

# North-State Telephone Company and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS  
WITH SUPPLEMENTAL INFORMATION AND RUS LETTER

Years Ended December 31, 2023 and 2022



**NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES**  
**Consolidated Financial Statements with Supplemental Information and RUS Letter**  
Years Ended December 31, 2023 and 2022

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
North-State Telephone Company and Subsidiaries  
Mt. Vernon, Oregon

### **Report on the Audit of the Consolidated Financial Statements**

#### Opinion

We have audited the accompanying consolidated financial statements of North-State Telephone Company and Subsidiaries (an Oregon corporation), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North-State Telephone Company and Subsidiaries as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of North-State Telephone Company and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about North-State Telephone Company and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

#### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

## INDEPENDENT AUDITOR'S REPORT, CONTINUED

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 North-State Telephone Company and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about North-State Telephone Company and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements and other supplemental schedule as detailed in the table of contents are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated April 29, 2024, on our consideration of North-State Telephone Company and Subsidiaries' 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 solely 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 the effectiveness of North-State Telephone Company and Subsidiaries' 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 North-State Telephone Company and Subsidiaries' internal control over financial reporting and compliance.

*Aldrich CPAs + Advisors LLP*

Salem, Oregon  
April 29, 2024

# NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

## Consolidated Balance Sheets

December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 3,475,200	\$ 3,113,193
Accounts receivable, less allowance for credit losses of \$1,450 in 2023 and 2022	424,675	344,671
Accounts receivable - affiliates	154,537	411,855
Income taxes receivable	231,488	-
Material and supplies	170,890	176,015
Prepaid expenses	1,245	-
	<u>4,458,035</u>	<u>4,045,734</u>
Total Current Assets		
Other Assets:		
Restricted cash and cash equivalents	577,081	577,081
Other investments	39,241	39,241
Notes receivable - affiliates	3,215,648	3,200,432
Goodwill, net	499,100	570,400
Non-regulated equipment	1,018,625	567,353
Less accumulated depreciation	<u>(218,571)</u>	<u>(171,678)</u>
	<u>5,131,124</u>	<u>4,782,829</u>
Total Other Assets		
Property, Plant, and Equipment:		
Telecommunications plant in service	59,254,136	59,153,063
Under construction	185,847	218,311
Property held for future use	<u>576,610</u>	<u>576,610</u>
	60,016,593	59,947,984
Total Property, Plant, and Equipment		
Less accumulated depreciation	<u>(46,244,208)</u>	<u>(44,507,211)</u>
	<u>13,772,385</u>	<u>15,440,773</u>
Property, Plant, and Equipment, net		
Operating Lease Right-of-Use Asset	161,795	1,244
Finance Lease Right-of-Use Asset, net	<u>94,524</u>	<u>135,108</u>
	256,319	136,352
Total Assets	<u>\$ 23,617,863</u>	<u>\$ 24,405,688</u>

	<u>2023</u>	<u>2022</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 191,697	\$ 157,594
Accounts payable - affiliates	655,343	22,563
Customer deposits	5,000	4,779
Accrued expenses	532,852	423,055
Deferred revenue	204,852	90,643
Income taxes payable	-	34,035
Current portion of operating lease liabilities	44,966	784
Current portion of finance lease liabilities	18,214	27,392
Current portion of long-term debt	2,055,586	1,815,928
Current portion of other long-term liabilities	-	67,523
	<u>3,708,510</u>	<u>2,644,296</u>
Total Current Liabilities		
Other Liabilities:		
Deferred income taxes	1,797,300	1,799,900
Deferred revenue	501,048	591,684
Operating lease liabilities, net of current portion	116,829	460
Finance lease liabilities, net of current portion	81,623	99,838
Long-term debt, net	7,483,232	9,574,143
	<u>9,980,032</u>	<u>12,066,025</u>
Total Other Liabilities		
Stockholders' Equity:		
Common stock, no par value, 500 shares authorized, 85 shares issued and outstanding	1,253,160	1,253,160
Retained earnings	8,676,161	8,442,207
	<u>9,929,321</u>	<u>9,695,367</u>
Total Stockholders' Equity		
Total Liabilities and Stockholders' Equity	<u>\$ 23,617,863</u>	<u>\$ 24,405,688</u>

**NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES****Consolidated Statements of Operations**

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues:		
Local network service	\$ 364,318	\$ 413,220
Network access services	6,801,669	6,901,878
Non-regulated	1,253,845	1,193,987
Miscellaneous	<u>455,332</u>	<u>138,159</u>
Total Operating Revenues	<u>8,875,164</u>	<u>8,647,244</u>
Operating Expenses:		
Plant specific	1,440,524	1,512,403
Plant non-specific	519,134	286,829
Customer operations	252,460	289,116
Corporate operations	1,193,011	1,075,265
Non-regulated	1,294,716	889,709
Depreciation and amortization	<u>1,990,211</u>	<u>2,015,415</u>
Total Operating Expenses	<u>6,690,056</u>	<u>6,068,737</u>
Operating Taxes:		
Income taxes	284,796	451,449
Other operating taxes	<u>808,768</u>	<u>481,377</u>
Total Operating Expenses and Taxes	<u>7,783,620</u>	<u>7,001,563</u>
Operating Income	<u>1,091,544</u>	<u>1,645,681</u>
Other Income (Expense):		
Other income	30,728	379,253
Income tax expense	<u>(49,181)</u>	<u>(157,769)</u>
Income Available for Interest on Long-Term Debt	1,073,091	1,867,165
Interest on Long-Term Debt	<u>(464,137)</u>	<u>(554,580)</u>
Net Income	<u>\$ 608,954</u>	<u>\$ 1,312,585</u>

**NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES****Consolidated Statements of Stockholders' Equity**

Years Ended December 31, 2023 and 2022

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	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2021	\$ 1,253,160	\$ 7,129,622	\$ 8,382,782
Net income	<u>-</u>	<u>1,312,585</u>	<u>1,312,585</u>
Balance, December 31, 2022	1,253,160	8,442,207	9,695,367
Net income	-	608,954	608,954
Dividends paid	<u>-</u>	<u>(375,000)</u>	<u>(375,000)</u>
Balance, December 31, 2023	<u>\$ 1,253,160</u>	<u>\$ 8,676,161</u>	<u>\$ 9,929,321</u>



## NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

### Consolidated Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities:		
Net income	\$ 608,954	\$ 1,312,585
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,943,316	1,966,861
Non-regulated depreciation	46,895	48,554
Deferred revenue recognized	(90,636)	(90,636)
Deferred taxes	(2,600)	263,300
Gain on disposal of property and equipment	-	(359,884)
Interest accrued on notes payable - affiliate	(15,216)	(15,216)
Costs of abandoned project	93,100	-
Changes in assets and liabilities:		
Accounts receivable	(80,004)	30,934
Accounts receivable - affiliates	257,318	(268,582)
Materials and supplies	5,125	(18,194)
Prepaid expenses	(1,245)	-
Accounts payable	34,103	(4,371)
Accounts payable - affiliates	632,780	(45,163)
Customer deposits	(393)	(4,796)
Accrued expenses	110,411	101,503
Unearned revenue	114,209	-
Income taxes receivable	(265,523)	250,325
Other long-term liabilities	(67,522)	(104,144)
Net Cash Provided by Operating Activities	3,323,072	3,063,076
Cash Flows from Investing Activities:		
Capital expenditures	(744,902)	(752,638)
Proceeds from sale of assets	22,000	582,000
Net Cash Used by Investing Activities	(722,902)	(170,638)
Cash Flows from Financing Activities:		
Payments on long-term debt	(1,851,253)	(2,009,520)
Principal paid on finance lease	(11,910)	(27,067)
Dividends paid - affiliate	(375,000)	-
Accrued interest payable - affiliates	-	(48,719)
Net Cash Used by Financing Activities	(2,238,163)	(2,085,306)
Net Increase in Cash and Cash Equivalents	362,007	807,132
Cash and Cash Equivalents, beginning	3,690,274	2,883,142
Cash and Cash Equivalents, ending	\$ 4,052,281	\$ 3,690,274
Cash Paid During the Year for Interest	\$ 485,327	\$ 575,770
Cash Paid During the Year for Income Taxes	\$ 242,531	\$ 90,000

See accompanying notes to consolidated financial statements.

**NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows, continued**

Years Ended December 31, 2023 and 2022

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	<u>2023</u>	<u>2022</u>
Noncash Investing and Financing Activities:		
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ <u>186,995</u>	\$ <u>2,023</u>
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ <u>-</u>	\$ <u>125,715</u>

## **NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES**

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

Years Ended December 31, 2023 and 2022

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

##### Organization

North-State Telephone Company and Subsidiaries (the Company) is an Oregon corporation providing telecommunications, broadband, and cable modem services within and around the city of Dufur, Oregon. The Company also provides telecommunications and broadband services to areas in Snohomish County and Okanagon County in the State of Washington through Skyline Telecom, Inc., to the city of Condon, Oregon through Home Telephone Company, and to the cities of Halfway and Granite, Oregon and rural communities in Jefferson County through Pine Telephone System, Inc. The Company is a consolidated subsidiary of Oregon Telephone Corporation (OTC) which owns a controlling interest of 95.29%. The remaining ownership is held by the majority shareholder of OTC.

##### Basis of Consolidation

The consolidated financial statements include the accounts of North-State Telephone Company and its wholly-owned subsidiaries, Skyline Telecom, Inc., Home Telephone Company, and Pine Telephone System, Inc. (collectively, the Company). All intercompany transactions have been eliminated through consolidation.

##### Basis of Accounting

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

##### Regulation

The Company is subject to regulation by the Federal Communications Commission (FCC), the Oregon Public Utility Commission (PUC), and the Washington Utilities and Transportation Commission (WUTC). The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the FCC, and adopted by the PUC and WUTC. As a result, the Company's application of U.S. GAAP differs in certain respects from the application by non-regulated entities. Such differences primarily concern the time at which certain items enter into the determination of net income.

The Company also receives universal service support from various support mechanisms administered by the Universal Service Administrative Company (USAC) under the direction of the FCC.

Regulatory and legislative actions, as well as future regulations, could have a significant impact on the Company's future operations and financial condition.

##### Estimates

The Company uses estimates and assumptions in preparing consolidated financial statements in accordance with U.S. GAAP. 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. Actual results could differ from those estimates.

##### Cash and Cash Equivalents

The Company considers all highly liquid investment securities with a maturity of three 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), which is generally \$250,000 per account holder, per bank. At various times throughout the year, the balances exceeded federally insured limits. A possible loss exists for those amounts in excess of \$250,000.

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.

## NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

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

##### Cash and Cash Equivalents, continued

###### *Restricted Cash*

Restricted cash represents cash restricted for use by the Rural Utilities Service (RUS). As required by the RUS, amounts are maintained in a separate bank account until used for approved purposes.

The following provides a reconciliation of cash and cash equivalents and restricted cash reported in the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 3,475,200	\$ 3,113,193
Restricted cash	<u>577,081</u>	<u>577,081</u>
Total cash and cash equivalents and restricted cash presented in the consolidated statements of cash flows	<u>\$ 4,052,281</u>	<u>\$ 3,690,274</u>

##### Investments

Other investments consist of non-marketable equity securities and investments in cooperative organizations. The Company adjusts the carrying value of non-marketable equity securities up or down for observable price changes in orderly transactions for identical or similar investments of the same issuer and for impairment, if any (referred to as the measurement alternative). All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in other income in the consolidated statements of operations. There were no adjustments for observable price changes or impairment reflected in these consolidated financial statements.

Investments in cooperative organizations are stated at cost plus capital credits allocated and not retired.

##### Fair Value of Financial Instruments

The Company's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, accounts receivable, accounts payable, lease liabilities, and notes payable. The Company estimates that the fair value of these non-derivative instruments at December 31, 2023 and 2022 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying consolidated balance sheets.

##### Materials and Supplies

Materials and supplies are stated at the lower of cost and net realizable value. Cost is determined principally by the average cost method.

##### Goodwill

Goodwill is the result of the purchase of wholly-owned subsidiaries by the Company. In 2021, the Company elected the alternative method of accounting available to private companies related to goodwill and elected to amortize goodwill over a ten-year period. Amortization of goodwill for the years ended December 31, 2023, and 2022 were \$71,300 and were included in depreciation and amortization expense in the consolidated statements of operations. Accumulated amortization as of December 31, 2023 is \$213,900 (\$142,600 in December 31, 2022).

##### 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 property and equipment in accordance with rates consistent with industry standards. Depreciation rates range from 3% to 33%. Costs of regulated 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.

## NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

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

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

Nonregulated equipment consists primarily of buildings, internet, wireless, voicemail and cable modem equipment used in the provision of related nonregulated services and is stated at cost. Depreciation is calculated on the straight-line basis over the estimated useful life of the classes of property and equipment ranging from 7 to 20 years. Non-regulated depreciation expense was \$46,895 for the year ending December 31, 2023 (\$48,554 in 2022). Maintenance, repairs, and replacements are charged to expense as incurred. When equipment is sold or otherwise disposed of, the asset account and the related accumulated depreciation accounts are relieved, and any gain or loss is included in operations.

The Company follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. In 2023, total interest incurred was \$464,137 (\$554,580 in 2022) none of which was capitalized in 2023 or 2022.

##### Revenue Recognition

The Company recognizes revenue when its performance obligations are satisfied, regardless of the period in which it is billed. The amount and timing of revenue recognition varies based on the nature of the goods or service. Monthly service fees derived from local telephone and broadband service are billed in advance. Accounts receivable are reduced by advance billings and subsequently transferred to income in the period earned. Access charges, long distance and other revenue based on usage are billed in arrears and recognized in the month the service is provided. Revenues for monthly service and access charges are generally due and collected within one month. Various economic factors affect revenues and cash flows. See Note 2 for more information about the Company's revenue.

##### Accounts Receivable

Accounts receivable are recorded as contract assets at unpaid balances. Credit risk associated with receivables is periodically reviewed by management and, if required, an allowance for credit losses is established. Receivables are considered past due if payments are not received in accordance with invoice terms of either net 15 or 26 days based on the billing cycle of the subscriber. Receivables are written off when the Company determines an account is uncollectible.

##### Accounting for Credit Losses on Accounts Receivable

Effective January 1, 2023, the Company adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update requires the use of a forward-looking expected credit loss model for instruments within its scope, including accounts receivable, and replaces the previous incurred loss impairment model. The expected credit loss model requires management to estimate current expected credit losses over the lifetime of the assets by considering all reasonable and supportable information, including historical experience, current conditions, and reasonable and supportable forecasts affecting collectability. Management has analyzed the provisions contained in Topic 326 and determined that there is no impact on retained earnings as of January 1, 2023, due to the adoption of the new policy.

##### Deferred Revenue

Deferred revenues are recorded when customers pay in advance for services to be received in future years. Deferred revenues are primarily comprised of a 20-year fiber lease paid in advance to the Company. Revenues are recognized on a straight line-basis, and will be fully recognized in 2029.

##### Income Taxes

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period, plus or minus the change in deferred tax assets and liabilities during the period.

## NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

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

##### Income Taxes, continued

The Company follows U.S. GAAP related to recognition of uncertain tax positions. The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of the income tax provision in the consolidated statements of operations, when applicable. There are no amounts accrued in the consolidated financial statements related to uncertain tax positions.

The Company files income tax returns in the United States and various state and local jurisdictions. Each of the individual companies files a consolidated tax return with the Company.

##### Leases

The Company adheres to the accounting standard for leases, which provides detailed guidance for financial statement recognition, measurement, and disclosure of leases. The significant policies used by the Company to assist in determining the financial statement treatment of leasing arrangements are described in Note 10.

##### Reclassification

Certain amounts in the 2022 consolidated financial statements have been reclassified to conform to the presentation in the 2023 consolidated financial statements. Such reclassifications have no effect on net income or stockholders' equity.

##### Subsequent Events

The Company has evaluated subsequent events through April 29, 2024, which is the date the consolidated financial statements were available to be issued.

#### Note 2 - Revenue

##### Revenue Recognition

The Company earns revenue from contracts with customers accounted for under Topic 606, *Revenue from Contracts with Customers*, primarily through providing local telephone and broadband service. The Company also earns revenues that are not accounted for under Topic 606 from universal service support payments and pooled revenues that do not meet the definition of a contract with a customer (see Network Access Revenues below), leasing arrangements, and miscellaneous fees. In total, revenues are accounted for as follows:

	<u>2023</u>	<u>2022</u>
Revenues accounted for under Topic 606	\$ 1,954,010	\$ 1,559,087
Revenues not accounted for under Topic 606	<u>6,921,154</u>	<u>7,088,157</u>
Total Operating Revenues	<u>\$ 8,875,164</u>	<u>\$ 8,647,244</u>

The Company's revenues from contracts with customers are derived from monthly services and are recognized over time as customers receive the services. Revenues from sales of equipment or other nonrecurring services are recognized at a point in time when control of the assets are transferred or when service is rendered. The timing of revenue from contracts with customers is recognized as follows:

	<u>2023</u>	<u>2022</u>
Performed over time	\$ 1,629,951	\$ 1,559,087
Transferred at point in time	<u>324,059</u>	<u>-</u>
	<u>\$ 1,954,010</u>	<u>\$ 1,559,087</u>

## NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

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#### Note 2 - Revenue, continued

##### Contract Assets

The Company has recorded the following beginning and ending contract balances related to revenue from contracts with customers accounted for under Topic 606:

	December 31, 2023	December 31, 2022	January 1, 2022
Contract Assets - accounts receivable	\$ 266,441	\$ 205,798	\$ 210,835

##### Network Access Revenues

Network access revenues in the consolidated statements of operations consist of the following:

	2023	2022
Interstate revenues	\$ 5,767,545	\$ 5,836,791
Intrastate revenues	1,034,124	1,065,087
	\$ 6,801,669	\$ 6,901,878

##### *Interstate Revenues*

Interstate revenues consist of certain federally mandated charges to end-users, access charges billed to long distance carriers for access and interconnection to local facilities and settlements received from the Company's participation in pools administered by National Exchange Carrier Association (NECA). Access charges are based on access tariffs filed through NECA and approved by the FCC.

Access revenues billed to long distance carriers and federally mandated charges to end-users are either placed into common pooling arrangements 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 investments maintained. 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, are recorded in the year in which such adjustments become determinable, based upon studies of the Company's costs.

Interstate revenues also include federal universal service support mechanisms which are intended to compensate the Company for the high cost of providing service in rural areas. Skyline Telecom, Inc. receives funding from the Universal Service High Cost Loop Fund (HCL) and Connect America Fund (consisting of CAF-BLS and CAF-ICC) and other support mechanisms administered by USAC. Actual HCL and CAF-BLS support are based on Skyline Telecom, Inc.'s level of support relative to other HCL and CAF-BLS funding recipients.

The other companies have elected to receive model-based support under the Alternative Connect America Cost Model (A-CAM) which predetermines the amount of support to be received for a ten-year term instead of receiving support based on the carrier's cost. As a condition of accepting A-CAM support, the companies must also meet certain broadband deployment and performance obligations at various points throughout the ten-year model period. The companies are in compliance with their deployment obligation as of December 31, 2023, and management believes they will be able to meet all future milestones. In the event they are unable to meet future deployment milestones, they may be subject to support reductions that are calibrated to the extent of the non-compliance with the deployment milestones. The companies accepting A-CAM were required to withdraw from the NECA common line pool and are no longer eligible to receive CAF-BLS and revenue from the HCL.

## NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

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#### Note 2 - Revenue, continued

##### Network Access Revenues, continued

##### *Interstate Revenues, continued*

In 2023, the FCC issued Order 23-60, which provided the option for a one-time voluntary election by rate-of-return carriers to receive a new predetermined amount of model-based support beginning in 2024 under the Enhanced Alternative Connect America Cost Model (EA-CAM), which replaces existing A-CAM support and deployment obligations. The model predetermines a fixed annual amount of support to be received from 2024 through 2038 and requires the carrier to commit to providing 100/20 Mbps broadband and voice service to all locations in their study area by the end of 2028, with annually increasing deployment milestones starting at the end of 2026.

The Company has elected to participate in EA-CAM for all Oregon-based exchanges. In the event the Company is unable to meet future EA-CAM deployment milestones, it may be subject to support reductions that are calibrated to the extent of the non-compliance with the deployment milestones.

Each Company also receives CAF-ICC support and revenue from other support mechanisms administered by USAC. CAF-ICC support is calculated beginning with a base figure consisting of the frozen switched access revenue requirement under the 2011 NECA annual tariff filing plus certain amounts related to the mandated reduction in intrastate switched access rates and net reciprocal compensation revenue. The base figure is reduced annually by 5% beginning July 1, 2012.

Skyline Telecom, Inc. did not elect to receive EA-CAM support and therefore will continue to receive support under the legacy HCL and CAF-BLS support systems.

##### *Intrastate Access*

Intrastate access consists of access charges billed to long distance carriers and kept by the Company and distributions from the Oregon and Washington state universal service funds.

In 2020, the Oregon legislature passed SB 1603 which revises the Oregon Universal Service Fund (OUSF), with implementation beginning in 2021. The bill expanded the fund to include retail wireless and VOIP service providers as contributors to the fund but reduced the surcharge percentage on bills from 8.5% to 6%. The fund amount may not exceed \$28 million per year.

In 2022, under Docket No. UM 2040, the PUC approved total support disbursements to individual companies in 2023 that are comparable to 2022. OUSF amounts, however, may be slightly higher or lower than the prior year amount.

In 2023 the PUC issued Order No. 23-422 that approves the calculation of disbursements from the OUSF for 2024 through 2028. Beginning January 2024, the maximum increase or decrease in funding is 3% per company per year for the next 5 years if overall funding remains sufficient. Individual company funding is based on a revenue requirement determined under a model approved by the PUC and is adjusted based upon annual filings with the PUC.

As a result of the ongoing implementation and levels of funding that will be available it is uncertain what impact the legislation may have on individual companies.

The Company received support of \$114,209 in 2023 and 2022 from the Washington Universal Service Fund (WUSF). The Company must petition for continued support annually by August 1 of each year. The amount of the annual distribution is unknown, but it cannot exceed the sum of the amount the Company cumulatively received in 2012 under Washington State's former "traditional USF" and the Company's cumulative reduction, up through the program year, of support from the federal Connect America Fund. In 2019, legislation was enacted that extended the term and funding of the WUSF through June 30, 2024.



## NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

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#### Note 3 - Other Investments

Other investments consist of the following at December 31:

	2023	2022
Western Independent Networks (WIN)	\$ 19,493	\$ 19,493
Rural Telephone Finance Cooperative Patronage Capital Certificates (RTFC)	17,168	17,168
Oregon Trail Electric Cooperative Capital Certificates (OTEC)	2,580	2,580
	<u>\$ 39,241</u>	<u>\$ 39,241</u>

The Company accounts for their investment in WIN as a non-marketable equity security. Shares of RTFC subordinated certificates are purchased as a condition of obtaining long-term financing from the RTFC and are reported at cost. OTEC membership was obtained to receive electric service. The investments in RTFC and OTEC are stated at cost plus any capital credits allocated and not retired.

On December 1, 2023, RTFC merged with National Cooperative Services Corporation (NCSC), and the investment was paid out subsequent to year end.

#### Note 4 - Property, Plant, and Equipment

Listed below are the major classes of property, plant, and equipment at December 31:

	2023	2022
Telecommunications Plant in Service:		
Land and support	\$ 1,510,791	\$ 1,511,040
Building and equipment	3,771,907	3,810,802
Central office	9,497,481	9,431,119
Cable and wire facilities	44,419,102	44,335,798
Other operating plant	54,855	64,304
Total Telecommunications Plant in Service	<u>59,254,136</u>	<u>59,153,063</u>
Under Construction	185,847	218,311
Property Held for Future Use	576,610	576,610
Total Property, Plant, and Equipment	<u>\$ 60,016,593</u>	<u>\$ 59,947,984</u>

Depreciation expense related to the assets above was \$1,872,017 for the year ended December 31, 2023, (\$1,895,561 for the year ended December 31, 2022).

## NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

#### Note 5 - Long-Term Debt

Long-term debt consists of the following at December 31:

<u>North-State Telephone Company</u>	<u>2023</u>	<u>2022</u>
5% mortgage notes payable to Rural Utilities Service (RUS), payable in monthly installments of \$62,589 including principal and interest. The notes are collateralized by substantially all real and personal property, due in 2027.	\$ 2,653,516	\$ 3,255,864
5% note payable to Bank of Eastern Oregon, payable in monthly installments of \$5,933 including principal and interest with a balloon payment of \$320,282 at maturity in July 2024. Guaranteed by OTC and the shareholder of OTC, collateralized by a second lien on the equipment, accounts receivable and materials and supplies.	339,968	401,206
0% interest, \$47,870 note payable to Ford Credit, collateralized by equipment, payable in monthly installments of \$797 due in October 2025.	16,755	26,329
	<u>3,010,239</u>	<u>3,683,399</u>
<u>Pine Telephone System, Inc.</u>		
Mortgage notes payable to the RUS with aggregate monthly payments of \$154,694 of principal and interest, with interest rates ranging from 2.46% to 5.10% collateralized by real and personal property, due from May 2027 through September 2031.	6,528,579	7,706,672
Total long-term debt	9,538,818	11,390,071
Less current portion	2,055,586	1,815,928
	<u>\$ 7,483,232</u>	<u>\$ 9,574,143</u>

Future maturities of long-term debt are as follows:

2024	\$ 2,055,586
2025	1,783,865
2026	1,839,648
2027	1,564,789
2028	790,347
Thereafter	1,504,583
	<u>\$ 9,538,818</u>

At December 31, 2023 and 2022, the Company had no unadvanced loan commitments from RUS.

The long-term debt agreements with RUS contain restrictions on the payment of distributions, restrictions on additional indebtedness and terms also require the maintenance of defined equity and meeting certain financial ratios. Management has determined they are in compliance with these requirements as of December 31, 2023.

#### Note 6 - Other Long-Term Liabilities

The Company's revenues received from USAC, as described in Note 2, were subject to examination during 2021. Based on this examination, the Company must repay amounts deemed to be ineligible. The Company agreed to repay USAC by July 15, 2023. As of December 31, 2023, all amounts payable to USAC have been repaid in full.

## NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

#### Note 7 - Provision for Income Taxes and Deferred Income Taxes

Income tax expense (benefit) consists of the following during the years ended December 31:

	2023	2022
Operating Income Tax Expense (Benefit):		
Current:		
Federal	\$ 199,690	\$ 181,994
State	107,706	39,155
Deferred:		
Federal	(16,600)	179,300
State	(6,000)	51,000
Total Operating Income Tax Expense	<u>\$ 284,796</u>	<u>\$ 451,449</u>
	2023	2022
Non-Operating Income Tax Expense (Benefit):		
Current:		
Federal	\$ 21,629	\$ 93,439
State	7,552	31,330
Deferred:		
Federal	15,000	25,000
State	5,000	8,000
Total Non-Operating Income Tax Expense	<u>\$ 49,181</u>	<u>\$ 157,769</u>

Deferred taxes in the consolidated balance sheets included the following components at December 31:

	2023	2022
Noncurrent Deferred Tax Assets (Liabilities):		
Related party accrued interest	\$ (24,000)	\$ (41,000)
Depreciation - book to tax differences	(1,952,300)	(1,937,900)
Deferred revenue	179,000	179,000
Noncurrent Deferred Tax Liabilities, net	<u>\$ (1,797,300)</u>	<u>\$ (1,799,900)</u>

#### Note 8 - Retirement Plans

##### Pension Plan

All eligible employees of OTC participate in a defined contribution plan administered by National Telephone Cooperative Association (NTCA). Contributions to this plan are 12% of an employee's eligible annual compensation.

For 2023, all employees were employees of OTC and were paid by OTC as the common paymaster and retirement contributions were made in that company. The Company funds contributions indirectly through costs included in the management agreement as described in Note 9.

## **NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES**

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

Years Ended December 31, 2023 and 2022

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#### **Note 9 - Related Party**

The Company has a management agreement with OTC, a 95.29% stockholder. Under the terms of the agreement, the Company pays for shared operating costs. During 2023 and 2022, the Company incurred \$2,912,422 for these shared operating costs (\$2,499,597 in 2022) and had \$519,822 payable at December 31, 2023 (\$22,563 at December 31, 2022) included in accounts payable – affiliates in the consolidated balance sheets. In addition, the Company paid for services from New Florence Telephone Company, an affiliated company. At December 31, 2023, the Company owed New Florence Telephone Company \$135,521 for these services (none in 2022).

The Company receives their revenue settlements as allocations from OTC. The Company had receivables from OTC in the amount of \$154,537 for at December 31, 2023 (\$411,855 at December 31, 2022).

The Company has issued two notes receivable to OTC through Pine Telephone System, Inc., totaling \$3,215,648 including accrued interest at December 31, 2023 (\$3,200,432 at December 31, 2022). The notes bear interest of 0.48% and are due in full no later than December 30, 2025.

The Company has a note payable to Pine Telephone Systems, Inc. which was obtained to provide capital to the Company. The note bears interest at .58% and is payable in full no later than September 30, 2024. The outstanding balance at December 31, 2023, including interest accrued, is \$1,579,529 (\$1,573,555 at December 31, 2022). This loan and related accrued interest were eliminated upon consolidation.

The Company leases switch equipment from OTC. The lease calls for monthly payments of \$1,053 through March 2024. Under the terms of the lease, no interest is charged. Total payments under this lease were \$12,636 for the years ended December 31, 2023 and 2022. The right-of-use asset is included in finance leases. See Note 10.

The Company has an arrangement with an entity that is 10% owned by an officer of the Company for health and life insurance. The amount paid for these services was \$159,909 during the year ended December 31, 2023 (\$179,073 in 2022).

Consulting fees are paid by the Company to an entity related by common ownership with the Company. Total consulting fees paid during the year ended December 31, 2023 and 2022 were \$225,720.

The Company pays for engineering services from entities related by common ownership with the Company. The amount paid for these services was \$21,811 for the year ended December 31, 2023 (\$7,768 in 2022).

#### **Note 10 - Leasing Arrangements**

The Company has operating and finance leases of switching equipment, circuits, and leasehold improvements, under agreements with contractual periods ranging from 1 to 8 years. The assets are all located in the U.S. Some of the lease agreements contain one or more options to extend. The exercise of lease renewal options is generally at the Company's sole discretion. Options that are reasonably certain to be exercised, considering all relevant economic and financial factors, are included in the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized for these leases on a straight-line basis over the lease term. The lease agreements do not contain any material residual value guarantees. The Company elected the package of practical expedients permitted under the transition guidance within the standard, which among other things, allowed the Company to carry forward the historical lease classification.

The Company has also elected the practical expedient to account for the lease and non-lease components as a single lease component. Therefore, for those leases, the lease payments used to measure the lease liability include all of the fixed consideration in the contract. All variable payments not based on a market rate or an index are expensed as incurred.

## NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

#### Note 10 - Leasing Arrangements, continued

The Company determines if an arrangement is or contains a lease at contract inception. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The lease liability is initially measured at the present value of the unpaid lease payments at the lease commencement date. Key estimates and judgments include how the Company determines the discount rate, the lease term, and the lease payments. When the discount rate implicit in a lease is not readily determinable, the Company calculates the lease liability using the risk-free rate.

The following summarizes the operating and finance leases as of December 31, 2023:

	<u>2023</u>	<u>2022</u>
<u>Operating Leases</u>		
Operating lease right-of-use assets	\$ 161,795	\$ 1,244
Current portion of operating lease liabilities	\$ 44,966	\$ 784
Operating lease liabilities, net of current portion	116,829	460
Total operating lease liabilities	\$ 161,795	\$ 1,244
<u>Finance Leases</u>		
Finance lease right-of-use asset	\$ 388,948	\$ 542,549
Accumulated amortization	(294,424)	(407,441)
Finance lease right-of-use asset, net	\$ 94,524	\$ 135,108
Current portion of finance lease liabilities	\$ 18,214	\$ 27,392
Finance lease liabilities, net of current portion	81,623	99,838
Total finance lease liabilities	\$ 99,837	\$ 127,230

The amounts contractually due on lease liabilities as of December 31, 2023, were as follows:

	<u>Operating</u>	<u>Finance</u>
2024	\$ 49,700	\$ 19,587
2025	49,238	16,428
2026	49,238	16,428
2027	22,113	16,428
2028	1,369	16,428
Thereafter	-	19,166
Total lease payments	171,658	104,465
Less interest	(9,863)	(4,628)
Present value of lease liabilities	\$ 161,795	\$ 99,837

## NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

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#### Note 10 - Leasing Arrangements, continued

The following summarizes the line items in the statements of operations which include the components of lease expense for the year ended December 31:

	2023	2022
Operating lease expense, included in plant specific expenses	\$ 29,970	\$ 791
Finance leases: amortization of lease assets, included in operating expense	27,971	23,072
Finance leases: interest on lease liabilities, included in interest expense	1,672	-
Total lease cost	<u>\$ 59,613</u>	<u>\$ 23,863</u>

Supplemental cash flow information related to leases were as follows for the year ended December 31:

	2023	2022
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 1,699	\$ 1,843
Financing cash flows from finance leases	27,365	2,067
Operating cash flows from operating leases	29,970	791
Lease assets obtained in exchange for lease liabilities:		
Operating leases	\$ -	\$ 2,023
Finance leases	186,996	125,715

Supplemental balance sheet information related to leases were as follows as of December 31:

	2023	2022
Weighted average remaining lease term - Operating leases	6.0	1.6
Weighted average remaining lease term - Finance leases	3.6	6.4
Weighted average discount rate - Operating leases	1.53%	0.78%
Weighted average discount rate - Finance leases	3.35%	1.46%

#### Note 11 - Broadband Grants and Loans

In March 2023, the Company was selected to receive funding for broadband projects by the United States Department of Agriculture, through the Rural Utilities Service ReConnect Program. Projects will be funded through \$10,235,126 of grant funding, and \$10,235,126 of loan funds.

In addition, the Company's wholly-owned subsidiary, Home Telephone Company also was selected in March of 2023, to receive funding for broadband projects by the United States Department of Agriculture, through the Rural Utilities Service ReConnect Program. Projects will be funded through \$18,088,212 of grant funding, and \$18,088,212 of loan funds.

## SUPPLEMENTAL INFORMATION

# NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

## Consolidating Balance Sheets

December 31, 2023

	North State Telephone Company	Skyline Telecom, Inc.	Home Telephone Company	Pine Telephone System, Inc.	Eliminations	Total
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents	\$ 40,932	\$ 294,306	\$ 1,883,734	\$ 1,256,228	\$ -	\$ 3,475,200
Accounts receivable, less allowance for credit losses of \$1,450	29,673	73,770	113,566	207,666	-	424,675
Accounts receivable - affiliates	55,244	9,896	2,870	185,947	(99,420)	154,537
Income taxes receivable	412,037	42,372	(199,546)	(23,375)	-	231,488
Material and supplies	12,378	2,473	35,891	120,148	-	170,890
Prepaid expenses	95	20	-	1,130	-	1,245
<b>Total Current Assets</b>	<b>550,359</b>	<b>422,837</b>	<b>1,836,515</b>	<b>1,747,744</b>	<b>(99,420)</b>	<b>4,458,035</b>
Other Assets:						
Restricted cash and cash equivalents	-	-	-	577,081	-	577,081
Investment in subsidiaries	11,571,471	-	-	-	(11,571,471)	-
Other investments	11,000	-	-	28,241	-	39,241
Notes receivable - affiliates	-	-	-	4,795,177	(1,579,529)	3,215,648
Goodwill, net	-	-	-	-	499,100	499,100
Non-regulated equipment	-	9,449	503,228	505,948	-	1,018,625
Less accumulated depreciation	-	-	(187,036)	(31,535)	-	(218,571)
<b>Total Other Assets</b>	<b>11,582,471</b>	<b>9,449</b>	<b>316,192</b>	<b>5,874,912</b>	<b>(12,651,900)</b>	<b>5,131,124</b>
Property, Plant, and Equipment:						
Telecommunications plant in service	12,058,815	3,304,528	4,487,711	38,338,926	1,064,156	59,254,136
Under construction	48,917	-	108,480	28,450	-	185,847
Property held for future use	150,000	-	-	426,610	-	576,610
<b>Total Property, Plant, and Equipment</b>	<b>12,257,732</b>	<b>3,304,528</b>	<b>4,596,191</b>	<b>38,793,986</b>	<b>1,064,156</b>	<b>60,016,593</b>
Less accumulated depreciation	(7,089,507)	(2,746,163)	(4,112,610)	(31,767,079)	(528,849)	(46,244,208)
<b>Property, Plant, and Equipment, net</b>	<b>5,168,225</b>	<b>558,365</b>	<b>483,581</b>	<b>7,026,907</b>	<b>535,307</b>	<b>13,772,385</b>
Operating Lease Right-of-Use Asset	149,948	-	460	11,387	-	161,795
Finance Lease Right-of-Use Asset, Net	94,524	-	-	-	-	94,524
<b>Total Assets</b>	<b>\$ 17,545,527</b>	<b>\$ 990,651</b>	<b>\$ 2,636,748</b>	<b>\$ 14,660,950</b>	<b>\$ (12,216,013)</b>	<b>\$ 23,617,863</b>



	North State Telephone Company	Skyline Telecom, Inc.	Home Telephone Company	Pine Telephone System, Inc.	Eliminations	Total
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current Liabilities:						
Accounts payable	\$ 67,560	\$ 23,184	\$ 30,336	\$ 70,617	\$ -	\$ 191,697
Accounts payable - affiliates	126,276	374,094	196,508	57,885	(99,420)	655,343
Customer deposits	1,450	350	1,100	2,100	-	5,000
Accrued expenses	20,927	-	26,542	485,383	-	532,852
Deferred revenue	90,643	114,209	-	-	-	204,852
Current portion of operating lease liabilities	42,133	-	460	2,373	-	44,966
Current portion of finance lease liabilities	18,214	-	-	-	-	18,214
Current portion of long-term debt	982,303	-	-	1,073,283	-	2,055,586
<b>Total Current Liabilities</b>	<b>1,349,506</b>	<b>511,837</b>	<b>254,946</b>	<b>1,691,641</b>	<b>(99,420)</b>	<b>3,708,510</b>
Other Liabilities:						
Deferred income taxes	1,226,000	54,300	(72,000)	589,000	-	1,797,300
Deferred revenue	501,048	-	-	-	-	501,048
Accrued interest - affiliates	549,529	-	-	-	(549,529)	-
Notes payable - affiliates	1,030,000	-	-	-	(1,030,000)	-
Operating lease liabilities, net of current portion	107,815	-	-	9,014	-	116,829
Finance lease liabilities, net of current portion	81,623	-	-	-	-	81,623
Long-term debt, net	2,027,936	-	-	5,455,296	-	7,483,232
<b>Total Other Liabilities</b>	<b>5,523,951</b>	<b>54,300</b>	<b>(72,000)</b>	<b>6,053,310</b>	<b>(1,579,529)</b>	<b>9,980,032</b>
Stockholders' Equity:						
Common stock	1,253,160	262,582	27,000	21,240	(310,822)	1,253,160
Additional paid in capital	-	-	45,274	-	(45,274)	-
Retained earnings	9,418,910	161,932	2,381,528	6,894,759	(10,180,968)	8,676,161
<b>Total Stockholders' Equity</b>	<b>10,672,070</b>	<b>424,514</b>	<b>2,453,802</b>	<b>6,915,999</b>	<b>(10,537,064)</b>	<b>9,929,321</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 17,545,527</b>	<b>\$ 990,651</b>	<b>\$ 2,636,748</b>	<b>\$ 14,660,950</b>	<b>\$ (12,216,013)</b>	<b>\$ 23,617,863</b>

## NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

### Consolidating Statements of Operations

Year Ended December 31, 2023

	North State Telephone Company	Skyline Telecom, Inc.	Home Telephone Company	Pine Telephone System, Inc.	Eliminations	Total
Operating Revenues:						
Local network service	\$ 82,042	\$ 24,177	\$ 124,841	\$ 133,258	\$ -	\$ 364,318
Network access services	1,321,441	630,643	868,121	3,981,464	-	6,801,669
Non-regulated	277,879	25,258	715,015	235,693	-	1,253,845
Miscellaneous	97,535	(86)	350,346	7,537	-	455,332
Total Operating Revenues	1,778,897	679,992	2,058,323	4,357,952	-	8,875,164
Operating Expenses:						
Plant specific	219,824	261,708	229,901	729,091	-	1,440,524
Plant non-specific	93,102	103,586	70,709	251,737	-	519,134
Customer operations	60,867	43,766	40,453	107,374	-	252,460
Corporate operations	314,440	212,661	239,935	425,975	-	1,193,011
Non-regulated	175,624	177,887	558,259	382,946	-	1,294,716
Depreciation and amortization	344,659	57,897	96,025	1,368,534	123,096	1,990,211
Total Operating Expenses	1,208,516	857,505	1,235,282	3,265,657	123,096	6,690,056
Operating Taxes:						
Income taxes (benefit)	107,666	(38,978)	217,053	(945)	-	284,796
Other operating taxes	32,695	8,004	42,502	725,567	-	808,768
Total Operating Expenses and Taxes	1,348,877	826,531	1,494,837	3,990,279	123,096	7,783,620
Operating Income (Loss)	430,020	(146,539)	563,486	367,673	(123,096)	1,091,544
Other Income (Expense):						
Other income	1,070	181	20,096	30,571	(21,190)	30,728
Income from subsidiary	479,855	-	-	-	(479,855)	-
Income tax expense	(649)	(6)	-	(48,526)	-	(49,181)
Income (Loss) Available for Interest on Long-Term Debt	910,296	(146,364)	583,582	349,718	(624,141)	1,073,091
Interest on Long-term Debt	(178,246)	(46)	(99)	(306,936)	21,190	(464,137)
Net Income (Loss)	\$ 732,050	\$ (146,410)	\$ 583,483	\$ 42,782	\$ (602,951)	\$ 608,954

# NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

## Consolidating Statements of Cash Flows

Year Ended December 31, 2023

	North State Telephone Company	Skyline Telecom, Inc.	Home Telephone Company	Pine Telephone System, Inc.	Eliminations	Total
<b>Cash Flows from Operating Activities:</b>						
Net income (loss)	\$ 732,050	\$ (146,410)	\$ 583,483	\$ 42,782	\$ (602,951)	\$ 608,954
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation and amortization	344,659	57,897	58,485	1,359,179	123,096	1,943,316
Non-regulated depreciation	-	-	37,540	9,355	-	46,895
Deferred revenue recognized	(90,636)	-	-	-	-	(90,636)
Deferred taxes	(28,000)	3,400	10,000	12,000	-	(2,600)
Income from subsidiaries	(479,855)	-	-	-	479,855	-
Interest accrued on notes payable - affiliate	5,974	-	-	(21,190)	-	(15,216)
Costs of abandoned project	-	-	-	93,100	-	93,100
Changes in asset and liabilities:						
Accounts receivable	28,711	(10,498)	(22,770)	(75,447)	-	(80,004)
Accounts receivable - affiliates	216,029	52,257	54,193	115,434	(180,595)	257,318
Materials and supplies	2,591	2,165	22,754	(22,385)	-	5,125
Prepaid expenses	(95)	(20)	-	(1,130)	-	(1,245)
Income taxes receivable	(24,545)	(40,014)	91,969	(292,933)	-	(265,523)
Accounts payable	34,206	3,351	(9,635)	6,181	-	34,103
Accounts payable - affiliates	5,928	356,238	32,134	57,885	180,595	632,780
Customer deposits	(200)	(107)	(357)	271	-	(393)
Accrued expenses	(56,775)	(115,280)	(945)	283,411	-	110,411
Unearned revenue	-	114,209	-	-	-	114,209
Other long-term liabilities	-	(13,790)	-	(53,732)	-	(67,522)
Net Cash Provided by Operating Activities	<u>690,042</u>	<u>263,398</u>	<u>856,851</u>	<u>1,512,781</u>	<u>-</u>	<u>3,323,072</u>
<b>Cash Flows from Investing Activities:</b>						
Capital expenditures	(19,696)	(175,964)	(79,991)	(469,251)	-	(744,902)
Proceeds from sale of assets	22,000	-	-	-	-	22,000
Dividends received - affiliate	375,000	-	-	-	(375,000)	-
Net Cash Provided (Used) by Investing Activities	<u>377,304</u>	<u>(175,964)</u>	<u>(79,991)</u>	<u>(469,251)</u>	<u>(375,000)</u>	<u>(722,902)</u>
<b>Cash Flows from Financing Activities:</b>						
Payments on long-term debt	(673,160)	-	-	(1,178,093)	-	(1,851,253)
Principal paid on finance lease	(11,910)	-	-	-	-	(11,910)
Dividends paid - affiliate	(375,000)	-	-	(375,000)	375,000	(375,000)
Net Cash Used by Financing Activities	<u>(1,060,070)</u>	<u>-</u>	<u>-</u>	<u>(1,553,093)</u>	<u>375,000</u>	<u>(2,238,163)</u>
Net Change in Cash and Cash Equivalents	7,276	87,434	776,860	(509,563)	-	362,007
Cash and Cash Equivalents, beginning	33,656	206,872	1,106,874	2,342,872	-	3,690,274
Cash and Cash Equivalents, ending	<u>\$ 40,932</u>	<u>\$ 294,306</u>	<u>\$ 1,883,734</u>	<u>\$ 1,833,309</u>	<u>\$ -</u>	<u>\$ 4,052,281</u>
Cash Paid During the Year for Interest	<u>\$ 178,246</u>	<u>\$ 46</u>	<u>\$ 99</u>	<u>\$ 306,936</u>	<u>\$ -</u>	<u>\$ 485,327</u>
Cash Paid During the Year for Income Taxes	<u>\$ 70,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 172,531</u>	<u>\$ -</u>	<u>\$ 242,531</u>
<b>Noncash Investing and Financing Activities:</b>						
Right-of-use assets obtained in exchange for new operating lease liabilities	<u>\$ 173,884</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,111</u>	<u>\$ -</u>	<u>\$ 186,995</u>

# North-State Telephone Company and Subsidiaries

RUS LETTER

Year Ended December 31, 2023



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
North-State Telephone Company and Subsidiaries  
Mt. Vernon, Oregon

We have audited, in accordance with the 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, the consolidated financial statements of North-State Telephone Company and Subsidiaries (the Company), which are comprised of the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 29, 2024.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audits of the consolidated financial statements, we considered the Company's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*, CONTINUED

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Aldrich CPAs + Advisors LLP*

Salem, Oregon  
April 29, 2024

## NORTH-STATE TELEPHONE COMPANY AND SUBSIDIARIES

### Supplemental Schedules for RUS 1773.4(g)

Years Ended December 31, 2023 and 2022

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The detailed schedule of investments required by 7 CFR 1773.33(i), and provided below, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

#### Detailed Schedule of Investments

	<u>Skyline Telecom, Inc.</u>	<u>Home Telephone Company</u>	<u>Pine Telephone System, Inc.</u>	<u>Total</u>
Original investment cost	\$ 635,000	\$ 1,517,754	\$ 4,000,000	\$ 6,152,754
Accumulated undistributed income, contributions and other adjustment as of December 31, 2022	<u>138,957</u>	<u>1,416,721</u>	<u>3,758,184</u>	<u>5,313,862</u>
Book value of investment as of December 31, 2022	773,957	2,934,475	7,758,184	11,466,616
Net income for the year ended December 31, 2023	(146,410)	583,483	42,782	479,855
Dividends for the year ended December 31, 2023	<u>-</u>	<u>-</u>	<u>(375,000)</u>	<u>(375,000)</u>
Book value of investment as of December 31, 2023	<u>\$ 627,547</u>	<u>\$ 3,517,958</u>	<u>\$ 7,425,966</u>	<u>\$ 11,571,471</u>