



1911-2011
100 Years
of connecting people



Message to Our Members

General Manager and President's Report

Today we celebrate 100 years of communications services to Minot and 60 years of SRT. Telephone Service began in the city of Minot over 100 years ago, but there was a 40-year gap between when service was first provided in cities and towns, to when service was provided to our rural citizens. That has historic significance. Companies were reluctant to provide telephone service in the rural areas due to the high cost and low density. Surprisingly at this time (the 1940's & 1950's), the rural population was as large as the urban population, but the private enterprise companies simply saw no financial gain by serving the rural population.

As is common throughout the history of the United States, when private enterprise is unable or unwilling to provide services that should be afforded all citizens, the Government steps in:

1) The concept of "universal service" first appeared in the Communications Act of 1934, when lawmakers resolved to make available "affordable quality

telephone service to as many Americans as possible."

2) The concept of providing Telephone Service to rural areas became a reality in 1949 with the passage of an amendment to the Rural Electrification Act (REA) of 1936 which provided a telephone loan program as a part of the REA. Signed into law October 28, 1949 by President Harry Truman, the amendments declared it to be the policy of Congress that "adequate telephone service be made generally available in rural areas".

Without the intervention of Congress, it conceivably would have been decades before telephone services would have reached many rural homes. Today we continue to fight for quality communications service in the rural areas.



STEVE D. **Lysne**
General Manager/CEO



ARDEL **Rice**
President

While landline telephone has served the area well for many decades, the SRT Board recognized early on that the future of communications service needed to include large investments in wireless and Internet technologies.

SRT was the first North Dakota local independent telephone company to build a wireless network. With the purchase of PCS spectrum in 1997, the SRT Board set forth a goal to provide seamless coverage throughout the SRT service area. North Dakota governmental officials have commented on the phenomenal wireless coverage in the Minot region thanks to the build out effort put forth by SRT Communications Inc.

SRT has also made huge investments in the broadband Internet network. The FCC has issued a "Noticed of Proposed Rule Making (NPRM)" regarding universal service for broadband Internet. In this NPRM it provides that 4 Mbps service is adequate in the rural parts of the country while 100 Mbps is required in urban areas. Whether urban or rural, everyone deserves equal service.

Cooperative Principles

SRT's cooperative origins date back to 1950 when the Verendrye Electric Cooperative Board decided to start

the telephone cooperative under the amended REA Act. The Articles of Incorporation for the newly formed Souris River Telephone Mutual Aid Corporation were filed September 29, 1951 and the first bylaws adopted. The newly formed SRTMAC bought its first exchange, Martin, in 1952 and had 82 subscribers. In 1956, SRTMAC received its first REA loan that would allowed the Company to acquire seven other telephone companies and construct new facilities which in total would add 5200 subscribers (2300 which had never had service before).

The cooperative form of ownership was a good fit for getting service out to the unserved and underserved areas of the region. The cooperative bylaws included the time-tested cooperative principals of one member, one vote, a board that consisted of member/customer/owners, and capital credit allocations back to the member/customer/owners. All decisions are made by the locally-elected board on behalf of the members.

While REA/RUS loans helped provide financing, cooperative equity in the form of patronage capital credits have built the company into the financially-sound service provider that exists today. The strong financial

position that the company enjoys has allowed SRT to take on such projects as: 1) the purchase of the Minot Telephone Company and the Velva exchange, which united the region into one local calling area, 2) build a system wide wireless network including areas the larger carriers ignored, and 3) build a robust broadband network to meet the demands of a bandwidth-hungry era.

Capital Credits

The SRT corporate bylaws encompass the fundamental cooperative principles when it comes to patronage capital in connection with furnishing telecommunications services (Section 7.2):

“In the furnishing of telecommunications service, the cooperatives operations shall be so conducted that all member patrons will, through their patronage, furnish capital for the cooperative. The cooperative is obligated to pay by credits to a capital account for each member patron all such amounts in excess of operating costs and expenses.”

When cash is available and not needed for upgrades to facilities, capital credits are retired by cash payments to the patrons. Over the past 10 years the cooperative has

paid out more than \$30 million dollars in capital credit retirements. The first priority, however, remains the furnishing of communications services.

2011

To provide higher Internet speeds, we are pleased to announce a five-year “Fiber to the Home” plan that will bring fiber optics to our most rural customers. True to SRT’s cooperative roots, we believe rural customers should have access to the same level of communications and data services that our urban subscribers enjoy.

To accomplish this, a major network upgrade has begun that will provide quality broadband services to 6500 rural subscribers. As with any major infrastructure project that involves new underground cable and electronics, the project takes money (\$50,000,000) and time (5 years).

As we speak, the rural portions of the Metigoshe Exchange are receiving fiber as part of the Broadband Stimulus Program award SRT received in 2010. The six million dollar project is being funded in equal parts by a USDA grant, an RUS loan and SRT capital.

The cooperative has gone through this type of network evolution before, whether it was from overhead lines to

underground, analog to digital, copper to fiber; networks evolve over time. The copper plant in the rural areas is old and for the most part fully depreciated and needs to be replaced. That's why this network upgrade makes sense now.

Services

Wireless: SRT now has Android Smartphones available at our Connections Store. These phones work both on the PCS/cellular networks as well on Wi-Fi networks.

Internet: We continue to push speed and bandwidth to provide the best product possible at an affordable price. "Fiber to the Home" will allow us to continue to meet future demands.

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

Security Systems: Affordable security system packages provide peace of mind through motion sensors, smoke, fire and water detectors, carbon monoxide sensors, glass breakage alarms, etc.

There is also a Personal Emergency Response System (PERS) product available.

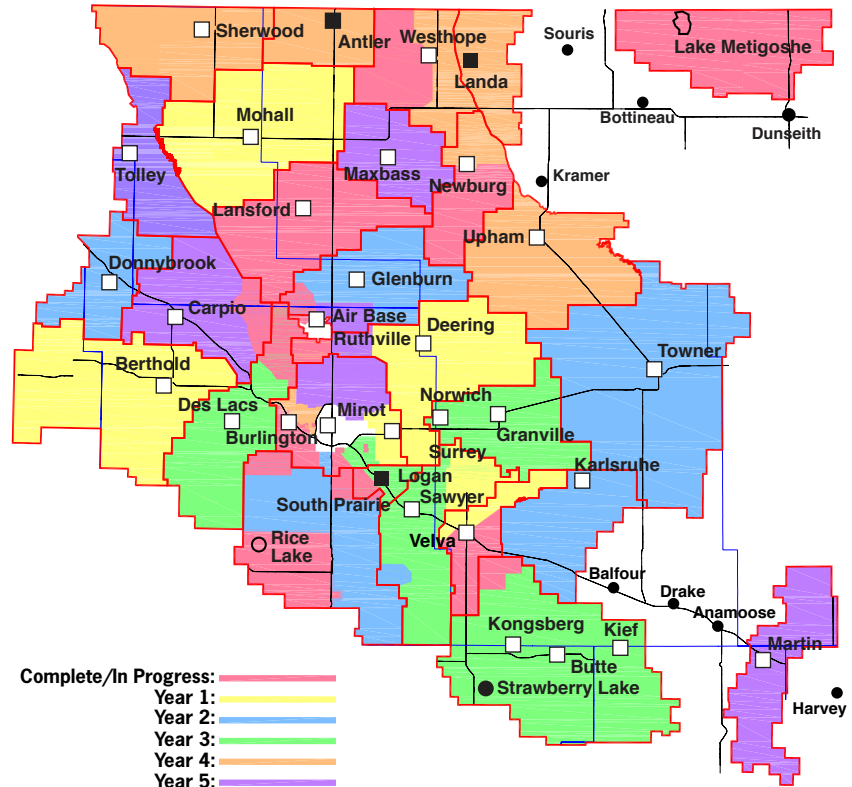
Traditional Landline and Long Distance: Perhaps the first and most basic form of security is a landline. Landline phone service is always on (even when the electricity is out), is tied to a specific location for 911 emergency response, does not lose signal, and is less expensive than wireless. SRT offers unlimited long distance packages, or just basic service.

Packages: Finally, the more services you buy from your local company, the cheaper each service is. Buy any three and get 10% off. Buy any four and get 15% off. Buy any five and get 20% off. There is no contract associated with a package.

Thank you members, Board of Directors, and employees for your support of the cooperative mission.

Fiber *to the* HOME

5 year Construction PLAN



Board of Directors



ALLAN **Engh**
Sherwood • Distirct 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 **Vangness**
Vice President
Berthold/Carpio • District 1



RONALD **Schepp**
Westhope • District 2



DENNIS **Schott**
Butte • District 3



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

Financials

Consolidated Balance Sheets

	DECEMBER 31	
ASSETS	2010	2009
CURRENT ASSETS		
Cash and Temporary Cash Investments	\$1,516,013	\$1,820,429
Accounts, notes and interest receivable	5,151,835	4,734,473
Materials and supplies	3,046,738	3,679,689
Prepaid expenses	720,898	861,069
Total current assets	<u>10,435,484</u>	<u>11,095,660</u>
INVESTMENTS AND NONCURRENT ASSETS		
Investment in securities	14,000	14,000
Other investments	5,430,707	5,230,096
Nonregulated investments - net	4,768,079	3,551,681
Goodwill	13,755,058	13,980,088
Deferred charges	898,206	1,314,748
Total investments and noncurrent assets	<u>24,866,050</u>	<u>24,090,613</u>
TELECOMMUNICATIONS PLANT		
Total investment in plant	217,487,978	212,976,962
Less: accumulated depreciation	<u>140,671,414</u>	<u>138,894,638</u>
Net investment in plant	76,816,564	74,082,324
TOTAL ASSETS	<u>\$112,118,098</u>	<u>\$109,268,597</u>
LIABILITIES AND EQUITIES		
CURRENT LIABILITIES		
Current portion of long-term debt	\$2,228,000	\$2,161,000
Accounts payable	5,587,116	4,156,042
Accrued taxes	513,489	844,966
Advance payments and billings	122,905	138,560
Other current liabilities	702,252	953,258
Total current liabilities	<u>9,153,762</u>	<u>8,253,826</u>
LONG TERM DEBT (LESS CURRENT MATURITIES)		
	11,365,789	14,070,560
OTHER LIABILITIES	<u>2,940,692</u>	<u>1,471,908</u>
EQUITIES		
Patronage capital	80,562,018	75,432,931
Other capital	8,095,837	10,039,372
Total equities	<u>88,657,855</u>	<u>85,472,303</u>
TOTAL LIABILITIES AND EQUITIES	<u>\$112,118,098</u>	<u>\$109,268,597</u>

Financials

Consolidated Statements of Operations

	2010	2009
OPERATING REVENUES		
Local network services	\$8,593,884	\$8,040,061
Network access services	19,428,311	19,433,220
Long distance network services	2,894,146	2,888,027
Miscellaneous operating revenue	<u>1,577,842</u>	<u>1,581,633</u>
Total telephone revenue	32,494,183	31,942,941
PCS network services	7,151,045	6,357,846
Internet revenue	6,137,381	5,739,542
Cable television revenue	272,508	247,518
Nonregulated revenue	<u>1,108,531</u>	<u>1,006,038</u>
Total operating revenue	<u>47,163,648</u>	<u>45,293,885</u>
OPERATING EXPENSES		
Plant operations	14,825,678	14,832,844
Depreciation	7,323,356	7,106,566
Customer operations	2,572,028	2,877,004
Corporate operations	5,386,454	5,375,351
Operating taxes	<u>171,686</u>	<u>222,723</u>
Total telephone expenses	30,279,202	30,414,488
PCS operating expenses	4,589,657	4,548,603
Internet operating expenses	4,664,037	4,138,837
Cable television operating expenses	995,431	687,810
Nonregulated expenses	<u>2,125,078</u>	<u>1,892,623</u>
Total operating expense	<u>42,653,405</u>	<u>41,682,361</u>
NET OPERATING MARGIN	4,510,243	3,611,524
NONOPERATING INCOME (EXPENSE)		
Interest and dividend income	2,623,061	1,878,794
Amortization of goodwill and intangibles	(2,158,647)	(3,461,006)
Income from equity investments	515,156	597,141
Miscellaneous	<u>(89,574)</u>	<u>30,968</u>
Total nonoperating income (expense)	889,996	(954,103)
NET MARGIN BEFORE INTEREST AND INCOME TAXES	5,400,239	2,657,421
INTEREST AND RELATED ITEMS	664,843	707,478
NET MARGIN BEFORE INCOME TAXES	<u>4,735,396</u>	<u>1,949,943</u>
PROVISION FOR (BENEFIT FROM) INCOME TAXES	60,514	33,055
NET MARGIN	<u>\$4,674,882</u>	<u>\$1,916,888</u>

1951 Souris River Telephone Mutual Aid Corporation adopts by laws • 1952 SRT purchases Martin Telephone Company
 1956 First cut over to modern dial service • 1957 Entered contract with United States Air Force to provide telephone
 service to MAFB • 1959 Telephone exchanges established Donnybrook, Glenburn, Karlsruhe, Kongsberg and Landa
 1961 Patrons receive first Capital Credit Check • 1966 SRT upgrades entire phone system with buried plant • 1970 Touch
 tone comes to life • 1972 Butte and Granville telephone exchanges are purchased • 1976 SRT celebrates 25 years



1980 SRT offers Cable TV in Westhope • 1987 SRT opens retail store markets telephones, computers and security alarms
 1988 Digital conversion complete • 1989 SRT launches college scholarship program • 1990 SRT becomes agent for
 CommNet 2000 - offering cell phones in to DBS (Direct Broadcast Satellite) TV • 1991 SRT introduces
 1999 Wireless PCS (Personal Communication Service) • 2000 SRT introduces satellite TV service • 2001 PCS and
 Rice Lake, Rural Lansford, Rural Newburg and South Prairie • 2011 Android Smartphones are here!

SRT is proud of our history and the communication services we've been able to provide our customers for the past 100 years. While the methods used to communicate have drastically changed, our mission remains strong - to provide quality services and the ultimate in customer care.

Investing in Our Youth

Scholarship and Youth Tour

SRT is proud to announce its 2011 College Scholarship Winners! A total of 77 applications were received and SRT awarded four scholarships totaling \$4000.

Each application was evaluated based on community involvement, school activities, grade point average, appearance of application and a written essay entitled "Fifteen Minutes of Fame: How would you use social media as a communication tool if you had 15 minutes of fame?"



Marisa Asheim
MLS High School



Breanna Benson
Minot High School



Haley Heiser
Velva High School



Katie Odland
Velva High School



Alex Wilfong
Newburg United
High School



Trevor Hulse
Westhope
Public School

Students to Represent SRT at Youth Tour in Washington DC

Congratulations to Alex Wilfong and Trevor Hulse who were selected to represent SRT at the 2011 National Telecom Cooperative Association's Foundation for Rural Service Youth Tour.

The Youth Tour brings high school students from rural communities throughout the U.S. 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. This year's tour took place June 4-8, 2011.

Minutes of the 2010 Annual Meeting

The 59th 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 17, 2010, pursuant to due notice to all members. SRT board 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 conducted by the Minot High School Air Force Junior ROTC Honor Guard, including Daniel Henderson from Minot, and Audrey and Aaron Livingston from Minot AFB sang the National Anthem.

WELCOME: President Ardel Rice welcomed everyone to SRT's 59th Annual Meeting.

INVOCATION: Father Austin Vetter from St. Leo's Catholic 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 GUEST SPEAKER: President Ardel Rice introduced Col. Mike Dilda, Mission Support Group Commander from Minot AFB, and thanked him for his presence at the meeting and his service to our country. Col. Dilda described missions and community outreach projects, including family housing, family support, and educational support for airmen. Col. Dilda commented on the close connection between the Minot Air Force Base community and the city of Minot community.

INTRODUCTION OF GUESTS & READING OF

LETTERS: President Ardel Rice read the names of special guests and letters of dignitaries.

CALL TO ORDER: The meeting was called to order by President Ardel Rice at 6:30 p.m. As of 6:35 p.m., 1335 members had registered. The President declared the presence of a quorum. President Ardel Rice appointed Attorney David Hogue as recording secretary and parliamentarian. Registration 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 2009 ANNUAL MEETING MINUTES: It was moved, seconded, and carried to approve the minutes of the 2009 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, PC, 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: Allan Engh, of Sherwood (District 1), Jim Newman of Sawyer (District 2), Gerald Henry of Newburg (District 3), and Tom Seymour of Minot (District 4).

CREDENTIALS AND ELECTION COMMITTEE: President Ardel Rice announced that members Joan Tonneson of Newberg, Lynn Beckedahl of Sherwood, Jerry Effertz of Velva, and Brenda Blikre of Minot, were

appointed as the Credentials and Election Committee.

FINANCIAL REPORT: President Ardel Rice introduced Perry Erdmann, CFO, of SRT. Mr. Erdmann provided the membership with a summary of SRT's financial performance for the past year. Mr. Erdmann explained that SRT's financial records are audited by an independent accounting firm.

PRESIDENT'S MESSAGE: President Ardel Rice discussed the theme of the 2010 annual meeting, which is "Thinking Beyond Today." He also discussed the four board goals for 2010 and beyond, which are: 1. improve and expand services to exceed the communications needs of SRT customers; 2. develop a qualified, well-trained workforce that serves the customer's and company's best interest; 3. foster effective leadership through an educated, proactive and collaborative board; 4. design, build, maintain and upgrade a communications network to meet the needs of SRT customers.

MESSAGE TO OUR MEMBERS REPORT: General Manager Steve Lysne presented the Cooperative's "Message to Our Members" report. Mr. Lysne

explained the importance of increasing broadband while maintaining broadband service at a low cost to SRT customers. He noted that customers' demand for broadband with higher speeds continues to increase since SRT's initial offering of DSL service. Mr. Lysne noted SRT will continue to focus on providing SRT customers with reliable broadband service at an affordable rate.

SCHOLARSHIP RECIPIENTS: President Ardel Rice explained SRT's scholarship program and named the 2010 recipients. They are: Courtney Jacobsen, Our Redeemers High School, Abigail Naze, Minot High School, Alexandra Podoll, Velva High School, and Nicholas Nelson, Kenmare High School.

YOUTH TOUR RECIPIENTS: President Ardel Rice also announced the youth tour recipients, Adrienne Ricker, Minot High School and Isaac Soto, Mohall/Lansford/Sherwood High School.

ELECTIONS COMMITTEE REPORT: Attorney David Hogue called on Jerry Effertz of the Credentials

Committee to present the report of the Elections Committee on the elections for the following directorships. Mr. Effertz announced the following results:

DISTRICT 1

Allan Engh, Sherwood	48
Spoiled ballots	2

DISTRICT 2

Jim Newman, Sawyer	49
Spoiled ballots	2

DISTRICT 3

Gerald Henry, Newburg	52
Spoiled ballots	2

DISTRICT 4

Tom Wentz, Jr., Minot	390
Spoiled ballots	40

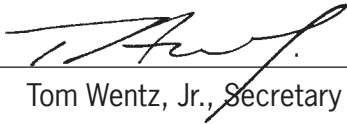
Attorney David Hogue declared Allan Engh, Jim Newman, Gerald Henry, and Tom Wentz, Jr. elected as directors, each for a three-year term.

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

ADJOURNMENT: The meeting adjourned at 7:15 p.m.

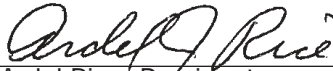


David Hogue, Recording Secretary



Tom Wentz, Jr., Secretary

ATTEST:



Ardel Rice, President

SRT Mission

"Our mission is to provide competitively priced, high quality communications services which are responsive to the needs of our customers. We recognize that our employees are vital to the implementation of this mission, and we will strive to equip them with the tools necessary to attain our goals and objectives. We are committed to being good stewards of our owners' investment, to ensure long term financial viability."



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