

General Information

Year: 2010

1	Legal Name of Respondent:	Southern Montana Telephone Company
2	Name Under Which Respondent Does Business:	Southern Montana Telephone Company
3	Date of Incorporation:	1944
4	Address to send Correspondence Concerning Report:	P.O. Box 205 Wisdom, MT 59761-0205
5	Person Responsible for This Report:	Richard Knight, Office Manager
5a.	Telephone Number:	406 689 -3333
Control Over Respondent		
1	If direct control over the respondent was held by another entity at the end of year provide the following:	
	1a. Name and address of the controlling organization or person:	
	1b. Means by which control was held:	
	1c. Percent Ownership:	

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

Year: 2010

Line No.	Title of Officer (a)	Department Over Which Jurisdiction is Exercised (b)	Name and Address of Person Holding Office at Year End (c)
1	President	All Departments	Robert G. Helming
2			Wisdom, MT 59761
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5	Secretary/Vice-President	All Departments	Larry B. Mason
6			Wisdom, MT 59761
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Total Company Balance Sheet

Year: 2010

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		CURRENT ASSETS:	See Attached Audited Financials	
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 *.

Total Company Balance Sheet

Year: 2010

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

SOUTHERN MONTANA TELEPHONE COMPANY**Balance Sheets**

December 31, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and cash equivalents	\$ 1,021,638	\$ 913,476
Accounts receivable, less allowance for doubtful accounts of zero in 2010 and \$16,057 for 2009	471,167	381,359
Materials and supplies	131,031	73,960
Prepaid expenses	43,918	-
Total Current Assets	<u>1,667,754</u>	<u>1,368,795</u>
Other Investments	<u>350,514</u>	<u>346,667</u>
Property, Plant, and Equipment:		
In-service	19,420,128	16,440,268
Under construction	228,147	1,145,197
	<u>19,648,275</u>	<u>17,585,465</u>
Less accumulated depreciation	<u>8,075,656</u>	<u>7,024,640</u>
Property, Plant, and Equipment, net	<u>11,572,619</u>	<u>10,560,825</u>
	<u>\$ 13,590,887</u>	<u>\$ 12,276,287</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 530,351	\$ 462,144
Accounts payable	222,366	773,031
Advance billing and customer deposits	14,576	16,347
Accrued expenses	287,990	424,259
Total Current Liabilities	<u>1,055,283</u>	<u>1,675,781</u>
Long-Term Debt	<u>8,410,572</u>	<u>6,723,534</u>
Stockholders' Equity:		
Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding	6,100	6,100
Paid-in capital	3,290	3,290
Retained earnings	4,115,642	3,867,582
Total Stockholders' Equity	<u>4,125,032</u>	<u>3,876,972</u>
	<u>\$ 13,590,887</u>	<u>\$ 12,276,287</u>

See accompanying notes to consolidated financial statements.

Total Company Income Statement

Year: 2010

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		REVENUES:	See Attached Audited 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)		
41	7300	Nonoperating Income and Expense		
42	7400	Nonoperating Taxes		
43	7500	Interest and Related Items		
44	7600	Extraordinary Items		
45	7910	Effects of Juris. Ratemaking Diff. - Net		
46	7990	Nonregulated Net Income		
47		NET INCOME (L.40+L.41-L.42-L.43-L.44+L.45-L.46)		

^ Subaccount of the account marked with a *.

Montana Total State Income Statement

Year: 2010

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		REVENUES:	See Attached Audited 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 *.

SOUTHERN MONTANA TELEPHONE COMPANY**Statements of Income**

Years Ended December 31, 2010 and 2009

	2010	2009
Operating Revenues:		
Local network	\$ 190,615	\$ 182,091
Interstate access	2,929,065	2,295,172
Intrastate access	346,845	369,713
Nonregulated	420,371	383,623
Miscellaneous	(4,699)	6,973
Total Operating Revenues	<u>3,882,197</u>	<u>3,237,572</u>
Operating Expenses:		
Plant specific operations	472,522	432,386
Plant nonspecific operations	322,316	238,992
Customer	137,000	99,880
Corporate	725,948	784,316
Depreciation and amortization	1,082,693	812,099
Other operating taxes	114,715	102,757
Nonregulated	353,032	345,884
Total Operating Expenses	<u>3,208,226</u>	<u>2,816,314</u>
Operating Income	<u>673,971</u>	<u>421,258</u>
Other Income:		
Other income	9,361	1,915
Allowance for funds used during construction	<u>33,212</u>	<u>45,460</u>
Total Other Income	<u>42,573</u>	<u>47,375</u>
Income Available for Fixed Charges	716,544	468,633
Fixed Charges - Interest on Long-Term Debt	<u>319,620</u>	<u>270,149</u>
Net Income	<u>\$ 396,924</u>	<u>\$ 198,484</u>

Montana Intrastate Income Statement

Year: 2010

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		REVENUES:	See Attached Audited 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		
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9	* 5200	Miscellaneous Revenue		
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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 *.

SOUTHERN MONTANA TELEPHONE COMPANY**Statements of Changes in Stockholders' Equity**Years Ended December 31, 2010 and 2009

	Capital Stock		Paid-in Capital	Retained Earnings	Total
	Shares Issued	Amount			
Balance, December 31, 2008	610	\$ 6,100	\$ 3,290	\$ 3,670,765	\$ 3,680,155
Distributions	-	-	-	(1,667)	(1,667)
Net income	-	-	-	198,484	198,484
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	<u>610</u>	<u>\$ 6,100</u>	<u>\$ 3,290</u>	<u>\$ 4,115,642</u>	<u>\$ 4,125,032</u>

Montana Intrastate Regulated Income Statement

Year: 2010

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		REVENUES:	See Attached Audited 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 *.

Average Rate Base - Total State

Year: 2010

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service	19417901	16436468
2	3100	Accumulated Depreciation	8075658	7024642
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies	124820	73960
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)	11467063	9485786

Average Rate Base - Intrastate

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

Average Rate Base - Regulated Intrastate

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service	19417901	16436468
2	3100	Accumulated Depreciation	8075658	7024642
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies	124820	73960
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)	11467063	9485786

Statement of Cash Flows

Year: 2010

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

USDA-RUS		BORROWER DESIGNATION
OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS		MT0526
		PERIOD ENDED December, 2010
INSTRUCTIONS – See help in the online application.		
PART I – STATEMENT OF CASH FLOWS		
1. Beginning Cash (Cash and Equivalents plus RUS Construction Fund)		913,477
CASH FLOWS FROM OPERATING ACTIVITIES		
2. Net Income		396,921
<i>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities</i>		
3. Add: Depreciation		1,072,369
4. Add: Amortization		8,750
5. Other (Explain)		
<i>Changes in Operating Assets and Liabilities</i>		
6. Decrease/(Increase) in Accounts Receivable		(89,807)
7. Decrease/(Increase) in Materials and Inventory		(50,860)
8. Decrease/(Increase) in Prepayments and Deferred Charges		(43,918)
9. Decrease/(Increase) in Other Current Assets		0
10. Increase/(Decrease) in Accounts Payable		(728,129)
11. Increase/(Decrease) in Advance Billings & Payments		(559)
12. Increase/(Decrease) in Other Current Liabilities		22,300
13. Net Cash Provided/(Used) by Operations		587,067
CASH FLOWS FROM FINANCING ACTIVITIES		
14. Decrease/(Increase) in Notes Receivable		0
15. Increase/(Decrease) in Notes Payable		0
16. Increase/(Decrease) in Customer Deposits		(1,211)
17. Net Increase/(Decrease) in Long Term Debt (Including Current Maturities)		1,755,244
18. Increase/(Decrease) in Other Liabilities & Deferred Credits		0
19. Increase/(Decrease) in Capital Stock, Paid-in Capital, Membership and Capital Certificates & Other Capital		0
20. Less: Payment of Dividends		(148,863)
21. Less: Patronage Capital Credits Retired		0
22. Other (Explain)		
23. Net Cash Provided/(Used) by Financing Activities		1,605,170
CASH FLOWS FROM INVESTING ACTIVITIES		
24. Net Capital Expenditures (Property, Plant & Equipment)		(2,064,382)
25. Other Long-Term Investments		(8,485)
26. Other Noncurrent Assets & Jurisdictional Differences		0
27. Other (Explain)		
28. Net Cash Provided/(Used) by Investing Activities		(2,072,867)
29. Net Increase/(Decrease) in Cash		119,370
30. Ending Cash		1,032,847

Revision Date 2010

Company Name: Southern Montana Telephone Company

SCHEDULE 10

Receivables and Investments-Affiliated & Nonaffiliated Companies

at: 2010

Line No.	Name of Affiliate or Company (a)	Account 1160 Temporary Investments (b)	Account 1180 Telecom. Accounts Receivable (c)	Account 1181 Accts. Rec. Telecom. Allowance (d)	Account 1190 Other Accounts Receivable (e)	Account 1191 Accounts Receivable Allow. - Other (f)	Account 1200 Notes Receivable (g)	Account 1201 Notes Receivable Allowance (h)	Account 1210 Interest and Dividends Receivable (i)	Account 1401 Investments in Affil. Companies (j)	Account 1402 Investments in Nonaffil. Companies (k)
1	Telecom Customers		63175		407990						279861
2	VisionNet Investment										79092
3	Various Other Investments										
4											
5											
6											
7											
8											
9											
10											
11											
12											
13											
14											
15											
16											
17											
18											
19											
20											
21											
22											
23											
24											
25											
26											
27											
28											
29											
30	Totals		63175		407990						358953

Net Plant in Service - Detail

Year:2010

Line No.	Account (a)	Description (b)	Beginning of Year Balance (c)	Additions (d)	Retirements (e)	Sales & Transfers (f)	End of Year Account 2001 Balance (g)	Year End Accumulated Depreciation (h)	End of Year Net Plant Balance (i)
1	* 2110	Land and Support Assets	1433033	158787	63603		1528217		1528217
2	^ 2111	Land	38451				38451		38451
3	^ 2112	Motor Vehicles	252243	124876	63603		313516		313516
4	^ 2113	Aircraft							
5	^ 2114	Special Purpose Vehicles							
6	^ 2115	Garage Work Equipment							
7	^ 2116	Other Work Equipment	426261	31018			457279		457279
8	^ 2121	Buildings	657630				657630		657630
9	^ 2122	Furniture	39694				39694		39694
10	^ 2123	Office Equipment							
11	^ 2124	General Purpose Computers	18754	2893			21647		21647
12	2211	Analog Electronic Switching							
13	2212	Digital Electronic Switching	1239540	477813			1717335		1717335
14	2215	Electro-Mechanical Switching							
15	2220	Operator Systems							
16	2231	Radio Systems							
17	2232	Circuit Equipment	2020501	281112			2301612		2301612
18	* 2310	Information Orig & Term Equip	18527				18527		18527
19	^ 2311	Station Apparatus	18527				18527		18527
20	^ 2321	Customer Premises Wiring							
21	^ 2341	Large Private Branch Exchanges							
22	^ 2351	Public Telephone Term. Equip.							
23	^ 2362	Other Terminal Equipment							
24	2411	Poles							
25	* 2420	Cable and Wire Facilities	11724877	2226325	88701	-175000	13502180		13502180
26	^ 2421	Aerial Cable	33375				33375		33375
27	^ 2422	Underground Cable	175000			-175000			
28	^ 2423	Buried Cable	11516502	2226325	88701		13468805		13468805
29	^ 2424	Submarine Cable							
30	^ 2425	Deep Sea Cable							
31	^ 2426	Intrabuilding Network Cable							
32	2431	Aerial Wire							
33	2441	Conduit Systems							
34		Totals	16436478	3144037	152304	-175000	19067871		19067871

^ Subaccount of the account marked with a *.

Company Name: Southern Montana Telephone Company

SCHEDULE 12

Analysis of Plant Held for Future Use

Year: 2010

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

Company Name: Southern Montana Telephone Company

SCHEDULE 13

Average Cost of Long Term Debt

Year: 2010

Line No.	Description (a)	Issue Date (b)	Maturity Date (c)	Principal Amount (d)	Gross Proceeds (e)	Net Proceeds (f)	Net Per \$100 (g)	Outstanding Per Balance Sheet (h)	Yield to Maturity (i)	Annual Net Cost (j)	Amortization of Premium or Discount (k)	Total Cost (%) (l)
1	Rural Utilities Service	Various	Various					8413737		778456		3.40%
2												
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												
13												
14												
15												
16												
17												
18												
19												
20												
21												
22												
23												
24												
25												
26												
27												
28												
29												
30	Total							8413737		778456		9.25%

Company Name: Southern Montana Telephone Company

SCHEDULE 14

Cost of Preferred Stock

Year: 2010

Line No.	Description (a)	Date of Issuance (b)	Method of Offering (c)	Call Redemption Price (d)	Par Value Of Issue (e)	Gross Proceeds Amounts (f)	Net Proceeds Amounts (g)	Net Proceeds Per \$100 (h)	Cost of Money (i)	Principal Outstanding (j)	Annual Cost (k)	Embedded Cost (l)
1	Not Applicable											
2												
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												
13												
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16												
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18												
19												
20												
21												
22												
23												
24												
25												
26												
27												
28												
29												
30	Totals (Sum L.1 to L.29)											

Analysis of Common Stock

Year:2010

Line No.	(a)	Avg. Number of Shares Outstanding (b)	Book Value (per share) (c)	Earnings (per share) (d)	Dividends (per share) (e)	Retention Ratio (f)	Market Price		Price/Earnings Ratio (i)
							High (g)	Low (h)	
1	Year Ended December 31:								
2									
3									
4	Privately Held Stock--Not Publically Traded								
5									
6									
7									
8	Month by Month Data:								
9	January								
10	February								
11	March								
12	April	Not Applicable-Under 5000 Access Lines							
13	May								
14	June								
15	July								
16	August								
17	September								
18	October								
19	November								
20	December								
21									
22									
23									

Company Name: Southern Montana Telephone Company

SCHEDULE 16

Capital Stock and Funded Debt Reacquired or Retired During the Year Year:2010

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

Total Company Expense Matrix

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

^ Subaccount of the account marked with a *.

Company Name: Southern Montana Telephone Company

SCHEDULE 17

Page 2 of 2

Total Company Expense Matrix

Year:2010

Line No.	Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
35	^	6441 Conduit Systems Expense						
36		6510 Other Property Expenses						
37	*	6530 Network Operations Expense						
38	^	6531 Power Expense						
39	^	6532 Network Administration Expense						
40	^	6533 Testing Expense						
41	^	6534 Plant Operations Expense						
42	^	6535 Engineering Expense						
43		6540 Access Expense						
44		6561 Depreciation - Telecomm. Plant in Service						
45		6562 Depreciation-Prop. for Future Telecom. Use						
46		6563 Amortization Expense - Tangible						
47		6564 Amortization Expense - Intangible						
48		6565 Amortization - Other						
49	*	6610 Marketing						
50	^	6611 Product Management						
51	^	6612 Sales						
52	^	6613 Product Advertising						
53		6621 Call Completion Services						
54		6622 Number Services						
55		6623 Customer Services						
56		6711 Executive						
57		6712 Planning						
58		6721 Accounting and Finance						
59		6722 External Relations						
60		6723 Human Relations						
61		6724 Information Management						
62		6725 Legal						
63		6726 Procurement						
64		6727 Research and Development						
65		6728 Other General and Administrative						
66		6790 Provision for Uncollectible Notes Receivable						
67		Totals						

^ Subaccount of the account marked with a *.

Total State Expense Matrix

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

^ Subaccount of the account marked with a *.

Company Name: Southern Montana Telephone Company

Total State Expense Matrix

SCHEDULE 18
Page 2 of 2
Year: 2010

Line No.	Acct. No.	Description	Salaries and Wages	Benefits	Rents	Other Expenses	Clearances	Total
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
35	6441	Conduit Systems Expense						
36	6510	Other Property Expenses						
37	6530	Network Operations Expense						
38	6531	Power Expense						
39	6532	Network Administration Expense						
40	6533	Testing Expense						
41	6534	Plant Operations Expense						
42	6535	Engineering Expense						
43	6540	Access Expense						
44	6561	Depreciation - Telecomm. Plant in Service						
45	6562	Depreciation-Prop. for Future Telecom. Use						
46	6563	Amortization Expense - Tangible						
47	6564	Amortization Expense - Intangible						
48	6565	Amortization - Other						
49	6610	Marketing						
50	6611	Product Management						
51	6612	Sales						
52	6613	Product Advertising						
53	6621	Call Completion Services						
54	6622	Number Services						
55	6623	Customer Services						
56	6711	Executive						
57	6712	Planning						
58	6721	Accounting and Finance						
59	6722	External Relations						
60	6723	Human Relations						
61	6724	Information Management						
62	6725	Legal						
63	6726	Procurement						
64	6727	Research and Development						
65	6728	Other General and Administrative						
66	6790	Provision for Uncollectible Notes Receivable						
67		Totals						

^ Subaccount of the account marked with a *.

Pension Costs

Year: 2010

1	Plan Name National Telephone Cooperative Association			
2	Defined Benefit Plan? _____ YES _____		Defined Contribution Plan? _____	
3	Actuarial Cost Method? _____		IRS Code: _____	
4	Annual Contribution by Employer: _____ 101992. _____		Is the Plan Over Funded? _____	
5				
	Item	Current Year	Last Year	% Change
6	Change in Benefit Obligation			
7	Benefit obligation at beginning of year			
8	Service cost			
9	Interest Cost			
10	Plan participants' contributions			
11	Amendments			
12	Actuarial Gain			
13	Acquisition			
14	Benefits paid			
15	Benefit obligation at end of year			
16	Change in Plan Assets			
17	Fair value of plan assets at beginning of year			
18	Actual return on plan assets			
19	Acquisition			
20	Employer contribution			
21	Plan participants' contributions			
22	Benefits paid			
23	Fair value of plan assets at end of year			
24	Funded Status			
25	Unrecognized net actuarial loss			
26	Unrecognized prior service cost			
27	Prepaid (accrued) benefit cost			
28				
29	Weighted-average Assumptions as of Year End			
30	Discount rate			
31	Expected return on plan assets			
32	Rate of compensation increase			
33				
34	Components of Net Periodic Benefit Costs			
35	Service cost			
36	Interest cost			
37	Expected return on plan assets			
38	Amortization of prior service cost			
39	Recognized net actuarial loss			
40	Net periodic benefit cost			
41				
42	Montana Intrastate Costs:			
43	Pension Costs			
44	Pension Costs Capitalized			
45	Accumulated Pension Asset (Liability) at Year End			
46	Number of Company Employees:			
47	Covered by the Plan	8	8	
48	Not Covered by the Plan	1	1	
49	Active	8	8	
50	Retired			
51	Deferred Vested Terminated			

Other Post Employment Benefits (OPEBS)

	Item	Current Year	Last Year	% Change
1	Regulatory Treatment:			
2	Commission authorized - most recent	NOT Applicable		
3	Docket number: _____			
4	Order number: _____			
5	Amount recovered through rates			
6	Weighted-average Assumptions as of Year End			
7	Discount rate			
8	Expected return on plan assets			
9	Medical Cost Inflation Rate			
10	Actuarial Cost Method			
11	Rate of compensation increase			
12	List each method used to fund OPEBs (ie: VEBA, 401(h)) and if tax advantaged:			
13				
14				
15	Describe any Changes to the Benefit Plan:			
16				
17	TOTAL COMPANY			
18	Change in Benefit Obligation			
19	Benefit obligation at beginning of year			
20	Service cost			
21	Interest Cost			
22	Plan participants' contributions			
23	Amendments			
24	Actuarial Gain			
25	Acquisition			
26	Benefits paid			
27	Benefit obligation at end of year			
28	Change in Plan Assets			
29	Fair value of plan assets at beginning of year			
30	Actual return on plan assets			
31	Acquisition			
32	Employer contribution			
33	Plan participants' contributions			
34	Benefits paid			
35	Fair value of plan assets at end of year			
36	Funded Status			
37	Unrecognized net actuarial loss			
38	Unrecognized prior service cost			
39	Prepaid (accrued) benefit cost			
40	Components of Net Periodic Benefit Costs			
41	Service cost			
42	Interest cost			
43	Expected return on plan assets			
44	Amortization of prior service cost			
45	Recognized net actuarial loss			
46	Net periodic benefit cost			
47	Accumulated Post Retirement Benefit Obligation			
48	Amount Funded through VEBA			
49	Amount Funded through 401(h)			
50	Amount Funded through Other _____			
51	TOTAL			
52	Amount that was tax deductible - VEBA			
53	Amount that was tax deductible - 401(h)			
54	Amount that was tax deductible - Other _____			
55	TOTAL			

Year: 2010

Other Post Employment Benefits (OPEBS) Continued

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

Payments for Services to Persons Other Than Employees

Year: 2010

Line No.	Name of Recipient (a)	Nature of Service (b)	Total Company Cost (c)	Total State Cost (d)	Intrastate Cost (e)
1	NOT APPLICABLE--Under 5000 Access Lines				
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
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41					
42					
43					
44					
45					
46					
47					
48					
49	Total				

Subscriber Line Usage Data

Year: 2010

Line No.	Description (a)	This Year (b)	% of Total (c)	Last Year (d)	% of Total (e)
1	Toll Usage:				
2	Interstate, InterLATA	3041813	55.84%	3411497	56.86%
3	Interstate, IntraLATA	10	0.00%	31	0.00%
4	Total Interstate Usage	3041823	55.84%	3411528	56.86%
5	Intrastate, InterLATA	358999	6.59%	387472	6.46%
6	Intrastate, IntraLATA	2046646	37.57%	2200950	36.68%
7	Total Intrastate Usage	2405645	44.16%	2588422	43.14%
8	Total Toll Usage	5447468	100.00%	5999950	100.00%
9	Centrex				
10	Local				
11	Total Minutes	5447468	100.00%	5999950	100.00%

Central Office and Access Line Statistics

Year: 2010

Line No.	Wire Center (a)	Type of Office (b)	Residential (c)	ISDN (d)	ADSL (e)	Lifeline Customers (f)	Residential LMS Customers (g)	Single Line Business (h)	Multi-Line Business (i)	Customer Owned Coin (j)	Company Owned Coin (k)	Other (l)	% of Lines w/ T. Tone (m)	Total Access Lines (n)
1	Wisdom	Digital	165		84			60	15		1			325
2	Jackson	Digital	227		124	1		59			2			412
3	Wise River	Digital	220		120	1		45	12		1			398
4	Divide	Digital	74		31			16			1			122
5	Grant	Digital	73		30	1		16			1			120
6														
7														
8														
9														
10														
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31														
32														
33	Total		759		389	3		196	27		6			1377

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

Central Office and Switch Information

Year: 2010

Line No.	Wire Center (a)	Office Configuration (Host, Remote, Stand alone) (b)	Type of Switch (c)	Switch Vendor/ Manufacturer (d)	Switch Model No. (e)	Switch Line Capacity (f)	Year Deployed (g)
1	Wisdom	Host	Digital	Nortel	DMS-10	5,000	1983
2	Jackson	Remote	Digital	Nortel	RSLE	512	1983
3	Wise River	Remote	Digital	Nortel	RSLE	512	1983
4	Divide	Remote	Digital	Nortel	RSLE	512	1990
5	Grant	Remote	Digital	Nortel	RSLE	512	1983
6	Squaw Creek	Remote	Digital	Nortel	RSLE	512	1983
7	Timber Butte	Remote	Digital	Nortel	RSLE	512	1983
8							
9							
10							
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NOTE: Additional blank schedules are being provided for your convenience.

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Montana Total State Construction Expenditures

Line No.	FCC Part 32 Account No. (a)	Description (b)	This Year (c)	Last Year (d)	Percent Change (e)
1	2110	General Support Assets	158787	0	
2	2210	Central Office Assets			
3	2220	Operator Systems			
4	2230	Central Office Transmission	477813	457805	4.37%
5	2310	Information/Termination Assets			
6	2410	Cable and Wire Facilities Assets	2226325	3714638	-40.07%
7	2680	Amortizable Tangible Assets			
8	2690	Intangibles			
9		Total Construction Expenditures	2862925	4172443	-31.38%

Montana Employee Counts

Year: 2010

Line No.	Category (a)	Beginning of Year (b)	End of Year (c)
1	Executive	2	2
2	Office	3	3
3	Outside Plant-COE	3	3
4			
5			
6			
7			
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39			
40			
41			
42			
43	Totals (Sum of Lines 1 through 42)	8	8

Compensation of Top 10 Montana Based Employees

Year: 2010

Line No.	Name/Title (a)	Base Salary (b)	Bonuses (c)	Other Compensation (d)	Total Compensation (e)	Total Compensation Last Year (f)	% Increase Total Compensation (g)
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11	Totals (Sum L.1 to L.10)						

Compensation of Top 5 Corporate Employees - SEC Information

Line No.	Name/Title (a)	Base Salary (b)	Bonuses (c)	Other Compensation (d)	Total Compensation (e)	Total Compensation Last Year (f)	% Increase Total Compensation (g)
1	Not Applicable						
2							
3							
4							
5							
6	Totals (Sum L.1 to L.5)						

Montana Composite Statistics

Year: 2010

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

Depreciation - Montana Intrastate Regulated

Year: 2010

Line No.	Acct No. (a)	Description (b)	Composite Rate % (c)	Total Expense \$ (d)
1	2112	Motor Vehicles	33.0%	51,192
2	2114	Special Purpose Vehicles		
3	2115	Garage Work Equipment		
4	2116	Other work Equipment	13.4%	27,199
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%	4,075
10	2211	Analog Electronic Switching Equipment		
11	2212	Digital Electronic Switching Equipment	10.0%	358,914
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%	318,615
27	2423	Buried Cable Nonmetallic	5.0%	278,442
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	Please list the Montana Public Service Commission Docket Order No. approving these depreciation rates Docket Number _____ Order Number _____			
37				
38				
39				
40				

Company Name: Southern Montana Telephone Company

SCHEDULE 30a

Amortization - Montana Intrastate Regulated

Year: 2010

Line No.	Acct No. (a)	Description (b)	Composite Rate % (c)	Total Expense \$ (d)
1	3410	Amortize 3 Rivers IRU 20 year life	5.0%	8,750
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
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21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35		COMPOSITE TOTAL		8,750
36	Please list the Montana Public Service Commission Docket Order No. approving these amortization rates Docket Number _____ Order Number _____			
37				
38				
39				
40				

Montana Regulatory Capital Structure & Costs

Year: 2010

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

Network Access - Charges and Revenues

Year: 2010

Line No.	Description (a)	Access Charges Paid (b)	Access Revenues Received (c)
1	Montana - Total State		346846
2			
3	Montana - Intrastate		346846
4			
5	Montana - Intrastate Regulated		
6			
7			
8			
9			
10			
11			
12			
13			

Affiliate Transactions - Products & Services Provided to Utilities Year: 2010

Line No.	Affiliate Name (a)	Products & Services (b)	Method to Determine Price (c)	Charges to Utility (d)	% Total Affil. Revenues (e)	Charges to MT Utility (f)
1	National Information Systems	Computer Service Bureau- Accounting support	Varies			83,297
2		Customer Billing, Plant, Software Support				
3		CABS Billing				
4						
5						
6						
7						
8	GVNW, Inc.	Management Consultantx Cost Studies Seperations	Hourly Rate			105,179
9						
10						
11						
12						
13	AKT, LLP	Audit, Management Consultants	Hourly rate			56,590
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30	TOTAL					\$245,066

Affiliate Transactions - Products & Services Provided by Utility

Year: 2010

Line No.	Affiliate Name (a)	Products & Services (b)	Method to Determine Price (c)	Charges to Affiliate (d)	% Total Affil. Revenues (e)	Charges to MT Utility (f)
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
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20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30	TOTAL					

Montana Intrastate Regulated Earned Rate of Return

Year: 2010

Line No.	Description Rate Base (a)	This Year (b)	Last Year (c)	Percent Change (d)
1				
2	2001 Plant in Service	19,417,901	17,581,666	10.44%
3	2002 Prop. Held for Future Telecommunications Use	228,147		
4	3100-3200 (Less) Accumulated Depreciation	(8,075,658)	(7,024,642)	-14.96%
5	Plant in Service	11,570,390	10,557,024	9.60%
6				
7	Additions			
8	1220 Materials & Supplies	124,820	73,960	68.77%
9	1280 Prepayments			
10	Other Additions			
11	TOTAL Additions	124,820	73,960	68.77%
12				
13	Deductions			
14	4100 Current Deferred Operating Income Taxes			
15	4320 Unamortized Operating Investment Tax Credits			
16	4340 Noncurrent Deferred Operating Income Taxes			
17	Customer Advances for Construction			
18	Other Deductions			
19	TOTAL Deductions			
20	TOTAL Rate Base	11,695,210	10,630,984	10.01%
21				
22	Net Earnings	396,921	198,483	99.98%
23				
24	Rate of Return on Average Rate Base			
25				
26	Rate of Return on Average Equity			
27				
28	Major Normalizing Adjustments & Commission			
29	<u>Ratemaking adjustments to Utility Operations</u>			
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42				
43	Adjusted Rate of Return on Average Rate Base			
44				
45	Adjusted Rate of Return on Average Equity			

Other Taxes Paid

Year: 2010

Line No.	Description (a)	Last Year (b)	This Year (c)
1	Montana Telephone Company License Tax		
2	Montana Public Service Commission Tax	1673	1293
3	Montana Consumer Counsel Tax	419	154
4	911 Emergency Telephone Fee	11973	11394
5	Montana Telecommunications Access Service (TDD)	1093	1140
6	Montana Corporate License Tax		
7	Personal Property Tax		
8	Real Property Tax	100532	103656
9			
10			
11			
12	Total	115690	117637

SCHEDULE 37**Universal Service Funds Received**

Year: 2010

Line No.	Description (a)	Last Year (b)	This Year (c)
13	Funds received from Montana Sources		
14	Funds received from Federal Sources	1073789	1486646
15			
16			
17			
18			
19			
20			
21			
22			
23			
24	Total	1073789	1486646

SOUTHERN MONTANA TELEPHONE COMPANY

Financial Statements with RUS Letters

Years Ended December 31, 2010 and 2009

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Financial Statements with RUS Letters

Years Ended December 31, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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 February 28, 2011 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.

AKT LLP

Salem, Oregon
February 28, 2011

SOUTHERN MONTANA TELEPHONE COMPANY**Balance Sheets**

December 31, 2010 and 2009

ASSETS	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and cash equivalents	\$ 1,021,638	\$ 913,476
Accounts receivable, less allowance for doubtful accounts of zero in 2010 and \$16,057 for 2009	471,167	381,359
Materials and supplies	131,031	73,960
Prepaid expenses	<u>43,918</u>	<u>-</u>
Total Current Assets	<u>1,667,754</u>	<u>1,368,795</u>
Other Investments	<u>350,514</u>	<u>346,667</u>
Property, Plant, and Equipment:		
In-service	19,420,128	16,440,268
Under construction	<u>228,147</u>	<u>1,145,197</u>
	19,648,275	17,585,465
Less accumulated depreciation	<u>8,075,656</u>	<u>7,024,640</u>
Property, Plant, and Equipment, net	<u>11,572,619</u>	<u>10,560,825</u>
	<u>\$ 13,590,887</u>	<u>\$ 12,276,287</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 530,351	\$ 462,144
Accounts payable	222,366	773,031
Advance billing and customer deposits	14,576	16,347
Accrued expenses	<u>287,990</u>	<u>424,259</u>
Total Current Liabilities	<u>1,055,283</u>	<u>1,675,781</u>
Long-Term Debt	<u>8,410,572</u>	<u>6,723,534</u>
Stockholders' Equity:		
Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding	6,100	6,100
Paid-in capital	3,290	3,290
Retained earnings	<u>4,115,642</u>	<u>3,867,582</u>
Total Stockholders' Equity	<u>4,125,032</u>	<u>3,876,972</u>
	<u>\$ 13,590,887</u>	<u>\$ 12,276,287</u>

SOUTHERN MONTANA TELEPHONE COMPANY**Statements of Income**

Years Ended December 31, 2010 and 2009

	2010	2009
Operating Revenues:		
Local network	\$ 190,615	\$ 182,091
Interstate access	2,929,065	2,295,172
Intrastate access	346,845	369,713
Nonregulated	420,371	383,623
Miscellaneous	(4,699)	6,973
Total Operating Revenues	<u>3,882,197</u>	<u>3,237,572</u>
Operating Expenses:		
Plant specific operations	472,522	432,386
Plant nonspecific operations	322,316	238,992
Customer	137,000	99,880
Corporate	725,948	784,316
Depreciation and amortization	1,082,693	812,099
Other operating taxes	114,715	102,757
Nonregulated	<u>353,032</u>	<u>345,884</u>
Total Operating Expenses	<u>3,208,226</u>	<u>2,816,314</u>
Operating Income	<u>673,971</u>	<u>421,258</u>
Other Income:		
Other income	9,361	1,915
Allowance for funds used during construction	<u>33,212</u>	<u>45,460</u>
Total Other Income	<u>42,573</u>	<u>47,375</u>
Income Available for Fixed Charges	716,544	468,633
Fixed Charges - Interest on Long-Term Debt	<u>319,620</u>	<u>270,149</u>
Net Income	<u>\$ 396,924</u>	<u>\$ 198,484</u>

SOUTHERN MONTANA TELEPHONE COMPANY**Statements of Changes in Stockholders' Equity**

Years Ended December 31, 2010 and 2009

	<u>Capital Stock</u>		<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares Issued</u>	<u>Amount</u>			
Balance, December 31, 2008	610	\$ 6,100	\$ 3,290	\$ 3,670,765	\$ 3,680,155
Distributions	-	-	-	(1,667)	(1,667)
Net income	-	-	-	198,484	198,484
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	<u>610</u>	<u>\$ 6,100</u>	<u>\$ 3,290</u>	<u>\$ 4,115,642</u>	<u>\$ 4,125,032</u>

SOUTHERN MONTANA TELEPHONE COMPANY**Statements of Cash Flows**

Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities:		
Net income	\$ 396,924	\$ 198,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,082,693	812,099
Patronage capital credits, noncash	(7,236)	(2,246)
Changes in assets and liabilities:		
Accounts receivable	(89,808)	(98,230)
Materials and supplies	(57,071)	(10,335)
Prepaid expenses	(43,918)	28,048
Accounts payable	(639,420)	(343,774)
Advance billing and customer deposits	(1,771)	271
Accrued expenses	(136,269)	36,006
Net Cash Provided by Operating Activities	504,124	620,323
Cash Flows from Investing Activities:		
Capital expenditures	(2,005,732)	(2,478,045)
Proceeds from sale of marketable securities and investments	3,389	8,080
Net Cash Used by Investing Activities	(2,002,343)	(2,469,965)
Cash Flows from Financing Activities:		
Proceeds from long-term debt	2,272,475	1,277,020
Payments on long-term debt	(517,230)	(318,749)
Equity distributions	(148,864)	(1,667)
Net Cash Provided by Financing Activities	1,606,381	956,604
Net Increase (Decrease) in Cash and Cash Equivalents	108,162	(893,038)
Cash and Cash Equivalents, beginning	913,476	1,806,514
Cash and Cash Equivalents, ending	\$ 1,021,638	\$ 913,476
Cash Paid During the Year for Interest, net of amount capitalized	\$ 286,408	\$ 225,241
Non-cash Property, Plant, and Equipment Additions	\$ 88,755	\$ 1,048,143

SOUTHERN MONTANA TELEPHONE COMPANY

Notes to Financial Statements

Years Ended December 31, 2010 and 2009

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. Regulatory actions currently pending, as well as future regulations, including the FCC's proposed National Broadband Plan, could have a significant impact on the Company's operations and financial condition.

Cash and 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, 2010, the company had no uninsured funds (\$421,337 in 2009).

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.

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 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.

Materials and Supplies

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

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, 2010 and 2009 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheets.

SOUTHERN MONTANA TELEPHONE COMPANY

Notes to Financial Statements

Years Ended December 31, 2010 and 2009

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

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.

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 2010, total interest incurred was \$319,620 (\$270,149 in 2009), \$33,212 of which was capitalized (\$45,460 in 2009).

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.

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 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 an access tariff filed with the PSC and FCC for these 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 are the result of having costs in excess of the national average as determined by the FCC and are included in network access revenues in the accompanying financial statements. In 2010, the Company received \$840,626 from the USAC High Cost Loop Fund (\$724,303 in 2009).

The ability of NECA and USAC to provide these revenues to the Company and similar organizations is dependent upon regulatory and legislative rules which provide for the continuance of rate of return regulation and universal service support.

SOUTHERN MONTANA TELEPHONE COMPANY

Notes to Financial Statements

Years Ended December 31, 2010 and 2009

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

Network Access Revenues, continued

In 2010 the FCC issued the National Broadband Plan (the Plan) which outlines a long-term plan to increase broadband penetrations and services throughout the United States. The Plan further outlines a proposed long-term phase-out of access charges and moving to support mechanisms based on broadband services rather than the current Universal Service High Cost loop Fund administered by USAC. These changes, if enacted, could have a material impact on the Company.

Subsequent Events

The Company has evaluated subsequent events through February 28, 2011, which is the date the financial statements were issued.

Note 2 - Property, Plant, and Equipment

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

	<u>2010</u>	<u>2009</u>
Telecommunications:		
Land and support	\$ 1,546,734	\$ 1,451,549
Central office	4,018,9483	3,260,041
Cable and wire facilities	13,679,446	11,553,678
Capital Lease Assets	<u>175,000</u>	<u>175,000</u>
Total Telecommunications:	\$ <u>19,420,128</u>	\$ <u>16,440,268</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>2010</u>	<u>2009</u>
Vision Net, Inc.	\$ 279,861	\$ 279,861
Other investments	32,488	26,889
RTFC	828	2,580
Artwork	31,547	31,547
Other Office Décor	<u>5,790</u>	<u>5,790</u>
	\$ <u>350,514</u>	\$ <u>346,667</u>

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.

SOUTHERN MONTANA TELEPHONE COMPANY

Notes to Financial Statements

Years Ended December 31, 2010 and 2009

Note 4 - Long-Term Debt

Long-term debt consists of the following:

	<u>2010</u>	<u>2009</u>
2.00% notes payable to the Rural Utilities Service, payable in monthly installments of \$41,166 principal and interest, collateralized by substantially all real and personal property, due 2016 through 2023.	\$ 884,911	\$ 1,039,190
2.692-4.88% notes payable to Rural Utilities Service, payable in monthly installments of \$58,788, collateralized by substantially all real and personal property, due in 2026.	8,056,012	6,089,775
7.50% note payable to Michelle Helming, a former stockholder and related party of the Company, payable in monthly installments of \$7,894, principal and interest, paid in full during 2010.	-	56,713
	8,940,923	7,185,678
Less current portion	<u>530,351</u>	<u>462,144</u>
	<u>\$ 8,410,572</u>	<u>\$ 6,723,534</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 was not in compliance with these covenants at December 31, 2009 so management contacted RUS. The Company received a waiver from RUS on April 7, 2010 for non-compliance with this covenant. The Company is in compliance with these covenants at December 31, 2010.

Future maturities of long-term debt are as follows:

2011	\$ 530,351
2012	549,269
2013	568,926
2014	589,358
2015	610,589
Thereafter	6,092,430

At December 31, 2010, the Company had \$2,792,315 in unadvanced authorized loan funds from the Rural Utilities Services (\$4,457,759 at December 31, 2009).

Subsequent to year end, the Company drew an additional \$949,384 in funding from RUS.

In February 2011, the Company executed an additional loan from RUS, in the amount of \$5,544,000 which is available to be drawn through September 16, 2015, maturing on December 31, 2030. No draws were made as of February 28, 2011, which is the date the financial statements were issued.

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 \$101,992 in 2010 (\$70,558 in 2009).

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 \$37,708 in 2010 (\$34,846 in 2009).

SOUTHERN MONTANA TELEPHONE COMPANY

Notes to Financial Statements

Years Ended December 31, 2010 and 2009

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, 2010:

2011	\$ 37,200
2012	37,200
2013	37,200
2014	12,400

Total rental expense under the lease listed above was approximately \$37,200 for the year ended December 31, 2010 (\$34,500 for 2009).

Note 8 - Commitments

The Company has executed several contracts for construction projects. The amounts unpaid against these commitments at December 31, 2010 were \$88,755 (\$282,406 at December 31, 2009).

SOUTHERN MONTANA TELEPHONE COMPANY

Management Letter, Report on Compliance and on
Internal Control over Financial Reporting

Year Ended December 31, 2010



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INDEPENDENT AUDITORS' MANAGEMENT LETTER

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

We have audited the financial statements of Southern Montana Telephone Company (the Company) for the year ended December 31, 2010, and have issued our report thereon dated February 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audit contained in Government Auditing Standards issued by the Comptroller General of the United States of America, and 7 CFR 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Southern Montana Telephone Company for the year ended December 31, 2010, we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, we do not express such assurance on the Company's internal control.

A description of the responsibility of management for establishing and maintaining the internal control over financial reporting, and the objectives of and inherent limitations in such control, is set forth in our independent auditors' report on compliance and on internal control over financial reporting dated February 28, 2011, and should be read in conjunction with this report.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR 1773.33(e)(2), related party transaction, and investments. In addition, our audit of the financial statements also included the procedures specified in 7 CFR 1773.338-45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports, other than our independent auditors' report, and our independent auditors' report on compliance and on internal control over financial reporting, both dated February 28, 2011, or summary of recommendations related to our audit, have been furnished to management.

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

Comments on Certain Specific Aspects of the Internal Control Over Financial Reporting

We noted no matters regarding the Company's internal control over financial reporting and its operation that we consider to be a material weakness, as previously defined, with respect to the:

- Accounting procedures and records.
- Process for accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement and maintenance, or other expense accounts.
- Materials control.

Comments on Compliance with Specific RUS Loan and Security Instrument Provisions

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

- In performing the procedure with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement, or lease between the borrower and an affiliate of the Company for the year ended December 31, 2010, we:
 1. Obtained and read a borrower-prepared schedule of new written contracts entered into during the year between the borrower and an affiliate as defined in 7 CFR 1773.33(e)(2)(i).
 2. Reviewed Board of Directors minutes to ascertain whether Board-approved written contracts are included in the borrower-prepared schedule.
 3. Noted the existence of written RUS and other mortgagee approval of each contract listed by the borrower.
- In performing the procedure with respect to the requirement to submit the Operating Report for Telecommunications Borrowers to the RUS:
 1. Agreed amounts reported in Operating Report for Telecommunications Borrowers to the Company's records.

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

- The borrower has obtained written approval of the RUS and other mortgagees to enter into any contract, agreement, or lease with an affiliate as defined in 7 CFR 1773.33(e)(2)(i).
- The borrower has submitted its Operating Report for Telecommunications Borrowers, as of December 31, 2010, and the Operating Report for Telecommunications Borrowers represented by the borrower as having been submitted to RUS, is in agreement with the Company's audited records in all material respects.

Comments on Other Additional Matters

In connection with our audit of the financial statements of the Company, nothing came to our attention that caused us to believe that the Company failed to comply with respect to the following:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33(c)(1).
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33(c)(2).
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4).
- The approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR 1773.33(c)(5).
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 2010, in the financial statements referenced in the first paragraph of this report, addressed at 7 CFR 1773.33(e).

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments required by 7 CFR 1773.33(i), has not been presented as the Company does not have any investments qualifying for disclosure. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Directors, management, Rural Utilities Service, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

AKT LLP

Salem, Oregon
February 28, 2011



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of Southern Montana Telephone Company (the Company) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated February 28, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audit contained in Government Auditing Standards issued by the Comptroller General of the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards as of December 31, 2010*.

However, as of December 31, 2009 we did note one instance of noncompliance or other matters that were required to be reported under *Government Auditing Standards*. The RUS mortgage in Article VI, Section 9 states that borrowers shall not, without the prior written approval of RUS, make any dividend, stock, capital, or other distribution without achieving certain levels of net worth compared to total assets. In 2009, the Company declared dividends without RUS approval, and without meeting appropriate net worth levels. The Company notified RUS, and received a waiver for allowable distribution requirements.

This report is intended solely for the information and use of the Board of Directors, management, Rural Utilities Services, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

AKT LLP

Salem, Oregon
February 28, 2011



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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, 2010 and 2009, 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, 2010 and 2009, 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 February 28, 2011 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
February 28, 2011