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**PEOPLES RURAL TELEPHONE COOPERATIVE
AND SUBSIDIARY
KY 514**

FINANCIAL REPORT

DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Peoples Rural Telephone Cooperative and Subsidiary
McKee, Kentucky

We have audited the accompanying consolidated financial statements of Peoples Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of income and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

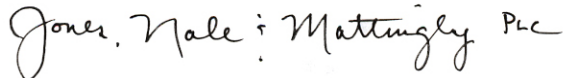
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Opinion

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2021, on our consideration of the Peoples Rural Telephone Cooperative and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.



Louisville, Kentucky
March 16, 2021

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PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2020 and 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,619,717	\$ 7,606,002
Accounts receivable, less allowance for doubtful accounts of \$197,725 in 2019 and \$163,876 in 2018	451,416	171,925
Materials and supplies, at average cost	1,299,566	608,809
Prepaid income taxes	- -	807,000
Prepaid insurance	51,812	80,154
Total current assets	12,422,511	9,273,890
OTHER ASSETS		
Investment securities	10,023,980	8,222,465
Associated organizations	32,338,540	33,530,674
Nonregulated property	1,760,750	762,577
Deferred debits	912,519	1,288,537
Total other assets	45,035,789	43,804,253
TELECOMMUNICATIONS PLANT, AT ORIGINAL COST		
In service	69,116,296	69,621,903
Under construction	4,042,345	3,514,551
	73,158,641	73,136,454
Less accumulated depreciation	(35,649,751)	(34,917,783)
	37,508,890	38,218,671
	\$ 94,967,190	\$ 91,296,814

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

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	2020	2019
LIABILITIES AND MEMBERS' EQUITIES		
CURRENT LIABILITIES		
Current portion of long term debt	\$ 339,454	\$ 307,170
Accounts payable	558,742	511,996
Accrued income taxes	390,220	- -
Other current and accrued liabilities	1,253,560	1,431,722
Total current liabilities	2,541,976	2,250,888
NON-CURRENT LIABILITIES		
Long-term debt, less current portion	4,283,620	5,104,135
Deferred tax liabilities	2,330,000	2,410,000
Accumulated postretirement benefits	8,785,695	8,897,492
Total non-current liabilities	15,399,315	16,411,627
MEMBERS' EQUITIES		
Memberships and capital investment	229,851	226,061
Patronage capital	77,383,436	72,842,319
Donated capital	1,646,193	1,646,193
Accumulated other comprehensive income (loss)	(2,233,581)	(2,080,274)
Total members' equities	77,025,899	72,634,299
	\$ 94,967,190	\$ 91,296,814

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PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenue:		
Local network services	\$ 7,084,130	\$ 6,320,011
Network access services	9,310,418	10,095,119
Carrier billing and collection	73,846	59,739
Miscellaneous	1,301,020	510,040
Total operating revenues	17,769,414	16,984,909
Operating Expenses:		
Plant specific operations	4,395,741	4,504,100
Plant nonspecific operations	1,180,222	1,046,844
Depreciation	4,418,211	4,182,856
Customer operations	1,199,163	1,277,485
Corporate operations	2,267,121	2,047,473
Taxes, other than income	629,521	590,934
Total operating expenses	14,089,979	13,649,692
Operating income	3,679,435	3,335,217
Other income (expense):		
Other income (expense)	869,126	(78,699)
Interest income	833,144	989,294
Interest expense	(141,722)	(185,156)
Income from associated organization	2,172,409	4,790,550
Total other income	3,732,957	5,515,989
Income before income taxes	7,412,392	8,851,206
Income tax (expense)	(707,540)	(1,060,000)
Net income before nonregulated (loss)	6,704,852	7,791,206
Nonregulated (loss)	(1,737,203)	(1,854,835)
Net income	4,967,649	5,936,371
Other comprehensive income		
Accumulated postretirement benefits (expense)	(153,307)	396,000
Total comprehensive income	\$ 4,814,342	\$ 6,332,371

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

PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES

Years Ended December 31, 2020 and 2019

	Patronage Capital						Other	Accumulated	Total
	Memberships	Assignable	Assigned	Unassigned	Retirements	Total	Equities	Other Comprehensive (Loss)	Members' Equities
Balance, January 1, 2019	\$ 223,201	\$ 1,281,601	\$ 33,752,902	\$ 46,549,027	\$ (14,220,981)	\$ 67,362,549	\$ 1,652,466	\$ (2,476,274)	\$ 66,761,942
Assign margins	--	(1,281,601)	520,405	761,196	--	--	--	--	--
Net income	--	5,936,371	--	--	--	5,936,371	--	--	5,936,371
Postretirement benefit obligations									
Amortization	--	--	--	--	--	--	--	396,000	396,000
Patronage refund	--	--	--	--	(456,601)	(456,601)	--	--	(456,601)
Other equities	--	--	--	--	--	--	(6,273)	--	(6,273)
Memberships, net	2,860	--	--	--	--	--	--	--	2,860
Balance, December 31, 2019	226,061	5,936,371	34,273,307	47,310,223	(14,677,582)	72,842,319	1,646,193	(2,080,274)	72,634,299
Assign margins	--	(5,936,371)	881,820	5,054,551	--	--	--	--	--
Net income	--	4,967,649	--	--	--	4,967,649	--	--	4,967,649
Postretirement benefit obligations									
Amortization	--	--	--	--	--	--	--	(153,307)	(153,307)
Patronage refund	--	--	178,421	--	(599,227)	(420,806)	--	--	(420,806)
Capital credits	--	--	--	(7,625)	1,899	(5,726)	--	--	(5,726)
Memberships, net	3,790	--	--	--	--	--	--	--	3,790
Balance, December 31, 2020	\$ 229,851	\$ 4,967,649	\$ 35,333,548	\$ 52,357,149	\$ (15,274,910)	\$ 77,383,436	\$ 1,646,193	\$ (2,233,581)	\$ 77,025,899

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

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PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,711,737	\$ 5,936,371
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,418,211	4,182,856
Net realized and unrealized (gains) on investments	(699,983)	(422,838)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Receivables	(395,048)	(36,992)
Material and supplies	(690,757)	(273,166)
Prepaid income taxes	807,000	840,000
Prepaid insurance	28,342	(41,225)
Accounts payable	162,303	233,352
Deferred tax liabilities	(80,000)	220,000
Accrued expenses	212,058	430,310
Net cash provided by operating activities	<u>9,473,863</u>	<u>11,068,668</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction of plant	(3,679,354)	(3,315,114)
Sales of investments	1,645,415	543,625
Purchases of investments	(2,746,947)	(1,714,569)
Associated organizations	(602,321)	(1,557,164)
Fund postretirement benefits	(300,000)	(125,000)
Nonregulated property	(998,173)	(78,147)
Deferred debits	376,018	236,515
Net cash (used in) investing activities	<u>(6,305,362)</u>	<u>(6,009,854)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long term debt	(788,231)	(301,147)
Memberships and capital investments	1,054,251	2,860
Retirements of capital credits	(420,806)	(456,601)
Decrease in donated capital	- -	(6,273)
Net cash (used in) financing activities	<u>(154,786)</u>	<u>(761,161)</u>
Net increase in cash and cash equivalents	3,013,715	4,297,653
Cash and cash equivalents:		
Beginning of year	<u>7,606,002</u>	<u>3,308,349</u>
End of year	<u>\$ 10,619,717</u>	<u>\$ 7,606,002</u>
Supplemental disclosures of cash flows information:		
Interest on long-term debt	\$ 141,722	\$ 185,156
Income taxes paid	- -	- -

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

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PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Peoples 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 in all material respects. The significant policies are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative and its wholly-owned subsidiary, Peoples Telecom, LLC (“Peoples Telecom”). All significant inter-company accounts and transactions have been eliminated.

Nature of Business

The Cooperative is constructing 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, and high definition television. It is also able to provide high speed internet and virtual private networks which will allow it to provide voice on internet protocol (“VoIP”). This is accomplished through Fiber to the Home (“FTTH”) technology.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are stated at face 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, 2020 and 2019.

Materials and Supplies

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

Telecommunications Revenue Recognition

Revenues are recognized when earned. Bills are sent to customers on credit approximately the 1st of the month with local service being billed a month in advance of service. Sales are concentrated in portions of two southeastern Kentucky counties. Payments are due 15 days from the date of billing. If payment has not been made, then customers are subject to disconnect in another 15 days.

The number of customers is as follows:

	2020	2019
Access lines	5,340	5,592
Total number of customers	6,663	6,330
Telephone customers	4,720	4,944
Broadband customers	5,633	4,931
Cable television customers	2,804	2,969

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

FTTH CATV Revenue Recognition

FTTH CATV revenue is recognized when earned regardless of the period in which they are billed. Cable transmission is purchased from networks at various amounts based on the number of customers receiving the service. Sales are concentrated in two southeastern Kentucky counties.

Taxes

Peoples Telephone and Peoples Telecom are required to collect, on behalf of the State of Kentucky, sales taxes based on 6 percent of gross sales from customers and a 3 percent school tax from certain counties on most gross sales. Peoples Telephone and Peoples Telecom's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2020 and 2019, these costs were \$161,755 and \$180,588, respectively.

Telecommunications and CATV Plant

Telecommunications and CATV 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. There was no interest required to be capitalized during 2020 and 2019.

Any difference between the purchase price of existing CATV plant facilities and cost when first dedicated to public service is recorded as an acquisition adjustment and are being amortized over a period of 15 years.

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, using the straight-line method. Rates are as follows:

	<u>Telephone</u>	<u>Telecom</u>
General support	2.7% - 15.8%	20.0%
Central office switching	7.5%	
Central office transmission	10.0%	
Cable wire facilities	5.1% - 9.4%	

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. Peoples Telecom is a single member limited liability company that is taxed as a partnership for federal and state income tax purposes. Income taxes are provided for the Cooperative's unrelated business activities 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. 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 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes (continued)

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

The Cooperative's income tax return is subject to possible examination by taxing authorities until the expiration of related 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.

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.

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.

Subsequent Events

Management has evaluated subsequent events through March 16, 2021, the date the financial statements were available to be issued. During the next two years, Peoples Telecom anticipates that it will remove all of its existing copper plant. Management expects the retired plant to be fully depreciated at the time it is removed.

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, 2021.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements (continued)

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

Management is currently in the process of evaluating the impact of the adoption of these ASU's on the Cooperative's financial statements.

Note 2. Fair Value Measurements

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

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

		Fair value measurements using:	
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
<u>December 31, 2020</u>			
Certificates of deposit	\$ 2,664,152	\$ --	\$ 2,664,152
Stocks	3,489,193	3,489,193	
Bonds	3,870,635	3,870,635	--
	<u>\$ 10,023,980</u>	<u>\$ 7,359,828</u>	<u>\$ 2,664,152</u>
<u>December 31, 2019</u>			
Certificates of deposit	\$ 2,798,269	\$ --	\$ 2,798,269
Stocks	2,477,749	2,477,749	--
Bonds	2,946,447	2,946,447	--
	<u>\$ 8,222,465</u>	<u>\$ 5,424,196</u>	<u>\$ 2,798,269</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Associated Organizations

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

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

Note 4. Telecommunications Plant

The major classification of plant in service is as follows for December 31:

	2020	2019
Telecommunications Plant:		
General support	\$ 15,796,566	\$ 15,406,140
Central office switching	1,824,411	1,954,109
Central office transmission	10,872,578	13,331,244
Cable wire facilities	36,030,658	35,557,012
Intangibles	5,844	5,844
	<u>64,530,057</u>	<u>66,254,349</u>
CATV Plant:		
General support	\$ 230,676	\$ 229,113
Headend plant	1,466,363	1,455,402
Cable and wire facilities	2,889,200	1,683,039
	<u>4,586,239</u>	<u>3,367,554</u>
Total	<u>\$ 69,116,296</u>	<u>\$ 69,621,903</u>

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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 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 Peoples Long Distance (PLD). PLD revenues are billed and collected through the Cooperative. A monthly fee is recorded based on telephone usage. PLD 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 non-regulated activities:

	2020	2019	
Plant assets	\$ 3,191,521	\$ 1,929,469	
Reserve for depreciation	(1,430,771)	(1,166,892)	
	<u>\$ 1,760,750</u>	<u>\$ 762,577</u>	
	Income	Expenses	Net
Customer premises equipment	\$ 256,248	\$ 471,390	\$ (215,142)
Internet activities	80,533	230,924	(150,391)
Long distance services	245,625	1,715,061	(1,469,436)
Fiber to the Home (FTTH)	3,105,297	3,007,531	97,766
Total - 2020	<u>\$ 3,687,703</u>	<u>\$ 5,424,906</u>	<u>\$ (1,737,203)</u>
	Income	Expenses	Net
Customer premises equipment	\$ 236,525	\$ 517,409	\$ (280,884)
Internet activities	72,011	274,691	(202,680)
Long distance services	493,827	1,674,612	(1,180,785)
Fiber to the Home (FTTH)	3,196,712	3,387,198	(190,486)
Total - 2019	<u>\$ 3,999,075</u>	<u>\$ 5,853,910</u>	<u>\$ (1,854,835)</u>

Note 6. Deferred Debits – Plant Retirements

During 2017 the Cooperative retired switching and transmission plan that had book value remaining. The PSC has allowed the book value remaining to be amortized over a four (4) year period.

Deferred debits are as follows:

	2020	2019
Deferred plant retirement	\$ - -	\$ 263,750
Pension plan prefunding	912,519	1,024,787
	<u>\$ 912,519</u>	<u>\$ 1,288,537</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Long-Term Debt

All telecommunications assets, except motor vehicles, are pledged as collateral on the long-term debt due to the U.S. Department of Agriculture (“USDA”) Rural Utilities Service (“RUS”). The long-term debt payable to RUS is due in monthly installments of various amounts through 2032. During 2018 the Cooperative applied the complete cushion of credit to its outstanding debt to RUS.

Long-term debt is as follows for December 31:

	2020	2019
RUS Broadband Loan 2.2287%-4.3994%	\$ 4,623,074	\$ 5,411,305
Less current portion	339,454	307,170
Long-term portion	<u>\$ 4,283,620</u>	<u>\$ 5,104,135</u>

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

2021	\$ 339,454
2022	347,642
2023	357,418
2024	332,839
2025	376,901
Thereafter	2,868,820
	<u>\$ 4,623,074</u>

Note 8. Patronage Capital

The long-term debt agreement contains restrictions on the return to patrons of capital contributed by them. The restrictions relate in general to the Cooperative’s net worth and assets, as defined. The net worth of the Cooperative at December 31, 2020 and 2019 was 81% and 80%, respectively.

Note 9. Pension Plan

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

The Cooperative’s contributions to the R&S Plan in 2020 and 2019 represent less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of \$373,323 in 2020 and \$367,564 in 2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Pension Plan (Continued)

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 over 100 and 105 percent funded at January 1, 2020 and 2019, respectively, based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

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 2019. 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Pension Plan (Continued)

During 2016, the Cooperative prefunded the surcharge in an amount of \$1,143,692. 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.

Employees hired after January 1, 2015 are considered Schedule 2 employees. Contributions rates are as follows:

	<u>2017 and after</u>	<u>2016 and before</u>
Schedule 1 Employees		
Employer contributions	10.70%	8.30%
Employee contributions	4.00%	4.00%
Rate of 85 charges	5.50%	5.50%
Schedule 2 Employees		
Employer contributions	8.70%	6.20%
Employee contributions	6.00%	6.00%
Rate of 85 charges	5.50%	5.50%

Note 10. Accumulated Postretirement Benefits

The Cooperative sponsors a defined benefit plan that provides medical insurance coverage to retirees and their dependents. Participating retirees and dependents do not contribute to the projected cost of coverage. Employees qualify with a minimum age of 55 and meeting the Rule of 85. There have been no significant changes that affect the comparability of 2020 and 2019.

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

	<u>2020</u>	<u>2019</u>
Benefit obligation, beginning of year	\$ 13,196,696	\$ 12,433,947
Service cost	425,959	405,675
Interest cost	508,056	552,355
Benefits paid	(447,798)	(350,913)
Actuarial (gain) loss	216,722	155,632
Benefit obligation, end of year	<u>\$ 13,899,635</u>	<u>\$ 13,196,696</u>
Fair value of plan assets, beginning of year	\$ 4,299,204	\$ 3,749,542
Actual return on plan assets	962,534	775,575
Employer contributions	300,000	125,000
Benefits paid	(447,798)	(350,913)
Fair value of plan assets, end of year	<u>\$ 5,113,940</u>	<u>\$ 4,299,204</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Accumulated Postretirement Benefits (Continued)

	2020	2019
Reconciliation of funded status:		
Funded status	\$ (8,785,695)	\$ (8,897,492)
Net amount recognized at year end	<u>\$ (8,785,695)</u>	<u>\$ (8,897,492)</u>
Amounts recognized in the balance sheet consists of:		
Noncurrent (liabilities)	<u>\$ (8,785,695)</u>	<u>\$ (8,897,492)</u>
Amounts included in accumulated other comprehensive income:		
Unrecognized actuarial gain (loss)	<u>\$ (2,233,581)</u>	<u>\$ (2,080,274)</u>
Components of net periodic benefit cost:		
Service cost	\$ 425,959	\$ 405,675
Interest cost	508,056	551,059
Expected return on plan assets	(694,015)	(663,734)
Amortization cost	396,000	396,000
Net periodic benefit cost	<u>\$ 636,000</u>	<u>\$ 689,000</u>
	2020	2019
Weight-average assumptions as of December 31:		
Discount rate	3.75%	4.30%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	3.00%	3.00%
Effect of 1% trend sensitivity for medical plan:		
Projected benefit obligation	\$ 14,873,000	
Net periodic benefit cost	\$ 681,000	

The projected retiree benefit payments are expected to be as follows: 2021 – \$479,000; 2022 – \$513,000; 2023 – \$549,000; 2024 – \$587,000; 2025 – \$628,000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Accumulated Postretirement Benefits (Continued)

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

		Fair value measurements using:	
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
<u>December 31, 2020</u>			
Stocks	\$ 2,914,946	\$ 2,914,946	\$ --
Investment grade debt instruments	920,509	--	920,509
High-yield debt instruments	511,394	--	511,394
Real assets	664,812	--	664,812
Other	102,279	--	102,279
	<u>\$ 5,113,940</u>	<u>\$ 2,914,946</u>	<u>\$ 2,198,994</u>
<u>December 31, 2019</u>			
Stocks	\$ 2,364,562	\$ 2,364,562	\$ --
Investment grade debt instruments	816,849	--	816,849
High-yield debt instruments	429,920	--	429,920
Real assets	601,889	--	601,889
Other	85,984	--	85,984
	<u>\$ 4,299,204</u>	<u>\$ 2,364,562</u>	<u>\$ 1,934,642</u>

Note 11. Income Taxes

The components of income tax expense are as follows:

	December 31,	
	2020	2019
Current:		
Federal	\$ 787,540	\$ 840,000
Deferred:		
Federal	<u>(80,000)</u>	<u>220,000</u>
	<u>\$ 707,540</u>	<u>\$ 1,060,000</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Income Taxes (Continued)

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

	December 31,	
	2020	2019
Deferred tax liabilities:		
Federal	<u>\$ 2,330,000</u>	<u>\$ 2,410,000</u>

Note 12. Contingencies

The Cooperative, on occasion, is subject to various lawsuits that arise in the normal course of business. The Cooperative's management does not believe the outcome of these cases will have a material effect on the financial statements.

Note 13. Revenue Recognition

Under ASU 2014-09, the timing of recognition of revenue for each performance obligation may differ from the timing of the customer billing, creating a contract asset or contract liability. Short-term contract liabilities are classified as customer deposits. The Cooperative has no contract assets or long-term contract liabilities.

Nature of goods and services

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

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

Significant judgments

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Revenue Recognition (Continued)

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 Cooperative. Under these types of promotions, an eligible customer may receive an incentive in the form of a discount off additional services purchased shown as a rebate or credit to the customer's monthly bill. Rebates are amortized over the life of the contract and are recognized when included in the customer's monthly bill.

Disaggregation of revenue

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

	2020	2019
<u>Regulated income:</u>		
Local network services	\$ 7,084,130	\$ 6,320,011
Network access services	9,310,418	10,095,119
Carrier billing and collections	73,846	59,739
Miscellaneous	2,138,727	510,040
	<u>\$ 18,607,121</u>	<u>\$ 16,984,909</u>
<u>Nonregulated income:</u>		
Customer premises equipment	\$ 236,525	\$ 256,248
Internet activities	72,011	80,533
Long distance services	493,827	245,625
Fiber to the Home (FTTH)	3,196,712	3,105,297
	<u>\$ 3,999,075</u>	<u>\$ 3,687,703</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Revenue Recognition (Continued)

Contract cost liabilities

Contract cost liabilities include customer deposits. The balance in contract liabilities was \$124,898 and \$120,708 as of December 31, 2020 and 2019, respectively.

Note 14. Risks and Uncertainties

Subsequent to December 31, 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Cooperative as of March 16, 2021, management believes that a material impact on the Cooperative's financial position and results of future operations is reasonably possible.

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INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Directors
Peoples Rural Telephone Cooperative and Subsidiary
McKee, Kentucky

We have audited the financial statements of Peoples Rural Telephone Cooperative and Subsidiary as of December 31, 2020, and our report thereon dated March 16, 2021, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information found on pages 23 and 24, is presented for purposes of additional analysis and is not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Jones, Male & Mattingly P.C.

Louisville, Kentucky
March 16, 2021

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PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET December 31, 2020

	Peoples Rural Telephone Cooperative	Peoples Telecom	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 10,126,479	\$ 493,238	\$ --	\$ 10,619,717
Accounts receivable, net	377,659	259,501	(185,744)	451,416
Materials and supplies, at average cost	1,299,566	--	--	1,299,566
Prepaid income taxes	--	--	--	--
Prepaid insurance	51,812	--	--	51,812
Total current assets	<u>11,855,516</u>	<u>752,739</u>	<u>(185,744)</u>	<u>12,422,511</u>
OTHER ASSETS				
Investments	10,023,980	--	--	10,023,980
Associated organizations	39,534,212	--	(7,195,672)	32,338,540
Nonregulated property	1,760,750	--	--	1,760,750
Deferred debits	912,519	--	--	912,519
Total other assets	<u>52,231,461</u>	<u>--</u>	<u>(7,195,672)</u>	<u>45,035,789</u>
TELECOMMUNICATIONS PLANT				
In service	64,530,057	4,586,239	--	69,116,296
Under construction	1,179,684	2,862,661	--	4,042,345
	65,709,741	7,448,900	--	73,158,641
Less accumulated depreciation	(34,749,300)	(900,451)	--	(35,649,751)
	<u>30,960,441</u>	<u>6,548,449</u>	<u>--</u>	<u>37,508,890</u>
	<u>\$ 95,047,418</u>	<u>\$ 7,301,188</u>	<u>\$ (7,381,416)</u>	<u>\$ 94,967,190</u>
LIABILITIES AND MEMBERS' EQUITIES				
CURRENT LIABILITIES				
Current portion of long term debt	\$ 339,454	\$ --	\$ --	\$ 339,454
Accounts payable	656,448	88,038	(185,744)	558,742
Accrued income taxes	390,220	--	--	390,220
Other current and accrued liabilities	1,236,082	17,478	--	1,253,560
Total current liabilities	<u>2,622,204</u>	<u>105,516</u>	<u>(185,744)</u>	<u>2,541,976</u>
NON-CURRENT LIABILITIES				
Long-term debt, less current portion	4,283,620	--	--	4,283,620
Deferred tax liabilities	2,330,000	--	--	2,330,000
Accrued postretirement benefits	8,785,695	--	--	8,785,695
Total non-current liabilities	<u>15,399,315</u>	<u>--</u>	<u>--</u>	<u>15,399,315</u>
MEMBERS' EQUITIES				
Memberships and capital investment	229,851	10,775,880	(10,775,880)	229,851
Patronage capital	77,383,436	(3,580,208)	3,580,208	77,383,436
Donated capital	1,646,193	--	--	1,646,193
Other comprehensive (loss)	(2,233,581)	--	--	(2,233,581)
Total members' equities	<u>77,025,899</u>	<u>7,195,672</u>	<u>(7,195,672)</u>	<u>77,025,899</u>
	<u>\$ 95,047,418</u>	<u>\$ 7,301,188</u>	<u>\$ (7,381,416)</u>	<u>\$ 94,967,190</u>

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PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

Year Ended December 31, 2020

	Peoples Rural Telephone Cooperative	Peoples Telecom	Eliminations	Consolidated
Operating Revenue:				
Local network services	\$ 6,031,626	\$ 1,052,504	\$ --	\$ 7,084,130
Network access services	9,270,475	39,943	--	9,310,418
Carrier billing and collection	72,931	915	--	73,846
Miscellaneous	962,694	661,065	(322,739)	1,301,020
Total operating revenues	<u>16,337,726</u>	<u>1,754,427</u>	<u>(322,739)</u>	<u>17,769,414</u>
Operating Expenses:				
Plant specific operations	3,928,049	467,692	--	4,395,741
Plant nonspecific operations	1,100,185	80,037	--	1,180,222
Depreciation	4,157,151	261,060	--	4,418,211
Customer operations	1,147,671	51,492	--	1,199,163
Corporate operations	2,189,461	77,660	--	2,267,121
Taxes, other than income	536,725	92,796	--	629,521
Total operating expenses	<u>13,059,242</u>	<u>1,030,737</u>	<u>--</u>	<u>14,089,979</u>
Operating income	<u>3,278,484</u>	<u>723,690</u>	<u>(322,739)</u>	<u>3,679,435</u>
Other income (expense):				
Other income (expense)	848,728	20,398	--	869,126
Interest income	833,144	--	--	833,144
Interest expense	(141,722)	--	--	(141,722)
Income from associated organization	2,916,497	--	(744,088)	2,172,409
Total other income	<u>4,456,647</u>	<u>20,398</u>	<u>(744,088)</u>	<u>3,732,957</u>
Income before income taxes	7,735,131	744,088	(1,066,827)	7,412,392
Income tax (expense)	<u>(707,540)</u>	<u>--</u>	<u>--</u>	<u>(707,540)</u>
Net income before nonregulated income	7,027,591	744,088	(1,066,827)	6,704,852
Nonregulated (loss)	<u>(2,059,942)</u>	<u>--</u>	<u>322,739</u>	<u>(1,737,203)</u>
Net income	4,967,649	744,088	(744,088)	4,967,649
Other comprehensive income				
Accumulated postretirement benefits (expense)	<u>(153,307)</u>	<u>--</u>	<u>--</u>	<u>(153,307)</u>
Total comprehensive income	<u>\$ 4,814,342</u>	<u>\$ 744,088</u>	<u>\$ (744,088)</u>	<u>\$ 4,814,342</u>

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**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
Peoples Rural Telephone Cooperative and Subsidiary
McKee, 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 Peoples Rural Telephone Cooperative and Subsidiary (the Cooperative), as of and for the year ended December 31, 2020, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 16, 2021.

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Hale & Mattingly P.C.

Louisville, Kentucky
March 16, 2021

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

Board of Directors
Peoples Rural Telephone Cooperative and Subsidiary
McKee, 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 financial statements of Peoples Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the balance sheet as of December 31, 2020, and the related statements of income and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2021, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*, §1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written permission of the RUS to enter into any contract, agreement, or lease with an affiliate 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 are listed below.

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The Cooperative is a 20% owner of East Kentucky Network, LLC, that provides cellular and other communication services in Eastern Kentucky. The initial investment was \$10,000. The investment is comprised of the following:

	<u>Investments</u>	<u>Profits</u>	<u>Returns</u>
Beginning of year	\$ 4,294,013	\$ 61,360,138	\$ (32,123,477)
Activity for 2020	- -	2,172,409	(3,364,542)
End of year	<u>\$ 4,294,013</u>	<u>\$ 63,532,547</u>	<u>\$ (35,488,019)</u>

During 2004, the Cooperative formed a wholly owned subsidiary, Peoples Telecom, LLC, which provides telecommunications services outside of the Cooperative's service territory. The initial investment was \$1,130,000. The investment is comprised of the following:

	<u>Investments</u>	<u>Profits</u>
Beginning of year	\$ 8,036,425	\$ (2,635,209)
Activity for 2020	1,050,368	744,088
End of year	<u>\$ 9,086,793</u>	<u>\$ (1,891,121)</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, Male & Mattingly P.C.

Louisville, Kentucky
March 16, 2021