash Equivalents, ending \$ 1,054,230 \$ 1,021,638 Cash Paid During the Year for Interest, net of amount capitalized \$ 366,560 \$ 286,408	Net Cash Provided by Financing Activities		2,730,120	_	1,606,381
Cash and Cash Equivalents, ending \$\frac{1,054,230}{\$} \\$\frac{1,021,638}{\$}\$ Cash Paid During the Year for Interest, net of amount capitalized \$\frac{366,560}{\$} \\$\frac{286,408}{\$}\$	Net Increase in Cash and Cash Equivalents		32,592		108,162
Cash Paid During the Year for Interest, net of amount capitalized \$\\\ 366,560\\\\ \\\\ 286,408\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\	Cash and Cash Equivalents, beginning		1,021,638	-	913,476
	Cash and Cash Equivalents, ending		1,054,230	\$	1,021,638
	Cash Paid During the Year for Interest, net of amount capitalized	\$	366,560	\$	286,408
Non-cash Property, Plant, and Equipment Additions \$ 161,796 \$ 88,755	Non-cash Property, Plant, and Equipment Additions	\$_	161,796	\$_	88,755

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Southern Montana Telephone Company (the Company) is a local exchange carrier (LEC) providing local telephone service, internet access, and long-distance telecommunications services. The Company serves commercial and residential customers in the southwestern Montana exchanges of Divide, Grant, Jackson, Wisdom, and Wise River.

Regulation

The Company is subject to limited regulation by the Public Service Commission of Montana (PSC). The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission (FCC), and adopted by the PSC. As a result, the application of accounting principles generally accepted in the United States of America by the Company differs in certain respects from the application by nonregulated entities. Such differences primarily concern the time at which certain items enter into the determination of net income. Pending and future regulatory and legislative actions, including the FCC's National Broadband Plan and Report and Order and Further Notice of Proposed Rule Making, may have a significant impact on the Company's future operations and financial condition.

Cash and Cash Equivalents

The Company considers cash investments with an original maturity of 3 months or less to be cash equivalents. The Company maintains its cash either in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor or in certain non-interest bearing accounts that are fully insured by the FDIC. At December 31, 2011 and 2010 the company had no uninsured funds. The Company has not experienced any losses in its bank deposit accounts and believes it is not exposed to any significant credit risk on cash.

Accounts Receivable

The Company extends credit to its customers. Receivables are written off when the Company determines an account is uncollectible. Past due status is determined based on how recently the payment has been received. Credit risk associated with receivables is periodically reviewed by management and, if required, an allowance for doubtful accounts is established.

Fair Value of Financial Instruments

The Company's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, receivables, accounts payable, mortgage and notes payable. The Company estimates that the fair value of all of these non-derivative financial instruments at December 31, 2011 and 2010 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheets.

Property, Plant, and Equipment

Telecommunications plant in service and under construction is stated at cost, including estimated overhead expense. Depreciation is calculated on a straight-line basis over the estimated life of the classes of buildings and equipment in accordance with rates consistent with industry standards. Depreciation rates range from 4.2% to 33.3%. Costs of plant retired are eliminated from telecommunications plant accounts and such costs plus removal expenses, less salvage, are charged to accumulated depreciation in accordance with industry practice.

The Company follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. In 2011, total interest incurred was \$385,331 (\$319,620 in 2010), \$18,771 of which was capitalized (\$33,212 in 2010).

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 directory services, long distance services, and other income items incidental to the provision of regulated telephone services.

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 1 - Organization and Summary of Significant Accounting Policies, continued

Nonregulated Services, continued

Nonregulated activities not involving the joint use of regulated assets are accounted for separately from regulated activities. Operating revenues and the related expenses are separately presented as nonregulated revenues and expenses. These activities include internet, TV, and payphone services.

Network Access Revenues

Network access revenue for intralata and interlata toll service is received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long distance carrier for access and interconnection to local facilities. The Company follows access tariffs filed with the PSC for intrastate charges, and FCC for interstate charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are divided into traffic sensitive, nontraffic sensitive, and billing and collecting portions. The revenues are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Company. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investment maintained. The Company participates in pooling arrangements with the National Exchange Carrier Association (NECA).

Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months after the close of the related calendar years (NECA only), are recorded in the year in which such adjustments become determinable, based upon studies by an outside consultant.

In addition to recoveries from NECA, the Company also receives revenues from the Universal Service High Cost Loop Fund and other support mechanisms administered by the Universal Service Administration Company (USAC). Amounts received from the USAC High Cost Loop Fund is based on the number of customers served and the cost of providing service in that area being in excess of the national average cost per loop as determined by the FCC and are included in network access revenues in the accompanying financial statements. In 2011, the Company received \$1,456,681 from the USAC High Cost Loop Fund (\$840,626 in 2010) and \$1,793,941 in interstate access revenues administered through the NECA pool (\$2,088,439 in 2010).

National Broadband Plan and FCC Order

In 2010 the FCC issued the National Broadband Plan which outlined a long-term plan to increase broadband penetrations and services throughout the United States of America. The plan further outlined a proposed long-term phase-out of access charges (referred to as Intercarrier Compensation) and moved to support mechanisms based on broadband services rather than the current Universal Service High Cost Loop Fund administered by USAC.

In response to the plan, the FCC on October 27, 2011, approved Report and Order 11-161 (the Order), that begins the process of reforming the universal service and intercarrier compensation (ICC) systems and adopts support for broadband-capable networks as an express universal service principle. The Order further creates the Connect America Fund which will ultimately replace all existing high-cost support mechanisms as well as help facilitate ICC reforms. The Order, among other things, caps the federal universal service fund at current levels and reforms the current system by putting various limits on capital and operating spending, requiring minimum levels for local rates and capping the per-line support amount at \$250 per month.

The Order also reforms the ICC system by adopting a plan to transition from access charges to a bill and keep framework. The transition period for rate-of-return carriers such as the Company is 9 years. Recovery will be calculated initially based on the fiscal year 2011 interstate switched access revenue requirement and will decline annually by 5% during the transition period. The Order includes the adoption of a monthly Access Recovery Charge as a transitional recovery mechanism to mitigate the impact of reduced intercarrier revenues.

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 1 - Organization and Summary of Significant Accounting Policies, continued

National Broadband Plan and FCC Order, continued

The Order was effective December 29, 2011. However, the reform process will take place in phases and will take several years to complete. Furthermore the Order includes a Further Notice of Proposed Rulemaking and seeks comments on various items including potentially reducing the interstate rate of return from its current level of 11.25%. As the ultimate outcome of these proceedings is uncertain the full impacts of the Order on the Company cannot be determined or reasonably estimated at this time.

Estimates

The Company uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Income Taxes

The Company is designated as an S corporation under the Internal Revenue Code. As an S corporation, earnings and losses are included in the income tax returns of the stockholders and taxed at the stockholder level.

The Company may incur income tax related to passive income and built-in gains.

The Company follows the accounting standard for uncertain tax positions. This accounting standard provides detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position would not be substantiated under examination. The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision when applicable. There are no amounts accrued in the financial statements related to uncertain tax positions.

The Company files income tax returns in the United States and various state and local jurisdictions. The Company's Federal income tax returns for the years ended December 31, 2010, 2009, and 2008 are subject to examination by the Internal Revenue Service, generally for 3 years after the returns were filed. State and local jurisdictions have statutes of limitation that generally range from 3 to 5 years.

Materials and Supplies

Materials and supplies are stated at the lower of cost or market. Cost is determined principally by the average cost method.

Subsequent Events

The Company has evaluated subsequent events through March 2, 2012, which is the date the financial statements were issued.

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 2 - Property, Plant, and Equipment

Listed below are the major classes of property, plant, and equipment in service:

	<u>2011</u>	2010
Telecommunications: Land and support Central office Cable and wire facilities Capital Lease Assets	\$ 1,556,470 4,262,976 17,040,453 175,000	\$ 1,546,734 4,018,948 13,679,446 175,000
Total Telecommunications:	23,034,899	19,420,128
Non-regulated	157,976	***
Under Construction	52,191	228,147
Total Property, Plant, and Equipment In Service	\$ 23,245,066	\$ <u>19,648,275</u>

In 2009, the Company entered into a lease for an Indefeasible Right of Use (IRU) for fiber, which will last through 2029. The Company paid the entire amount of the lease at inception and the lease is being amortized over the life of the asset.

Note 3 - Investments in Nonaffiliates

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

	<u>2011</u>	<u>2010</u>
Vision Net, Inc.	\$ 279,861	\$ 279,861
Other investments	33,947	32,488
RTFC	828	828
Artwork	31,547	31,547
Other Office Décor	5,790	5,790
RUS Cushion of Credit	30,337	
	\$ <u>382,310</u>	\$ 350,514

The Company has an RUS cushion of credit fund in which it has invested at a return of 5% interest. To recover the investment, the funds can be applied toward debt payments, but not withdrawn. In 2011, the Company invested \$105,403 into its RUS cushion of credit fund (\$0 in 2010), and \$75,066 of these funds were applied toward debt payments (\$0 in 2010). Debt payments include principal and interest.

Vision Net, Inc. provides advanced voice, data, and video services, and is owned by Montana's independent telephone companies allowing them to interconnect a digital fiber network serving urban and rural communities throughout the state. The investment is maintained on the cost method of accounting.

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 4 - Long-Term Debt

Long-term debt consists of the following:

Long-term debt consists of the following:	2011	2010
2.00% notes payable to the Rural Utilities Service, payable in monthly installments of \$41,246 principal and interest, collateralized by substantially all real and personal property, due 2016 through 2023.	\$ 727,487	\$ 884,911
2.692-4.88% notes payable to Rural Utilities Service, payable in monthly installments of \$74,172, collateralized by substantially all real and personal property, due in 2026.	9,730,855	8,056,012
0.027-0.028% notes payable to the Rural Utility Services, interest only through September, 2012, then payable in monthly installments of \$6,432, collateralized by substantially all real and personal property, due in 2030.	1,411,161	_
Less current portion	11,869,503 688,790	8,940,923 530,351
	\$ <u>11,180,713</u>	\$ <u>8,410,572</u>

The terms of the debt agreements contain restrictions on the declaration or payment of cash dividends, redemption of capital stock, and the maintenance of a minimum times interest earned ratio. The Company is in compliance with these covenants at December 31, 2011 and 2010.

Future maturities of long-term debt are as follows:

2012	\$	688,790
2013		764,194
2014		788,900
2015		811,231
2016		694,347
Thereafter	i	8,122,041

At December 31, 2011, the Company had \$4,795,358 in unadvanced authorized loan funds from the Rural Utilities Services (\$2,792,315 at December 31, 2010).

Note 5 - Retirement Plans

The Company participates in a qualified multi-employer, non contributory, defined benefit plan (the Plan) administered by the Retirement and Security Program of the National Telecommunications Cooperative Association (NTCA), which covers all full-time eligible employees, and contributes 12% of each eligible employee's annual salary to the Plan. Pension costs include current service costs that are accrued and funded on a current basis. Total pension plan charges, including amounts charged to construction, were \$112,754 in 2011 (\$101,992 in 2010).

The Company also participates in a contributory, multi-employer, defined contribution plan administered by NTCA, which covers all full-time employees. Employees are required to contribute a minimum of 2% of their annual salary to participate in the plan. Employer contributions are 5% of eligible salaries paid. Employer contributions to the plan were \$38,078 in 2011 (\$37,708 in 2010).

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 6 - 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 7 - Related Party Transactions

The Company leases its office building from Robert G. Helming, stockholder, officer, and director of the Company. The lease calls for monthly payments of \$3,100 through April 2014.

Following is a summary of minimum rental payments under the lease for the years subsequent to December 31, 2011:

2012	\$ 37,200
2013	37,200
2014	12,400

Total rental expense under the lease listed above was approximately \$37,200 for the years ended December 31, 2011 and 2010.

Note 8 - Commitments

The Company has executed several contracts for construction projects. The amounts unpaid against these commitments at December 31, 2011 were \$161,796 (\$88,755 at December 31, 2010).