

**WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY  
AND SUBSIDIARIES**

Audited Consolidated Financial Statements and  
Supplemental Financial Information

December 31, 2009 and 2008

**REDACTED**

**WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES**

Audited Consolidated Financial Statements and  
Supplemental Financial Information

December 31, 2009 and 2008

**INDEPENDENT AUDITOR'S REPORT** ..... 1-2

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated Balance Sheets .....3-4

Consolidated Statements of Operations ..... 5

Consolidated Statements of Stockholders' Equity ..... 6

Consolidated Statements of Cash Flows ..... 7-8

Notes to Consolidated Financial Statements .....9-21

**SUPPLEMENTAL FINANCIAL INFORMATION**

Details of Consolidated Balance Sheets .....22-23

Details of Consolidated Statements of Operations .....24

Details of Consolidated Statements of Cash Flows .....25-26



JOHNSON  
STONE &  
PAGANO, P.S.  
CERTIFIED PUBLIC ACCOUNTANTS

1501 Regents Blvd., Suite 100

Fircrest, WA 98466

(253)566-7070

fax (253)566-7100

### Independent Auditor's Report

Board of Directors  
St. John Co-Operative Telephone  
and Telegraph Company  
St. John, Washington

We have audited the accompanying consolidated balance sheets of St. John Co-Operative Telephone and Telegraph Company and Subsidiaries, as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. John Co-Operative Telephone and Telegraph Company and Subsidiaries at December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated April 5, 2010, on our consideration of St. John Co-Operative Telephone and Telegraph Company and Subsidiaries' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Board of Directors  
St. John Co-Operative Telephone  
and Telegraph Company

Page 2

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplemental financial information is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

*Johnson, Stone & Pagano, P.S.*

JOHNSON, STONE & PAGANO, P.S.

April 5, 2010

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2009 and 2008

2009

2008

ASSETS

**CURRENT ASSETS**

Cash and cash equivalents  
Accounts receivable, less allowances for  
doubtful accounts  
Note receivable  
Materials and supplies  
Nonregulated materials inventory  
Recoverable federal and state income taxes  
Prepaid expenses

**Total Current Assets**

**INVESTMENTS**

Investments in stocks and partnership

**PROPERTY, PLANT AND EQUIPMENT**

Telecommunications plant in service  
Less allowances for depreciation

Telecommunications plant under construction

**Total Telecommunications Plant**

Nonregulated plant  
Less allowances for depreciation

**Total Nonregulated Plant**

**Total Property, Plant and Equipment**

**Total Assets**

See accompanying notes to consolidated financial statements.

**REDACTED**

2009

2008

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT LIABILITIES**

Accounts payable  
Customers' deposits  
Taxes, other than income taxes  
Other current liabilities  
Installments on long-term debt due within one year

**Total Current Liabilities**

**LONG-TERM DEBT**, less portion classified as a  
current liability

**OTHER LIABILITIES**

Deferred income taxes

**Total Liabilities**

**STOCKHOLDERS' EQUITY**

Common stock, par value \$20 per share;  
Authorized - 2,500 shares  
Issued and outstanding - (2009 - 1,886 shares;  
2008 - 1,891 shares)  
Retained earnings

**Total Stockholders' Equity**

**Total Liabilities and Stockholders' Equity**

**REDACTED**

WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>		
Local network service revenues		
Network access service revenues		
Long distance network service revenues		
Miscellaneous revenues		
Cable television revenues and installations		
Uncollectible revenues (deduction)		
<b>Total Operating Revenues</b>		
<b>OPERATING EXPENSES</b>		
Plant specific operations		
Plant nonspecific operations		
Depreciation and amortization		
Customer operations		
Corporate operations		
Taxes, other than income taxes		
Other operating expenses		
<b>Total Operating Expenses</b>		
<b>Net Operating Income (Loss)</b>		
<b>FIXED CHARGES</b>		
<b>OTHER INCOME</b>		
Interest and dividend income		
Nonregulated income - net		
Gain on sale of investment and property		
Equity in earnings of partnership		
<b>Total Other Income</b>		
<b>INCOME TAXES</b>		
Currently payable (refundable)		
Deferred taxes		
<b>Total Income Taxes</b>		
<b>Net Income (Loss)</b>		

See accompanying notes to consolidated financial statements.

REDACTED



WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2009 and 2008

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>BALANCE AT DECEMBER 31, 2007</b>			
Dividends declared - net			
Net loss for the year			
<b>BALANCE AT DECEMBER 31, 2008</b>			
Dividends declared - net			
Redemption of stock			
Net income for the year			
<b>BALANCE AT DECEMBER 31, 2009</b>			

See accompanying notes to consolidated financial statements.

**REDACTED**

**WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)		
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Equity in earnings of partnership		
Depreciation of telecommunications plant		
Depreciation and amortization of nonregulated plant and other assets		
Deferred income taxes		
Gain on sale of investment and property		
Noncash patronage income		
Net change in operating assets and liabilities		
<b>Net Cash Provided by Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments		
Additions to telecommunications plant		
Additions to nonregulated plant		
Partnership distributions		
Redemption of stock		
<b>Net Cash Used by Investing Activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid - net		
Proceeds from long-term borrowing		
Payments on long-term debt		
<b>Net Cash Provided by Financing Activities</b>		
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
<b>Cash and Cash Equivalents at End of Year</b>		

See accompanying notes to consolidated financial statements.

**REDACTED**

-7-

Exhibit 2

WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<b>COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES</b>		
(Increase) decrease in assets:		
Accounts receivable		
Materials and supplies		
Nonregulated materials inventory		
Recoverable federal and state income taxes		
Prepaid expenses		
Increase (decrease) in liabilities:		
Accounts payable		
Customers' deposits		
Taxes, other than income taxes		
Federal and state income taxes payable		
Other current liabilities		
<b>Net Change in Operating Assets and Liabilities</b>		
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest, net of interest capitalized (2008 - \$ )		
Federal and state income taxes		
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Telecommunications plant in accounts payable		
Telecommunications plant in long-term debt		

See accompanying notes to consolidated financial statements.

REDACTED

**WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES**

***Principles of Consolidation and Operations***

The consolidated financial statements include the accounts of St. John Co-Operative Telephone and Telegraph Company ("Company") and its wholly-owned subsidiaries, St. John Cable Company, Colfax Highline Cable Company, and Coin Telecom, Inc. All material intercompany accounts and transactions have been eliminated in consolidation.

St. John Co-Operative Telephone and Telegraph Company is a local exchange telecommunications company. The Company, together with its subsidiary Coin Telecom, Inc., provides local exchange, long distance, other telecommunications services and internet access services to customers in St. John and the surrounding vicinity in rural Whitman County in eastern Washington State. St. John Cable Company provides cable television and high speed internet access services to customers in St. John and the surrounding vicinity. Colfax Highline Cable Company provides cable television and high speed internet access services to customers in Colfax and the surrounding vicinity in eastern Washington State.

Regulatory changes in the telecommunications industry have modified, or could modify, the manner in which the Company's approved telecommunication tariffed rates are calculated, as well as modify the manner in which the Company recovers its revenue requirements. Implementation of modifications and the outcome of the regulatory proceedings may adversely affect certain current or future revenue streams of the Company.

***Regulation***

The Company and Coin Telecom, Inc. are subject to the accounting rules and rate regulation policies of the Washington Utilities and Transportation Commission ("WUTC") and adhere to the Federal Communications Commission ("FCC") Uniform System of Accounts for Class B telephone companies as prescribed by the FCC under Part 32.

***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the Company considers cash to be cash on hand, in checking accounts, in construction fund accounts and in certificates of deposit with original maturities of three months or less. Included on the balance sheet under the caption of cash and cash equivalents is construction fund cash of \$            in 2009 and \$            in 2008.

***Materials and Supplies***

Materials and supplies are stated at the lower of cost (first-in, first-out) or market.

**REDACTED**

**WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (Continued)**

***Investments in Stocks and Partnership***

Investments in stocks are stated at fair market value if readily determinable, and otherwise at cost.

The Company uses the equity method to account for the investments in partnership. Under the equity method, the Company's share of earnings or losses of the partnership are reflected in income.

***Fair Value Measurements***

On January 1, 2009, the Company adopted applicable authoritative guidance related to fair value measurements that defines fair value, provides a framework to measure the fair value of assets and liabilities and requires certain disclosures about those measurements. The guidance establishes a hierarchy to prioritize the inputs that underlie a fair value measurement and requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs essentially distinguish the relative reliability of inputs to fair value measurements. Level 1 inputs are more reliable and objective than Level 2 inputs which are in turn more reliable and objective than Level 3 inputs. In arriving at a fair value measure, the Company is required to determine the level in the fair value hierarchy within which a fair value measurement ultimately falls and provide disclosure of such determinations.

***Property, Plant & Equipment***

Property, plant and equipment are stated at cost and are depreciated on a straight-line basis for accounting purposes. Lives used for calculating depreciation on telecommunications plant are in accordance with the rules of the WUTC and are based on the estimated economic useful lives of all assets. Likewise, lives used for calculating depreciation on all other property and equipment are based on the estimated economic useful lives of the assets.

***Telecommunications Plant Retirements***

When a telecommunications plant asset is retired or otherwise disposed of, the cost of the asset is removed from the asset account and charged to the related allowances for depreciation. Similarly, the cost of removal and salvage proceeds are charged or credited to the allowances for depreciation. Consequently, no gain or loss upon disposition is recognized.

***Allowance for Funds Used During Construction***

Interest applicable to funds used for long-term construction projects is capitalized as a part of the cost of the asset and depreciated over the asset's estimated useful life. There was no interest capitalized in 2009 and \$ \_\_\_\_\_ of interest capitalized in 2008.

**REDACTED**

WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (Continued)**

***Advertising Costs***

Costs incurred for advertising are expensed as incurred. Advertising expense was \$        in 2009 and \$        in 2008.

***Revenue Recognition, Major Customers and Services***

Services provided by the Company include local network, long distance network and network access services, as well as other services. Network access service revenues, which represent a significant portion of the Company's operating revenues, are derived from the provision of exchange access services to interexchange carriers or to an end user of telecommunication services beyond the Company's local network.

Revenues for interstate access services are received through tariffed access charges filed by the National Exchange Carrier Association ("NECA") with the FCC on behalf of the NECA member companies. These access charges are billed by the Company to interstate interexchange carriers and pooled with like-revenues from all NECA member companies. The pooled access charge revenues received by the Company are based upon the actual cost of providing interstate access services, plus a return on the investment dedicated to providing these services. Pooled access charge revenues are estimated at December 31 each year and are subject to adjustment. Such adjustments are normal occurrences and are recorded by the Company during the year in which they occur.

Revenues for intrastate access services are received through tariffed access charges filed by the Company and the Washington Exchange Carrier Association ("WECA") and approved by the WUTC. The access charges are billed by the Company to intrastate interexchange carriers. The carrier common line and state universal service fund revenues are pooled with all WECA member companies. The traffic sensitive revenues are considered bill and keep based on tariffed rates.

For some of the services that the Company provides to its customers, the Company relies upon services and facilities supplied to it by other companies. Any material disruption of the services or facilities supplied to the Company by other companies could potentially have an adverse effect upon the Company's operating results.

***Federal and State Income Taxes***

**REDACTED**

WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (Continued)**

*Federal and State Income Taxes (Continued)*

The Company utilizes the liability method of accounting for income taxes as set forth in authoritative literature. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

Authoritative guidance provides for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the Company's financial statements. Management is of the opinion that the income tax positions taken by the Company meet the more-likely-than-not threshold that the tax returns filed by the Company have greater than a 50 percent chance of being sustained under examination by the Internal Revenue Service. The Company's federal income tax returns for the tax years ended December 31, 2008, 2007 and 2006 remain subject to examination.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions used in preparing the accompanying consolidated financial statements.

*Reclassifications*

Certain reclassifications have been made to the previously issued 2008 financial statements in order to make them comparable with 2009 financial statements.

*Subsequent Events*

The management of the Company evaluated for subsequent events and transactions for potential recognition and disclosure through April 5, 2010, the date the financial statements were available to be issued. No such subsequent events were identified.

**WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 2 - CONCENTRATION OF CREDIT RISK**

The Company and Subsidiaries maintain cash balances at various financial institutions in eastern Washington. Accounts at each of the institutions are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation up to \$250,000 at December 31, 2009 and 2008. The Company and Subsidiaries periodically maintain cash balances in excess of the federally insured limits.

**NOTE 3 - ACCOUNTS AND NOTE RECEIVABLE**

The accounts receivable balance at December 31 consists of:

	<u>2009</u>	<u>2008</u>
Due from customers		
Due from exchange carriers and exchange carrier associations		
Allowances for doubtful accounts (deduction)		

The Company extends credit to its business and residential customers based upon a written credit policy. Service interruption is the primary vehicle for controlling losses. Accounts receivable are recorded when subscriber bills, carrier access bills, and exchange carrier associations settlement statements are rendered and are presented in the balance sheets net of the allowances for doubtful accounts. Certain exchange carrier associations' settlements are subject to out-of-period adjustments and are recorded during the year in which they become determinable. The allowances for doubtful accounts are estimated based on the Company's historical losses, the existing economic conditions in the telecommunications and cable television industry and the financial stability of its customers. Approximately % of accounts receivable were outstanding ninety days or more after the date of the invoice on which they were first billed.



WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

**NOTE 4 - INVESTMENTS IN STOCKS AND PARTNERSHIP**

Investments consist of the following:

	<u>2009</u>	<u>2008</u>
<u>Investments in Stocks</u>		
St. John Co-Operative Telephone and Telegraph Company:		
Grange Patronage Stock Dividend		
Pioneer Telephone Holding Company, Inc.		
Total Investments in Stocks		
<u>Investment in Partnership</u>		
St. John Co-Operative Telephone and Telegraph Company:		
% limited partnership interest in Washington RSA No. 8 Limited Partnership		
Total Investments in Stocks and Partnership		

Investments in stocks are stated at fair market value if readily determinable, and otherwise at cost.

The Company's investment in Washington RSA No. 8 Limited Partnership ("the Partnership") is presented on the equity method. During the year ended December 31, 2009 the Company sold its limited interest in the Partnership. Summary audited information regarding the partnership as of and for the year ended December 31, 2008 is as follows.

	<u>2008</u>
<u>Washington RSA No. 8 Limited Partnership</u>	
BALANCE SHEET	
Assets:	
Current assets	
Other assets	
Investment in cellular plant - net	
Liabilities and Partners' Capital:	
Current liabilities	
Partners' capital	

WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 4 - INVESTMENTS IN STOCKS AND PARTNERSHIP (Continued)

2008

Washington RSA No. 8 Limited Partnership (Continued)

STATEMENT OF OPERATIONS

Revenues  
Operating expenses  
Other income

Net Income

The general partner and a limited partner in the Partnership were named as defendants in a lawsuit involving matters related to the Partnership. The Company, as a limited partner in the Partnership, has no direct liability for claims asserted in the lawsuit. However, relief awarded against the Partnership or the general partner, could have affected the value of the Company's limited partnership interest or result in a recalculation and possible adjustment of distributions the Partnership made to its partners, including the Company, with respect to the period after August 1, 2002.

As described in Note 1, the Company has adopted applicable authoritative literature related to fair value measurements. Following is the hierarchy and fair value measurements at December 31, 2009 and 2008:

	Fair Value Measurements		
Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Other Subjective Inputs (Level 3)

December 31, 2009

Equities

**REDACTED**

WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 4 - INVESTMENTS IN STOCKS AND PARTNERSHIP (Continued)

	Fair Value Measurements		
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Other Subjective Inputs (Level 3)
<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
<u>December 31, 2008</u>			
Equities			
Limited partnership investment	_____	_____	
	\$ _____	\$ _____	

Investments valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Investments valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Level 3 inputs are based on the Company's own assumptions on how knowledgeable parties would price assets or liabilities, and are developed using the best information available in the circumstances.

Reconciliation of Level 3 Inputs

Balance at December 31, 2007

Equity in partnership income  
Partnership distributions  
Stock dividend

Balance at December 31, 2008

Partnership distributions  
Sale of partnership interest  
Stock dividend

Balance at December 31, 2009

There were no unrealized gains or losses included in the valuation of investments measured in accordance with level 3 inputs.

REDACTED

**WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT**

Telecommunications Plant in Service

Telecommunications plant in service is stated at cost. Listed below are the major classes of the telecommunications plant as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
General support facilities	\$	
Central office equipment		
Cable and wire facilities		
	\$	

Provisions have been made for depreciation of major classes of the telecommunications plant at straight-line rates as follows:

General support facilities		
Buildings	2.70%	- 5.00%
Furniture and office equipment	6.00%	
Vehicles and other work equipment	8.33%	- 11.25%
Central office equipment	7.92%	- 12.50%
Cable and wire facilities	3.80%	- 5.00%

Nonregulated Plant

Nonregulated plant is recorded at original cost. Listed below are the major classes of nonregulated plant as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
St. John Co-Operative Telephone and Telegraph Company		
Nonregulated telecommunications equipment		
Internet equipment		
Paging equipment		
Motel building		
Mini storage building		

**REDACTED**

**WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)**

	<u>2009</u>	<u>2008</u>
St. John Cable Company Cable television equipment	\$	
Colfax Highline Cable Company General support assets Cable television equipment		
Total Nonregulated Plant	\$	

Provisions have been made for depreciation of major classes of the nonregulated plant at straight-line rates as follows:

Nonregulated telecommunications equipment	9.00%
Internet equipment	9.00%
Paging equipment	9.00%
Motel and mini storage building	4.00%
Cable television equipment	10.00% - 12.50%
General support assets	12.50% - 14.29%

**NOTE 6 - LONG-TERM DEBT**

Long-term debt consists of the following:

	Current Annual Installments of Principal	Principal Amount	
		<u>2009</u>	<u>2008</u>
Rural Utilities Service ("RUS") - first mortgage notes			
2% - due September 2013			
2% - due September 2013			
5% - due September 2029			
Advance payments (deduction)			

Less principal installments on long-term debt due within one year

**REDACTED**

**WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 6 - LONG-TERM DEBT (Continued)**

	Current Annual Installments of Principal	Principal Amount	
		<u>2009</u>	<u>2008</u>
Amounts due to vendors for completed construction projects to be financed by borrowings from the Rural Utilities Service			
Total Long-term Debt			

At December 31, 2009, maturities on long-term debt for the next five years and thereafter are as follows:

- 2010
- 2011
- 2012
- 2013
- 2014
- Thereafter

At December 31, 2009, the Company has available \$ \_\_\_\_\_ for future borrowing from the RUS for approved telecommunication plant expenditures.

Substantially all of the Company's telecommunications plant now owned and hereafter acquired is subject to first and supplemental mortgage agreements executed to the Rural Utilities Service. The terms of the mortgage agreements restrict distributions to stockholders, redemptions of capital stock, and investments in affiliated companies. Allowable distributions are based on minimum net worth requirements defined in the agreements. The Company must also maintain certain interest coverage under the mortgage agreements.

**REDACTED**

WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

**NOTE 7 - FEDERAL AND STATE INCOME TAXES**

The Company recognizes deferred income taxes for differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent future income tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. The differences relate to the following:

- Depreciable assets' lives and methods of calculating depreciation for financial and income tax reporting.
- Recording of partnership investments using the equity method for financial reporting purposes and the cost method for income tax purposes.
- Carryforward of a net operating loss for income tax reporting.

The tax effects of temporary differences that give rise to significant portions of deferred tax liabilities (assets) consist of the following:

Plant and equipment  
Partnership investment  
Net operating loss carryforward

Components of the provisions for income taxes are as follows:

Currently payable (refundable)  
Deferred taxes

The Company has a net operating loss carryforward of \$\_\_\_\_\_ from 2009 and 2008.

**REDACTED**

**WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

**NOTE 8 - LEASES**

The Company leased certain telecommunications facilities from a local telecommunications provider. The term of the lease consisted of a two-year lease commencing March 2004 and expiring March 2006. The Company is currently leasing the facilities on a month-to-month basis at \$            per month and is in the process of negotiating a new lease. Total lease expense was \$            in 2009 and \$            in 2008.

The Company also leases certain telecommunications facilities from the Port of Whitman County. The term of the lease consists of a twenty-year lease commencing August 31, 2004 and expiring August 31, 2024, unless terminated earlier by either party pursuant to the lease agreement. The Company pays monthly rental of \$            and monthly taxes of \$            . Expense for this agreement was \$            for 2009 and 2008.

**NOTE 9 - PENSION PLAN**

**NOTE 10 - RELATED PARTY TRANSACTIONS**

The Company is affiliated with St. John Cable Company, Colfax Highline Cable Company and Coin Telecom, Inc. through common ownership by the Company.

During the years ended December 31, 2009 and 2008, the Company had the following related party transactions which were eliminated in consolidation:

	<u>2009</u>	<u>2008</u>
Telecommunications services provided to:		
Coin Telecom, Inc.	\$	
Interest charged on intercompany advances:		
Colfax Highline Cable Company	\$	
Coin Telecom, Inc.	\$	

**REDACTED**



SUPPLEMENTAL FINANCIAL INFORMATION

WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

DETAILS OF CONSOLIDATED BALANCE SHEETS

December 31, 2009 and 2008

	Consolidated	Eliminations	St. John Co-Operative Telephone and Telegraph Company	St. John Cable Company	Colfax Highline Cable Company	Coin Telecom, Inc.
	2009	2009	2008	2009	2008	2009
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents						
Accounts receivable						
Note receivable						
Materials and supplies						
Nonregulated materials inventory						
Recoverable federal and state income taxes						
Prepaid expenses						
<b>Total Current Assets</b>						
<b>INVESTMENTS AND OTHER ASSETS</b>						
Investments in subsidiaries						
Due from affiliated companies						
Investments in stocks and partnership						
<b>Total Investments and Other Assets</b>						
<b>PROPERTY, PLANT AND EQUIPMENT</b>						
Telecommunications plant in service						
Less allowances for depreciation						
Telecommunications plant under construction						
<b>Total Telecommunications Plant</b>						
Nonregulated plant						
Less allowances for depreciation						
<b>Total Nonregulated Plant</b>						
<b>Total Property, Plant and Equipment</b>						
<b>Total Assets</b>						

REDACTED

WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

DETAILS OF CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2009 and 2008

	Consolidated	Eliminations	St. John Co-Operative Telephone and Telegraph Company	St. John Cable Company	Colfax Highline Cable Company	Coin Telecom, Inc.
	2009	2009	2008	2009	2008	2008
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable						
Customers' deposits						
Taxes, other than income taxes						
Other current liabilities						
Installments on long-term debt due within one year						
Total Current Liabilities						
<b>DUE TO AFFILIATED COMPANY</b>						
LONG-TERM DEBT, less portion classified as a current liability						
<b>OTHER LIABILITIES</b>						
Deferred income taxes						
Total Liabilities						
<b>STOCKHOLDERS' EQUITY</b>						
Common stock						
Preferred stock						
Retained earnings (deficit)						
Total Stockholders' Equity						
Total Liabilities and Stockholders' Equity						

REDACTED

WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

DETAILS OF CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2009 and 2008

	Consolidated	Eliminations	St. John Co-Operative Telephone and Telegraph Company	St. John Cable Company	Cofax Hightline Cable Company	Coin Telecom, Inc.
	2009	2009	2008	2009	2008	2008
<b>OPERATING REVENUES</b>						
Local network service revenues						
Network access service revenues						
Long distance network service revenues						
Miscellaneous revenues						
Cable television revenues and installations						
Uncollectible revenues (deduction)						
<b>Total Operating Revenues</b>						
<b>OPERATING EXPENSES</b>						
Plant specific operations						
Plant nonspecific operations						
Depreciation and amortization						
Customer operations						
Corporate operations						
Taxes, other than income taxes						
Other operating expenses						
<b>Total Operating Expenses</b>						
<b>Net Operating Income (Loss)</b>						
<b>FIXED CHARGES</b>						
<b>OTHER INCOME</b>						
Interest and dividend income						
Nonregulated income -- net						
Gain on sale of investment and property						
Equity in earnings of subsidiaries						
Equity in earnings of partnership						
<b>Total Other Income</b>						
<b>INCOME TAXES</b>						
Currently payable (refundable)						
Deferred taxes (benefit)						
<b>Total Income Taxes</b>						
<b>NET INCOME (LOSS)</b>						

REDACTED

WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

DETAILS OF CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2009 and 2008

	Consolidated	Eliminations	St. John Co-Operative Telephone and Telegraph Company	St. John Cable Company	Cofax Highline Cable Company	Coin Telecom, Inc.
	2009	2009	2009	2009	2009	2009
	2008	2008	2008	2008	2008	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Net income (loss)						\$
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:						
Equity in earnings of partnership						
Equity in earnings of subsidiaries						
Depreciation of telecommunications plant						
Depreciation and amortization of nonregulated plant and other assets						
Deferred income taxes						
Gain on sale of investment and property						
Federal income taxes reclassified to advances from (to) affiliated companies						
Noncash operating (income) expenses						
Noncash patronage income						
Net change in operating assets and liabilities						
Net Cash Provided (Used) by Operating Activities						
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Proceeds from sale of investments						
Additions to telecommunications plant						
Additions to nonregulated plant						
Dividends from subsidiaries						
Partnership distributions						
Advances from affiliated companies						
Redemption of stock						
Net Cash Used by Investing Activities						
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Dividends paid - net						
Proceeds from long-term borrowing						
Payments on long-term debt						
Advances to affiliated companies						
Net Cash Provided (Used) by Financing Activities						
Net Increase (Decrease) in Cash and Cash Equivalents						
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>						
Cash and Cash Equivalents at End of Year						\$

WASHINGTON 533 ST. JOHN  
ST. JOHN CO-OPERATIVE TELEPHONE  
AND TELEGRAPH COMPANY AND SUBSIDIARIES

DETAILS OF CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2009 and 2008

	Consolidated		Eliminations		St. John Co-Operative Telephone and Telegraph Company		St. John Cable Company		Colfax Hightline Cable Company		Coin Telecom, Inc.	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
<b>COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES</b>												
(Increase) decrease in assets:												
Accounts receivable												
Materials and supplies												
Nonregulated materials inventory												
Recoverable federal and state income taxes												
Prepaid expenses												
Increase (decrease) in liabilities:												
Accounts payable												
Customers' deposits												
Taxes, other than income taxes												
Federal and state income taxes payable												
Other current liabilities												
<b>Net Change in Operating Assets and Liabilities</b>												