

Kentucky 525

**West Kentucky Rural
Telephone Cooperative
Corporation, Inc.**

**Independent Auditor's Reports
and Consolidated Financial
Statements with Supplementary
Information**

December 31, 2022 and 2021



West Kentucky Rural Telephone Cooperative Corporation, Inc.
December 31, 2022 and 2021

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1401 50th Street, Suite 350 / West Des Moines, IA 50266

P 515.223.0159 / F 515.223.5429

forvis.com

Independent Auditor's Report

Board of Directors
West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries
Mayfield, Kentucky

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of West Kentucky Rural Telephone Cooperative Corporation, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of West Kentucky Rural Telephone Cooperative Corporation, Inc. and subsidiaries as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of West Kentucky Rural Telephone Cooperative Corporation, Inc. and subsidiaries, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the West Kentucky Rural Telephone Cooperative Corporation, Inc. and subsidiaries' ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated 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 GAAS 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 GAAS 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 West Kentucky Rural Telephone Cooperative Corporation, Inc. and subsidiaries' 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 West Kentucky Rural Telephone Cooperative Corporation, Inc. and subsidiaries' 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 May 1, 2023, on our consideration of West Kentucky Rural Telephone Cooperative Corporation, Inc. and subsidiaries' internal control over financial reporting and 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 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 West Kentucky Rural Telephone Cooperative Corporation, Inc. and subsidiaries' internal control over financial reporting and compliance.

FORVIS, LLP

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Consolidated Balance Sheets
December 31, 2022 and 2021

Assets

	2022	2021
Current Assets		
Cash and cash equivalents	\$ 8,996,950	\$ 8,023,765
Debt securities held-to-maturity	430,424	147,373
Accounts receivable:		
Due from customers		
Less allowance of \$84,538 and \$58,315	1,196,890	1,108,279
Interexchange carriers		
Less allowance of \$170,354 and \$161,213	1,064,959	907,974
Other	84,770	1,074,971
Interest receivable	67,637	61,903
Inventory	16,377,634	7,264,366
Prepaid taxes	472,230	142,969
Prepayments	1,322,941	1,848,803
	<u>30,014,435</u>	<u>20,580,403</u>
Other Noncurrent Assets		
Debt securities held-to-maturity	9,817,308	11,938,104
Equity securities	44,867,229	54,403,428
Equity method investments	3,480,000	3,143,441
Other investments	1,724,922	1,724,922
Notes receivable	25,000	25,000
Intangibles, net of amortization	1,500,358	1,419,718
Prepayments	1,952,661	2,617,698
Goodwill	839,869	1,119,829
Operating ROU asset	451,538	-
Postemployment benefits	373,754	191,999
	<u>65,032,639</u>	<u>76,584,139</u>
Property, Plant and Equipment		
Telephone plant in service	199,978,721	179,712,064
Less accumulated depreciation	103,992,387	97,834,466
	<u>95,986,334</u>	<u>81,877,598</u>
Plant under construction	38,714,608	27,270,670
	<u>134,700,942</u>	<u>109,148,268</u>
Total assets	<u><u>\$ 229,748,016</u></u>	<u><u>\$ 206,312,810</u></u>

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Consolidated Balance Sheets, continued
December 31, 2022 and 2021

Liabilities and Members' Equity

	2022	2021
Current Liabilities		
Current portion of long-term debt	\$ 2,856,559	\$ 2,464,260
Accounts payable:		
Interexchange carriers	-	81,246
Other	10,254,424	4,172,901
Deferred grant revenues	360,784	256,072
Advanced billing and payments	1,962,796	1,716,579
Customer deposits	62,558	60,638
Accrued taxes	26,010	2,225,431
Other	2,899,169	4,374,577
	<u>18,422,300</u>	<u>15,351,704</u>
Long-term Debt, less current portion	<u>46,656,621</u>	<u>42,662,109</u>
Other Noncurrent Liabilities		
Deferred income taxes	2,967,600	4,119,900
Line of credit	11,782,368	5,350,000
Deferred compensation	2,445,682	2,083,187
Deferred grant revenues, less current portion	12,314,000	8,894,996
	<u>29,509,650</u>	<u>20,448,083</u>
Members' Equity		
Memberships	54,689	54,689
Patronage capital assigned	93,423,025	84,307,393
Accumulated other comprehensive income (loss)	(1,688,077)	(1,817,809)
Unassigned margins	43,099,303	44,966,415
	<u>134,888,940</u>	<u>127,510,688</u>
Noncontrolling interest	270,505	340,226
	<u>135,159,445</u>	<u>127,850,914</u>
 Total liabilities and members' equity	 <u><u>\$ 229,748,016</u></u>	 <u><u>\$ 206,312,810</u></u>

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Consolidated Statements of Operations
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues		
Local network services	\$ 3,733,766	\$ 3,775,757
Network access services	20,425,314	18,857,413
Long distance services	635,245	662,903
Broadband services	23,425,884	20,541,168
Video services	2,885,111	3,253,986
Security revenues	339,552	322,456
Retail sales revenues	4,925	4,900
Gain on sale of building	2,163,483	-
Miscellaneous	1,151,901	461,019
	<u>54,765,181</u>	<u>47,879,602</u>
Operating Expenses		
Plant specific operations	6,830,263	6,313,493
Plant nonspecific operations	2,183,033	2,081,885
Cost of long distance services	218,970	251,796
Cost of broadband services	7,790,483	6,187,117
Cost of video services	2,754,746	2,935,286
Security expenses	230,119	146,896
Depreciation and amortization	9,787,392	8,774,663
Customer operations	4,495,422	4,605,585
Corporate operations	4,738,034	5,185,540
General taxes	667,686	1,125,921
	<u>39,696,148</u>	<u>37,608,182</u>
Operating Margins	<u>15,069,033</u>	<u>10,271,420</u>
Other Income (Expense)		
Interest and dividend income	1,182,313	1,318,682
Investment gain (loss)	(767,003)	8,762,300
Equity income of unconsolidated entities	156,559	8,379
Interest expense	(1,006,650)	(1,167,671)
Unrealized loss on investments	(7,447,241)	(2,853,294)
Other, net	(627,873)	48,114
	<u>(8,509,895)</u>	<u>6,116,510</u>
Margins Before Income Taxes and Noncontrolling Interest in Net Margins	6,559,138	16,387,930
Income Tax Expense (Benefit)	<u>(655,239)</u>	<u>2,078,559</u>
Net Margins before Noncontrolling Interest in Net Margins	7,214,377	14,309,371
Noncontrolling Interest in Net Margins	<u>69,721</u>	<u>72,832</u>
Net Margins Attributable to West Kentucky Rural Telephone Cooperative Corporation, Inc.	<u><u>\$ 7,284,098</u></u>	<u><u>\$ 14,382,203</u></u>

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Net Margins	<u>\$ 7,284,098</u>	<u>\$ 14,382,203</u>
Other Comprehensive Income (Loss):		
Post-retirement benefit plan:		
Amortization of net loss	99,707	98,269
Net loss arising during period	<u>30,025</u>	<u>(391,220)</u>
	<u>129,732</u>	<u>(292,951)</u>
Comprehensive Income	<u><u>\$ 7,413,830</u></u>	<u><u>\$ 14,089,252</u></u>

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Statements of Consolidated Members' Equity
Years Ended December 31, 2022 and 2021

	<u>Memberships</u>	<u>Patronage Capital Assigned</u>
Balance, December 31, 2020	54,689	75,720,635
Net margins	-	-
Patronage capital assigned		8,642,345
Patronage capital retired	-	(55,587)
Other comprehensive loss	-	-
	<u>54,689</u>	<u>84,307,393</u>
Balance, December 31, 2021	54,689	84,307,393
Net margins	-	-
Patronage capital assigned		9,151,210
Patronage capital retired	-	(35,578)
Other comprehensive income	-	-
	<u>54,689</u>	<u>93,423,025</u>
Balance, December 31, 2022	<u>54,689</u>	<u>\$ 93,423,025</u>

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Statements of Consolidated Members' Equity, continued
Years Ended December 31, 2022 and 2021

Accumulated Other Comprehensive Income (Loss)	Unassigned Margins	Noncontrolling Interest	Total Members' Equity
(1,524,858)	39,226,557	413,058	113,890,081
-	14,382,203	(72,832)	14,309,371
-	(8,642,345)	-	-
-	-	-	(55,587)
(292,951)	-	-	(292,951)
(1,817,809)	44,966,415	340,226	127,850,914
-	7,284,098	(69,721)	7,214,377
-	(9,151,210)	-	-
-	-	-	(35,578)
129,732	-	-	129,732
<u>\$ (1,688,077)</u>	<u>43,099,303</u>	<u>\$ 270,505</u>	<u>\$ 135,159,445</u>

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Activities		
Net margins	\$ 7,214,377	\$ 14,309,371
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	9,787,392	8,774,663
Deferred income taxes	(1,152,300)	(220,227)
Uncollectible accounts	35,364	(24,668)
Patronage in business conducted with cooperatives	-	(1,526)
Equity income in unconsolidated affiliates	(156,559)	(8,379)
Distributions received from unconsolidated affiliates	-	100,000
Realized loss on equity securities	1,040,876	8,221,017
Unrealized loss on equity securities	7,447,241	2,853,294
Realized (gain) loss on sale of property	(2,045,519)	74,816
Postemployment benefits other than pension	310,472	317,990
Changes in assets and liabilities:		
(Increase) Decrease in:		
Receivables	(319,042)	45,660
Materials and supplies	(9,113,150)	(3,305,514)
Prepayments	410,100	369,920
Increase (Decrease) in:		
Accounts payable	3,713,577	166,669
Advanced billings	246,217	527,454
Accrued taxes	(2,199,421)	1,924,511
Customer deposits	1,920	(10,275)
Other	(3,674,309)	2,398,704
Net cash provided by operating activities	<u>11,547,236</u>	<u>36,513,480</u>
Investing Activities		
Capital expenditures	(32,523,129)	(25,186,094)
Purchases of held-to-maturity debt securities	(2,181,194)	(11,017,741)
Proceeds from maturities of held-to-maturity debt securities	3,673,553	990,772
Purchases of equity securities	(3,884,955)	(50,167,430)
Proceeds from sale of equity securities	5,278,423	45,680,558
Purchase of investments in unconsolidated affiliates	(180,000)	(311,569)
Purchase of intangibles	(80,640)	(347,126)
Salvage, net cost of removing plant	36,583	291,366
Net proceeds from sale of building	2,781,090	-
Proceeds from sale of intangibles	-	29,496
Net cash used in investing activities	<u>(27,080,269)</u>	<u>(40,037,768)</u>

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

Financing Activities

Repayment of long-term debt	1,037,347	(2,301,333)
Proceeds from long-term borrowings	3,349,464	3,349,465
Proceeds from grants	5,722,617	6,420,879
Proceeds from line of credit	6,432,368	-
Repayment of line of credit	-	(2,000,000)
Patronage capital retired	(35,578)	(55,587)

Net cash provided by financing activities	16,506,218	5,413,424
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Increase in Cash and Cash Equivalents	973,185	1,889,136
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Cash and Cash Equivalents, Beginning of Year	8,023,765	6,134,629
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Cash and Cash Equivalents, End of Year	<u>\$ 8,996,950</u>	<u>\$ 8,023,765</u>
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Supplemental Information

Cash paid for interest	\$ 1,006,650	\$ 1,161,380
Cash paid for income taxes	\$ 2,695,000	\$ 273,141

Noncash Investing Activities

Accounts payable for construction	\$ 4,542,329	\$ 2,255,629
CBRS bidding deposit applied to purchase	\$ -	\$ 802,088

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

West Kentucky Rural Telephone Cooperative Corporation, Inc. and subsidiaries (herein referred to as “the Company”) are providers of telecommunications exchange and local access services, broadband, video and telecommunications equipment in a service area located primarily in areas of Kentucky, Tennessee and Alabama.

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Telephone operations reflect practices appropriate to the telephone industry. The accounting records of the telephone company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Federal Communications Commission (FCC) as modified by the state regulatory authority.

Principles of Consolidation

The consolidated financial statements include the accounts of the parent company, West Kentucky Rural Telephone Cooperative Corporation, Inc., and its 79% and 100%-owned subsidiaries, Telecom Management Services, Inc. and Synergy Technology Partners, Inc., respectively. In addition, Ardmore Telephone Company, Inc. is a 100%-owned subsidiary of Synergy Technology Partners, Inc. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

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

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents. The Company does consider uninvested cash held in investment accounts as cash or cash equivalents. At December 31, 2022 and 2021, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2022, the Company’s cash accounts exceeded federally insured limits by approximately \$6,936,000.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Accounts and Notes Receivable

Accounts receivable are stated at the amount of consideration from customers and governmental entities of which the Company has an unconditional right to receive plus any accrued and unpaid interest. The Company provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Accounts receivable are ordinarily due 20 to 30 days after the issuance of the invoice. Accounts that are unpaid after the due date are assessed a late payment penalty. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Notes receivable are stated at their outstanding principal amount, net of allowance for uncollectible notes. The Company provides an allowance for uncollectible notes, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Outstanding notes accrue interest based on the terms of the respective note agreements. Delinquent notes are written off based on individual credit evaluation and specific circumstances of the borrower.

Inventories

Inventories include both merchandise held for resale and materials and supplies.

Merchandise held for resale consist of communications equipment that is purchased by the Company primarily for sale to customers. Merchandise held for resale are stated at the lower of cost or net realizable value with cost determined by the average cost method.

Materials and supplies consist of telephone, internet, and video materials and equipment used in the provision of services. Material and supplies are stated at the lower of cost or net realizable value with cost determined by the average cost method.

Debt Investments

Debt securities held by the Company generally are classified and recorded in the consolidated financial statements as follows:

Classified as	Description	Recorded at
Held-to-maturity (HTM)	Certain debt securities that management has the positive intent and ability to hold to maturity	Amortized cost

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

When the fair value of securities is below the amortized cost, the Company's accounting treatment for an other-than-temporary impairment (OTTI) is as follows:

Circumstances of Impairment Considerations	Accounting Treatment for OTTI Components	
	Credit Component	Remaining Portion
Not intended for sale and more-likely-than-not that the Company will not have to sell before recovery of cost basis	Recognized in earnings	Recognized in other comprehensive income
Intended for sale or more-likely-than-not that the Company will be required to sell before recovery of cost basis	Recognized in earnings	

For held-to-maturity debt securities, the amount of OTTI recorded in other comprehensive income for the noncredit portion of a previous OTTI is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

When a credit loss component is separately recognized in earnings, the amount is identified as the total of principal cash flows not expected to be received over the remaining term of the security, as projected based on cash flow projections.

Equity Investments

The Company measures equity securities, other than investments that qualify for the equity method of accounting, at fair value with changes recognized in net income. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company measures equity investments without a readily determinable fair value at cost, minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or a similar investment.

For equity securities and equity investments measured under the practicability exception, the Company performs a qualitative assessment for equity investments without readily determinable fair values considering impairment indicators to evaluate whether an impairment exists. If an impairment exists, the Company will recognize a loss based on the difference between carrying value and fair value.

Equity investments over which the Company has significant influence are reflected on the equity method.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Goodwill

The Company has elected the private company accounting alternative for amortizing goodwill. Under this alternative, goodwill is amortized on a straight-line basis over 10 years. The Company tests goodwill for impairment when there is a triggering event indicating that the fair value of the entity may be below its carrying amount.

In testing goodwill for impairment, the Company has the option first to perform a qualitative assessment to determine whether it is more-likely-than-not that goodwill is impaired or the entity can bypass the qualitative assessment and proceed directly to the quantitative test by comparing the carrying amount, including goodwill, of the reporting unit with its fair value. The goodwill impairment loss, if any, is measured as the amount by which the carrying amount of a reporting unit, including goodwill, exceeds its fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Indefinite-lived Intangible Assets

Indefinite-lived intangibles are evaluated annually for impairment or more frequently if impairment indicators are present. A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not the fair value is less than the carrying amount. If, based on the evaluation, it is determined to be more-likely-than-not that the fair value is less than the carrying value, then indefinite-lived intangibles are tested further for impairment. If the implied fair value of the indefinite-lived intangible is lower than their carrying amounts, an impairment loss is recognized in an amount equal to the difference. Subsequent increases in value are not recognized in the consolidated financial statements.

Property, Plant and Equipment

Property, plant and equipment acquisitions are stated at cost, less accumulated depreciation and amortization. Original cost includes the capitalized cost such as salaries and wages, materials, certain payroll taxes, employee benefits and interest incurred during the construction period.

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. These estimates are subject to change in the near term.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	35-40 years
Furniture and equipment	7-15 years
Vehicles and work equipment	5-10 years
Outside plant	15-20 years
Switching equipment	7-12 years
Other plant and equipment	5-10 years

The Company capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred each year was:

	2022	2021
Interest costs capitalized	\$ 723,134	\$ 321,729
Interest costs charged to expense	<u>1,006,650</u>	<u>1,167,671</u>
Total interest incurred	<u><u>\$ 1,729,784</u></u>	<u><u>\$ 1,489,400</u></u>

Renewals and betterments of units of telephone property are charged to telephone plant in service. When telephone plant is retired, the original cost is removed from the asset account and charged against accumulated depreciation less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable telephone property. Repairs and renewals of minor items of telephone property are included in plant-specific operations expense.

Repairs of other property included property, plant, and equipment, as well as renewals of minor items, are charged to plant-specific operations expense. A gain or loss is recognized when other property is sold or retired.

Long-Lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2022 and 2021.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Asset Retirement Obligations

Accounting principles generally accepted in the United States of America require that an asset retirement obligation associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event.

When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

The Company has determined it does not have a material legal obligation to remove long-lived assets, and accordingly, there have been no liabilities recorded for the years ended December 31, 2022 and 2021.

Contract Liabilities

Advanced billings and payments represent the Company's obligation to provide communications services to a customer when consideration has already been received from the customer.

Government Grants

The Company has elected to account for government grants by analogizing to International Accounting Standard 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Under this model, government assistance is not recognized until there is reasonable assurance (similar to the "probable" threshold in U.S. generally accepted accounting principles) that (1) any conditions attached to the assistance will be met, and (2) the assistance will be received. Once there is reasonable assurance that the conditions will be met, the earnings impact of government grants are recorded on a "systematic basis over the periods in which the entity recognizes expenses the related costs for which the grants are intended to compensate."

The Company accounts for grants designated for the construction of property, plant and equipment under the capital approach for ILEC areas and recognizes the grant proceeds as contributions in aid to construction on the balance sheet, reducing the carrying amount of the related assets. This treatment is in accordance with FCC Part 32 accounting rules as the ILEC operations are considered regulated in accordance with FASB ASC 908, *Regulated Operations*.

The Company elected to account for grants designated for the construction of property, plant and equipment under the income approach for CLEC areas. Deferred grant revenue is amortized to income over the useful life of the asset.

Cash proceeds for grants designated for the construction of property, plant and equipment are presented as financing activities in the statement of cash flows.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
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Income Taxes

The parent company (the Company) is organized under the cooperative laws of the State of Kentucky. The Company has obtained an exemption from federal income taxes under code section 501(c)12. With respect to cooperative operations, the financial statements reflect no provision or liability for income taxes. However, as more fully explained in Note 9, the Company has provided for income taxes on certain portions of its operations.

Income taxes are accounted for in accordance with income tax accounting guidance (Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized. Temporary differences related to patronage-sourced activities are not expected to offset tax liabilities when the differences are recovered or settled.

Tax positions are recognized if it is more-likely-than-not, based on the technical merits, the tax position will be realized or sustained upon examination. The term “more-likely-than-not” means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management’s judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Taxes Collected from Customers and Remitted to Governmental Authorities

Taxes collected from customers and remitted to governmental authorities are presented in the accompanying consolidated statements of operations on a net basis.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
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Revenue Recognition

Revenue is recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. The amount and timing of revenue recognition varies based on the nature of the goods or services provided and the terms and conditions of the customer contract. See Note 16 for additional information about the Company's revenue.

Network access service revenues are derived from charges for access to the Company's local exchange network. The interstate portion of access revenues is based on a cost separation procedure settlement formula administered by the National Exchange Carrier Association (NECA) which is regulated by the FCC.

Reported network access revenues are estimates subject to settlement adjustments in the near term resulting from changes in expense and plant investment levels and rate of return experience.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes changes in the funded status of defined benefit pension plans.

Patronage Capital

Revenues in excess of costs and expenses are assigned to patrons on a patronage basis in accordance with the Company's bylaws and are represented by patronage capital.

Reclassifications

Certain reclassifications have been made to the 2021 consolidated financial statements to conform to the 2022 consolidated financial statement presentation. These reclassifications had no effect on net earnings.

Revisions

Certain immaterial revisions have been made to the 2021 consolidated financial statements for noncontrolling interest on the Consolidated Statement of Member's Equity and the condensed financial data for Foursight Communications, LLC in Note 3. These revisions did not have a significant impact on the financial statement line items impacted.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
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Note 2: Securities

Amounts related to securities, including the amortized cost and approximate fair values, together with gross unrealized gains and losses are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2022</u>				
Debt Securities Held to Maturity				
U.S. government securities	\$ 149,311	\$ -	\$ (882)	\$ 148,429
Municipal bonds	8,455,354	14,889	(519,615)	7,950,628
Brokered certificates of deposit	<u>1,643,067</u>	<u>198,043</u>	<u>(41,311)</u>	<u>1,799,799</u>
Totals	<u>\$ 10,247,732</u>	<u>\$ 212,932</u>	<u>\$ (561,808)</u>	<u>\$ 9,898,856</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2021</u>				
Debt Securities Held to Maturity				
U.S. government securities	\$ 294,872	\$ 8,479	\$ -	\$ 303,351
Municipal bonds	10,102,377	75,399	(664)	10,177,112
Brokered certificates of deposit	<u>1,688,228</u>	<u>322,679</u>	<u>(1,831)</u>	<u>2,009,076</u>
Totals	<u>\$ 12,085,477</u>	<u>\$ 406,557</u>	<u>\$ (2,495)</u>	<u>\$ 12,489,539</u>

The amortized cost and fair value of debt securities at December 31, 2022, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations without call or prepayment penalties.

	Amortized Cost	Fair Value
Held-to-Maturity:		
Within one year	\$ 430,424	\$ 429,034
One to five years	1,890,163	2,055,043
Five to ten years	2,817,324	2,597,118
Ten or more years	<u>5,109,821</u>	<u>4,817,661</u>
	<u>\$ 10,247,732</u>	<u>\$ 9,898,856</u>

West Kentucky Rural Telephone Cooperative Corporation, Inc.
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The following table shows the Company's investments' gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022 and 2021:

		2022					
		Less than 12 Months		12 Months or Greater		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities Held to Maturity							
U.S. government securities		\$ 148,430	\$ (882)	\$ -	\$ -	\$ 148,430	\$ (882)
Municipal bonds		5,055,003	(488,485)	361,267	(31,130)	5,416,270	(519,615)
Brokered certificates of deposit		177,483	(11,071)	309,270	(30,240)	486,753	(41,311)
		<u>\$ 5,380,916</u>	<u>\$ (500,438)</u>	<u>\$ 670,537</u>	<u>\$ (61,370)</u>	<u>\$ 6,051,453</u>	<u>\$ (561,808)</u>
		2021					
		Less than 12 Months		12 Months or Greater		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities Held to Maturity							
Municipal bonds		\$ 403,725	\$ (664)	\$ -	\$ -	\$ 403,725	\$ (664)
Brokered certificates of deposit		-	-	330,660	(1,831)	330,660	(1,831)
		<u>\$ 403,725</u>	<u>\$ (664)</u>	<u>\$ 330,660</u>	<u>\$ (1,831)</u>	<u>\$ 734,385</u>	<u>\$ (2,495)</u>

U.S. Government Securities, Municipal Bonds and Brokered Certificates of Deposit

The unrealized losses on the Company's investments in U.S. government securities, municipal bonds, and brokered certificates of deposit were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more-likely-than-not the Company will be required to sell the investments before recovery of its amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

Other-Than-Temporary Impairment

Upon acquisition of a security, the Company decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or will be evaluated for impairment under the accounting guidance for investments in debt securities.

The accounting guidance for beneficial interests in securitized financial assets provides incremental impairment guidance for a subset of the debt securities within the scope of the guidance for investments in debt and equity securities. Where the security is a beneficial interest in securitized financial assets, the Company uses the beneficial interests in securitized financial asset impairment model. For securities where the security is not a beneficial interest in securitized financial assets, the Company uses the debt and equity securities impairment model.

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The Company routinely conducts periodic reviews using economic models and various inputs to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. The most significant inputs are the following:

- Severity of the loss
- Duration of the loss
- Ability and intent of the Company to hold the investments for a sufficient time to allow for the recovery of the cost of the investment

Other inputs may include the actual collateral attributes, which include credit ratings and other performance indicators of the underlying asset.

Equity Securities Without Readily Determinable Fair Values

The Company measures certain equity securities without a readily determinable fair value at cost minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or a similar investment. As of and for the years ended December 31, 2022 and 2021, amounts related to equity securities without a readily determinable fair value are as follows:

	2022	2021
Equity investments		
Associated Network Partners, Inc.	\$ 308,315	\$ 308,315
Rural Trust Insurance Company	993,500	993,500
National Telecom Corporation	227,725	227,725
CoBank	185,382	185,382
Synergy Wireless, LLC	10,000	10,000
Carrying amount of investments without readily determinable fair values	1,724,922	1,724,922
Impairments and downward adjustments recognized during the year	-	-
Upward adjustments recognized during the year	-	-
Total	<u>\$ 1,724,922</u>	<u>\$ 1,724,922</u>

The cumulative amount of impairments and downward adjustments as of December 31, 2022, was \$-. The cumulative amount of upward adjustments as of December 31, 2022, was \$-.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
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Unrealized Gains (Losses) of Equity Securities

The portion of unrealized gains and losses for the period related to equity securities still held at the reporting date is calculated as follows:

	<u>2022</u>	<u>2021</u>
Net gains and losses recognized during the period on equity securities	\$ (8,488,117)	\$ (11,074,311)
Less net gains and losses recognized during the period on equity securities sold during the period	<u>(1,040,876)</u>	<u>(8,221,017)</u>
Unrealized gains and losses recognized during the period on equity securities still held at the reporting date	<u><u>\$ (7,447,241)</u></u>	<u><u>\$ (2,853,294)</u></u>

Note 3: Equity Method Investments

Investments accounted for under the equity method and their basis at the end of the year includes:

	Percent	December 31,	
	Ownership	2022	2021
Tennessee Independent Telecommunications Group, LLC	11.97%	\$ 2,019,739	\$ 1,785,316
Foursight Communications	12.00%	<u>1,460,261</u>	<u>1,358,125</u>
		<u><u>\$ 3,480,000</u></u>	<u><u>\$ 3,143,441</u></u>

The Company has an 11.97% ownership interest in Tennessee Independent Telecommunications Group, LLC (IRIS) which provides transport facilities, IP and tandem switch leasing. This investment is accounted for by the equity method. For the investments (\$2,019,739 and \$1,785,316 at December 31, 2022 and 2021, respectively) accounted for under the equity method, the Company recognizes its proportionate share of the income and losses accruing to it under the terms of its partnership agreements. The Company's proportionate share of income for the years ending December 31, 2022 and 2021 totaled \$234,423 and \$124,823, respectively.

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The following is condensed financial data for IRIS:

	December 31,	
	2022	2021
Assets	\$ 29,136,478	\$ 23,146,482
Liabilities	(14,260,561)	(10,138,515)
Equity	<u>\$ 14,875,917</u>	<u>\$ 13,007,967</u>
	Years Ended December 31,	
	2022	2021
Revenues	\$ 31,676,737	\$ 28,722,043
Expenses	(29,718,314)	(27,679,244)
Net Income	<u>\$ 1,958,423</u>	<u>\$ 1,042,799</u>

The Company has a 12.00% ownership interest in Foursight Communications, LLC (Foursight). Foursight was established to partner with rural electric cooperatives and municipalities to successfully bring broadband services to their communities with an expedited manner. This investment is accounted for by the equity method. For the investments (\$1,460,261 and \$1,358,125 at December 31, 2022 and 2021, respectively) accounted for under the equity method, the Company recognizes its proportionate share of the income and losses accruing to it under the terms of its partnership agreements. The Company's proportionate share of loss for the years ending December 31, 2022 and 2021 totaled \$77,864 and \$116,444, respectively. At December 31, 2022 and 2021, the investment in Foursight includes \$629,068 and \$433,943 of equity method goodwill related to outside basis, respectively.

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The following is condensed financial data for Foursight:

	December 31,	
	2022	2021
Assets	\$ 8,633,814	\$ 7,256,311
Liabilities	(1,707,205)	(1,180,832)
Equity	<u>\$ 6,926,609</u>	<u>\$ 6,075,479</u>
	Years Ended December 31,	
	2022	2021
Revenues	\$ 7,482,567	\$ 3,774,070
Expenses	(8,131,437)	(4,744,433)
Net Loss	<u>\$ (648,870)</u>	<u>\$ (970,363)</u>

Note 4: Goodwill and Intangibles

Intangible assets at December 31 consist of the following:

	2022		2021	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<u>Amortized Intangibles:</u>				
Goodwill	\$ 2,799,587	\$ 1,959,718	\$ 2,799,587	\$ 1,679,758
	<u>\$ 2,799,587</u>	<u>\$ 1,959,718</u>	<u>\$ 2,799,587</u>	<u>\$ 1,679,758</u>
<u>Unamortized Intangibles:</u>				
Trade name	\$ 300,000	\$ -	\$ 300,000	\$ -
Consortium licenses	772,592	-	772,592	-
IP addresses	427,766	-	347,126	-
	<u>\$ 1,500,358</u>	<u>\$ -</u>	<u>\$ 1,419,718</u>	<u>\$ -</u>

Amortization expense was \$279,960 for years ending December 31, 2022 and 2021.

Estimated amortization expense for the next three years is:

2023	\$ 279,960
2024	279,960
2025	279,949

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As of December 31, 2022 and 2021, there were no accumulated impairment losses related to goodwill.

Note 5: Property, Plant and Equipment

Property, plant and equipment includes the following:

	2022	2021
Telephone plant in service:		
Land	\$ 2,362,401	\$ 2,309,197
Buildings	8,764,744	8,283,113
Furniture and office equipment	3,843,162	3,528,703
Vehicles and work equipment	6,019,838	4,905,101
Switching equipment	31,291,781	29,557,730
Outside plant	145,416,217	128,103,756
Other plant and equipment	2,272,302	3,016,188
Organization	8,276	8,276
	<hr/>	<hr/>
Total property, plant and equipment	<u>\$ 199,978,721</u>	<u>\$ 179,712,064</u>

Depreciation on depreciable property resulted in composite rates of 4.81% and 4.65% for 2022 and 2021, respectively.

Depreciation expense was \$9,507,438 and \$8,494,703 for the years ending December 31, 2022 and 2021, respectively.

In 2022 the Company received insurance and sale net proceeds of \$2,781,090 for the sale of a building and recognized a gain of \$2,163,483.

Note 6: Line of Credit

The Company has a \$13,000,000 line of credit expiring in 2024 and a balloon payment due. At December 31, 2022 and 2021, there was \$11,782,368 and \$5,350,000 borrowed against this line, respectively. The line is collateralized by substantially all of the Company's assets. Interest varies with the bank's prime rate, which was 2.75 percent at December 31, 2022 and 2021 and is payable monthly.

The Company entered into three letters of credit through Rural Telephone Finance Cooperative (RTFC) during 2021, expiring in 2027. The letters of credit total \$322,000. At December 31, 2022, no funds had been borrowed against the letters of credit.

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Note 7: Long-Term Debt

Long-term debt consists of:

	<u>2022</u>	<u>2021</u>
RDUP BIP mortgage notes - 2.27% - 3.71%	\$ 37,285,604	\$ 39,473,514
RTB mortgage notes - 5%	1,271,478	1,453,957
RTB mortgage notes - 1.27% - 2.34%	<u>10,956,098</u>	<u>4,198,898</u>
	49,513,180	45,126,369
Less current portion	<u>2,856,559</u>	<u>2,464,260</u>
	<u><u>\$ 46,656,621</u></u>	<u><u>\$ 42,662,109</u></u>

The annual requirements for principal payments on long-term debt for the next five years are as follows:

2023	\$ 2,856,559
2024	2,924,909
2025	3,014,169
2026	3,106,195
2027	3,201,183

Substantially all assets of the Company are pledged as security for the long-term debt under certain loan agreements with the Rural Development Utilities Programs (RDUP) and Rural Telephone Bank (RTB). These mortgage notes are to be repaid in equal monthly and quarterly installments covering principal and interest beginning after date of issue and expiring by 2043.

The mortgage to the United States of America, underlying the RDUP notes, contains certain restrictions on the declaration or payment of cash dividends, redemption of capital stock or investment in affiliated companies except as might be specifically authorized in writing in advance by the RDUP noteholders.

Unadvanced funds at December 31, 2022 for long-term notes and lines of credit total \$15,716,971.

During 2010, the Company applied for, and was awarded, a loan and grant combination to construct an updated broadband network in its service area. The total amount awarded to the Company was \$123,800,000, of which \$61,900,001 represents eligible loan proceeds and \$61,899,999 which will be awarded as a grant. Under the Program, the Company will be reimbursed for eligible costs associated with the construction of the broadband facilities over a specified period of time. As of December 31, 2022, the Company has received \$55,502,302 in loan proceeds and \$55,502,299 of the grant portion.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
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Under the provisions of the loan contract, advances of loan funds shall be deposited in a special construction account and held in trust for the government until disbursed. The loan contract restricts disbursements to such expenditures as RDUP may authorize. All payments from the trust accounts are subject to RDUP approval.

The Company has secured letters of credit with National Rural Utilities Cooperative Finance Corporation for \$984,000 at December 31, 2022. The credit was obtained as support for the Company's program for rural broadband development.

Note 8: Leases

Change in Accounting Principle

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, i.e., the comparatives under ASC 840 option.

The Company adopted Topic 842 on January 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Company elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date.

The Company has two prepaid leases for dark fiber as of December 31, 2022. These leases expire in 2023 and 2032. The prepaid leases are included in the ROU Operating asset of \$451,538 as of December 31, 2022.

The Company determined the remaining effect of adoption was immaterial to the financial statements and no additional ROU assets or lease liabilities were recorded. There was no impact on the statements of operations or cash flows.

Note 9: Income Taxes

The Company and its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
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The tax provision differs from the expense that would result from applying the federal statutory rates to operations before income taxes because Company is permitted to exclude from taxable income, margins generated from patronage-sourced activities if those margins are appropriately allocated to patrons as capital credits. This excluded income will vary from year to year, resulting in fluctuations in the effective tax rate and income tax expense.

The provision for income taxes includes these components:

	2022	2021
Taxes currently payable	\$ 497,061	\$ 2,298,786
Deferred income tax benefit	<u>(1,152,300)</u>	<u>(220,227)</u>
Total income tax expense (benefit)	<u><u>\$ (655,239)</u></u>	<u><u>\$ 2,078,559</u></u>

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

	2022	2021
Deferred tax assets		
Deferred compensation	\$ 332,400	\$ 230,600
Accrued expenses	50,800	105,300
Allowance	16,200	12,600
NOL and capital loss carryforward	416,400	260,700
Other	<u>40,300</u>	<u>-</u>
	<u>856,100</u>	<u>609,200</u>
Deferred tax liabilities		
Unrealized gains	79,500	1,640,400
Income from partnership	594,800	594,800
Depreciation and amortization	2,934,400	2,372,500
R&S prefunding	92,900	-
Other	<u>122,100</u>	<u>121,400</u>
	<u>3,823,700</u>	<u>4,729,100</u>
Net deferred tax liability	<u><u>\$ 2,967,600</u></u>	<u><u>\$ 4,119,900</u></u>

West Kentucky Rural Telephone Cooperative Corporation, Inc.
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The tax provision differs from the expense that would result from applying the federal statutory rates to operations before income taxes because of the dividends received deduction, tax exempt interest and state income taxes. In addition, the Company is permitted to exclude from taxable income, margins generated from patronage-sourced activities if those margins are appropriately allocated to patrons as capital credits. This excluded income will vary from year to year, resulting in fluctuations in the effective tax rate and income tax expense.

Note 10: Prepaid Service Contracts

The Company has entered into an agreement with Tennessee Independent Telecommunications Group, LLC d/b/a Iris Networks for capacity on Iris Networks' fiber optic network. The terms of this agreement are for 20 consecutive years and six months commencing in January of 2016. In consideration for this agreement, the Company prepaid Iris Networks \$420,000. This amount is being expensed using the straight-line method over the term of the contract. As of December 31, 2022 and 2021, the prepaid service contract was \$256,097 and \$276,585, respectively.

Note 11: Labor Agreement

Approximately 45% of the Company's labor force is subject to a collective bargaining agreement. A five-year agreement was negotiated and approved for the period November 1, 2019 to October 31, 2024 between the Company and the International Brotherhood of Electrical Workers.

Note 12: Benefit Plan

Ardmore Telephone Company, Inc., a wholly-owned subsidiary of Synergy Technologies Partners, Inc., has a 401(k) plan covering substantially all of its employees. The Company makes matching contributions to the Plan of one-half of the employee contribution up to 4% of the employee's salary. The Company's contribution to the plan for 2022 and 2021 was \$13,782 and \$15,252, respectively.

Note 13: Deferred Compensation

The Company and Telecom Management Services, Inc. have implemented a funded deferred compensation agreement for certain management personnel. The funds are maintained in brokerage accounts and are held by the Company. Under the terms of the plan, an amount determined by the Board of Directors of the Company will be paid to an account established on behalf of the management personnel. The plan participants become vested in these balances based on years of services and expense is not recognized until vesting has occurred. The vested deferred compensation is to be paid to the individuals upon retirement or other reasons of discontinued service to the respective or other reasons of discontinued service to the respective Company.

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Deferred compensation on the balance sheet was \$2,445,682 and \$2,083,187 as of December 31, 2022 and 2021, respectively. During the years ended December 31, 2022 and 2021, the Company made no payments to retired participants. Amounts accrued as part of corporate operations expense for the years ended December 31, 2022 and 2021, were \$345,996 and \$540,497, respectively.

Note 14: Multiemployer Pension Plan

The Company contributes to the “Retirement & Security Program (R&S) for Employees of the National Telecommunications Cooperative Association (NTCA) and Its Member Systems.” The multiemployer program is a defined benefit pension plan covering most employees. The risk of participating in this multiemployer plan is different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Company chooses to stop participating in the multiemployer plan, they may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company’s participation in this plan for the annual period ended December 31, 2022, is outlined in the table below. The “EIN/Pension Plan Number” column provides the Employer Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2022 and 2021 is for the plan’s year-end at December 31, 2021, and December 31, 2020, respectively. The zone status is based on information that the Company received from the plan and is certified by the plan’s actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (FIP) or rehabilitation plan (RP) is either pending or has been implemented.

The Program does not have a certified zone status as currently defined by the PPA because the Program is considered a multiple employer plan pursuant to the Internal Revenue Code and ERISA.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act		FIP/RP Status Pending Implemented	Contributions		Surcharge Imposed
		Zone Status	Zone Status		12/31/2022	12/31/2021	
		12/31/2022	12/31/2021				
R&S	52-0741336 / 333	N/A	N/A	N/A	\$ 322,299	\$ 283,715	Yes

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

At the date the consolidated financial statements were issued, Forms 5500 were not available for the plan year ended December 31, 2021. Effective January 1, 2022, the Company amended the plan to no longer allow new participants.

In 2017, the Company elected to participate in a prepayment option offered to participating employers and made a voluntary contribution of \$2,738,558. The prepayment is the estimated amount of Company's share of its plan contribution surcharge for the next twelve years calculated as of August 24, 2015. Members were allowed to make one large payment or spread the prepayment over multiple periods with a final due date of September 15, 2017. Members that chose to prepay will have their Pension Benefit Guaranty Corporation (PBGC) variable rate insurance premiums waived starting in 2018 and potentially continuing through 2029. The prepayment funds are held in a notional account as part of the overall plan assets by NTCA. Investment earnings and losses will be allocated to the Company's account based on the prepayment amount. These earnings and losses could impact the balance of the prepayment so that it may not have enough funds to pay the contribution surcharge for the next twelve years. At that time, the Company would have to resume paying any assessed contribution surcharge and any PBGC variable rate insurance premiums. In the event that there are excess funds at the end of the twelve years, they will be applied towards future contributions. The prepayment is an irrevocable election and cannot be refunded at any time. The prepayment as of December 31, 2022 and 2021 totaled \$1,495,876 and \$2,049,565, respectively.

Note 15: Post-Retirement Benefit Plan

The Company has a post-retirement benefit plan for retirees meeting the eligibility requirements that provides health insurance to retired employees and their spouses. Employee contributions are not required. The plan anticipates that benefits offered under the plan will be adjusted periodically in accordance with the changes adopted for the active employees. The Company makes contributions to a health savings account. Contributions are limited to the amounts permitted under the Internal Revenue Service rules for determining tax deductible contributions.

The Company uses a December 31 measurement date for its plan.

Information about the plan's funded status and cost follows:

	2022	2021
Benefit obligation	\$ 1,953,297	\$ 2,770,891
Fair value of plan assets	2,327,051	2,962,890
Funded status	<u>\$ 373,754</u>	<u>\$ 191,999</u>

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Assets recognized in the consolidated balance sheets:

	2022	2021
Accrued post-retirement benefit	\$ 373,754	\$ 191,999

Amounts recognized in accumulated other comprehensive income not yet recognized as components of net periodic benefit cost consist of:

	2022	2021
Net actuarial (gain) loss	\$ (30,025)	\$ 391,220

Other significant balances and costs are:

	2022	2021
Employer contributions, net of reimbursements to employers	\$ (10,588)	\$ 172,819
Participant contributions	\$ 173,263	\$ 199,920
Benefits paid	\$ 335,495	\$ 372,739
Net periodic benefit income	\$ 62,611	\$ 49,688

The components of net periodic benefit cost other than the service cost component were \$59,644 and \$44,109 for the years ended December 31, 2022 and 2021, respectively, and are included in the line item other, net in the consolidated statements of operations.

Other changes in plan assets and benefit obligations recognized in other comprehensive income:

	2022	2021
Amounts arising during the period		
Net (gain) loss	\$ (30,025)	\$ 391,220
Amortization of net loss	\$ 99,707	\$ 98,269

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$120,000.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Assumptions

The key actuarial assumptions used to determine the post-retirement benefit obligation as of December 31, 2022 and 2021, are as follows:

	2022	2021
<u>Healthcare inflation:</u>		
Initial rate	8.00%	4.50%
Ultimate rate	4.00%	4.00%
Year ultimate rate achieved	8	1
Discount rate	4.84%	2.40%

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

	2022	2021
1% increase		
Effect on post-retirement benefit obligation	\$ 19,255	\$ 28,550
Effect on total of service and interest cost components	\$ 617	\$ 38
1% decrease		
Effect on post-retirement benefit obligation	\$ (91,921)	\$ (27,869)
Effect on total of service and interest cost components	\$ (595)	\$ (49)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2022:

Estimated future benefit payments

2023	\$ 240,483
2024	226,480
2025	209,924
2026	199,130
2027	195,603

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Plan Assets

The Company's overall investment strategy is to achieve a mix of approximately 80 percent of investments for long-term growth and 20 percent for near-term benefit payments with a wide diversification of asset types, fund strategies and fund managers. The target asset allocation percentages for 2021 and 2020 are as follows:

	2022	2021
Cash	2.00%	2.00%
Mutual funds	98.00%	98.00%
	<u>100.00%</u>	<u>100.00%</u>

Plan assets are held in a VEBA trust, which is administered by the Trust Committee at NTCA.

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include cash and mutual funds.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

The fair values of the Company's plan assets at December 31, 2022 and 2021, by asset class are as follows:

Fair Value Measurements Using				
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	Fair Value	(Level 1)	(Level 2)	(Level 3)
<u>December 31, 2022:</u>				
Cash	\$ 46,541	\$ 46,541	\$ -	\$ -
Mutual funds	2,280,510	2,280,510	-	-
	<u>\$ 2,327,051</u>	<u>\$ 2,327,051</u>	<u>\$ -</u>	<u>\$ -</u>

Fair Value Measurements Using				
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	Fair Value	(Level 1)	(Level 2)	(Level 3)
<u>December 31, 2021:</u>				
Cash	\$ 59,258	\$ 59,258	\$ -	\$ -
Mutual funds	2,903,632	2,903,632	-	-
	<u>\$ 2,962,890</u>	<u>\$ 2,962,890</u>	<u>\$ -</u>	<u>\$ -</u>

Note 16: Revenue from Contracts with Customers

Performance Obligations

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring distinct goods or providing services to customers. The Company's revenue consists substantially of communications services and ancillary equipment offered to customers.

Local services

The Company offers voice including calling features, video and internet services on a standalone basis. Each service is considered distinct, and therefore accounted for as separate performance obligations. Voice, video and internet service revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the Company as the Company performs. Customary terms require payment on the 30th of the month, and for certain customers, deposits and installation fees may be required in advance of service. Billing is completed at the beginning of the month of service.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Network access and long distance services

The Company recognizes network access and long distance service revenues when performance obligations under the terms of contracts with its customers are satisfied, which occurs when the customer transfers voice and data traffic over the Company's network. Revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the Company as the Company performs. Customary terms are governed by the interstate and intrastate tariffs and require payment within 30 days from the bill date that is in arrears from the performance of the service.

Other services

The Company sells ancillary communications equipment directly to end user customers. Direct sales to end user customers include products and may include related services such as installation and home network management services. These products are distinct from the delivered communications services within the context of the contract, and therefore revenue is recognized for products, installation and management on a discrete basis. Revenue is recognized when the equipment is made available or the service has been completed and the Company has an enforceable right to payment.

Government support revenues

Government support revenues consist of assistance from the Federal Universal Service Fund as described in Regulatory Matters, Note 17. Government support revenue is not considered a contract with a customer and is outside the scope of Topic 606, however, the Company has elected to account for government support revenues by analogy to Topic 606.

Contract Balances

The following table provides information about the Company's receivables and contract liabilities from contracts with customers:

	<u>2022</u>	<u>2021</u>
Accounts receivable, beginning of year	\$ 2,412,246	\$ 1,992,702
Accounts receivable, end of year	\$ 1,347,180	\$ 2,412,246
Contract liabilities, beginning of year	\$ 1,716,579	\$ 1,189,125
Contract liabilities, end of year	\$ 1,962,796	\$ 1,716,579

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Disaggregation of Revenue

The following table presents the Company's revenues disaggregated by the timing of such revenue recognized during the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Timing of revenue and recognition		
At a point in time	\$ 5,226,692	\$ 2,283,772
Over a period of time	35,455,276	32,331,972
Revenue not subject to ASC 606	<u>14,083,213</u>	<u>13,263,858</u>
Total	<u><u>\$ 54,765,181</u></u>	<u><u>\$ 47,879,602</u></u>

Revenues not subject to ASC 606 consist primarily of government support revenues.

The Company has determined that the nature, amount, timing and uncertainty of revenue and cash flows are not materially affected by any factors such as geography of service location, customer type or service line.

Significant Judgments

For contracts where access is made available over time, the Company recognizes revenue over the contract period for which the customer has subscribed to service. The Company measures a contract's progress based on days expired over the total monthly contract period, a so-called output method.

Accounting Policies and Practical Expedients Elected

Accounting Policies

For sales and other similar taxes collected from customers on behalf of third parties, the Company is applying an accounting policy election, which permits an entity to exclude from revenue (transaction price) any amounts collected from customers on behalf of governmental authorities, such as sales taxes, use tax, and other similar taxes collected concurrent with revenue-producing activities. Therefore, the Company presents revenue net of sales taxes and similar revenue-based taxes.

Practical Expedients

For sales and other similar taxes collected from customers on behalf of third parties, the Company elected a practical expedient, which permits entities to exclude from the transaction price all sales taxes that are assessed by a governmental authority and that are "imposed on, and concurrent with a specific revenue-producing transaction and collected by the entity from a customer."

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

For measuring progress for revenue recognized over time, the Company elected to use the right to invoice practical expedient. This practical expedient allows an entity to recognize revenue in the amount of consideration to which the entity has the right to invoice when the amount that the entity has the right to invoice corresponds directly to the value transferred to the customer. That is, the invoice practical expedient cannot be applied in all circumstances because the right to invoice a certain amount does not always correspond to the progress toward satisfying the performance obligation. Therefore, an entity should demonstrate its ability to apply the invoice practical expedient to performance obligations satisfied over time.

Note 17: Regulatory Matters

The Company received 37% and 39% of its 2022 and 2021 revenues, respectively, from access revenues and assistance provided by the Federal Universal Service Fund. The manner in which access revenues and Universal Service funds are determined has been modified in several recent Federal Communications Commission proceedings. Changes include modifications to rate-of-return support including caps on the recovery of certain expenditures, and reductions in terminating access charges billed with eventual transition to a bill-and-keep framework for the exchange of traffic between carriers.

Note 18: Governmental Grants

In October 2020, the Ardmore Telephone Company (ATC) was awarded a \$698,262 grant from the State of Tennessee Department of Economic and Community Development to provide for broadband infrastructure. The total amount of the award was expended by December 31, 2020. The Company received grant proceeds of \$- and \$698,262 during 2022 and 2021, respectively. The grant proceeds were recorded as an offset to the cost of telecommunications plant through contribution in aid of construction.

The Company successfully bid and was awarded funding of \$14,231,285 to buildout broadband services in Kentucky and Tennessee in certain designated areas in each state. The Company had received \$13,185,605 and \$8,965,172 in grant funds for years ended December 31, 2022 and 2021, respectively. Grant funds expected to be received in future periods were \$861,807 and \$1,613,224 as of December 31, 2022 and 2021, respectively. These grants also have matching requirements totaling \$7,117,056. Most of the grants are in various stages of construction as of December 31, 2022, while some projects are complete. Most of the grants provided for the funds to be disbursed on a reimbursement basis.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Deferred grant revenues recorded on the consolidated balance sheet are as follows:

	2022	2021
Deferred grant revenue	\$ 12,674,784	\$ 9,151,068
Less current portion	<u>360,784</u>	<u>256,072</u>
	<u><u>\$ 12,314,000</u></u>	<u><u>\$ 8,894,996</u></u>

Grant revenues of \$382,785 and \$128,036 were recognized as miscellaneous revenue in the consolidated statements of operations for the years ended December 31, 2022 and, 2021, respectively.

Recognition of revenue revenues in future periods as of December 31, 2022 are as follows:

2023	\$ 360,784
2024	498,266
2025	498,266
2026	498,266
2027	498,266
Thereafter	10,320,936

Note 19: Related Parties

During 2022, the Company guaranteed bank loans of \$3,000,000 for Foursight Communications, LLC (Foursight). As of December 31, 2022, Foursight has the ability the meet the obligation. Therefore, the fair market value of the obligation for the Company is \$- as of December 31, 2022.

Note 20: Disclosures About Fair Value of Assets and Liabilities

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021:

Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2022:</u>				
Mutual funds	\$ 12,527,807	\$ 12,527,807	\$ -	\$ -
Stocks	32,339,422	32,125,290	214,132	-
	<u>\$ 44,867,229</u>	<u>\$ 44,653,097</u>	<u>\$ 214,132</u>	<u>\$ -</u>
Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2021:</u>				
Mutual funds	\$ 14,493,756	\$ 14,493,756	\$ -	\$ -
Stocks	39,909,672	39,653,153	256,519	-
	<u>\$ 54,403,428</u>	<u>\$ 54,146,909</u>	<u>\$ 256,519</u>	<u>\$ -</u>

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2022. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Equity Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Note 21: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Credit Risk

The Company grants credit to customers, all of whom are located in the franchised service area, and telecommunications intrastate and interstate long distance carriers.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and temporary investments. The Company places its temporary investments in several financial institutions which limits the amount of credit exposure in any one financial institution.

Investments

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

Note 22: Subsequent Events

Subsequent events have been evaluated through May 1, 2023, which is the date the consolidated financial statements were available to be issued.

Supplementary Information



1401 50th Street, Suite 350 / West Des Moines, IA 50266

P 515.223.0159 / F 515.223.5429

forvis.com

Independent Auditor's Report on Supplementary Information

Board of Directors

West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries

Mayfield, Kentucky

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries' basic consolidated financial statements. The consolidating statements listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements.

The consolidating statements has been subjected to the auditing procedures applied in the audit of the basic 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 basic consolidated financial statements or to the basic 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 basic consolidated financial statements as a whole.

FORVIS, LLP

West Des Moines, Iowa

May 1, 2023

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Consolidating Balance Sheet
December 31, 2022

Assets

	West Kentucky Rural Telephone Cooperative Corp, Inc.	Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Intercompany Eliminations	Consolidated
Current Assets					
Cash and cash equivalents	\$ 7,364,628	\$ 1,093,519	\$ 538,803	\$ -	\$ 8,996,950
Debt securities held-to-maturity	430,424	-	-	-	430,424
Accounts receivable:		-			
Due from customers (less allowance of \$84,538)	1,157,028	39,862	-	-	1,196,890
Interexchange carriers (less allowance of \$170,354)	844,267	220,692	-	-	1,064,959
Affiliates	25,743,538	-	1,105,309	(26,848,847)	-
Other	19,557	57,732	7,481	-	84,770
Interest receivable	67,637	-	-	-	67,637
Inventory	14,443,663	1,933,971	-	-	16,377,634
Prepayments	1,153,312	112,254	57,375	-	1,322,941
Prepaid taxes	338,446	125,936	7,848	-	472,230
	<u>51,562,500</u>	<u>3,583,966</u>	<u>1,716,816</u>	<u>(26,848,847)</u>	<u>30,014,435</u>
Other Noncurrent Assets					
Investment in affiliates	19,469,428	-	-	(19,469,428)	-
Debt securities held-to-maturity	9,817,308	-	-	-	9,817,308
Equity securities	42,638,180	-	2,229,049	-	44,867,229
Equity method investments	3,480,000	-	-	-	3,480,000
Other investments	546,040	185,382	993,500	-	1,724,922
Notes receivable	25,000	-	-	-	25,000
Intangibles, net of amortization	1,200,358	300,000	-	-	1,500,358
Prepayments	1,339,481	310,455	302,725	-	1,952,661
Goodwill	-	839,869	-	-	839,869
Operating ROU asset	451,538	-	-	-	451,538
Postemployment benefits	373,754	-	-	-	373,754
	<u>79,341,087</u>	<u>1,635,706</u>	<u>3,525,274</u>	<u>(19,469,428)</u>	<u>65,032,639</u>
Property, Plant and Equipment					
Telephone plant in service	149,040,734	50,725,566	212,421	-	199,978,721
Less accumulated depreciation	<u>67,838,087</u>	<u>35,941,879</u>	<u>212,421</u>	<u>-</u>	<u>103,992,387</u>
	81,202,647	14,783,687	-	-	95,986,334
Plant under construction	<u>20,816,078</u>	<u>17,898,530</u>	<u>-</u>	<u>-</u>	<u>38,714,608</u>
	<u>102,018,725</u>	<u>32,682,217</u>	<u>-</u>	<u>-</u>	<u>134,700,942</u>
Total assets	<u>\$ 232,922,312</u>	<u>\$ 37,901,889</u>	<u>\$ 5,242,090</u>	<u>\$ (46,318,275)</u>	<u>\$ 229,748,016</u>

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Consolidating Balance Sheet, continued
December 31, 2022

Liabilities and Stockholders' Equity

	West Kentucky Rural Telephone Cooperative Corp, Inc.	Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Intercompany Eliminations	Consolidated
Current Liabilities					
Current portion of long-term debt	\$ 2,437,399	\$ 419,160	\$ -	\$ -	\$ 2,856,559
Accounts payable:					
Interexchange carriers	-	-	-	-	-
Affiliates	22,965,349	3,894,146	(10,648)	(26,848,847)	-
Other	7,235,237	3,018,423	764	-	10,254,424
Deferred grant revenues	360,784				360,784
Advanced billing and payments	1,962,796	-	-	-	1,962,796
Customer deposits	61,458	1,100	-	-	62,558
Accrued taxes	-	26,010	-	-	26,010
Other	2,140,264	219,483	539,422	-	2,899,169
	<u>37,163,287</u>	<u>7,578,322</u>	<u>529,538</u>	<u>(26,848,847)</u>	<u>18,422,300</u>
Long-term Debt, less current portion	<u>36,119,682</u>	<u>10,536,939</u>	<u>-</u>	<u>-</u>	<u>46,656,621</u>
Other Noncurrent Liabilities					
Deferred income taxes	511,900	2,654,900	(199,200)	-	2,967,600
Line of credit	11,782,368	-	-	-	11,782,368
Deferred compensation	142,135	-	2,303,547	-	2,445,682
Deferred grant revenues, less current portion	12,314,000	-	-	-	12,314,000
	<u>24,750,403</u>	<u>2,654,900</u>	<u>2,104,347</u>	<u>-</u>	<u>29,509,650</u>
Members' Equity					
Memberships	54,689	-	-	-	54,689
Common stock	-	4,600,000	200,000	(4,800,000)	-
Patronage capital assigned	93,423,025	-	-	-	93,423,025
Additional paid-in capital	-	5,558,995	770,762	(6,329,757)	-
Accumulated other comprehensive income (loss)	(1,688,077)	-	-	-	(1,688,077)
Unassigned margins	43,099,303	6,972,733	1,637,443	(8,610,176)	43,099,303
	<u>134,888,940</u>	<u>17,131,728</u>	<u>2,608,205</u>	<u>(19,739,933)</u>	<u>134,888,940</u>
Noncontrolling interest in subsidiary	<u>-</u>	<u>-</u>	<u>-</u>	<u>270,505</u>	<u>270,505</u>
Total liabilities and stockholders' equity	<u><u>\$ 232,922,312</u></u>	<u><u>\$ 37,901,889</u></u>	<u><u>\$ 5,242,090</u></u>	<u><u>\$ (46,318,275)</u></u>	<u><u>\$ 229,748,016</u></u>

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Consolidating Statement of Operations
Year Ended December 31, 2022

	West Kentucky Rural Telephone Cooperative Corp, Inc.	Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Intercompany Eliminations	Consolidated
Operating Revenues					
Local network services	\$ 2,638,552	\$ 1,095,214	\$ -	\$ -	\$ 3,733,766
Network access services	15,815,265	4,610,049	-	-	20,425,314
Long distance services	465,622	169,623	-	-	635,245
Broadband services	18,530,552	4,895,332	-	-	23,425,884
Video services	2,885,111	-	-	-	2,885,111
Professional and management fee revenue	-	-	1,858,020	(1,858,020)	-
Security revenue	303,239	36,313	-	-	339,552
Retail sales revenue	4,925	-	-	-	4,925
Gain on sale of building	2,163,483	-	-	-	2,163,483
Miscellaneous	1,379,233	222,968	-	(450,300)	1,151,901
	<u>44,185,982</u>	<u>11,029,499</u>	<u>1,858,020</u>	<u>(2,308,320)</u>	<u>54,765,181</u>
Operating Expenses					
Plant specific operations	5,209,848	1,584,778	35,637	-	6,830,263
Plant nonspecific operations	1,841,773	333,095	8,165	-	2,183,033
Cost of long distance services	138,671	80,299	-	-	218,970
Cost of broadband services	5,345,935	2,444,548	-	-	7,790,483
Cost of video services	2,754,746	-	-	-	2,754,746
Security expenses	230,119	-	-	-	230,119
Depreciation	8,071,797	1,715,162	433	-	9,787,392
Customer operations	3,811,972	971,162	-	(287,712)	4,495,422
Corporate operations	4,036,680	948,777	1,773,185	(2,020,608)	4,738,034
General taxes	390,991	275,717	978	-	667,686
	<u>31,832,532</u>	<u>8,353,538</u>	<u>1,818,398</u>	<u>(2,308,320)</u>	<u>39,696,148</u>
Operating Income	<u>12,353,450</u>	<u>2,675,961</u>	<u>39,622</u>	<u>-</u>	<u>15,069,033</u>
Other Income (Expense)					
Interest and dividend income	1,182,313	-	-	-	1,182,313
Investment gain (loss)	(816,205)	7,814	41,388	-	(767,003)
Equity income of unconsolidated entities	156,559	-	-	-	156,559
Interest expense	(986,622)	(20,028)	-	-	(1,006,650)
Unrealized loss on investments	(7,067,112)	-	(380,129)	-	(7,447,241)
Other, net	(665,873)	38,000	-	-	(627,873)
	<u>(8,196,940)</u>	<u>25,786</u>	<u>(338,741)</u>	<u>-</u>	<u>(8,509,895)</u>
Margins (Loss) Before Income Taxes, Noncontrolling Interest in Net Margins (Loss) and Equity Earnings of Subsidiaries	<u>4,156,510</u>	<u>2,701,747</u>	<u>(299,119)</u>	<u>-</u>	<u>6,559,138</u>
Income Tax Expense (Benefit)	<u>(1,368,762)</u>	<u>680,652</u>	<u>32,871</u>	<u>-</u>	<u>(655,239)</u>
Margins (Loss) Before Noncontrolling Interest in Net Margins (Loss) and Equity Earnings of Subsidiaries	<u>5,525,272</u>	<u>2,021,095</u>	<u>(331,990)</u>	<u>-</u>	<u>7,214,377</u>
Noncontrolling Interest in Net Margins	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,721</u>	<u>69,721</u>
Equity Earnings of Subsidiaries	<u>1,758,826</u>	<u>-</u>	<u>-</u>	<u>(1,758,826)</u>	<u>-</u>
Net Margins (Loss)	<u>\$ 7,284,098</u>	<u>\$ 2,021,095</u>	<u>\$ (331,990)</u>	<u>\$ (1,689,105)</u>	<u>\$ 7,284,098</u>



1401 50th Street, Suite 350 / West Des Moines, IA 50266

P 515.223.0159 / F 515.223.5429

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**Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit
of the Consolidated Financial Statements Performed in
Accordance With *Government Auditing Standards***

Independent Auditor's Report

Board of Directors
West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries
Mayfield, 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 (*Government Auditing Standards*), the consolidated financial statements of West Kentucky Rural Telephone Cooperative Corporation, Inc. and subsidiaries (the Company), which comprise the balance sheet as of December 31, 2022, and the related statements of operations, members' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 1, 2023.

Report on Internal Control over Financial Reporting

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free of 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 consolidated 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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FORVIS, LLP

West Des Moines, Iowa
May 1, 2023



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P 515.223.0159 / F 515.223.5429

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Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Telecommunications Borrowers

Independent Auditor's Report

Board of Directors

West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries
Mayfield, 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 West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 1, 2023. In accordance with *Government Auditing Standards*, we also have issued our report dated May 1, 2023, on our consideration of West Kentucky Rural Telephone Cooperative Corporation'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 and our schedule of findings and responses 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 West Kentucky Rural Telephone Cooperative Corporation failed to comply with the terms, covenants, provision 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, §1773.33 and the clarified RUS policy memorandum dated February 7, 2014, 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 West Kentucky Rural Telephone Cooperative Corporation'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 West Kentucky Rural Telephone Cooperative Corporation's accounting and records to indicate that West Kentucky Rural Telephone Cooperative Corporation 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 the 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 materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written approval to enter into any contract for the management, operation or maintenance of the borrower's system if the contract covers substantially all of the telecommunications system;
- Disclose material related-party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements; and
- Comply with the requirements for the detailed schedule of investments.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Schedule of Subsidiary and Affiliate Investments
December 31, 2022 and 2021

Entity Name	Synergy Technology Partners, Inc.	Telecom Management Services, Inc.	Tennessee Independent Telecommuni- cations Group, LLC	Foursight
Principal Business	Telecommuni- cations	Telecommuni- cations	Telecommuni- cations	Telecommuni- cations
Ownership Percentage	100%	79%	11.97%	12%
Accounting Method	Consolidated	Consolidated	Equity	Equity
Year ended December 31, 2021				
Original Investment	\$ 4,600,000	\$ 200,000	\$ 884,576	\$ -
Prior years	5,549,413	1,168,412	405,449	1,335,075
Current year	-	-	-	311,569
Earnings (losses)				
Prior years	3,374,700	1,578,378	370,468	(172,075)
Current year	<u>1,576,938</u>	<u>(346,820)</u>	<u>124,823</u>	<u>(116,444)</u>
Book value of investment December 31, 2021	15,101,051	2,599,970	1,785,316	1,358,125
Year ended December 31, 2021				
Investment advances				
Current year	9,582	-	-	180,000
Earnings (losses)				
Current year	<u>2,021,095</u>	<u>(262,270)</u>	<u>234,423</u>	<u>(77,864)</u>
Book value of investment December 31, 2022	<u>\$ 17,131,728</u>	<u>\$ 2,337,700</u>	<u>\$ 2,019,739</u>	<u>\$ 1,460,261</u>

This report is intended solely for the information and use of the board of directors and management of the Company, the Rural Development Utilities Programs and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

FORVIS, LLP

West Des Moines, Iowa
May 1, 2023