



SRT

ANNUAL REPORT

THIS IS OUR COOP



COOPERATIVE ENTERPRISES BUILD A BETTER WORLD



COOPERATIVE ENTERPRISES BUILD A
BETTER WORLD.

COOPERATIVE ENTERPRISES ARE
MEMBER OWNED, MEMBER SERVING
AND MEMBER DRIVEN

COOPERATIVES EMPOWER PEOPLE

COOPERATIVES IMPROVE LIVELIHOODS
AND STRENGTHEN THE ECONOMY

COOPERATIVE ENTERPRISES BUILD A BETTER WORLD



COOPERATIVES ENABLE
SUSTAINABLE DEVELOPMENT

COOPERATIVES PROMOTE
RURAL DEVELOPMENT

COOPERATIVES BALANCE BOTH
SOCIAL AND ECONOMIC DEMANDS

COOPERATIVES PROMOTE
DEMOCRATIC PRINCIPLES

COOPERATIVES AND GENDER:
A PATHWAY OUT OF POVERTY

COOPERATIVES: A SUSTAINABLE
BUSINESS MODEL FOR YOUTH

THIS IS OUR MESSAGE TO OUR MEMBERS.

General Manager and President's Report

The year 2012 has been recognized by the United Nations General Assembly as the "International Year of Cooperatives." Their key message is "Cooperative Enterprises Build a Better World." That message is delivered in an article on the United Nations website that states:

Co-operatives are self-help enterprises owned by their members. They are run on democratic lines with the principle of 'one member, one vote' rather than 'one dollar, one vote'. What is interesting is their sheer reach and growing success. Three billion people, according to the United Nations, help to secure their livelihood through co-operatives.

Ed Mayo, Secretary General of Co-operatives UK

2011 "Extremely Challenging"

Flood

The flooding of the Souris Valley region in North Central North Dakota has been well-documented. The whole region felt the effects of the devastating flood that started early in the spring of 2011. Its effects are still being felt today and will resonate for years to come.

SRT Communications, Inc., a locally owned and operated company whose service area is defined by the Souris River (and previously known as Souris River Telephone), was greatly affected by the severe flooding. Two major Central Office buildings, buildings that house the electronics required to provide phone and broadband services to local neighborhoods, were engulfed by the fast moving and rising water. SRT had to

build dikes around nine different buildings that we identified in the flood zones from Burlington to Velva. The total cost of completely restoring the buildings and the related electronics was around \$4 million. Other associated costs including unplanned overtime, contract labor and flood prevention expenses are estimated at around \$1 million, along with lost revenue due to business interruption of around \$1.5 million.

Approximately 5,000 customers lost service or no longer needed service after they were displaced from their homes. 27 SRT employees were either displaced or lost their homes due to the flood.

Despite incurring significant losses as a result of the flood, SRT supported our local communities by donating \$10,000 to the Red Cross, \$10,000 to the Minot Area Community Foundation Recovery Fund, providing free wireless phones and wireless data service to displaced residents who had no other means of communication, and supporting events such as the Black-Eyed Peas Minot Rising concert and the Dale Brown "An Evening of Hope" event in which proceeds were used to assist flood victims.

ARDEL Rice | President



STEVE D. Lysne | General Manager/CEO

THIS IS OUR MESSAGE TO OUR MEMBERS.

General Manager and President's Report

FCC Broadband Plan

In the fall of 2011, the country received notice of the FCC's new "Broadband Plan for America." The rural industry has been critical of the plan even as it was being developed because the plan diverts away funding that was meant to support quality services in the rural areas, imposed rate increases on rural customers, and gives big price cuts to large carriers and Internet companies who get to virtually use the local networks at little or no cost.

The FCC's stated goal to ensure that all of America has comparable access to the Internet is admirable. Reliable, high-speed broadband has become the essential service of today, like telephone service was not that long ago. Broadband Internet can improve the lives of all consumers, but access is especially important for those of us living in rural America, from farmers monitoring weather and prices, to small businesses reaching out to customers nationwide, to students researching and doing homework online and doctors remotely seeing patients and offering emergency care.

The new FCC rules, however, don't promote these objectives. The new rules cut support needed to serve rural areas that do not have the population that urban areas have to support fixed network costs. It's hard to reconcile the commentary about connecting all of America with the actual impact of the new rules. The new rules will put existing investment in rural broadband at risk and could also lead to increased rates for many customers for telephone, Internet and other services.

The FCC plan also provides that 4 Mbps service is adequate in the rural parts of the country while 100 Mbps is required in urban areas. Again, the conclusion is that it is not cost effective to provide comparable Internet and wireless service to rural citizens, and apparently far inferior service is all you deserve for choosing to live there.

SRT will work hard in support of our members and customers to urge our congressional representatives to support responsible regulatory action that ensures equal and affordable access to Internet for all Americans, whether you live in town or on the farm.

2012 Projects and Priorities "Moving Forward"

The Board of Directors identified five key Priorities for 2012 (and beyond). Those are: 1) Flood recovery and service restoration; 2) Keeping up with area growth; 3) Metigoshe Broadband Stimulus Project; 4) Broadband Transport upgrade; and 5) Rural Fiber to the Home Plan.

All five items listed show that we are committed to providing quality services to all of our customers. All five items also indicate that we are in a period of heavy investment into capital infrastructure, and the bottom line is capital investment takes cash.

SRT was able to secure some FEMA assistance for the flood recovery, and as a result the buildings at Oak Park and the Fairgrounds that flooded were completely back in service by the end of January. SRT was also able to secure broadband stimulus funds, in the form of loans

and grants from RUS, to help fund two-thirds of the \$6.6 Million Metigoshe Fiber Project. Unfortunately, this project was suspended last year due to the resources that had to be committed to rebuild from the damage caused by the flood. Construction resumed this spring, however, with the goal that all fiber would be placed in 2012, and that all services would be available to the 663 locations getting fiber optic cable by the end of the first quarter of 2013.

SRT was also able to get RUS approval for a \$25 million loan to fund half of the \$50 million Rural Fiber Plan. There is a second loan pending for an additional \$17 million. SRT will have to fund the final \$8 million out of our internally-generated cash. The first year of the project includes fiber to the rural portions of the Berthold, Mohall, Deering, Sawyer and Velva exchanges and construction started in June.

The copper plant serving these rural areas is old and cannot support the level of broadband that we offer within the city limits, and it needs to be replaced.

The final two projects, upgrading the transport backbone to support the increasing demand for broadband, and the explosive area growth are being funded with internally-generated cash. It is estimated that the Minot growth alone will cost at least \$10 million per year for the foreseeable future.

Cash and Capital Credits

With the demands on our cash resources identified above, our cash balances have reached the point that they are maintained at the minimum

level needed to meet our debt and operational obligations. This makes the retirement of capital credits difficult, especially during a period when we are borrowing money to finance upgrades and expansions to the network.

The Board is committed to retiring capital credits to estates during this heavy investment period. At the same time, they are carefully weighing their responsibilities as stated in Section 7.2 of the cooperative bylaws which states "If....the Board of Directors shall determine the financial condition of the Cooperative will not be impaired thereby, the capital then credited to the member patron's accounts may be retired in full or part".

While the Cooperative still enjoys a strong equity position (76%) in its assets, most of these assets are in the form of communications plant used to provide service. This should provide solid revenue returns for the Cooperative for many years to come, and our margins will continue to be strong. However, current circumstances have dictated that our current cash priorities are to complete the important projects noted above.



**THIS IS OUR
RECOVERY.**



“SRT supported local communities by donating \$10,000 to the Red Cross, \$10,000 to the Minot Area Community Foundation Recovery Fund, providing free wireless phones and wireless data service to displaced residents who had no other means of communication, and supporting events such as the Black-Eyed Peas Minot Rising concert and the Dale Brown “An Evening of Hope” event in which proceeds were used to assist flood victims.”



THIS IS OUR REGION.

“Broadband Internet can improve the lives of all consumers, but access is especially important for those of us living in rural America, from farmers monitoring weather and prices, to small businesses reaching out to customers nationwide, to students researching and doing homework online and doctors remotely seeing patients and offering emergency care.”

THIS IS OUR FUTURE.

The Board of Directors identified Five Key Priorities for 2012 (and beyond). Those are:

- Flood recovery and service restoration
- Keeping up with area growth
- Metigoshe Broadband Stimulus Project
- Broadband Transport upgrade
- Rural Fiber to the Home Plan

THESE ARE OUR SERVICES.

Wireless: SRT offers a variety of wireless phones, including Android Smartphones, rugged and heavy-duty phones, and basic wireless phones. Available plans include local and nationwide calling, text and picture messaging, and data.

Internet: We are excited to make Fiber to the Home available in select areas, bringing extreme high-speed Broadband Internet and crystal-clear HDTV to rural North Dakota. Additionally, we have repackaged our Internet products with different speed and price points to better meet the needs of our customers.

SRTVision: SRTVision is an exciting new television service we are rolling out to our Fiber to the Home customers and areas without cable service that will deliver our current cable TV lineups.

Security Systems: As our communities change, the need for reliable home security is becoming a reality. SRT provides complete, customized security

offerings with the same level of service as nationwide competitors and the added benefit of local service and technicians.

Traditional Landline and Long Distance: Landline phones remain a reliable and affordable option to meet your communication needs. Landline phone service is independent of electricity so it works when the power goes out, is tied to a specific location for 911 emergency response, does not lose signal, and is less expensive than wireless.

My Choice Packages: SRT's My Choice Packages allow you to choose the services you need and save! Buy any 3 and get 10% off, buy 4 and get 15% off, or buy 5 and get 20% off. There is no contract associated with a package.

THIS IS OUR BOARD OF DIRECTORS.

SRT's Board of Directors is made up of people who live and work in the communities we serve. They are elected by you, our members, to determine how SRT can best meet the telecommunications needs of this region.



ALLAN **Engh**
Sherwood • District 1



DENNIS **Erber**
Glenburn • District 2



GERALD **Henry**
Newburg • District 3



SUSAN **Schmutzler**
Asst. Sec./Treasurer
Minot • District 4



ARDEL **Rice**, *President*
Mohall • District 1



JAMES **Newman**
Sawyer • District 2



JOHN **Marshall**
Towner • District 3



TOM **Seymour**
Minot • District 4



STANLEY **Vangsness**
Vice President
Berthold/Carpio • District 1




RONALD **Schepp**
Westhope • District 2



DENNIS **Schott**
Butte • District 3



TOM **Wentz, Jr.**
Secretary/Treasurer
Minot • District 4



*To be recognized by our customers,
employees and the communities we*

THIS IS OUR VISION.

*serve as an innovative company,
dedicated to making the lives of
those we serve better by virtue
of the services that we offer them.*

THIS IS OUR ACCOUNTABILITY TO YOU.

SRT Communications, Inc. and Subsidiaries **CONSOLIDATED BALANCE SHEETS** December 31, 2011 and 2010

ASSETS	2011	2010
CURRENT ASSETS		
Cash and temporary cash investments	\$ 2,432,534	\$ 1,516,013
Accounts, notes and interest receivable	5,569,921	5,151,835
Materials and supplies	3,856,629	3,046,738
Prepaid expenses	318,735	720,898
Total Current Assets	12,177,819	10,435,484
INVESTMENTS AND NONCURRENT ASSETS		
Investment in securities		14,000
Other investments	5,698,805	5,430,707
Nonregulated investments - net	4,709,826	4,768,079
Goodwill	13,530,027	13,755,058
Deferred charges	639,894	898,206
Total Investments and Noncurrent Assets	24,578,552	24,866,050
TELECOMMUNICATIONS PLANT		
Total investment in plant	232,853,469	217,487,978
Less: accumulated depreciation	150,558,189	140,671,414
Net Investment in Plant	82,295,280	76,816,564
TOTAL ASSETS	\$119,051,651	\$112,118,098
Liabilities and Equities		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 2,615,000	\$ 2,228,000
Notes payable - line of credit	3,475,000	
Accounts payable	4,172,721	5,587,116
Accrued taxes	468,396	513,489
Advance payments and billings	103,775	122,905
Other current liabilities	739,625	702,252
Total Current Liabilities	11,574,517	9,153,762
LONG TERM DEBT, LESS CURRENT MATURITIES	12,042,326	11,365,789
OTHER LIABILITIES	4,400,684	2,940,692
EQUITIES		
Patronage capital	82,987,579	80,562,018
Other capital	8,046,545	8,095,837
Total Equities	91,034,124	88,657,855
TOTAL LIABILITIES AND EQUITIES	\$119,051,651	\$112,118,098

SRT Communications, Inc. and Subsidiaries **CONSOLIDATED STATEMENTS OF OPERATIONS**
Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Local network services	\$ 7,963,130	\$ 8,593,884
Network access services	21,939,020	19,428,311
Long distance network services	972,936	2,894,146
Miscellaneous	1,673,196	1,577,842
Total Telephone Revenue	32,548,282	32,494,183
PCS network services	7,753,365	7,151,045
Internet revenue	6,212,007	6,137,381
Cable television revenue	349,521	272,508
Nonregulated revenue	1,072,886	1,108,531
Total Operating Revenues	47,936,061	47,163,648
OPERATING EXPENSES		
Plant operations	14,652,300	14,825,678
Depreciation	7,711,023	7,323,356
Customer operations	2,593,124	2,572,028
Corporate operations	5,616,051	5,386,454
Operating taxes - other	124,575	171,686
Total telephone operating expenses	30,697,073	30,279,202
PCS operating expenses	5,002,265	4,589,657
Internet operating expenses	5,172,064	4,664,037
Cable television operating expenses	1,692,463	995,431
Nonregulated expenses	2,234,623	2,125,078
Total Operating Expenses	44,798,488	42,653,405
NET OPERATING MARGIN	3,137,573	4,510,243
NONOPERATING INCOME (EXPENSE)		
Interest and dividend income	2,768,416	2,623,061
Amortization of goodwill and intangibles	(2,101,083)	(2,158,647)
Income from equity investments	744,229	515,156
Miscellaneous	(105,841)	(89,574)
Total Nonoperating Income	1,305,721	889,996
NET MARGIN BEFORE INTEREST AND INCOME TAXES	4,443,294	5,400,239
INTEREST AND RELATED ITEMS	672,394	664,843
NET MARGIN BEFORE INCOME TAXES	3,770,900	4,735,396
PROVISION FOR INCOME TAXES	592,898	60,514
NET MARGIN	\$ 3,178,002	\$ 4,674,882

**“COOPERATIVES
ARE** business enterprises
owned and controlled by
the very members that
they serve. Their member-
driven nature is one of the
most clearly differentiating
factors of cooperative
enterprises. This fact means
that decisions made in
cooperatives are balanced
by the pursuit of profit
and the needs and
interests of members
and their communities.”

THIS IS HOW WE INVEST IN OUR YOUTH.

SCHOLARSHIP WINNERS

SRT is proud to introduce our 2012 College Scholarship Winners! Awards are based on community involvement, school activities, grade point average, and an essay. Each student will receive a \$1000 scholarship.



Heidi **Artz**
Bottineau High School



Elizabeth **Burckhard**
Our Redeemer's Christian School



Anja **Selland**
Rugby High School



Jacques **Stanley**
Minot High School

YOUTH TOUR STUDENTS

Congratulations to Ashley Stensby from Sawyer High School and John Salling from Bishop Ryan High School who were selected to represent SRT at the 2012 National Telecommunications Cooperative Association's Foundation for Rural Service Youth Tour in Washington, DC in June. The Youth Tour brings high school students from rural communities throughout the United States to Washington, D.C. for a four-day adventure filled with sight-seeing, educational sessions and an eye-opening experience in the Nation's Capital.



Ashley **Stensby**
Sawyer High School



John **Salling**
Bishop Ryan High School

MINUTES OF THE 2011 ANNUAL MEETING

The 60th Annual Meeting of the members of SRT Communications, Inc. (SRT) was held at the North Dakota State Fair Center in Minot, North Dakota, on Thursday, June 16, 2011, pursuant to due notice to all members. President Ardel Rice presided.

NATIONAL ANTHEM/FLAG PRESENTATION:

President Ardel Rice asked all members to rise for the National Anthem. Presentation of the flags was done by the Minot High School Air Force Junior ROTC Honor Guard. Rachel Birdsall from Carpio sang the National Anthem.

WELCOME: President Ardel Rice welcomed everyone to SRT's 60th Annual Meeting.

INVOCATION: Pastor Paul Pankratz from First Baptist Church in Minot, provided an invocation.

INTRODUCTION OF SRT BOARD MEMBERS:

President Ardel Rice took a few moments to introduce SRT's current board members.

INTRODUCTION OF GUESTS & READING OF

LETTERS: President Ardel Rice read the names of special guests and letters of dignitaries, including United States Senator John Hoeven and North Dakota Tax Commissioner Cory Fong.

CALL TO ORDER: The meeting was called to order by President Ardel Rice at 6:40 p.m. As of 6:20 p.m., 1,089 members had registered. The President declared the presence of a quorum. President Ardel Rice appointed Attorney David Hogue as recording secretary and parliamentarian. Registration had commenced at 3:00 p.m. and a complimentary supper was served between 3:00 p.m. and 6:30 p.m.

READING OF ANNUAL MEETING NOTICE: SRT Secretary Mr. Tom Wentz, Jr. read the official notice of meeting and proof of mailing.

READING OF 2010 ANNUAL MEETING MINUTES: It was moved, seconded, and carried to approve the

minutes of the 2010 annual meeting of members as printed in the meeting booklet, and to dispense with oral reading of the minutes.

NOMINATIONS PROCEDURE & INTRODUCTION OF CANDIDATES:

Attorney David Hogue, from Pringle & Herigstad, explained the procedure for nomination and election of directors of SRT, who are responsible for the management of the cooperative's business and affairs. Attorney Hogue introduced the candidates from each district: Stanley Vangsness of Berthold/Carpio (District 1), Ronald Schepp of Westhope (District 2), John Marshall of Towner (District 3) and Susan Schmutzler of Minot (District 4).

CREDENTIALS AND ELECTION COMMITTEE:

President Ardel Rice announced that members Virginia Erickson of Berthold, Darwin Lee of Westhope, Erna Garnant of Bantry, and Linda Johnson of Minot, were appointed as the Credentials and Election Committee. Mr. Lee was appointed as the chairman of the committee.

FINANCIAL REPORT: President Ardel Rice introduced Perry Erdmann, the chief financial officer of SRT. Mr. Erdmann described the financial results for the past fiscal year and the results of an independent audit of SRT's consolidated operations. Mr. Erdmann reported SRT earned a net margin of \$ 4.5 million on revenues of \$47.2 million in 2010.

PRESIDENT'S MESSAGE: President Ardel Rice announced a five year plan to deploy fiber to all rural areas within SRT's service area. Mr. Rice noted SRT will begin to replace copper with fiber in the rural areas where copper is aging and nearing the end of its useful life.

MESSAGE TO OUR MEMBERS REPORT: General Manager Steve Lysne presented the Cooperative's "Message to Our Members" report. Mr. Lysne introduced a historical video of the evolution of telephone and television service in the Minot area.

Mr. Lysne used the 100th anniversary of telephone service in Minot to describe the history of SRT's telecommunications service. He described the key role of the Truman Administration, and the cooperative model in advancing telephone service to the rural areas of North Dakota.

Mr. Lysne described SRT significant investment in the telecommunications infrastructure. SRT has invested more in infrastructure than what it paid for the Minot exchange. Mr. Lysne described SRT's transition to a 3G network supported by a fiber backbone.

SCHOLARSHIP RECIPIENTS: President Ardel Rice explained SRT's scholarship program and named the 2011 recipients. They are: Marisa Asheim, Mohall-Lansford-Sherwood High School; Breanna Benson, Minot High School; Haley Heiser, Velva High School; and Katie Odland, Velva High School.

YOUTH TOUR RECIPIENTS: President Ardel Rice also announced the students chosen to represent SRT at the 2011 Foundation for Rural Service Youth Tour Program held in Washington, D.C. Trevor Hulse, Westhope High School and Alex Wilfong, Newburg United High School were the recipients. Trevor Hulse described his trip to Washington, D.C. to the members.

ELECTIONS COMMITTEE REPORT: Attorney David Hogue called on Mr. Darwin Lee, District 2, to present the report of the Elections Committee on the elections for the following directorships:

DISTRICT 1

Stanley Vangsness, Berthold Carpio..... 45
Spoiled ballots 2

DISTRICT 2

Ronald Schepp, Westhope 102
Spoiled ballots 16

DISTRICT 3

John Marshall, Towner 59
Spoiled ballots 2

DISTRICT 4

Susan Schmutzler, Minot..... 667
Spoiled ballots 58

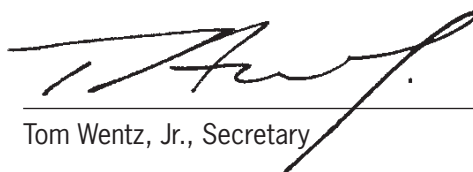
OTHER BUSINESS: The President called for old and new business. None was presented.

ADJOURNMENT: The meeting adjourned at 7:25 p.m.

DOOR PRIZES: Following formal adjournment of the meeting, several door prizes were awarded.



David Hogue, Recording Secretary



Tom Wentz, Jr., Secretary

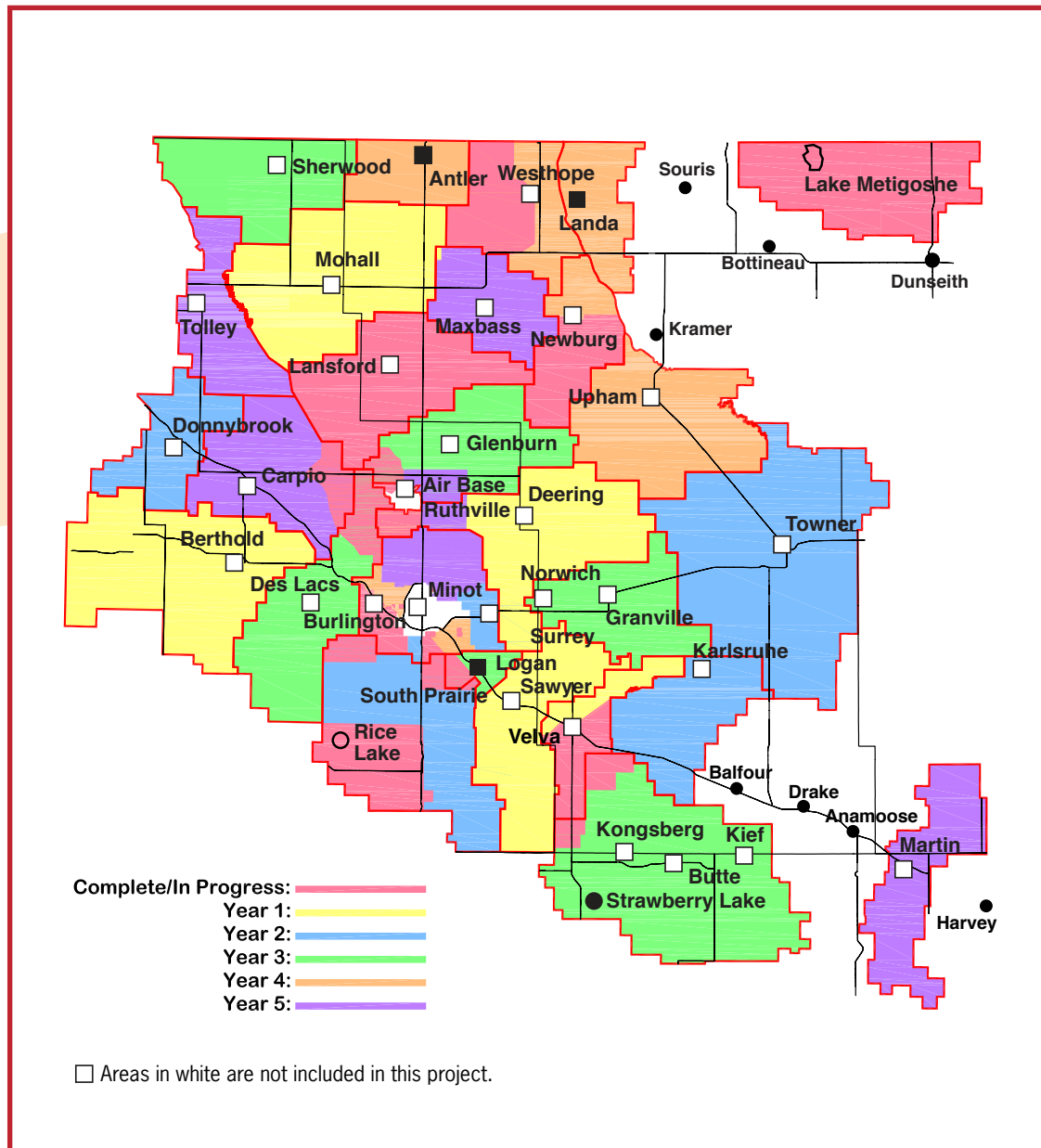
ATTEST:



Ardel Rice, President

THIS IS OUR PLAN.

SRT plans to bring Fiber to the Home to much of our service area over the next 5 years. This will provide rural homes and communities with access to crystal-clear HD television service, including local channels in HD, and unprecedented Broadband Internet speed.



“Co-operatives are self-help enterprises owned by their members. They are run on democratic lines with the principle of ‘one member, one vote’ rather than ‘one dollar, one vote.’ ”



SRT HEADQUARTERS

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Minot, ND 58702-2027



SRT CONNECTIONS

Retail Store

1400 20th Avenue SW
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Minot, ND 58702-2027