GEARHEART COMMUNICATIONS, INC. D/B/A COALFIELDS TELEPHONE COMPANY

FINANCIAL REPORT

DECEMBER 31, 2021

C O N T E N T S

JNM

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Coalfields Telephone Company
Harold, Kentucky

Qualified Opinion

We have audited the accompanying financial statements of Coalfields Telephone Company, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Coalfields Telephone Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

Coalfields Telephone Company's 90% owned subsidiary, PDNS, LLC, is not included in these financial statements. In our opinion, accounting principles accepted in the United States of America require that all majority-owned subsidiaries be included in the accompanying financial statements. If the financial statements of PDNS, LLC had been consolidated with the 2021 financial statements of Coalfields Telephone Company, total assets and total liabilities would be increased by approximately $3,500,000 and $18,000,000, respectively, as of December 31, 2021, and revenues and expenses would be increased by approximately $3,000,000 and $3,000,000, respectively for the year ended December 31, 2021. If the financial statements of PDNS, LLC had been consolidated with the 2020 financial statements of Coalfields Telephone Company, total assets and total liabilities would be increased by approximately $4,000,000 and $18,400,000, respectively, as of December 31, 2020, and revenues and expenses would be increased by approximately $2,800,000 and $3,700,000, respectively for the year ended December 31, 2020.

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

Certified Public Accountants and Advisors
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Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 28, 2022

COALFIELDS TELEPHONE COMPANY

BALANCE SHEETS
December 31, 2021 and 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 900,629	$ 614,419
Accounts receivable, less allowance for doubtful accounts of $20,958 in 2021 and $79,186 in 2020	240,380	291,273
Materials and supplies, at average cost	177,494	165,294
Prepaid expenses	- -	68,594
Prepaid income taxes	313,445	129,303
Total current assets	1,631,948	1,268,883
INVESTMENTS AND OTHER ASSETS		
Certificates of deposit	73,567	78,163
Associated organizations	33,528,952	32,338,540
Due from related parties	30,394,803	29,514,822
Nonregulated investments, net of depreciation	1,134,379	331,568
Total investments and other assets	65,131,701	62,263,093
PROPERTY AND EQUIPMENT		
In service	43,021,219	42,184,859
Under construction	48,998	250,663
	43,070,217	42,435,522
Less accumulated depreciation	28,326,483	26,581,337
	14,743,734	15,854,185
	$ 81,507,383	$ 79,386,161

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

		2021		2020
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Current maturities of long-term debt	$	711,744	$	1,057,120
Accounts payable		127,257		99,406
Customer deposits		15,825		19,525
Other current and accrued liabilities		62,260		144,078
Total current liabilities		917,086		1,320,129
NON-CURRENT LIABILITIES				
Long-term debt, less current maturities		5,149,290		5,858,135
Paycheck Protection Program Loan, less current maturities		- -		309,076
Interest rate swap		11,401		13,089
Deferred income taxes		5,045,000		4,990,000
Total non-current liabilities		10,205,691		11,170,300
LIABILITIES AND STOCKHOLDERS' EQUITY				
Common stock, no par value:				
Class A voting; 100 shares authorized, issued and outstanding		10,025		10,025
Class B nonvoting; 10,000 shares authorized; 9,900 shares issued and outstanding		30,075		30,075
Retained earnings		70,344,506		66,855,632
		70,384,606		66,895,732
	$	81,507,383	$	79,386,161

COALFIELDS TELEPHONE COMPANY

STATEMENTS OF INCOME
Years Ended December 31, 2021 and 2020

	2021	2020
Operating revenues:		
Local network service	$ 1,868,537	$ 1,965,547
Network access services	3,757,886	3,931,607
Miscellaneous	238,486	64,373
Bundle discount	(427,435)	(459,445)
Total operating revenues	5,437,474	5,502,082
Operating expenses:		
Plant specific	1,775,192	1,487,596
Plant nonspecific	416,069	411,919
Depreciation	1,790,686	1,552,421
Customer operations	1,425,752	1,199,638
Corporate operations	2,806,838	2,464,462
Other operating taxes	227,134	217,673
Total operating expenses	8,441,671	7,333,709
Operating (loss)	(3,004,197)	(1,831,627)
Other income (expense):		
Interest income	516,165	408,188
Interest expense	(252,471)	(275,900)
Interest expense - other	(3,264)	(4,361)
Income from associated organizations	3,535,218	2,172,408
PPP loan forgiveness	681,100	- -
Total other income	4,476,748	2,300,335
Income before income tax expense	1,472,551	468,708
Income tax expense	470,594	248,804
Net income before nonregulated income	1,001,957	219,904
Nonregulated items:		
Income	4,608,276	4,375,600
Expenses	(2,121,359)	(2,101,479)
	2,486,917	2,274,121
Net income	$ 3,488,874	$ 2,494,025

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

COALFIELDS TELEPHONE COMPANY

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2021 and 2020

	Common Stock	Retained Earnings	Total
Balance, January 1, 2020	$ 40,100	$ 64,361,607	64,401,707
Net income	- -	2,494,025	2,494,025
Balance, December 31, 2020	40,100	66,855,632	66,895,732
Net income	- -	3,488,874	3,488,874
Balance, December 31, 2021	$ 40,100	$ 70,344,506	$ 70,384,606

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

COALFIELDS TELEPHONE COMPANY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,488,874	$ 2,494,025
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,790,686	1,552,421
Forgiveness of debt	(681,100)	- -
Amortization of debt issuance costs included in interest expense	4,999	4,999
Associated organization (income)	(3,535,218)	(2,172,408)
Deferred income taxes	55,000	(140,000)
Interest rate swap	(1,688)	9,298
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable, net	50,893	21,631
Prepaid expenses	68,594	(68,594)
Prepaid income taxes	(184,142)	(129,303)
Materials and supplies	(12,200)	(32,802)
Accounts payable	27,851	6,751
Customer deposits	(3,700)	(16,974)
Other current and accrued liabilities	(81,818)	(1,192,997)
Net cash provided by operating activities	987,031	336,047
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction of plant	(752,237)	(1,306,474)
Salvage proceeds recovered from plant retirements	94,081	3,006
Certificates of deposit redeemed	4,596	5,124
Distribution from associated organization	2,344,806	3,364,542
Proceeds (purchases) of miscellaneous physical property	(824,890)	37,516
Net cash provided by investing activities	866,356	2,103,714
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(687,196)	(593,904)
Proceeds from Paycheck Protection Program Loan	- -	681,100
Payments from (advances to) related party, net	(879,981)	(2,635,254)
Net cash (used in) financing activities	(1,567,177)	(2,548,058)
Net increase (decrease) in cash and cash equivalents	286,210	(108,297)
Cash and cash equivalents:		
Beginning of year	614,419	722,716
End of year	$ 900,629	$ 614,419
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash interest paid	$ 258,095	$ 272,029
Income taxes paid	579,000	706,697
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITES:		
Equipment acquired through incurrence of debt	$ - -	$ 58,426

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Coalfields Telephone Company (the Company) 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 to generally accepted accounting principles in all material respects. The significant policies are as follows:

Nature of Business

Coalfields Telephone Company is engaged in providing telephone communications services to residential and business customers located in portions of two eastern Kentucky counties. They provide telephone service, long distance, broadband and digital HDTV bundled television packages from Inter Mountain Cable, Inc. (a related party).

Use of Estimates

The preparation of 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 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 financial statements.

Cash and Cash Equivalents

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

Certificates of Deposit

Certificates of deposit at Rural Telephone Finance Cooperative 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.

Accounts Receivable

Accounts receivable are stated at net realizable value consisting of the carrying amount less an allowance for doubtful accounts. 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, 2021 and 2020.

Note 1. Summary of Significant Accounting Policies

Accounts Receivable (continued)

The number of subscribers, and those with enhanced DSL service at December 31, are as follows:

	2021		2020	
	Amount	%	Amount	%
Total subscribers	3,870		4,072	
Enhanced services included in total:				
DSL	50	1%	52	1%
Inter Mountain Cable modems	3,510	91%	3,338	82%
Bundled subs	1,236	32%	1,621	40%

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

The Company is a Kentucky corporation engaged in telephone communications services to residential and business customers located in portions of two eastern Kentucky counties. The Company bills customers on credit with certain customers required to pay a refundable deposit. Payments are due 20 days from the date of billing, at which time a disconnect notice is sent with payment to be made within 10 days.

Compensation for interstate access services is received through tariffed access charges filed by the National Exchange Carrier Association (NECA) with the Federal Communications Commission (FCC) on behalf of the member companies as an average schedule company. Compensation for intrastate/intralata services is received through tariffed long-distance rates filed with the FCC and billed to the end user. The resulting revenues are pooled with like revenues from all telephone companies in the state. The portion of the pooled long-distance revenue received by the Company is based upon a contractual agreement with the long-distance carrier. Compensation for intrastate/interlata service is received through tariffed access charges as filed with the FCC. These access charges are billed to the interlata long distance carrier and retained by the Company.

Customers who select services to include Coalfields Telephone Company telephone service, long distance and any combination of cable television packages from Inter Mountain Cable, Inc. (a related party) receive a discount for selecting these "bundled services". The bundled discount is based on the level of services received by the customer.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Taxes

The Company is required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. The Company's policy is to exclude taxes from revenues when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

Risk Management

The Company 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, 2021 and 2020, these costs were $242,571 and $190,870, respectively.

Telecommunications Plant

Telecommunications plant in service is 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. There was no interest required to be capitalized during the year.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of depreciable property units, as distinguished from minor items, is charged to telecommunications 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:

Vehicles	12.1%
Buildings	2.7%
Furniture, office and work equipment	6.6% - 15.8%
Central office switch	7.5%
Circuit equipment	10.0%
Cable and wire facilities	5.6% - 9.4%

Debt Issuance Costs

Debt issuance costs are presented net of related debt and are amortized through interest expense over the respective term of the related loans using the straight-line method, which equates to the effective interest method.

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Company 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.

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

The Company'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.

Subsequent Events

Management has evaluated subsequent events through March 28, 2022, the date the 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 Company'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). There have been no changes in methodologies used as of December 31, 2021 and 2020.

The Company invests idle funds with local banks or with Rural Telephone Finance Cooperative in certificates of deposits.

The Company's certificates of deposit 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, 2021			
Certificates of deposit	$ 73,567	$ - -	$ 73,567
December 31, 2020			
Certificates of deposit	$ 78,163	$ - -	$ 78,163

Note 3. Associated Organizations

The amounts for East Kentucky Network, LLC (EKN) represents Coalfields Telephone Company'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 the Company 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.

Note 3. Associated Organizations (Continued)

The following is summarized financial information of EKN as of and for the years ended December 31, 2021 and 2020:

	2021	2020
Assets	$ 227,194,142	$ 213,440,853
Liabilities	$ 59,549,380	$ 51,748,153
Equity	$ 167,644,762	$ 161,692,700
Revenues and other income	$ 128,797,860	$ 131,986,587
Expenses and other expenses	$ 111,426,894	$ 120,802,140
Net income	$ 17,370,966	$ 11,184,447

Note 4. Telecommunications Plant

The major classification of telecommunications plant in service is:

	2021	2020
General support	$ 12,439,806	$ 12,086,430
Central office switching	7,982,783	7,917,519
Circuit equipment	398,715	398,715
Cable and wire facilities	22,178,579	21,781,278
Intangibles	21,336	917
	$ 43,021,219	$ 42,184,859

Note 5. Related Parties

The Company transacts business with Inter Mountain Cable, Inc. (Inter Mountain Cable) and PDNS, LLC (PDNS), which are related parties because of common ownership. PDNS has a division that operates under the name of Mountain Telephone Service (MTS), which also conducts business with the Company. The Company also provides personnel for AJSPD, LLC, which is considered a related party because of common ownership. The officers and majority shareholders of the Company also own 100% of the outstanding stock of Inter Mountain Cable. The Company also transacts business with EKN as a 20% owner.

The Company and Inter Mountain Cable, PDNS and MTS share common office space, office equipment and/or personnel of the Company. A fee is charged for these services.

Note 5. Related Parties (Continued)

During 2003, the Company cashed in the value of a life insurance policy, using the proceeds to purchase a note receivable from an irrevocable trust fund set up by the majority stockholders of the Company. The note is dated January 1, 2003 with the current interest rate at 1.65%. The note was paid in full during 2021.

During 2005, the Company advanced funds to Inter Mountain Cable for operating cash. These advances do not have a repayment schedule and bear interest at 5%.

Amounts due from (to) related parties are as follows:

	2021	2020
Inter Mountain Cable, Inc.	$ 3,658,316	$ 2,771,252
Inter Mountain Cable, Inc. - CABS	6,044,166	6,045,934
PDNS, LLC	9,240,023	9,416,011
Irrevocable Trust, note receivable	- -	425,321
Echo Trust	(6,428)	(6,130)
Mountain Telephone Service (PDNS)	1,248,381	1,232,423
AJSPD, LLC	93,061	82,836
SGSNPDG, LLC	4,341,491	4,120,093
Oil and Gas projects	5,775,793	5,427,082
	$ 30,394,803	$ 29,514,822

The Company rents two lots for $100 each, a portion of rental property for $200 per month, and a billboard for $325 per month from related parties. The Company pays $6,250 per month to SGSNPDG, LLC for lot rental and extra parking spaces. The Company also pays $1,750 per month for radio advertising from related companies. The Company leases fiber from EKN, with the amount being determined by the number of fiber leased and traffic along the fiber network. The Company leases circuits from EKN for trunk lines to carry long distance traffic. The amounts for fiber and circuits for 2021 were $257,921 and $298,672, respectively, and for fiber and circuits for 2020 were $279,414 and $317,185, respectively.

Note 6. Nonregulated Activities

Nonregulated customer premises equipment is stated at cost; material held for lease or resale is stated at average cost. CPE also includes inside wire revenues and expenses. Depreciation is provided on a straight-line basis at 11.9% per year. Fiber cable outside of the service territory of the Company is considered as a nonregulated investment. The depreciation rate for fiber cable is 5.1% per year. Nonregulated property includes the following as of December 31:

	2021	2020
Material held for lease or resale	$ 84,164	$ 84,886
Station apparatus / modems	174,901	175,315
Capital credit	5,816	4,293
Fiber cable	1,238,204	415,713
Land and buildings	808,941	808,941
Less accumulated depreciation	(1,177,647)	(1,157,580)
Total	$ 1,134,379	$ 331,568

Note 7. Long-Term Debt

Long term debt outstanding is as follows as of December 31:

	2021	2020
Fixed rate note, 3.25 - 4.00% (a)	$ 5,837,799	$ 6,513,399
Fixed rate note, 0.415% (b)	44,899	56,495
PPP Loan, 1.00% (c)	- -	681,100
	5,882,698	7,250,994
Less loan fees	21,664	26,663
	5,861,034	7,224,331
Less current portion	711,744	1,057,120
	$ 5,149,290	$ 6,167,211

(a) On April 22, 2019 the Company refinanced its loans with a term loan from Fifth Third Bank for $7,586,199 with principal and interest payments due in monthly installments with a maturity date of May 1, 2026. The interest rate is fixed at 3.86% with a swap agreement (see Note 12). Substantially all assets are pledged as collateral on the note. The note has been personally guaranteed by the Company's stockholders. The Company must, among other things, meet certain Funded Debt to EBITDA ratios. As of December 31, 2021, these ratios have been met.

Note 7. Long-Term Debt (Continued)

(b) On October 22, 2020, the Company entered into a note with Wells Fargo Bank for a piece of heavy machinery for $58,426 with principal and interest payments due in monthly installments beginning on November 16, 2020, and a maturity date of October 16, 2025. The interest rate is fixed at 0.415%. The note is secured by the machinery.

(c) On May 5, 2020, the Company was granted a loan through the Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief and Economic Security Act (CARES Act) in the amount of $681,100. The loan may be forgiven if used for certain qualifying expenses. Any portion not forgiven bears interest at 1% per annum, payable in monthly installments commencing ten months from the disbursement date and maturing on May 5, 2022. The Company elected to account for the loan as a debt obligation and should all or part of the loan be forgiven, will record the amount forgiven as forgiveness of debt in the statement of income in the year the Company receives a legal release of the debt. The Company submitted an application for forgiveness on March 10, 2021 and was notified that the loan was forgiven on May 24, 2021.

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

2022	$	711,744
2023		739,392
2024		767,741
2025		796,022
2026		266,400
Thereafter		2,601,399
	$	5,882,698

Note 8. Pension Plan

Effective January 1, 2008, the Company discontinued its defined benefit retirement plan and implemented a defined contribution pension plan (Gearheart Communications, Inc. 401(k) Plan (the Plan)). The assets in the defined benefit plan were frozen as of December 31, 2007 in the National Telephone Company Association (NTCA) Pension Plan. The defined contribution plan is qualified as being tax exempt from federal income tax under the Internal Revenue Code.

Participants may elect to defer a percentage of compensation, not to exceed a dollar limit set by law. After participants have entered the Plan, they are eligible to share in matching contributions that are made for any year they defer. Contributions are 100% vested immediately upon entry to the Plan. Contributions were $225,980 for 2021 and $218,897 for 2020.

Note 9. Income Taxes

The provision for income taxes consist of the following:

	December 31, 2021	December 31, 2020
Current:		
Federal	$ 270,502	$ 287,521
State	145,092	101,283
	415,594	388,804
Deferred:		
Federal	44,400	(117,000)
State	10,600	(23,000)
	55,000	(140,000)
	$ 470,594	$ 248,804

	December 31, 2021	December 31, 2020
Deferred tax liabilities:		
Federal	$ 4,236,400	$ 4,192,000
State	808,600	798,000
	$ 5,045,000	$ 4,990,000

Note 10. Contingencies

The Company, on occasion, 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 11. 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 Company has no contract assets or long-term contract liabilities.

Note 11. Revenue Recognition (Continued)

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

Telecommunications revenues – The Company'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 Company's nonregulated sources of revenue are customer premises and equipment, internet activities, long distance services, video services, and security/surveillance/bus systems.

Significant judgments

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

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

Multiple performance obligations

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

Note 11. Revenue Recognition (Continued)

Disaggregation of revenue

In the following table, revenue for the years ended December 31, 2021 and 2020 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.

Regulated Revenues

	2021	%	2020	%
Local network service	$ 1,430,817	26%	$ 1,506,952	27%
Intrastate Intralata	91,838	2%	146,538	3%
Intrastate Intralata	307,935	6%	337,101	6%
Interstate	3,356,994	61%	3,436,167	63%
Miscellaneous	249,890	5%	75,324	1%
Total	$ 5,437,474	100%	$ 5,502,082	100%

Nonregulated Revenues

	2021	%	2020	%
Cable modem revenue	$ 3,095,300	66%	$ 2,838,364	65%
Fiber lease	900,000	20%	900,000	21%
CPE and main of inside wire	194,835	4%	192,688	4%
Miscellaneous revenue	35,197	1%	37,327	1%
DSL revenue	28,970	1%	40,452	1%
Fiber and managed revenue	310,324	7%	320,251	7%
Billing and collection	43,650	1%	46,518	1%
Total	$ 4,608,276	100%	$ 4,375,600	100%

Contract cost liabilities

Contract cost liabilities include customer deposits. The balances in contract liabilities, included in customer deposits, were $15,825, $19,525 and $36,499 as of December 31, 2021, 2020 and 2019, respectively.

Note 12. Derivative Financial Instruments, Interest Rate Swap

The Company entered into an interest rate swap contract with Fifth Third Bank for the purpose of converting floating-rate interest on its long-term debt to fixed rates. The interest rate swap contract effectively fixed $7,586,199 at rates ranging from 3.25% to 4.00% until May 1, 2026. The rates are based on the Company's debt to earnings ratio at the end of each quarter.

Note 12. Derivative Financial Instruments, Interest Rate Swap (Continued)

Under the swap contract, the Company pays interest at 3.86% on the notional amounts and receives interest at the US prime rate minus 1.50% observed daily (1.75% at December 31, 2021). The interest rate swap qualifies as, and is designated as, a cash flow hedge. The swap is designed to hedge the risk of changes in interest payments on the notes caused by changes in interest rates. The notional amounts do not represent actual amounts exchanged by the parties, but instead represent the amounts on which the contracts are based.

The swap was issued at market terms so that it had no fair value or carrying value at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year, which because of changes in forecasted levels of the US prime rate, resulted in reporting a liability for the fair value of future net settlements forecasted under the swap. The swap contract permits settlement prior to maturity only through termination by the Company. The settlement amounts are determined based on forecasted changes in interest rates required under fixed and variable legs of the swap. The Company believes the settlement amounts are the best representation of the fair value of the swap and has adjusted its carrying amounts to the settlement amounts at the end of the year.

The carrying amount of the swap is classified as noncurrent since management does not intend to terminate the swap during 2022. Since the critical terms of the swap and the note are approximately the same, the swap is assumed to be effective as a hedge, and the changes in fair value of the swap would be excluded from income and included in accumulated other comprehensive income as a separate component of stockholders' equity. However, management has determined the amount to include in accumulated other comprehensive income is not material; therefore, the changes in fair value of the swap have been included in income. The Company does not hold or issue interest rate swaps or other financial instruments for trading purposes.

Note 13. Uncertainty

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 impacts to the Company as of March 28, 2022, management believes that a material impact on the Company's financial position and results of future operations is reasonably possible.