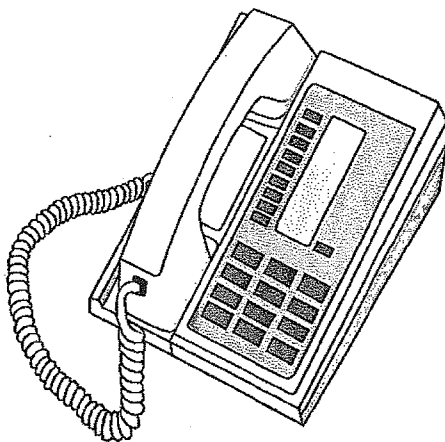


YEAR ENDING 2012

ANNUAL REPORT  
OF

SOUTHERN MONTANA TELEPHONE

TELEPHONE UTILITY



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

## General Information

Year: 2012

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
5	Person Responsible for This Report: Richard L Knight, Treasurer
5a.	Telephone Number: 406 689 3333
Control Over Respondent	
1	If direct control over the respondent was held by another entity at the end of year provide the following:
	1a. Name and address of the controlling organization or person:
	1b. Means by which control was held:
	1c. Percent Ownership:

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

Year: 2012

Line No.	Title of Officer (a)	Department Over Which Jurisdiction is Exercised (b)	Name and Address of Person Holding Office at Year End (c)
1	President	All Departments	Robert G. Helming Wisdom, MT 59761
2			
3			
4	Secretary/Vice-President	All Departments	Larry B. Mason Wisdom, MT 59761
5			
6			
7	Treasurer	Accounting/Customer Service	Richard L Knight Wisdom, MT 59761
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## Total Company Balance Sheet

Year: 2012

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>CURRENT ASSETS:</b>		
2	1120	Cash and Equivalents	See Attached Audited Financials	
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		<b>Total Current Assets</b>		
16		<b>NONCURRENT ASSETS:</b>		
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		<b>Total Noncurrent Assets</b>		
27		<b>PROPERTY, PLANT, &amp; EQUIPMENT:</b>		
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		<b>Net Property, Plant, &amp; Equipment</b>		
40		<b>TOTAL ASSETS</b>		

^ Subaccount of account marked with a \*.



## Total Company Balance Sheet

Year: 2012

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
41		<b>CURRENT LIABILITIES:</b>		
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		<b>Total Current Liabilities</b>		
55		<b>LONG-TERM DEBT:</b>		
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		<b>Total Long-Term Debt</b>		
64		<b>OTHER LIABILITIES AND DEFERRED CREDITS:</b>		
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		<b>Total Other Liabilities and Deferred Credits</b>		
73		<b>STOCKHOLDERS' EQUITY:</b>		
74	4510	Capital Stock		
75	4520	Additional Paid-In Capital		
76	4530	Treasury Stock		
77	4540	Other Capital		
78	4550	Retained Earnings		
79		<b>Total Stockholders' Equity</b>		
80		<b>TOTAL LIAB. AND STOCKHOLDERS' EQUITY</b>		

**SOUTHERN MONTANA TELEPHONE COMPANY****Balance Sheets**

December 31, 2012 and 2011

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
Current Assets:		
Cash and cash equivalents	\$ 1,078,788	\$ 1,054,230
Accounts receivable, less allowance for doubtful accounts of zero in 2012 and 2011	611,800	397,507
Materials and supplies	96,530	133,556
Prepaid expenses	24,783	41,314
Total Current Assets	1,811,901	1,626,607
Other Investments	358,411	351,973
Property, Plant, and Equipment:		
Telecommunications	23,795,395	23,034,899
Nonregulated	164,864	157,976
Under construction	11,602	52,191
	23,971,861	23,245,066
Less accumulated depreciation	9,578,236	8,418,811
Property, Plant, and Equipment, net	14,393,625	14,826,255
	<u>\$ 16,563,937</u>	<u>\$ 16,804,835</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current Liabilities:		
Current portion of long-term debt	\$ 804,960	\$ 688,790
Accounts payable	84,655	154,645
Advance billing and customer deposits	21,524	20,444
Accrued expenses	325,474	358,279
Total Current Liabilities	1,236,613	1,222,158
Long-Term Debt	9,965,322	11,150,376
Stockholder's 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	5,352,612	4,422,911
Total Stockholder's Equity	5,362,002	4,432,301
	<u>\$ 16,563,937</u>	<u>\$ 16,804,835</u>

See accompanying notes to financial statements.

**SOUTHERN MONTANA TELEPHONE COMPANY****Statements of Income**

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Local network	\$ 215,038	\$ 206,340
Interstate access	4,475,502	3,250,622
Intrastate access	322,213	330,179
Nonregulated	483,241	455,720
Miscellaneous	<u>6,935</u>	<u>5,380</u>
Total Operating Revenues	<u>5,502,929</u>	<u>4,248,241</u>
Operating Expenses:		
Plant specific operations	533,455	492,620
Plant nonspecific operations	504,249	337,257
Customer	185,358	156,411
Corporate	693,612	677,522
Depreciation and amortization	1,360,492	1,208,678
Other operating taxes	165,907	126,128
Nonregulated	<u>497,506</u>	<u>380,984</u>
Total Operating Expenses	<u>3,940,579</u>	<u>3,379,600</u>
Operating Income	<u>1,562,350</u>	<u>868,641</u>
Other Income:		
Other income	23,903	3,650
Allowance for funds used during construction	<u>2,253</u>	<u>18,771</u>
Total Other Income	<u>26,156</u>	<u>22,421</u>
Income Available for Fixed Charges	1,588,506	891,062
Fixed Charges - Interest on Long-Term Debt	<u>405,939</u>	<u>385,331</u>
Net Income	<u>\$ 1,182,567</u>	<u>\$ 505,731</u>

See accompanying notes to financial statements.

## Total Company Income Statement

Year: 2012

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>REVENUES:</b>		
2	5000	Basic Local Service Revenues	See Attached Audited Financials	
3	5080	Network Access Revenues		
4	* 5100	Long Distance Message Revenue		
5	^ 5110	Unidirectional Long Distance Revenue		
6	^ 5120	Long Distance Private Network Revenue		
7	^ 5160	Other Long Distance Revenue		
8	^ 5169	Other Long Distance Revenue Settlements		
9	* 5200	Miscellaneous Revenue		
10	^ 5230	Directory Revenue		
11	^ 5240	Rent Revenue		
12	^ 5250	Corporate Operations Revenue		
13	^ 5260	Miscellaneous Revenue		
14	^ 5270	Carrier Billing and Collection Revenue		
15	^ 5280	Nonregulated Revenue		
16	5300	Uncollectible Revenue		
17		<b>Total Revenues (L.2+L.3+L.4+L.9-L.16)</b>		
18		<b>OPERATING EXPENSES:</b>		
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		<b>Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)</b>		
38	7100	Other Operating Income and Expense		
39	7200	Operating Taxes		
40		<b>Net Operating Income (L.17-L.37+L.38-L.39)</b>		
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		<b>NET INCOME (L.40+L.41-L.42-L.43-L.44+L.45-L.46)</b>		

^ Subaccount of the account marked with a \*.



## Montana Total State Income Statement

Year: 2012

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>REVENUES:</b>		
2	5000	Basic Local Service Revenues	See Attached Audited Financials	
3	5080	Network Access Revenues		
4	* 5100	Long Distance Message Revenue		
5	^ 5110	Unidirectional Long Distance Revenue		
6	^ 5120	Long Distance Private Network Revenue		
7	^ 5160	Other Long Distance Revenue		
8	^ 5169	Other Long Distance Revenue Settlements		
9	* 5200	Miscellaneous Revenue		
10	^ 5230	Directory Revenue		
11	^ 5240	Rent Revenue		
12	^ 5250	Corporate Operations Revenue		
13	^ 5260	Miscellaneous Revenue		
14	^ 5270	Carrier Billing and Collection Revenue		
15	^ 5280	Nonregulated Revenue		
16	5300	Uncollectible Revenue		
17		<b>Total Revenues (L.2+L.3+L.4+L.9-L.16)</b>	#VALUE!	
18		<b>OPERATING EXPENSES:</b>		
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		<b>Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)</b>		
38	7100	Other Operating Income and Expense		
39	7200	Operating Taxes		
40		<b>Net Operating Income (L.17-L.37+L.38-L.39)</b>	#VALUE!	

^ Subaccount of the account marked with a \*.



## Montana Intrastate Income Statement

Year: 2012

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>REVENUES:</b>		
2	5000	Basic Local Service Revenues	See Attached Audited Financials	
3	5080	Network Access Revenues		
4	* 5100	Long Distance Message Revenue		
5	^ 5110	Unidirectional Long Distance Revenue		
6	^ 5120	Long Distance Private Network Revenue		
7	^ 5160	Other Long Distance Revenue		
8	^ 5169	Other Long Distance Revenue Settlements		
9	* 5200	Miscellaneous Revenue		
10	^ 5230	Directory Revenue		
11	^ 5240	Rent Revenue		
12	^ 5250	Corporate Operations Revenue		
13	^ 5260	Miscellaneous Revenue		
14	^ 5270	Carrier Billing and Collection Revenue		
15	^ 5280	Nonregulated Revenue		
16	5300	Uncollectible Revenue		
17		<b>Total Revenues (L.2+L.3+L.4+L.9-L.16)</b>	#VALUE!	
18		<b>OPERATING EXPENSES:</b>		
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		<b>Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)</b>		
38	7100	Other Operating Income and Expense		
39	7200	Operating Taxes		
40		<b>Net Operating Income (L.17-L.37+L.38-L.39)</b>	#VALUE!	

^ Subaccount of the account marked with a \*.

## Montana Intrastate Regulated Income Statement

Year: 2012

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>REVENUES:</b>		
2	5000	Basic Local Service Revenues	See Attached Audited Financials	
3	5080	Network Access Revenues		
4	* 5100	Long Distance Message Revenue		
5	^ 5110	Unidirectional Long Distance Revenue		
6	^ 5120	Long Distance Private Network Revenue		
7	^ 5160	Other Long Distance Revenue		
8	^ 5169	Other Long Distance Revenue Settlements		
9	* 5200	Miscellaneous Revenue		
10	^ 5230	Directory Revenue		
11	^ 5240	Rent Revenue		
12	^ 5250	Corporate Operations Revenue		
13	^ 5260	Miscellaneous Revenue		
14	^ 5270	Carrier Billing and Collection Revenue		
15	^ 5280	Nonregulated Revenue		
16	5300	Uncollectible Revenue		
17		<b>Total Revenues (L.2+L.3+L.4+L.9-L.16)</b>	#VALUE!	
18		<b>OPERATING EXPENSES:</b>		
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		<b>Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)</b>		
38	7100	Other Operating Income and Expense		
39	7200	Operating Taxes		
40		<b>Net Operating Income (L.17-L.37+L.38-L.39)</b>	#VALUE!	

^ Subaccount of the account marked with a \*.

## Average Rate Base - Total State

Year: 2012

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service	23794394	23034898
2	3100	Accumulated Depreciation	9548515	8410896
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies	88519	123949
6	4340	Noncurrent Deferred Operating Income Taxes		
7		Pre-1971 Unamortized Investment Tax Credits		
8		Cash Working Capital (if allowed by Commission)		
9		<b>Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8)</b>	14334398	14747951

## 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		<b>Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8)</b>		

## Average Rate Base - Regulated Intrastate

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service	23794394	23034898
2	3100	Accumulated Depreciation	9548515	8410896
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies	88519	123949
6	4340	Noncurrent Deferred Operating Income Taxes		
7		Pre-1971 Unamortized Investment Tax Credits		
8		Cash Working Capital (if allowed by Commission)		
9		<b>Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8)</b>	14334398	14747951



## Statement of Cash Flows

Year: 2012

Line No.	Item Description (a)	Amount (b)	Amount (c)
1	<b>Increase/(decrease) in Cash &amp; Cash Equivalents</b>		
2	<b>Cash Flows from Operating Activities:</b>	See ATTACHED STATEMENT OF CASH FLOWS	
3	Net Income		
4	Reconciliation Adjustments:		
5	Depreciation & Amortization		
6	Provision for Accounts Receivable Losses		
7	Deferred Income Taxes - Net		
8	Unamortized Investment Tax Credits (ITCs) - Net		
9	Allowance for Funds Used During Construction (AFUDC)		
10	Change in Operating Receivables - Net		
11	Change in Materials, Supplies & Inventories - Net		
12	Change in Operating Payables & Accrued Liabilities - Net		
13	Change in Other Assets & Deferred Credits - Net		
14	Change in Other Liabilities & Deferred Credits - Net		
15	Other (explained on back of this page)		
16	Total Adjustments		
17	<b>Net Cash Provided by/(Used in) Operating Activities</b>		
18	<b>Cash Inflows/Outflows From Investing Activities:</b>		
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	<b>Net Cash Provided by/(Used in) Investing Activities</b>		
26	<b>Cash Flows from Financing Activities:</b>		
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	<b>Net Cash Provided by Financing Activities</b>		
38	<b>Effect of Exchange Rate Changes on Cash</b>		
39	<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>		
40	<b>Cash &amp; Cash Equivalents at Beginning of Period</b>		
41	<b>Cash &amp; Cash Equivalents at End of Period</b>		

# SOUTHERN MONTANA TELEPHONE COMPANY

## Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Net income	\$ 1,182,567	\$ 505,731
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,360,492	1,208,678
Depreciation, IPTV	29,307	7,916
Patronage capital credits, noncash	(6,741)	(1,459)
Changes in assets and liabilities:		
Accounts receivable	(214,293)	73,660
Materials and supplies	37,026	(2,525)
Prepaid expenses	16,531	2,604
Accounts payable	(205,536)	(229,517)
Advance billing and customer deposits	1,080	5,868
Accrued expenses	(32,805)	70,288
Net Cash Provided by Operating Activities	<u>2,167,628</u>	<u>1,641,244</u>
Cash Flows from Investing Activities:		
Capital expenditures	(821,623)	(4,308,435)
Proceeds from investments	<u>303</u>	<u>-</u>
Net Cash Used by Investing Activities	<u>(821,320)</u>	<u>(4,308,435)</u>
Cash Flows from Financing Activities:		
Proceeds from long-term debt	662,521	3,540,957
Payments on long-term debt	(1,731,405)	(642,712)
Equity distributions	(252,866)	(198,462)
Net Cash Provided (Used) by Financing Activities	<u>(1,321,750)</u>	<u>2,699,783</u>
Net Increase in Cash and Cash Equivalents	24,558	32,592
Cash and Cash Equivalents, beginning	<u>1,054,230</u>	<u>1,021,638</u>
Cash and Cash Equivalents, ending	<u>\$ 1,078,788</u>	<u>\$ 1,054,230</u>
Cash Paid During the Year for Interest, net of amount capitalized	<u>\$ 403,686</u>	<u>\$ 366,560</u>
Non-cash Property, Plant, and Equipment Additions	<u>\$ 135,546</u>	<u>\$ 161,796</u>

See accompanying notes to financial statements.



## Receivables and Investments-Affiliated &amp; Nonaffiliated Companies

Year: 2012

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		78559								
2	VisionNet Investment										279861
3	Various Other Investments										41214
4	Access Customers				533240						
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		78559		533240						321075

## Net Plant in Service - Detail

Year:2012

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	1537943	96593	58257		1576279	1385333	190946
2	^	2111 Land	38451				38451		38451
3	^	2112 Motor Vehicles	320258	54096	46866		327488	312122	15366
4	^	2113 Aircraft							
5	^	2114 Special Purpose Vehicles							
6	^	2115 Garage Work Equipment							
7	^	2116 Other Work Equipment	457279	41121	5642		492758	469169	23589
8	^	2121 Buildings	657630				657630	551178	106452
9	^	2122 Furniture	39684				39684	38588	1096
10	^	2123 Office Equipment							
11	^	2124 General Purpose Computers	24641	1376	5749		20268	14276	5992
12		2211 Analog Electronic Switching							
*		2212 Digital Electronic Switching	858359	212793	147850		923302	527937	395365
14		2215 Electro-Mechanical Switching							
15		2220 Operator Systems							
16		2231 Radio Systems							
17		2232 Circuit Equipment	3404617	237163	91348		3550432	1443033	2107399
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	17040454	511400			17551854	6144518	11407336
	^	2421 Aerial Cable	33375				33375	29391	3984
27	^	2422 Underground Cable							
28	^	2423 Buried Cable	17007079	511400			17518479	6115127	11403352
29	^	2424 Submarine Cable							
30	^	2425 Deep Sea Cable							
31	^	2426 Intrabuilding Network Cable							
32		2431 Aerial Wire							
33		2441 Conduit Systems							
34		<b>Totals</b>	22859900	1057949	297455		23620394	9519348	14101046

^ Subaccount of the account marked with a \*.

Company Name: Southern Montana Telephone Company

SCHEDULE 12

Analysis of Plant Held for Future Use

Year:2012

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:2012

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	USDA Rural Development	Various	Various	15322000				10406737				3.78%
2												
3	Federal Financing Bank	'2012	Various	1411278				1411278				2.80%
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	<b>Total</b>			16733278				11818015				

Company Name: Southern Montana Telephone Company

SCHEDULE 14

Cost of Preferred Stock

Year:2012

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



## Analysis of Common Stock

Year:2012

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	Privately Held Stock--Not Publically Traded								
4									
5	Not Applicable-Under 5000 Access Lines								
6									
7									
8	Month by Month Data:								
9	January								
10	February								
11	March								
12	April								
13	May								
14	June								
15	July								
16	August								
17	September								
18	October								
19	November								
20	December								
21									
22									
23									

Company Name: Southern Montana Telephone Company

SCHEDULE 16

Capital Stock and Funded Debt Reacquired or Retired During the Year

Year:2012

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

## Total Company Expense Matrix

Line No.	Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
1	* 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		<b>Subtotals</b>						

^ Subaccount of the account marked with a \*.

## Total Company Expense Matrix

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			<b>Totals</b>					

^ Subaccount of the account marked with a \*.

Company Name: Southern Montana Telephone Company

**Total State Expense Matrix**

Line No.		Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)
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			<b>Subtotals</b>	#VALUE!				

^ Subaccount of the account marked with a \*.



Company Name: Southern Montana Telephone Company

### Total State Expense Matrix

Line No.		Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)
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			<b>Totals</b>	#VALUE!				

^ 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	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	#VALUE!					#VALUE!

^ Subaccount of the account marked with a \*.

## Total State Expense Matrix

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

^ Subaccount of the account marked with a \*.

**Pension Costs**

Year: 2012

1	Plan Name National Telephone Cooperative Association.			
2	Defined Benefit Plan? _____	Defined Contribution Plan? _____		
3	Actuarial Cost Method? _____	IRS Code: _____		
4	Annual Contribution by Employer: \$ 118807. _____	Is the Plan Over Funded? _____		
5				
	Item	Current Year	Last Year	% Change
6	<b>Change in Benefit Obligation</b>			
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	<b>Change in Plan Assets</b>			
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	<b>Funded Status</b>			
25	Unrecognized net actuarial loss			
26	Unrecognized prior service cost			
27	Prepaid (accrued) benefit cost			
28				
29	<b>Weighted-average Assumptions as of Year End</b>			
30	Discount rate			
31	Expected return on plan assets			
32	Rate of compensation increase			
33				
34	<b>Components of Net Periodic Benefit Costs</b>			
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	<b>Montana Intrastate Costs:</b>			
43	Pension Costs			
44	Pension Costs Capitalized			
45	Accumulated Pension Asset (Liability) at Year End			
46	<b>Number of Company Employees:</b>			
47	Covered by the Plan			
48	Not Covered by the Plan			



## Other Post Employment Benefits (OPEBS)

	Item	Current Year	Last Year	% Change
1	<b>Regulatory Treatment:</b>	<b>NOT APPLICABLE</b>		
2	Commission authorized - most recent			
3	Docket number: _____			
4	Order number: _____			
5	Amount recovered through rates			
6	<b>Weighted-average Assumptions as of Year End</b>			
7	Discount rate			
8	Expected return on plan assets			
9	Medical Cost Inflation Rate			
10	Actuarial Cost Method			
11	Rate of compensation increase			
12	<b>List each method used to fund OPEBs (ie: VEBA, 401(h)) and if tax advantaged:</b>			
13				
14				
15	<b>Describe any Changes to the Benefit Plan:</b>			
16				
17	<b>TOTAL COMPANY</b>			
18	<b>Change in Benefit Obligation</b>			
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	<b>Change in Plan Assets</b>			
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	<b>Funded Status</b>			
37	Unrecognized net actuarial loss			
38	Unrecognized prior service cost			
39	Prepaid (accrued) benefit cost			
40	<b>Components of Net Periodic Benefit Costs</b>			
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	<b>Accumulated Post Retirement Benefit Obligation</b>			
48	Amount Funded through VEBA			
49	Amount Funded through 401(h)			
50	Amount Funded through Other _____			
51	TOTAL			
52	Amount that was tax deductible - VEBA			
53	Amount that was tax deductible - 401(h)			
54	Amount that was tax deductible - Other _____			
55	TOTAL			



**Other Post Employment Benefits (OPEBS) Continued**

Year: 2012

	Item	Current Year	Last Year	% Change
1	<b>Number of Company Employees:</b>			
2	Covered by the Plan			
3	Not Covered by the Plan			
4	Active			
5	Retired			
6	Spouses/Dependants covered by the Plan			
7	<b>Montana</b>			
8	<b>Change in Benefit Obligation</b>			
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	<b>Change in Plan Assets</b>			
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	<b>Funded Status</b>			
27	Unrecognized net actuarial loss			
28	Unrecognized prior service cost			
29	Prepaid (accrued) benefit cost			
30	<b>Components of Net Periodic Benefit Cccosts</b>			
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	<b>Accumulated Post Retirement Benefit Obligation</b>			
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	<b>Montana Intrastate Costs:</b>			
47	Pension Costs			
48	Pension Costs Capitalized			
49	Accumulated Pension Asset (Liability) at Year End			
50	<b>Number of Montana Employees:</b>			
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: 2012

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					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					
36					
37					
38					
39					
40					
41					
42					
43					
44					
45					
46					
47					
48					
49	Total				

## Subscriber Line Usage Data

Year: 2012

Line No.	Description (a)	This Year (b)	% of Total (c)	Last Year (d)	% of Total (e)
1	Toll Usage:				
2	Interstate, InterLATA	2690756	55.58%	2849163	55.16%
3	Interstate, IntraLATA				
4	<b>Total Interstate Usage</b>	2690756	55.58%	2849163	55.16%
5	Intrastate, InterLATA	306917	6.34%	337742	6.54%
6	Intrastate, IntraLATA	1843140	38.08%	1978501	38.30%
7	<b>Total Intrastate Usage</b>	2150057	44.42%	2316243	44.84%
8	<b>Total Toll Usage</b>	4840813	100.00%	5165406	100.00%
9	Centrex				
10	Local				
11	<b>Total Minutes</b>	4840813	100.00%	5165406	100.00%

## Cental Office and Access Line Statistics

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	140		111	1		15	46		1		100.0%	313
2	Jackson	Digital	217		130			32	40		2		100.0%	421
3	Wise River	Digital	202		140	2		17	34		1		100.0%	394
4	Divide	Digital	65		57			11	6		1		100.0%	140
5	Grant	Digital	69		28	1		2	12		1		100.0%	112
6														
7														
8														
9														
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27														
28														
29														
30														
31														
32														
33	<b>Total</b>		693		466	4		77	138		6		5	1380

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



## Central Office and Switch Information

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 MT	HOST	Digital	NORTEL	CS1500	5,000	2011
2	Wise River	Remote	Digital	Nortel	RLSE	512	1983
3							
4							
5							
6							
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43							
44							
45							
46							
47							
48							

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



## Construction Budget - Montana

Year: 2013

Line No.	Description (a)	2013 (b)
1	<b>Central Office Assets:</b>	
2		614560
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	Total Switching and Central Office Projects over \$500,000	614560
28	Miscellaneous Central Office Projects not over \$500,000	
29	<b>Total Central Office Budget (Total of Line 27 &amp; Line 28)</b>	614560
30	<b>Other Projects over \$500,000:</b>	
31		
32	FTTH- Buried Cable Additons	2664506
33		
34		
35		
36		
37		
38		
39		
40		
41	Total Other Projects over \$500,000	2664506
42	Miscellaneous projects not over \$500,000	
43	<b>Total Construction Budget (Total of Lines 29, 41 &amp; 42)</b>	3279066

### Montana Total State Construction Expenditures

<b>Line No.</b>	<b>FCC Part 32 Account No. (a)</b>	<b>Description (b)</b>	<b>This Year (c)</b>	<b>Last Year (d)</b>	<b>Percent Change (e)</b>
1	2110	General Support Assets	97811	101325	-3.47%
2	2210	Central Office Assets	212795	0	
3	2220	Operator Systems			
4	2230	Central Office Transmission	206590	339000	-39.06%
5	2310	Information/Termination Assets			
6	2410	Cable and Wire Facilities Assets	544865	1190000	-54.21%
7	2680	Amortizable Tangible Assets			
8	2690	Intangibles			
9		<b>Total Construction Expenditures</b>	<b>1062061</b>	<b>1630325</b>	<b>-34.86%</b>

## Montana Employee Counts

Year: 2012

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	Janitorial	0.5	0.5
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
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36			
37			
38			
39			
40			
41			
42			
43	Totals (Sum of Lines 1 through 42)	8.5	8.5

## Compensation of Top 10 Montana Based Employees

Year: 2012

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	<b>Totals (Sum L.1 to L.10)</b>						

**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: 2012

Line No.	Account No.	Description (a)	Amount (b)
1		<b>Plant (Intrastate Only) (000 Omitted)</b>	
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		<b>NET BOOK COSTS</b>	
11		<b>Revenues &amp; Expenses (Intrastate Only) (000 Omitted)</b>	
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		<b>NET INCOME</b>	
22		<b>Access Lines in Service (Intrastate Only)</b>	
23		Residential Access Lines	
24		Business Access Lines	
25		PBX Access Lines	
26		Other Access Lines	
27		<b>Total Number of Access Lines</b>	
28		<b>Average Number of Calls Per Access Line</b>	
29		Local Calls	
30		Toll Calls (Intra- or Interstate)	
31		<b>Total Number of Calls Per Access Line</b> <b>(Total of Line 29 &amp; Line 30 divided by Line 27)</b>	
32		<b>Other Statistics (Intrastate Only)</b>	
33		Average Residential Monthly Bill	
34		Gross Plant Investment per Access Line	

## Depreciation - Montana Intrastate Regulated

Year: 2012

Line No.	Acct No. (a)	Description (b)	Composite Rate % (c)	Total Expense \$ (d)
1	2112	Motor Vehicles	33.0%	7,230
2	2114	Special Purpose Vehicles		
3	2115	Garage Work Equipment		
4	2116	Other work Equipment	13.4%	16,531
5	2121	Buildings	4.2%	27,621
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%	4,764
10	2211	Analog Electronic Switching Equipment		
11	2212	Digital Electronic Switching Equipment	10.0%	82,543
12	2215	Step By Step Switching Equipment		
13	2215	Crossbar Switching Equipment		
14	2220	Operator System		
15	2231	Radio Systems		
16	2232	Circuit DDS		
17	2232	Circuit Digital	10.0%	345,769
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%	315,962
27	2423	Buried Cable Nonmetallic	5.0%	545,009
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		<b>COMPOSITE TOTAL</b>		
36	<b>Please list the Montana Public Service Commssion Docket Order No. approving these depreciation rates</b>  Docket Number _____ Order Number _____			
37				
38				
39				
40				

## Amortization - Montana Intrastate Regulated

Year: 2012

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				
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30				
31				
32				
33				
34				
35	COMPOSITE TOTAL			
36	Please list the Montana Public Service Commission Docket Order No. approving these amortization rates			
37				
38				
39				
40	Docket Number _____ Order Number _____			

## Montana Regulatory Capital Structure &amp; Costs

Year: 2012

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

## Network Access - Charges and Revenues

Year: 2012

Line No.	Description (a)	Access Charges Paid (b)	Access Revenues Received (c)
1	Montana - Total State		324860
2			
3	Montana - Intrastate		
4			
5	Montana - Intrastate Regulated		
6			
7			
8			
9			
10			
11			
12			
13			



## Affiliate Transactions - Products &amp; Services Provided to Utility

Year: 2012

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	Varies			97,218
2		Accounting Support				
3		Customer Billing, Plant, Software				
4		Support				
5		CABS Billing				
6						
7						
8						
9						
10	GVNW, INC.	Management Consulting	Hourly Rate			105,566
11		Cost Study				
12		Rate Development				
13		Separations				
14						
15						
16						
17						
18						
19						
20	AKT, LLP	Audit, Tax Preparation	Hourly Rate			57,539
21		Management Consultants				
22						
23						
24						
25						
26						
27						
28						
29						
30	TOTAL					\$260,323



## Affiliate Transactions - Products &amp; Services Provided by Utility

Year: 2012

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	NOT APPLICABLE					
2						
3						
4						
5						
6						
7						
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10						
11						
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22						
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24						
25						
26						
27						
28						
29						
30	TOTAL					

## Montana Intrastate Regulated Earned Rate of Return

Year: 2012

Line No.	Description Rate Base (a)	This Year (b)	Last Year (c)	Percent Change (d)
1				
2	2001 Plant in Service	23,795,394	23,034,898	3.30%
3	2002 Prop. Held for Future Telecommunications Use	11,602	52,191	-77.77%
4	3100-3200 (Less) Accumulated Depreciation	(9,548,515)	(8,410,896)	-13.53%
5	<b>Plant in Service</b>	14,258,481	14,676,193	-2.85%
6				
7	<b>Additions</b>			
8	1220 Materials & Supplies	88,519	123,949	-28.58%
9	1280 Prepayments	24,784	41,315	-40.01%
10	Other Additions			
11	<b>TOTAL Additions</b>	113,303	165,264	-31.44%
12				
13	<b>Deductions</b>			
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	<b>TOTAL Deductions</b>			
20	<b>TOTAL Rate Base</b>	14,371,784	14,841,457	-3.16%
21				
22	<b>Net Earnings</b>			
23				
24	<b>Rate of Return on Average Rate Base</b>			
25				
26	<b>Rate of Return on Average Equity</b>			
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	<b>Adjusted Rate of Return on Average Rate Base</b>			
44				
45	<b>Adjusted Rate of Return on Average Equity</b>			

## Other Taxes Paid

Year: 2012

Line No.	Description (a)	Last Year (b)	This Year (c)
1	Montana Telephone Company License Tax		
2	Montana Public Service Commission Tax	1779	1011
3	Montana Consumer Counsel Tax	547	607
4	911 Emergency Telephone Fee	11273	11113
5	Montana Telecommunications Access Service (TDD)	1127	1111
6	Montana Corporate License Tax		
7	Personal Property Tax		
8	Real Property Tax	116108	163457
9			
10			
11			
12	<b>Total</b>	<b>130834</b>	<b>177299</b>

## SCHEDULE 37

## Universal Service Funds Received

Year: 2012

Line No.	Description (a)	Last Year (b)	This Year (c)
13	Funds received from Montana Sources		
14	Funds received from Federal Sources	2633655	3010480
15			
16			
17			
18			
19			
20			
21			
22			
23			
24	<b>Total</b>	<b>2633655</b>	<b>3010480</b>





**AKT**  
| CPAs AND BUSINESS CONSULTANTS |

# **SOUTHERN MONTANA TELEPHONE COMPANY**

## **Financial Statements**

Years Ended December 31, 2012 and 2011

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CPAS AND BUSINESS CONSULTANTS

## 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, 2012 and 2011, and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Montana Telephone Company at December 31, 2012 and 2011, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 1, 2013, on our consideration of Southern Montana Telephone Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Southern Montana Telephone Company's internal control over financial reporting and compliance.

**AKT LLP**

Salem, Oregon  
March 1, 2013

680 HAWTHORNE AVENUE SE, #140, SALEM, OR 97301

PHONE: 503.585.7774 FAX: 503.364.8405

PORTLAND, OR | SALEM, OR | CARLSBAD, CA | ESCONDIDO, CA | SAN DIEGO, CA | ANCHORAGE, AK

AKT LLP

**SOUTHERN MONTANA TELEPHONE COMPANY****Balance Sheets**

December 31, 2012 and 2011

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
Current Assets:		
Cash and cash equivalents	\$ 1,078,788	\$ 1,054,230
Accounts receivable, less allowance for doubtful accounts of zero in 2012 and 2011	611,800	397,507
Materials and supplies	96,530	133,556
Prepaid expenses	24,783	41,314
Total Current Assets	1,811,901	1,626,607
Other Investments	358,411	351,973
Property, Plant, and Equipment:		
Telecommunications	23,795,395	23,034,899
Nonregulated	164,864	157,976
Under construction	11,602	52,191
	23,971,861	23,245,066
Less accumulated depreciation	9,578,236	8,418,811
Property, Plant, and Equipment, net	14,393,625	14,826,255
	<u>\$ 16,563,937</u>	<u>\$ 16,804,835</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current Liabilities:		
Current portion of long-term debt	\$ 804,960	\$ 688,790
Accounts payable	84,655	154,645
Advance billing and customer deposits	21,524	20,444
Accrued expenses	325,474	358,279
Total Current Liabilities	1,236,613	1,222,158
Long-Term Debt	9,965,322	11,150,376
Stockholder's 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	5,352,612	4,422,911
Total Stockholder's Equity	5,362,002	4,432,301
	<u>\$ 16,563,937</u>	<u>\$ 16,804,835</u>

See accompanying notes to financial statements.

**SOUTHERN MONTANA TELEPHONE COMPANY****Statements of Income**

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Local network	\$ 215,038	\$ 206,340
Interstate access	4,475,502	3,250,622
Intrastate access	322,213	330,179
Nonregulated	483,241	455,720
Miscellaneous	<u>6,935</u>	<u>5,380</u>
Total Operating Revenues	<u>5,502,929</u>	<u>4,248,241</u>
Operating Expenses:		
Plant specific operations	533,455	492,620
Plant nonspecific operations	504,249	337,257
Customer	185,358	156,411
Corporate	693,612	677,522
Depreciation and amortization	1,360,492	1,208,678
Other operating taxes	165,907	126,128
Nonregulated	<u>497,506</u>	<u>380,984</u>
Total Operating Expenses	<u>3,940,579</u>	<u>3,379,600</u>
Operating Income	<u>1,562,350</u>	<u>868,641</u>
Other Income:		
Other income	23,903	3,650
Allowance for funds used during construction	<u>2,253</u>	<u>18,771</u>
Total Other Income	<u>26,156</u>	<u>22,421</u>
Income Available for Fixed Charges	1,588,506	891,062
Fixed Charges - Interest on Long-Term Debt	<u>405,939</u>	<u>385,331</u>
Net Income	<u>\$ 1,182,567</u>	<u>\$ 505,731</u>

See accompanying notes to financial statements.

**SOUTHERN MONTANA TELEPHONE COMPANY****Statements of Changes in Stockholder's Equity**Years Ended December 31, 2012 and 2011

---

	<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, 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	6,100	3,290	4,422,911	4,432,301
Distributions	-	-	-	(252,866)	(252,866)
Net income	-	-	-	1,182,567	1,182,567
Balance, December 31, 2012	<u>610</u>	<u>\$ 6,100</u>	<u>\$ 3,290</u>	<u>\$ 5,352,612</u>	<u>\$ 5,362,002</u>

See accompanying notes to financial statements.

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

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Net income	\$ 1,182,567	\$ 505,731
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,360,492	1,208,678
Depreciation, IPTV	29,307	7,916
Patronage capital credits, noncash	(6,741)	(1,459)
Changes in assets and liabilities:		
Accounts receivable	(214,293)	73,660
Materials and supplies	37,026	(2,525)
Prepaid expenses	16,531	2,604
Accounts payable	(205,536)	(229,517)
Advance billing and customer deposits	1,080	5,868
Accrued expenses	<u>(32,805)</u>	<u>70,288</u>
Net Cash Provided by Operating Activities	<u>2,167,628</u>	<u>1,641,244</u>
Cash Flows from Investing Activities:		
Capital expenditures	(821,623)	(4,308,435)
Proceeds from investments	<u>303</u>	<u>-</u>
Net Cash Used by Investing Activities	<u>(821,320)</u>	<u>(4,308,435)</u>
Cash Flows from Financing Activities:		
Proceeds from long-term debt	662,521	3,540,957
Payments on long-term debt	(1,731,405)	(642,712)
Equity distributions	<u>(252,866)</u>	<u>(198,462)</u>
Net Cash Provided (Used) by Financing Activities	<u>(1,321,750)</u>	<u>2,699,783</u>
Net Increase in Cash and Cash Equivalents	24,558	32,592
Cash and Cash Equivalents, beginning	<u>1,054,230</u>	<u>1,021,638</u>
Cash and Cash Equivalents, ending	<u>\$ 1,078,788</u>	<u>\$ 1,054,230</u>
Cash Paid During the Year for Interest, net of amount capitalized	<u>\$ 403,686</u>	<u>\$ 366,560</u>
Non-cash Property, Plant, and Equipment Additions	<u>\$ 135,546</u>	<u>\$ 161,796</u>

See accompanying notes to financial statements.



## **SOUTHERN MONTANA TELEPHONE COMPANY**

### **Notes to Financial Statements**

Years Ended December 31, 2012 and 2011

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#### **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, long-distance telecommunications services, as well as video 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.

Regulatory and legislative actions, as well as future regulations, could have a significant impact on the Company's future operations and financial condition. See Note 1, National Broadband Plan and FCC Order.

##### 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 account holder per bank or non-interest bearing accounts that were fully insured. At December 31, 2012 and 2011 the company had no uninsured funds. Subsequent to year end the temporary liquidity guarantee program, which fully insured the non-interest bearing accounts, expired. Therefore, at January 1, 2013, the Company had uninsured cash of \$120,288. 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.

##### Materials and Supplies

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

##### 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.

Video property and equipment in service and under construction is stated at cost. Depreciation is calculated on the straight-line basis over the estimated life of the classes of equipment. Depreciation rates range from 10% to 50%. Maintenance, repairs, and replacements are charged to expense as incurred. When property or equipment is sold or otherwise disposed of, the asset account and the related accumulated depreciation accounts are relieved, and any gain or loss is included in operations.

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 2012, total interest incurred was \$405,939 (\$385,331 in 2011), \$2,253 of which was capitalized (\$18,771 in 2011).

## **SOUTHERN MONTANA TELEPHONE COMPANY**

### **Notes to Financial Statements**

Years Ended December 31, 2012 and 2011

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

##### 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, video, 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, video, 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 are 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 2012, the Company received \$1,679,233 from the USAC High Cost Loop Fund (\$1,456,681 in 2011) and \$2,796,269 in interstate access revenues administered through the NECA pool (\$1,793,941 in 2011).

##### 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.

## **SOUTHERN MONTANA TELEPHONE COMPANY**

### **Notes to Financial Statements**

Years Ended December 31, 2012 and 2011

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

##### National Broadband Plan and FCC Order, continued

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. As of December 31, 2012, the Company is transitioning local rates, and is not subject to the \$250 per line support cap.

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 beginning July 1, 2012.

The Order includes the adoption of a monthly Access Recovery Charge as a transitional recovery mechanism to mitigate the impact of reduced intercarrier revenues. The Order was effective December 29, 2011, and implementation began on July 1, 2012.

As of the implementation date, July 1, 2012, the Company is subject to the 5% annual decline in interstate switched access revenue requirement during the 9 year transition period. For the period ended December 31, 2012 the impacts to the Company have not been significant.

The overall reform process will take place in phases and will take several years to implement. Furthermore the Order includes a Further Notice of Proposed Rulemaking and seeks comments on various items and the ultimate outcome of these proceedings and their impact is uncertain at this time.

##### 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.

##### 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.

##### 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, 2012 and 2011 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheets.

##### Subsequent Events

The Company has evaluated subsequent events through March 1, 2013, which is the date the financial statements were issued.

## SOUTHERN MONTANA TELEPHONE COMPANY

### Notes to Financial Statements

Years Ended December 31, 2012 and 2011

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#### Note 2 - Property, Plant, and Equipment

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

	2012	2011
Telecommunications		
Land and Support	\$ 1,594,806	\$ 1,556,470
Central Office	4,473,735	4,262,976
Cable and Wire Facilities	17,551,854	17,040,453
Capital Lease Assets	175,000	175,000
Total Telecommunications:	23,795,395	23,034,899
Non-regulated	164,864	157,976
Under Construction	11,602	52,191
Total Property, Plant, and Equipment In Service	\$ 23,971,861	\$ 23,245,066

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. Amortization of the lease included in depreciation expense was \$8,750 during the years ended December 31, 2012 and 2011.

#### Note 3 - Investments in Nonaffiliates

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

	2012	2011
Vision Net, Inc.	\$ 279,861	\$ 279,861
Other Investments	40,385	33,947
RTFC	828	828
Artwork	31,547	31,547
Other Office Décor	5,790	5,790
	\$ 358,411	\$ 351,973

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, 2012 and 2011

#### Note 4 - Long-Term Debt

Long-term debt consists of the following:

	2012	2011
2.00% notes payable to Rural Utility Services, in quarterly installments of \$ 16,955, including interest, collateralized by substantially all real and personal property, due 2016 through 2023.	\$ 566,903	\$ 727,487
2.692-4.88% notes payable to the Rural Utility Services, interest only through June 2009, then payable in monthly installments of \$83,967, collateralized by substantially all real and personal property, due in 2026.	9,839,837	9,730,855
Variable interest rate (.104% in 2012, and .027-.028% in 2011) notes payable to the Federal Financing Bank, interest only through September, 2012, then payable in monthly installments of \$6,432, collateralized by substantially all real and personal property, due in 2030.	1,373,360	1,411,161
Cushion of credit	(1,009,818)	(30,337)
	10,770,282	11,839,166
Less Current Portion	804,960	688,790
	<u>\$ 9,965,322</u>	<u>\$ 11,150,376</u>

The Company's long-term debt agreements contain restrictions on the declaration or payment of cash dividends, redemption of capital stock, and the maintenance of certain financial ratios, including a minimum times interest earned ratio (TIER). Management believes the Company to be in compliance with these covenants at December 31, 2012 and 2011.

Future maturities of long-term debt are as follows:

2013	\$ 804,960
2014	830,698
2015	854,247
2016	738,167
2017	761,756
Thereafter	<u>7,790,272</u>
	\$ 11,780,100
Less: cushion of credit	<u>(1,009,818)</u>
	<u>\$ 10,770,282</u>

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 2012, the Company invested \$979,481 into its RUS cushion of credit fund (\$105,403 in 2011), and none of these funds were applied toward debt payments (\$75,066 in 2011). Debt payments include principal and interest.

At December 31, 2012, the Company had \$4,132,837 in unadvanced authorized loan funds from the Rural Utilities Services (\$4,795,358 at December 31, 2011).



## **SOUTHERN MONTANA TELEPHONE COMPANY**

### **Notes to Financial Statements**

Years Ended December 31, 2012 and 2011

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#### **Note 5 - Retirement Plans**

The National Telecommunications Cooperative Association (NTCA) Retirement and Security Program for Employees of the NTCA and its Member Systems (the Plan) is a defined benefit pension plan covering many of the full-time employees of NTCA, its affiliates and its members that have adopted the Plan. Pursuant to IRC Section 413(c)(4), the Plan is considered a Multiple Employer (other) Master Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The Plan's employer identification number is 52-0741336 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Company is a participant in the above described plan. The Company's contributions to the Plan in 2012 and 2011 represented less than 5 percent of the total contributions made to the Plan by all participating employers. The Company made contributions to the plan of \$118,807 in 2012 and \$112,754 in 2011. There have been no significant changes that affect the comparability of 2012 and 2011 contributions.

In the Plan, a "zone status" determination is not required and therefore, not determined under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations of plan assets are not determined or allocated separately by individual employer. In total, the Plan was between 85 and 90 percent funded at January 1, 2011, based on the PPA funding target and PPA actuarial value of assets on that date. Information for the Plan year beginning January 1, 2012 is not available at the time of this audit report.

Because the provisions of PPA do not apply to the Plan, funding improvement plans and surcharges are not applicable and have not been applied. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience. There is no collective bargaining agreement that affects future contribution requirements.

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 \$39,598 in 2012 (\$38,078 in 2011).

#### **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, 2012:

2013	37,200
2014	12,400

Total rental expense under the lease listed above was approximately \$37,200 for the years ended December 31, 2012 and 2011.

## **SOUTHERN MONTANA TELEPHONE COMPANY**

### **Notes to Financial Statements**

Years Ended December 31, 2012 and 2011

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#### **Note 8 - Commitments**

The Company has executed several contracts for construction projects. The amounts unpaid against these commitments at December 31, 2012 were \$135,546 (\$161,796 at December 31, 2011).

#### **Note 9 - Reclassification**

Certain accounts in the 2011 financial statements have been reclassified to conform to the presentation in the 2012 financial statements. Such reclassifications have no effect on net income or stockholder's equity.