

State USF Petition Filing Requirement - WAC 480-123-110(e)
 Prior and Current Year Broadband and Gross Capital Expenditures

Exhibit 4.1 - Statistics

CONFIDENTIAL PER WAC 480-07-160

Company Name: (Below)
 Skyline Telecom Inc

Prepared
CONFIDENTIAL
11/8/18 - 07-160
Per WAC

Description	Prior Year End of Yr. Balance - 2017	Current Year End of Yr. Balance - 2018	Difference	% Change
Broadband Connections:				
Residential				
Business				
Total				
Gross Regulated Capital Expenditures**:				
Total Annual Amount	2017	2018	Difference	% Change #DIV/0!

NOTE: IF THE COMPANY DESIRES TO FILE THIS SCHEDULE AS CONFIDENTIAL, PLEASE MARK AS CONFIDENTIAL PER 480-07-160. (The header and footer is no longer marked as confidential as some companies do not file this report as confidential).

**** - NOTE: THIS IS A CHANGE FROM LAST YEAR IN WHICH NONREGULATED CAPITAL EXPENDITURES WERE INCLUDED DUE TO INCONSISTENCIES IN REPORTING, STAFF IS REQUESTING ONLY REGULATED CAPITAL EXPENDITURES. IF THE COMPANY HAS INCURRED LARGE NONREGULATED CAPITAL EXPENDITURES IN THE REPORTING YEAR, IT MAY NOTE BELOW.**

SKYLINE TELECOM, INC.
BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$	\$
Due from customers and agents (no bad debt allowance)		
Materials and supplies		
Prepaid taxes		
Prepaid expenses		
Total current assets		
Property, plant, and equipment		
In Service:		
Regulated telecommunications plant		
Non-regulated telecommunications plant		
Less: accumulated depreciation		
Total property, plant and equipment		
Total assets		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$	\$
Accounts payable-affiliated companies		
Customer deposits		
Accrued expenses		
Current portion of long-term debt		
Total current liabilities		
Other liabilities		
Deferred income taxes		
Long-term debt, net of current portion		
Total other liabilities		
Stockholders' equity		
Common stock		
Retained earnings		
Total stockholders' equity		
Total liabilities and stockholders' equity	\$	\$

Redacted
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 Per WAZ 480-07-160

The accompanying notes are an integral part of these financial statements.

SKYLINE TELECOM, INC.
 STATEMENTS OF INCOME AND RETAINED EARNINGS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Operating revenue		
Local network	\$	\$
Network access		
Non-regulated		
Miscellaneous		
Total operating revenue		
Operating expenses		
Plant specific		
Plant nonspecific		
Customer service		
Corporate operations		
Non-regulated		
Depreciation and amortization		
Total operating expenses		
Operating taxes		
Income taxes (benefit)		
Other operating taxes		
Total operating expenses and taxes		
Operating income		
Other income (expense)		
Income (taxes) benefit		
Total non-operating income (loss)		
Income available for fixed charges		
Fixed charges, interest on long-term debt		
Net income (loss)		
Retained earnings (deficit), beginning of year		
Retained earnings (deficit), end of year	\$	\$

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 Per WAC 480-07-160

The accompanying notes are an integral part of these financial statements.

SKYLINE TELECOM, INC.
 STATEMENTS OF STOCKHOLDER'S EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2016	\$	\$	\$	\$
Net income (loss)				
Dividends paid				
Balance, December 31, 2017				
Net income (loss)				
Dividends paid				
Balance, December 31, 2018	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

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 Per WAE 480-07-160

The accompanying notes are an integral part of these financial statements.

SKYLINE TELECOM, INC.
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Net income	\$ 1,111	\$ 1,111
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	1,111	1,111
Depreciation on other assets	1,111	1,111
Deferred taxes	1,111	1,111
Changes in assets and liabilities		
Due from customers and agents	1,111	1,111
Materials & supplies	1,111	1,111
Prepaid taxes	1,111	1,111
Accounts payable	1,111	1,111
Accounts payable-affiliated companies	1,111	1,111
Customer deposits	1,111	1,111
Other accrued liabilities	1,111	1,111
Net cash provided (used) by operating activities	1,111	1,111
Cash flows from investing activities		
Capital expenditures	(1,111)	(1,111)
Net cash provided (used) by investing activities	(1,111)	(1,111)
Cash flows from financing activities		
Amortization of loan costs	1,111	1,111
Payments on long-term debt	(1,111)	(1,111)
Net cash provided (used) by financing activities	—	—
Net increase (decrease) in cash and cash equivalents	—	—
Cash and cash equivalents, beginning	1,111	1,111
Cash and cash equivalents, ending	\$ 1,111	\$ 1,111
Cash paid during the year for:		
Interest	\$ 1,111	\$ 1,111
Income taxes	\$ 1,111	\$ 1,111

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 per WAZ 480-07-160

The accompanying notes are an integral part of these financial statements.

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Skyline Telecom, Inc. (formerly Beaver Creek Telephone Company) has been granted authority by the Washington Utilities and Transportation Commission (WUTC) to offer telecommunication services to areas in Snohomish County and Okanagon County in the State of Washington. The Company is presently operating telecommunications plant necessary to provide these services.

The Company is a wholly-owned subsidiary of North State Telephone Company and is consolidated into the consolidated financial statements of North State Telephone Company. All intercompany entries are eliminated in the consolidation.

Regulation and Accounting Records

The Company provides intrastate and interstate telecommunication services which are subject to various state and federal regulations including certification by the state and federal commissions, filing and approval of tariffs or price lists, and other reporting requirements. Other regulations affecting telecommunications continue to evolve. The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission. Regulatory actions currently pending, as well as future regulations, may impact the Company.

Estimates

The Company uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Company maintains its cash and cash equivalents in accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. Cash and cash equivalents are defined as all short term cash with a maturity of three months or less. Cash equivalents are recorded at cost, which approximates fair value.

SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant, and Equipment

Regulated property, plant, and equipment in service is stated at cost, including estimated overhead expense. Maintenance and repairs are charged to operations when incurred. Renewals and betterments are capitalized. Non-regulated property, plant and equipment is stated at cost.

Depreciation is calculated on a straight-line basis over the estimated life of the classes of buildings and equipment in accordance with rates approved by the WUTC. Depreciation rates range from to . Costs of plant retired are eliminated from utility plant accounts and such costs plus removal expenses, less salvage, are charged to accumulated depreciation. Depreciation expense for the years ended December 31, 2018 and 2017, was \$ and respectively for property, plant and equipment.

Network Access Revenues

Network access revenues related to interlata and intralata toll service are received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long distance carrier for access and interconnection to local facilities. The Company follows an access tariff filed with the WUTC for these charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are divided into traffic sensitive, nontraffic sensitive, and billing and collecting portions. The revenues are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Company. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investment maintained. The Company participates in pooling arrangements with the National Exchange Carrier Association (NECA).

Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months after the close of the related calendar years (NECA only), are recorded in the year in which such adjustments become determinable, based upon studies by an outside consultant.

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SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

The Company follows *FASB Accounting Standards Codification Section 825 Disclosures about Fair Value of Financial Instruments*. The Standards extend fair value disclosure practices by requiring all entities to disclose the fair value of financial instruments, both assets and liabilities, recognized and not recognized in the balance sheets, for which it is practicable to estimate fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. The fair value of the Company's financial instruments approximates carrying value. Fair values were estimated based on quoted market prices and on current rates offered to the Company for debt with similar terms and maturities.

Comprehensive Income

The Company follows *FASB Accounting Standards Codification Sections for Reporting Comprehensive Income*. The purpose of reporting comprehensive income is to report all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. There were no comprehensive income items in 2018 and 2017.

Materials and Supplies

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

Credit Risk and Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash, receivables, and debt agreements. The Company does not require collateral or other security to support receivables from customers or agents.

The Company maintains most of its cash accounts in a commercial bank located in Oregon. The Federal Deposit Insurance Corporation announced its Transaction Account Guarantee Program, which provides coverage for up to \$250,000 for all deposit accounts at FDIC insured institutions. The deposits of the Company qualify for the coverage under this program.

SKYLINE TELECOM, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Credit Risk and Concentrations of Credit Risk (continued)

A summary of the total insured bank balances follows:

	2018	2017
Total cash balance (bank balance)	\$	\$
Portion uninsured by FDIC	\$	\$
Insured bank balances	\$	\$
Reconciled book balance - 12-31	\$	\$

Credit sales are made to the Company's customers in the ordinary course of business. Generally, these sales are unsecured and are recorded at the billable amounts based on WUTC approved rates.

Deferred Charges Offset Against Long-term Debt

Deferred charges consist of RUS loan costs that are being amortized using the straight-line method over a period of 180 months (the life of the RUS and RTB loans) beginning with the first month of operations. The Company began operations in July 2006 and the amortization of the above costs began then. Amortization for 2018 and 2017 was \$ and \$ respectively and was recorded in interest expense.

Income Taxes

The Company accounts for income taxes in accordance with *FASB Accounting Standards Codification Section 740 on Accounting for Income Taxes*. This statement requires the annual computation of income taxes under an asset and liability approach and the recognition of deferred income tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements and income tax returns. The Company annually computes deferred tax assets and liabilities for differences between financial statements and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. There is no state income tax in the State of Washington.

Reclassification of Prior Year Amounts

Certain amounts as previously reported in 2017 have been reclassified to conform to the 2018 financial statement presentation.

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SKYLINE TELECOM, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Common Stock

Common stock of the Company is as follows at December 31, 2018 and 2017:

Par Value	Authorized	Issued and Outstanding
No par	---	---

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expenses and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and reduction of the accounts receivable. Late fees are charged on accounts that are thirty days past due.

NOTE 2. PROPERTY, PLANT AND EQUIPMENT

Listed below are the major classes of property, plant, and equipment in service:

	2018	2017
Regulated telecommunications equipment:		
Land and support	\$	\$
Work equipment		
Central office		
Cable and wire facilities		
Computers		
Accumulated depreciation		
Total regulated telecommunications equipment	\$	\$
Non-regulated telecommunications equipment:		
Voice mail system	\$	\$
Paystations		
Accumulated depreciation		
Total non-regulated telecommunications equipment	\$	\$

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 per WAZ 480-07-160

SKYLINE TELECOM, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 3. LONG-TERM DEBT

Long-term debt consists of the following:

	2018	2017
mortgage note payable to the Rural Utility Services (RUS) payable in monthly installments of _____ collateralized by substantially all real and personal property, due in various years through _____	\$	\$
mortgage note payable to the Rural Utility Services (RUS), payable in monthly installments of _____ collateralized by substantially all real and personal property, due in various years through _____		
mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of _____ collateralized by substantially all real and personal property, due in various years through _____		
mortgage note payable to Rural Utility Services (RUS), payable in monthly payments of _____ collateralized by substantially all real and personal property, due in various years through _____		
mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of _____ collateralized by substantially all real and personal property, due in various years through _____		
mortgage note payable to Rural Utility Services (RUS), payable in monthly installments of _____ collateralized by substantially all real and personal property, due in various years through _____		
mortgage notes payable to Rural Telephone Bank (RTB), payable in monthly installments of _____ collateralized by substantially all real and personal property, due in various years through _____		
Less: RUS loan costs		
Less current portion		
	\$	

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SKYLINE TELECOM, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 3. LONG-TERM DEBT (continued)

The anticipated principal payments of the outstanding debt at December 31, 2018, are as follows:

2019	\$	
2020		
2021		
2022		
2023		
Thereafter		
	<u>\$</u>	<u> </u>

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Interest expense on debt that was incurred and charged to expense was and) for the years ended December 31, 2018 and 2017, respectively. Amortization of loan costs in the amount of ' was also charged to interest expense in 2018 and 2017.

All assets of the Company are loan agreements with contain certain restrictions on the declaration or payment of cash dividends, redemption of capital stock, or investment in affiliated companies. The Company did not meet 2017

NOTE 4. RELATED PARTY TRANSACTIONS

The Company has entered into a management agreement with Oregon Telephone Corporation. The operating management agreement is effective for a period of 35 years or unless ordered to be terminated by the Utilities and Transportation Commission of Washington. The Company pays Oregon Telephone Corporation for the use of a Chevy truck. That amount for 2018 and 2017 was) and respectively. The Company paid Oregon Telephone Corporation and 17 in 2018 and 2017, respectively for management fees, shared and actual costs. The Company owed Oregon Telephone . for 2018 and for 2017.

These liabilities are included in accounts payable-affiliated companies in the balance sheet.

SKYLINE TELECOM, INC.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 5. CONCENTRATIONS

Approximately 6 and 1, respectively, of total revenue and receivables for the years ended December 31, 2018 and 2017, is attributable to distributions from the National Exchange Carrier Association (NECA).

NOTE 6. INCOME TAXES

In accordance with *FASB Accounting Standards Codification Section 740 on Accounting for Income Taxes*, deferred income tax assets and liabilities are computed annually for differences between financial statements and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. For 2012 and subsequent years, the Company filed income tax returns separately from its parent company and, as such, each entity accounted for its own income tax transactions.

At December 31, 2018 and 2017, the Company had deferred tax assets (liabilities) of () and (), respectively. Deferred income taxes result from differences in depreciation from financial statement and income tax reporting.

Operating income tax:

	<u>2018</u>	<u>2017</u>
Federal		
Operating:		
Current provision (benefit)	\$	\$
Prior year under (over) accrual		
Deferred provision		
Total operating income tax provision (benefit)	<u> </u>	<u> </u>
Non-operating:		
Current provision (benefit)		
Prior year under (over) accrual		
Deferred provision		
Total non-operating income tax provision (benefit)	<u> </u>	<u> </u>
Total income tax provision (benefit)	<u>\$</u>	<u>\$</u>

The Company still has open tax years for the current year plus the three previous tax years.

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SKYLINE TELECOM, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 7. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the auditor's report date, which is the date that the financial statements were available to be issued.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Oregon Telephone Corporation and Subsidiaries
Mt. Vernon, Oregon

We have audited the accompanying consolidated financial statements of Oregon Telephone Corporation (an Oregon corporation) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, stockholder's equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement for the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oregon Telephone Corporation and subsidiaries at December 31, 2018 and 2017, and the results of their operations, stockholder's equity, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10 to the consolidated financial statements, the 2017 consolidated financial statements have been restated due to the correction of an error.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 2019, on our consideration of Oregon Telephone Corporation and subsidiaries' internal control over financial reporting, and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Oregon Telephone Corporation and subsidiaries' internal control over financial reporting and compliance.

Other Reporting Required by Rural Utilities Service

In accordance with 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, we have also issued our report dated March 5, 2019, on our testing of Oregon Telephone Corporation and subsidiaries' compliance with aspects of contractual agreements and regulatory requirements for telephone borrowers. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Company's noncompliance with the above referenced aspects of contractual agreements and regulatory requirements for telephone borrowers insofar as they related to accounting matters. That report is intended solely for the information and use of the board of directors and management of Oregon Telephone Corporation and subsidiaries and Rural Utilities Service and is not intended to be and should not be used by anyone other than those specified parties.

Wiggins & Co., PC

Brigham City, Utah
March 5, 2019

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$	\$
Restricted cash and cash equivalents		
Investments		
Due from customers and agents, less allowance for doubtful accounts of \$6,100 and \$6,100		
Materials and supplies		
Prepaid expenses		
Total current assets		
Other assets and investments		
Cash and cash equivalents		
Other investments		
Goodwill		
Non-regulated assets, net of accumulated depreciation		
Total other assets and investments		
Property, plant, and equipment		
Telecommunications		
Non-operating		
Plant held for future use		
Operating		
Less accumulated depreciation		
Property, plant, and equipment, net		
Total assets and investments	\$	

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Per WAZ 480-07-160

The accompanying notes are an integral part of these financial statements.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
DECEMBER 31, 2018 AND 2017

	2018	2017
LIABILITIES AND STOCKHOLDERS'S EQUITY		
Current liabilities		
Accounts payable	\$	\$
Accounts payable-affiliates		
Advance billings		
Customer deposits		
Accrued expenses		
Deferred revenue-current portion		
Income taxes payable		
Current portion of long-term debt		
Total current liabilities		
Other liabilities		
Deferred income taxes		
Deferred revenue		
Long-term debt, net of current portion		
Total other liabilities		
Stockholder's equity		
Common stock		
Common stock reacquired, _____ shares at cost		
Retained earnings		
Total stockholder's equity		
Total liabilities and stockholder's equity	\$	

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Per WAZ 480-07-160

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Operating revenue		
Local network	\$	\$
Network access		
Non-regulated		
Miscellaneous		
Total operating revenue		
Operating expenses		
Plant specific		
Plant nonspecific		
Customer operations		
Corporate operations		
Non-regulated		
Depreciation		
Total operating expenses		
Operating taxes		
Income taxes (benefit)		
Other operating taxes		
Total operating expenses and taxes		
Operating income		
Other income (expense)		
Income tax benefit (expense)		
Income available before interest on long-term debt		
Interest on long-term debt		
Net income	\$	\$

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Per WAZ 480-07-160

The accompanying notes are an integral part of these financial statements.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock	Reacquired Common Stock	Retained Earnings	Total
Balance, December 31, 2016	\$			
Prior period adjustment- correction of an error				
Net income				
Dividend				
Balance, December 31, 2017				
Reacquired/eliminated stock				
Net income				
Dividend				
Balance, December 31, 2018	\$	\$		

Redacted
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per WAZ 480-07-160

The accompanying notes are an integral part of these financial statements.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Net income (loss)	\$	\$
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Depreciation on non-regulated assets		
Depreciation on non-operating plant		
Depreciation		
Deferred taxes		
Increase in bad debt reserve		
Changes in assets and liabilities		
Due from customers and agents		
Materials and supplies		
Prepaid expenses		
Accounts payable		
Accounts payable-affiliates		
Advance billing		
Customer deposits		
Accrued expenses		
Income taxes payable		
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Capital expenditures		
Payments on (issuance of) notes receivable		
Proceeds from (purchase of) investments in affiliates		
Amount received (paid) to retire captial assets		
Proceeds from dark fiber lease		
(Purchase of) proceeds from marketable securities		
(Purchase) disposal of non-regulated assets		
Proceeds and salvage received		
Net cash provided (used) by investing activities		

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 Per WAC 480-07-160

The accompanying notes are an integral part of these financial statements.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from financing activities		
Payments on long-term debt		
Amortization of loan costs		
Issuance of long-term debt		
Payment of loan costs		
Repurchase of stock		
Payment of dividends		
Net cash provided (used) by financing activities		
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents, beginning		
Cash and cash equivalents, ending	\$	\$
Cash paid during the year for:		
Interest	\$	\$
Income taxes	\$	\$

Redacted
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 Per WAC 480-07-160

The accompanying notes are an integral part of these financial statements.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Oregon Telephone Corporation (the Company) is an Oregon corporation providing telecommunications services within and around the cities of Mt. Vernon, Prairie City, Unity, Bates, Harper, Juntura, and Dayville, Oregon.

North State Telephone Company is an Oregon corporation providing telecommunications services within and around the City of Dufur, Oregon, and provides cable television services to a similar area.

During 2017, Oregon Telephone Corporation bought the remaining of the outstanding stock in New Florence Telephone Company and now owns of the outstanding stock shares and includes New Florence Telephone Company as a subsidiary in these consolidated financial statements. New Florence Telephone Company services various areas of Missouri.

Principals of Consolidation

Oregon Telephone Corporation owns % and its stockholder owns of North State Telephone Company.

The consolidated financial statements include the accounts of Oregon Telephone Corporation and its subsidiaries, North State Telephone Company and New Florence Telephone Company. All intercompany transactions and balances have been eliminated in the consolidation.

During 2010, North State Telephone Company acquired of the outstanding common stock of Beaver Creek Telephone Company (name changed in 2011 to Skyline Telecom, Inc.). During 2014,

member limited liability company, which operates non-regulated services. This entity is included in the consolidated statements of the Company.

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principals of Consolidation (continued)

Under the terms of a management agreement, Oregon Telephone Corporation provides labor, overhead, and support services to all of the consolidated entities, which are reimbursed each month. During 2018 and 2017, the total reimbursements under the agreement were _____ and _____ respectively. These amounts are recorded against expenditures when accrued and thus no elimination is required. Oregon Telephone Corporation is the common paymaster for all companies.

Regulation

The Company's telecommunication services are subject to limited regulations by the Public Utility Commission of Oregon (PUC). The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission. Regulatory actions currently pending, as well as future regulations, may impact the Company.

Estimates

The Company uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Comprehensive Income

The Company follows *FASB Accounting Standards Codification Topic 220, Reporting Comprehensive Income*. The purpose of reporting comprehensive income is to report all changes in equity of an enterprise that result from recognized transactions and other economic events of the period other than transactions with owners in their capacity as owners. There were no comprehensive income items in 2018 and 2017.

Cash and Cash Equivalents

The Company maintains its cash and cash equivalents in accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. Cash and cash equivalents are defined as all short term cash with a maturity of three months or less. Cash equivalents are recorded at cost, which approximates fair value. Restricted cash and cash equivalents include funds deposited in separate accounts for the loan funds that are received from Rural Utilities Service to be used for plant acquisition.

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Investments

Other investments are in common stock of non-controlled entities with ownership percentages less than ten percent. These investments are recorded at cost.

Accounts Receivable

Accounts receivable is stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expenses and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and reductions of the accounts receivable accounts. Late fees are charged on accounts that are thirty days past due.

Materials and Supplies

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

Property, Plant, and Equipment

Property, plant, and equipment in service and under construction are stated at cost, including estimated overhead expense. Maintenance and repairs are charged to operations when incurred. Renewals and betterments are capitalized.

Depreciation is calculated on a straight-line basis over the estimated life of the classes of buildings and equipment in accordance with rates approved by the PUC. Depreciation rates range from Costs of plant retired are eliminated from utility plant accounts and such costs plus removal expenses, less salvage, are charged to accumulated depreciation.

Network Access Revenues

Network access revenues related to interlata and intralata toll service are received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long distance carrier for access and interconnection to local facilities. The company follows an access tariff filed with the PUC for these charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are divided into traffic sensitive, nontraffic sensitive, and billing and collecting portions. The revenues are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Company. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Network Access Revenues (continued)

and investment maintained. The Company participates in pooling arrangements with the National Exchange Carrier Association (NECA), settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months after the close of the related calendar years (NECA only), are recorded in the year in which such adjustments become determinable, based upon studies by an outside consultant. The Company received 40.6% of its operating revenue for 2018 from NECA and 42.3% of its operating revenue for 2017 from NECA.

Financial Instruments

The Company follows *FASB Accounting Standards Codification ASC 820 Fair Value of Financial Instruments*. The Standard extends fair value disclosure practices by requiring all entities to disclose the fair value of financial instruments, both assets and liabilities, recognized and not recognized in the balance sheets, for which it is practicable to estimate fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. The fair value of the Company's financial instruments approximates carrying value. Interest is charged on loans and notes receivable and recognized when earned. Fair values were estimated based on quoted market prices and on current rates offered to the Company for debt with similar terms and maturities.

Credit Risk and Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of debt agreements. Concentrations of credit risk with respect to trade receivables are limited due to the Company's large number of customers. No collateral is required by the Company to support financial instruments subject to credit risk.

The Company maintains most of its cash accounts in commercial banks located in Oregon. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for eligible accounts. A summary of the total insured bank balances (these are not reconciled book balances) follows:

	2018	2017
Total cash balance (bank balance)	\$	
Portion of bank balance uninsured by FDIC		
Insured bank balances	\$	
Book balances	\$	

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Credit Risk and Concentrations of Credit Risk (continued)

Credit sales are made to the Company's customers in the ordinary course of business. Generally, these sales are unsecured and are recorded at the billed amounts based on PUC approved rates.

Allowance for Funds Used During Construction

The Company is required to calculate an amount, for 2018 and for 2017 to be capitalized to plant for funds used during construction as defined by FCC Part 32 accounting policies. The calculation involves capitalizing funds at an average rate based on the Company's borrowing rate.

Common Stock

Common stock of the Companies is as follows at December 31, 2018 and 2017:

	<u>Par Value</u>	<u>Authorized</u>	<u>Issued and Outstanding</u>
2018:	No par		
	No par		
	No par		
2017:	No par		
	No par		
	No par		

Allowance for Doubtful Accounts

An allowance for doubtful accounts is maintained. Additions are estimated based on historical analysis of write-offs and collections as a percentage of sales and accounts receivable balances.

NOTE 2. INVESTMENTS

Other Investments

Other investments consist of the following:

	<u>2018</u>	<u>2017</u>
\$	\$	\$

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 2. INVESTMENTS (continued)

Investments in Equity Securities

The Company classifies its equity securities under the provisions of Financial Accounting Standards, *ASC 820 Fair Value Measurements and ASC Subtopic 825-10, Financial Instruments*. Equity securities are recognized initially at cost plus any directly attributable transaction costs. Subsequent to initial recognition, equity securities are measured at fair value and changes therein are recognized in income. When the investment is sold, the gain or loss is recorded in the income statement as other income. These financial assets are comprised entirely of equity securities and mutual funds. The fair values of investments in equity securities and mutual funds are determined with reference to their quoted closing bid price at the measurement date. ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value of financial assets and liabilities and are summarized into three broad categories.

- Level 1 – quoted prices in active markets for identical securities,
- Level 2 – other significant observable inputs, including quoted prices for similar securities, interest rates, prepayments speeds, credit risk, etc.,
- Level 3 – significant unobservable inputs, including our own assumptions in determining fair value.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with those securities.

The fair value of equity securities and mutual funds at December 31, 2018 and 2017, are as follows:

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	Fair Value	Fair Value Measurement at Reporting Date- Quoted Prices in Active Markets for Identical Assets (Level 1)
December 31, 2018:		
Domestic equity securities	\$	\$
December 31, 2017:		
Domestic equity securities	\$	\$

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 2. INVESTMENTS (continued)

Realized and unrealized gains and losses are included in earnings and reported as other income for the years ended December 31, 2018 and 2017. Realized earnings for 2018 and 2017 were \$ _____; and \$ _____. Unrealized gains (losses) for 2018 and 2017 were \$ _____) and \$ _____, respectively.

NOTE 3. PROPERTY, PLANT, AND EQUIPMENT

Listed below are the major classes of property, plant, and equipment in service:

	2018	2017
Telecommunications:		
Operating plant:		
Land and support	\$ _____	\$ _____
Plant held for future use	_____	_____
Central office	_____	_____
Cable and wire facilities	_____	_____
Under construction	_____	_____
Total operating plant	_____	_____
Non-operating plant		
Non-operating Plant	_____	_____
Non-regulated plant	_____	_____
Total non-operating plant	_____	_____
	\$ _____	\$ _____

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 4. LONG-TERM DEBT

Long-term debt consists of the following:

	2018	2017
<u>Oregon Telephone Corporation</u>		
note payable to _____, payable in monthly payments of \$ _____, collateralized by _____ and _____ due in _____	\$ _____	\$ _____
note payable to _____, collateralized by a backhoe, payments of _____, due _____		
note payable to _____, collateralized by a vehicle, interest at _____%, payments of _____ principal and interest, due _____		
note payable to _____, _____% interest; _____ noted payable to _____ interest; note payable to _____ interest, all collateralized _____ . Payments from _____		
mortgage notes payable to _____ payable in monthly installments of _____ collateralized by substantially all real and personal property,		
_____ mortgage notes payable to _____ payable in monthly installments of _____ on finalized loans and interest only on non-finalized loans, collateralized by substantially all real and personal property,		

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 4. LONG-TERM DEBT (Continued)

	2018	2017
<u>New Florence Telephone Company</u>		
See separately issued consolidated financial statements for debt detail		
<u>M.D. Communications, LLC:</u>		
\$ _____ note payable to _____, payable in monthly installments of _____ collateralized by lien on real property,		
_____ note payable to _____ payable in monthly payments of _____ collateralized by a _____		
_____ note payable to _____ payable in monthly installments of _____ collateralized by a _____		
Total Oregon Telephone Corporation, New Florence Telephone Company and M.D. Communications, LLC		
<u>North State Telephone Company</u>		
See separately issued consolidated financial statements for debt detail		
<u>Skyline Telecom, Inc.:</u>		
See separately issued consolidated financial statements for debt detail		
<u>Pine Telephone System, Inc.</u>		
See separately issued consolidated financial statements for debt detail		
Total North State Telephone Company		

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 4. LONG-TERM DEBT (continued)

	2018	2017
Total consolidated amount		
Less: current long-term debt		
Long-term debt	\$	\$

Future maturities of long-term debt are as follows:

2019	\$
2020	
2021	
2022	
2023	
Thereafter	\$

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Oregon Telephone Corporation has rescinded all unadvanced loan commitments for the replacement and expansion of its property, plant, and equipment from Rural Telephone Bank. The Company also rescinded the unadvanced loan commitments from RUS. Pine Telephone System, Inc. has also rescinded all unadvanced loan commitments with RUS.

The long-term debt agreements contain restrictions on the payment of dividends or redemption of capital stock. The terms of the long-term debt agreements require the maintenance of defined amounts of stockholder's equity and working capital after payment of dividends.

The _____ an documents require the Company to meet a _____, on an unconsolidated basis. The Company _____ n 2018 and 2017.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 5. PENSION PLAN

Substantially all employees of the Company are covered by a 1.
 Contributions to the plan are, of an employee's eligible annual compensation.
 Contributions to the plan for 2018 were and for 2017 were The plan
 is administered by the).
 and the information related to
 that plan is disclosed in the separately issued financial statements.

NOTE 6. OTHER ASSETS

The Company has non-regulated assets that are not figured into the rate base for the
 determination of universal service fund payments and are used for purposes that are not
 regulated. The assets and the accumulated depreciation are disclosed below:

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	2018	2017
Acquisition costs	\$	\$
Public telephones & customer premise equipment		
Cable television		
Paystations & MDR pagers		
Internet equipment & voicemail system		
Wireless DSL equipment & Wimax equipment		
Fiber plant & electronics		
Accumulated depreciation		

As part of the purchase of the new companies mentioned in note 1, the Company
 and its subsidiaries recorded goodwill in the consolidated amount of \$
 in 2017. The amount for 2018 was This goodwill is reported
 separately in the other assets and investments section of the balance sheet and is
 not amortized in accordance with generally accepted accounting principles in the
 United States of America.

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 7. INCOME TAXES AND DEFERRED INCOME TAXES

In accordance with *FASB Accounting Standards Codification ASC 740, Accounting for Income Taxes*, deferred income tax assets and liabilities are computed annually for differences between financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The Company files tax returns separately from its subsidiaries and, as such, each entity accounts for its own income tax transactions.

At December 31, 2018, the Company has a deferred income tax liability of \$10.1 million and at December 31, 2017, the Company had a deferred income tax liability of \$10.1 million resulting from differences in depreciation, amortization, bad debt reserves, book vs. tax capital asset value differences, and other temporary differences for financial statement reporting and income tax reporting.

Operating income tax expense (benefit) consists of the following:

	2018	2017
Federal		
Current provision	\$ 10.1	\$ 10.1
Prior year under (over) accrual	(0.1)	(0.1)
Deferred	(0.1)	(0.1)
State		
Current provision	0.1	0.1
Prior year under (over) accrual	(0.1)	(0.1)
Deferred	(0.1)	(0.1)
Provision for operating income taxes	10.0	10.0
Nonoperating income tax expense (benefit) consists of the following:		
Federal		
State		
Deferred	(0.1)	(0.1)
Provision for nonoperating income tax expense (benefit)	(0.1)	(0.1)
Total income tax expense (benefit)	\$ 9.9	\$ 9.9

Each of the consolidated companies file their own tax returns. The Company and its subsidiaries have open tax years subject to examination for the current year and the prior three years.

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 9. RELATED PARTY TRANSACTIONS

The Company incurred related party transactions during 2018 and 2017. The transactions are with other companies that share common ownership with the Company. The Company had _____ in 2018 and _____ in 2017, in management fees, rentals and other costs. At December 31, 2018 and 2017, the Company had intercompany receivables totaling _____ and _____, from the following subsidiaries: _____, _____ and _____, _____ and _____ Company, _____ and _____ Inc., _____ and _____; and _____, _____ and _____, all of which were eliminated in the consolidation of the financial statements.

For 2017, the Company's subsidiary, _____ has a _____ Inc. in the amount of _____ for long distance and other costs. _____ also had a _____, Inc. for \$ _____ in 2017 from intercompany transactions. All of these amounts were paid in 2018.

NOTE 10. RESTATEMENT

An error in how the accounting system calculated depreciation on transmission assets was discovered in 2018. Accumulated depreciation and retained earnings for 2017 have been restated for the correction of the error.

	Accumulated Depreciation	Retained Earnings
Beginning balance as previously stated	\$ _____	\$ _____
Correction of over depreciation error	_____	_____
Beginning balances, as restated	\$ _____	\$ _____

NOTE 11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the auditor's report date, which is the date that the financial statements were available to be issued.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Oregon Telephone Corporation and Subsidiaries
Mt. Vernon, Oregon

We have audited the consolidated financial statements of Oregon Telephone Corporation and Subsidiaries, for the years ended December 31, 2018 and 2017, and our report thereon dated March 5, 2019, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1-2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in Schedules I-III is presented for purposes of additional analysis of the 2018 consolidated financial statements, rather than to present financial position, results of operations, and cash flows of the individual companies, and it is 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 consolidating financial information has been subjected to the auditing 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Wiggins & Co., PC

Brigham City, Utah
March 5, 2019

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 SCHEDULE I-CONSOLIDATING BALANCE SHEET
 DECEMBER 31, 2018

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	Oregon Telephone Corporation	Subsidiaries			Eliminations	Total
ASSETS						
Current assets						
Cash and cash equivalents	\$	\$	\$	\$	\$	\$
Restricted cash and cash equivalents						
Investments						
Due from customers and agents, less allowance for doubtful accounts of \$6,100						
Accounts receivable-affiliates						
Interest receivable						
Materials and supplies						
Prepaid expenses						
Total current assets						
Other assets and investments						
Restricted cash and cash equivalents						
Investment in affiliates						
Other investments						
Deferred income taxes						
Notes receivable-affiliates						
Goodwill						
Non-regulated assets, net of accumulated depreciation						
Total other assets and investments						
Property, plant, and equipment						
Telecommunications:						
Non-operating						
Plant held for future use						
Operating						
Less accumulated depreciation						
Property, plant, and equipment, net						
Total assets	\$	\$	\$	\$	\$	\$

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 SCHEDULE I-CONSOLIDATING BALANCE SHEET (continued)
 DECEMBER 31, 2018

	Oregon Telephone Corporation	Subsidiaries	Eliminations	Total
LIABILITIES AND STOCKHOLDER'S EQUITY				
Current liabilities				
Accounts payable	\$	\$	\$	\$
Accounts payable-affiliates				
Customer deposits				
Advance payments				
Accrued expenses				
Accrued interest				
Deferred revenue				
Income taxes payable				
Current portion of long-term debt				
Total current liabilities				
Other liabilities				
Deferred income taxes				
Deferred revenue				
Long-term debt, net				
Total other liabilities				
Stockholder's equity				
Common stock				
Common stock reacquired				
Additional paid in capital				
Member equity				
Retained earnings				
Total stockholder's equity				
Total liabilities and stockholder's equity	\$	\$	\$	\$

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OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 SCHEDULE II-CONSOLIDATING STATEMENT OF INCOME AND RETAINED
 EARNINGS
 FOR THE YEAR ENDED DECEMBER 31, 2018

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	Oregon Telephone Corporation	Subsidiaries	Eliminations	Total
Operating revenue				
Local network	\$	\$		\$
Network access				
Non-regulated				
Miscellaneous				
Total operating revenue				
Operating expenses				
Plant specific				
Plant nonspecific				
Customer operations				
Corporate operations				
Non-regulated				
Depreciation and amortization				
Total operating expenses				
Operating taxes				
Income taxes (benefit)				
Other operating taxes				
Total operating expenses and taxes				
Operating income				
Other income (expense)				
Income (loss) from subsidiary				
Income tax benefit (expense)				
Income available before interest on long-term debt				
Interest on long-term debt				
Net income				
Retained earnings/member interest, beginning of year as restated				
Dividends paid				
Retained earnings/member interest, end of year			\$	\$

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 SCHEDULE III-CONSOLIDATING STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2018

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	Oregon Telephone Corporation			Eliminations	Total
	\$	\$	\$	\$	\$
Cash flows from operating activities					
Net income (loss)					
Adjustments to reconcile net income to net cash provided (used) by operating activities					
Depreciation and amortization on miscellaneous physical property/nonoperating property included in nonregulated expense					
Depreciation on capital lease included in other expense					
Depreciation					
Deferred taxes					
Income from subsidiaries					
Changes in assets and liabilities					
Due from customers and agents					
Accounts receivable-affiliates					
Materials and supplies					
Prepaid expenses					
Accounts payable					
Accounts payable-affiliates					
Customer deposits					
Accrued expenses					
Income taxes payable					
Net cash provided (used) by operating activities					
Cash flows from investing activities					
Capital expenditures					
(Purchase of) proceeds from non-regulated assets					
Proceeds from (purchase of) investments in affiliates					
Proceeds from (purchase of) investments in securities					
Amount paid to retire capital assets					
Payments from notes receivable					
Proceeds from dark fiber lease-uneared revenue					
Change in interest receivable					
Proceeds and salvage received from sale of assets					
Net cash provided (used) by investing activities					

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 SCHEDULE III-CONSOLIDATING STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2018

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	Oregon Telephone Corporation			Eliminations	Total
Cash flows from financing activities					
Payments on long-term debt					
Amortization of loan costs					
Proceeds from long-term debt					
Payment of loan costs					
Proceeds from contributed capital					
Repurchase of stock					
Payment of dividends					
Net cash provided (used) by financing activities					
Net increase (decrease) in cash and cash equivalents					
Cash and cash equivalents, beginning	\$	\$	\$	\$	\$
Cash and cash equivalents, ending	\$	\$	\$	\$	\$
Cash paid during the year for:					
Interest	\$	\$	\$	\$	\$
Income taxes	\$	\$	\$	\$	\$
Noncash transactions:					
None					



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*

The Board of Directors
Oregon Telephone Corporation
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 Oregon Telephone Corporation and subsidiaries as of and for the years ended December 31, 2018 and 2017, and related notes to the financial statements, which collectively comprise Oregon Telephone Corporation and subsidiaries' consolidated financial statements, and have issued our report dated March 5, 2019.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Oregon Telephone Corporation and subsidiaries' internal control over financial reporting (internal control) to determine 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 Oregon Telephone Corporation and Subsidiaries' internal control. Accordingly, we do not express an opinion on the effectiveness of Oregon Telephone Corporation and Subsidiaries' 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's 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, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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.

Wiggins & Co., PC
Brigham City, Utah
March 5, 2019



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF
CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR
TELEPHONE BORROWERS

The Board of Directors
Oregon Telephone Corporation
Mt. Vernon, Oregon

We have audited, 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, the consolidated financial statements of Oregon Telephone Corporation and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017 and the related consolidated statements of revenue, stockholder's equity and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 5, 2019. In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2019, on our consideration of Oregon Telephone Corporation and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above, related to our audit, have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Oregon Telephone Corporation and subsidiaries failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Oregon Telephone Corporation and subsidiaries' noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Oregon Telephone Corporation and subsidiaries' accounting and records to indicate that Oregon Telephone Corporation and subsidiaries did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the telephone system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of investments in affiliated companies.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The detailed schedule of investments in affiliated companies, which is required by 7 CFR 1733.33(i), and attached to this letter, 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.

See Schedule of Investments in Affiliated Companies

The debt provisions require the Company to maintain certain ratio levels. The Company met the ratio requirements (at an unconsolidated level) for 2018 and 2017.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Wiggins & Co., PC

Brigham City, Utah
March 5, 2019

OREGON TELEPHONE CORPORATION AND SUBSIDIARIES
 SCHEDULE OF INVESTMENTS IN AFFILIATED COMPANIES
 FOR THE YEAR ENDED DECEMBER 31, 2018

				Total
Original investment cost	\$	\$	\$	\$
Cumulative net income as of December 31, 2017				
Additional capital investment				
Net income for the year ended December 31, 2018				
Book value of investments as of December 31, 2018	\$	\$	\$	\$

Oregon Telephone Corporation owns 100% of the stock/member interest of each company.

Redacted
CONFIDENTIAL
per WAZ-480-07-160