



REPORT OF INDEPENDENT AUDITORS  
AND CONSOLIDATED FINANCIAL STATEMENTS WITH  
SUPPLEMENTARY INFORMATION

BEK COMMUNICATIONS COOPERATIVE AND SUBSIDIARIES

December 31, 2018 and 2017

- 18 PU-19-224 Filed 07/12/2019 Pages: 38  
Attachment 1 – BEK Communications Cooperative 2018 audited Financials - redacted  
Inter-Community Telephone Company, L.L.C. / Absaraka Cooperative Telephone Co.
- 17 PU-19-230 Filed 07/12/2019 Pages: 38  
Attachment 1 – BEK Communications Cooperative 2018 audited Financials - redacted  
Inter-Community Telephone Company, L.L.C. / Absaraka Cooperative Telephone Co.

## Table of Contents

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	PAGE
<b>Report of Independent Auditors</b>	1–2
<b>Financial Statements</b>	
Consolidated balance sheets	3–4
Consolidated statements of income	5
Consolidated statements of members' equity	6
Consolidated statements of cash flows	7–8
Notes to consolidated financial statements	9–23
<b>Supplementary Information</b>	
Consolidating balance sheet	24–27
Consolidating statement of income	28–29
<b>Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance <i>with Government Auditing Standards</i></b>	30–31
<b>Independent Auditors Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Telecommunications Borrowers</b>	32–33
<b>RUS Schedule of investments</b>	34

## **Report of Independent Auditors**

The Board of Directors  
BEK Communications Cooperative and Subsidiaries

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

We have audited the accompanying consolidated financial statements of BEK Communications Cooperative and Subsidiaries (Cooperative), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated 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 misstatement, 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 audit 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 of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 reasonable 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 BEK Communications Cooperative and Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet and consolidating statement of income 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 relate 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2019, on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Cooperative's 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 the Cooperative's internal control over financial reporting and compliance.

Moss Adams LLP

Spokane, Washington  
March 26, 2019

## BEK Communications Cooperative and Subsidiaries

### Consolidated Balance Sheets

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#### ASSETS

	December 31,	
	2018	2017
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 4,313,698	\$ 968,062
Subscriber accounts receivable, less allowance for doubtful accounts of \$20,918 in 2018 and \$25,407 in 2017	206,728	140,540
Settlements and access accounts receivable, less allowance for doubtful accounts of \$38,284 in 2018 and \$1,189 in 2017	1,790,053	916,604
Other accounts receivable	179,174	141,046
Material and supplies	816,932	717,999
Other current assets	475,184	686,250
Total current assets	7,781,769	3,570,501
<b>NONCURRENT ASSETS</b>		
Goodwill and intangible assets, net	10,300,525	-
Available for sale securities	1,308,814	-
Investment in affiliates	7,943,959	4,736,368
Investment in nonaffiliates	7,168,912	3,104,956
Total noncurrent assets	26,722,210	7,841,324
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Regulated plant in service	109,907,144	85,230,696
Regulated plant under construction	25,556	17,039
Nonregulated plant in service	61,759,700	51,217,711
Nonregulated plant under construction	28,469	6,302,459
	171,720,869	142,767,905
Less accumulated depreciation and amortization	78,311,200	55,251,185
	93,409,669	87,516,720
	\$ 127,913,648	\$ 98,928,545

**BEK Communications Cooperative and Subsidiaries**  
**Consolidated Balance Sheets**

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**LIABILITIES AND MEMBERS' EQUITY**

	December 31,	
	2018	2017
<b>CURRENT LIABILITIES</b>		
Accounts payable, general	\$ 2,238,534	\$ 3,520,838
Advanced billings and customer deposits	18,731	31,230
Current maturities of long-term debt	5,154,317	3,110,742
Line of credit	5,000	-
Other accrued taxes	221,262	58,910
Other accrued liabilities	1,499,351	769,508
Total current liabilities	9,137,195	7,491,228
<b>LONG-TERM DEBT, net of current maturities</b>	44,409,272	25,108,441
<b>OTHER NONCURRENT LIABILITIES</b>		
Deferred revenue	8,940,188	9,312,782
Deferred taxes	4,092,889	-
Total noncurrent liabilities	13,033,077	9,312,782
<b>MEMBERS' EQUITY</b>	61,334,104	57,016,094
	\$ 127,913,648	\$ 98,928,545

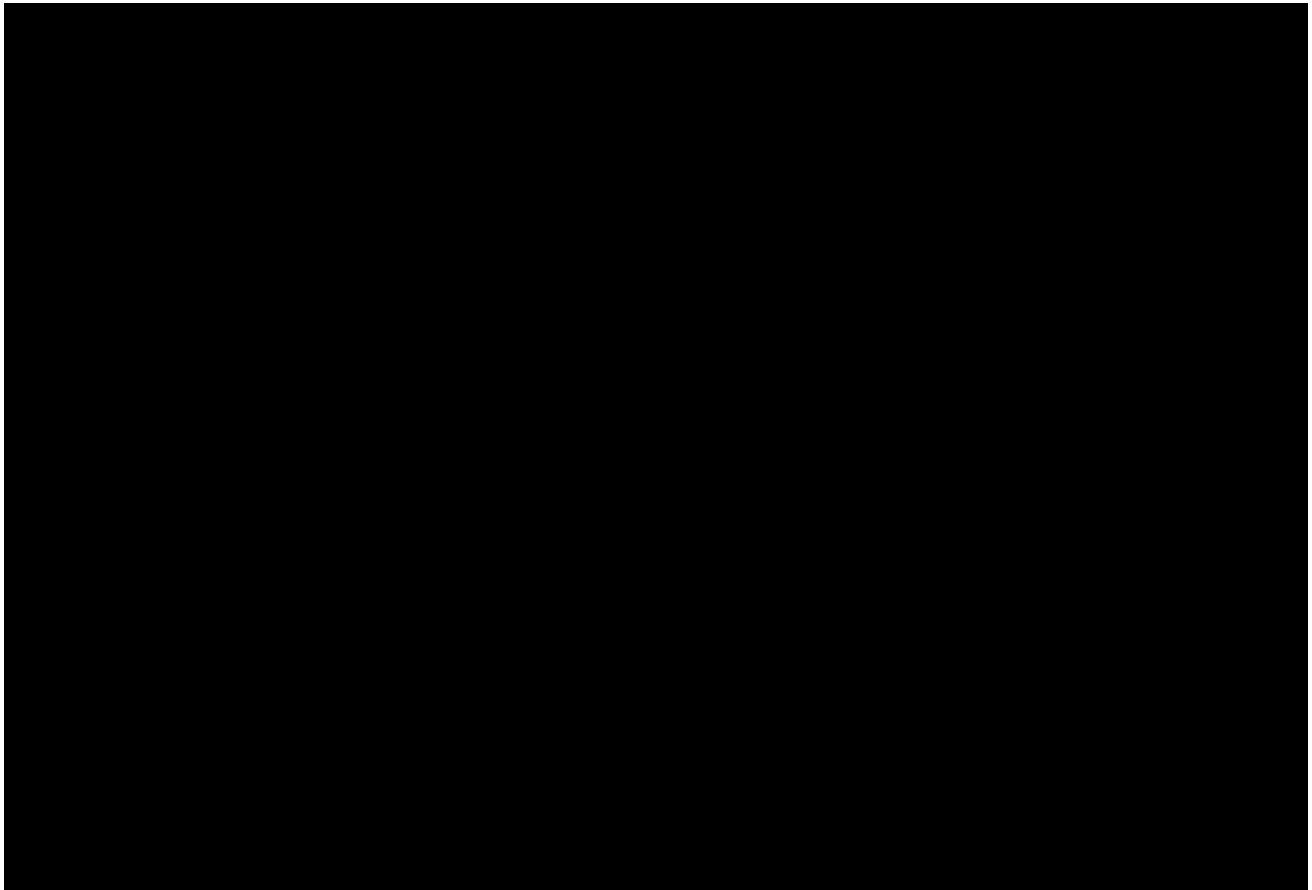
## BEK Communications Cooperative and Subsidiaries

### Consolidated Statements of Income

	Years Ended December 31,	
	2018	2017
<b>OPERATING REVENUES</b>		
Wireline	\$ 13,632,946	\$ 12,479,888
Internet	8,346,540	7,037,529
Television	5,722,901	5,460,135
Miscellaneous	3,274,006	2,691,878
	<u>30,976,393</u>	<u>27,669,430</u>
<b>OPERATING EXPENSES</b>		
Plant specific operations	4,591,640	4,078,046
Plant nonspecific operations	697,530	700,498
Depreciation	3,882,524	3,714,646
Customer operations	1,726,934	1,713,798
Corporate operations	3,098,934	2,065,184
Other taxes	57,592	58,778
Nonregulated	15,125,088	13,514,568
	<u>29,180,242</u>	<u>25,845,518</u>
Operating margins	<u>1,796,151</u>	<u>1,823,912</u>
<b>NONOPERATING INCOME (EXPENSE)</b>		
Interest and dividend income	3,958,343	2,684,174
Allowance for funds used during construction	3,239	1,033
Interest expense	(1,099,760)	(969,321)
Loss on sale of assets	(37,473)	-
Amortization of intangibles	(179,431)	-
Other nonoperating (expense) income	(141,735)	254,004
Income from affiliates	1,100,484	817,189
	<u>3,603,667</u>	<u>2,787,079</u>
Net margins before income taxes	5,399,818	4,610,991
Income tax expense (benefit)	<u>(82,947)</u>	<u>50</u>
Net margins	<u>\$ 5,482,765</u>	<u>\$ 4,610,941</u>

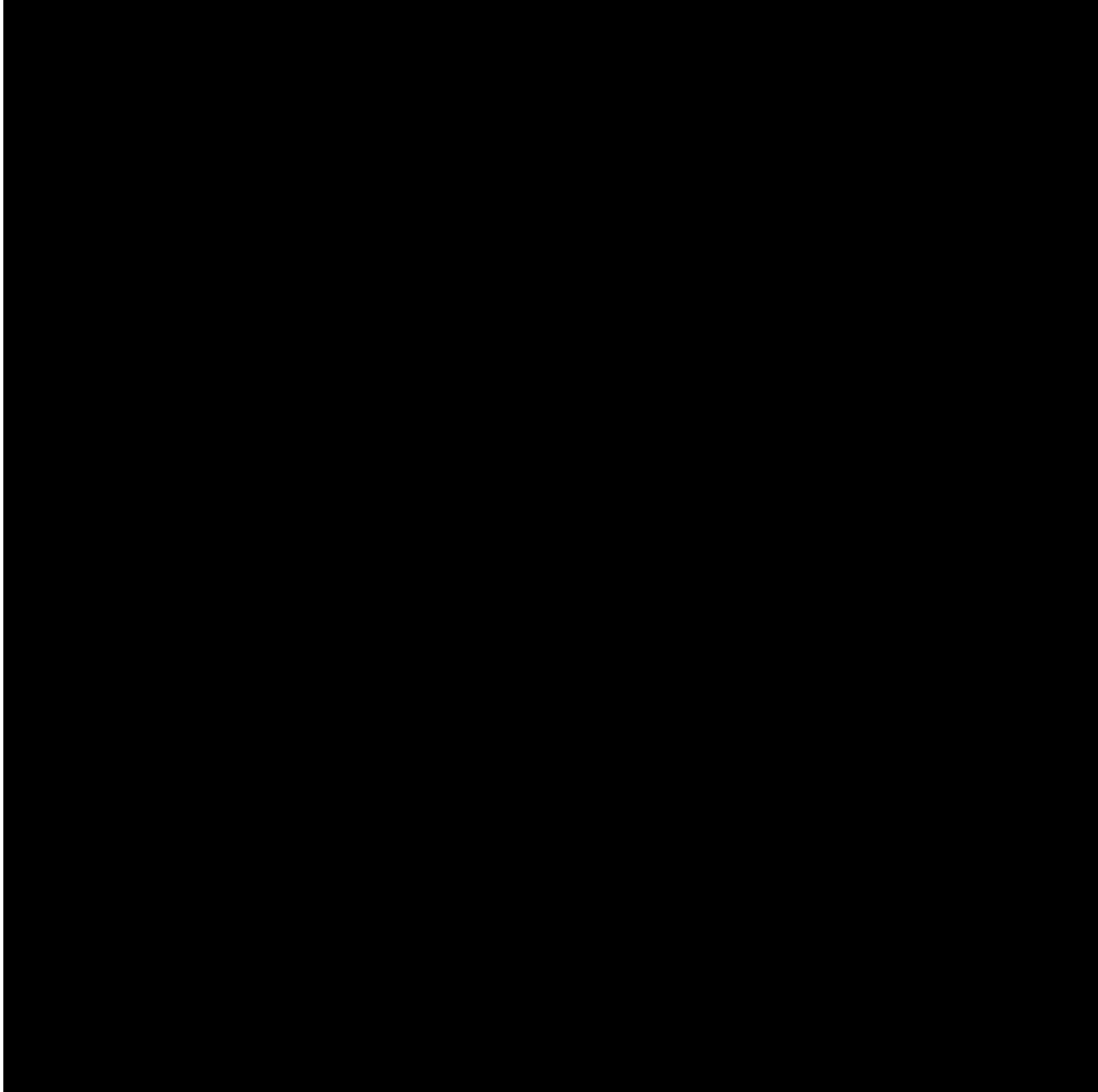
**BEK Communications Cooperative and Subsidiaries**  
**Consolidated Statements of Members' Equity**

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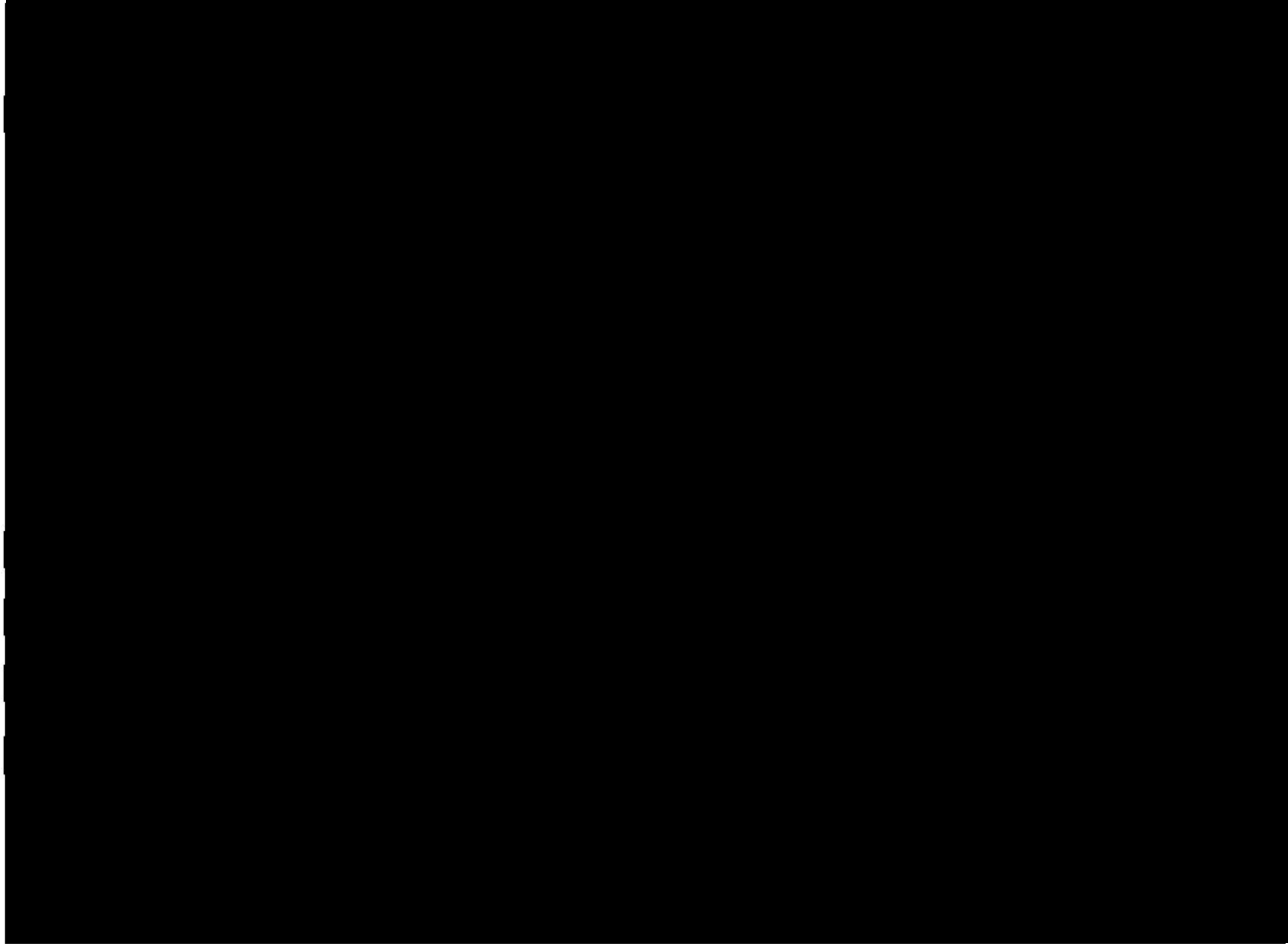
**BEK Communications Cooperative and Subsidiaries**  
**Consolidated Statements of Cash Flows**

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**BEK Communications Cooperative and Subsidiaries**  
**Consolidated Statements of Cash Flows**

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# BEK Communications Cooperative and Subsidiaries

## Notes to Consolidated Financial Statements

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### Note 1 – Summary of Significant Accounting Policies

**Description of entity** – BEK Communications Cooperative and Subsidiaries (Cooperative) provides local telephone exchange, Internet, cable television, long distance, and other telecommunications services to customers throughout North Dakota. The Cooperative's subsidiaries provide cable television services, sales and lease of communications equipment, and other communications services to customers throughout North Dakota.

**Principles of consolidation** – The consolidated financial statements include the accounts of BEK Communications Cooperative and its wholly owned subsidiaries, RBC, BEK Sports, BEK East and BEK Communications I, Inc., dba BEK Care Solutions. In October 2018, the Cooperative acquired 100% of the stock of ICTC Group, Inc. and its wholly owned subsidiaries, ICTC Lynch Telephone II, LLC (Lynch II), Inter-Community Telephone Company LLC (ICTC) and Valley Communications, Inc. (VCI). All assets and liabilities of the subsidiaries are consolidated with the assets and liabilities of BEK Communications Cooperative. All material intercompany balances and transactions have been eliminated in consolidation.

**Accounting policies** – The financial statements of the Cooperative have been prepared in accordance with accounting principles generally accepted in the United States of America, applicable to regulated public utilities. Such accounting principles are consistent, in all material respects, with accounting prescribed by the Federal Communications Commission (FCC).

**Accounting estimates** – The preparation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include depreciation expense, interstate access revenue settlements, valuation of intangible assets and allowance for doubtful accounts.

**Cash and cash equivalents** – For purposes of the statement of cash flows, the Cooperative considers all highly liquid instruments purchased with an original maturity of three months or less when purchased to be cash equivalents. Certain cash balances have been restricted in order to comply with a federal loan/grant security agreement.

**Concentration of risks** – At various times throughout the year, the cash balances deposited in local institutions exceed federally insured limits. A possible loss exists for amounts in excess of the federally insured limits.

In 2018 and 2017, the Cooperative received \$7,741,932, or 25%, and \$6,238,036, or 23%, respectively, of its operating revenue from the Federal Universal Service Fund.

**Accounts receivable** – Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the billing date. Unpaid trade receivables with dates over 30 days old are disconnected. A reconnect fee is charged if service is reconnected.

Payments on trade receivables are allocated to the earliest unpaid billings. The carrying amounts of trade receivables are reduced by a valuation allowance that reflects management's best estimate of the amount that will not be collected. Management reviews all trade receivable balances periodically and adjusts the allowance accounts based on current economic conditions and past experience.

# BEK Communications Cooperative and Subsidiaries

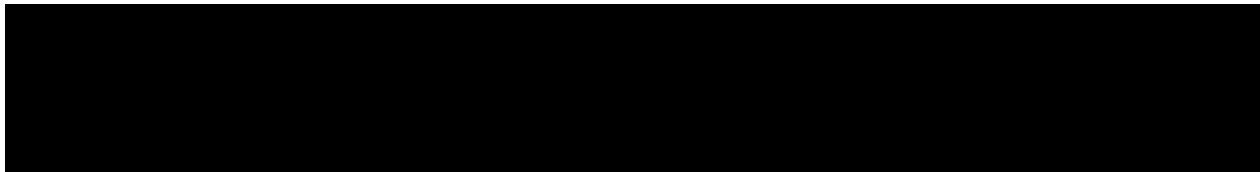
## Notes to Consolidated Financial Statements

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### Note 1 – Summary of Significant Policies (continued)

**Investment securities** – The Cooperative’s policy for investment securities is as follows:

*Securities held to maturity* – Debt securities, for which the Cooperative has the positive intent and ability to hold to maturity, are classified as held to maturity. Held to maturity securities are stated at amortized cost. The Cooperative did not have any securities held to maturity at December 31, 2018 or 2017.



**Materials and supplies** – Materials and supplies consist primarily of network material and supplies for construction projects and are stated at the lower of average cost or net realizable value.

**Investments in affiliates** – The Cooperative’s investments in affiliates consist of minority ownership in telecommunications related companies and are accounted for under the equity method of accounting. Under the equity method of accounting, the Cooperative’s share of the net income or loss of the affiliates is recognized as income or loss in the Cooperative’s income statement and added to or subtracted from the respective investment account. Under the equity method of accounting, dividends or returns of capital reduce the investment balance. These affiliated organizations include North Dakota Long Distance, LLC (NDLD) and Dakota Carrier Network, LLC (DCN).

**Investments in nonaffiliates** – Investments in nonaffiliates consist primarily of investments in companies with less than 20% ownership, assigned patronage from other associations, and nonmarketable stock of telephone industry corporations and are accounted for using the cost method.

**Property, plant, and equipment** – Property, plant, and equipment are stated at cost. Regulated plant includes assets that are jointly used for regulated and nonregulated activities. The cost of additions and substantial betterments of property, plant, and equipment are capitalized. The cost of maintenance and repairs is charged to operating expenses. The Cooperative records as income and capitalizes as a cost of construction the cost of financing construction projects. The Cooperative uses a weighted-average interest rate based on total Cooperative long-term debt and classifies the capitalized interest as allowance for funds used during construction (AFUDC) in the statements of income.

Property, plant, and equipment are depreciated using the straight-line method over their estimated useful lives. In accordance with composite group depreciation methodology, when a portion of the Cooperative’s depreciable property, plant, and equipment is retired in the ordinary course of business, the asset’s original cost is charged to accumulated depreciation.

**Income tax status** – The Cooperative is taxable for federal and state income tax purposes. As a taxable cooperative, taxable income consists of margins earned from nonpatronage and certain nonoperating sources. Margins earned from patronage sources and allocated as capital credits are not taxable. The Cooperative’s subsidiaries are also taxable for both federal and state income tax purposes. The Cooperative files consolidated federal and state tax returns with its subsidiaries.

# BEK Communications Cooperative and Subsidiaries

## Notes to Consolidated Financial Statements

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### Note 1 – Summary of Significant Policies (continued)

Deferred taxes are provided on a liability method whereby deferred tax liabilities are recognized for deductible temporary differences, and deferred tax assets are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets relate primarily to net operating losses and depreciation. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not some portion or all of the deferred tax will not be realized.

The Cooperative accounts for uncertain tax positions whereby the effect of the uncertainty would be recorded if the likelihood of the position would be sustained upon examination is less than 50%. As of December 31, 2018 and 2017, the Cooperative has no accrued amounts related to uncertain tax positions. Interest and penalties, if any, are recorded as interest expense and other expense, respectively.

**Members' equity** – The Cooperative assigns earned patronage margins annually to its patrons based on the bylaws of the Cooperative and related board policies. The allocation is made to individual patrons based on the amount of Cooperative services billed to each patron for that year. The assignment to patron accounts is made in the subsequent year. Permanent equity is not assigned to patrons and consists primarily of subsidiary margins and unclaimed capital credits.

A portion of the total assigned patronage capital is distributed to patrons as a general retirement each year. The total amount retired is determined by the Board of Directors and the vintage year from which the retirements will be applied. The Cooperative's policy is to retire the earliest unretired year first. All assigned margins prior to 1998 have been retired. Additionally, the Board of Directors approves early retirement requests from the estates of deceased patrons. Early retirements for estates are not discounted.

**Revenue recognition** – Monthly service fees derived from local wireline, television, wireless, and internet are billed one month in advance, but recognized in the month that service is provided. Fees derived from business system sales and directory are billed in arrears and accrued in the month service is provided.

Usage sensitive revenues such as access (revenues earned for originating/terminating long distance calls) are generally billed as a per-minute charge. Although these revenues are billed in arrears, an estimate of unbilled revenues is accrued in the month service is provided.

Interstate access revenues also include settlements based on the Cooperative's participation in the revenue pools administered by the National Exchange Carrier Association (NECA). Settlement revenues are determined by annually prepared separations and interstate access cost studies. These studies are prepared subsequent to year end and therefore, the related revenues are recorded on the books based on an estimate of the Cooperative's costs, NECA pool earnings and on other assumptions related to information utilized in the preparation of the Cooperative's cost study. The studies are subject to a 24-month pool earnings adjustment period and a review of the study by NECA. There was an insignificant revenue impact in 2018 and 2017, for adjustments related to prior year differences between the recorded estimates and actual revenues. Management does not anticipate that 2018 and 2017, recorded revenues will require significant adjustments in future years.

# BEK Communications Cooperative and Subsidiaries

## Notes to Consolidated Financial Statements

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### Note 1 – Summary of Significant Policies (continued)

Internet revenues are derived from providing end user customers connection to the public Internet. Additionally, interstate access revenues include settlements from NECA that compensate the Cooperative for the DSL transport related to Internet traffic.

The FCC released an Order and Further Notice of Proposed Rulemaking (FNPRM) in 2016 that reformed the High Cost Program supporting rate-of-return carriers that was effective January 2017. The FNPRM created two paths to a Connect America Fund for rate-of-return carriers. BEK Communications Cooperative elected to remain on the legacy support model. However, ICTC elected to receive support under the model based Alternative Connect America Fund (A-CAM) option. A condition of receiving A-CAM support is that the recipient is no longer eligible to receive high cost loop support or interstate common line support and must exit the NECA common line pool.

The Cooperative's wireline universal service support revenue is intended to compensate the Cooperative for the high cost of providing rural telephone and broadband service. For BEK Communications Cooperative, Universal service support revenue includes funds received for high cost loop support (HCLS), Connect America Fund Broadband Loop Support (CAF BLS), Connect America Fund Intercarrier Compensation (CAF ICC), and other miscellaneous programs. HCLS and CAF BLS are based on the Cooperative's relative level of operating expense and plant investment. Support from the CAF ICC is based on a historical frozen amount related to 2011 investment and expenses associated with the switching function and certain 2011 intrastate access revenues, which together make up the CAF ICC base. The CAF ICC base is reduced by 5% each year in determining CAF ICC support.

ICTC's universal service support revenue includes funds received for A-CAM and CAF-ICC. A-CAM support is based on an amount determined by the FCC, which is fixed for ten years and requires build-out obligations be met beginning 2020. In the event ICTC does not meet the obligations, the FCC can withhold a portion of future A-CAM support until ICTC meets both past and current obligations. If at the end of the ten-year period ICTC has not met the build-out requirements, a portion of the support received will be paid back to the universal support fund.

The FCC released an Order and Further Notice of Proposed Rulemaking in December 2018 that provides additional A-CAM support and a two-year extension of the A-CAM support payments for increased deployment obligations. The FNPRM also allows legacy rate of return carriers to elect model based support beginning in 2019. ICTC elected to receive the additional support and two-year extension and the Cooperative is currently assessing further impact of the Order on its operations.

**Regulation** – The Company's services are subject to rate regulation as follows:

- Interstate access revenues are regulated by the FCC through its regulation of rates and settlements procedures as administered by NECA. The FCC has also exercised, in some cases, preemptive authority to regulate intrastate telecommunications services, including intrastate access rates.
- Universal service support revenues are administered by Universal Service Administrative Company (USAC), based on rules established by the FCC.

# BEK Communications Cooperative and Subsidiaries

## Notes to Consolidated Financial Statements

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### Note 1 – Summary of Significant Accounting Policies (continued)

Other sources of revenues are not rate regulated and include local telephone service, long distance, Internet, equipment sales, competitive local wireline and access services (CLEC), video, television broadcasting, networking services, directory, rents, and other incidental services.

Nonregulated plant is directly attributable to nonregulated services. All other operating expenses and telecommunications plant are related primarily to wireline revenues. However, some of these costs jointly relate to regulated and nonregulated services. For interstate access settlement, universal service support, rate case, and other regulatory purposes, the portion of these common costs related to nonregulated activities are removed in accordance with Part 64 of the FCC rules in order to ensure regulated revenues are based on costs of providing regulated services.

The Cooperative also leases use of telecommunications facilities telecommunications to other companies. Revenue from the leases is recognized monthly when earned.

Grant revenue received by nonregulated divisions of the Cooperative is recorded as deferred revenue and amortized over the life of the fixed assets purchased or constructed with the grant funds.

**Taxes imposed by governmental authorities** – The Cooperative's customers are subject to taxes assessed by various governmental authorities on many different types of revenue transactions with the Cooperative. These specific taxes are charged to and collected from the Cooperative's customers and subsequently remitted to the appropriate taxing authority. The taxes are accounted for on a net basis and excluded from revenues.

**Fair value measurements** – Fair value represents the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The Cooperative adopts the following fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value:

**Level 1** – Quoted prices in active markets for identical assets or liabilities.

**Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

**Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value measurement guidance is applicable to the Cooperative in the following areas:

- Indefinite-lived intangible assets impairment testing
- Business combination.

## BEK Communications Cooperative and Subsidiaries

### Notes to Consolidated Financial Statements

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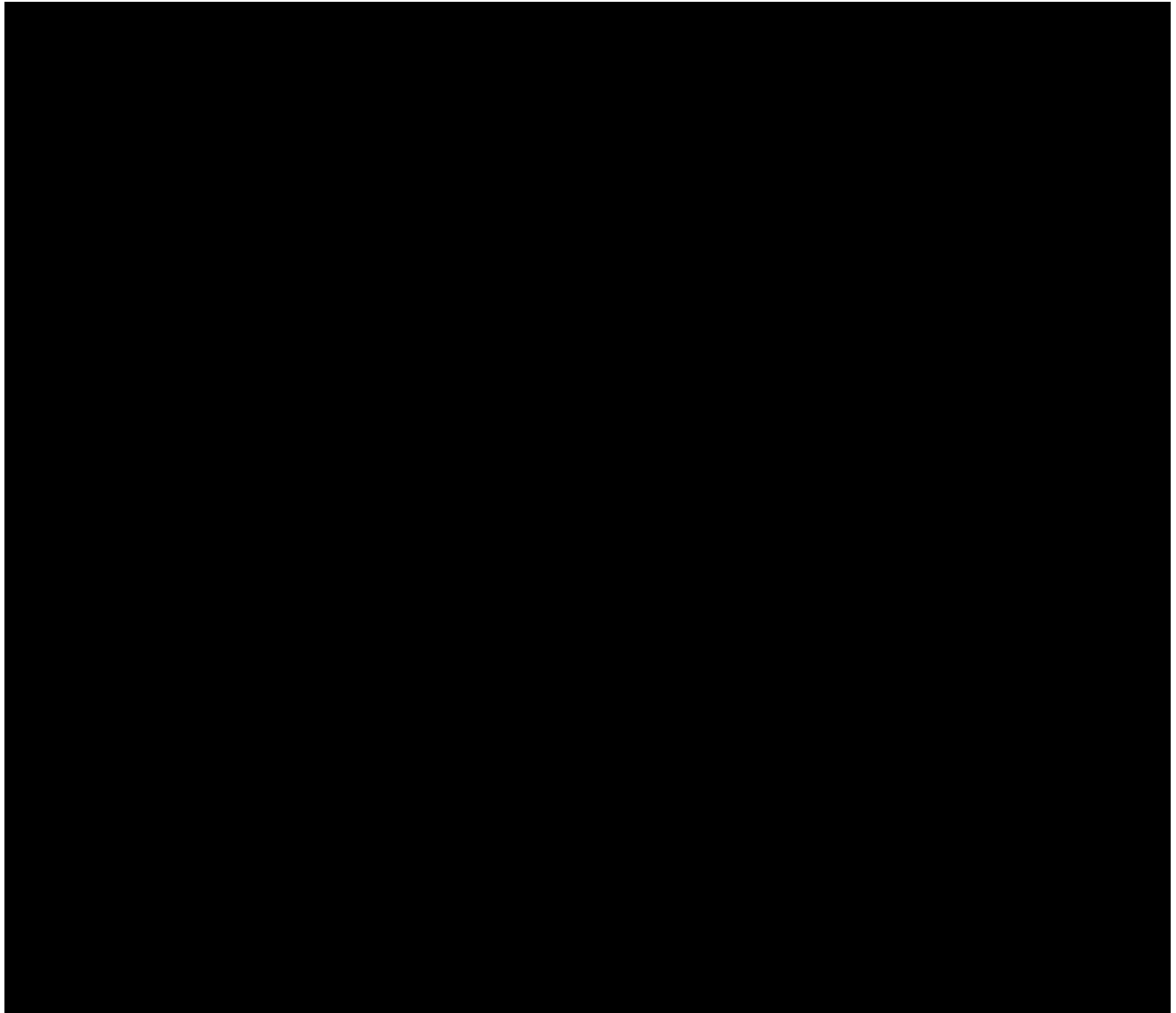
#### Note 1 – Summary of Significant Accounting Policies (continued)

**New accounting standards** – Beginning in 2019, the Cooperative will adopt the Financial Accounting Standards Board Accounting Standards Codification Topic 606 *Revenue from Contracts with Customers*, using the modified retrospective method. The core principle of the standard is that a company should recognize revenue at the time goods and services are transferred to a customer in an amount that reflects the consideration the company is expected to receive. In addition, the standard requires deferral of incremental contract acquisition costs with recognition over the expected period of benefit. The adoption of the standard will also result in additional disclosures around performance obligations, deferred contract assets and liabilities, and significant judgements used by the Company in applying the new five-step revenue model. The Company is still in the process of determining the impacts of the changes.

Beginning in 2019, the Cooperative will adopt an amended standard that requires a Cooperative to record changes in the fair value of equity instruments, except for those accounted for under the equity method, in net income rather than accumulated other comprehensive income.

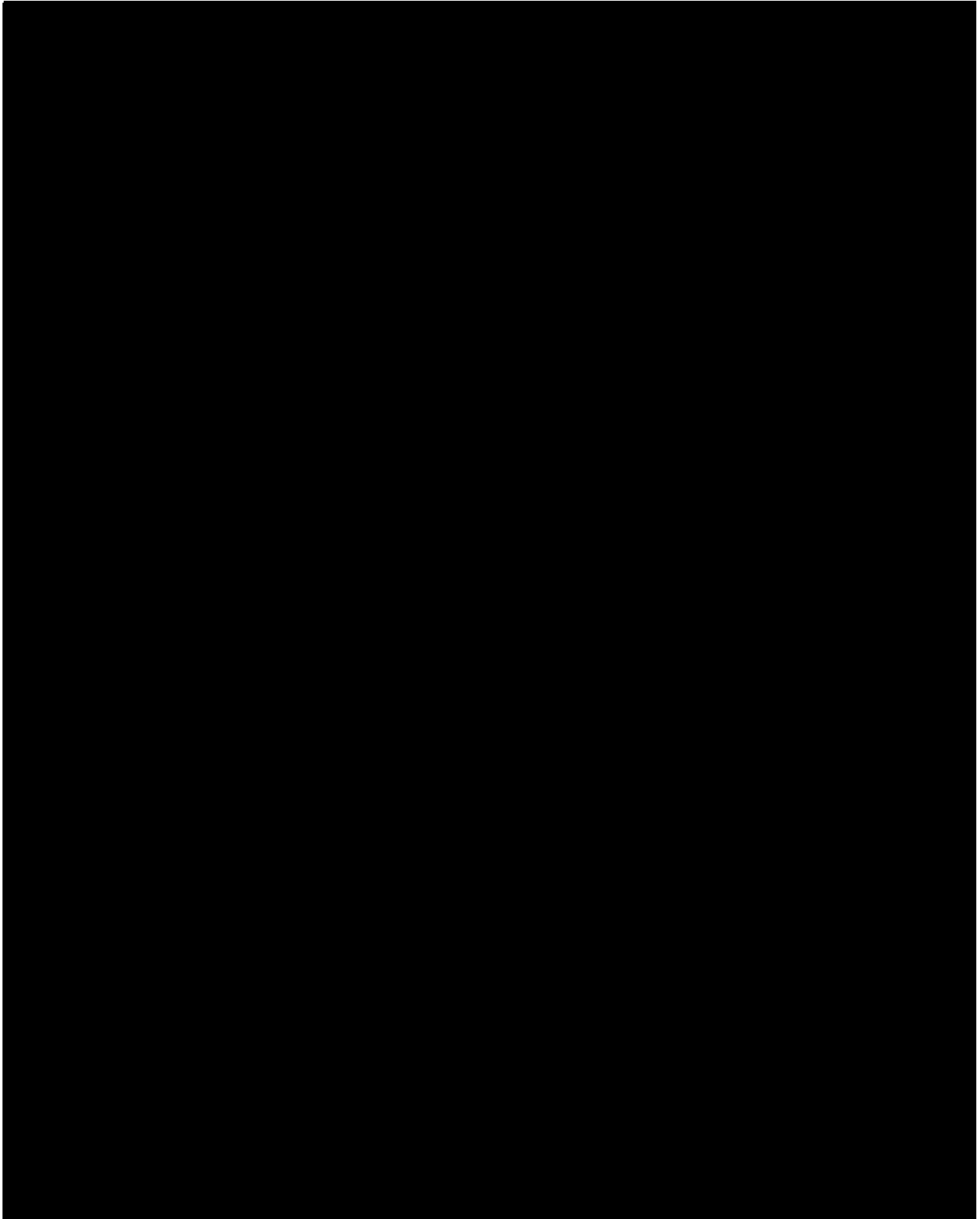
**Subsequent events** – Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are available to be issued. The Cooperative recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Cooperative's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

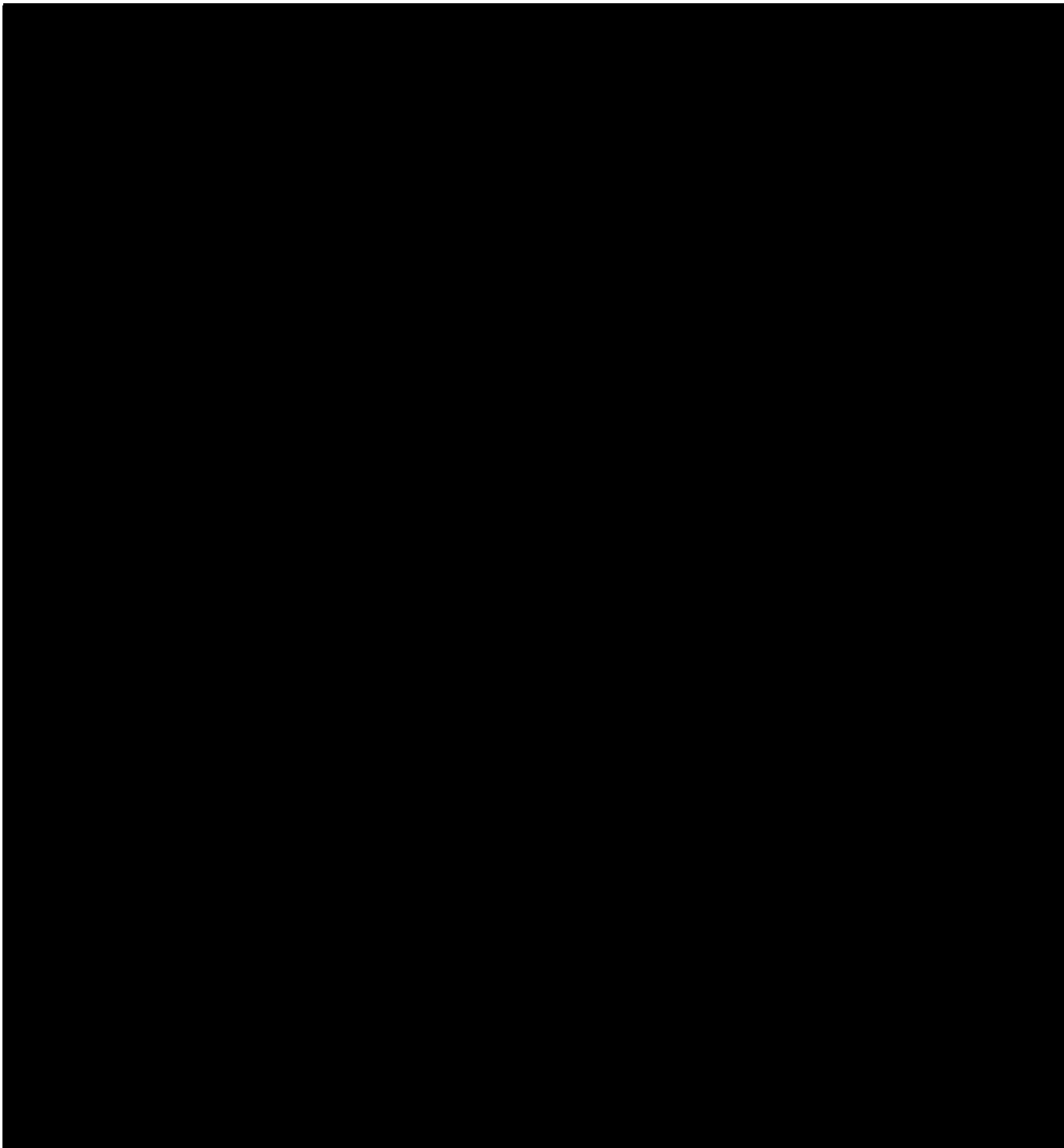
The Cooperative has evaluated subsequent events through March 26, 2019, which is the date the consolidated financial statements are available to be issued.



**BEK Communications Cooperative and Subsidiaries**  
**Notes to Consolidated Financial Statements**

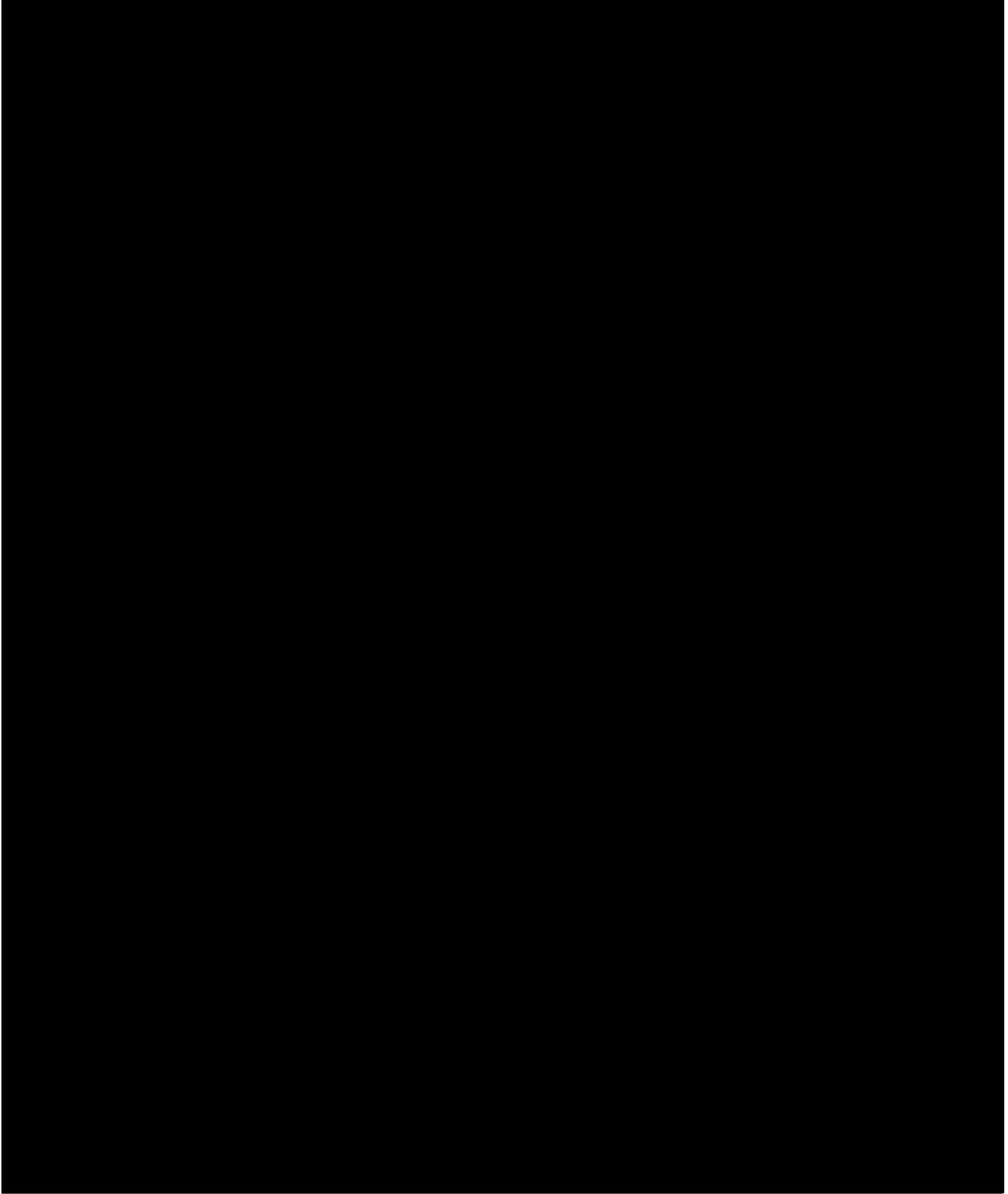
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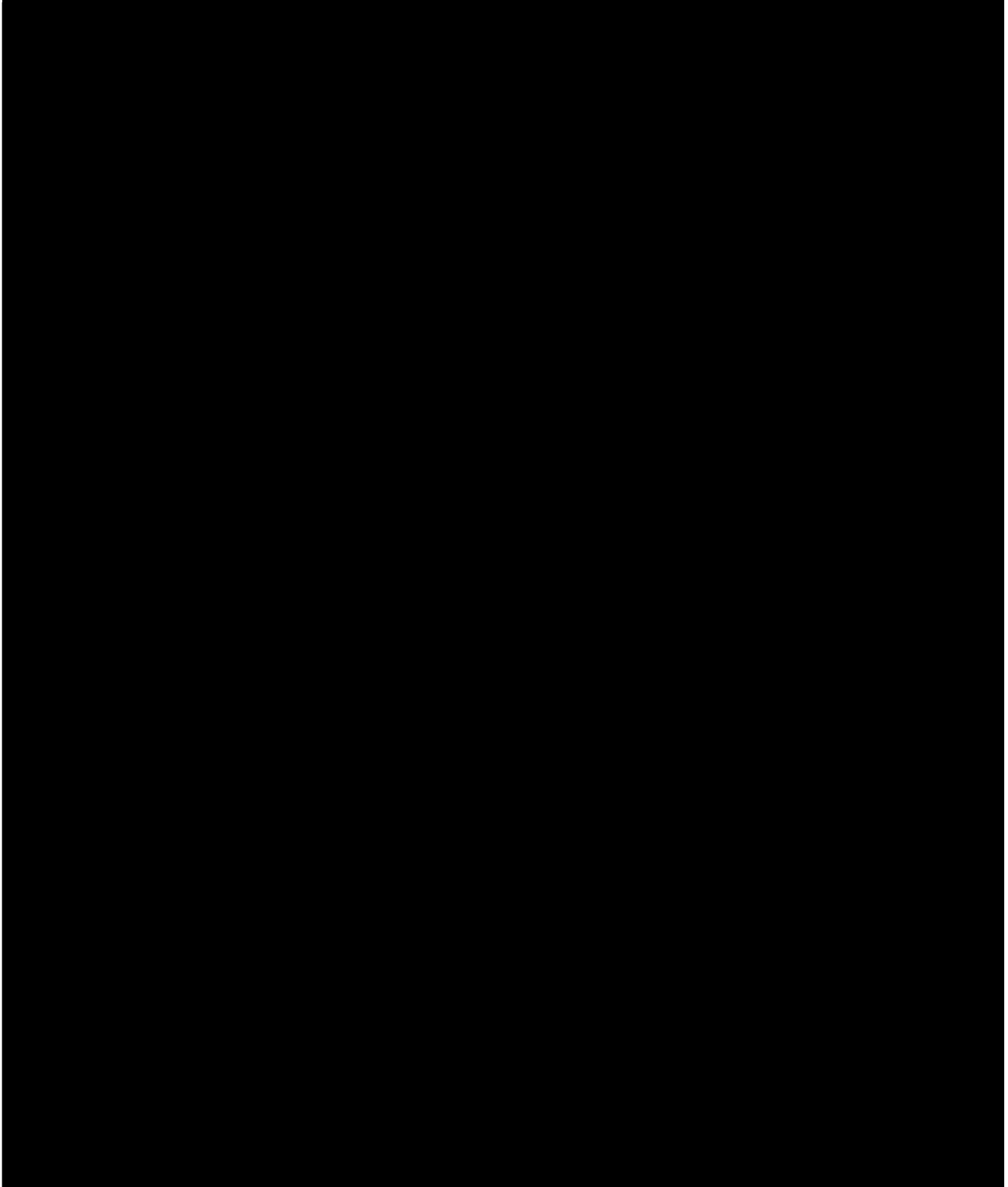




**BEK Communications Cooperative and Subsidiaries**  
**Notes to Consolidated Financial Statements**

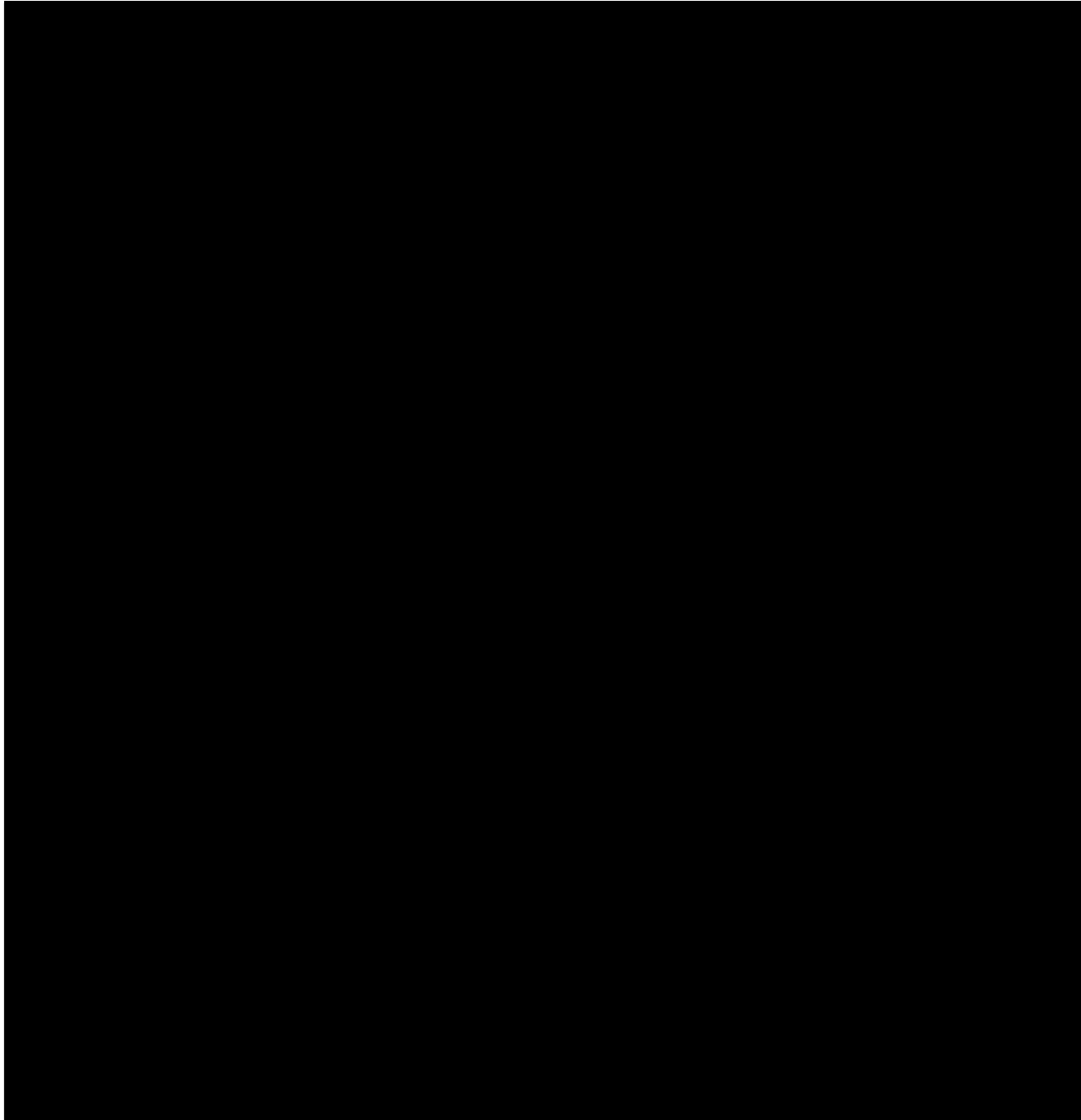
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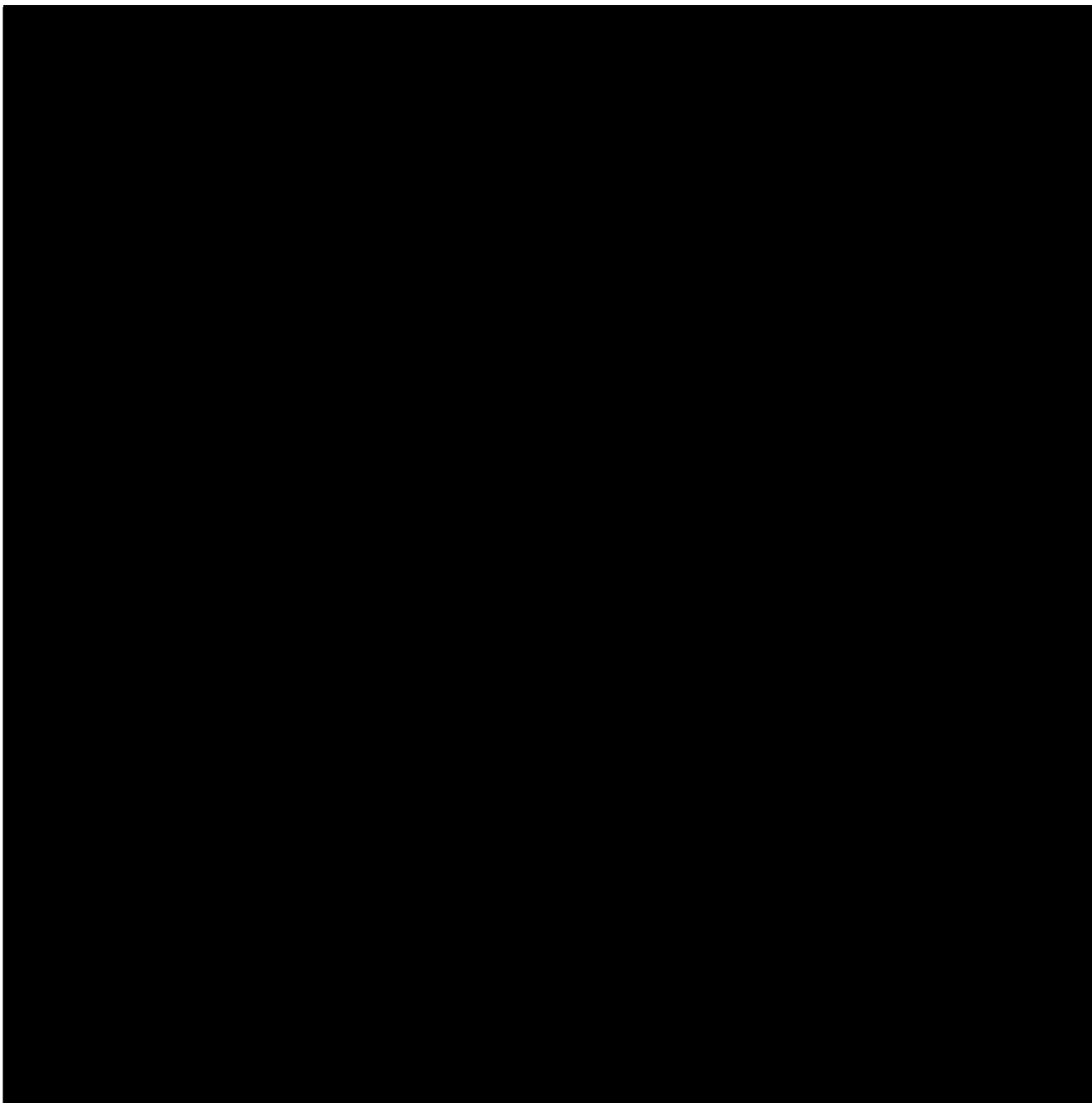
**BEK Communications Cooperative and Subsidiaries**  
**Notes to Consolidated Financial Statements**

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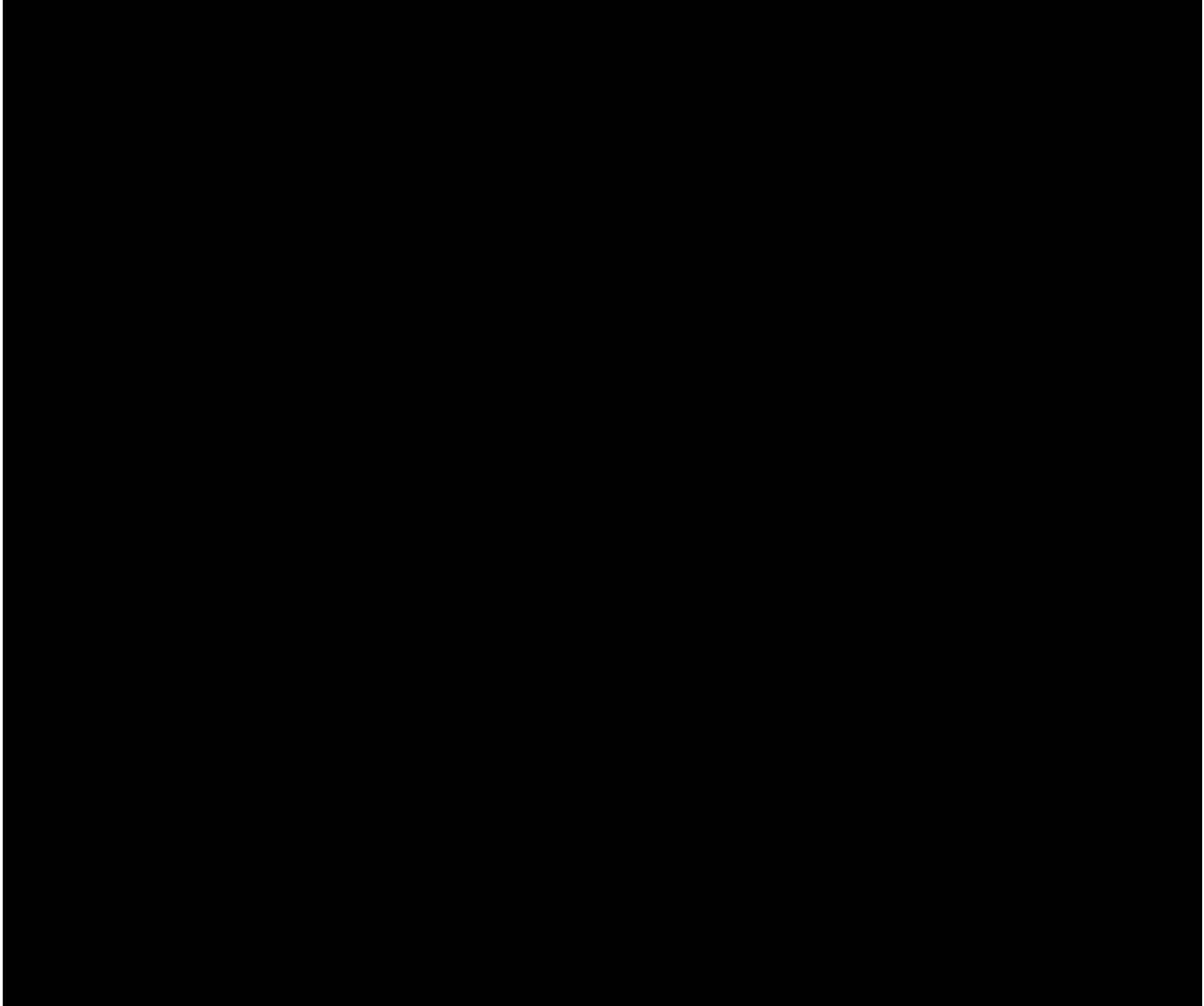
**BEK Communications Cooperative and Subsidiaries**  
**Notes to Consolidated Financial Statements**

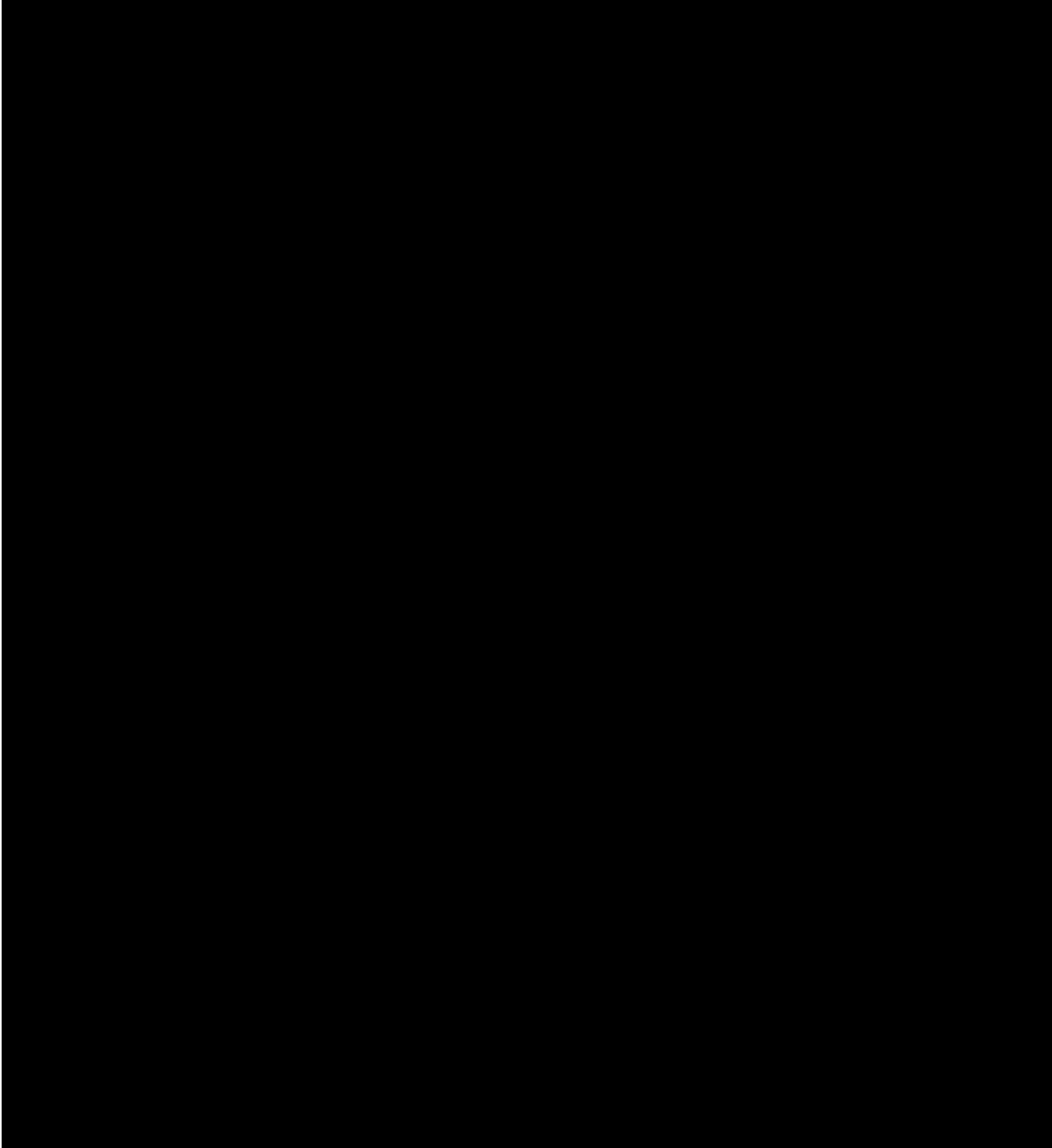
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**BEK Communications Cooperative and Subsidiaries**  
**Notes to Consolidated Financial Statements**

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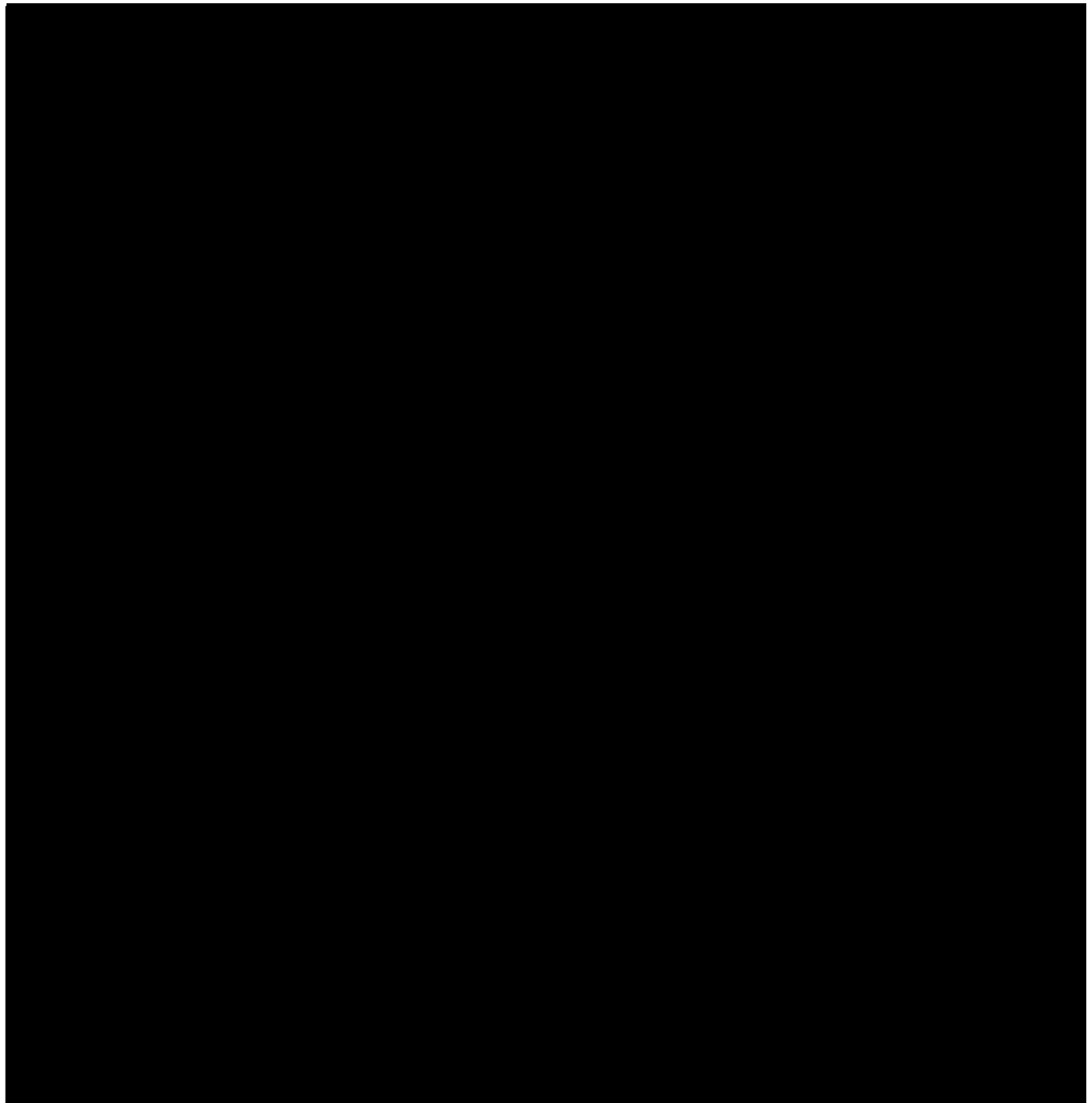


## **Supplementary Information**

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**BEK Communications Cooperative and Subsidiaries**  
**Consolidating Balance Sheet**

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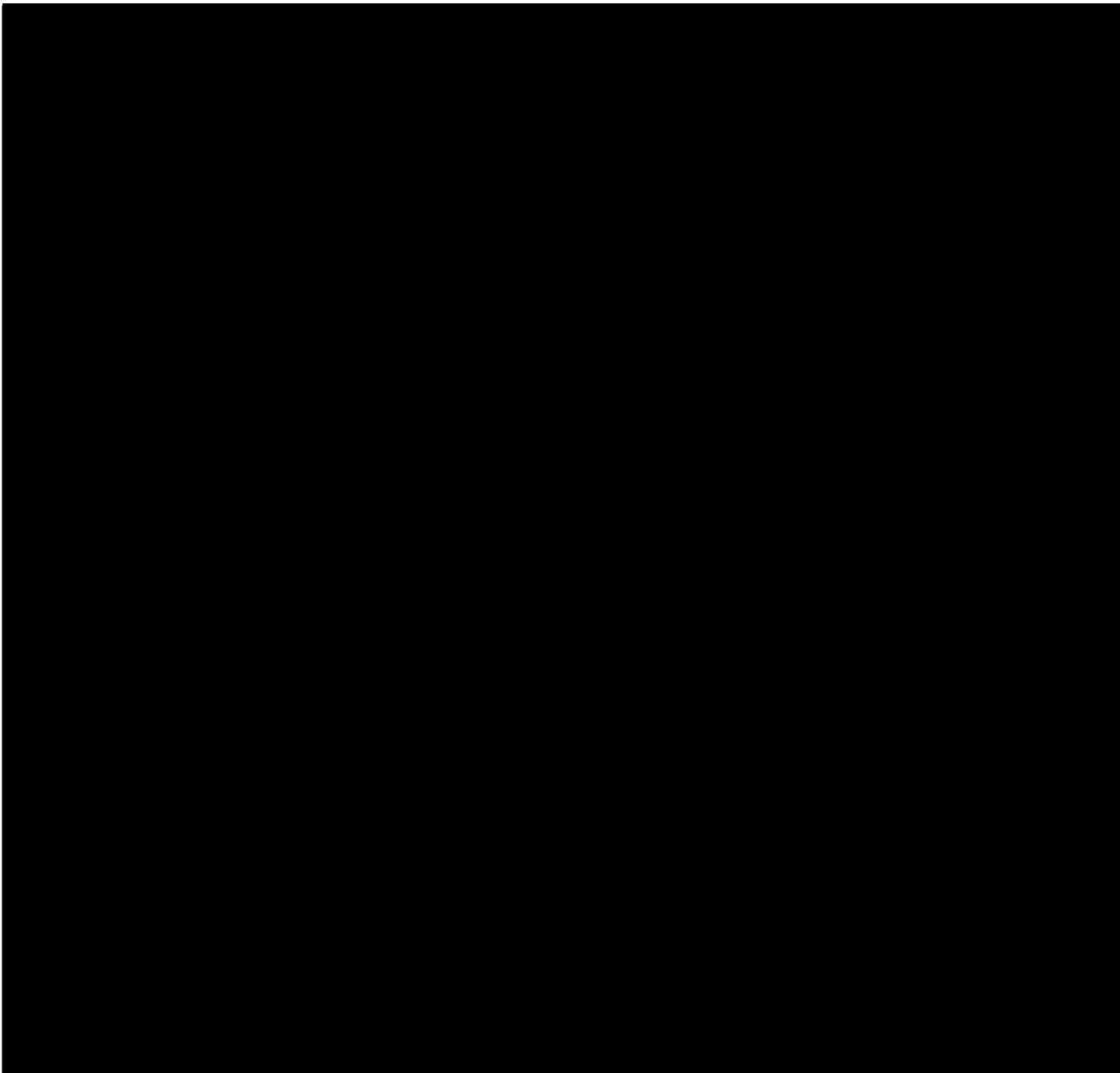


**BEK Communications Cooperative and Subsidiaries**  
**Consolidating Balance Sheet**

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December 31, 2018

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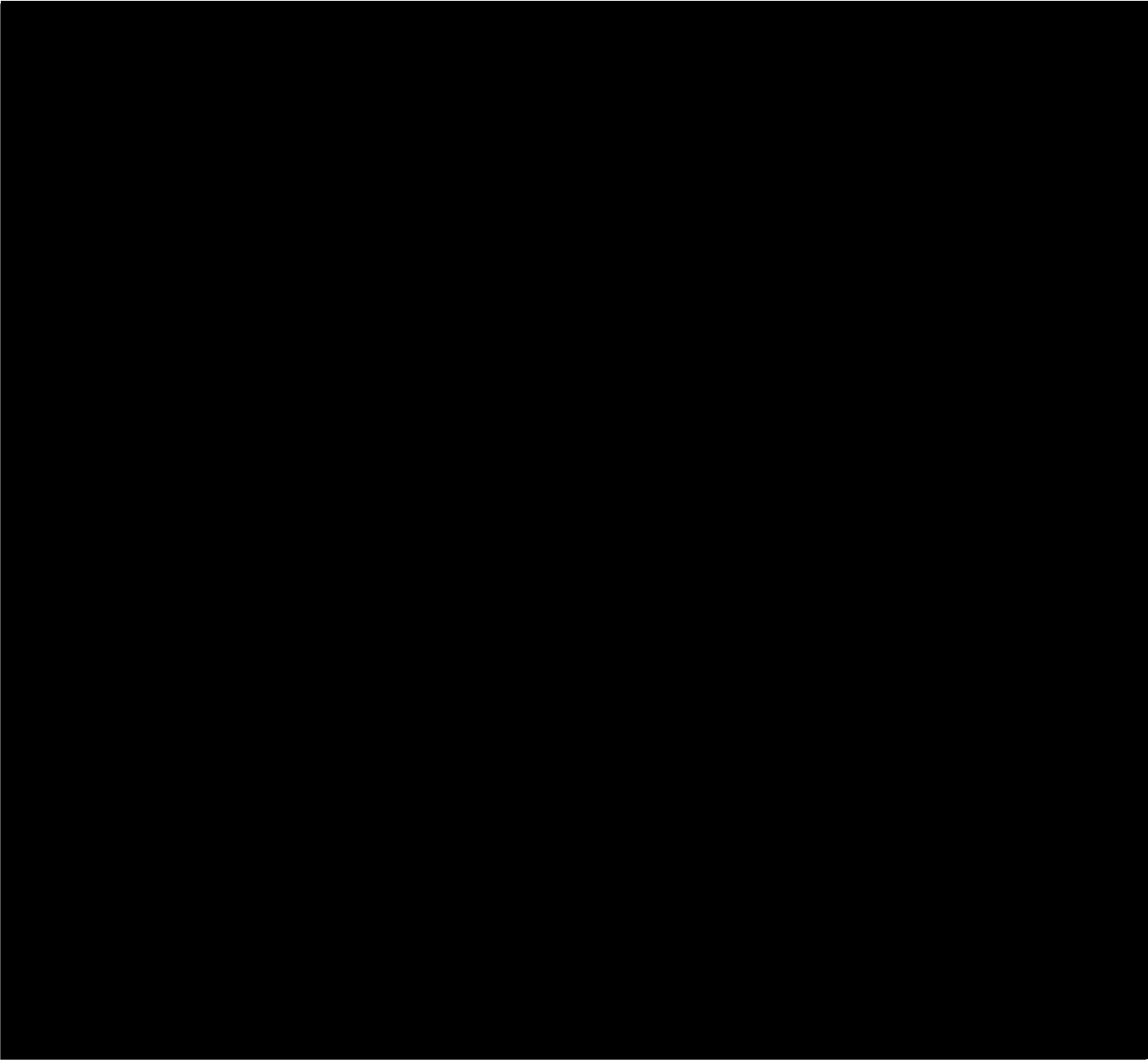




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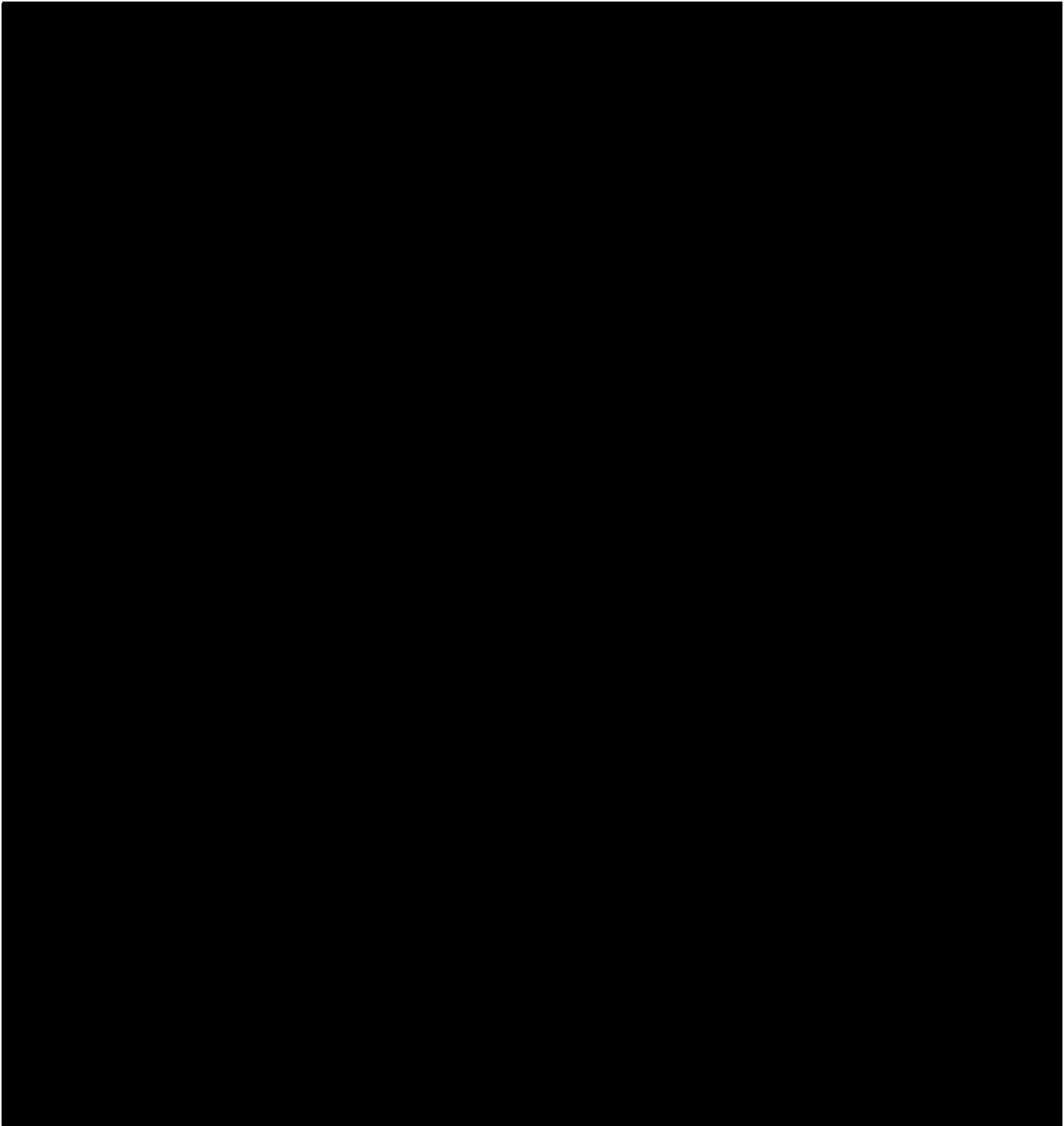
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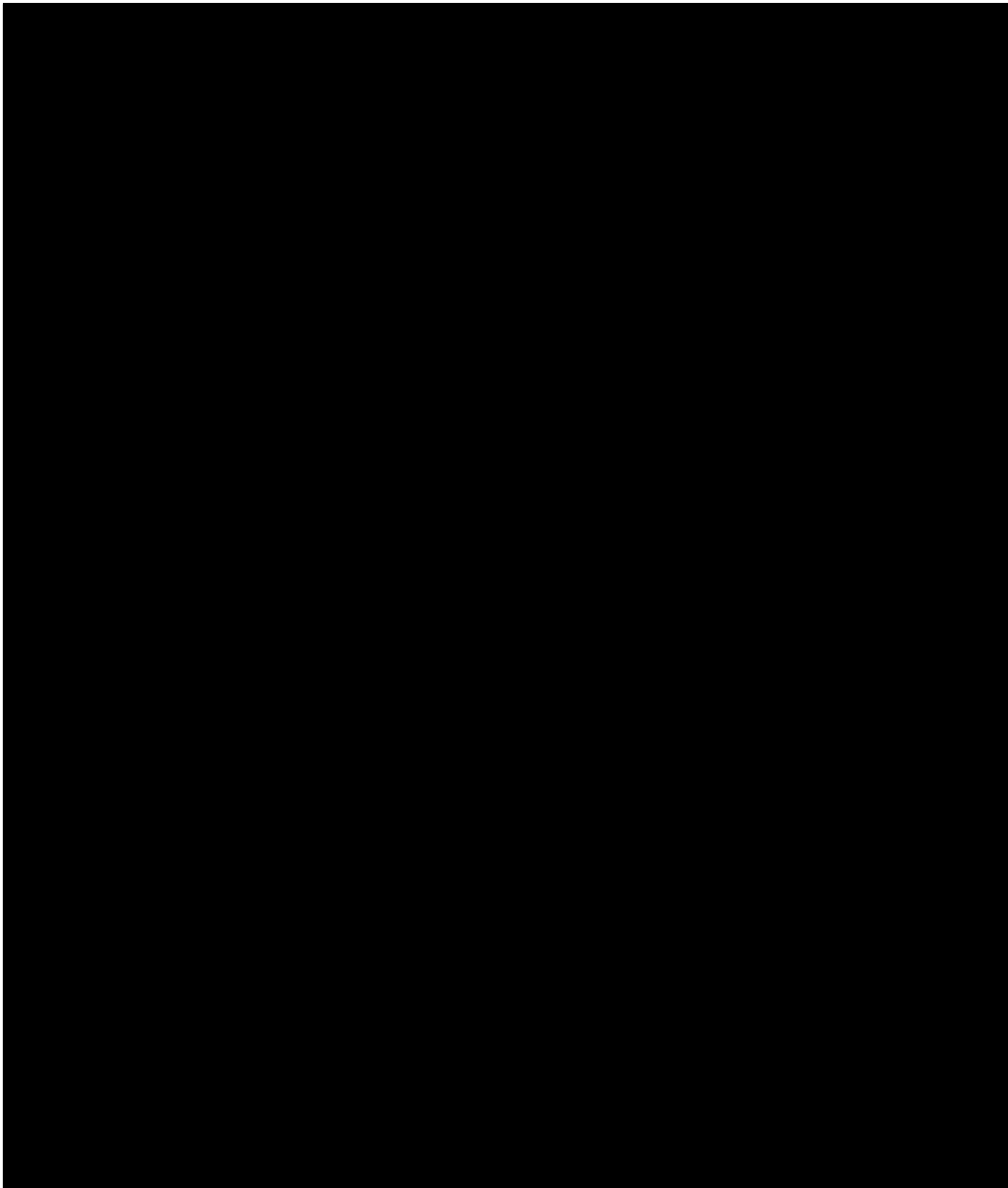
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**BEK Communications Cooperative and Subsidiaries**  
**Consolidating Statement of Income**

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## **Report of Independent Auditors 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***

Board of Directors  
BEK Communications Cooperative and Subsidiaries

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 BEK Communications Cooperative and Subsidiaries (Cooperative), which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of income, members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 26, 2019.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Cooperative's internal control over financial reporting 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 the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative'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 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. We did not identify any deficiencies in internal control over financial reporting 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 the Cooperative'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, noncompliance with which could have a direct and material effect on the determination of consolidated 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Spokane, Washington  
March 26, 2019

## **Independent Auditors Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Telecommunications Borrowers**

Board of Directors  
BEK Communications Cooperative and Subsidiaries

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 BEK Communications Cooperative and Subsidiaries (Cooperative), which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of income, members' equity, and cash flows for the year ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 26, 2019. In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2019, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations or exit memo 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 the Cooperative failed to comply with the terms, covenants, provisions, or conditions on its loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, 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 the Cooperative's 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 the Cooperative's accounting and records to indicate that the Cooperative 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 for 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, agreement, or lease with an affiliate;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Comply with the requirements for the detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The RUS schedule of investments in affiliated companies required by 7 CFR 1773.33(i), and attached to this letter, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as whole.

See attached RUS Schedule of Investments.

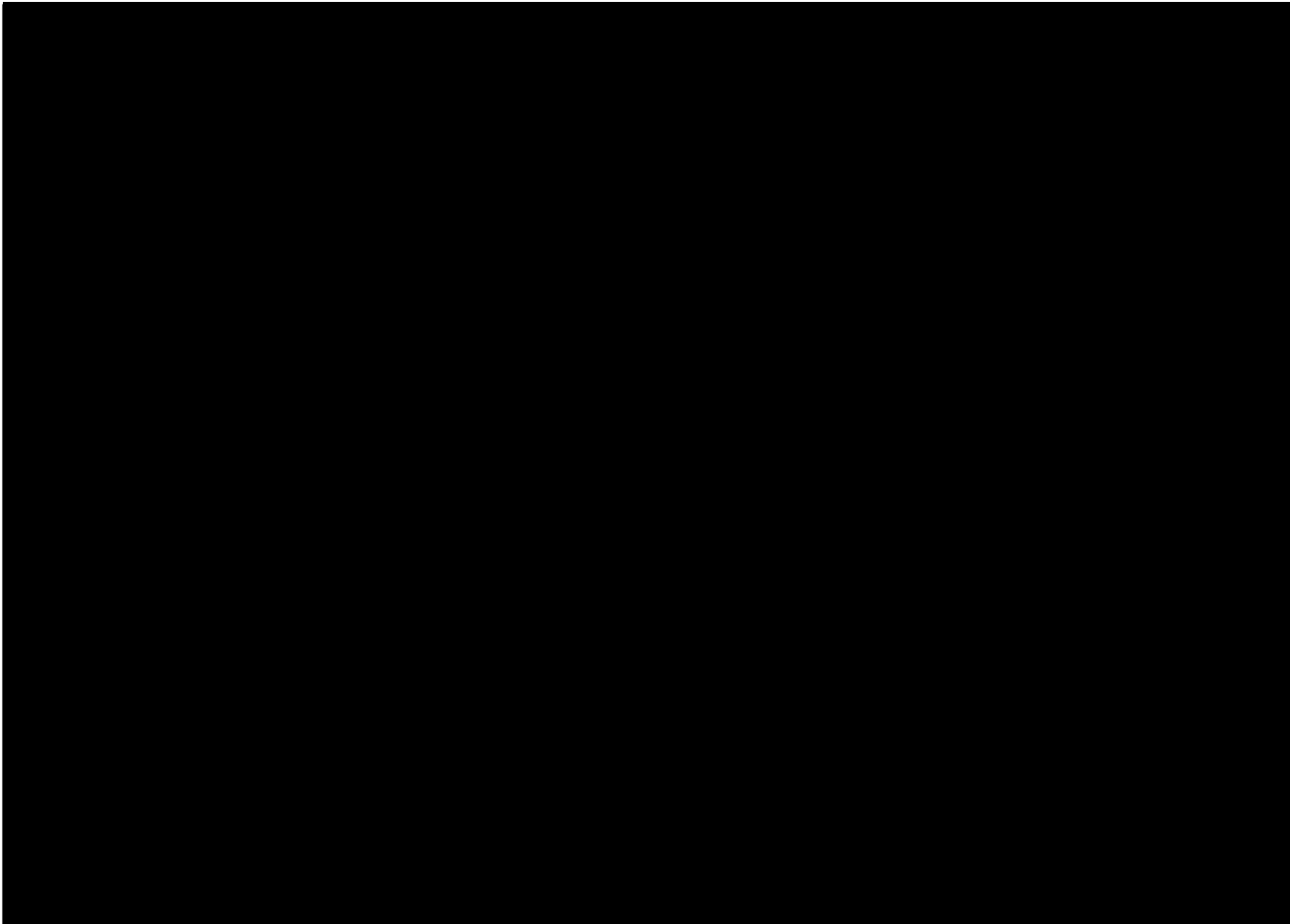
This report is intended solely to communicate, in connection with the audit of the consolidated financial statements, on compliance with aspects of contractual agreements and regulatory requirements for telecommunications borrowers based on the requirements of 7 CFR Part 1773, as clarified in the RUS policy memorandum dated February 7, 2014. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

Spokane, Washington  
March 26, 2019

**BEK Communications Cooperative and Subsidiaries**  
**RUS Schedule of Investments**

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