



REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY CONSOLIDATING SCHEDULES

**LOGAN TELEPHONE COOPERATIVE, INC.
AND SUBSIDIARY**

December 31, 2020 and 2019

Table of Contents

	PAGE
Report of Independent Auditors	1–2
Consolidated Financial Statements	
Consolidated Balance Sheets	3–4
Consolidated Statements of Income	5
Consolidated Statements of Comprehensive Income	6
Consolidated Statements of Members' Equity	7
Consolidated Statements of Cash Flows	8–9
Notes to Consolidated Financial Statements	10–25
Supplementary Information	
Report of Independent Auditors on Supplementary Information	26
Consolidating Balance Sheet Detail	27–28
Consolidating Statement of Income Detail	29

Report of Independent Auditors

The Board of Directors
Logan Telephone Cooperative, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Logan Telephone Cooperative, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Kentucky RSA 3 Cellular General Partnership, Cumberland Cellular Partnership, Bluegrass Telecom, LLC and Bluegrass Networks, LLC (the partnerships and limited liability companies). The investments in the partnerships and limited liability companies were \$50,227,023 and \$46,194,607 as of December 31, 2020 and 2019, respectively, and the equity in their net income was \$6,855,664 and \$5,113,314, respectively, for the years then ended. The consolidated financial statements of the partnerships and limited liability companies were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the partnerships and limited liability companies, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Logan Telephone Cooperative, Inc. and its subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

MOSS ADAMS LLP

Overland Park, Kansas
March 19, 2021

Logan Telephone Cooperative, Inc.
Consolidated Balance Sheets

ASSETS

	December 31,	
	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,644,483	\$ 5,365,915
Investments	176,391	230,821
Accounts receivable		
Customers, net	10,715	6,131
Interexchange carriers and NECA	594,502	515,682
Related party and other	91,775	151,871
Material and supplies	558,276	553,056
Other current assets	187,551	172,803
	5,263,693	6,996,279
NONCURRENT ASSETS		
Investments in affiliates	50,227,023	46,194,607
Long-term investments	3,461,487	3,225,865
Other noncurrent assets	585,922	629,700
	54,274,432	50,050,172
PROPERTY, PLANT, AND EQUIPMENT		
Regulated plant in service	78,288,066	68,868,666
Regulated plant under construction	336,094	3,616,312
Nonregulated plant in service	621,106	447,864
	79,245,266	72,932,842
Less accumulated depreciation	35,341,571	34,173,853
	43,903,695	38,758,989
TOTAL ASSETS	\$ 103,441,820	\$ 95,805,440

See accompanying notes.

Logan Telephone Cooperative, Inc.
Consolidated Balance Sheets

LIABILITIES AND MEMBERS' EQUITY

	December 31,	
	2020	2019
CURRENT LIABILITIES		
Accounts payable	\$ 1,130,419	\$ 832,391
Advance billing and customer deposits	241,269	183,617
Accrued income taxes	68,764	197,079
Other current liabilities	163,747	405,834
Total current liabilities	1,604,199	1,618,921
NONCURRENT LIABILITIES		
Deferred income taxes	2,075,401	2,028,065
Postretirement benefit obligation	2,215,164	868,648
Total noncurrent liabilities	4,290,565	2,896,713
MEMBERS' EQUITY		
Memberships issued	5,534	5,130
Patronage capital	27,057,741	25,020,162
Retained margins	74,059,964	68,167,089
Accumulated other comprehensive loss	(3,576,183)	(1,902,575)
Total members' equity	97,547,056	91,289,806
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 103,441,820	\$ 95,805,440

See accompanying notes.

Logan Telephone Cooperative, Inc.
Consolidated Statements of Income

	Years Ended December 31,	
	2020	2019
OPERATING REVENUES		
Wireline	\$ 10,634,372	\$ 9,220,534
Internet	3,085,888	2,532,914
Miscellaneous	282,599	376,189
Net operating revenues	14,002,859	12,129,637
OPERATING EXPENSES		
Plant specific	1,694,122	1,542,068
Plant nonspecific	613,154	654,506
Depreciation and amortization	3,650,014	3,376,908
Customer	750,690	626,398
Corporate	1,346,804	1,184,090
Other operating taxes	484,073	486,520
Nonregulated	2,703,856	2,307,370
Total operating expenses	11,242,713	10,177,860
Net operating margins	2,760,146	1,951,777
NONOPERATING INCOME		
Income from affiliates	6,855,664	5,113,314
Other nonoperating income	232,810	126,566
Other investment income	123,132	170,209
Nonoperating income	7,211,606	5,410,089
NET MARGINS BEFORE INCOME TAXES	9,971,752	7,361,866
Income tax expense	1,398,497	1,221,564
NET MARGINS	\$ 8,573,255	\$ 6,140,302

See accompanying notes.

Logan Telephone Cooperative, Inc.
Consolidated Statements of Comprehensive Income

	<u>Years Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
NET MARGINS	<u>\$ 8,573,255</u>	<u>\$ 6,140,302</u>
Postretirement healthcare benefits		
Net loss arising during the period	(1,856,901)	(948,628)
Amortization of net loss	<u>183,293</u>	<u>1,008,818</u>
Other comprehensive income (loss)	<u>(1,673,608)</u>	<u>60,190</u>
COMPREHENSIVE INCOME	<u><u>\$ 6,899,647</u></u>	<u><u>\$ 6,200,492</u></u>

See accompanying notes.

Logan Telephone Cooperative, Inc.
Consolidated Statements of Members' Equity

	Memberships Issued	Patronage Capital	Retained Margins	Accumulated Other Comprehensive Loss	Total Members' Equity
BALANCE, December 31, 2018	\$ 5,009	\$23,056,775	\$64,615,013	\$ (1,883,198)	\$ 85,793,599
Memberships issued	512	-	-	-	512
ASU 2016-01 transition adjustment	-	-	79,567	(79,567)	-
Patronage capital refunds and retirements	(391)	(704,406)	-	-	(704,797)
Allocation of 2018 patronage margin	-	2,667,793	(2,667,793)	-	-
Net margins	-	-	6,140,302	-	6,140,302
Other comprehensive income	-	-	-	60,190	60,190
BALANCE, December 31, 2019	5,130	25,020,162	68,167,089	(1,902,575)	91,289,806
Memberships issued	730	-	-	-	730
Patronage capital refunds and retirements	(326)	(642,801)	-	-	(643,127)
Allocation of 2019 patronage margin	-	2,680,380	(2,680,380)	-	-
Net margins	-	-	8,573,255	-	8,573,255
Other comprehensive loss	-	-	-	(1,673,608)	(1,673,608)
BALANCE, December 31, 2020	<u>\$ 5,534</u>	<u>\$27,057,741</u>	<u>\$74,059,964</u>	<u>\$ (3,576,183)</u>	<u>\$ 97,547,056</u>

See accompanying notes.

Logan Telephone Cooperative, Inc.
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	\$ 8,573,255	\$ 6,140,302
Adjustments to reconcile net margin to cash provided by operating activities		
Depreciation and amortization	3,650,014	3,376,908
Nonregulated depreciation	71,259	83,144
Amortization of bond premium/discount	(47,824)	5,837
Income from affiliates	(6,855,664)	(5,113,314)
Deferred income taxes	47,336	220,674
Changes in operating assets and liabilities		
Accounts receivable	(23,308)	280,859
Materials and supplies	(5,220)	90,167
Other current assets	(14,748)	707
Accounts payable	298,028	(249,693)
Advance billing and customer deposits	57,652	19,754
Accrued income taxes	(128,315)	147,812
Other current liabilities	(242,087)	36,079
Distributions from investments in affiliates	2,729,691	2,008,150
Postretirement benefits	(327,092)	(59,788)
	<u>7,782,977</u>	<u>6,987,598</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant, and equipment	(8,772,422)	(6,478,516)
Purchase of investments	(1,326,058)	(1,031,557)
Proceeds from sales of investments	1,236,468	815,671
	<u>(8,862,012)</u>	<u>(6,694,402)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital credit retirements	(642,801)	(704,406)
Payment of members' subscriptions	(326)	(391)
Proceeds from members' contributions	730	512
	<u>(642,397)</u>	<u>(704,285)</u>
Net cash used in financing activities		

See accompanying notes.

Logan Telephone Cooperative, Inc.
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	<u>2020</u>	<u>2019</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ (1,721,432)	\$ (411,089)
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,365,915</u>	<u>5,777,004</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,644,483</u>	<u>\$ 5,365,915</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for		
Income taxes	<u>\$ 1,479,000</u>	<u>\$ 656,000</u>

See accompanying notes.

Logan Telephone Cooperative, Inc.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies

Organization

Logan Telephone Cooperative, Inc. (the Cooperative), a cooperative organized in the state of Kentucky, is a regulated local exchange telephone company providing telephone and internet service to its members.

The Cellular Division of Logan Telephone Cooperative, Inc. (the Cellular Division), a corporation organized in the state of Kentucky, owns non-controlling interests in two partnerships and a limited liability company which provide cellular telephone service and long distance service to members as well as nonmembers of the Cooperative.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Cooperative and the Cellular Division, the consolidated group herein referred to as the “Cooperative”. All significant intercompany balances and transactions have been eliminated.

Accounting Policies

The consolidated financial statements of the Cooperative have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to regulated public utilities. Such accounting principles are consistent, in all material respects, with accounting prescribed by the Federal Communications Commission (FCC).

Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include depreciation expense, deferred income tax expense, postretirement benefit plan obligations, and interstate access revenue settlements and universal service support.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Cooperative considers all highly liquid investments with an original maturity of six months or less when purchased to be cash equivalents.

Concentration of Risk

At various times throughout the year, the cash balances deposited in local institutions exceed federally insured limits. A possible loss exists for those amounts in excess of \$250,000.

The Cooperative invests excess funds in repurchase agreements which are collateralized primarily by bonds of financial institutions. Such investment in repurchase agreements amounted to \$2,300,000 and \$4,600,000 as of December 31, 2020 and 2019, respectively. Collateral pledged on these investments in repurchase agreements amounted to \$3,286,593 and \$5,202,378 as of December 31, 2020 and 2019, respectively. Repurchase agreements have been included in cash and cash equivalents at both December 31, 2020 and 2019.

Logan Telephone Cooperative, Inc.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Valuation of Accounts Receivable

Accounts receivable are stated at the amount management expects to collect on outstanding balances. The Cooperative reviews the collectability of accounts receivable annually based upon an analysis of outstanding receivables, historical collection information, and existing economic conditions. Receivables from subscribers are due 10 days after issuance of the bill and receivables from other exchange carriers are due 30 days after issuance of the bill. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Cooperative management believes it has established adequate reserves for any risk associated with these receivables. The allowance for doubtful accounts was \$500 at December 31, 2020 and 2019.

Material and Supplies

Material and supplies consist of construction materials, handsets and accessories held for resale, and other equipment, which are valued at the lower of average cost or net realizable value.

Investments in Affiliates

The Cooperative accounts for its investments in limited liability companies and other entities by the equity method of accounting under which the Cooperative's share of the net income of the affiliates is recognized as income in the Cooperative's income statement and added to the respective investment account. Under the equity method of accounting, dividends or returns of capital reduce the investment balance.

Other Investments

Debt securities to which the Cooperative has the positive intent and ability to hold are classified as held to maturity and stated at amortized cost.

Equity securities are stated at fair value, with realized and unrealized gains and losses reported as other investment income on the consolidated statements of income.

Property, Plant, and Equipment

Property, plant, and equipment are stated at original cost. Regulated plant includes assets that are jointly used for regulated and nonregulated activities. The cost of additions and substantial betterments of property, plant, and equipment is capitalized. The cost of maintenance and repairs is charged to operating expenses.

In accordance with composite group depreciation methodology, when a portion of the Cooperative's regulated depreciable property, plant, and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation.

Logan Telephone Cooperative, Inc.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Depreciation of the Cooperative's nonregulated plant is provided by the straight-line method over the estimated useful lives of the assets. Upon retirement, sale, or other disposition of nonregulated investments, the cost and related accumulated depreciation are removed from the related accounts and the resulting gains or losses are included in operations.

Long-Lived Assets

Long-lived assets are reviewed whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. When such events occur, the Cooperative determines potential impairment by comparing the carrying value of its assets with the sum of the undiscounted cash flows expected to be provided by operating and eventually disposing of the asset. Should the sum of the expected future net cash flows be less than carrying values, the Cooperative would determine whether an impairment loss should be recognized. No impairment losses on long-lived assets have been identified in the consolidated financial statements.

Members' Equity

Patronage margins are assigned to members on a patronage basis in accordance with the Cooperative's bylaws. Nonpatronage margins, in addition to the net margins of the Cellular Division, are retained by the Cooperative and are not assignable to patrons until the Board of Directors determine otherwise. If authorized by the Board, a portion of total assigned patronage is distributed to members as a general retirement. The total amount retired is determined by Board resolution each year.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business during a period as a result of net margins and other gains and losses affecting equity that, under accounting principles generally accepted in the United States of America, are excluded from net margins. Unrecognized actuarial adjustments in postretirement benefit plan obligations are included in other comprehensive income.

Income Taxes

In 2020 and 2019, the Cooperative was taxable for federal purposes. As a taxable cooperative, taxable income consists of margins earned from nonpatronage and nonoperating sources. Margins earned from patronage sources are not taxable to the extent margins are allocated to patrons in the form of capital credits. The Cellular Division is a taxable entity for federal and state income tax purposes.

Deferred taxes are provided on a liability method whereby deferred tax liabilities are recognized for taxable temporary differences, and deferred tax assets are recognized for deductible temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. The differences relate primarily to differences in book basis and tax basis of partnership interests. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Logan Telephone Cooperative, Inc.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

The Cooperative records uncertain tax positions if the likelihood the position will be sustained upon examination is less than 50%. As of December 31, 2020 and 2019, the Cooperative had no accrued amounts related to uncertain tax positions. Interest and penalties, if any, are recorded as interest expense and other expense, respectively.

Revenue Recognition

The Cooperative provides local telephone, network access and long-distance and broadband services to end user and enterprise customers within its geographic footprint. The majority of the Cooperative's end user customer revenue is based on month-to-month contracts while larger enterprise customers have contracts with defined terms of service that can range from one to five years.

The Cooperative recognizes revenue for services as it provides the applicable service or when control of a product is transferred. Recognition of certain payments received in advance of services provided is deferred until the service is provided i.e. when the Cooperative satisfies its performance obligation.

Customer contracts that include both equipment and services are evaluated to determine whether performance obligations are separable. If the performance obligations are deemed separable and separate earnings process exists, the total transaction price with the customer is allocated to each performance obligation based on the relative standalone selling price of the separate performance obligation. The standalone selling price is the price charged to similar customers for the individual services or equipment.

Local telephone and internet revenues are recognized over the period a customer is connected to the network. These services are generally billed in advance but recognized in the month that service is provided.

The Cooperative offers bundle discounts to customers who receive multiple services. These bundle discounts are included in the total transaction price with the customer which is allocated to the various services in the bundled offering based on the standalone selling price of services included in each bundled offering.

Network access and long distance service revenues are derived from charges for access to the Cooperative's local exchange network and also include settlements based on the Cooperative's participation in the revenue pools administered by the National Exchange Carrier Association (NECA). Settlement revenues are determined by annually prepared separations and interstate access cost studies. These studies are prepared subsequent to year end and, therefore, the related revenues are recorded based on an estimate of the Cooperative's costs, NECA pool earnings and on other assumptions related to information utilized in the preparation of the Cooperative's cost study. The studies are subject to a 24-month pool earnings adjustment period and a review of the study by NECA. There was an insignificant revenue impact in 2020 and 2019 for adjustments related to prior-year differences between the recorded estimates and actual revenues. Management does not anticipate that 2020 and 2019 recorded revenues will require significant adjustments in future years.

Logan Telephone Cooperative, Inc.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Network access and long-distance services included within network access is billed in arrears based on per minute charges. Network access service revenue also includes universal service support revenue which is intended to compensate the Cooperative for the high cost of providing rural telephone and broadband service. Universal service support revenue includes funds received for high cost loop support (HCLS), Connect America Fund Broadband Loop Support (CAF-BLS), Connect America Fund Intercarrier Compensation (CAF-ICC), and other miscellaneous programs. HCLS and CAF-BLS are based on the Cooperative's relative level of operating expense and plant investment. Support from the CAF-ICC is based on a historical frozen amount related to 2011 investment and expenses associated with the switching function and certain 2011 intrastate access revenues, which together make up the CAF-ICC base. The CAF-ICC base is reduced by 5% each year in determining CAF-ICC support.

Miscellaneous revenues include contractually determined arrangements for the provision of various services incident to the Cooperative's core service offerings and are recognized in the period when the services are performed.

Regulation

The Cooperative's services are subject to rate regulation as follows:

- Local telephone and intrastate access revenues are regulated by the Kentucky Public Service Commission. The FCC also has assumed preemptive authority to regulate intrastate telecommunications services, including intrastate terminating access rates.
- Interstate access revenues are regulated by the FCC through its regulation of rates and settlements procedures as administered by NECA.
- Universal Service support revenues are administered by Universal Service Administrative Company (USAC), based on rules established by the FCC.

Other sources of revenues are not rate regulated and include Internet, equipment sales, directory, rents, and other incidental services. Nonregulated expenses and nonregulated plant are directly attributable to nonregulated services and miscellaneous revenues. All other operating expenses and telecommunications plant are related primarily to wireline revenues. However, some of these costs jointly relate to regulated and nonregulated services. For interstate access settlements, Universal Service support, rate case, and other regulatory purposes, the portion of these common costs related to nonregulated activities are removed in accordance with Part 64 of the FCC rules in order to ensure regulated revenues are based on costs of providing regulated services.

Concentration of Market Risk

The Cooperative receives a significant portion of its annual operating revenues from Universal Service support. For the years ended December 31, 2020 and 2019, revenues from Universal Service support represent approximately 50% and 48%, respectively, of operating revenues.

Logan Telephone Cooperative, Inc.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Advertising Expenses

The Cooperative expenses advertising costs as incurred. Advertising expenses during the years ended December 31, 2020 and 2019 were \$105,687 and \$101,912, respectively.

Fair Value Measurements

Fair value represents the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The Cooperative follows the following fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value:

- | | |
|----------------|---|
| Level 1 | Quoted prices in active markets for identical assets or liabilities. |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets. |
| Level 3 | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. |

The fair value measurement guidance is applicable to the Cooperative related to the postretirement benefit plan assets in Note 5 and other investments in Note 2.

The estimates of fair value require the application of broad assumptions and estimates. Accordingly, any actual exchange of such financial instruments could occur at values significantly different from the amounts disclosed. As such cash and cash equivalents, current investments, current receivables, materials and supplies, other current assets, current payables, current advanced billings and customer deposits, current accrued income tax, and other current liabilities are all short-term in nature and their carrying amounts approximate fair value. The carrying amounts of long-term investments approximate fair value except for equity method investments. The carrying amount of deferred income taxes and postretirement benefits is adjusted based on actuarial assumptions and market conditions and approximates fair value. Equity method investments are not intended for resale and are not readily marketable.

Taxes Imposed by Governmental Authorities

The Cooperative's customers are subject to taxes assessed by various governmental authorities on many different types of revenue transactions with the Cooperative. These specific taxes are charged to and collected from the Cooperative's customers and subsequently remitted to the appropriate taxing authority. The taxes are accounted for on a net basis and excluded from revenues.

Logan Telephone Cooperative, Inc. Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are available to be issued. The Cooperative recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheets, including the estimates inherent in the process of preparing the consolidated financial statements. The Cooperative's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheets but arose after the consolidated balance sheet's date and before the consolidated financial statements are available to be issued.

See Note 2 – Investments, for additional discussion of subsequent sale of investments in affiliates.

The Cooperative has evaluated subsequent events through March 19, 2021, which is the date the consolidated financial statements are available to be issued.

Note 2 – Investments

Investments in Affiliates

Investments in affiliates include investments in two partnerships which operate cellular telephone systems and two limited liability companies (LLCs) which provide network services and long distance services.

Investment balances and the Cooperative's respective ownership percentages in the entities are as follows:

	<u>Ownership</u>	<u>2020</u>	<u>2019</u>
Kentucky RSA #3 Cellular General Partnership	25.00%	31,198,027	\$ 29,298,804
Bluegrass Networks, LLC	20.00%	7,139,057	6,107,509
Bluegrass Telecom, LLC	20.00%	342,021	342,022
Cumberland Cellular Partnership	12.50%	<u>11,547,918</u>	<u>10,446,272</u>
Total		<u>\$ 50,227,023</u>	<u>\$ 46,194,607</u>

Logan Telephone Cooperative, Inc. Notes to Consolidated Financial Statements

Note 2 – Investments (continued)

The assets, liabilities, equity, and the operations of the Cooperative's significant investments in affiliates as of and for the years ended December 31 are as follows:

	Bluegrass Networks, LLC		Cumberland Cellular Partnership		Kentucky RSA #3	
	2020	2019	2020	2019	2020	2019
Assets	\$ 37,542,843	\$ 31,826,947	\$ 96,252,569	\$ 88,249,444	\$ 128,189,604	\$ 125,106,825
Liabilities	(1,847,558)	(1,289,400)	(3,869,229)	(4,679,265)	(3,397,498)	(7,911,610)
Equity	<u>\$ 35,695,285</u>	<u>\$ 30,537,547</u>	<u>\$ 92,383,340</u>	<u>\$ 83,570,179</u>	<u>\$ 124,792,106</u>	<u>\$ 117,195,215</u>
Revenue	\$ 15,873,472	\$ 10,654,873	\$ 62,778,085	\$ 67,216,901	\$ 80,399,544	\$ 82,529,587
Expenses	(9,315,734)	(8,408,386)	(47,964,928)	(55,830,994)	(65,802,647)	(69,729,070)
Net margins	<u>\$ 6,557,738</u>	<u>\$ 2,246,487</u>	<u>\$ 14,813,157</u>	<u>\$ 11,385,907</u>	<u>\$ 14,596,897</u>	<u>\$ 12,800,517</u>

On March 5, 2021, the Kentucky RSA #3 Cellular General Partnership and Cumberland Cellular Partnership entered into an agreement to sell substantially all of their assets. As a result, the Cooperative received initial proceeds of approximately \$73,875,000 on March 8, 2021, with additional proceeds expected in June 2021 and September 2022.

Other investments consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Current investments:		
Debt securities	<u>\$ 176,391</u>	<u>\$ 230,821</u>
Long-term investments:		
Equity securities	567,270	503,464
CSV of life insurance	<u>27,517</u>	<u>25,308</u>
Total long-term investments	<u>594,787</u>	<u>528,772</u>
Long-term debt securities:		
Corporate bonds	1,208,598	1,371,624
Government bonds	<u>1,658,102</u>	<u>1,325,469</u>
Total long-term debt securities	<u>2,866,700</u>	<u>2,697,093</u>
Total investments	<u>\$ 3,637,878</u>	<u>\$ 3,456,686</u>

Logan Telephone Cooperative, Inc.
Notes to Consolidated Financial Statements

Note 2 – Investments (continued)

The following is a schedule of maturities for bonds by year:

2021	\$ 176,391
2022	250,171
2023	483,926
2024	297,954
2025 and thereafter	<u>1,834,649</u>
	<u>\$ 3,043,091</u>

Note 3 – Property, Plant, and Equipment

Major classes of property, plant, and equipment consist of the following at December 31:

	<u>Depreciable Life</u>	<u>Plant Account</u>	<u>Accumulated Depreciation</u>	<u>2020 Net Balance</u>	<u>2019 Net Balance</u>
Regulated plant					
General support assets	6-37 years	6,433,380	3,345,024	3,088,356	3,254,068
Central office assets	8-13 years	9,865,490	6,948,303	2,917,187	2,787,187
Cable and wire facilities	10-45 years	61,989,196	24,758,879	37,230,317	28,909,716
Plant under construction	n/a	336,094	-	336,094	3,616,312
		<u>78,624,160</u>	<u>35,052,206</u>	<u>43,571,954</u>	<u>38,567,283</u>
Nonregulated plant					
Internet equipment	5 years	621,106	289,365	331,741	191,706
		<u>\$ 79,245,266</u>	<u>\$ 35,341,571</u>	<u>\$ 43,903,695</u>	<u>\$ 38,758,989</u>

Logan Telephone Cooperative, Inc.
Notes to Consolidated Financial Statements

Note 4 – Income Taxes

Income tax expense consists of the following for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Current		
Federal	\$ 1,081,493	\$ 775,368
State	269,668	225,522
Deferred		
Federal & state	<u>47,336</u>	<u>220,674</u>
Total income tax expense	<u>\$ 1,398,497</u>	<u>\$ 1,221,564</u>

For the years ended December 31, 2020 and 2019, the consolidated income tax return computed at the statutory rate differs from the amount of the expense recorded in the consolidated financial statements. The difference relates primarily to the Cooperative patronage exclusion, permanent differences, prior year over and under accruals, and state income taxes.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) was enacted. The CARES Act changed net loss carryforward and back provisions and the business interest expense limitation. The Company has evaluated the impact of the CARES Act and determined that none of the changes would result in a material cash benefit to the Company.

The components of the Cooperative's net deferred tax liability consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Deferred tax liabilities		
Partnership basis difference	<u>\$ (2,075,401)</u>	<u>\$ (2,028,065)</u>

Logan Telephone Cooperative, Inc. Notes to Consolidated Financial Statements

Note 5 – Postretirement Benefits

Defined Benefit Plans

The Cooperative participates in a multiple-employer pension plan with the National Telephone Cooperative Association (NTCA) that cover substantially all of its employees and are described below.

The risks of participating in multiple-employer plans are different from single employer plans as follows:

(1) assets contributed to the multiple-employer plan by one employer may be used to provide benefits to employees of other participating employers, (2) if a participating employer stops contributing to the Plan, the unfunded obligations of the Plan may be borne by the remaining participating employers, and (3) if the Cooperative chooses to stop participating in a plan, the Cooperative may be required to pay a penalty.

The Cooperative’s participation in the multiple-employer plan is outlined in the table below. The information below is from the Plan’s most recent Form 5500 filing which covers the Plan years 2019 and 2018. At the date the consolidated financial statements were issued, Form 5500 was not available for the year ending 2020.

Plan Name	Employer Identification Number/Plan Number	Pension Protection Act Zone Status		Employer Contributions		Company Contributions Greater than 5% of Total Plan Contributions	Funding Improvement/ Rehabilitation Plan in Place	Surcharges Imposed	Expiration Date of Collective-Bargaining Agreements	Minimum Contributions Required in the Future
		2019	2018	2020	2019					
Retirement & Security program for employees of the National Telecommunications Cooperative Association and its member systems	52-0741336/333	At least 80% funded	At least 80% funded	\$ 284,152	\$ 225,444	No	No	Yes	N/A	No

Employees are eligible to receive an annuity or lump-sum payment at retirement based on an average of prior years’ compensation. The Cooperative makes monthly contributions to the plan based on each employee’s compensation and recognizes as an expense the required contribution for the period.

Logan Telephone Cooperative, Inc.

Notes to Consolidated Financial Statements

Note 5 – Postretirement Benefits (continued)

Retirement and Security

NTCA implemented changes to the R&S in 2017 and at the time companies had a one-time option to prefund future surcharges. As incentive for prefunding its obligation, NTCA waived the variable rate premium the Cooperative pays and the returns on assets contributed may be used to offset future costs. The Cooperative elected to prefund the surcharge NTCA and recognized the prepayment in other noncurrent assets in the consolidated balance sheets. The Cooperative anticipates an amortization period of 12 years for the asset, which represents the estimated period of time the new surcharge is estimated to be in place. The prefund amount as of December 31, 2020 and 2019 was \$585,922 and \$629,700 and reported as other noncurrent assets.

Defined Contribution Plans

The Cooperative contributes one percent of gross wages to a defined contribution 401(k) savings plan covering substantially all employees. Participating employees can contribute up to the maximum percentage of compensation and dollar amount permissible under the Internal Revenue Code. Contributions for the Plan during 2020 and 2019 were \$20,641 and \$19,622, respectively.

Other Postretirement Plan Benefits

The Cooperative also sponsors a postretirement benefit plan (the Plan) for employees, directors, and their spouses that provides medical, dental and vision care. Directors shall be defined as Board Retirees after having served on the Board of Directors at least three years if leaving the Board before December 31, 2006, and after having served 20 years if leaving the Board after December 31, 2006. Cooperative funding for this plan ranges between 100% and 0% of related costs based on hire and retirement eligibility dates.

Obligation and Funded Status

The amount of benefit to be paid depends on a number of future events incorporated into a formula, including estimates of the average life of employees and average years of service rendered, and future interest rates. The benefit obligation is the accumulated benefit obligation, which represents the present value of all future benefits attributed to employee service rendered through the measurement date and does not include changes in future compensation. The measurement date for the accumulated benefit obligation is December 31.

Logan Telephone Cooperative, Inc.
Notes to Consolidated Financial Statements

Note 5 – Postretirement Benefits (continued)

The following table summarizes the benefit obligations and the funded status of the defined postretirement health care plan over the two-year period ending December 31:

	<u>2020</u>	<u>2019</u>
Accumulated postretirement benefit plan obligation	\$ (10,338,419)	\$ (8,379,624)
Plan assets at fair value	<u>8,123,255</u>	<u>7,510,976</u>
Funded status	<u>\$ (2,215,164)</u>	<u>\$ (868,648)</u>

Amounts included in other comprehensive loss that have not yet been recognized in net periodic benefit cost at December 31 are listed below:

	<u>2020</u>	<u>2019</u>
Unrecognized net loss	<u>\$ (3,576,183)</u>	<u>\$ (1,902,575)</u>

The accumulated loss is a result of the accumulated difference between the actuary's estimates based on actuarial principles and the Cooperative's actual experience with factors such as the length of employment, the discount rate for the Plan obligations, and expected rate of return on plan assets. The increase in unrecognized net loss is primarily a result of changes in the discount rate.

Other Plan Information

Other Plan information is as follows at December 31:

	<u>2020</u>	<u>2019</u>
Net periodic benefit Plan cost	<u>\$ (42,940)</u>	<u>\$ 165,656</u>

The net periodic benefit cost is the amount recognized in the consolidated financial statements as the cost of the Plan for the year. Components of the net periodic benefit cost are service cost, interest cost, expected return on plan assets, and amortization of unrecognized gains/losses.

Logan Telephone Cooperative, Inc.
Notes to Consolidated Financial Statements

Note 5 – Postretirement Benefits (continued)

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

2021	\$ 388,462
2022	374,637
2023	374,274
2024	382,769
2025	388,419
2026 through 2031	1,890,808

The weighted average assumptions used in the measurement of the Cooperative’s benefit obligation are shown in the following table at December 31:

Weighted-average assumptions as of December 31	Percent	
	2020	2019
Expected return on Plan assets	7.00	7.00
Discount rate	2.50	3.25

For measurement purposes, a seven percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2020. The rate was assumed to decrease one-half of one percent each year to a rate of 5% and remain at that level thereafter.

Plan Assets

Plan assets are managed by NTCA. Equity securities primarily include investments in large-cap companies located in the United States and internationally. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. treasuries. Other types of investments include real estate investment trusts and private equity funds that follow several different strategies.

NTCA makes all the investment decisions for the program with the help of an investment management and consulting firm, Wilshire Associates. The trust committee makes investment decisions, which begin with a review of the assets and liabilities of potential investments and then make their final decision based upon obtaining the rate of return consistent with program needs.

Logan Telephone Cooperative, Inc.
Notes to Consolidated Financial Statements

Note 5 – Postretirement Benefits (continued)

The fair values of the Cooperative’s pension Plan assets at December 31, by asset category, are as follows:

Asset Type	Percentage of Plan Assets		Fair Value		Hierarchy Level
	2020	2019	2020	2019	
Fixed income	28%	23%	\$ 2,242,927	\$ 1,763,267	1
International equities	14%	16%	1,169,952	1,237,379	1
Low volatility equity	13%	13%	1,080,683	1,001,284	1
Domestic equities	16%	16%	1,279,002	1,182,405	1
Real estate	12%	14%	959,694	1,045,336	2
Private equity	10%	10%	787,122	728,039	2
ETFs	1%	1%	94,497	87,246	1
Cash	4%	4%	327,647	299,757	1
Bonds	2%	2%	181,731	166,263	2
Total			<u>\$ 8,123,255</u>	<u>\$ 7,510,976</u>	

Note 6 – Operating Revenue

Wireline and miscellaneous revenues consist of the following for the years ended December 31:

	2020	2019
Wireline		
Customer	\$ 1,670,328	\$ 2,224,029
Intercarrier		
Interstate	1,878,132	1,031,248
Intrastate	71,548	85,537
Universal Service Support, federal	7,014,364	5,879,720
Total wireline revenues	<u>\$10,634,372</u>	<u>\$ 9,220,534</u>

Wireline revenues are classified above as follows:

- Customer revenues include end user charges, such as the subscriber line charge, the federal universal service charge, and access recovery charge.
- Universal Service Support includes the HCLS, CAF BLS, and CAF ICC.
- All access charge and settlement revenue, except as described above, are classified as intercarrier revenue.

Logan Telephone Cooperative, Inc.
Notes to Consolidated Financial Statements

Note 6 – Operating Revenue (continued)

The following table provides disaggregation of revenue from contracts with customers:

	For the Year Ended December 31, 2020		
		Revenue	
	Total	From Contracts With Customers	Other Revenue
Wireline	\$ 10,634,372	\$ 3,727,249	\$ 6,907,123
Internet	3,085,888	3,085,888	-
Miscellaneous	282,599	215,928	66,671
	\$ 14,002,859	\$ 7,029,065	\$ 6,973,794

	For the Year Ended December 31, 2019		
		Revenue	
	Total	From Contracts With Customers	Other Revenue
Wireline	\$ 9,220,534	\$ 3,594,940	\$ 5,625,594
Internet	2,532,914	2,532,914	-
Miscellaneous	376,189	311,794	64,395
	\$ 12,129,637	\$ 6,439,648	\$ 5,689,989

Wireline revenue includes revenues received from federal universal service programs and settlements which are not considered revenue from contracts with customers and are specifically scoped out of ASC 606.

Miscellaneous revenues included revenues received for rent and billing and collection services which are not considered revenue from contracts with customers and are scoped out of ASC 606.

Revenue from contracts with customers is earned based on services performed over time.

Note 7 – Related-Party Transactions

Services are performed for the Cooperative by associated companies, which are related through common ownership. The services received include long distance and broadband transport. During 2020 and 2019, the Cooperative received services from associated companies totaling \$651,375 and \$623,258, respectively.

Supplementary Information

Report of Independent Auditors on Supplementary Information

Board of Directors
Logan Telephone Cooperative, Inc.

We have audited the consolidated financial statements of Logan Telephone Cooperative, Inc. and subsidiary as of and for the year ended December 31, 2020, and our report thereon dated March 19, 2021, which contained an unmodified opinion on those consolidated financial statements appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet detail and consolidating statement of income detail are presented for purposes of additional analysis rather than to present financial position, results of operations and cash flows of the individual companies, 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 audit 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 supplementary information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

MOSS ADAMS LLP

Overland Park, Kansas
March 19, 2021

Logan Telephone Cooperative, Inc.
Consolidating Balance Sheet Detail
December 31, 2020

	Logan Telephone Cooperative, Inc.	Cellular Division of Logan Telephone Cooperative, Inc.	Eliminations	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,603,717	\$ 40,766	\$ -	\$ 3,644,483
Investments	176,391	-	-	176,391
Accounts receivable				
Customers, net	10,715	-	-	10,715
Interexchange carriers and NECA	594,502	-	-	594,502
Related party and other	152,959	10,778	(71,962)	91,775
Material and supplies	558,276	-	-	558,276
Other current assets	187,551	-	-	187,551
	<u>5,284,111</u>	<u>51,544</u>	<u>(71,962)</u>	<u>5,263,693</u>
NONCURRENT ASSETS				
Investment in affiliates	48,142,712	43,087,966	(41,003,655)	50,227,023
Long-term investments	3,461,487	-	-	3,461,487
Other noncurrent assets	585,922	-	-	585,922
	<u>52,190,121</u>	<u>43,087,966</u>	<u>(41,003,655)</u>	<u>54,274,432</u>
PROPERTY, PLANT, AND EQUIPMENT				
Regulated plant in service	78,288,066	-	-	78,288,066
Regulated plant under construction	336,094	-	-	336,094
Nonregulated plant in service	621,106	-	-	621,106
	79,245,266	-	-	79,245,266
Less accumulated depreciation and amortization	<u>35,341,571</u>	<u>-</u>	<u>-</u>	<u>35,341,571</u>
Net property, plant, and equipment	<u>43,903,695</u>	<u>-</u>	<u>-</u>	<u>43,903,695</u>
TOTAL ASSETS	<u>\$ 101,377,927</u>	<u>\$ 43,139,510</u>	<u>\$ (41,075,617)</u>	<u>\$ 103,441,820</u>

Logan Telephone Cooperative, Inc.
Consolidating Statement of Income Detail
December 31, 2020

	Logan Telephone Cooperative, Inc.	Cellular Division of Logan Telephone Cooperative, Inc.	Eliminations	Consolidated
CURRENT LIABILITIES				
Accounts payable	\$ 1,130,419	\$ -	\$ -	\$ 1,130,419
Accounts payable, affiliates	-	71,962	(71,962)	-
Advance billing and customer deposits	241,269	-	-	241,269
Accrued income taxes	80,272	(11,508)	-	68,764
Other current liabilities	163,747	-	-	163,747
	<u>1,615,707</u>	<u>60,454</u>	<u>(71,962)</u>	<u>1,604,199</u>
NONCURRENT LIABILITIES				
Deferred income taxes	-	2,075,401	-	2,075,401
Postretirement benefit obligation	2,215,164	-	-	2,215,164
	<u>2,215,164</u>	<u>2,075,401</u>	<u>-</u>	<u>4,290,565</u>
MEMBERS' EQUITY				
Memberships issued	5,534	-	-	5,534
Common stock	-	1,100,000	(1,100,000)	-
Patronage capital	27,057,741	-	-	27,057,741
Retained margins	74,059,964	39,903,655	(39,903,655)	74,059,964
Accumulated other comprehensive loss	(3,576,183)	-	-	(3,576,183)
	<u>97,547,056</u>	<u>41,003,655</u>	<u>(41,003,655)</u>	<u>97,547,056</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 101,377,927</u>	<u>\$ 43,139,510</u>	<u>\$ (41,075,617)</u>	<u>\$ 103,441,820</u>

Logan Telephone Cooperative, Inc.
Consolidating Statement of Income Detail
December 31, 2020

	Logan Telephone Cooperative, Inc.	Cellular Division of Logan Telephone Cooperative, Inc.	Eliminations	Consolidated
OPERATING REVENUES				
Wireline	\$ 10,634,372	\$ -	\$ -	\$ 10,634,372
Internet	3,085,888	-	-	3,085,888
Miscellaneous	282,599	-	-	282,599
Net operating revenues	<u>14,002,859</u>	<u>-</u>	<u>-</u>	<u>14,002,859</u>
OPERATING EXPENSES				
Plant specific	1,694,122	-	-	1,694,122
Plant nonspecific	613,154	-	-	613,154
Depreciation and amortization	3,650,014	-	-	3,650,014
Customer	750,690	-	-	750,690
Corporate	1,346,804	-	-	1,346,804
Operating operating taxes	484,073	-	-	484,073
Nonregulated	2,687,051	16,805	-	2,703,856
Total operating expenses	<u>11,225,908</u>	<u>16,805</u>	<u>-</u>	<u>11,242,713</u>
Net operating margins	<u>2,776,951</u>	<u>(16,805)</u>	<u>-</u>	<u>2,760,146</u>
NONOPERATING INCOME (LOSS)				
Income from affiliates	5,456,643	5,544,117	(4,145,096)	6,855,664
Other nonoperating expenses	232,810	-	-	232,810
Interest and dividend income	122,786	346	-	123,132
Nonoperating income	<u>5,812,239</u>	<u>5,544,463</u>	<u>(4,145,096)</u>	<u>7,211,606</u>
NET MARGINS BEFORE INCOME TAXES	<u>8,589,190</u>	<u>5,527,658</u>	<u>(4,145,096)</u>	<u>9,971,752</u>
Income tax expense	15,935	1,382,562	-	1,398,497
NET MARGINS	<u>\$ 8,573,255</u>	<u>\$ 4,145,096</u>	<u>\$ (4,145,096)</u>	<u>\$ 8,573,255</u>