

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

**FINANCIAL REPORT**

**DECEMBER 31, 2021**

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*Jones, Nale & Mattingly PLC*

## **INDEPENDENT AUDITOR'S REPORT**

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

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

#### ***Opinion***

We have audited the accompanying consolidated financial statements of Peoples Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income and comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Peoples Rural Telephone Cooperative and Subsidiary as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Peoples Rural Telephone Cooperative and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

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

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

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

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

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2022, on our consideration of 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 the effectiveness of Peoples Rural Telephone Cooperative and Subsidiary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Peoples Rural Telephone Cooperative and Subsidiary's internal control over financial reporting and compliance.

*Jones, Nale & Mattingly PLC*

Louisville, Kentucky  
March 29, 2022

**PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**

**December 31, 2021 and 2020**

	2021	2020
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,290,330	\$ 10,619,717
Accounts receivable, less allowance for doubtful accounts of \$38,481 in 2021 and \$26,619 in 2020	138,799	451,416
Materials and supplies, at average cost	3,340,664	1,299,566
Prepaid income taxes	160,573	-
Prepaid insurance	125,118	51,812
Total current assets	13,055,484	12,422,511
<b>OTHER ASSETS</b>		
Investment securities	11,324,532	10,023,980
Associated organizations	33,528,952	32,338,540
Nonregulated property	1,821,611	1,760,750
Deferred debits	820,215	912,519
Total other assets	47,495,310	45,035,789
<b>TELECOMMUNICATIONS PLANT, AT ORIGINAL COST</b>		
In service	72,342,017	69,116,296
Under construction	3,512,939	4,042,345
	75,854,956	73,158,641
Less accumulated depreciation	(36,672,415)	(35,649,751)
	39,182,541	37,508,890
	\$ 99,733,335	\$ 94,967,190

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

	<u>2021</u>	<u>2020</u>
<b>LIABILITIES AND MEMBERS' EQUITIES</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long term debt	\$ 347,642	\$ 339,454
Accounts payable	1,246,736	558,742
Accrued income taxes	-	390,220
Other current and accrued liabilities	1,146,845	1,253,560
Total current liabilities	<u>2,741,223</u>	<u>2,541,976</u>
<b>NON-CURRENT LIABILITIES</b>		
Long-term debt, less current portion	3,938,331	4,283,620
Deferred tax liabilities	2,440,000	2,330,000
Accumulated postretirement benefits	8,881,166	8,785,695
Total non-current liabilities	<u>15,259,497</u>	<u>15,399,315</u>
<b>MEMBERS' EQUITIES</b>		
Memberships and capital investment	233,191	229,851
Patronage capital	81,690,812	77,383,436
Donated capital	1,646,193	1,646,193
Accumulated other comprehensive (loss)	(1,837,581)	(2,233,581)
Total members' equities	<u>81,732,615</u>	<u>77,025,899</u>
	<u>\$ 99,733,335</u>	<u>\$ 94,967,190</u>

**PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

**Years Ended December 31, 2021 and 2020**

	2021	2020
Operating Revenue:		
Local network services	\$ 8,095,918	\$ 7,084,130
Network access services	8,739,559	9,310,418
Carrier billing and collection	46,394	73,846
Miscellaneous	661,827	1,301,020
Total operating revenues	<u>17,543,698</u>	<u>17,769,414</u>
Operating Expenses:		
Plant specific operations	4,727,629	4,395,741
Plant nonspecific operations	1,240,399	1,180,222
Depreciation	3,906,955	4,418,211
Customer operations	1,328,964	1,199,163
Corporate operations	2,254,946	2,267,121
Taxes, other than income	768,058	629,521
Total operating expenses	<u>14,226,951</u>	<u>14,089,979</u>
Operating income	<u>3,316,747</u>	<u>3,679,435</u>
Other income (expense):		
Other income, net	254,145	869,126
Investment income	957,422	833,144
Interest expense	(125,448)	(141,722)
Income from associated organization	3,535,217	2,172,409
Total other income	<u>4,621,336</u>	<u>3,732,957</u>
Income before income taxes	7,938,083	7,412,392
Income tax (expense)	<u>(693,897)</u>	<u>(707,540)</u>
Net income before nonregulated (loss)	7,244,186	6,704,852
Nonregulated (loss)	<u>(2,425,377)</u>	<u>(1,737,203)</u>
Net income	4,818,809	4,967,649
Other comprehensive income		
Accumulated postretirement benefits (expense)	<u>396,000</u>	<u>(153,307)</u>
Total comprehensive income	<u>\$ 5,214,809</u>	<u>\$ 4,814,342</u>

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, 2021 and 2020**

	Patronage Capital					Total	Other Equities	Accumulated Other Comprehensive (Loss)	Total Members' Equities
	Memberships	Assignable	Assigned	Unassigned	Retirements				
Balance, January 1, 2020	\$ 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	--	--	--	--	--	--	--	(153,307)	(153,307)
Patronage refund	--	--	178,421	--	(599,227)	(420,806)	--	--	(420,806)
Other equities	--	--	--	(7,625)	1,899	(5,726)	--	--	(5,726)
Memberships, net	3,790	--	--	--	--	--	--	--	3,790
<b>Balance, December 31, 2020</b>	<b>229,851</b>	<b>4,967,649</b>	<b>35,333,548</b>	<b>52,357,149</b>	<b>(15,274,910)</b>	<b>77,383,436</b>	<b>1,646,193</b>	<b>(2,233,581)</b>	<b>77,025,899</b>
Assign margins	--	(4,967,649)	1,911,171	3,056,478	--	--	--	--	--
Net income	--	4,818,809	--	--	--	4,818,809	--	--	4,818,809
Postretirement benefit obligations	--	--	--	--	--	--	--	396,000	396,000
Capital credits	--	--	(286,608)	284,676	(509,501)	(511,433)	--	--	(511,433)
Memberships, net	3,340	--	--	--	--	--	--	--	3,340
<b>Balance, December 31, 2021</b>	<b>\$ 233,191</b>	<b>\$ 4,818,809</b>	<b>\$ 36,958,111</b>	<b>\$ 55,698,303</b>	<b>\$ (15,784,411)</b>	<b>\$ 81,690,812</b>	<b>\$ 1,646,193</b>	<b>\$ (1,837,581)</b>	<b>\$ 81,732,615</b>

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

**PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years Ended December 31, 2021 and 2020**

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 4,818,809	\$ 4,967,649
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,906,955	4,418,211
Net profit in associated organization	(3,535,217)	(2,172,409)
Forgiveness of debt	-	(966,300)
Net realized and unrealized (gains) on investments	(823,885)	(699,983)
Postretirement benefits contributions	(200,000)	(300,000)
Deferred debits	92,304	376,018
Change in assets and liabilities, net of the effects of investing and financing activities:		
Receivables, net	312,617	(279,491)
Material and supplies	(2,041,098)	(690,757)
Prepaid income taxes	(160,573)	807,000
Prepaid insurance	(73,306)	28,342
Accounts payable	687,994	46,746
Deferred tax liabilities	110,000	(80,000)
Accrued expenses and income taxes	274,830	212,058
Net cash provided by operating activities	3,369,430	5,667,084
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Construction of plant	(5,660,901)	(3,755,102)
Salvage, net of removals	-	75,843
Sales of investments	1,599,222	1,645,415
Purchases of investments	(2,075,889)	(2,746,947)
Associated organizations	2,344,806	3,364,542
Nonregulated property	(60,861)	(998,173)
Net cash (used in) investing activities	(3,853,623)	(2,414,422)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long term debt	(337,101)	(788,231)
Proceeds from long term debt	-	966,300
Memberships and capital investments	3,340	3,790
Retirements of capital credits	(511,433)	(420,806)
Net cash (used in) financing activities	(845,194)	(238,947)
Net increase (decrease) in cash and cash equivalents	(1,329,387)	3,013,715
Cash and cash equivalents:		
Beginning of year	10,619,717	7,606,002
End of year	\$ 9,290,330	\$ 10,619,717
<b>Supplemental disclosures of cash flows information:</b>		
Interest on long-term debt	\$ 125,448	\$ 141,722
Income taxes paid	\$ 732,000	\$ 150,345

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

## 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.

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 over internet protocol (“VoIP”). This is accomplished through Fiber to the Home (“FTTH”) technology.

#### Use of Estimates

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

#### Cash and Cash Equivalents

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

#### Investment Securities

Investment securities consist of certificates of deposit, stocks and bonds and are carried at fair value. Fair value is determined for stocks and bonds at quoted market prices in active markets (Level 1) and by quoted prices for similar certificates of deposit in active markets (Level 2) as defined under U.S. GAAP.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### Accounts Receivable

Accounts receivable are stated at net realizable value. The allowance for doubtful accounts is based on the aging of accounts receivable. Accounts are written off when they are deemed to be uncollectible. There were no customers whose individual account balance exceeded ten percent of outstanding accounts receivable at December 31, 2021 and 2020.

#### 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 1<sup>st</sup> 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:

	<u>2021</u>	<u>2020</u>
Access lines	5,045	5,340
Total number of customers	6,773	6,663
Telephone customers	4,464	4,720
Broadband customers	5,825	5,633
Cable television customers	2,525	2,804

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 taxes from revenue when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

#### Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2021 and 2020, these costs were \$182,475 and \$161,755, 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 costs including any construction period interest and taxes. There was no interest required to be capitalized during 2021 and 2020.

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.

## 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, 2021 and 2020.

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 29, 2022, the date the financial statements were available to be issued.

#### Recently Issued Accounting Pronouncements

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

## 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:

	<u>Fair value</u>	<u>Fair value measurements using:</u>	
		<u>Unadjusted quoted prices (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>
<u>December 31, 2021</u>			
Certificates of deposit	\$ 3,922,291	\$ --	\$ 3,922,291
Stocks	4,570,682	4,570,682	--
Bonds	2,831,559	2,831,559	--
	<u>\$ 11,324,532</u>	<u>\$ 7,402,241</u>	<u>\$ 3,922,291</u>
<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>

## 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 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, 2021 and 2020:

	2021	2020
Assets	\$ 227,194,142	\$ 213,440,853
Liabilities	\$ 59,549,380	\$ 51,748,153
Equity	\$ 167,644,762	\$ 161,692,700
Revenues and other income	\$ 128,797,860	\$ 130,788,210
Expenses and other expenses	\$ 111,426,894	\$ 119,603,763
Net income	\$ 17,370,966	\$ 11,184,447

### Note 4. Telecommunications Plant

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

	2021	2020
Telecommunications Plant:		
General support	\$ 16,745,224	\$ 15,796,566
Central office switching	1,811,608	1,824,411
Central office transmission	9,222,412	10,872,578
Cable wire facilities	36,418,504	36,030,658
Intangibles	5,844	5,844
	64,203,592	64,530,057
CATV Plant:		
General support	\$ 258,987	\$ 230,676
Headend plant	1,514,553	1,466,363
Cable and wire facilities	6,364,885	2,889,200
	8,138,425	4,586,239
Total	\$ 72,342,017	\$ 69,116,296



## 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:

	2021	2020	
Plant assets	\$ 3,505,428	\$ 3,191,521	
Reserve for depreciation	(1,683,817)	(1,430,771)	
	\$ 1,821,611	\$ 1,760,750	
	Income	Expenses	Net
Customer premises equipment	\$ 254,372	\$ 854,759	\$ (600,387)
Internet activities	94,536	266,791	(172,255)
Long distance services	107,491	1,765,802	(1,658,311)
Fiber to the Home (FTTH)	2,954,212	2,948,636	5,576
Total - 2021	\$ 3,410,611	\$ 5,835,988	\$ (2,425,377)
	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	\$ 3,687,703	\$ 5,424,906	\$ (1,737,203)

### Note 6. Deferred Debits

Deferred debits are as follows:

	2021	2020
Pension plan prefunding	\$ 820,215	\$ 912,519
	\$ 820,215	\$ 912,519

## 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.

Long-term debt is as follows for December 31:

	2021	2020
RUS Broadband Loan 2.2287%-4.3994%	\$ 4,285,973	\$ 4,623,074
Less current portion	347,642	339,454
Long-term portion	\$ 3,938,331	\$ 4,283,620

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

2022	\$	347,642
2023		357,418
2024		332,839
2025		376,901
2026		387,521
Thereafter		2,483,652
	\$	4,285,973

### 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, 2021 and 2020 was 82% and 81%, 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 2021 and 2020.

The Cooperative’s contributions to the R&S Plan in 2021 and 2020 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 \$340,529 in 2021 and \$373,323 in 2020.

## 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, 2021 and 2020, 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 9. Pension Plan (Continued)

During 2016, the Cooperative prefunded the surcharge in an amount of \$1,143,692 (see Note 6). 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. Amortization expense for the years ended December 31, 2021 and 2020 was \$92,304 and \$112,268, respectively.

Contributions rates are as follows:

Employer contributions	12.50%
Employee contributions	1.00%
Rate of 85 charges	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 2021 and 2020. The Cooperative uses a December 31, 2021 and 2020 measurement date for the plan.

The following illustrates the plan for the years ended December 31, 2021 and 2020:

	2021	2020
Benefit obligation, beginning of year	\$ 13,899,635	\$ 13,196,696
Service cost	447,257	425,959
Interest cost	540,563	508,056
Benefits paid	(173,787)	(447,798)
Actuarial (gain) loss	216,722	216,722
Benefit obligation, end of year	\$ 14,930,390	\$ 13,899,635
Fair value of plan assets, beginning of year	\$ 5,113,940	\$ 4,299,204
Actual return on plan assets	909,071	962,534
Employer contributions	200,000	300,000
Benefits paid	(173,787)	(447,798)
Fair value of plan assets, end of year	\$ 6,049,224	\$ 5,113,940

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 10. Accumulated Postretirement Benefits (Continued)

	2021	2020
Reconciliation of funded status:		
Funded status	<u>\$ (8,881,166)</u>	<u>\$ (8,785,695)</u>
Net amount recognized at year end	<u>\$ (8,881,166)</u>	<u>\$ (8,785,695)</u>
Amounts recognized in the balance sheet consists of:		
Noncurrent (liabilities)	<u>\$ (8,881,166)</u>	<u>\$ (8,785,695)</u>
Amounts included in accumulated other comprehensive income:		
Unrecognized actuarial (loss)	<u>\$ (1,837,581)</u>	<u>\$ (2,233,581)</u>
Components of net periodic benefit cost:		
Service cost	\$ 447,257	\$ 425,959
Interest cost	540,563	508,056
Expected return on plan assets	(747,820)	(694,015)
Amortization cost	396,000	396,000
Net periodic benefit cost	<u>\$ 636,000</u>	<u>\$ 636,000</u>
	2021	2020
Weight-average assumptions as of December 31:		
Discount rate	3.75%	3.75%
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	\$ 15,976,000	\$ 14,873,000
Net periodic benefit cost	681,000	681,000

The projected retiree benefit payments are expected to be as follows: 2022 – \$186,000; 2023 – \$199,000; 2024 – \$213,000; 2025 – \$228,000; 2026 – \$244,000.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 10. Accumulated Postretirement Benefits (Continued)

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

	<u>Fair value</u>	<u>Fair value measurements using:</u>	
		<u>Unadjusted quoted prices (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>
<u>December 31, 2021</u>			
US Equity	\$ 1,494,158	\$ 1,494,158	\$ --
International Equity	1,584,897	--	1,584,897
Low Volatility	1,028,368	--	1,028,368
High Yield	489,987	--	489,987
Real Estate	502,086	--	502,086
Investment Grade Fixed Income	828,744	--	828,744
Cash	120,984	120,984	--
	<u>\$ 6,049,224</u>	<u>\$ 1,615,142</u>	<u>\$ 4,434,082</u>
<u>December 31, 2020</u>			
US Equity	\$ 1,273,371	\$ 1,273,371	\$ --
International Equity	1,114,839	--	1,114,839
Low Volatility	792,661	--	792,661
High Yield	414,229	--	414,229
Real Estate	664,812	--	664,812
Investment Grade Fixed Income	751,749	--	751,749
Cash	102,279	102,279	--
	<u>\$ 5,113,940</u>	<u>\$ 1,375,650</u>	<u>\$ 3,738,290</u>

### Note 11. Income Taxes

The components of income tax expense are as follows:

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
Current:		
Federal	\$ 583,897	\$ 787,540
Deferred:		
Federal	110,000	(80,000)
	<u>\$ 693,897</u>	<u>\$ 707,540</u>

## 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,	
	2021	2020
Deferred tax liabilities:		
Federal	<u>\$ 2,440,000</u>	<u>\$ 2,330,000</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

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.

## 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, 2021 and 2020 is disaggregated by type of service and timing of revenue recognition. Telecommunication service revenues are recognized over time and equipment sales at a point in time.

	2021	2020
<u>Regulated income:</u>		
Local network services	\$ 8,095,918	\$ 7,084,130
Network access services	8,739,559	9,310,418
Carrier billing and collections	46,394	73,846
Miscellaneous	661,827	1,301,020
	\$ 17,543,698	\$ 17,769,414
<u>Nonregulated income:</u>		
Customer premises equipment	\$ 254,372	\$ 256,248
Internet activities	94,536	80,533
Long distance services	107,491	245,625
Fiber to the Home (FTTH)	2,954,212	3,105,297
	\$ 3,410,611	\$ 3,687,703

#### Contract cost liabilities

Contract cost liabilities include customer deposits and are included in other current and accrued liabilities in the accompanying consolidated balance sheets. The balance in contract liabilities was \$118,186, \$124,898 and \$120,708 as of December 31, 2021, 2020 and 2019, respectively.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 14. Risks and Uncertainties

Local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Cooperative as of March 29, 2022, management believes that a material impact on the Cooperative's financial position and results of future operations is reasonably possible.



*Jones, Nale & Mattingly PLC*

**INDEPENDENT AUDITOR'S REPORT ON  
THE SUPPLEMENTARY INFORMATION**

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

We have audited the consolidated financial statements of Peoples Rural Telephone Cooperative and Subsidiary as of and for the years ended December 31, 2021 and 2020, and our report thereon dated March 29, 2022, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 - 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information found on pages 24 and 25, is presented for purposes of additional analysis and is not a required part of the 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Jones, Nale & Mattingly PLC*

Louisville, Kentucky  
March 29, 2022

**PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY**

**CONSOLIDATING BALANCE SHEET**

**December 31, 2021**

	Peoples Rural Telephone Cooperative	Peoples Telecom	Eliminations	Consolidated
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 8,444,591	\$ 845,739	\$ --	\$ 9,290,330
Accounts receivable, net	377,573	71,472	(310,246)	138,799
Materials and supplies, at average cost	3,299,481	41,183	--	3,340,664
Prepaid income taxes	160,573	--	--	160,573
Prepaid insurance	18,306	106,812	--	125,118
Total current assets	<u>12,300,524</u>	<u>1,065,206</u>	<u>(310,246)</u>	<u>13,055,484</u>
<b>OTHER ASSETS</b>				
Investment securities	11,324,532	--	--	11,324,532
Associated organizations	42,365,969	--	(8,837,017)	33,528,952
Nonregulated property	1,821,611	--	--	1,821,611
Deferred debits	820,215	--	--	820,215
Total other assets	<u>56,332,327</u>	<u>--</u>	<u>(8,837,017)</u>	<u>47,495,310</u>
<b>TELECOMMUNICATIONS PLANT</b>				
In service	64,203,592	8,138,425	--	72,342,017
Under construction	1,974,707	1,538,232	--	3,512,939
	<u>66,178,299</u>	<u>9,676,657</u>	<u>--</u>	<u>75,854,956</u>
Less accumulated depreciation	(35,353,012)	(1,319,403)	--	(36,672,415)
	<u>30,825,287</u>	<u>8,357,254</u>	<u>--</u>	<u>39,182,541</u>
	<u>\$ 99,458,138</u>	<u>\$ 9,422,460</u>	<u>\$ (9,147,263)</u>	<u>\$ 99,733,335</u>
<b>LIABILITIES AND MEMBERS' EQUITIES</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of long term debt	\$ 347,642	\$ --	\$ --	\$ 347,642
Accounts payable	997,694	559,288	(310,246)	1,246,736
Other current and accrued liabilities	1,120,690	26,155	--	1,146,845
Total current liabilities	<u>2,466,026</u>	<u>585,443</u>	<u>(310,246)</u>	<u>2,741,223</u>
<b>NON-CURRENT LIABILITIES</b>				
Long-term debt, less current portion	3,938,331	--	--	3,938,331
Deferred tax liabilities	2,440,000	--	--	2,440,000
Accumulated postretirement benefits	8,881,166	--	--	8,881,166
Total non-current liabilities	<u>15,259,497</u>	<u>--</u>	<u>--</u>	<u>15,259,497</u>
<b>MEMBERS' EQUITIES</b>				
Memberships and capital investment	233,191	12,136,279	(12,136,279)	233,191
Patronage capital	81,690,812	(3,299,262)	3,299,262	81,690,812
Donated capital	1,646,193	--	--	1,646,193
Accumulated other comprehensive (loss)	(1,837,581)	--	--	(1,837,581)
Total members' equities	<u>81,732,615</u>	<u>8,837,017</u>	<u>(8,837,017)</u>	<u>81,732,615</u>
	<u>\$ 99,458,138</u>	<u>\$ 9,422,460</u>	<u>\$ (9,147,263)</u>	<u>\$ 99,733,335</u>

**PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY**

**CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**Year Ended December 31, 2021**

	Peoples Rural Telephone Cooperative	Peoples Telecom	Eliminations	Consolidated
Operating Revenue:				
Local network services	\$ 6,520,197	\$ 1,575,721	\$ --	\$ 8,095,918
Network access services	8,703,382	36,177	--	8,739,559
Carrier billing and collection	44,968	1,426	--	46,394
Miscellaneous	602,734	356,984	(297,891)	661,827
Total operating revenues	15,871,281	1,970,308	(297,891)	17,543,698
Operating Expenses:				
Plant specific operations	3,984,414	743,215	--	4,727,629
Plant nonspecific operations	1,072,930	167,469	--	1,240,399
Depreciation	3,488,003	418,952	--	3,906,955
Customer operations	1,225,372	103,592	--	1,328,964
Corporate operations	2,114,580	140,366	--	2,254,946
Taxes, other than income	652,290	115,768	--	768,058
Total operating expenses	12,537,589	1,689,362	--	14,226,951
Operating income	3,333,692	280,946	(297,891)	3,316,747
Other income (expense):				
Other income, net	254,145	--	--	254,145
Investment income	957,422	--	--	957,422
Interest expense	(125,448)	--	--	(125,448)
Income from associated organization	3,816,163	--	(280,946)	3,535,217
Total other income	4,902,282	--	(280,946)	4,621,336
Income before income taxes	8,235,974	280,946	(578,837)	7,938,083
Income tax (expense)	(693,897)	--	--	(693,897)
Net income before nonregulated (loss)	7,542,077	280,946	(578,837)	7,244,186
Nonregulated (loss)	(2,723,268)	--	297,891	(2,425,377)
Net income	4,818,809	280,946	(280,946)	4,818,809
Other comprehensive income				
Accumulated postretirement benefits (expense)	396,000	--	--	396,000
Total comprehensive income	\$ 5,214,809	\$ 280,946	\$ (280,946)	\$ 5,214,809



*Jones, Nale & Mattingly PLC*

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

To the Board of Directors  
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), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of income and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 29, 2022.

**Report on Internal Control Over Financial Reporting**

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

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

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

## **Report on Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Jones, Nale & Mattingly P.C.*

Louisville, Kentucky  
March 29, 2022



*Jones, Nale & Mattingly PLC*

**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 consolidated financial statements of Peoples Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheet as of December 31, 2021, 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 financial statements, and have issued our report thereon dated March 29, 2022. In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2022, 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.

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	\$ 63,532,547	\$ (35,488,020)
Activity for 2021	--	3,535,217	(2,344,805)
End of year	<u>\$ 4,294,013</u>	<u>\$ 67,067,764</u>	<u>\$ (37,832,825)</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	\$ 9,086,793	\$ (1,891,121)
Activity for 2021	1,360,399	280,946
End of year	<u>\$ 10,447,192</u>	<u>\$ (1,610,175)</u>

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

*Jones, Nale & Mattingly PLC*

Louisville, Kentucky  
March 29, 2022