FOOTHILLS RURAL TELEPHONE COOPERATIVE
AND SUBSIDIARY
KY 522

FINANCIAL REPORT

DECEMBER 31, 2020

C O N T E N T S

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Foothills Rural Telephone Cooperative and Subsidiary
Staffordsville, Kentucky

We have audited the accompanying consolidated financial statements of Foothills Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income and comprehensive income, changes in members' equities, 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 basis for our audit opinion.

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Foothills Rural Telephone Cooperative and Subsidiary as of December 31, 2020 and 2019, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2021, on our consideration of Foothills Rural Telephone Cooperative and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 22, 2021

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 22,568,967	$ 20,270,255
Accounts receivable, less allowance for doubtful accounts of $71,962 in 2020 and $69,988 in 2019	1,085,811	714,333
Other receivables	917,779	992,372
Materials and supplies, at average cost	2,119,653	1,309,005
Prepaid income taxes	5,159	128,075
Prepaid expenses	632,140	449,870
Total current assets	27,329,509	23,863,910
NON-CURRENT ASSETS		
Investment securities	2,728,242	2,715,008
Associated organizations	32,338,539	33,530,672
Pension plan prefunding	1,799,908	1,962,824
Nonregulated investments	3,620,843	2,930,423
Total non-current assets	40,487,532	41,138,927
PROPERTY, EQUIPMENT AND INTANGIBLES		
In service	137,715,767	135,944,439
Under construction	964,322	482,716
	138,680,089	136,427,155
Less accumulated depreciation	88,035,021	83,425,724
	50,645,068	53,001,431
Intangibles	3,431,827	- -
Less accumulated amortization	233,333	- -
	3,198,494	- -
	$ 121,660,603	$ 118,004,268

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

	2020	2019
LIABILITIES AND MEMBERS' EQUITIES		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 11,827	$ 11,715
Accounts payable	862,433	776,363
Customer deposits	198,674	185,346
Accrued income taxes	91,156	37,905
Accrued expenses	1,817,705	2,101,030
Total current liabilities	2,981,795	3,112,359
NON-CURRENT LIABILITIES		
Long-term debt, less current portion	173,886	185,262
Accumulated postretirement benefits	6,648,938	6,506,556
Deferred tax liabilities	2,766,000	2,870,000
Total non-current liabilities	9,588,824	9,561,818
MEMBERS' EQUITIES		
Memberships and capital investments	612,729	637,588
Patronage capital and retained earnings	111,951,077	108,374,595
Donated capital	124,537	124,537
Accumulated comprehensive income (loss)	(3,598,359)	(3,806,629)
Total members' equities	109,089,984	105,330,091
	$ 121,660,603	$ 118,004,268

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years Ended December 31, 2020 and 2019

	2020	2019
Operating revenues:		
Local network service	$ 7,758,902	$ 4,156,613
Network access service	14,368,482	14,589,874
Carrier billing and collection	340,340	336,172
Miscellaneous	997,369	1,224,353
Less provision for uncollectibles	(32,400)	(32,400)
Total operating revenues	23,432,693	20,274,612
Operating expenses:		
Plant specific operations	7,456,812	6,571,526
Plant non-specific operations	1,639,508	1,442,101
Depreciation and amortization	6,627,057	6,506,448
Customer operations	2,083,931	2,117,677
Corporate operations	2,643,464	2,126,607
Taxes, other than income	886,656	917,656
Total operating expenses	21,337,428	19,682,015
Operating income	2,095,265	592,597
Other income (expense):		
Other nonoperating income (expense)	(109,267)	435,035
Interest on long-term debt	(4,706)	(5,021)
Other interest expense	(839)	(817)
Income in associated organizations	2,172,409	4,759,427
Total other income	2,057,597	5,188,624
Income before income taxes	4,152,862	5,781,221
Income tax benefit (expense)	(399,179)	(957,770)
Net income before nonregulated income	3,753,683	4,823,451
Nonregulated income	1,357,501	1,544,850
Net income	5,111,184	6,368,301
Other comprehensive income (loss)		
Accumulated postretirement benefits (expenses)	208,270	(1,923,108)
Total comprehensive income	$ 5,319,454	$ 4,445,193

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

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2020 and 2019

		Patronage Capital								Accumulated Other	
	Memberships	Assigned	Assignable	Unassigned	Unlocated	Retirements	Total	Other Equities	Comprehensive (Loss)	Total
Balance, January 1, 2019	$ 638,101	$ 98,173,991	$ 2,567,186	$ 34,325,988	$ 1,110,976	$ (32,311,271)	$ 103,866,870	$ 124,537	$ (1,883,521)	$ 102,745,987
Allocate margins	- -	2,919,369	(2,567,186)	(352,183)	- -	- -	- -	- -	- -	- -
Net income	- -	- -	6,368,301	- -	- -	- -	6,368,301	- -	- -	6,368,301
Postretirement benefit obligations										
Amortization	- -	- -	- -	- -	- -	- -	- -	- -	150,168	150,168
Adjustment	- -	- -	- -	- -	- -	- -	- -	- -	(2,073,276)	(2,073,276)
Memberships issued, net	(513)	- -	- -	- -	- -	- -	- -	- -	- -	(513)
Refunds of capital credits	- -	- -	- -	- -	- -	(1,890,037)	(1,890,037)	- -	- -	(1,890,037)
Other equities	- -	- -	- -	- -	29,461	- -	29,461	- -	- -	29,461
Balance, December 31, 2019	637,588	101,093,360	6,368,301	33,973,805	1,140,437	(34,201,308)	108,374,595	124,537	(3,806,629)	105,330,091
Allocate margins	- -	3,260,234	(6,368,301)	3,108,067	- -	- -	- -	- -	- -	- -
Net income	- -	- -	5,111,184	- -	- -	- -	5,111,184	- -	- -	5,111,184
Postretirement benefit obligations										
Amortization	- -	- -	- -	- -	- -	- -	- -	- -	208,270	208,270
Memberships issued, net	(24,859)	- -	- -	- -	- -	- -	- -	- -	- -	(24,859)
Refunds of capital credits	- -	- -	- -	- -	- -	(1,556,780)	(1,556,780)	- -	- -	(1,556,780)
Other equities	- -	- -	- -	- -	22,078	- -	22,078	- -	- -	22,078
Balance, December 31, 2020	$ 612,729	$ 104,353,594	$ 5,111,184	$ 37,081,872	$ 1,162,515	$ (35,758,088)	$ 111,951,077	$ 124,537	$ (3,598,359)	$ 109,089,984

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

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,111,184	$ 6,368,301
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	6,627,057	6,506,448
(Gains) on investments	(13,234)	(12,296)
Income from associated organizations	(2,172,409)	(4,759,427)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable	(371,478)	(26,905)
Other receivables	74,593	268,339
Material and supplies	(810,648)	119,063
Prepaid income taxes	122,916	2,150,000
Prepaid expenses	(182,270)	136,105
Pension plan prefunding	162,916	(45,520)
Accounts payable	86,070	(241,679)
Customer deposits	13,328	(8,360)
Deferred tax liabilities	(104,000)	270,000
Accrued expenses	(230,074)	370,969
Net cash provided by operating activities	8,313,951	11,095,038
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(3,693,914)	(2,939,434)
Intangible additions	(3,431,827)	- -
Salvage, net of removal cost	7,205	(21,321)
Nonregulated property	(690,420)	(1,140,846)
Associated organizations	3,364,542	1,730,698
Net cash (used in) investing activities	(4,444,414)	(2,370,903)
CASH FLOWS FROM FINANCING ACTIVITIES		
Membership and other equities	(24,859)	(513)
Retirements of capital credits	(1,534,702)	(1,860,576)
Payments on long-term debt	(11,264)	(11,644)
Net cash (used in) financing activities	(1,570,825)	(1,872,733)
Net increase in cash and cash equivalents	2,298,712	6,851,402
Cash and cash equivalents:		
Beginning of year	20,270,255	13,418,853
End of year	$ 22,568,967	$ 20,270,255
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	$ 5,545	$ 5,838
Income taxes paid	399,179	- -

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Foothills Rural Telephone Cooperative (the Cooperative) maintains its records in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS) Uniform System of Accounts, which conform in all material respects with generally accepted accounting principles. The significant policies are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative and its wholly owned Subsidiary, Cellular Services, LLC (Cellular Services). All significant inter-company accounts and transactions have been eliminated.

Nature of Business

The Cooperative has completed construction allowing it to expand its services network. This network establishes the Cooperative as a full-service network (FSN) provider allowing it to provide expanded video services with over 200 channels, high-definition television and Video on Demand. It is also able to provide high speed internet, virtual private networks, and voice over internet protocol (VoIP). This is accomplished through Fiber to the Home (FTTH) technology.

Estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the consolidated financial statements.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Cooperative considers temporary investments having original maturities of three months or less to be cash equivalents. The Cooperative 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.

Investment Securities

Investment securities consist of certificates of deposit in local banks and are carried at cost, which approximates fair value, and are held to maturity. Fair value is determined by quoted prices for similar certificates of deposit in active markets (Level 2) as defined under U.S GAAP.

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are stated at net realizable value. The allowance for doubtful accounts is based on the aging of accounts receivable. Accounts are written off when they are deemed to be uncollectible. There were no customers whose individual account balance exceeded ten percent of outstanding accounts receivable at December 31, 2020 and 2019. The number of access lines was 12,442 for 2020 and 12,016 at 2019.

Materials and Supplies

Materials and supplies are composed primarily of telephone material and supplies used in the telecommunications plant. The inventory is valued at the lower of cost or net realizable value, cost being determined by the average cost method.

Telecommunications Revenue Recognition

Revenues are recognized when earned. Bills are sent to customers on credit based on three (3) monthly billing cycles, with local service being billed a month in advance of service. Sales are concentrated in portions of five (5) southeastern Kentucky counties. Payments are due 20 days from the date of billing, at which time a disconnect notice is sent to the customer with payment to be made within 10 days.

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 Cooperative.

Video Revenue Recognition

Cellular Services' headend equipment will provide the Cooperative with the capabilities to provide expanded video services with over 200 channels, high-definition television, and Video on Demand. The monthly charge will be based on the capacity utilized by Foothills Telephone and other unrelated companies.

Fiber to Home Activities

The Cooperative has launched an expanded services network. This network establishes the Cooperative as a full-service network (FSN) provider allowing it to provide expanded video services with over 200 channels, high-definition television and Video on Demand. It also is able to provide high speed internet, virtual private networks and voice on internet protocol (VoIP). This is accomplished through Fiber to the Home (FTTH) technology. The Cooperative purchases cable transmissions from networks at various amounts based on the number of customers receiving the service.

Taxes

Foothills Telephone and Cellular Services are required to collect, on behalf of taxing authorities, excise taxes, sales, school taxes, and franchise fees. The Cooperative's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Risk Management

The Cooperative is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2020 and 2019, these costs were $225,646 and $218,016, respectively.

Telecommunications and Video Plant

Telecommunications and video plant are stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. Interest capitalized during the year was zero and $39,046 for 2020 and 2019, respectively.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expenses. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Provision has been made for depreciation on the basis of estimated lives of assets (as prescribed by the Public Service Commission of Kentucky) using the straight-line method. Rates are as follows:

	Foothills	Cellular Services
General support	2.7% - 15.8%	
Central office switching	7.5%	5.0%
Central office transmission	11.9%	
Cable wire facilities	5.1% - 9.4%	5.1% - 6.6%

Intangible assets

Intangibles purchased in the acquisition of Lycom Communications are recorded at fair value and are being amortized over the life of the asset by the straight-line method.

Income Taxes

The Cooperative is exempt from federal and state income taxes under IRS Code Section 501(c)(12). Certain unrelated business activities are subject to federal income taxes. Cellular Services is a "C" corporation that pays income taxes on its net income. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of investments in associated organizations and accumulated depreciation. The deferred tax assets and liabilities represent future tax return consequences of those differences, which will either be taxable or deductible when the assets or liabilities are recovered or settled.

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

The Cooperative'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 Cooperative has no uncertain tax positions resulting in an accrual of tax expense or benefit.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Cooperative did not recognize any interest or penalties during the years ended December 31, 2020 and 2019.

The Cooperative's income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years for federal and four years for state.

Comprehensive Income

Comprehensive income includes both net income and other comprehensive income. Other comprehensive income represents the change in funded status of the accumulated postretirement benefit obligation.

Subsequent Events

Management has evaluated subsequent events through March 22, 2021, the date the consolidated financial statements were available to be issued.

Recently issued accounting pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheets at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statements of income. This standard will be effective for the year ending December 31, 2022.

In June 2016, the FASB issued ASU No. 2016-13 (ASU 2016-13), *Financial Instruments – Credit Losses*. 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 and financing 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 these ASU's on the Cooperative's financial statements.

Note 2. Fair Value Measurements

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 of identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflect a company's own assumptions of market participant valuation (Level 3).

The Cooperative's investment securities measured at fair value on a recurring basis are as follows:

		Fair value measurements using:	
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2020			
Certificates of deposit	$ 2,728,242	$ --	$ 2,728,242
	$ 2,728,242	$ --	$ 2,728,242
December 31, 2019			
Certificates of deposit	$ 2,715,008	$ --	$ 2,715,008
	$ 2,715,008	$ --	$ 2,715,008

Note 3. Associated Organizations

The amounts for East Kentucky Network, LLC ("EKN") represents Cellular Service's investment in a limited liability company with other telephone companies in eastern Kentucky for the purpose of providing cellular telephone and other services. The investment is accounted for using the equity method since Cellular Services is a 20% member and has the ability to significantly influence EKN's operations and financial policies. EKN has been paying distributions of approximately 50% of the income allocated in cash during the following year. The following is summarized financial information of EKN as of and for the years ended December 31, 2020 and 2019:

	2020	2019
Assets	$ 213,440,853	$ 200,788,162
Liabilities	$ 51,748,153	$ 33,134,801
Equity	$ 161,692,700	$ 167,653,361
Revenues and other income	$ 130,788,210	$ 132,935,842
Expenses and other expenses	$ 119,603,763	$ 118,866,602
Net income	$ 11,184,447	$ 14,069,240

Note 4. Telecommunications Plant and Intangibles

The major classification of plant service is:

	2020	2019
Telecommunications Plant:		
General support	$ 17,849,467	$ 17,570,124
Central office switching	1,279,096	1,323,901
Central office transmission	15,763,779	16,180,528
Cable wire facilities	89,584,911	88,826,705
Intangibles	3,453	3,453
	124,480,706	123,904,711
Video Plant:		
Headend equipment	6,540,980	6,325,593
Cable and other video plant	6,694,081	5,714,135
	13,235,061	12,039,728
Total	$ 137,715,767	$ 135,944,439

Depreciation expense for the years ended December 31, 2020 and 2019 totaled $6,393,724 and $6,506,448, respectively.

Intangible assets used in operations consist of the following:

	2020	2019	Weighted Average Life (in years)
Customer list	$ 3,431,827	$ - -	15
Accumulated amortization	(233,333)	- -	
	$ 3,198,494	$ - -	

Aggregate amortization expense related to this intangible for the year ended December 31, 2020 and 2019 totaled $233,333 and zero, respectively. The following represents the total estimated amortization expense for each of the succeeding five years: 2021 - $233,333; 2022 - $233,333; 2023 - $233,333; 2024 - $233,333; 2025 - $233,333

Note 5. Nonregulated Activities

Deregulated customer premises equipment is stated at cost; material held for lease or resale is stated at average cost. Customer Premises Equipment (CPE) also includes inside wire revenues and expenses. Depreciation is provided on a straight-line basis at 11.9% per year. The Cooperative provides long distance telephone service under the name of Foothills Long Distance (“FLD”). FLD revenues are billed and collected through the Cooperative. A monthly fee is recorded based on telephone usage. FLD purchases minutes of long distance to resell to its customers from an unrelated party. Nonregulated investments also include amounts that the Cooperative has invested to provide internet services to its customers. The Cooperative pays an unrelated party for the help desk and access to the internet system.

Note 5. Nonregulated Activities (Continued)

The following is a summary of nonregulated activities as of December 31:

	2020	2019
Investments	$ 244,809	$ 229,175
Material and supplies	1,320	1,320
Plant assets	5,884,888	5,518,986
Reserve for depreciation	(2,510,174)	(2,819,058)
	$ 3,620,843	$ 2,930,423

	Income	Expenses	Net
Customer premises equipment	$ 209,621	$ 974,001	$ (764,380)
VoIP	297,251	99,273	197,978
Internet activities	7,033,609	4,817,494	2,216,115
Long distance services	207,228	201,382	5,846
Fiber to home video	5,038,979	5,337,037	(298,058)
Total - 2020	$ 12,786,688	$ 11,429,187	$ 1,357,501

	Income	Expenses	Net
Customer premises equipment	$ 204,640	$ 770,297	$ (565,657)
VoIP	303,018	84,885	218,133
Internet activities	6,133,575	4,027,329	2,106,246
Long distance services	193,045	215,384	(22,339)
Fiber to home video	5,121,149	5,312,682	(191,533)
Total - 2019	$ 11,955,427	$ 10,410,577	$ 1,544,850

Note 6. Long-Term Debt

All telecommunications assets, except motor vehicles, are pledged as collateral on the long-term debt due to the U.S. Department of Agriculture, Rural Development (“USDA”).

Long-term debt is as follows as of December 31, 2020 and 2019:

	2020	2019
RUS Broadband Loan 2.132%-3.426%	$ 185,713	$ 196,977
Less current portion	11,827	11,715
Long-term portion	$ 173,886	$ 185,262

Note 6. Long-Term Debt (Continued)

Principal payments for the next five years and thereafter are as follows:

2021	$	11,827
2022		12,064
2023		12,305
2024		12,551
2025		12,802
Thereafter		124,164
	$	185,713

Note 7. Patronage Capital

The long-term debt agreement contains restrictions on the return to patrons of capital contributed by them. The restrictions relate in general to the Cooperative's net worth to assets, as defined. The net worth of the Cooperative at December 31, 2020 and 2019 was 92% and 93%, respectively.

Note 8. Pension Plan

All eligible non-union employees of the Cooperative participate in the National Telephone Cooperative Association (NTCA) Pension Plan ("R&S Plan"), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 52-0741336 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers. There have been no significant changes that affect the comparability of 2020 and 2019.

The Cooperative's contributions to the R&S Plan in 2020 and 2019 represent less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of $719,671 in 2020 and $737,626 in 2019.

In the R&S Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act ("PPA") of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan was 99 percent and 100 percent funded at January 1, 2020 and 2019, respectively, based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Note 8. Pension Plan (Continued)

The NTCA Board of Directors amended the 2018 R&S Program specifications at the recommendation of the Plan Trust Committee to include the following changes:

- Basic contribution rates will increase by 19%.
- The program's current surcharge will expire at the end of 2018, and a new surcharge contribution of 50% of the member's elected contribution rate will begin in 2019. This surcharge is expected to continue for approximately 12 years.
- A prefunding option was added to allow members the option to prefund their future surcharge contributions in a single payment prior to the start of the new surcharge effective in 2019.
- Beginning January 1, 2018, for members that have adopted the Rule-of-85 ("ROE") provision, the ROE charge will apply to both the member's elected employer contribution rate and any required employee contribution rate.

Over the past several years, various actions have been taken to sustain the reserve of funds available to help meet the programs legally required minimum contribution amount. However, adverse economic conditions and regulatory changes have negatively affected all pension plans, including the R&S Program. Despite prudent decision-making by the program's trust committee, the R&S Program's minimum contribution amount is projected to exceed the current reserve and member contributions alone will not meet the minimum requirement. This expectation has led the program's actuary to recommend the new surcharge contribution beginning in 2020. The R&S Program is offering prefunding to give members flexibility in addressing this situation at the Cooperative.

The prefunding contribution is expected to fund the member's surcharge contribution for approximately 12 years.

- Each member's prefunding contribution will be maintained in a notional account within the R&S Program and used to pay that member's surcharge contributions.
- Each member's prefunding account is maintained separately from other member's prefunding accounts.
- Account funds will be invested with other R&S Program assets and grow at the same rate as the program's overall investment returns.
- An annual statement will be provided to each member showing their specific prefunding account activity.

During 2016, the Cooperative prefunded the surcharge in an amount of $2,078,772. This amount will be amortized over the 12-year period the surcharge is expected to continue.

Contributions rates are as follows:

	2017 and after	2016 and before
Employer contributions	11.40%	10.10%
Employee contributions	3.00%	2.00%
Rate of 85 charges	5.50%	5.50%

Note 9. Accumulated Postretirement Benefits

The Cooperative sponsors a defined benefit plan that provides medical insurance coverage for employees hired before February 1, 2006 to retirees and their dependents. Employees hired after that date are not eligible to receive paid health insurance after retirement. Participating retirees and dependents do not contribute to the projected cost of coverage. Employees qualify with a minimum age of 55 and 20 years of service for the Cooperative. There have been no significant changes that affect the comparability of 2020 and 2019. The Cooperative uses a December 31, 2020 and 2019 measurement date for the plan.

The following illustrates the plan for the years ended December 31, 2020 and 2019:

	2020	2019
Benefit obligation, beginning of year	$ 10,688,040	$ 7,834,179
Service cost	278,600	265,333
Interest cost	409,688	443,213
Benefits paid	(266,298)	(243,206)
Actuarial (gain) loss	51,954	2,388,521
Benefit obligation, end of year	$ 11,161,984	$ 10,688,040
Fair value of plan assets, beginning of year	$ 4,181,484	$ 3,487,524
Actual return on plan assets	597,860	937,166
Employer contributions	- -	- -
Benefits paid	(266,298)	(243,206)
Fair value of plan assets, end of year	$ 4,513,046	$ 4,181,484
Reconciliation of funded status:		
Funded status	$ (6,648,938)	$ (6,506,556)
Net amount recognized at year end	$ (6,648,938)	$ (6,506,556)
Amounts recognized in the balance sheet consists of:		
Noncurrent assets (liabilities)	$ (6,648,938)	$ (6,506,556)
Amounts included in accumulated other comprehensive income:		
Unrecognized actuarial gain (loss)	$ (3,598,359)	$ (3,806,629)

Note 9. Accumulated Postretirement Benefits (Continued)

	2020	2019
Components of net periodic benefit cost:		
Service cost	$ 278,600	$ 265,333
Interest cost	409,688	443,213
Expected return on plan assets	(613,326)	(292,704)
Amortization cost	333,718	213,550
Net periodic benefit cost	$ 408,680	$ 629,392

	2020	2019
Weight-average assumptions as of December 31:		
Discount rate	3.75%	4.30%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	3.00%	3.00%
Effect of 1% trend sensitivity for medical plan:		
Projected benefit obligation	$ 11,943,000	$ 11,436,000
Net periodic benefit cost	437,000	673,000

The projected retiree benefit payments are expected to be as follows: 2021 - $285,000; 2022 - $305,000; 2023 - $326,000; 2024 - $349,000; 2025 - $373,000.

The Plan's investments reported at fair value are as follows:

		Fair value measurements using:	
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2020			
Stocks	$ 2,572,436	$ 2,572,436	$ - -
Investment grade debt instruments	812,348	- -	812,348
High-yield debt instruments	451,305	- -	451,305
Real assets	586,696	- -	586,696
Other	90,261	- -	90,261
	$ 4,513,046	$ 2,572,436	$ 1,940,610
December 31, 2019			
Stocks	$ 2,383,446	$ 2,383,446	$ - -
Investment grade debt instruments	752,667		752,667
High-yield debt instruments	418,148		418,148
Real assets	543,593		543,593
Other	83,630		83,630
	$ 4,181,484	$ 2,383,446	$ 1,798,038

Note 10. Income Taxes

The components of income tax expense (benefit) are as follows:

	December 31, 2020	December 31, 2019
Current:		
Federal	295,794	506,643
State	207,385	181,127
	503,179	687,770
Deferred:		
Federal	(87,000)	216,000
State	(17,000)	54,000
	(104,000)	270,000
`	$ 399,179	$ 957,770

The deferred tax liabilities in the accompanying balance sheets consist of the following components:

	December 31, 2020	December 31, 2019
Deferred tax liabilities:		
Federal	$ 2,324,000	$ 2,296,000
State	442,000	574,000
	$ 2,766,000	$ 2,870,000

Note 11. Acquisition of Lycom Communications

On January 2, 2020, the Cooperative purchased certain assets of Lycom Communications for $3,500,000. The fair value of amounts of identifiable assets acquired were as follows:

Customer list	$ 3,431,827
Equipment	68,173
	$ 3,500,000

Note 12. Commitments

The Cooperative has various agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction, maintenance, and other work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are one to three years.

Note 13. Contingencies

The Cooperative, occasionally, is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

Note 14. Revenue Recognition

The timing of recognition of revenue for each performance obligation may differ from the timing of the customer billing, creating a contract asset or contract liability. Short-term contract liabilities are classified as customer deposits. The Cooperative has no contract assets or long-term contract liabilities.

Nature of goods and services

The following is a description of principal activities from which the Cooperative generates its revenues.

Telecommunications revenues – The Cooperative's regulated sources of revenue are local network services, network access services (interstate and intrastate/interlata), carrier billing, video revenue and other service charges. The Cooperative'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 Cooperative 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

The Cooperative sells bundled service and equipment offerings. In these instances, the Cooperative recognizes its revenue based on the relative standalone selling prices for each distinct service or equipment performance obligation or bundles thereof. The Cooperative estimates the standalone selling price of the device or accessory to be its retail price excluding discounts. The Cooperative estimates the standalone selling price of telecommunication service to be the price offered to customers on month-to-month contracts.

Note 14. Revenue Recognition (Continued)

From time to time, the Cooperative may offer certain promotions to incentivize 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 purchased shown as a rebate or credit to the customer's monthly bill. Rebates are amortized over the life of the contract and are recognized when included in the customer's monthly bill.

Disaggregation of revenue

In the following table, revenue for the years ended December 31, 2020 and 2019 is disaggregated by type of service and timing of revenue recognition. Telecommunication service revenues are recognized over time and equipment sales at a point in time.

	2020	2019
Regulated income:		
Local network services	$ 7,758,902	$ 4,156,613
Network access services	14,368,482	14,589,874
Carrier billing and collections	340,340	336,172
Miscellaneous	997,369	1,224,353
	$ 23,465,093	$ 20,307,012
Nonregulated income:		
Customer premises equipment	$ 209,621	$ 204,640
VoIP	297,251	303,018
Internet activities	7,033,609	6,133,575
Long distance services	207,228	193,045
Fiber to the home video	5,038,979	5,121,149
	$ 12,786,688	$ 11,955,427

Contract cost liabilities

Contract cost liabilities include customer deposits. The balance in contract liabilities was $198,674, $185,346 and $193,706 as of December 31, 2020, 2019 and 2018, respectively.

Note 15. Risks and Uncertainties

Local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Cooperative as of March 22, 2021, management believes that a material impact on the Cooperative's financial position and results of future operations is reasonably possible.

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Directors
Foothills Rural Telephone Cooperative and Subsidiary
Staffordsville, Kentucky

We have audited the consolidated financial statements of Foothills Rural Telephone Cooperative and Subsidiary as of December 31, 2020 and 2019, and our report thereon dated March 22, 2021, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information found on pages 22 and 23, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 22, 2021

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2020

	Foothills Rural Telephone Cooperative	Cellular Services	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 16,493,880	$ 6,075,087	$ - -	$ 22,568,967
Accounts receivable, net	1,028,722	57,089	- -	1,085,811
Other receivables	1,627,623	- -	(709,844)	917,779
Materials and supplies, at average cost	2,119,653			2,119,653
Prepaid income taxes	- -	5,159	- -	5,159
Prepaid expenses	629,918	2,222	- -	632,140
	21,899,796	6,139,557	(709,844)	27,329,509
NON-CURRENT ASSETS				
Investment securities	2,628,242	100,000	- -	2,728,242
Associated organizations	45,373,478	32,338,539	(45,373,478)	32,338,539
Pension plan prefunding	1,799,908	- -	- -	1,799,908
Nonregulated investments	3,620,843	- -	- -	3,620,843
Total non-current assets	53,422,471	32,438,539	(45,373,478)	40,487,532
PROPERTY, EQUIPMENT AND INTANGIBLES				
In service	124,480,705	13,235,062	- -	137,715,767
Under construction	426,476	537,846	- -	964,322
	124,907,181	13,772,908	- -	138,680,089
Less accumulated depreciation	81,505,320	6,529,701	- -	88,035,021
	43,401,861	7,243,207	- -	50,645,068
Intangibles	- -	3,431,827	- -	3,431,827
Less accumulated amortization	- -	233,333	- -	233,333
	- -	3,198,494	- -	3,198,494
	$ 118,724,128	$ 49,019,797	$ (46,083,322)	$ 121,660,603

	Foothills Rural Telephone Cooperative	Cellular Services	Eliminations	Consolidated
LIABILITIES AND MEMBERS' EQUITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	$ 11,827	$ - -	$ - -	$ 11,827
Accounts payable	820,467	751,810	(709,844)	862,433
Customer deposits	198,674	- -	- -	198,674
Accrued income taxes	- -	91,156	- -	91,156
Accrued expenses	1,780,352	37,353	- -	1,817,705
Total current liabilities	2,811,320	880,319	(709,844)	2,981,795
NON-CURRENT LIABILITIES				
Long-term debt, less current portion	173,886	- -	- -	173,886
Accumulated postretirement benefits	6,648,938	- -	- -	6,648,938
Deferred tax liabilities	- -	2,766,000	- -	2,766,000
Total non-current liabilities	6,822,824	2,766,000	- -	9,588,824
MEMBERS' EQUITIES				
Memberships and capital investments	612,729	8,257,826	(8,257,826)	612,729
Patronage capital and retained earnings	111,951,077	37,115,652	(37,115,652)	111,951,077
Donated capital	124,537	- -		124,537
Accumulated comprehensive (loss)	(3,598,359)	- -		(3,598,359)
Total members' equities	109,089,984	45,373,478	(45,373,478)	109,089,984
	$ 118,724,128	$ 49,019,797	$ (46,083,322)	$ 121,660,603

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2020

	Foothills Rural Telephone Cooperative	Cellular Services	Eliminations	Consolidated
Operating revenues:				
Local network service	$ 2,833,377	$ 4,958,847	$ (33,322)	$ 7,758,902
Network access service	14,250,918	117,564	- -	14,368,482
Carrier billing and collection	340,340	- -	- -	340,340
Miscellaneous	905,773	91,596	- -	997,369
Less prevision for uncollectibles	(32,400)	- -	- -	(32,400)
Total operating revenues	18,298,008	5,168,007	(33,322)	23,432,693
Operating expenses:				
Plant specific operations	4,720,023	2,770,111	(33,322)	7,456,812
Plant non-specific operations	1,557,716	81,792	- -	1,639,508
Depreciation and amortization	5,560,878	1,066,179	- -	6,627,057
Customer operations	2,027,959	55,972	- -	2,083,931
Corporate operations	1,709,456	934,008	- -	2,643,464
Taxes, other than income	790,482	96,174	- -	886,656
Total operating expenses	16,366,514	5,004,236	(33,322)	21,337,428
Operating income	1,931,494	163,771	- -	2,095,265
Other income (expense):				
Other nonoperating income (expense)	(110,168)	901	- -	(109,267)
Interest on long-term debt	(4,706)	- -	- -	(4,706)
Other interest expense	(839)	- -	- -	(839)
Income in associated organizations	1,937,902	2,172,409	(1,937,902)	2,172,409
Total other income (expense)	1,822,189	2,173,310	(1,937,902)	2,057,597
Income before income taxes	3,753,683	2,337,081	(1,937,902)	4,152,862
Income tax benefit (expense)	- -	(399,179)	- -	(399,179)
Net income before nonregulated income	3,753,683	1,937,902	(1,937,902)	3,753,683
Nonregulated income	1,357,501	- -	- -	1,357,501
Net income	5,111,184	1,937,902	(1,937,902)	5,111,184
Other comprehensive income (loss)				
Accumulated postretirement benefit	208,270	- -	- -	208,270
Total comprehensive income	$ 5,319,454	$ 1,937,902	$ (1,937,902)	$ 5,319,454

Jones, Nale & Mattingly PLC

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

To the Board of Directors
Foothills Rural Telephone Cooperative and Subsidiary
Staffordsville, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Foothills Rural Telephone Cooperative and Subsidiary (the Cooperative), as of and for the year ended December 31, 2020, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 22, 2021.

<u>Internal Control Over Financial Reporting</u>

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

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

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

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 22, 2021

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

Board of Directors
Foothills Rural Telephone Cooperative and Subsidiary
Staffordsville, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Foothills Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of income and comprehensive income, changes in members' equities, 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 22, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2021 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 and grant agreements and other matters. No reports other than the reports referred to above related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees,* §1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding 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 of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;
- Prepare accurate and timely Financial and Operating Reports;

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

- Obtain written permission from RUS to enter into any contract, agreement, or lease with any Subsidiary as defined in Part 1773.33 (e)(2)(i);
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles, and;
- Comply with the requirements for the detailed schedule of investments, which is listed below.

During 2004, the Cooperative formed a wholly owned Subsidiary, Cellular Services, which provides telecommunications services outside of the Cooperative's service territory and is also 20% owner of East Kentucky Network, LLC, that provides cellular and other communication services in Eastern Kentucky. The initial investment was $1,130,000. The investment in Cellular Services, Inc. is comprised of the following:

	Investments	Profits (less Dividends)
Beginning of year	$ 11,757,826	$ 31,677,750
Activity for 2020	- -	1,937,902
End of year	$ 11,757,826	$ 33,615,652

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for telecommunication borrowers based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*. Accordingly, this report is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 22, 2021