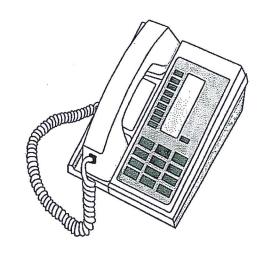
YEAR ENDING 2013

# ANNUAL REPORT

SOUTHERN MONTANH TELEPHONE

# **TELEPHONE UTILITY**



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

## **General Information**

1	Legal Name of Respondent:	Southern Montana Telephone Company				
2	Name Under Which Respondent Does Business:					
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				
Cont	rol Over Respondent					
1	If direct control over the respondent was held by another entity a	t the end of year provide the following:				
	1a. Name and address of the controlling organization or person:					
	1b. Means by which control was held:					
	1c. Percent Ownership:					

		Board of Directors	
Line No.		Name of Director and Address (City, State) (a)	Fees Paid During Year (b)
1	Robert G. Helming	Wisdom, MT	9000
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14			
6 7 8 9 10 11 12 13 14 15 16 17 18 19 20			
16			
17	CI	D.L. G.W.L.	
18	Chairman of the Board:	Robert G. Helming	
20			
20			

Officers

	200 Jan 190 Ja	Description William	N
Line	Title	Department Over Which	Name and Address of Person
No.	of Officer	Jurisdiction is Exercised	Holding Office at Year End
140.	(a)	(b)	(c)
1	President	All Departments	Robert G. Helming
2		_	Wisdom, MT 59761
3			,
4	Secretary/Vice-Presidnet	All Departments	Larry B. Mason
5	Secretary, vice i residiret	Tim Bopartments	Wisdom, MT 59761
1			Wisdom, Wif 39701
6			
7			D. 1 . 17 77 . 1.
8	Treasurer	Accounting/Customer Service	Richard L Knight
9			Wisdom, MT 59761
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Page 1 of 2

# **Total Company Balance Sheet**

			Total Company Balance Sheet		10011 2015
Line		Acct.		This	Last
		No.	Description	Year	Year
No.		(a)	(b)	(c)	(d)
1			CURRENT ASSETS:		
2		1120	Cash and Equivalents	SEE Attached Audite	d 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			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		

<sup>^</sup> Subaccount of account marked with a \*.

## SOUTHERN MONTANA TELEPHONE COMPANY

#### **Balance Sheets**

December 31, 2013 and 2012

Current Assets:         S         1,264,439         \$ 1,078,788           Accounts receivable, less allowance for doubtful accounts of zero in 2013 and 2012         450,630         611,800           Materials and supplies         97,766         96,530           Prepaid expenses         22,015         24,783           Total Current Assets         1,834,850         1,811,901           Other Investments         362,884         358,411           Property, Plant, and Equipment:         31,841,153         23,795,395           Nonregulated         175,832         164,864           Under construction         88,125         116,864           Under construction         10,188,537         9,578,236           Property, Plant, and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment, net         13,259,573         14,393,625           Current Liabilities         2         1,248,481         1,233,331         1,236,631,332           LESI LITIES AND STOCKHOLDER'S EQUITY         2         21,248         2,465         2,478         2,154         2,278         2,154         2,278         2,152         2,278         2,152         2,254	ASSETS		2013		2012
Cash and cash equivalents         \$ 1,264,439         \$ 1,078,788           Accounts receivable, less allowance for doubtful accounts of zero in 2013 and 2012         450,630         611,800           Materials and supplies         97,766         96,530           Prepaid expenses         22,015         24,783           Total Current Assets         1,834,850         1,811,901           Other Investments         362,884         358,411           Property, Plant, and Equipment:         23,184,153         23,795,395           Telecommunications         23,184,153         23,795,395           Nonregulated         175,832         11,602           Under construction         88,125         11,602           Property, Plant, and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment and Equipment, net         13,259,573         14,393,625           Current Liabilities         20,007         14,393,625           Current Dortion of long-term debt         \$ 911,993         \$ 804,960           Accounts payable         79,448         84,655           Advance billing and customer deposits         22,078         21,524           Accrued expenses	Current Assets:	-		-	
Accounts receivable, less allowance for doubtful accounts of zero in 2013 and 2012         450,630         611,800           Materials and supplies         97,766         96,530           Prepaid expenses         22,015         24,783           Total Current Assets         1,834,850         1,811,901           Other Investments         362,884         358,411           Property, Plant, and Equipment:         23,184,153         23,795,395           Nonregulated         175,832         164,864           Under construction         88,125         11,602           Less accumulated depreciation         23,448,110         23,971,861           Less accumulated depreciation         10,188,537         9,578,236           Property, Plant, and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment and Equipment, net         13,259,573         14,593,625           LIABILITIES AND STOCKHOLDER'S EQUITY         20         14,243,245           Current Liabilities         20         21,524           Accounts payable         79,448         84,655           Advance billing and customer deposits         22,078         21,524           Accrued expenses         219,333         1,236,613           Total Current Liabilities		\$	1.264.439	\$	1.078.788
accounts of zero in 2013 and 2012         450,630         611,800           Materials and supplies         97,766         96,530           Prepaid expenses         22,015         24,783           Total Current Assets         1,834,850         1,811,901           Other Investments         362,884         358,411           Property, Plant, and Equipment:         23,184,153         23,795,395           Nonregulated         175,832         164,864           Under construction         88,125         11,602           Less accumulated depreciation         10,188,537         9,578,236           Property, Plant, and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment and	•	•	.,	•	. [
Materials and supplies         97,766         26,783           Prepaid expenses         22,015         24,783           Total Current Assets         1,834,850         1,811,901           Other Investments         362,884         358,411           Property, Plant, and Equipment:         362,884         23,795,395           Nonregulated         175,832         164,864           Under construction         88,125         11,602           Less accumulated depreciation         23,448,110         23,971,861           Less accumulated depreciation         10,188,537         9,578,236           Property, Plant, and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment accumulated sepreciation         10,188,537         9,578,236           Property, Plant, and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment, net         911,988,537         804,960           Accumulated depreciation         911,983,932         804,960           Accumulated depreciation         911,993,933         804,960           Accumulated depreciation         911,993,933         804,960           Accumulated accu			450.630		611.800
Prepaid expenses         22,015         24,783           Total Current Assets         1,834,850         1,811,901           Other Investments         362,884         358,411           Property, Plant, and Equipment:         23,184,153         23,795,395           Telecommunications         23,184,153         23,795,395           Nonregulated         175,832         164,604           Under construction         88,125         11,602           Less accumulated depreciation         10,188,537         9,578,236           Property, Plant, and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment, net         13,259,573         16,563,937           Current Current Liabilities:         2         1,247,307         16,563,937           Current portion of long-term debt         911,993         \$804,900         2,000 <td></td> <td></td> <td></td> <td></td> <td></td>					
Total Current Assets         1,834,850         1,811,901           Other Investments         362,884         358,411           Property, Plant, and Equipment:         23,184,153         23,795,395           Nonregulated         175,832         164,864           Under construction         88,125         11,602           Less accumulated depreciation         23,448,110         23,971,861           Less accumulated depreciation         10,188,537         9,578,236           Property, Plant, and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment an	• •				-
Other Investments         362,884         358,411           Property, Plant, and Equipment:         23,184,153         23,795,395           Nonregulated         175,832         164,864           Under construction         88,125         11,602           Less accumulated depreciation         23,448,110         23,971,861           Property, Plant, and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment in the transparence of the property in the prope	1 Topala Oxportoco	-		-	
Property, Plant, and Equipment:           Telecommunications         23,184,153         23,795,395           Nonregulated         175,832         164,864           Under construction         88,125         11,602           Less accumulated depreciation         23,448,110         23,971,861           Less accumulated depreciation         10,188,537         9,578,236           Property, Plant, and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment, net         13,259,573         14,393,625           LIABILITIES AND STOCKHOLDER'S EQUITY         20,000         16,563,937           Current Liabilities:         911,993         \$ 804,960           Accounts payable         79,448         84,655           Advance billing and customer deposits         22,078         21,524           Accrued expenses         219,812         325,474           Total Current Liabilities         1,233,331         1,236,613           Long-Term Debt         8,337,997         9,965,322           Stockholder's Equity:         2         6,100           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 <t< td=""><td>Total Current Assets</td><td>-</td><td>1,834,850</td><td>-</td><td>1,811,901</td></t<>	Total Current Assets	-	1,834,850	-	1,811,901
Telecommunications         23,184,153         23,795,395           Nonregulated         175,832         164,864           Under construction         88,125         11,602           Less accumulated depreciation         23,448,110         23,971,861           Less accumulated depreciation         10,188,537         9,578,236           Property, Plant, and Equipment, net         13,259,573         14,393,625           LIABILITIES AND STOCKHOLDER'S EQUITY         8         15,457,307         \$ 16,563,937           Current portion of long-term debt         911,993         804,960           Accounts payable         79,448         84,655           Advance billing and customer deposits         22,078         21,524           Accrued expenses         219,812         325,474           Total Current Liabilities         1,233,331         1,236,613           Long-Term Debt         8,337,997         9,965,322           Stockholder's Equity:         2           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         5,876,589         5,352,612           Total Stockholder's Equity         5,885,979	Other Investments	-	362,884	_	358,411
Nonregulated Under construction         175,832 88,125         164,864 11,602           Less accumulated depreciation         23,448,110 10,188,537         23,971,861 9,578,236           Property, Plant, and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment, net         15,457,307         \$ 16,563,937           LIABILITIES AND STOCKHOLDER'S EQUITY         8         804,960           Current Liabilities:         911,993         \$ 804,960           Accounts payable         79,448         84,655           Advance billing and customer deposits         22,078         21,524           Accrued expenses         219,812         325,474           Total Current Liabilities         1,233,331         1,236,613           Long-Term Debt         8,337,997         9,965,322           Stockholder's Equity:         2         6,100         6,100           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         5,876,589         5,352,612           Total Stockholder's Equity         5,885,979         5,362,002	Property, Plant, and Equipment:				
Under construction         88,125         11,602           Less accumulated depreciation         23,448,110         23,971,861           Property, Plant, and Equipment, net         13,259,573         14,393,625           Property, Plant, and Equipment, net         \$ 15,457,307         \$ 16,563,937           LIABILITIES AND STOCKHOLDER'S EQUITY         STOCKHOLDER'S EQUITY         STOCKHOLDER'S EQUITY           Current portion of long-term debt         \$ 911,993         \$ 804,900           Accounts payable         79,448         84,655           Advance billing and customer deposits         22,078         21,524           Accrued expenses         219,812         325,474           Total Current Liabilities         1,233,331         1,236,613           Long-Term Debt         8,337,997         9,965,322           Stockholder's Equity:         Stockholder's Equity:         3,290         3,290           Paid-in capital         3,290         3,290         3,290           Retained earnings         5,876,589         5,352,612           Total Stockholder's Equity         5,885,979         5,362,002	Telecommunications		23,184,153		23,795,395
Less accumulated depreciation         23,448,110         23,971,861           Property, Plant, and Equipment, net         13,259,573         14,393,625           \$ 15,457,307         \$ 16,563,937           LIABILITIES AND STOCKHOLDER'S EQUITY           Current Liabilities:           Current portion of long-term debt         \$ 911,993         \$ 804,960           Accounts payable         79,448         84,655           Advance billing and customer deposits         22,078         21,524           Accrued expenses         219,812         325,474           Total Current Liabilities         1,233,331         1,236,613           Long-Term Debt         8,337,997         9,965,322           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         5,876,589         5,352,612           Total Stockholder's Equity         5,885,979         5,362,002	Nonregulated		175,832		164,864
Less accumulated depreciation         10,188,537         9,578,236           Property, Plant, and Equipment, net         13,259,573         14,393,625           \$ 15,457,307         \$ 16,563,937           LIABILITIES AND STOCKHOLDER'S EQUITY           Current Liabilities:           Current portion of long-term debt         \$ 911,993         \$ 804,960           Accounts payable         79,448         84,655           Advance billing and customer deposits         22,078         21,524           Accrued expenses         219,812         325,474           Total Current Liabilities         1,233,331         1,236,613           Long-Term Debt         8,337,997         9,965,322           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         5,876,589         5,352,612           Total Stockholder's Equity         5,885,979         5,362,002	Under construction	_	88,125	_	11,602
Less accumulated depreciation         10,188,537         9,578,236           Property, Plant, and Equipment, net         13,259,573         14,393,625           \$ 15,457,307         \$ 16,563,937           LIABILITIES AND STOCKHOLDER'S EQUITY           Current Liabilities:           Current portion of long-term debt         \$ 911,993         \$ 804,960           Accounts payable         79,448         84,655           Advance billing and customer deposits         22,078         21,524           Accrued expenses         219,812         325,474           Total Current Liabilities         1,233,331         1,236,613           Long-Term Debt         8,337,997         9,965,322           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         5,876,589         5,352,612           Total Stockholder's Equity         5,885,979         5,362,002					00.074.004
Property, Plant, and Equipment, net         13,259,573         14,393,625           LIABILITIES AND STOCKHOLDER'S EQUITY         Current Liabilities:           Current portion of long-term debt         \$ 911,993         \$ 804,960           Accounts payable         79,448         84,655           Advance billing and customer deposits         22,078         21,524           Accrued expenses         219,812         325,474           Total Current Liabilities         1,233,331         1,236,613           Long-Term Debt         8,337,997         9,965,322           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         3,290           Retained earnings         5,876,589         5,352,612           Total Stockholder's Equity         5,885,979         5,362,002					
LIABILITIES AND STOCKHOLDER'S EQUITY	Less accumulated depreciation	-	10,188,537	-	9,578,236
LIABILITIES AND STOCKHOLDER'S EQUITY           Current Liabilities:         \$ 911,993 \$ 804,960           Accounts payable         79,448 84,655           Advance billing and customer deposits         22,078 21,524           Accrued expenses         219,812 325,474           Total Current Liabilities         1,233,331 1,236,613           Long-Term Debt         8,337,997 9,965,322           Stockholder's Equity:         Common stock, \$10 par value, 2,703 shares authorized and 610 shares issued and outstanding         6,100 6,100 6,100 9aid-in capital           Paid-in capital         3,290 3,290 3,290 9aid-in capital         5,876,589 5,352,612 9aid-in capital           Total Stockholder's Equity         5,885,979 5,362,002 9aid-in capital	Property, Plant, and Equipment, net	_	13,259,573		14,393,625
Current Liabilities:         \$ 911,993         \$ 804,960           Accounts payable         79,448         84,655           Advance billing and customer deposits         22,078         21,524           Accrued expenses         219,812         325,474           Total Current Liabilities         1,233,331         1,236,613           Long-Term Debt         8,337,997         9,965,322           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         5,876,589         5,352,612           Total Stockholder's Equity         5,885,979         5,362,002		\$_	15,457,307	\$	16,563,937
Current Liabilities:         \$ 911,993         \$ 804,960           Accounts payable         79,448         84,655           Advance billing and customer deposits         22,078         21,524           Accrued expenses         219,812         325,474           Total Current Liabilities         1,233,331         1,236,613           Long-Term Debt         8,337,997         9,965,322           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         5,876,589         5,352,612           Total Stockholder's Equity         5,885,979         5,362,002	LIABILITIES AND STOCKHOLDER'S EQUITY				
Accounts payable       79,448       84,655         Advance billing and customer deposits       22,078       21,524         Accrued expenses       219,812       325,474         Total Current Liabilities       1,233,331       1,236,613         Long-Term Debt       8,337,997       9,965,322         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       5,876,589       5,352,612         Total Stockholder's Equity       5,885,979       5,362,002					
Accounts payable       79,448       84,655         Advance billing and customer deposits       22,078       21,524         Accrued expenses       219,812       325,474         Total Current Liabilities       1,233,331       1,236,613         Long-Term Debt       8,337,997       9,965,322         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       5,876,589       5,352,612         Total Stockholder's Equity       5,885,979       5,362,002	Current portion of long-term debt	\$	911,993	\$	804,960
Advance billing and customer deposits       22,078       21,524         Accrued expenses       219,812       325,474         Total Current Liabilities       1,233,331       1,236,613         Long-Term Debt       8,337,997       9,965,322         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       5,876,589       5,352,612         Total Stockholder's Equity       5,885,979       5,362,002				•	
Accrued expenses         219,812         325,474           Total Current Liabilities         1,233,331         1,236,613           Long-Term Debt         8,337,997         9,965,322           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         5,876,589         5,352,612           Total Stockholder's Equity         5,885,979         5,362,002			200 00 00 00 00		
Total Current Liabilities         1,233,331         1,236,613           Long-Term Debt         8,337,997         9,965,322           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         5,876,589 5,352,612           Total Stockholder's Equity         5,885,979 5,362,002					
Long-Term Debt       8,337,997       9,965,322         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       5,876,589 5,352,612         Total Stockholder's Equity       5,885,979 5,362,002		-		•	
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       5,876,589 5,352,612         Total Stockholder's Equity       5,885,979 5,362,002		-		•	
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       5,876,589       5,352,612         Total Stockholder's Equity       5,885,979       5,362,002	Long-Term Debt		8,337,997		9,965,322
610 shares issued and outstanding       6,100       6,100         Paid-in capital       3,290       3,290         Retained earnings       5,876,589       5,352,612         Total Stockholder's Equity       5,885,979       5,362,002	Stockholder's Equity:				
Paid-in capital       3,290       3,290         Retained earnings       5,876,589       5,352,612         Total Stockholder's Equity       5,885,979       5,362,002	Common stock, \$10 par value, 2,703 shares authorized and				
Retained earnings         5,876,589         5,352,612           Total Stockholder's Equity         5,885,979         5,362,002	610 shares issued and outstanding		6,100		6,100
Retained earnings         5,876,589         5,352,612           Total Stockholder's Equity         5,885,979         5,362,002	Paid-in capital		3,290		3,290
	Retained earnings		5,876,589		5,352,612
\$ <u>15,457,307</u> \$ <u>16,563,937</u>	Total Stockholder's Equity		5,885,979		5,362,002
		\$	15,457,307	\$	16,563,937

# **Total Company Income Statement**

			total company meeme statement		
Line		Acct.		This	Last
No.		No.	Description	Year	Year
140.		(a)	(b)	(c)	(d)
1			REVENUES:		
2		5000	Basic Local Service Revenues		
3		5080	Network Access Revenues	SEE Attached Audit	ed Financials
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	٨	6441	Conduit Systems Expense		
28		6510	Other Property, Plant & Equipment Expense		
29		6530	Network Operations Expense		
30		6540	Access Expense		
31		6560	Depreciation and Amortization Expense		
32		6610	Marketing		
33		6620	Services		
34		6710	Executive and Planning		
35		6720	General and Administrative		
36		6790	Provision for Uncollectible Notes Receivable		
37			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)		

<sup>^</sup> Subaccount of the account marked with a \*.

## SOUTHERN MONTANA TELEPHONE COMPANY

#### Statements of Income

Years Ended December 31, 2013 and 2012

		2013	_	2012
Operating Revenues:				
Local network	\$	229,852	\$	215,038
Interstate access		4,075,148		4,475,502
Intrastate access		278,772		322,213
Nonregulated		573,146		483,241
Miscellaneous	_	5,481	_	6,935
Total Operating Revenues		5,162,399	-	5,502,929
Operating Expenses:				
Plant specific operations		505,978		533,455
Plant nonspecific operations		407,873		504,249
Customer		188,393		185,358
Corporate		643,835		693,612
Depreciation and amortization		1,337,284		1,360,492
Other operating taxes		183,169		165,907
Nonregulated		597,042		497,506
Total Operating Expenses		3,863,574	_	3,940,579
Operating Income	-	1,298,825		1,562,350
Other Income:				
Other income		203,661		23,903
Allowance for funds used during construction		-	-	2,253
Total Other Income		203,661		26,156
Income Available for Fixed Charges		1,502,486		1,588,506
Fixed Charges - Interest on Long-Term Debt		387,225	****	405,939
Net Income	\$	1,115,261	\$_	1,182,567

#### SOUTHERN MONTANA TELEPHONE COMPANY

## Statements of Changes in Stockholder's Equity

Years Ended December 31, 2013 and 2012

	Capital S	Stock			
	Shares		Paid-in	Retained	
	Issued	Amount	Capital	Earnings	Total
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	610	6,100	3,290	5,352,612	5,362,002
Distributions	-	-	-	(591,284)	(591,284)
Net income			-	1,115,261	1,115,261
Balance, December 31, 2013	610 \$	6,100 \$	3,290_\$_	5,876,589_\$_	5,885,979

## Montana Total State Income Statement

This Last Acct. Line No. Description Year Year No. (a) (c) (d) (b) 1 **REVENUES:** SEE Attached Audited Financials 2 5000 Basic Local Service Revenues 3 5080 Network Access Revenues 5100 4 Long Distance Message Revenue 5 Unidirectional Long Distance Revenue 5110 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 ٨ 5240 Rent Revenue 11 5250 Corporate Operations Revenue 12 13 5260 Miscellaneous Revenue 5270 14 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 6620 33 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)

<sup>^</sup> Subaccount of the account marked with a \*.

## **Montana Intrastate Income Statement**

			Montana Intrastate Income Statement		Year: 2013
Line		Acct.		This	Last
1 1		No.	Description	Year	Year
No.		(a)	(b)	(c)	(d)
1			REVENUES:		
2		5000	Basic Local Service Revenues		
3		5080	Network Access Revenues	Same As Company	
4	*	5100	Long Distance Message Revenue		
5	^	5110	Unidirectional Long Distance Revenue		
6	^	5120	Long Distance Private Network Revenue		
7	^	5160	Other Long Distance Revenue		
8	^	5169	Other Long Distance Revenue Settlements		
9	*	5200	Miscellaneous Revenue		
10	^	5230	Directory Revenue		
11	^	5240	Rent Revenue		
12	^	5250	Corporate Operations Revenue		
13	^	5260	Miscellaneous Revenue		
14	^	5270	Carrier Billing and Collection Revenue		
15	^	5280	Nonregulated Revenue		
16		5300	Uncollectible Revenue		
17			Total Revenues (L.2+L.3+L.4+L.9-L.16)	#VALUE!	
18			OPERATING EXPENSES:		
19		6110	Network Support Expense		
20		6120	General Support Expense		
21		6210	Central Office Switching Expense		
22		6220	Operator Systems Expense		
23		6230	Central Office Transmission Expense		
24		6310	Information Origination/Termination Expense		
25	*	6410	Cable and Wire Facilities Expense		
26	^	6431	Aerial Wire Expense		
27	^	6441	Conduit Systems Expense		
28		6510	Other Property, Plant & Equipment Expense		
29		6530	Network Operations Expense		
30		6540	Access Expense		
31		6560	Depreciation and Amortization Expense		
32		6610	Marketing		
33		6620	Services		
34		6710	Executive and Planning		
35		6720	General and Administrative		
36		6790	Provision for Uncollectible Notes Receivable		
37			Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)		
38		7100	Other Operating Income and Expense		
39		7200	Operating Taxes		
40		-	Net Operating Income (L.17-L.37+L.38-L.39)	#VALUE!	

<sup>^</sup> Subaccount of the account marked with a \*.

# **Montana Intrastate Regulated Income Statement**

		N	Iontana Intrastate Regulated Income Statem	ent	Year: 2013
Line		Acct.		This	Last
		No.	Description	Year	Year
No.		(a)	(b)	(c)	(d)
1			REVENUES:		
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		3336	Total Revenues (L.2+L.3+L.4+L.9-L.16)		
18			OPERATING EXPENSES:		
19		6110	Network Support Expense		
20		6120	General Support Expense		
21		6210	Central Office Switching Expense		
22		6220	Operator Systems Expense		
23		6230	Central Office Transmission Expense		
24		6310	Information Origination/Termination Expense		
25	*	6410	Cable and Wire Facilities Expense		
26	^	6431	Aerial Wire Expense		
27	^	6441	Conduit Systems Expense		
28		6510	Other Property, Plant & Equipment Expense		
29		6530	Network Operations Expense		
30		6540	Access Expense		
31		6560	Depreciation and Amortization Expense		
32		6610	Marketing		
33		6620	Services		
34		6710	Executive and Planning		
35		6720	General and Administrative		
36		6790	Provision for Uncollectible Notes Receivable		
37			Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)		
38		7100	Other Operating Income and Expense		
39		7200	Operating Taxes		
40			Net Operating Income (L.17-L.37+L.38-L.39)		
				•	A

<sup>^</sup> Subaccount of the account marked with a \*.

		Average Rate Base - Total State		Year: 2013
Line	Acct.		This	Last
1	No.	Description	Year	Year
No.	(a)	(b)	(c)	(d)
1	2001	Telecommunications Plant in Service	23272278	23794394
2	3100	Accumulated Depreciation	10129301	9548515
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies	96547	88519
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)	13239524	14334398

## **Average Rate Base - Intrastate**

Line	Acct.		This	Last
100000000000000000000000000000000000000	No.	Description	Year	Year
No.	(a)	(b)	(c)	(d)
1	2001	Telecommunications Plant in Service		
2	3100	Accumulated Depreciation		
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies		
6	4340	Noncurrent Deferred Operating Income Taxes		
7		Pre-1971 Unamortized Investment Tax Credits		
8		Cash Working Capital (if allowed by Commission)		
9		Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8)		

## Average Rate Base - Regulated Intrastate

Line	Acct.		This	Last
No.	No.	Description	Year	Year
INO.	(a)	(b)	(c)	(d)
1	2001	Telecommunications Plant in Service	23272278	23794394
2	3100	Accumulated Depreciation	10129301	9548515
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies	96547	88519
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)	13239524	14334398

# **Statement of Cash Flows**

	Statement of Cash Flows		Year: 2013
Line	Item Description	Amount	Amount
No.	(a)	(b)	(c)
1	Increase/(decrease) in Cash & Cash Equivalents	SEE: Attached State	ement of Cash
2	Cash Flows from Operating Activities:	Flows	
3	Net Income		
4	Reconciliation Adjustments:		
5	Depreciation & Amortization		
6	Provision for Accounts Receivable Losses		
7	Deferred Income Taxes - Net		
8	Unamortized Investment Tax Credits (ITCs) - Net		
9	Allowance for Funds Used During Construction (AFUDC)		
10	Change in Operating Receivables - Net		
11	Change in Materials, Supplies & Inventories - Net	-	
12	Change in Operating Payables & Accrued Liabilities - Net		
13	Change in Other Assets & Deferred Credits - Net		
14	Change in Other Liabilities & Deferred Credits - Net		
15	Other (explained on back of this page)		
16	Total Adjustments		
17	Net Cash Provided by/(Used in) Operating Activities		
18	Cash Inflows/Outflows From Investing Activities:		
19	Construction/Acquisition of Property, Plant & Equipment (net of		
20	AFUDC & Capital Lease Related Acquisitions)		
21	Proceeds from Disposals of Property, Plant & Equipment		
22	Investments In & Advances to Affiliates		
23	Proceeds from Repayment of Advances		
24	Other Investing Activities (explained on back of this page)		
25	Net Cash Provided by/(Used in) Investing Activities		
26	Cash Flows from Financing Activities:		
27	Net Incr./(Decr.) in Short-Term Debt, Original maturity <= 3 mo.		
28	Advances from Affiliates		
29	Repayment of Advances from Affiliates		
30	Proceeds from Issuances of Long-Term Debt		
31	Repayment of Long-Term Debt		
32	Payment of Capital Lease Obligations		
33	Proceeds from Issuing Common Stock/Parent Co. Equity Investment		
34	Repurchase of Treasury Shares		
35	Dividends Paid Other Financing Activities (compained on book of this page)		
36	Other Financing Activities (explained on back of this page)		
37	Net Cash Provided by Financing Activities  Effect of Evolution Pate Changes on Cash		
38	Effect of Exchange Rate Changes on Cash  Net Increase/(Decrease) in Cash & Cash Equivalents		
40	Cash & Cash Equivalents at Beginning of Period		
41	Cash & Cash Equivalents at Beginning of Period  Cash & Cash Equivalents at End of Period		
41	Cash & Cash Equivalents at End of Feriod		

## SOUTHERN MONTANA TELEPHONE COMPANY

#### **Statements of Cash Flows**

Years Ended December 31, 2013 and 2012

	-	2013	_	2012
Cash Flows from Operating Activities:				
Net income	\$	1,115,261	\$	1,182,567
Adjustments to reconcile net income to net cash				
provided by operating activities:				
Depreciation and amortization		1,337,284		1,360,492
Depreciation, IPTV		30,263		29,307
Patronage capital credits, noncash		(5,997)		(6,741)
Changes in assets and liabilities:				
Accounts receivable		161,170		(214,293)
Materials and supplies		(1,236)		37,026
Prepaid expenses		2,768		16,531
Accounts payable		(55,398)		(205,536)
Advance billing and customer deposits		554		1,080
Accrued expenses	_	(105,662)		(32,805)
Net Cash Provided by Operating Activities	_	2,479,007		2,167,628
Cash Flows from Investing Activities:				
Capital expenditures		(183,304)		(821,623)
Proceeds from investments	_	1,524		303
Net Cash Used by Investing Activities		(181,780)		(821,320)
Cash Flows from Financing Activities:				
Proceeds from long-term debt		1,416,150		662,521
Payments on long-term debt		(2,936,442)		(1,731,405)
Equity distributions		(591,284)		(252,866)
Net Cash Used by Financing Activities	_	(2,111,576)		(1,321,750)
Net Increase in Cash and Cash Equivalents		185,651		24,558
Cash and Cash Equivalents, beginning	_	1,078,788		1,054,230
Cash and Cash Equivalents, ending	\$_	1,264,439	\$	1,078,788
Cook Daid During the Veer for Interest, not of amount conitalized	œ	387,225	¢	403,686
Cash Paid During the Year for Interest, net of amount capitalized	\$_		\$	
Non-cash Property, Plant, and Equipment Additions	\$ =	50,191	\$	135,546

Company Name: Southern Montana Telephone Company

ar: 2013	Account 1402	Investments	in Nonaffil.	Companies (R)	(v)			279861																							279861	
~	Account 1401	Investments	in Affil.	Companies	6																											
anies	Account 1210	Interest and	Dividends	Receivable	(1)																											
ated Comp	Account 1201	Notes	Receivable	Allowance	(11)																											
& Nonaffili	Account 1200		Notes	Receivable	(8)																											
Receivables and Investments-Affiliated & Nonaffiliated Companies	Account 1191	Accounts	Receivable	Allow Other	(1)																											
Investmen	Account 1190	Other	Accounts	Receivable	(2)	94560	283758																								378318	
ivables and	Account 1181	Accts. Rec.	Telecom.	Allowance																												
Rece	Account 1180	Telecom.	Accounts	Receivable	(2)	7.2509																									72309	
	Account 1160		Temporary	Investments (h)	6)				ts									78														
			Name of	Affiliate or Company	(d)	Lelecom Customers Access Customers	NECA	VisionNet Investment	Various Other Investments																						Totals	
			Line	No.	-	- 2	3	4	2	9	7	∞	6	10	11	12	13	14	15	16	17	18	19	20	21	77	24	25	26	28	30	

Company Name: Southern Montana Telephone Company

Year:2013	End of Year	Net Plant	Balance	(i)	119221	38451						78832			1938		354123				1864162								17602869	2314		10577948						12917768
	Year End	Accumulated	Depreciation	(h)	1457058		327488				492758	218798	39684		18330		406279	-			1190140	15302	15302		2					31061		6991546						10091386
	End of Year	Account 2001	Balance	(g)	1576279	38451	327488				492758	657630	39684		20268		760402				3054302	15302	15302		-				17602869	33375		17569494						23009154
		Sales &	Transfers	(f)																																		
rvice - Detail			Retirements	(e)													201723				556549	3225	3225															761497
Net Plant in Service - Detail			Additions	(p)													38823				60419								51015			51015						150257
Z	Beginning	of Year	Balance	(၁)	1576279	38451	327488				492758	657630	39684		20268		923302				3550432	18527	18527						17551854	33375		17518479						23620394
			Description	(q)	Land and Support Assets	Land	Motor Vehicles	Aircraft	Special Purpose Vehicles	Garage Work Equipment	Other Work Equipment	Buildings	Furniture	Office Equipment	General Purpose Computers	Analog Electronic Switching	Digital Electronic Switching	Electro-Mechanical Switching	Operator Systems	Radio Systems	Circuit Equipment	Information Orig & Term Equip	Station Apparatus	Customer Premises Wiring	Large Private Branch Exchanges	Public Telephone Term. Equip.	Other Terminal Equipment	Poles	Cable and Wire Facilities	Aerial Cable	Underground Cable	Buried Cable	Submarine Cable	Deep Sea Cable	Intrabuilding Network Cable	Aerial Wire	Conduit Systems	Totals
			Account	(a)	2110	2111	2112	2113	2114	2115	2116	2121	2122	2123	2124	2211	2212	2215	2220	2231	2232	2310	2311	2321	2341	2351	2362	2411	2420	2421	2422	2423	2424	2425	2426	2431	2441	
	_				*	<	<	<	<	<	<	<	<	<	<							*	<	<	<	<	<	_	*	<	< <u> </u>	<	<	<	<			
		I.	N N			7	m	4	5	9	7	∞	6	10		12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34

Year:2013	Book Cost of Property	at End of Year (g)		
	Transfers and Adiustments	Charges and (Credits) (f)		
	Retirements During	the Year (e)		
Future Use	Additions During	the Year (d)		
of Plant Held for Future Use	Book Cost of Property at	Beginning of Year (c)		
Analysis	Date Included in	Account 2002 (b)		
		Location and Description of Property (a)	NONE	Totals (Sum L.1 to L.29)
		Line No.	1 2 2 4 2 9 0 1 1 1 1 1 1 2 2 2 2 2 2 2 2 2 2 2 2 2	30 1

Year:2013	Total	Cost	% (%)	$\equiv$																										
Yes	Amortizatio	of Premium	or Discount	(K)																										
		Annual	Net Cost	Э																										
		Yield to	Maturity	(1)																										
Debt	Outstanding	Per Balance	O1	(h)	8746503	1297303	1391942		3006592																					8339156
ng Term		Net	Per \$100	(g)																										
Average Cost of Long Term Debt		Net	spa	(t)																										
verage C		Gross	Proceeds	(e)																										
A		Principal	Amount	(p)	15322000	1411278	1416150																							18149428
		Maturity	Date	(၁)	Various	2032	2033			e			,																	
		Issue	Date	(Q)	Various	2012	2013																							
			Description	(a)	USDA Rural Development Various	Federal Financing Bank	Federal Financing Bank		A dyance Dayments	Advance I ayments																				Total
		1.5	No.		- C	1 m	4	5 2	0 1	~ ∞	6	10	11	12	13	14	15	16	17	18	19	20	77	77 6	27	25	26	27	28	30

Company Name: Southern Montana Telephone Company

Call   Gross   Net	Method	
on Par Value Proceeds		
Price Of Issue Amounts Amounts (d) (e) (f) (g)	Offering (c)	Issuance (6)

Company Name: Southern Montana Telephone Company

Year:2013	Price/	Earnings	Ratio	(i)																							
	Market	Price	Low	(h)																							
	M	Д	High	(g)																							
Stock		Retention	Ratio	(f)																							
Analysis of Common Stock		Dividends	(per share)	(e)																							
Analys		Earnings	(per share)	(p)																							
	Book	Value	(per share)	(c)																							
	Avg. Number	of Shares	Outstanding	(p)		ss Lines																					
				(a)	Year Ended December 31:	2 Not Applicable-Under 5000 access Lines						Month by Month Data:	January	February	March	April	May	June	July	August	September	October	November	December			
			N		1	2	m	4	5	9	7	8	6	10	11	12	13	14	15	16	17	18	19	20	21	22	23

Company Name: Southern Montana Telephone Company

Year:2013	Retirement	or	Reaquisition (g)																											
ing the Year	Gain	or	(Loss)	<u> </u>																										
d or Retired Duri	Reaquisition	or Retirement	Cost (e)																											
Capital Stock and Funded Debt Reacquired or Retired During the Year		Principal	Amount (d)																											
tock and Funde	Number	jo	Shares (c)																											
Capital St	Call or	Retirement	Date (b)																											
			Description of Security (a)		NONE																									
		Line	No.	-	2	n	4 v	n 4	o /-	. ∞	6	10	11	12	13	14	21	17	18	19	20	21	22	23	24	25	76	27	29	ì

Company Name: Southern Montana Telephone Company

SCHEDULE 17
Page 1 of 2

Acct. No. (a) 6110 6112 6113 6114 6115 6115 6116	٠. نه					-		
			Salaries	į	ć	Other	7	E
		Description	and Wages	Benefits	Kents	Expenses	Clearances	Total
	1	Notwork Summer Evance	(c)	(a)	(e)	(I)	(g)	(u)
	-	wetwork Support Expense Motor Vehicle Expense						
		Aircraft Expense	NOT Applicable under 5000 Access Lines	under 5000 Acces	ss Lines			
		Special Purpose Vehicles Expense						
_		Garage Work Equipment Expense						
-		Other Work Equipment Expense						
	g	General Support Expense						
		Land and Building Expense						
6122		Furniture and Artworks Expense						
6123		Office Equipment Expense						
6124		General Purpose Computers Expense						
6210		Central Office Switching Expense						
6211		Analog Electronic Expense						
6212		Digital Electronic Expense						
6215		Electro-Mechanical Expense						
6220	_	Operator Systems Expense						
6230		Central Office Transmission Expense						
6231		Radio Systems Expense						
6232		Circuit Equipment Expense						
6310	П	Information Origination/Termination Expense						
6311		Station Apparatus Expense						
6341		Large Private Branch Exchange Expense						
6351		Public Telephone Terminal Equipment Exp.						
6362		Other Terminal Equipment Expense						
6410		Cable and Wire Facilities Expense						×
6411		Poles Expense						
6421	,	Aerial Cable Expense						
6422		Underground Cable Expense						
6423		Buried Cable Expense						9
	6424	Submarine Cable Expense						
	6425	Deep Sea Cable Expense						
	6426	Intrabuilding Network Cable Expense						
6431		Aerial Wire Expense						
	S	Subtotals						

Company Name:	ny N		Southern Montana Telephone Company						SCHEDULE 18
n				Total State Expense Matrix	rpense Matrix	X			Year:2013
I ino		Acct.		Salaries			Other		
No.		No.	Description (b)	and Wages (c)	Benefits (d)	Rents (e)	Expenses (f)	Clearances (g)	Total (h)
1	*	6110	Network Support Expense					9	
2	<	6112	Motor Vehicle Expense						
ю	<	6113	Aircraft Expense	NOT Applicable under 5000 Access Lines	under 5000 Acces	ss Lines			
4	<	6114	Special Purpose Vehicles Expense						
5	<	6115	Garage Work Equipment Expense						
9	<	6116	Other Work Equipment Expense						
	*	6120	General Support Expense						
∞	<	6121	Land and Building Expense						
6	<	6122	Furniture and Artworks Expense						
10	<	6123	Office Equipment Expense						
1	<	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						

## **Pension Costs**

	<b>Pension Costs</b>		Y	ear: 2013
1	Plan Name National Telecommunications Cooperative Associa			
2	Defined Benefit Plan?XXXX	Defined Contribution	ı Plan?	_
3	Actuarial Cost Method?	IRS Code:		
4	Annual Contribution by Employer:164,403	Is the Plan Over Fur	nded?	_
5				
	Item	Current Year	Last Year	% Change
6	Change in Benefit Obligation			
7	Benefit obligation at beginning of year			
8	Service cost			
	Interest Cost			
	Plan participants' contributions			
	Amendments			
0.000.00	Actuarial Gain			
	Acquisition			
	Benefits paid			_
	Benefit obligation at end of year			
	Change in Plan Assets			
	Fair value of plan assets at beginning of year			
	Actual return on plan assets			
	Acquisition			
	Employer contribution			
	Plan participants' contributions			
	Benefits paid			-
	Fair value of plan assets at end of year  Funded Status	-		
	Unrecognized net actuarial loss Unrecognized prior service cost			
	Prepaid (accrued) benefit cost			-
28				
133000000	Weighted-average Assumptions as of Year End			
	Discount rate			
	Expected return on plan assets			
	Rate of compensation increase			
33				
	Components of Net Periodic Benefit Costs			
	Service cost			
201 100	Interest cost			
	Expected return on plan assets			
	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	•			
	Number of Company Employees:			
47				
48				
49				
50				
51	and the second s			

SCHEDULE 20
Page 1 of 2
Year: 2013

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

	Item	Current Year	Last Year	% Change
1	Regulatory Treatment:			
2	Commission authorized - most recent			
3	Docket number:			
4	Order number:			
	Amount recovered through rates			
6	Weighted-average Assumptions as of Year End			
7	Discount rate			
	Expected return on plan assets			
9	Medical Cost Inflation Rate			
10	Actuarial Cost Method			
11	Rate of compensation increase			
	List each method used to fund OPEBs (ie: VEBA, 401(h	) and if tax advanta	aged:	
13				
14				
	Describe any Changes to the Benefit Plan:			
16				
17	TOTAL COMPANY			
	Change in Benefit Obligation			
	Benefit obligation at beginning of year			
	Service cost			
	Interest Cost			
	Plan participants' contributions			
0.000	Amendments			
710000 07	Actuarial Gain			
	Acquisition			
	Benefits paid			
	Benefit obligation at end of year			
	Change in Plan Assets			
	Fair value of plan assets at beginning of year			
	Actual return on plan assets			
	Acquisition			
	Employer contribution			
	Plan participants' contributions			
	Benefits paid			
	Fair value of plan assets at end of year			
851 151	Funded Status			
	Unrecognized net actuarial loss			
	Unrecognized prior service cost Prepaid (accrued) benefit cost			
	Components of Net Periodic Benefit Costs			
	Service cost			
	Interest cost			
	Expected return on plan assets			
	Amortization of prior service cost			
	Recognized net actuarial loss			
	Net periodic benefit cost			1
	Accumulated Post Retirement Benefit Obligation			
48	_			
49				
50	Amount Funded through Other			
51	TOTAL			
	Amount that was tax deductible - VEBA			1
	Amount that was tax deductible - 401(h)			
55				

Page 1 of

## Payments for Services to Persons Other Than Employees

	Payments for Services	to Persons Other Than	Employees		fear: 2013
			Total	Total	Car. 2013
	Name of	Nature of	Company	State	Intrastate
Line	Recipient	Service	Cost	Cost	Cost
No.	(a)	(b)	(c)	(d)	(e)
1	Not Applicable-Under 5000 Access L	ines	(6)	(u)	(6)
2	The rippinguist of the cost is				
3					
4					
5					
6					
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11					
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13					
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24 25					
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32					
33			1		
34					
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36					
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38					
39					
40					
41					
42					
43					
44					
45					
46					
47					
48			1	l	

Company Name: Southern Montana Telephone Company

# Subscriber Line Usage Data

Line		This	% of	Last
No.	Description	Year	Total	Year
INO.	(a)	(b)	(c)	(d)
1	Toll Usage:			
2	Interstate, InterLATA	1289679	46.94%	2690756
3	Interstate, IntraLATA			
	,			
4	Total Interstate Usage	1289679	46.94%	2690756
	•			
5	Intrastate, InterLATA	215028	7.83%	306917
6	Intrastate, IntraLATA	1242603	45.23%	1843140
	madato, mad tiv	12 12000	13.230	1010110
7	Total Introducta Hanna	1457004	F2 0.50	0450057
'	Total Intrastate Usage	1457631	53.06%	2150057
8	Total Toll Usage	2747310	100.00%	4840813
9	Centrex			
10	Local			
11	Total Minutes	2747310	100.00%	4840813

SCHEDULE 23 Page 1 of Year: 2013	% of Lines w/	(1) (m) (n) (n)	100.0%	2 100.0% 430	100.0%	<i>I</i> 100.0% 1111																		
	r er		0																					
ijes	Multi- Line	Business (i)	39	41	30 10	13																		
ompany  Cental Office and Access Line Statistics	Single	Business (h)	15	24	14	2																		
cess Lin	Residential LMS	Customers (g)																						
and Ac	Lifeline	Customers (f)	I	·	7	I																		
l Office	ADSL	(e)	105	143	14/	28																		
Sompany Centa		(p)																						
Celephone C	Residential	(c)	139	220	214	29																		
Southern Montana Telephone Company Cents	Type of	ОППСе (b)	Digital	Concentrator	Concentrator Concentrator	Concentrator																		
Company Name: Sou	Wino Conton	wire Center (a)	Wisdom	Jackson	Wise Kiver Divide	Grant																		
Comp	Line	S		77			0 / 0	0 0	10	11	13	4 7	16	17	10	20	21	23	24	26	27	28	30	31

Page 1 of Year: 2013

# **Central Office and Switch Information**

		ar office and Swi					1. 2015
		Office					
		Configuration		Switch		Switch	
Line		(Host, Remote,	Type of	Vendor/	Switch	Line	Year
	Wine Center						
No.	Wire Center	Stand alone)	Switch	Manufacturer		Capacity	Deployed
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Wisdom	Host	Digital	Genband	CS1500	5,000	2011
2							
3							l
4							
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28							
29		1					
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32			1	1			
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34			1				
35			1				
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37							
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39					1		
40							
41							
42							
42							
43							-
44							
45							
46							
1		1	ı	ı	r.		

# **Construction Budget - Montana**

Line		0044
No.	Description	2014
	(a)	(b)
1	Central Office Assets:	
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27	Total Switching and Central Office Projects over \$500,000	
28	Miscellaneous Central Office Projects not over \$500,000	
29	Total Central Office Budget (Total of Line 27 & Line 28)	
30	Other Projects over \$500,000:	
31	•	
	FTTH -Buried Cable additions with associated subsciber terminal equipment	2664506
33	1 1	
34		
35		
36		
37		
38		
39		
40		
41	Total Other Projects over \$500,000	2664506
42	Miscellaneous projects not over \$500,000	2001300
43	Total Construction Budget (Total of Lines 29, 41 & 42)	2664506
13	Total Constitution Budget (10th of Lines 17, 71 to 71)	200+300

# **Montana Total State Construction Expenditures**

	FCC				
	Part 32				Percent
Line	Account No.	Description	This Year	Last Year	Change
No.	(a)	(b)	(c)	(d)	(e)
1	2110	General Support Assets	0	97811	-100.00%
2	2210	Central Office Assets	38823	212795	-81.76%
3	2220	Operator Systems		0	
4	2230	Central Office Transmission	60419	206590	-70.75%
5	2310	Information/Termination Assets			
6	2410	Cable and Wire Facilities Assets	51015	544865	-90.64%
7	2680	Amortizable Tangible Assets			
8	2690	Intangibles			
9		Total Construction Expenditures	150257	1062061	-85.85%

	Montana Employee Counts		Year: 2013
Line		Beginning	End
No.	Category	of Year	of Year
	(a)	(b)	(c)
	Executive	2 3 3	2 2 3
	Office	3	2
	Outside PlantCO		3
4	Janitorial	0.5	0.5
5			
6			
7			
8			
9			
10 11			
12			
13			
14			
15			
16			
17			
18			
19			
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29 30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41			
42			
43	Totals (Sum of Lines 1 through 42)	8.5	7.5

	Compensation	on of Top	10 Mont	ana Based	Employees	Y	ear: 2013
Line		Base		Other	Total	Total Compensation	% Increase Total
No.	Name/Title	Salary	Bonuses	Compensation		Last Year	Compensation
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1							
2							
3							
4							
4							
5							
6							
7							
,							
8							
	-						
9							
10							
10							
	ъ.						
11	Totals (Sum L.1 to L.10)						X

Company Name: Southern Montana Telephone Company

SCHEDULE 28
Year: 2013

**Compensation of Top 5 Corporate Employees - SEC Information** 

	Compensation of To	p 5 Corpo	rate Emp	oloyees - S	EC Intorn	ation	
						Total	% Increase
		Base		Other	Total	Compensation	Total
Line	Name/Title	Salary	Bonuses	Compensation	Compensation	Last Year	Compensation
No.	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	(a)	(0)	(0)	(u)	(0)	(1)	(8)
1							
	Not Applicable						
	Not Applicable						
2							
3							
4							
5							
"							
6	Totals (Sum L.1 to L.5)						
	` '		i de la composición del composición de la compos				

# **Montana Composite Statistics**

		Triontana Composite Statistics	T
Line	Account		
No.	No.	Description	Amount
INO.		(a)	(b)
1		Plant (Intrastate Only) (000 Omitted)	
			1
2	2001	Plant in Service	
3	2003 - 2004	Construction Work in Progress	
4	2005	Plant Acquisition Adjustments	
		Plant Held for Future Use	
5	2002		
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	
12	3000 3300	Operating revenues	
13	6560	Depreciation & Amortization Expenses	
	0300	<u>.</u>	
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)	
		Treess Emes in Service (incrustate Smy)	
23		Residential Access Lines	
		Business Access Lines	
24		4-19 Juliana (1996) (1997) (1997) (1997) (1997) (1997) (1997) (1997) (1997) (1997) (1997) (1997) (1997) (1997)	
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)	
52		oner statistics (increased only)	
33		Average Decidential Monthly Bill	
		Average Residential Monthly Bill	
34		Gross Plant Investment per Access Line	

		Depreciation - Montana Intras	state Regulated	Year: 2013			
			Composite	Total			
T !	Acct	Description	Rate	Expense			
Line	No.	_	%	\$			
No.	(a)	(b)	(c)	(d)			
1	2112	Motor Vehicles	33.0%	15,366			
2	2114	Special Purpose Vehicles					
3	2115	Garage Work Equipment					
4	2116	Other work Equipment	13.4%	23,590			
5	2121	Buildings	4.2%	27,620			
6	2122	Furniture					
7	2123.1	Office Support Equipment	11.7%	1,095			
8	2123.2	Company Communications Equipment	9.3%				
9	2124	General Purpose Computers	20.0%	4,054			
10	2211	Analog Electronic Switching Equipment					
11	2212	Digital Electronic Switching Equipment	10.0%	75,065			
12	2215	Step By Step Switching Equipment		,			
13	2215	Crossbar Switching Equipment					
14	2220	Operator System					
15	2231	Radio Systems					
16	2232	Circuit DDS	1				
17	2232	Circuit Digital	10.0%	303,657			
18	2232	Circuit Analog		,			
19	2351	Public Telephone Terminating Equipment					
20	2362	Other Terminal Equipment	1				
21	2411	Poles	1 1				
22	2421	Aerial Cable Metallic					
23	2421	Aerial Cable Nonmetallic					
24	2422	Underground Cable Metallic					
25	2422	Underground Cable Nonmetallic	1				
26	2423	Buried Cable Metallic	5.0%	316,184			
27	2423	Buried Cable Nonmetallic	5.0%	560,235			
28	2424	Submarine Cable Metallic		,			
29	2424	Submarine Cable Nonmetallic					
30		Intrabuilding Network Cable Metallic					
31	2426	Intrabuilding Network Cable Nonmetallic					
32	2431	Aerial Wire	5.0%	1,668			
33	2441	Conduit Systems		-,500			
34							
35		COMPOSITE TOTAL		1,328,534			
36	The Control of the Co						
37							
38							
39							
40		Source Training State Training					

Year: 2013

# Amortization - Montana Intrastate Regulated

			Composite	Total
ļ., I	Acct	Description	Rate	Expense
Line	No.	1	%	\$
No.	(a)	(b)	(c)	(d)
1	(4)	(=)	(-)	(=)
	3410	Amortize 3 Rivers IRU 20 year life	5.0%	8,750
2 3	5110	Innottize 5 Rivers into 20 year into	2.070	3,700
4				
5				
6				
7				
8				
9				
		9		
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
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21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35		COMPOSITE TOTAL		
36				
37	Please lis	t the Montana Public Service Commission Docket Orde	r No. approving these	e amortization rates
38				
39		Docket Number Order Nu	umber	
40				

	Year: 2013			
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	0 7 7			
12	Common Equity			
	Preferred Stock			
14	Long Term Debt			
	Other			
16	Total			

Company Name: Southern Mont **SCHEDULE 32** 

	Network Access - Charges and Revenue	es	Year: 2013
		Access	Access
Line		Charges	Revenues
	Description	Paid	Received
No.	(a)	(b)	(c)
			BC 18 3 180 1 190
1	Montana - Total State		262953
2			
3	Montana - Intrastate		
. 4			
5	Montana - Intrastate Regulated		
6			
7			
8			
9			
10			
11			
12			
13			

(	Company
	Lelephone
	Montana
	Southern
	Name:
(	Company

		Affiliate Transactions -	Affiliate Transactions - Products & Services Provided to Utility	ovided to Utili	ty	Year: 2013
Line No.	Affiliate Name	Products & Services (b)	Method to Determine Price (c)	Charges to Utility (d)	% Total Affil. Revenues (e)	Charges to MT Utility (f)
Г						
7	Not Applicable					
n						
4						
2						
9						
_						
∞						
6						
10						
11						
12						
13						
14						
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16						
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77						
23						
24						
25						
26						
27						
28						
67						
30	IOIAL					

Company Name: Southern Montana Telephone Company

		Affiliate Transactions -	Affiliate Transactions - Products & Services Provided by Utility	ovided by Utili	ity	Year: 2013
Line No.	le 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	Not Applicable					
4						
9 /						
- ∞						
6						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19 3.						
720						
21						
22						
23						
24						
25						
26						
27						
28	0.5					
29						
30	TOTAL					

Year: 2013

# Montana Intrastate Regulated Earned Rate of Return

	Triontana intrastate Regulated Barned Rate			2013
Line	Description	This	Last	Percent
No.	Rate Base	Year	Year	Change
NO.	(a)	(b)	(c)	(d)
1				
2	2001 Plant in Service	23,272,278	23,795,394	-2.20%
3	2002 Prop. Held for Future Telecommunications Use	88,125	11,602	659.57%
4	3100-3200 (Less) Accumulated Depreciation	(10,129,301)	(9,548,515)	-6.08%
5	Plant in Service	13,231,102	14,258,481	-7.21%
6		,,	.,,	
7	Additions			
8	1220 Materials & Supplies	96,547	88,519	9.07%
9	1280 Prepayments	22,016	24,784	-11.17%
10	Other Additions	22,010	24,704	-11.1770
	VICTO CHARACTERISTICS MICHAEL CONTROL	110.562	112 202	4 ( 40/
11	TOTAL Additions	118,563	113,303	4.64%
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				
19	TOTAL Deductions			
20	TOTAL Rate Base	13,349,665	14,371,784	-7.11%
21				
22	Net Earnings			
23				
24	Rate of Return on Average Rate Base			
25				
26	Rate of Return on Average Equity			
27	5 1 1			
28	Major Normalizing Adjustments & Commission			
	Ratemaking adjustments to Utility Operations			
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			

Year: 2013

# **Other Taxes Paid**

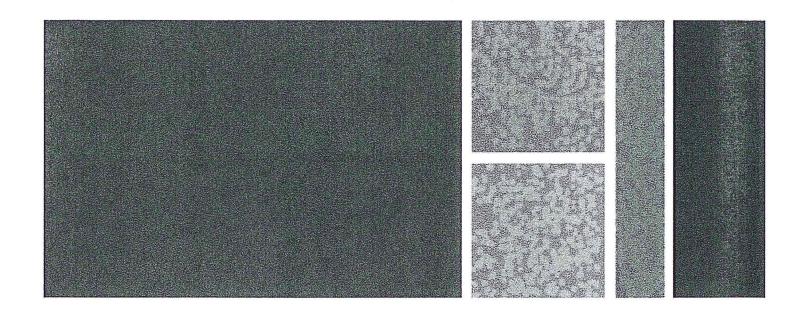
Line	Description	Last Year	This Year
No.	(a)	(b)	(c)
1	Montana Telephone Company License Tax		***
2	Montana Public Service Commission Tax	1011	1305
3	Montana Consumer Counsel Tax	607	378
4	911 Emergency Telephone Fee	11113	11091
5	Montana Telecommunications Access Service (TDD)	1111	1109
6	Montana Corporate License Tax		
7	Personal Property Tax	163457	180900
8	Real Property Tax		
9			
10			
11			
12	Total	177299	194783

## **SCHEDULE 37**

Year: 2013

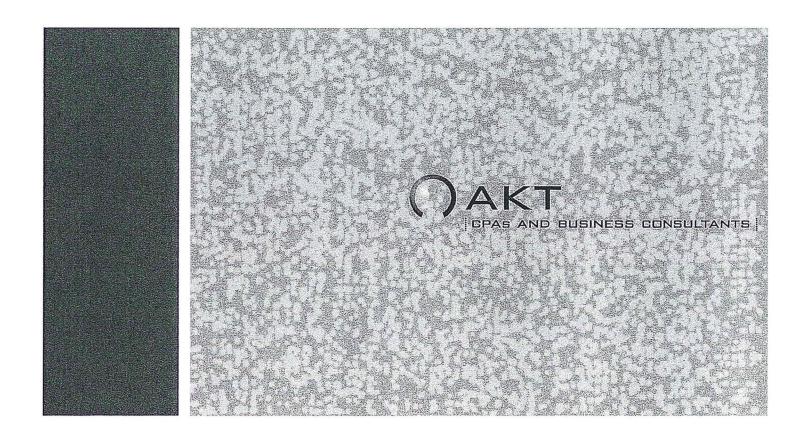
# **Universal Service Funds Received**

Line	Description	Last Year	This Year
No.	(a)	(b)	(c)
13	Funds received from Montana Sources		
14	Funds received from Federal Sources	3010480	3188442
15			
16			
17			
18			
19			
20			
21			
22			
23			
24	Total	3010480	3188442



Financial Statements

Years Ended December 31, 2013 and 2012



## **Financial Statements**

Years Ended December 31, 2013 and 2012

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		Page
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Fi	inancial Statements:	
	Balance Sheets	2
	Statements of Income	3
	Statements of Changes in Stockholder's Equity	4
	Statements of Cash Flows	5
	Notes to Financial Statements	6

#### CPAS AND BUSINESS CONSULTANTS





#### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Southern Montana Telephone Company (the Company) which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

#### 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, 2013 and 2012, 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 February 25, 2014, 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.

AKTLLP

Salem, Oregon February 25, 2014

**Balance Sheets** 

December 31, 2013 and 2012

ASSETS		2013		2012
Current Assets:			-	
Cash and cash equivalents	\$	1,264,439	\$	1,078,788
Accounts receivable, less allowance for doubtful				
accounts of zero in 2013 and 2012		450,630		611,800
Materials and supplies		97,766		96,530
Prepaid expenses		22,015		24,783
Total Current Assets		1,834,850		1,811,901
Other Investments		362,884		358,411
Property, Plant, and Equipment:				
Telecommunications		23,184,153		23,795,395
Nonregulated		175,832		164,864
Under construction		88,125		11,602
		23,448,110		23,971,861
Less accumulated depreciation		10,188,537	-	9,578,236
Property, Plant, and Equipment, net		13,259,573		14,393,625
	\$	15,457,307	\$_	16,563,937
LIABILITIES AND STOCKHOLDER'S EQUITY				
Current Liabilities:				
Current portion of long-term debt	\$	911,993	\$	804,960
Accounts payable		79,448		84,655
Advance billing and customer deposits		22,078		21,524
Accrued expenses		219,812		325,474
Total Current Liabilities		1,233,331		1,236,613
Long-Term Debt	,	8,337,997		9,965,322
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	_	5,876,589	_	5,352,612
Total Stockholder's Equity		5,885,979	-	5,362,002
	\$_	15,457,307	\$_	16,563,937

## Statements of Income

Years Ended December 31, 2013 and 2012

	2013		2012
Operating Revenues:			
Local network \$	229,852	\$	215,038
Interstate access	4,075,148		4,475,502
Intrastate access	278,772		322,213
Nonregulated	573,146		483,241
Miscellaneous	5,481	_	6,935
Total Operating Revenues	5,162,399		5,502,929
Operating Expenses:			
Plant specific operations	505,978		533,455
Plant nonspecific operations	407,873		504,249
Customer	188,393		185,358
Corporate	643,835		693,612
Depreciation and amortization	1,337,284		1,360,492
Other operating taxes	183,169		165,907
Nonregulated	597,042	_	497,506
Total Operating Expenses	3,863,574	_	3,940,579
Operating Income	1,298,825		1,562,350
Other Income:			
Other income	203,661		23,903
Allowance for funds used during construction	-		2,253
Total Other Income	203,661		26,156
Income Available for Fixed Charges	1,502,486		1,588,506
Fixed Charges - Interest on Long-Term Debt	387,225		405,939
Net Income \$	1,115,261	\$_	1,182,567

# Statements of Changes in Stockholder's Equity

Years Ended December 31, 2013 and 2012

	Capital	Stock			
	Shares		Paid-in	Retained	
	Issued	Amount	Capital	Earnings	Total
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	610	6,100	3,290	5,352,612	5,362,002
Distributions	-	-	-	(591,284)	(591,284)
Net income				1,115,261	1,115,261
Balance, December 31, 2013	610 \$	6,100 \$	3,290 \$	5,876,589_\$_	5,885,979

#### **Notes to Financial Statements**

Years Ended December 31, 2013 and 2012

#### 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.

#### Basis of Accounting

The Company's financial statements are prepared on the accrual basis of accounting in conformity with the accounting principles generally accepted in the United States of America applicable to regulated enterprises.

#### Regulation

The Company is subject to limited regulation by the Public Service Commission of Montana (PSC) and the Federal Communications Commission (FCC). The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission 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 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. At December 31, 2013 the Company's total uninsured cash balance was \$877,390 (none in 2012). 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.

**Notes to Financial Statements** 

Years Ended December 31, 2013 and 2012

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

#### Property, Plant, and Equipment, continued.

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 2013, total interest incurred was \$387,225 (\$405,939 in 2012), none of which was capitalized (\$2,253 in 2012).

#### 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 and are allocated to nonregulated accounts in accordance with the Company's Part 64 Allocation manual. 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 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 has elected to file access tariffs through the National Exchange Carriers Association (NECA) for interstate purposes, which are subject to approval by the FCC. The Company follows access tariffs filed with the PSC for intrastate 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). These universal service support revenues are intended to compensate the Company for the high cost of providing service in rural areas. 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 2013, the Company received \$1,895,688 from the USAC High Cost Loop Fund (\$1,679,233 in 2012) and \$2,179,460 in interstate access revenues administered through the NECA pool (\$2,796,269 in 2012).

**Notes to Financial Statements** 

Years Ended December 31, 2013 and 2012

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

#### National Broadband Plan and FCC Order

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

In response to the plan, the FCC on October 27, 2011, approved Report and Order 11-161 (the Order), that begins the process of reforming the universal service and intercarrier compensation (ICC) systems and adopts support for broadband-capable networks as an express universal service principle. The Order further creates the Connect America Fund which will ultimately replace all existing high-cost support mechanisms as well as help facilitate ICC reforms.

The key provisions of the order include:

- Capping the federal universal service fund at current levels.
- · Placing limitations on capital and operating spending.
- · Establishing local rate benchmarks.
- Capping the per-line support amount for the universal service high cost loop fund at \$250 per month.
- Phase out of local switching support and the establishment of the CAF for recovery of investment and expenses related to the provision of switching services.
- Reforming 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 approximately 9 years from the date of the order.
- 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 July 1, 2012. As of the implementation date CAF recovery is calculated based on the frozen fiscal year 2011 interstate switched access revenue requirement, plus certain 2011 intrastate access revenues, and will decline annually by 5% during the transition period.

As of December 31, 2013 the Company is transitioning its local rates and is not subject to the \$250 per line support cap. Furthermore, for the period ended December 31, 2013 the impacts to the Company related to the 5% annual decline in switched access revenues 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. The FCC has issued numerous Orders for Reconsideration and continues to seek comments on various items. As a result, 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.

#### Revenue Recognition

The Company recognizes revenues when earned regardless of the period in which they are billed.

Monthly service fees derived from local telephone service, internet and video are billed in advance. Advance billings are recorded as a liability and subsequently transferred to income in the period earned. Access charges (see Note 1, Network Access Revenue), long distance and other revenues based on usage are billed in arrears.

**Notes to Financial Statements** 

Years Ended December 31, 2013 and 2012

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

#### 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, 2013 and 2012 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 February 25, 2014, 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:

Telecommunications	-	2013	2012
Land and Support Central Office Cable and Wire Facilities Capital Lease Assets	\$	1,591,581 3,814,704 17,602,868 175,000	\$ 1,594,806 4,473,735 17,551,854 175,000
Total Telecommunications:		23,184,153	23,795,395
Non-regulated		175,832	164,864
Under Construction	_	88,125	11,602
Total Property, Plant, and Equipment In Service	\$_	23,448,110	\$ 23,971,861

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, 2013 and 2012.

#### Note 3 - Investments in Nonaffiliates

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

	2013	_	2012
Vision Net, Inc. Other Investments	\$ 279,861 44,858	\$	279,861 40,385
RTFC	828		828
Artwork Other Office Décor	 31,547 5,790	_	31,547 5,790
	\$ 362,884	\$	358,411

#### **Notes to Financial Statements**

Years Ended December 31, 2013 and 2012

#### Note 3 - Investments in Nonaffiliates, continued

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.

### Note 4 - Long-Term Debt

Long-term debt consists of the following:

g	_	2013	2012
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.	\$	403,070	\$ 566,903
2.692-4.88% notes payable to the Rural Utility Services, payable in monthly installments of \$83,967, collateralized by substantially all real and personal property, due in 2026.		9,254,267	9,839,837
Variable interest rate (.0200% in 2013 and .104% in 2012) notes payable to the Federal Financing Bank, payable in monthly installments of \$13,183, collateralized by substantially all real and		0.000.045	4 272 200
personal property, due in 2030.		2,689,245	1,373,360
Cushion of credit	_	(3,096,592)	(1,009,818)
		9,249,990	10,770,282
Less Current Portion	_	911,993	804,960
	\$_	8,337,997	\$ 9,965,322

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, 2013 and 2012.

Future maturities of long-term debt are as follows:

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2014	\$ 911,993
2015	938,765
2016	816,509
2017	845,416
2018	872,367
Thereafter	 7,961,532
	\$ 12,346,582
Less: cushion of credit	 (3,096,592)
	\$ 9,249,990

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 2013, the Company invested \$2,086,774 into its RUS cushion of credit fund (\$979,481 in 2012), and none of these funds were applied toward debt payments in 2013 or 2012. Debt payments include principal and interest.

At December 31, 2013, the Company had \$2,716,687 in unadvanced authorized loan funds from the Rural Utilities Services.

Notes to Financial Statements
Years Ended December 31, 2013 and 2012

#### 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 2013 and 2012 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 \$124,656 in 2013 and \$118,807 in 2012. There have been no significant changes that affect the comparability of 2013 and 2012 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 100 percent funded at January 1, 2012, based on the PPA funding target and PPA actuarial value of assets on that date. Information for the Plan year beginning January 1, 2013 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 \$39,747 in 2013 (\$39,598 in 2012).

#### 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.

#### **Notes to Financial Statements**

Years Ended December 31, 2013 and 2012

#### 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. The lease has been extended through April 2019 at the same monthly payment.

Following is a summary of minimum rental payments under the lease for the years subsequent to December 31, 2013:

2014	\$ 37,200
2015	37,200
2016	37,200
2017	37,200
2018	37,200
2019	37,200

Total rental expense under the lease listed above was approximately \$37,200 for the years ended December 31, 2013 and 2012.

#### Note 8 - Commitments

The Company has executed several contracts for construction projects. The amounts unpaid against these commitments at December 31, 2013 were \$5,175 (\$135,546 at December 31, 2012).