BRANDENBURG TELEPHONE COMPANY

FINANCIAL REPORT

DECEMBER 31, 2022

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Brandenburg Telephone Company
Brandenburg, Kentucky

Opinion

We have audited the accompanying financial statements of Brandenburg Telephone Company, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, comprehensive income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brandenburg Telephone Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Certified Public Accountants and Advisors
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Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Brandenburg Telephone Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Brandenburg Telephone Company's ability to continue as a going concern for a reasonable period of time.

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

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 29, 2023

BRANDENBURG TELEPHONE COMPANY

BALANCE SHEETS
December 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 7,170,334	$ 7,535,774
Short-term portfolio investments, available-for-sale	539,788	- -
Accounts receivable	988,614	953,196
Income tax receivable	1,483,415	1,656,639
Due from affiliate	24,997,740	21,336,481
Materials and supplies, at average cost - based on the lower of cost or net realizable value	4,085,091	3,823,412
Prepaid insurance	20,081	19,583
Total current assets	39,285,063	35,325,085
NON-CURRENT ASSETS		
Portfolio investments, available-for-sale	2,302,667	2,778,508
Investment in nonregulated	10,110,840	11,050,635
Prepaid pension benefit cost	12,168,922	8,207,830
Total non-current assets	24,582,429	22,036,973
PROPERTY AND EQUIPMENT		
Telephone plant under construction	725,689	701,964
Telecommunications plant	77,810,785	73,956,952
	78,536,474	74,658,916
Less accumulated depreciation	55,938,839	53,381,824
	22,597,635	21,277,092
	$ 86,465,127	$ 78,639,150
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 369,249	$ 397,926
Other current and accrued liabilities	409,647	375,097
Total current liabilities	778,896	773,023
NON-CURRENT LIABILITIES		
Deferred tax liability	8,734,640	5,356,928
Total non-current liabilities	8,734,640	5,356,928
STOCKHOLDER'S EQUITY		
Common stock, $50 par value; authorized shares, 100,000; issued and outstanding shares, 100,000	5,000,000	5,000,000
Retained earnings	63,635,959	60,815,895
Accumulated other comprehensive income:		
Unrealized (loss) on securities	(169,952)	(1,463)
Pension unrecognized gain	8,485,585	6,694,767
Total stockholder's equity	76,951,592	72,509,199
	$ 86,465,128	$ 78,639,150

The Notes to Financial Statements are an integral part of these statements.

BRANDENBURG TELEPHONE COMPANY

STATEMENTS OF INCOME
Years Ended December 31, 2022 and 2021

	2022	2021
Operating revenues:		
Local network service	$ 1,759,167	$ 1,777,604
Network access service	10,360,015	10,684,313
Long distance network	357,321	354,890
Miscellaneous revenue	786,993	619,583
Total operating revenues	13,263,496	13,436,390
Operating expenses:		
Plant specific operations expense	4,076,068	3,624,666
Plant non-specific	1,327,375	1,605,742
Depreciation	2,612,605	2,626,453
Customer operations expense	1,699,500	1,776,155
Corporate operation expense	2,633,695	1,446,933
Other taxes	494,831	476,496
Total operating expenses	12,844,074	11,556,445
Operating income	419,422	1,879,945
Other income:		
Interest income	101,166	94,941
Other operating gains	383,680	207,798
Total other income	484,846	302,739
Income before income taxes	904,268	2,182,684
Income taxes	1,477,722	1,748,669
Net income before nonregulated income	(573,454)	434,015
Nonregulated income	3,393,518	3,619,329
Net income	$ 2,820,064	$ 4,053,344

The Notes to Financial Statements are an integral part of these statements.

BRANDENBURG TELEPHONE COMPANY

STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2022 and 2021

	2022	2021
Net income	$ 2,820,064	$ 4,053,344
Other comprehensive income (loss):		
Pension accrual	1,790,818	6,502,676
Unrealized (losses) on available-for-sale securities	(168,489)	(49,350)
Total other comprehensive income	1,622,329	6,453,326
Total comprehensive income	$ 4,442,393	$ 10,506,670

BRANDENBURG TELEPHONE COMPANY

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
Years Ended December 31, 2022 and 2021

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2021	$ 5,000,000	$ 56,762,551	$ 239,978	$ 62,002,529
Net income	- -	4,053,344	- -	4,053,344
Change in unrealized (loss) on securities available-for-sale net of tax expense of $15,445	- -	- -	(49,350)	(49,350)
Change in pension accrual net of tax expense of $2,352,216	- -	- -	6,502,676	6,502,676
Balance at December 31, 2021	5,000,000	60,815,895	6,693,304	72,509,199
Net income	- -	2,820,064	- -	2,820,064
Change in unrealized (loss) on securities available-for-sale net of tax expense of $6,837	- -	- -	(168,489)	(168,489)
Change in pension accrual net of tax expense of $2,981,421	- -	- -	1,790,818	1,790,818
Balance at December 31, 2022	$ 5,000,000	$ 63,635,959	$ 8,315,633	$ 76,951,592

The Notes to Financial Statements are an integral part of these statements.

BRANDENBURG TELEPHONE COMPANY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,820,064	$ 4,053,344
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,612,605	2,626,453
Deferred tax provisions	360,298	240,146
(Gain) on sale of premises and equipment, net	(2,850)	(50,363)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable	(35,418)	181,851
Income tax receivable	173,224	567,498
Due from affiliate	(3,661,259)	(2,175,726)
Materials and supplies	(261,679)	259,070
Prepaid insurance	(498)	10,693
Accounts payable	(28,677)	(358,280)
Other current and accrued liabilities	37,400	(202,098)
Net cash provided by operating activities	2,013,210	5,152,588
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(3,321,295)	(5,652,621)
Proceeds from sales of property and equipment	2,850	50,363
Nonregulated activities	939,795	(157,025)
Net cash (used in) investing activities	(2,378,650)	(5,759,283)
Net (decrease) in cash and cash equivalents	(365,440)	(606,695)
Cash and cash equivalents:		
Beginning of year	7,535,774	8,142,469
End of year	$ 7,170,334	$ 7,535,774
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid	$ 2,106,491	$ 2,560,759

The Notes to Financial Statements are an integral part of these statements.

BRANDENBURG TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Brandenburg Telephone Company (Company) maintains its records in accordance with practices prescribed or permitted by the Kentucky Public Service Commission and the Rural Utilities Service (RUS) which conforms to accounting principles generally accepted in the United States in all material respects. The significant policies are as follows:

Nature of operations

The Company is a telephone company that offers business and residential telephone service to customers located in Meade, Hardin and Breckinridge counties in Kentucky. Brandenburg Telephone Company is a wholly-owned subsidiary of Brandenburg Communications Corporation.

Telephone plant

Telephone plant in service is stated at original cost, which is the cost when first dedicated to public service. Such cost includes applicable supervisory and overhead cost.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of removal, net of any salvage value, is charged to accumulated depreciation. Gain or loss on the sale of assets is recognized as income in the year in which the assets are sold.

Depreciation

Provision has been made for depreciation for financial statement purposes on the basis of estimated useful lives of assets (as prescribed by the Kentucky Public Service Commission) using the straight-line method.

Use of estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers temporary investments having original maturities of three months or less to be cash equivalents. The Company maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. Management believes that credit risk related to the accounts is minimal.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts receivable

Accounts receivable are stated at net realizable value. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial. Accounts are written off as uncollectible at the time management determines the collection is unlikely. The Company's policy is not to accrue interest on accounts receivable.

Telecommunications Revenue Recognition

Revenues are recognized when earned. Bills are sent to customers on credit according to their bill cycle with local service being billed in arrears. Sales are concentrated in a portion of three (3) central Kentucky counties. Payments are due 20 days from the date of billing. If payment has not been made, then customers are subject to disconnect on the 25th day after the billing date.

Interstate revenues are recognized on the cost basis recovery method. Compensation for intrastate/interlata service is received through tariffed access charges as filed with the FCC. These access charges are billed to the interlata long distance carrier and retained by the Company.

Income taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates.

The Company's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes the Company has no uncertain tax positions resulting in an accrual of tax expense or benefit.

The Company recognizes interest accrued related to uncertain tax positions in interest expense and penalties in operating expenses. The Company did not recognize any interest or penalties during the years ended December 31, 2022 and 2021.

The Company's income tax returns are subject to examination by the Internal Revenue Service and the Kentucky Department of Revenue until the expiration of the related statutes of limitations on those tax returns. In general, the tax returns have a three year statute of limitations for federal and a four year statute of limitations for state.

Comprehensive income

Comprehensive income is the total of (1) net income plus (2) all other changes in net assets arising from non-owner sources, which are referred to as other comprehensive income. Other comprehensive income includes defined benefit plan pension plan income (expenses) and unrealized gains (losses) on available-for-securities, net of deferred tax expense (benefit).

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Adopted Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted this standard effective January 1, 2022. The adoption of this ASU had no material impact on the Company's financial position or results of operations.

Recent accounting pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. This guidance replaces the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. This standard is effective for the year ending December 31, 2023. Management is currently in the process of evaluating the impact of the adoption of this ASU on the Company's financial statements.

Subsequent events

The Company has evaluated subsequent events through March 29, 2023, the date which the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Note 2. Pension Plan

The Company sponsors a defined benefit pension plan that covers substantially all employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Company and compensation rates near retirement.

The following illustrates the pension plan for the years ended December 31, 2022 and 2021:

	2022	2021
Benefit obligation at beginning of year	$ 45,788,556	$ 46,560,498
Service cost	1,173,685	1,389,551
Interest cost	1,320,335	1,170,294
Benefits paid	(1,360,369)	(1,315,895)
Actuarial (gain)	(13,778,043)	(2,015,892)
Benefit obligation at end of year	$ 33,144,164	$ 45,788,556

	2022	2021
Fair value of plan assets at beginning of year	$ 53,996,386	$ 45,420,548
Actual return on plan assets	(7,322,931)	9,891,733
Employer contributions	- -	- -
Benefits paid	(1,360,369)	(1,315,895)
Fair value of plan assets at end of year	$ 45,313,086	$ 53,996,386

Amounts recognized in the statements of financial position consists of:

	2022	2021
Reconciliation of funded status:		
Funded status	$ 12,168,922	$ 8,207,830
Unrecognized actuarial (gain) loss	- -	- -
Unrecognized transition (asset) obligation	- -	- -
Unrecognized prior service cost	- -	- -
Net amount recognized at year end	$ 12,168,922	$ 8,207,830

	2022	2021
Noncurrent assets	$ 12,168,922	$ 8,207,830
Noncurrent liabilities	- -	- -
Net amount recognized at year end	$ 12,168,922	$ 8,207,830

NOTES TO FINANCIAL STATEMENTS

Note 2. Pension Plan (Continued)

Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income:

	2022	2021
Transition (obligation) asset	$ - -	$ - -
Prior service credit (cost)	- -	- -
Accumulated gain (loss)	11,467,006	9,046,983
Accumulated other comprehensive income before taxes	11,467,006	9,046,983
Cumulative employer contributions in excess of net periodic benefit cost	701,916	(839,153)
Net amount recognized in statements of financial position	$ 12,168,922	$ 8,207,830

Components of net periodic benefit cost:

	2022	2021
Service cost	$ 1,173,685	$ 1,389,551
Interest cost	1,320,335	1,170,294
Expected return on plan assets	(3,718,204)	(3,120,225)
Amortization of prior service cost	- -	- -
Amortization of transitional obligation	- -	- -
Amortization of net (gain)	(316,885)	- -
Recognized acturial (gain) loss	- -	- -
Net periodic benefit cost	$ (1,541,069)	$ (560,380)

Weight-average assumptions as of December 31:

	2022	2021
Discount rate	2.94%	2.56%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	5.00%	5.00%

The following is an analysis of plan assets by category at measurement dates December 31:

	2022	2021
Cash	4%	3%
Debt securities	24%	24%
Equity securities	72%	73%
	100%	100%

Note 2. Pension Plan (Continued)

Benefits expected to be paid in each of the next five years and in the aggregate for the five years thereafter are:

Fiscal year	
2023	$ 1,664,053
2024	1,895,787
2025	1,877,526
2026	1,888,901
2027	1,889,376
2028-2032	9,434,607

To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 7.00% long-term rate of return on assets assumption.

The Plan's investments measured at fair value on a recurring basis is as follows:

		Fair value measurements using;	
December 31, 2022	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Common stocks	$ 33,155,466	$ 33,155,466	$ - -
Corporate bonds	8,701,183	- -	8,701,183
U.S. government securities	716,176	- -	716,176
Foreign obligations	591,987	- -	591,987
State & municipal securities	655,126	- -	655,126
Total	43,819,938	$ 33,155,466	$ 10,664,472
Cash accounts	1,493,148		
Total	$ 45,313,086		

Note 2. Pension Plan (Continued)

December 31, 2021	Fair value	Fair value measurements using; Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Common stocks	$ 39,884,414	$ 39,884,414	$ - -
Corporate bonds	10,706,429	- -	10,706,429
U.S. government securities	483,809	- -	483,809
Foreign obligations	932,409	- -	932,409
State & municipal securities	726,113	- -	726,113
Total	52,733,174	$ 39,884,414	$ 12,848,760
Cash accounts	1,263,212		
Total	$ 53,996,386		

U.S. GAAP provides a framework for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methodology for measuring fair value specifies a three-tier hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are based on quoted prices or identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflects a company's own assumptions of market participant valuation (Level 3).

All financial assets and liabilities as of December 31, 2022 and 2021 are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. There have been no changes in the methodologies used at December 31, 2022 and 2021.

Level 1 Fair Value Measurements

The fair values of common stock are based on quoted market prices.

Level 2 Fair Value Measurements

The fair value of corporate bonds, U.S. Government securities, foreign obligations and state and municipal securities for which quoted market prices are not available are valued on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount.

Note 3. Concentrations of Credit Risk

The Company maintains cash and cash equivalents at several banks. The total cash balances at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. A summary of total insured and uninsured amounts held at these financial institutions at December 31, 2022 and 2021 are as follows:

	2022	2021
Total cash and cash equivalents	$ 7,167,184	$ 7,308,043
Less: balance insured by FDIC	1,000,000	1,000,000
Uninsured and uncollateralized	$ 6,167,184	$ 6,308,043

Note 4. Portfolio Investments

The Company has classified all portfolio debt investments as available-for-sale. Available-for-sale investments are stated at fair value with unrealized gains and losses included in stockholder's equity. The cost of investments sold is based on the specific identification method.

The cost and fair market values of marketable debt securities available-for-sale at December 31, 2022 and 2021 were as follows:

	2022	2021
Municipal bonds:		
Amortized cost	$ 3,014,343	$ 2,780,488
Gross unrealized gain (loss)	(177,306)	(1,980)
Fair value	$ 2,837,037	$ 2,778,508

At December 31, 2022, maturities of investments classified as available-for-sale were as follows:

	Amortized cost	Fair value
Less than one year	$ 570,493	$ 539,788
One through five years	2,288,756	2,152,265
After five years	155,094	144,984
	$ 3,014,343	$ 2,837,037

NOTES TO FINANCIAL STATEMENTS

Note 4. Portfolio Investments (Continued)

December 31, 2022	Fair value	Fair value measurements using; Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Municipal bonds	$ 2,837,037	$ - -	$ 2,837,037
Total	$ 2,837,037	$ - -	$ 2,837,037

December 31, 2021	Fair value	Fair value measurements using; Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Municipal bonds	$ 2,778,508	$ - -	$ 2,778,508
Total	$ 2,778,508	$ - -	$ 2,778,508

The fair value of municipal bonds and agency securities for which quoted market prices are not available are valued on yields currently available on comparable securities of issuers with similar credit ratings.

NOTES TO FINANCIAL STATEMENTS

Note 5. Nonregulated Investments

Investments in nonregulated activities consist of the following:

	2022	2021
Due from affiliate	$ 11,178,571	$ 11,434,224
Inventory	255,845	256,359
Land and land improvements	330,989	330,989
Other equipment	128,633	128,633
Other receivables	4,800	4,800
Fiber optic, mobile telephone and internet equipment	4,915,898	4,348,960
Total nonregulated investments	16,814,736	16,503,965
Less:		
Accumulated depreciation	3,918,516	3,508,583
Accounts payable	38,581	38,578
Accrued expenses	2,746,799	1,906,169
	$ 10,110,840	$ 11,050,635

Following is a summary of net income from nonregulated investments for the year ending December 31, 2022 and 2021:

	2022	2021
Income	$ 7,298,048	$ 6,813,617
Expenses	3,904,530	3,194,288
	$ 3,393,518	$ 3,619,329

Income tax expense related to these activities totaled $838,967 in 2022 and $950,600 in 2021.

NOTES TO FINANCIAL STATEMENTS

Note 6. Telecommunications Plant

	2022	2021
Land	$ 1,026,121	$ 1,026,121
Buildings	9,860,477	9,719,708
Digital electronic equipment	2,821,245	2,849,377
Toll and subscriber carriers	6,696,689	6,156,905
Poles, cable and wire	45,716,983	42,789,280
Furniture and office equipment	6,334,737	6,258,388
Embedded accounts	300,712	300,712
Vehicles and other work equipment	5,053,821	4,856,461
Telephone plant in service	$ 77,810,785	$ 73,956,952

The Company provides depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of the telephone plant in service was 6.9% in both 2022 and 2021.

Note 7. Income Taxes

The provision for income taxes consists of the following:

	2022	2021
Current:		
Federal income tax expense	$ 902,535	$ 1,218,423
State income tax expense	214,889	290,100
Deferred:		
Federal deferred tax expense	287,540	292,002
State deferred tax expense (benefit)	72,758	(51,856)
Total income tax expense	$ 1,477,722	$ 1,748,669

NOTES TO FINANCIAL STATEMENTS

Note 7. Income Taxes (Continued)

The Company and its parent file a consolidated federal income tax return. Income tax expense in the Company's income statement has been allocated an amount equal to the income tax that would have been applicable on a separate return basis.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of the Company's assets and liabilities for financial reporting basis and the amounts used for income tax purposes. The principal sources of temporary differences are different depreciation methods used for financial accounting and tax purposes, as well as pension expense.

Deferred federal and state tax assets and liabilities in the accompanying balance sheets include the following:

	2022	2021
Deferred tax (liability), non-current:		
Federal	$ (7,721,518)	$ (4,959,161)
State	(1,013,122)	(397,767)
Total deferred tax (liability)	$ (8,734,640)	$ (5,356,928)

Note 8. Related Party Transactions

Brandenburg Telephone Company has certificates of deposit at Meade County Bank and West Point Bank at December 31, 2022 and 2021, as follows:

Bank	2022	2021
Meade County Bank	$ 1,094,891	$ 1,033,066
West Point Bank	982,317	975,965

Note 8. Related Party Transactions (Continued)

In addition, the Company has money market and operating accounts in the following banks:

	December 31, 2022	December 31, 2021
Operating accounts:		
Meade County Bank	$ 965,379	$ 1,140,260
First State Bank	473,235	542,309
West Point Bank	843,182	826,043
Total operating accounts	$ 2,281,796	$ 2,508,612
Money market accounts:		
First State Bank	$ 1,004,404	$ 1,003,249
River City Bank	1,803,776	1,787,151
Total money market accounts	$ 2,808,180	$ 2,790,400

Meade County Bank, West Point Bank, River City Bank, First State Bank and Brandenburg Telephone Company are related by common ownership.

Brandenburg Telecom, LLC (the Corporation), a wholly-owned subsidiary of Brandenburg Communications Corporation provides telecommunication services in Elizabethtown, Kentucky and other areas outside the franchise territory of Brandenburg Telephone Company. The Company pays for administrative, labor and employee benefits costs for Brandenburg Telecom, LLC, a total of $3,661,259 and $2,175,725 for the years ended December 31, 2022 and 2021. As of December 31, 2022 and 2021, the amount due to the Company was $24,997,740 and $21,336,481, respectively.

Note 10. Revenue Recognition

Telecommunications revenues – The Company's regulated sources of revenue are local network services, network access services (interstate and intrastate/interlata), carrier billing, and other service charges. The Company's nonregulated sources of revenue are customer premises and equipment, internet activities, long distance services, video services, and security/surveillance/bus systems.

Significant judgments

Revenues from sales of equipment are recognized when control has transferred to the customer. Telecommunication service revenues are recognized as the related service is provided. Services are deemed to be highly interrelated when the method and timing of transfer and performance risk are the same. Highly interrelated services that are determined to not be distinct have been grouped into a single performance obligation. Each month of services promised is a performance obligation. The series of monthly service performance obligations promised over the course of the contract are combined into a single performance obligation for purposes of the allocation.

The Company has made judgments regarding transaction price, including but not limited to issues relating to variable consideration, time value of money and returns. When determined to be significant in the context of the contract, these items are considered in the valuation of transaction price at contract inception or modification, as appropriate.

Multiple performance obligations

From time to time, the Company may offer certain promotions to incentive customers to switch to, or to purchase additional services from the Company. Under these types of promotions, an eligible customer may receive an incentive in the form of a discount off additional services purchases shown as a credit to the customer's monthly bill.

Note 10. Revenue Recognition (Continued)

Disaggregation of revenue

In the following table, revenue for the years ended December 31, 2022 and 2021 is disaggregated by type of service and timing of revenue recognition. Telecommunication service revenues are recognized over time.

	2022	2021
Regulated income:		
Local network services	$ 1,759,167	$ 1,777,604
Network access services	10,360,015	10,684,313
Carrier billing and collections	139,768	149,092
Long distance services	357,321	354,890
Miscellaneous	348,014	110,991
Directory revenue	299,211	359,500
	$ 13,263,496	$ 13,436,390
Nonregulated income:		
Housewire outlet revenue	$ 263,274	$ 287,388
Internet activities	5,189,226	4,789,553
Lease revenue	599,828	632,089
Sales revenue	101,214	94,936
Miscellaneous	814,261	718,621
Lease fiber optic revenue	330,245	291,030
	$ 7,298,048	$ 6,813,617

Contract cost liabilities:

Contract cost liabilities include customer deposits. The balance in contract liabilities was $2,916, $3,921 and $20,837 as of December 31, 2022, 2021 and 2020, respectively. The deposits are listed on the balance sheet under other current and accrued liabilities.