Blue Ridge Telephone Company

Independent Auditor's Report and Financial Statements

December 31, 2022 and 2021



Blue Ridge Telephone Company

December 31, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Blue Ridge Telephone Company
Blue Ridge, Georgia

Opinion

We have audited the accompanying financial statements of Blue Ridge Telephone Company, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income and comprehensive income, retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blue Ridge Telephone Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Blue Ridge Telephone Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Blue Ridge Telephone Company's ability to continue as a going concern for a reasonable period of time.

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

FORVIS, LLP

FORVIS,LLP

Madison, Wisconsin
April 25, 2023

Blue Ridge Telephone Company
Balance Sheets
December 31, 2022 and 2021

Assets

	2022	2021
Current Assets		
Cash and cash equivalents	$ 365,867	$ 2,088,228
Accounts receivable		
Due from customers		
less allowance of $37,372 and $33,814 respectively	966,708	1,022,110
Due from affiliates	630,661	430,568
Other	910,084	878,353
Materials and supplies	369,491	228,119
Contract assets	6,917	434
Prepaid income taxes	58,278	150,446
Other current assets	4,508	7,360
	3,312,514	4,805,618
Other Noncurrent Assets		
Operating leases, net of amortization	2,317,403	2,486,026
Contract assets	5,556	561
Other noncurrent assets	177,593	253,771
	2,500,552	2,740,358
Property, Plant and Equipment		
Communications plant in service	62,515,823	58,935,722
Less accumulated depreciation	51,347,819	49,911,762
	11,168,004	9,023,960
Plant under construction	5,384,599	3,268,676
	16,552,603	12,292,636
Total assets	$ 22,365,669	$ 19,838,612

Blue Ridge Telephone Company
Balance Sheets, continued
December 31, 2022 and 2021

Liabilities and Stockholder's Equity

	2022	2021
Current Liabilities		
Accounts payable		
Due to affiliates	$ 1,743,260	$ 1,406,587
Advanced billing and customer deposits	580,918	628,782
Other	1,344,264	2,231,790
Accrued compensation	62,548	39,693
Accrued taxes	175,663	42,145
Current portion of operating lease liabilities	170,407	164,081
Other current liabilities	162,877	164,579
	4,239,937	4,677,657
Other Noncurrent Liabilities and Deferred Credits		
Operating lease liabilities, less current portion	2,157,773	2,328,180
Deferred income taxes	2,716,104	2,190,495
	4,873,877	4,518,675
Stockholder's Equity		
Common stock, par value $100 per share: 4,000 shares authorized, 204 shares issued and outstanding	20,400	20,400
Additional paid-in capital	1,273,690	73,690
Accumulated other comprehensive income:		
Employee retirement benefits	37,279	118,702
Retained earnings	11,920,486	10,429,488
	13,251,855	10,642,280
Total liabilities and stockholder's equity	$ 22,365,669	$ 19,838,612

Blue Ridge Telephone Company
Statements of Income and Comprehensive Income
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues		
Local network services	$ 1,629,249	$ 1,645,964
Network access services	5,590,877	5,912,587
Nonregulated revenues	5,955,570	5,394,262
Miscellaneous revenue	435,007	484,088
Uncollectible, net of recoveries	(37,053)	22,666
	13,573,650	13,459,567
Operating Expenses		
Plant specific operations	2,395,873	2,109,529
Plant nonspecific operations	1,436,325	1,496,211
Cost of nonregulated services	2,852,327	2,786,818
Depreciation and amortization	1,948,492	1,974,012
Customer operations	774,681	799,117
Corporate operations	1,961,965	1,771,345
Other taxes	179,431	58,291
	11,549,094	10,995,323
Operating Income	2,024,556	2,464,244
Other Income (Expense)		
Interest and dividend income	14	384
Other nonoperating expense	(16,808)	(51,445)
	(16,794)	(51,061)
Income Before Income Taxes	2,007,762	2,413,183
Income Tax Expense	516,764	484,503
Net Income	1,490,998	1,928,680
Other Comprehensive Income (Expense)		
Other defined benefit plan (net of tax of $28,222 and ($25,306), respectively)	(81,423)	73,008
Total Comprehensive Income	$ 1,409,575	$ 2,001,688

Blue Ridge Telephone Company
Statements of Retained Earnings
Years Ended December 31, 2022 and 2021

	2022	2021
Balance, Beginning of Year	$ 10,429,488	$ 8,500,808
Net income	1,490,998	1,928,680
Balance, End of Year	$ 11,920,486	$ 10,429,488

Blue Ridge Telephone Company
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Activities		
Net income	$ 1,490,998	$ 1,928,680
Items not requiring (providing) cash:		
Depreciation and amortization	1,948,492	1,974,012
Deferred income taxes	553,831	52,681
Noncash operating lease expense	168,623	171,240
Realized loss on disposal of assets	11,137	-
Changes in		
Accounts receivable	(156,726)	252,213
Materials and supplies	(141,372)	(55,460)
Contract assets	(11,478)	434
Prepaid income taxes	92,168	59,660
Other assets	(30,615)	13,893
Accounts payable	202,656	(28,626)
Advanced billing and customer deposits	(47,864)	25,673
Accrued taxes	133,518	4,578
Accrued compensation	22,855	5,551
Operating lease liability	(164,081)	(158,333)
Other liabilities	(1,702)	33,551
Net cash provided by operating activities	4,070,440	4,279,747
Investing Activities		
Capital expenditures	(6,992,801)	(3,108,476)
Net cash used in investing activities	(6,992,801)	(3,108,476)
Financing Activities		
Capital contribution	1,200,000	-
Net cash provided by financing activities	1,200,000	-
Increase in Cash and Cash Equivalents	(1,722,361)	1,171,271
Cash and Cash Equivalents, Beginning of Year	2,088,228	916,957
Cash and Cash Equivalents, End of Year	$ 365,867	$ 2,088,228
Supplemental Cash Flows Information		
Noncash investing and financing transaction:		
Plant in accounts payable	$ 871,017	$ 1,637,102
Intercompany transfer of property and equipment		
Property and equipment	$ 7,120	$ 5,142
Change in accounts payable	$ 12,576	$ 8,966
Change in accounts receivable	$ (19,696)	$ (14,108)

Blue Ridge Telephone Company
Notes to 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

Blue Ridge Telephone Company (herein referred to as ("the Company") is a wholly owned subsidiary of TDS Telecommunications LLC (TDS Telecom). TDS Telecom is a wholly owned subsidiary of Telephone and Data Systems, Inc. (TDS). The Company is a provider of local telephone service and access to long-distance service through its local exchange network. The principal market for these telecommunications services are local residential and business customers residing in the exchanges the Company serves, which are located in the state of Georgia.

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 Telephone Companies prescribed by the Federal Communications Commission (FCC) as modified by the state regulatory authority.

Use of Estimates

The preparation of the 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 carrying amount approximates fair value because of the short maturity of these instruments. 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 $366,000.

Accounts Receivable

Accounts receivable are stated at the amount of consideration from customers 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.

Contract Assets

Contract assets primarily relate to the Company's rights to consideration for work completed but not billed at the reporting date. Contract assets are transferred to receivables when the rights become unconditional.

Property, Plant and Equipment

Property, plant and equipment is capitalized at original cost including the capitalized cost of 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 as approved by the state regulatory authority. These estimates are subject to change in the near term.

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

General Support Assets	5-40 years
Central Office Switching	5-10 years
Software	5-10 years
Central Office Transmission	5-10 years
Outside Plant	12-20 years
Internet and Video Equipment	2-10 years

Renewals and betterments of units of telephone property are charged to telephone plant in service. When telephone plant is retired, its 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 nonregulated assets included in telecommunications plant in service; as well as renewals of minor items, are charged to plant specific operations expense. A gain or loss is recognized when nonregulated assets are sold or retired.

Materials and Supplies

Materials and supplies are stated at the lower of cost or net realizable value and are determined using the average cost method. Materials and supplies consist primarily of items used to maintain and expand the Company's network.

Software

The Company capitalizes software costs (including right-to-use fees) associated with externally acquired software for internal use. Project costs associated with internally developed software are segregated into three project stages: preliminary project stage, application development stage and post-implementation stage. Costs associated with both the preliminary project stage and the post-implementation stage are expensed as incurred. Costs associated with the application development stage are capitalized. Software maintenance and training costs are expensed as incurred. Capitalized software is generally amortized on a straight-line basis over its useful life.

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.

Contract Liabilities

Contract liabilities represent the Company's obligation to transfer goods or services to a customer when consideration has already been received from the customer.

Taxes Collected from Customers and Remitted to Governmental Authorities

Taxes collected from customers and remitted to governmental authorities are presented in the accompanying balance sheets on a net basis, and in the accompanying statements of income and comprehensive income on a gross basis.

Income Taxes

For federal income taxes, the Company is included in the TDS consolidated federal income tax return. For state income taxes, the Company files a separate tax return. For financial reporting purposes, income taxes are presented as if the Company were a separate taxpayer.

Income taxes are accounted for using a liability method and provide for the tax effects of transactions reported in the financial statements including both taxes currently due and deferred. Deferred taxes are adjusted to reflect deferred tax consequences at current enacted tax rates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes arise from plant and equipment. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible, when the assets and liabilities are recovered or settled.

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%; 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% 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.

Revenue Recognition

Network access services are derived from charges for access to the Company's local exchange network. A portion of the Company's interstate access revenues is based on the Alternative Connect America Model (A-CAM) support funding which is regulated by the FCC. See *Note 11* for additional information about the Company's support funding.

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 2* for additional information about the Company's revenue.

Advertising Costs

Advertising costs are expensed as incurred.

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 retirement plans.

Reclassifications

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

Note 2: Revenue

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 and nonregulated services

The Company offers voice including calling features, long distance, video, and internet services on a standalone basis or in bundled service packages. Each service is considered distinct and therefore are accounted for as separate performance obligations. Voice, long distance, 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 within 30 days from the bill date. Billing is completed at the beginning of the month of service.

Network access

The Company recognizes network access 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 interstate and intrastate tariffs and require payment within 30 days from the bill date that is in arrears from the performance of the service.

Miscellaneous 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 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 11*. 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.

Disaggregation of Revenue

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

	2022	2021
Timing of revenue and recognition		
At a point in time	$ 235,705	$ 255,317
Over a period of time	7,906,393	7,558,626
Total	$ 8,142,098	$ 7,813,943

The amounts do not include revenue outside the scope of Topic 606; therefore, revenue line items in this table will not agree to amounts presented in the statements of income and comprehensive income.

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.

Contract Balances

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

	2022	2021
Accounts receivable, beginning of year	$ 1,077,651	$ 1,225,978
Accounts receivable, end of year	1,045,525	1,077,651
Contract assets, beginning of year	$ 995	$ 1,430
Contract assets, end of year	12,473	995
Contract liabilities, beginning of year	$ 576,174	$ 550,501
Contract liabilities, end of year	580,918	576,174

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 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 significant financing components, the Company elected a practical expedient, which allows an entity to recognize the promised amount of consideration without adjusting for the time value of money if the contract has a duration of one year or less, or if the reason the contract extended beyond one year is because the timing of delivery of the product is at the customer's discretion.

As the Company's contracts are typically less than one year in length and do not have significant financing components, we have not presented revenue on a present value basis.

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."

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 3: Property, Plant and Equipment

Property, plant and equipment includes the following:

	2022	2021
Communications plant in service:		
General Support Assets	$ 2,507,332	$ 2,299,454
Central Office Switching	605,544	609,341
Software	3,271,109	3,271,109
Central Office Transmission	12,301,580	12,129,672
Outside Plant	43,003,693	40,117,722
Internet and Video Equipment	826,565	508,424
Total property, plant and equipment	$ 62,515,823	$ 58,935,722

Depreciation on depreciable property resulted in composite rates of 3.33% and 3.38% for 2022 and 2021, respectively.

Depreciation was $1,912,549 and $1,897,308 for the years ending December 31, 2022 and 2021, respectively. Amortization of software was $35,943 and $76,704 for the years ending December 31, 2022 and 2021, respectively.

Note 4: Income Taxes

Income taxes reflected in the statements of income and comprehensive income consist of the following:

	2022	2021
Federal income taxes:		
Current tax expense (benefit)	$ (120,985)	$ 302,062
Deferred tax expense	517,496	57,641
State income taxes:		
Current tax expense	83,918	129,760
Deferred tax expense (benefit)	36,335	(4,960)
Income tax expense	$ 516,764	$ 484,503

Deferred federal and state tax liabilities and assets reflected in the balance sheets are summarized as follows:

	2022	2021
Deferred tax liabilities		
Federal	$ 2,396,375	$ 1,896,532
State	337,780	306,811
Total deferred tax liabilities	2,734,155	2,203,343
Deferred tax assets		
Federal	13,843	9,852
State	4,208	2,996
Total deferred tax assets	18,051	12,848
Net deferred tax liability	$ 2,716,104	$ 2,190,495

A valuation allowance is required to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of the evidence, both positive and negative, management determined that no valuation allowance was required at December 31, 2022 and 2021, to reduce the deferred tax assets to the amount that will more likely than not be realized.

The tax provision differs from the expense that would result from applying the federal statutory rates to income before income taxes because of the effects of the amortization of regulatory liabilities and state income taxes.

The Company has evaluated its income tax positions and has determined that there are no uncertain income tax positions that need to be recorded or reported in the financial statements at December 31, 2022 and 2021.

The Company's state and federal income tax returns for years 2019 to present remain subject to examination.

Accounts payable due to affiliates includes federal income taxes due to the parent of $283,636 and $374,457 at December 31, 2022 and 2021, respectively.

Prepaid income taxes of $58,278 and $150,446 appearing on the balance sheets at December 31, 2022 and 2021, respectively, reflect overpayments of estimated state taxes.

Transfers related to federal income tax payments totaled $374,457 and $44,223 for the years 2022 and 2021, respectively.

Payments related to state income taxes totaled $0 and $70,100 for the years 2022 and 2021.

Note 5: Employee Benefit Plans

The Company is a member of the TDS Employees' Pension Trust I. This qualified, noncontributory defined contribution pension plan covers substantially all Company employees. Under this plan, pension benefits and costs are calculated separately for each participant and are funded currently. Pension expense for the plan was $16,934 and $12,156 in 2022 and 2021 respectively.

The Company participates in two defined benefit postretirement plans of TDS. One plan provides medical benefits and the other provides life insurance benefits. Under the plans, postretirement benefits and costs are calculated for the plans and allocated to each participant. Amounts allocated to the Company and charged to postretirement benefits expense (benefit) were $(33,669) and $12,844 in 2022 and 2021, respectively. The Company made no cash contributions to the plans in 2022 or 2021. At December 31, 2022 and 2021, the Company's asset for postretirement benefit was $122,092 and $88,423, respectively. The asset is included in other noncurrent assets.

At December 31, 2022 and 2021 the Company recorded an additional asset (liability) for its share of the funded status of the postretirement benefits in the amounts of $(109,645) and $98,314, respectively. The corresponding offset (net of its tax effect) was an increase (decrease) to accumulated other comprehensive income in stockholder's equity in the amount of $(81,423) and $73,008 at December 31, 2022 and 2021, respectively.

Note 6: Related Parties

Services provided to the Company by TDS Telecom or any of its subsidiaries are charged to the Company primarily based on the Company's access lines relative to the total access lines of all affiliates receiving the benefit of the respective services.

These services include centralized management, accounting, commercial, engineering and data processing services aggregating $6,232,713 and $5,697,451 in 2022 and 2021, respectively.

The Company's parent, TDS also operates a non-qualified stock-based compensation plan for a key management employee. The Company has determined that the accounting disclosures related to this plan are immaterial. There were no expenses related to the plan for the years ended December 31, 2022 and 2021.

The Company participates in a cash management account with other affiliates. As of December 31, 2022 and 2021 the Company has a balance of $365,867 and $2,088,228, respectively, in such accounts, classified as cash and cash equivalents on the accompanying balance sheets.

During 2022, the Company's parent, TDS Telecom, contributed $1,200,000 in additional paid-in capital.

Note 7: Leases

Accounting Policies

The Company determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Company determines lease classification as operating or finance at the lease commencement date. For leases where the Company is the lessee, if, at the commencement date, the lease term is 12 months or less and does not include an option to purchase the underlying asset that they are reasonably certain to exercise, the Company is permitted to not recognize the lease.

The Company accounts for the lease and nonlease components separately. The Company does not consider payments for nonlease components to be lease payments. The nonlease payments are not recorded as lease expense.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Company uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments. Incremental borrowing rates used to determine the present value of lease payments were derived by reference to observable unsecured rates available from Bloomberg bond index from one credit rating family above the Company's actual credit rating as a proxy for a secured loan rate.

Nature of Leases

Operating Leases

The Company leases office space that expires in August 2030. This lease contains renewal options for periods ranging from 5 to 15 years. No renewal periods are included in the calculation of the current year right of use asset or lease liability. Lease payments have an escalating fee schedule, with a roughly 2% increase each year, beginning in September 2022. The lease can be terminated by the Company without penalty after the 84th month, provided they give the lessor advance written notice of six months.

The Company leases dark fiber that expires in August 2035. This lease will automatically renew for 5 years at the end of the current term and, unless the Company gives the lessor written notice at least 90 days before the end of the first renewal term, there will be a second automatic renewal period of 5 years. No renewal periods are included in the calculation of the current year right of use asset or lease liability. Both parties have options to terminate the lease. Lease payments are made monthly at a fixed rate. Depending on the circumstances of the termination, the Company may or may not incur a penalty.

All Leases

The Company has no material related-party leases.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Quantitative Disclosures

The lease cost and other required information for the years ended December 31, 2022 and 2021, are:

	2022	2021
Lease cost		
Operating lease cost	$ 346,263	$ 283,207
Other information		
Weighted-average remaining lease term		
Operating leases	11.7 years	12.7 years
Weighted-average discount rate		
Operating leases	2.95%	2.95%

Future minimum lease payments and reconciliation to the balance sheet at December 31, 2022, are as follows:

	Operating Leases
2023	$ 238,500
2024	239,700
2025	240,900
2026	242,100
2027	243,400
Thereafter	1,560,600
Total future undiscounted lease payments	2,765,200
Less: imputed interest	437,020
Present value of lease liabilities	$ 2,328,180

Note 8: Concentrations of 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 and receives revenues from access charges and assistance provided by State and Federal Universal Service Funds.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 9: Asset Retirement Obligation

While the Company has determined it has no material asset retirement obligations, it has included in its depreciation rates estimated net removal costs associated with outside plant assets in which estimated cost of removal exceeds gross salvage. These costs have been reflected in the calculation of depreciation expense, which results in greater periodic depreciation expense and the recognition in accumulated depreciation of future removal costs for existing assets. When the assets are actually retired and removal costs are expended, the net removal costs are recorded as a reduction to accumulated depreciation. The Company has determined the accumulated removal cost included in accumulated depreciation is not material to the financial statements.

Note 10: Regulatory Accounting

For its telephone operations, the Company follows generally accepted accounting principles for regulated enterprises. Accordingly, the Company defers certain cost and obligations and depreciates plant and equipment over lives approved by regulators. While the Company continues to believe the current regulatory and competitive environment supports this accounting treatment, should conditions change the Company would be required to write-off these deferred cost and obligations and evaluate the net carrying value of its plant and equipment for any impairment losses absent the future recovery currently permitted by the regulators.

Note 11: Regulatory Matters

The Company received 41% and 44% of its 2022 and 2021 revenues, respectively, from access revenues and assistance provided by the State Universal Access Fund (UAF) and Federal Universal Service Fund (USF). The manner in which access revenues and Universal Service funds are determined has been modified in several recent Federal Communications Commission (FCC) 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. These changes by the FCC created various support mechanisms which allowed eligible rate-of-return carriers to elect an Alternative Connect America Model (A-CAM II) option, continue with their existing or revised Alternative Connect America Model (A-CAM I) election or remain a legacy rate-of-return carrier.

The Company elected to accept the A-CAM I and revised A-CAM I support offers. The Company is eligible to receive funds of $10,826,612 over a 12-year period effective January 2017. For the years ended December 31, 2022 and 2021, the Company received $928,969 and $1,035,973, respectively, in A-CAM funds, which is included in network access services.

Whether a rate-of-return carrier chooses model-based support or remains on legacy mechanisms, it will be required to meet service obligations, adhere to reporting obligations, and retain records.

The Company has completed an analysis of eligible locations to meet the buildout requirements covered by the A-CAM order. The Company has determined it will meet buildout requirements; as such, no allowance has been established.

Note 12: Commitments

The Company has entered into purchase commitments totaling approximately $384,531 for property, plant and equipment to be placed in service in future years.

Note 13: Subsequent Events

Subsequent events have been evaluated through April 25, 2023, which is the date the financial statements were available to be issued.