

**FOOTHILLS RURAL TELEPHONE COOPERATIVE  
AND SUBSIDIARY  
KY 522**

**FINANCIAL REPORT**

**DECEMBER 31, 2022**

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*Jones, Nale & Mattingly PLC*

## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

#### ***Basis for Opinion***

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. 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 Foothills Rural Telephone Cooperative and Subsidiary 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 these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated 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 and *Government 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Foothills Rural Telephone Cooperative and Subsidiary'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Foothills Rural Telephone Cooperative and Subsidiary'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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2023, 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 the effectiveness of Foothills Rural Telephone Cooperative and Subsidiary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Foothills Rural Telephone Cooperative and Subsidiary's internal control over financial reporting and compliance.

*Jones, Nale & Mattingly PLC*

Louisville, Kentucky  
March 31, 2023

**FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**

**December 31, 2022 and 2021**

	2022	2021
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 30,885,172	\$ 25,804,096
Accounts receivable, less allowance for doubtful accounts of \$84,837 in 2022 and \$126,879 in 2021	1,183,997	810,682
Other receivables	1,022,038	788,000
Materials and supplies	2,191,141	1,841,741
Prepaid income taxes	447,639	97,326
Prepaid expenses	334,107	677,262
Total current assets	36,064,094	30,019,107
<b>NON-CURRENT ASSETS</b>		
Investment securities	3,639,096	3,740,138
Associated organizations	33,427,758	33,528,953
Pension plan prefunding	1,108,187	1,646,049
Nonregulated investments	3,562,456	3,603,270
Total non-current assets	41,737,497	42,518,410
<b>PROPERTY, EQUIPMENT AND INTANGIBLES</b>		
In service	144,418,333	140,440,438
Under construction	2,497,348	4,000,982
	146,915,681	144,441,420
Less accumulated depreciation	97,544,852	93,621,930
	49,370,829	50,819,490
Intangibles	3,431,827	3,431,827
Less accumulated amortization	700,000	466,667
	2,731,827	2,965,160
	\$ 129,904,247	\$ 126,322,167

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

	<u>2022</u>	<u>2021</u>
<b>LIABILITIES AND MEMBERS' EQUITIES</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ - -	\$ 13,418
Accounts payable	1,829,682	965,293
Customer deposits	181,308	190,149
Accrued expenses	1,784,022	1,876,409
Total current liabilities	<u>3,795,012</u>	<u>3,045,269</u>
<b>NON-CURRENT LIABILITIES</b>		
Long-term debt, less current portion	- -	159,516
Accumulated postretirement benefits	8,935,669	7,571,272
Deferred tax liabilities	3,870,000	3,244,000
Total non-current liabilities	<u>12,805,669</u>	<u>10,974,788</u>
<b>MEMBERS' EQUITIES</b>		
Memberships and capital investments	621,752	621,310
Patronage capital and retained earnings	118,223,608	116,302,754
Donated capital	124,537	124,537
Accumulated comprehensive (loss)	(5,666,331)	(4,746,491)
Total members' equities	<u>113,303,566</u>	<u>112,302,110</u>
	<u><u>\$ 129,904,247</u></u>	<u><u>\$ 126,322,167</u></u>

**FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

**Years Ended December 31, 2022 and 2021**

	2022	2021
Operating revenues:		
Local network service	\$ 8,783,099	\$ 8,669,537
Network access service	13,596,205	13,740,882
Carrier billing and collection	369,890	358,700
Miscellaneous	1,809,269	986,693
Less provision for uncollectibles	(43,200)	(137,580)
Total operating revenues	24,515,263	23,618,232
Operating expenses:		
Plant specific operations	9,096,546	8,287,886
Plant non-specific operations	1,679,856	1,770,068
Depreciation and amortization	6,791,467	6,658,736
Customer operations	2,373,043	2,104,498
Corporate operations	2,940,858	2,487,994
Taxes, other than income	850,943	838,291
Total operating expenses	23,732,713	22,147,473
Operating income	782,550	1,470,759
Other income (expense):		
Other nonoperating income (expense)	(654,154)	293,330
Interest on long-term debt	(1,582)	(3,932)
Other interest expense	(725)	(734)
Income in associated organizations	1,644,016	3,535,220
Total other income	987,555	3,823,884
Income before income taxes	1,770,105	5,294,643
Income tax (expense)	(552,841)	(1,028,715)
Net income before nonregulated income	1,217,264	4,265,928
Nonregulated income	2,663,780	1,838,260
Net income	3,881,044	6,104,188
Other comprehensive income (loss)		
Accumulated postretirement benefits	(902,815)	(1,148,132)
Investment (losses)	(17,025)	--
	(919,840)	(1,148,132)
Total comprehensive income	\$ 2,961,204	\$ 4,956,056

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, 2022 and 2021

	Memberships	Patronage Capital					Total	Other Equities	Accumulated Other Comprehensive (Loss)	Total
		Assigned	Assignable	Unassigned	Unlocated	Retirements				
Balance, January 1, 2021	\$ 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
Allocate margins	--	3,305,360	(5,111,184)	1,805,824	--	--	--	--	--	--
Net income	--	--	6,104,188	--	--	--	6,104,188	--	--	6,104,188
Postretirement benefit obligations										
Adjustment									(1,361,684)	(1,361,684)
Amortization	--	--	--	--	--	--	--	--	213,552	213,552
Memberships issued, net	8,581	--	--	--	--	--	--	--	--	8,581
Refunds of capital credits	--	--	--	--	--	(1,782,606)	(1,782,606)	--	--	(1,782,606)
Other equities	--	--	--	--	30,095	--	30,095	--	--	30,095
Balance, December 31, 2021	621,310	107,658,954	6,104,188	38,887,696	1,192,610	(37,540,694)	116,302,754	124,537	(4,746,491)	112,302,110
Allocate margins	--	2,885,823	(6,104,188)	3,218,365	--	--	--	--	--	--
Net income	--	--	3,881,044	--	--	--	3,881,044	--	--	3,881,044
Postretirement benefit obligations										
Adjustment							--	--	(1,116,367)	(1,116,367)
Amortization	--	--	--	--	--	--	--	--	213,552	213,552
Investment (losses)							--	--	(17,025)	(17,025)
Memberships issued, net	442	--	--	--	--	--	--	--	--	442
Refunds of capital credits	--	--	--	--	--	(1,969,133)	(1,969,133)	--	--	(1,969,133)
Other equities	--	--	--	--	8,943	--	8,943	--	--	8,943
Balance, December 31, 2022	<u>\$ 621,752</u>	<u>\$ 110,544,777</u>	<u>\$ 3,881,044</u>	<u>\$ 42,106,061</u>	<u>\$ 1,201,553</u>	<u>\$ (39,509,827)</u>	<u>\$ 118,223,608</u>	<u>\$ 124,537</u>	<u>\$ (5,666,331)</u>	<u>\$ 113,303,566</u>

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, 2022 and 2021**

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 3,881,044	\$ 6,104,188
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	6,791,467	6,658,736
(Gains) on investments	(1,688)	(7,738)
Income from associated organizations	(1,644,016)	(3,535,220)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable, net	(373,315)	275,129
Other receivables	(234,038)	129,779
Material and supplies	(349,400)	277,912
Prepaid income taxes	(350,313)	(92,167)
Prepaid expenses	343,155	(45,122)
Pension plan prefunding	537,862	153,859
Accounts payable	864,389	102,860
Customer deposits	(8,841)	(8,525)
Deferred tax liabilities	626,000	478,000
Accrued expenses	(92,387)	(32,452)
Net cash provided by operating activities	9,989,919	10,459,239
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Plant additions	(4,957,225)	(6,879,908)
Salvage, net of removal cost	83,568	54,286
Sales of investments	311,471	--
Purchase of investments	--	(1,004,158)
Nonregulated property	40,814	17,573
Associated organizations	1,745,211	2,344,806
Net cash (used in) investing activities	(2,776,161)	(5,467,401)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Membership and other equities	442	8,581
Retirements of capital credits	(1,960,190)	(1,752,511)
Payments on long-term debt	(172,934)	(12,779)
Net cash (used in) financing activities	(2,132,682)	(1,756,709)
Net increase in cash and cash equivalents	5,081,076	3,235,129
Cash and cash equivalents:		
Beginning of year	25,804,096	22,568,967
End of year	\$ 30,885,172	\$ 25,804,096
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash payments for interest	\$ 2,307	\$ 4,666
Income taxes paid	462,148	733,997

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

## FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

### 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.

##### Use of 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 debt securities classified as available for sale. Investment securities are recorded at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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, 2022 and 2021. The number of access lines was 12,470 for 2022 and 12,442 at 2021.

#### 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 PSC. These access charges are billed to the interlata long distance carrier and retained by the Cooperative.

#### Video Revenue Recognition

Cellular Services' headend equipment provides the Cooperative with the capabilities to provide expanded video services with over 200 channels, high-definition television, and Video on Demand. The monthly charge is 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 tax from revenue when collected and expenses when paid and instead, record collection and payment of 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, 2022 and 2021, these costs were \$217,218 and \$221,453, 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 for 2022 and 2021.

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:

	<u>Foothills</u>	<u>Cellular Services</u>
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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (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, 2022 and 2021.

The Cooperative's income tax return is subject to possible examination by taxing authorities until the expiration of related statutes 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 and unrealized gains (losses) on available for sale debt securities.

#### Subsequent Events

Management has evaluated subsequent events through March 31, 2023, the date the consolidated financial statements were available to be issued.

#### Reclassifications

Certain amounts presented in the 2021 financial statements have been reclassified to conform with the 2022 presentation.

#### 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (Continued)

#### Recently Issued Accounting Pronouncement

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 this ASU on the Cooperative's financial statements.

### Note 2. Fair Value Measurements

Investment securities consist of certificates of deposit and debt securities classified as available for sale. 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	Fair value measurements using:	
		Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
<u>December 31, 2022</u>			
Cash	\$ 3,002	\$ 3,002	\$ --
Certificates of deposit	3,430,355	--	3,430,355
Debt securities	205,739	205,739	--
	<u>\$ 3,639,096</u>	<u>\$ 208,741</u>	<u>\$ 3,430,355</u>
<u>December 31, 2021</u>			
Cash	\$ 5,347	\$ 5,347	\$ --
Certificates of deposit	3,517,349	--	3,517,349
Debt securities	217,442	217,442	--
	<u>\$ 3,740,138</u>	<u>\$ 222,789</u>	<u>\$ 3,517,349</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 2. Fair Value Measurements (Continued)

The amortized cost of debt securities available for sale was \$222,764 and \$218,987 as of December 31, 2022 and 2021, respectively. Unrealized (losses) as of December 31, 2022 and 2021 were (\$17,025) and (\$1,545), respectively.

The amortized cost of cash equivalents and certificates of deposit approximates fair value.

### 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.

The following is summarized financial information of EKN as of and for the years ended December 31, 2022 and 2021:

	2022	2021
Assets	\$ 241,294,254	\$ 227,194,142
Liabilities	\$ 74,155,461	\$ 59,549,380
Equity	\$ 167,138,793	\$ 167,644,762
Revenues and other income	\$ 124,485,066	\$ 128,797,860
Expenses and other expenses	\$ 118,158,102	\$ 111,426,894
Net income	\$ 6,326,964	\$ 17,370,966



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4. Telecommunications Plant and Intangibles

The major classification of plant service is:

	2022	2021
Telecommunications Plant:		
General support	\$ 19,035,546	\$ 18,300,801
Central office switching	1,279,600	1,280,420
Central office transmission	16,936,745	16,021,851
Cable wire facilities	90,679,962	90,381,637
Intangibles	3,453	3,453
	127,935,306	125,988,162
Video Plant:		
Headend equipment	6,882,811	6,797,095
Plant assets	9,600,216	7,655,181
	16,483,027	14,452,276
Total	\$ 144,418,333	\$ 140,440,438

Depreciation expense for the years ended December 31, 2022 and 2021 totaled \$6,558,134 and \$6,425,402, respectively.

Intangible assets used in operations consist of the following:

	2022	2021	Weighted Average Life (in years)
Customer list	\$ 3,431,827	\$ 3,431,827	15
Accumulated amortization	(700,000)	(466,667)	
	\$ 2,731,827	\$ 2,965,160	

Aggregate amortization expense related to this intangible for the year ended December 31, 2022 and 2021 totaled \$233,333 each year. The following represents the total estimated amortization expense for each of the succeeding five years: 2023 - \$233,333; 2024 - \$233,333; 2025 - \$233,333; 2026 - \$233,333; 2027 - \$233,333.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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.

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

	2022	2021
Investments	\$ 276,857	\$ 266,277
Material and supplies	1,426	1,426
Plant assets	7,109,991	6,480,052
Reserve for depreciation	(3,825,818)	(3,144,485)
	\$ 3,562,456	\$ 3,603,270

	Income	Expenses	Net
Customer premises equipment	\$ 214,027	\$ 419,881	\$ (205,854)
VoIP	265,801	92,034	173,767
Internet activities	8,299,209	5,454,032	2,845,177
Long distance services	464,819	376,538	88,281
Fiber to home video	4,948,658	5,186,249	(237,591)
Total - 2022	\$ 14,192,514	\$ 11,528,734	\$ 2,663,780

	Income	Expenses	Net
Customer premises equipment	\$ 212,386	\$ 997,363	\$ (784,977)
VoIP	287,069	83,114	203,955
Internet activities	7,676,427	5,222,761	2,453,666
Long distance services	479,877	410,112	69,765
Fiber to home video	4,994,602	5,098,751	(104,149)
Total - 2021	\$ 13,650,361	\$ 11,812,101	\$ 1,838,260

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 6. Long-Term Debt

All telecommunications assets, except motor vehicles, were pledged as collateral on the long-term debt due to the U.S. Department of Agriculture, Rural Development (“USDA”). All long-term debt was paid off during 2022.

Long-term debt is as follows as of December 31, 2022 and 2021:

	2022	2021
RUS Broadband Loan 2.132%- 3.426%	\$       --	\$   172,934
Less current portion	--	13,418
Long-term portion	\$       --	\$   159,516

### Note 7. Patronage Capital

The long-term debt agreement contained restrictions on the return to patrons of capital contributed by them. The restrictions related in general to the Cooperative’s net worth to assets, as defined. The net worth of the Cooperative at December 31, 2022 and 2021 was 87% and 88%, 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 2022 and 2021. The Cooperative uses the one year prior December 31, 2021 and December 31, 2020 measurement date for the plan.

The Cooperative’s contributions to the R&S Plan in 2022 and 2021 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 \$887,681 in 2022 and \$782,916 in 2021.

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 100 percent funded at December 31, 2022 and 2021, 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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. The prefunding is invested by NTCA and the earnings are reinvested in the prefunding.

Contributions rates are as follows:

	2022	2021
Employer contributions	14.20%	11.40%
Employee contributions	3.00%	3.00%
Rate of 85 charges	5.50%	5.50%

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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 2022 and 2021. The Cooperative uses a December 31, 2021 and 2020 measurement date for the plan.

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

	2022	2021
Benefit obligation, beginning of year	\$ 12,084,318	\$ 10,430,318
Service cost	313,624	297,139
Interest cost	418,509	448,497
Benefits paid	(339,545)	(251,093)
Actuarial loss	1,602,327	1,159,457
Benefit obligation, end of year	\$ 14,079,233	\$ 12,084,318
Fair value of plan assets, beginning of year	\$ 4,513,046	\$ 3,781,380
Actual return on plan assets	970,063	982,759
Employer contributions	--	--
Benefits paid	(339,545)	(251,093)
Fair value of plan assets, end of year	\$ 5,143,564	\$ 4,513,046
Reconciliation of funded status:		
Funded status	\$ (8,935,669)	\$ (7,571,272)
Net amount recognized at year end	\$ (8,935,669)	\$ (7,571,272)
Amounts recognized in the balance sheet consists of:		
Noncurrent (liabilities)	\$ (8,935,669)	\$ (7,571,272)
Amounts included in accumulated other comprehensive income:		
Unrecognized actuarial (loss)	\$ (5,649,306)	\$ (4,746,491)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 9. Accumulated Postretirement Benefits (Continued)

	2022	2021
Components of net periodic benefit cost:		
Service cost	\$ 313,624	\$ 297,139
Interest cost	418,509	448,497
Expected return on plan assets	(360,049)	(315,913)
Amortization cost	365,014	281,915
Net periodic benefit cost	\$ 737,098	\$ 711,638
Weight-average assumptions as of December 31:		
Discount rate	3.00%	3.75%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	Varies	Varies
Effect of 1% trend sensitivity for medical plan:		
Projected benefit obligation	\$ 17,023,688	\$ 14,590,897
Net periodic benefit cost	1,142,579	1,070,164

The projected retiree benefit payments are expected to be as follows: 2023 - \$363,000; 2024 - \$388,000; 2025 - \$415,000; 2026 - \$444,000; 2027 - \$475,000.

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

	Fair value	Fair value measurements using:	
		Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2022			
US Equity	\$ 1,270,460	\$ 1,270,460	\$ --
International Equity	1,347,614	--	1,347,614
Low Volatility	874,406	--	874,406
High Yield	416,629	--	416,629
Real Estate	426,916	--	426,916
Investment Grade Fixed Income	704,668	--	704,668
Cash	102,871	102,871	--
	\$ 5,143,564	\$ 1,373,331	\$ 3,770,233
December 31, 2021			
US Equity	\$ 1,114,722	\$ 1,114,722	\$ --
International Equity	1,182,418	--	1,182,418
Low Volatility	767,218	--	767,218
High Yield	365,557	--	365,557
Real Estate	374,583	--	374,583
Investment Grade Fixed Income	618,287	--	618,287
Cash	90,261	90,261	--
	\$ 4,513,046	\$ 1,204,983	\$ 3,308,063

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 10. Income Taxes

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

	December 31,	
	2022	2021
Current:		
Federal	\$ (183,549)	\$ 348,854
State	110,390	201,861
	(73,159)	550,715
Deferred:		
Federal	506,000	385,923
State	120,000	92,077
	626,000	478,000
	\$ 552,841	\$ 1,028,715

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

	December 31,	
	2022	2021
Deferred tax liabilities:		
Federal	\$ 3,126,000	\$ 2,620,000
State	744,000	624,000
	\$ 3,870,000	\$ 3,244,000

### Note 11. 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 12. 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 13. 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.

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.

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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 13. 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 and equipment sales at a point in time.

	2022	2021
<u>Regulated income:</u>		
Local network services	\$ 8,783,099	\$ 8,669,537
Network access services	13,596,205	13,740,882
Carrier billing and collections	369,890	358,700
Miscellaneous	1,809,269	986,693
	\$ 24,558,463	\$ 23,755,812
 <u>Nonregulated income:</u>		
Customer premises equipment	\$ 214,027	\$ 212,386
VoIP	265,801	287,069
Internet activities	8,299,209	7,676,427
Long distance services	464,819	479,877
Fiber to the home video	4,948,658	4,994,602
	\$ 14,192,514	\$ 13,650,361

#### Contract cost liabilities

Contract cost liabilities include customer deposits. The balance in contract liabilities was \$181,308, \$190,149 and \$198,674 as of December 31, 2022, 2021 and 2020, respectively.



*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, 2022 and 2021, and our report thereon dated March 31, 2023, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 through 3. 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 24 and 25, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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 31, 2023

**FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY**

**CONSOLIDATING BALANCE SHEET**

**December 31, 2022**

	Foothills Rural Telephone Cooperative	Cellular Services	Eliminations	Consolidated
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 23,915,629	\$ 6,969,543	\$ --	\$ 30,885,172
Accounts receivable, net	915,987	268,010	--	1,183,997
Other receivables	2,793,662	183,549	(1,955,173)	1,022,038
Materials and supplies, at average cost	2,191,141	--	--	2,191,141
Prepaid income taxes	--	447,639	--	447,639
Prepaid expenses	331,166	2,941	--	334,107
Total current assets	<u>30,147,585</u>	<u>7,871,682</u>	<u>(1,955,173)</u>	<u>36,064,094</u>
<b>NON-CURRENT ASSETS</b>				
Investment securities	2,533,250	1,105,846	--	3,639,096
Associated organizations	49,473,703	33,427,758	(49,473,703)	33,427,758
Pension plan prefunding	1,108,187	--	--	1,108,187
Nonregulated investments	3,562,456	--	--	3,562,456
Total non-current assets	<u>56,677,596</u>	<u>34,533,604</u>	<u>(49,473,703)</u>	<u>41,737,497</u>
<b>PROPERTY, EQUIPMENT AND INTANGIBLES</b>				
In service	127,935,308	16,483,025	--	144,418,333
Under construction	338,736	2,158,612	--	2,497,348
	<u>128,274,044</u>	<u>18,641,637</u>	<u>--</u>	<u>146,915,681</u>
Less accumulated depreciation	89,104,856	8,439,996	--	97,544,852
	<u>39,169,188</u>	<u>10,201,641</u>	<u>--</u>	<u>49,370,829</u>
Intangibles	--	3,431,827	--	3,431,827
Less accumulated amortization	--	700,000	--	700,000
	<u>--</u>	<u>2,731,827</u>	<u>--</u>	<u>2,731,827</u>
	<u>\$ 125,994,369</u>	<u>\$ 55,338,754</u>	<u>\$ (51,428,876)</u>	<u>\$ 129,904,247</u>

	Foothills Rural Telephone Cooperative	Cellular Services	Eliminations	Consolidated
<b>LIABILITIES AND MEMBERS' EQUITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 1,797,527	\$ 1,987,328	\$ (1,955,173)	\$ 1,829,682
Customer deposits	181,308	--	--	181,308
Accrued expenses	1,776,299	7,723	--	1,784,022
Total current liabilities	<u>3,755,134</u>	<u>1,995,051</u>	<u>(1,955,173)</u>	<u>3,795,012</u>
<b>NON-CURRENT LIABILITIES</b>				
Accumulated postretirement benefits	8,935,669	--	--	8,935,669
Deferred tax liabilities	--	3,870,000	--	3,870,000
Total non-current liabilities	<u>8,935,669</u>	<u>3,870,000</u>	<u>--</u>	<u>12,805,669</u>
<b>MEMBERS' EQUITIES</b>				
Memberships and capital investments	621,752	8,257,826	(8,257,826)	621,752
Patronage capital and retained earnings	118,223,608	41,215,877	(41,215,877)	118,223,608
Donated capital	124,537	--	--	124,537
Accumulated comprehensive (loss)	(5,666,331)	--	--	(5,666,331)
Total members' equities	<u>113,303,566</u>	<u>49,473,703</u>	<u>(49,473,703)</u>	<u>113,303,566</u>
	<u>\$ 125,994,369</u>	<u>\$ 55,338,754</u>	<u>\$ (51,428,876)</u>	<u>\$ 129,904,247</u>

**FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY**

**CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

**Year Ended December 31, 2022**

	Foothills Rural Telephone Cooperative	Cellular Services	Eliminations	Consolidated
<b>Operating revenues:</b>				
Local network service	\$ 2,456,182	\$ 6,305,917	\$ 21,000	\$ 8,783,099
Network access service	13,427,273	168,932	--	13,596,205
Carrier billing and collection	369,890	--	--	369,890
Miscellaneous	1,247,010	553,450	8,809	1,809,269
Less provision for uncollectibles	(43,200)	--	--	(43,200)
Total operating revenues	<u>17,457,155</u>	<u>7,028,299</u>	<u>29,809</u>	<u>24,515,263</u>
<b>Operating expenses:</b>				
Plant specific operations	4,847,332	4,284,914	(35,700)	9,096,546
Plant non-specific operations	1,590,561	89,295	--	1,679,856
Depreciation and amortization	5,547,707	1,243,760	--	6,791,467
Customer operations	2,262,534	110,509	--	2,373,043
Corporate operations	2,051,819	892,539	(3,500)	2,940,858
Taxes, other than income	748,709	102,234	--	850,943
Total operating expenses	<u>17,048,662</u>	<u>6,723,251</u>	<u>(39,200)</u>	<u>23,732,713</u>
Operating income	<u>408,493</u>	<u>305,048</u>	<u>69,009</u>	<u>782,550</u>
<b>Other income (expense):</b>				
Other nonoperating income (expense)	(656,441)	2,287	--	(654,154)
Interest on long-term debt	(1,582)	--	--	(1,582)
Other interest expense	(725)	--	--	(725)
Income in associated organizations	1,398,510	1,644,016	(1,398,510)	1,644,016
Total other income (expense)	<u>739,762</u>	<u>1,646,303</u>	<u>(1,398,510)</u>	<u>987,555</u>
Income before income taxes	1,148,255	1,951,351	(1,329,501)	1,770,105
Income tax (expense)	--	(552,841)	--	(552,841)
Net income before nonregulated income	1,148,255	1,398,510	(1,329,501)	1,217,264
Nonregulated income	2,732,789	--	(69,009)	2,663,780
Net income	<u>3,881,044</u>	<u>1,398,510</u>	<u>(1,398,510)</u>	<u>3,881,044</u>
<b>Other comprehensive (loss)</b>				
Accumulated postretirement (expenses)	(902,815)	--	--	(902,815)
Investment (losses)	(17,025)	--	--	(17,025)
	<u>(919,840)</u>	<u>--</u>	<u>--</u>	<u>(919,840)</u>
Total comprehensive income	<u>\$ 2,961,204</u>	<u>\$ 1,398,510</u>	<u>\$ (1,398,510)</u>	<u>\$ 2,961,204</u>



*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), which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of income and comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 31, 2023.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing 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. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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 or significant deficiencies may exist that have not been identified.

## **Report on 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 financial statements. 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 P.C.*

Louisville, Kentucky  
March 31, 2023



*Jones, Nale & Mattingly PLC*

**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, 2022, 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 31, 2023. In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2023 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;



- 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.

The Cooperative's subsidiary Cellular Services is a 20% owner of East Kentucky Network, LLC, that provides cellular and other communications services in Eastern Kentucky. The initial investment was \$1,130,000.

	<u>Investments</u>	<u>Profits</u>	<u>Returns</u>
Beginning of year	\$ 4,294,013	\$ 67,067,765	\$ (37,832,825)
Activity for 2022	--	1,644,016	(1,745,211)
End of year	<u>\$ 4,294,013</u>	<u>\$ 68,711,781</u>	<u>\$ (39,578,036)</u>

During 2004, the Cooperative formed a wholly owned Subsidiary, Cellular Services, which provides telecommunications services outside of the Cooperative's service territory.

	<u>Investments</u>	<u>Profits (less Dividends)</u>
Beginning of year	\$ 11,757,826	\$ 36,317,367
Activity for 2022	--	1,398,510
End of year	<u>\$ 11,757,826</u>	<u>\$ 37,715,877</u>

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 31, 2023