

A young girl with long brown hair is looking down at a tablet computer. She is wearing a yellow shirt with a floral pattern and a rainbow-colored headband. Her hands are resting on her head. The background is a blurred indoor setting.

KINGDOM

Kingdom Telephone Company
Kingdom Technology Solutions

Annual Report 2018

Our annual meeting
will be held on
March 9, 2019
at North Callaway
High School

*Putting experience
to work for you*

Notice of 2019 Annual Meeting

The Annual Meeting of the Shareholders of Kingdom Telephone Company, a corporation with its principal office in Auxvasse, Missouri, will be held at the North Callaway R-1 High School, 2700 Thunderbird Drive, Kingdom City, Missouri on March 9, 2019.

10:30 a.m. - 1:00 p.m.

Registration: luncheon of pulled pork sandwiches, chips, baked beans, cole slaw, pie, and beverage with entertainment by The Varlet Hearts.

1:00 p.m.

Meeting Called to Order and Introductions; Verification of Quorum

Doug Lensing, President

Notice of Meeting and Proof of Publication

Bennie Young, Secretary

Approval of Minutes of the 2018 Annual Meeting

Doug Lensing, President

2018 Financial Reports

Marla McCowan, Controller

Approval of Financial Reports & President's Report

Doug Lensing, President

Election of Directors*

Hatton Exchange: Bennie Young vs. William E Blansett, II

Rhineland Exchange: Doug Lensing

At-Large Northern Exchanges: Scott Whalen, Auxvasse vs. Richard Fulk Sr., Auxvasse

**These shareholders have been nominated by the Committee on Nominations appointed by the Board of Directors pursuant to the bylaws. Additional nominations may be made at the meeting.*

General Manager's Report

Renée Reeter, General Manager

Election Results, Old & New Business

Brydon, Swearngen & England, General Counsel

Prize Drawings

Cash \$300, \$200, \$100, Hams & Turkeys

\$50 cash prize for children 12 years old & under and children 13-18 years old

Adjourn

Doug Lensing, President

Kingdom Telephone Company

211 S. Main Street P.O. Box 97

Auxvasse, Missouri 65231

573.386.2241

www.kingdomtelco.com

Board of Directors



Officers (front row, from left to right)

Eugene "Butch" Richards, Vice-President, Tebbetts Exchange

Doug Lensing, President, Rhineland Exchange

Bennie Young, Secretary-Treasurer, Hatton Exchange

Board Members (back row, from left to right)

Gene Eldringhoff, Big Spring Exchange

Adam Elley, At-Large Southern Exchanges

Scott Whalen, At-Large Northern Exchanges

Jake Baumgartner, Auxvasse Exchange

Jake Anderson, Williamsburg Exchange

Jim Buffington, Mokane Exchange

Report: Doug Lensing, Board President

As I reflect on this 2018 report, I find myself drawn to the topic of fiduciary responsibility again. This is a topic worth repeating and it is important for Directors and shareholders to understand. A Board of Directors of any company, whether a cooperative or just any “for profit” company, has a legal obligation to act in the best interest of the company and shareholders.

What does it mean? In the case of Kingdom Telephone, it means that we make sure we try to do what is best for our members. We hire a leader for the company who manages the day-to-day operations and makes valid recommendations to the Board for future expansion. We review the activities and financials on a monthly basis. We require our manager do her due diligence on every investment. We make sure we do feasibility studies on future projects to help make decisions about spending current funds or borrowing new funds. In other words, we do our homework and take our jobs very seriously.

Kingdom is faced with our Federal Universal Service funds terminating in 2026. These funds have allowed Kingdom to build a network of services for our members that includes the latest technologies available. We have spent millions of dollars creating this network and millions more keeping it up to date. Yes, we still have millions left to spend, but the reality is, we will always be spending money because technology will force us to. Granted, we think the fiber will take us decades into the future, but it is the electronics that will continue to change and need updated. So, here is where the fiduciary responsibilities come into play. We have to make sure that we continue to serve our members for many decades to come. So, in light of our federal funding terminating, we have chosen not to borrow but to cash flow the upgrade projects. Currently we have no debt on the prior member area upgrades. The Board has made the responsible decision not to bury the company in debt for projects that won't support the repayment of such debt without burdening our members with increased service prices.

Since we are faced with loss of federal funding, we have moved to expand into Mexico, Moberly, and Centralia. As you can note from the General Manager's report, this gives us a great deal of potential customer base. These projects will serve to offset the loss of federal funds in later years and make sure Kingdom is around for future generations of its members.

The future of our industry and company is changing day by day. Our competition has changed. We used to see cell phones as our biggest threat, now a local electric cooperative is attempting to provide the same services we provide in our area. It used to be all about the phone line, now it is all about the Internet. Twenty years ago, the Internet was called dial up, and the best part, most people had two phone lines so they could use the internet and talk at the same time. Now, we sell a service called Gigabit which is more than 20,000 times faster than dial up. My point: with the speed of change in the industry, it is more important than ever that we take our fiduciary responsibility very seriously.

The Board of Kingdom Telephone has complete confidence in our future. We have a dedicated and experienced workforce that will strive to meet members' needs through these changing times. With their dedication and the support of our members, rest assured we will be looking out for the best interest of you, our members and the company.

Thank you for the opportunity to serve as your Board President.



Report: Renée Reeter, General Manager

Isn't it funny when you are looking forward to a future event how it can seem like it takes forever to arrive; but when we look backwards, time seems to have flown by. Well, that is how I feel about 2018, it seems like we just started the year. Kingdom had another successful construction year. Rural Auxvasse was finished and crews continued work in Mokane, Rhineland, and Big Spring. In Williamsburg, we updated electronic cabinets in the field which allows greater Internet speeds to our customers. The last couple of winters we have been able to work straight through, but as I write this article in the early stages of winter and considering we had our first snow on November 8, I wonder if the weather conditions will slow our progress. By the time you read this article – that question will have been answered.

We launched another technology to give our patient copper customers even more speed than before. This technology increased speeds from the previous 6 times faster to 15 times faster or 75 Mbps on copper, which is more than our lowest fiber speed. If you want more speed and you haven't been upgraded to fiber yet, just give us a call, we can certainly fill your needs. In addition, we launched a new Unlimited Long Distance/Internet package. This combined with new TV options for our members will allow us to compete quite nicely with our competitor.

In addition to the regulated company work, we have been busy in our non-regulated division. Our Phynx division continues to build fiber in Mexico. In July we started ground breaking work in Moberly and in December we began in Centralia. Between Mexico, Moberly, and Centralia we will have nearly 13,000 potential locations to serve. This means a great deal to Kingdom Telephone's future. This will potentially not only replace the ending universal service funds (USF), but has the potential to allow our company to grow and thrive.

Some shareholders have struggled with the idea of our building outside the telephone area. As I have explained in several newsletters and at all the annual meetings, our main revenue source (USF) is scheduled to end. 2019 begins year three of the ten years of universal service support window. The current revenue stream has and will continue to decline due to budget cuts until it is scheduled to be zero after 2026. That may seem like a very long time, but the reality is without universal service support or some replacement source, the rates we charge our customers will not support the shareholder services, hence the expansion in Mexico, Moberly, and Centralia. Unlike the regulated area where we have about 6 customers per square mile, these communities have more than 1,200 and some areas over 2,000 potential customers per square mile. Having that density is what makes the business case work. We have estimated that it will require about 4,000 connections to completely replace universal service. This doesn't happen overnight; we estimate it will take up to five years before we saturate a community, so it is important that we started early.

In addition to replacing that source of income, we have to work hard to control expenses. Before the FCC changes to the USF program, we would charge other carriers for the use of our network. For example, a long distance carrier would pay us a rate per minute for every minute someone was talking long distance. It didn't matter who called who, the telephone company was charging the long distance carrier for those minutes. Now the Federal Communications Commission (FCC) has us on a path to bill and keep, which simply means we bill our customer and keep what we collect and the carrier doesn't pay for the call. But when our customer uses someone besides Kingdom for their long distance carrier, Kingdom will get nothing. Other things have changed as well, it used to be we would get 100% of what we invested in our plant facilities back through USF and part of our operating expense. Now, since the FCC has an expiration date and has capped how much USF is available, that is far from true anymore.



Report: Renée Reeter, General Manager, cont.

The FCC changes to our revenue stream have caused us to make some very difficult decisions since I have been here, and I was hired for that very reason. The Board knew our future was drastically changing so they went looking for someone who not only had years of experience in the industry, but someone who was an accountant who could lead the company in these changing financial times. Not only did we need to cut expenses and operate as efficient as possible, but, we had to grow. Other companies like Kingdom are having to do the same things, so we are not unique. Our industry is tough, and we have to change with the times to survive. Thank goodness we have a Board of Directors that realized change needed to happen before it was too late.

Thanks to the Directors' decisions, we can be certain Kingdom will be around for decades to come providing services to our shareholders. We now have a team in place that works their hearts out for our company. I am proud of the dedication they give to you the shareholders and the company. We appreciate the loyalty you have given us and hope you will allow us the honor to continue to be your technology provider into the future.

Thank you and I hope to see you at the Annual Meeting.

Minutes from Our Annual Meeting

The annual meeting of stockholders of Kingdom Telephone Company (hereinafter the "Company"), was held on March 10, 2018 at the South Callaway R-II High School in Mokane, Missouri.

At 1:00 p.m., Doug Lensing, President of the Company, announced that the meeting would be called to order, as all shareholders had time to register and receive a ballot for the record number of proxies and assignments.

Mr. Lensing welcomed the stockholders to the 63rd annual meeting of the Company.

Mr. Lensing stated that 245 stockholders were represented at the meeting, with 217 in person, 23 proxies and 5 assignments. He thereupon declared a quorum present for conducting of the Company's business. Bennie Young, Secretary of the Company, then read the notice of the meeting and proof of publication. The notice and proof of publication were ordered attached to these minutes.

Mr. Lensing introduced The Varlet Hearts, who are from the Auxvasse Exchange, and thanked them for the entertainment.

The attendees recited the Pledge of Allegiance led by General Manager Renée Reeter, and Suze Durk of the Varlet Hearts sang the Star-Spangled Banner, followed by a prayer by Mr. Lensing.

Mr. Lensing introduced Renée Reeter, General Manager of the Company; members of the Board of Directors; and Brian McCartney, the Company's attorney.

On motion duly made, seconded and unanimously passed, reading of the Minutes of the March 4, 2017, meeting of stockholders was dispensed with and the Minutes were approved as reported in the 2017 Annual Report and 2018 Annual Meeting Notice.

Mr. Lensing then referred the stockholders to the Financial Report that was printed in the 2017 Annual Report and 2018 Annual Meeting Notice.

Minutes from Our Annual Meeting, cont.

On motion duly made, seconded and unanimously passed, reading of the 2017 Financial Reports was dispensed with and the 2017 Financial Reports were approved as reported in the 2017 Annual Report and 2018 Annual Meeting Notice.

Mr. McCartney then announced that the meeting would turn to the election of directors. He explained the cumulative voting procedure that would be used for the election of directors. He also stated that three (3) directors were to be elected at this meeting, one from the Mokane Exchange, one from the Williamsburg Exchange and one from the At-Large Southern Exchange. He reported that the Nominating Committee had met and nominated Jim Buffington and Peggy Nalls, both from the Mokane Exchange; Jake Anderson and Chuck Eckert, both from the Williamsburg Exchange; and, Henry Domke and Adam Elley, both from the At-Large Southern Exchange. Mr. McCartney then asked if there were any nominations from the floor. There being no further nominations, the stockholders were asked to mark their ballots and the inspectors collected the ballots and retired to count the ballots. The following served as the inspectors for the meeting: Michael Auer, Joyce Wilson, Randy Rhoades, Robert Schmidt, Janet Wehrle, Cindy Love, Catherine A. Glover, Joann Mealy, Barry Stoddard, Dana Myers, Kelli Teel, Ronald Sommer, Dorothy J. Brune, Kathy Huddleston, and Patti Griffith.

Renée Reeter, General Manager of the Company, then gave a report on the operations of the Company during the past year and answered questions from the floor.

Mr. McCartney and the inspectors returned, and Mr. McCartney announced the following from the election of directors as recorded in the report of the inspectors:

<u>Exchange</u>	<u>Nominee</u>	<u>Votes</u>
Mokane	Jim Buffington	158
	Peggy Nalls	54
Williamsburg	Jake Anderson	165
	Chuck Eckert	100
At-Large Southern	Adam Elley	103
	Henry Domke	96

Mr. McCartney thereupon announced that Jim Buffington, from the Mokane Exchange; Jake Anderson, from the Williamsburg Exchange; and Adam Elley, from the At-Large Southern Exchange, having received the highest number of votes, had been elected directors of the Company for a term of three (3) years and until their successors are elected and qualified. The report of the inspectors of election was ordered attached to these minutes.

Mr. Lensing presented plaques to retiring Board Members Glen Horstman and Jim Blacklock to recognize their years of service to the Company.

Mr. McCartney then called for old business. There being none, Mr. McCartney then called for new business. There was none.

Mr. Lensing then proceeded with the drawing for the attendance prizes. At the conclusion of the drawing, Mr. Lensing thanked South Callaway R-II High School and its Staff for its assistance and use of the building. Mr. Lensing also thanked the Callaway 4-H Club for preparing and serving the lunch, the South Callaway FFA for assisting with the attendance prizes, and all of the shareholders for attending. Thereafter, the meeting was adjourned.

Balance Sheet:

Years Ended December 31, 2018 and 2017

	Unaudited 2018	Audited 2017
<i>Assets</i>		
Current Assets		
Cash & Cash Equivalents	\$ 7,956,784	\$ 7,229,941
Telecom Accounts Receivable	47,403	50,289
Other Receivables	616,070	396,746
Materials & Supplies	1,207,352	1,013,418
Prepaid Expenses	729,358	767,258
Total Current Assets	\$ 10,556,967	\$ 9,457,652
Other Assets & Investments		
Nonregulated Assets - Net	\$ 4,231,247	\$ 4,476,856
Other Investments	2,059,870	2,147,539
Deferred Tax Asset	-	-
Deferred Charges	3,243	-
Total Other Assets & Investments	\$ 6,294,360	\$ 6,624,395
Property, Plant & Equipment		
In Service	\$ 45,492,897	\$ 43,306,515
Under Construction	2,037,817	875,261
Less Accumulated Depreciation	27,521,940	25,519,495
Net Property, Plant & Equipment	\$ 20,008,774	\$ 18,662,281
Total Assets	\$ 36,860,101	\$ 34,744,328
<i>Liabilities & Members' Equity</i>		
Current Liabilities		
Accounts Payable	\$ 377,350	\$ 607,836
Customer Deposits	5,512	5,505
Accrued Expenses	(218,958)	(148,613)
Other Current Liabilities	95,005	128,099
Total Current Liabilities	\$ 258,909	\$ 592,827
Long-Term Debt	-	-
Deferred Credits	\$ 899,909	\$ 899,717
Members' Equity		
Memberships	\$ 31,220	\$ 33,790
Patronage Capital	35,763,981	33,340,487
Other Equity	(93,918)	(122,493)
Total Members' Equity	\$ 35,701,283	\$ 33,251,784
Total Liabilities & Member Equity	\$ 36,860,101	\$ 34,744,328

Statement of Operations:

Years Ended December 31, 2018 and 2017

	Unaudited 2018	Audited 2017
Operating Revenues		
Local Network	\$ 1,023,302	\$ 1,156,175
Network Access	4,545,484	4,093,648
Miscellaneous	292,275	291,138
Uncollectables	781	320
	\$ 5,861,842	\$ 5,541,281
Operating Expenses		
Plant Specific	\$ 759,318	\$ 793,752
Plant Non-Specific	368,797	443,275
Customer	392,021	395,270
Corporate	908,412	942,872
Depreciation/Amortization	2,032,901	2,007,674
Operating Taxes	229,489	192,335
	\$ 4,690,938	\$ 4,775,178
Operating Margin	\$ 1,170,904	\$ 766,103
Other Income (Expense)		
Investment & Dividend Income	\$ 76,162	\$ 62,420
Net Nonregulated Income/(Loss)	1,843,584	2,110,929
Other Interest Expenses	(120)	(289)
Miscellaneous Income/(Loss)	164,613	3,285
Non-Operating Taxes	(264,000)	(219,959)
	\$ 1,820,239	\$ 1,956,386
Margin Available for Fixed Charges	\$ 2,991,143	\$ 2,722,489
Fixed Charges - Interest on Long-Term Debt	-	-
Net Margin	\$2,991,143	\$2,722,489

A complete copy of the Financial Statements audited by BKD, LLP
may be seen during regular office hours at:

Kingdom Telephone Company
211 South Main Street
Auxvasse, Missouri

Report: BKD, CPAs and Advisors

*West Des Moines, Iowa
April 11, 2018*

We have audited the accompanying consolidated financial statements of Kingdom Telephone Company and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, members' equity and cash flows for the years then ended, and the related notes to 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.

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. 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 basis for our qualified audit opinion.

We were unable to perform audit procedures for 2017 and 2016 supporting the Company's investments in Missouri RSA #8 Limited Partnership and Missouri RSA #8 Tower Holdings, LLC, stated at \$1,091,292 and \$1,106,776, respectively, as of December 31, 2017 and 2016, or its equity in earnings in such partnerships of \$693,739 and \$638,689, respectively, which is included in net margins for the years then ended as described in Note 2 to the consolidated financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kingdom Telephone Company and subsidiary as of December 31, 2017 and 2016, 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.

BKD
CPAs & Advisors

Registration Card

1ST PRIZE - \$300

2ND PRIZE - \$200 / 3RD PRIZE - \$100

HAMS & TURKEYS

SPECIAL DRAWINGS:

**\$50 Cash Prize in the following categories:
12 years old & under and 13-18 years old**

Bring this card with you to the Annual Meeting to become eligible for prizes. *You must be present to win.*

Voter Designation Form

Churches, schools, corporations, cooperatives, partnerships and associates can designate a party to cast their vote by filling in this form. If an organization is to be represented at the Annual Meeting of Kingdom Telephone Company which will be held on March 9, 2019, an authorized representative should present this completed form to the registration desk at the meeting. This form cannot be used as a proxy by individuals or individual-owned businesses.

My Organization, _____,

hereby designates and appoints _____
as the person authorized to vote on behalf of the above named entity at the 2019 Annual Meeting of Kingdom Telephone Company on March 9, 2019 at North Callaway R-I High School.

Organization Phone Number

Name of Authorized Voter or Entity (Please Print)

Date

Signature of Officer

Appointment of Proxy

I, the undersigned, holder of one share of Common Stock of Kingdom Telephone Company, do hereby constitute and appoint _____,

of _____, Missouri,
as my proxy to represent me and to vote on all matters that may come before the Annual Meeting of Stockholders of Kingdom Telephone Company to be held in the North Callaway R-I High School, Kingdom City, Missouri on Saturday, March 9, 2019 beginning at 1:00 p.m. and at any adjournment of said meeting.

Date

Name of Shareholder

Stock Number

Telephone Number of Shareholder

KINGDOM

211 S. Main Street, P.O. Box 97
Auxvasse, MO 65231-0097

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ONLY THE INDIVIDUALS SHOWN ON THE MAILING LABEL ARE ELIGIBLE SHAREHOLDERS.

A Guide to Voting at the Annual Meeting

Who is a shareholder?

Only those named on your monthly billing or the label of the Annual Meeting Notice are recorded as shareholders. No other person is eligible to receive a ballot, to vote, or to win a prize at the Annual Meeting. If a shareholder wants to add a person to their share, they must contact our office at 386-2241 and complete the proper document. This must be done before February 20 if it is to be effective for the Annual Meeting.

What is a proxy?

A complete proxy allows another shareholder to vote for you at the Annual Meeting. A proxy is included in this notice on the inside back cover. The company bylaws state that a shareholder may vote only one proxy.

You may either appoint a voter or leave the appointment of a voter blank to allow for your proxy to be given to another shareholder to vote as they choose. Should your appointed voter have multiple appointed proxies, they may vote only one proxy and all others will be considered spoiled.

To complete your proxy, you are required to date, sign, and provide either your stock or telephone number on the proxy. Completed proxies must be legible. A shareholder must present a valid proxy when they first register to receive a ballot for that proxy.

Why use a voter designation form?

Churches, schools, corporations, cooperatives, partnerships and associations are entities that must designate someone to vote for them. A designation form is included in this notice on the inside of the back cover. A designation may also be written on company letterhead and signed by someone of authority as that entity. The letter must indicate to which meeting the designation to vote applies. A qualified shareholder may vote as many valid designations as they bring to the meeting. The voter must present that valid designation form(s) or letter(s) when they first register to receive a ballot(s).