# Blue Ridge Telephone Company

## Independent Auditor's Report and Financial Statements

December 31, 2023 and 2022

**Blue Ridge Telephone Company**
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**December 31, 2023 and 2022**


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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, 2023 and 2022, 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, 2023 and 2022, 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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### *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, 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

**Madison, Wisconsin**
**April 22, 2024**

**Blue Ridge Telephone Company**
**Balance Sheets**
**December 31, 2023 and 2022**

## ASSETS

| | 2023 | 2022 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ 517,831 | $ 365,867 |
| Accounts receivable | | |
| Due from customers | | |
| less allowance of $38,003 and $37,372 respectively | 987,139 | 966,708 |
| Due from affiliates | 354,470 | 630,661 |
| Other | 1,002,481 | 910,084 |
| Materials, supplies and inventory | 391,785 | 369,491 |
| Contract assets | 14,534 | 6,917 |
| Prepaid income taxes | 55,778 | 58,278 |
| Other current assets | 8,115 | 4,508 |
| | 3,332,133 | 3,312,514 |
| **Other Noncurrent Assets** | | |
| Operating leases, net of amortization | 2,144,303 | 2,317,403 |
| Contract assets | 4,708 | 5,556 |
| Other noncurrent assets | 242,083 | 177,593 |
| | 2,391,094 | 2,500,552 |
| **Property, Plant and Equipment** | | |
| Communications plant in service | 69,250,485 | 62,515,823 |
| Less accumulated depreciation | 53,156,536 | 51,347,819 |
| | 16,093,949 | 11,168,004 |
| Plant under construction | 2,626,128 | 5,384,599 |
| | 18,720,077 | 16,552,603 |
| Total assets | $ 24,443,304 | $ 22,365,669 |

**Blue Ridge Telephone Company**
**Balance Sheets, continued**
**December 31, 2023 and 2022**

## LIABILITIES AND STOCKHOLDERS' EQUITY

| | 2023 | 2022 |
|---|---|---|
| **Current Liabilities** | | |
| Accounts payable | | |
| Due to affiliates | 1,152,785 | $ 1,743,260 |
| Advanced billing and customer deposits | 670,223 | 580,918 |
| Other | 975,294 | 1,344,264 |
| Accrued taxes | 39,571 | 175,663 |
| Accrued compensation | 67,639 | 62,548 |
| Current portion of operating lease liabilities | 176,961 | 170,407 |
| Other current liabilities | 152,161 | 162,877 |
| | 3,234,634 | 4,239,937 |
| **Other Noncurrent Liabilities and Deferred Credits** | | |
| Operating lease liabilities, less current portion | 1,980,812 | 2,157,773 |
| Deferred income taxes | 3,438,314 | 2,716,104 |
| | 5,419,126 | 4,873,877 |
| **Stockholders' 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 | 2,003,690 | 1,273,690 |
| Accumulated other comprehensive income: | | |
| Employee retirement benefits | 81,717 | 37,279 |
| Retained earnings | 13,683,737 | 11,920,486 |
| | 15,789,544 | 13,251,855 |
| Total liabilities and stockholder's equity | $ 24,443,304 | $ 22,365,669 |

**Blue Ridge Telephone Company**
**Statements of Income and Comprehensive Income**
**Years Ended December 31, 2023 and 2022**

| | 2023 | 2022 |
|---|---|---|
| **Operating Revenues** | | |
| Local network services | $ 1,864,718 | $ 1,629,249 |
| Network access services | 5,653,763 | 5,590,877 |
| Nonregulated revenues | 6,464,438 | 5,955,570 |
| Miscellaneous revenue | 538,803 | 435,007 |
| Uncollectible, net of recoveries | (62,545) | (37,053) |
| | 14,459,177 | 13,573,650 |
| **Operating Expenses** | | |
| Plant specific operations | 2,163,847 | 2,395,873 |
| Plant nonspecific operations | 1,494,772 | 1,436,325 |
| Cost of nonregulated services | 3,206,752 | 2,852,327 |
| Depreciation and amortization | 2,289,965 | 1,948,492 |
| Customer operations | 849,931 | 774,681 |
| Corporate operations | 2,113,075 | 1,961,965 |
| Other taxes | 14,323 | 179,431 |
| | 12,132,665 | 11,549,094 |
| **Operating Income** | 2,326,512 | 2,024,556 |
| **Other Income (Expense)** | | |
| Interest and dividend income | 21 | 14 |
| Other nonoperating income (expense) | 18,715 | (16,808) |
| | 18,736 | (16,794) |
| **Income Before Income Taxes** | 2,345,248 | 2,007,762 |
| **Income Tax Expense** | 581,997 | 516,764 |
| **Net Income** | 1,763,251 | 1,490,998 |
| **Other Comprehensive Income (Expense)** | | |
| Other defined benefit plan (net of tax of $(15,286) and $28,222, respectively) | 44,438 | (81,423) |
| **Total Comprehensive Income** | $ 1,807,689 | $ 1,409,575 |

**Blue Ridge Telephone Company**
**Statements of Retained Earnings**
**Years Ended December 31, 2023 and 2022**

| | 2023 | 2022 |
|---|---|---|
| **Balance, Beginning of Year** | $ 11,920,486 | $ 10,429,488 |
| Net income | 1,763,251 | 1,490,998 |
| **Balance, End of Year** | $ 13,683,737 | $ 11,920,486 |

**Blue Ridge Telephone Company**
**Statements of Cash Flows**
**Years Ended December 31, 2023 and 2022**

| | 2023 | 2022 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 1,763,251 | $ 1,490,998 |
| Items not requiring (providing) cash: | | |
| Depreciation and amortization | 2,289,965 | 1,948,492 |
| Deferred income taxes | 706,924 | 553,831 |
| Noncash operating lease expense | 173,100 | 168,623 |
| Realized loss on disposal of assets | 81,044 | 11,137 |
| Changes in | | |
| Accounts receivable | 389,471 | (156,726) |
| Materials and supplies | (22,294) | (141,372) |
| Contract assets | (6,769) | (11,478) |
| Prepaid income taxes | 2,500 | 92,168 |
| Other assets | (8,373) | (30,615) |
| Accounts payable | (887,629) | 202,656 |
| Advanced billing and customer deposits | 89,305 | (47,864) |
| Accrued taxes | (136,092) | 133,518 |
| Accrued compensation | 5,091 | 22,855 |
| Operating lease liability | (170,407) | (164,081) |
| Other liabilities | (10,716) | (1,702) |
| Net cash provided by operating activities | 4,258,371 | 4,070,440 |
| **Investing Activities** | | |
| Capital expenditures | (4,836,407) | (6,992,801) |
| Net cash used in investing activities | (4,836,407) | (6,992,801) |
| **Financing Activities** | | |
| Capital contribution | 730,000 | 1,200,000 |
| Net cash provided by financing activities | 730,000 | 1,200,000 |
| **Increase in Cash and Cash Equivalents** | 151,964 | (1,722,361) |
| **Cash and Cash Equivalents, Beginning of Year** | 365,867 | 2,088,228 |
| **Cash and Cash Equivalents, End of Year** | $ 517,831 | $ 365,867 |
| **Supplemental Cash Flows Information** | | |
| Noncash investing and financing transaction: | | |
| Plant in accounts payable | $ 596,448 | $ 871,017 |
| Intercompany transfer of property and equipment | | |
| Property and equipment | $ 23,355 | $ 7,120 |

## 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, 2023 and 2022, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2023, the Company's cash accounts exceeded federally insured limits by approximately $518,000.

### *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 credit losses, 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, Supplies and Inventory*

Materials, supplies and inventory 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. Inventories consist primarily of equipment held for sale to customers. Inventories were $81,232 and $98,578 for the years ending December 31, 2023 and 2022, respectively.

### *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, 2023 and 2022.

### *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.

### *Revisions*

Certain immaterial revisions have been made to the 2022 financial statements disclosures in *Note 2*, Revenue from Contracts with Customers, to correct the amounts of disaggregated revenues from customers. These revisions did not have an impact on any financial statement line items.

## 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, 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| Timing of revenue and recognition | | |
| At a point in time | $ 376,599 | $ 369,206 |
| Over a period of time | 8,460,704 | 7,925,262 |
| Total | $ 8,837,303 | $ 8,294,468 |

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:

| | 2023 | 2022 |
|---|---|---|
| Accounts receivable, beginning of year | $ 1,045,525 | $ 1,077,652 |
| Accounts receivable, end of year | 1,007,599 | 1,045,525 |
| Contract assets, beginning of year | $ 12,473 | $ 995 |
| Contract assets, end of year | 19,242 | 12,473 |
| Contract liabilities, beginning of year | $ 580,918 | $ 576,174 |
| Contract liabilities, end of year | 670,223 | 580,918 |

### *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:

| | 2023 | 2022 |
|---|---|---|
| Communications plant in service: | | |
| General Support Assets | $ 4,032,686 | $ 2,507,332 |
| Central Office Switching | 605,544 | 605,544 |
| Software | 3,248,589 | 3,271,109 |
| Central Office Transmission | 13,237,737 | 12,301,580 |
| Outside Plant | 46,867,996 | 43,003,693 |
| Internet and Video Equipment | 1,257,933 | 826,565 |
| Total property, plant and equipment | $ 69,250,485 | $ 62,515,823 |

Depreciation on depreciable property resulted in composite rates of 3.18% and 3.33% for 2023 and 2022, respectively.

Depreciation was $2,289,331 and $1,912,549 for the years ending December 31, 2023 and 2022, respectively. Amortization of software was $634 and $35,943 for the years ending December 31, 2023 and 2022, respectively.

## Note 4: Income Taxes

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

| | 2023 | 2022 |
|---|---|---|
| **Federal income taxes:** | | |
| Current tax expense (benefit) | $ (165,998) | $ (120,985) |
| Deferred tax expense | 635,104 | 517,496 |
| **State income taxes:** | | |
| Current tax expense | 41,071 | 83,918 |
| Deferred tax expense (benefit) | 71,820 | 36,335 |
| Income tax expense | $ 581,997 | $ 516,764 |

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

| | 2023 | 2022 |
|---|---|---|
| **Deferred tax liabilities** | | |
| Federal | $ 3,044,974 | $ 2,396,375 |
| State | 413,497 | 337,780 |
| Total deferred tax liabilities | 3,458,471 | 2,734,155 |
| **Deferred tax assets** | | |
| Federal | 15,526 | 13,843 |
| State | 4,631 | 4,208 |
| Total deferred tax assets | 20,157 | 18,051 |
| Net deferred tax liability | $ 3,438,314 | $ 2,716,104 |

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, 2023 and 2022, 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 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, 2023 and 2022.

The Company's state and federal income tax returns for years 2020 to present remain subject to examination.

Accounts payable due to affiliates includes federal income taxes due to the parent of $133,326 and $283,636 at December 31, 2023 and 2022, respectively. Accounts payable due to affiliates includes state income taxes due to the parent of $41,071 at December 31, 2023.

Prepaid income taxes of $55,778 and $58,278 appearing on the balance sheets at December 31, 2023 and 2022, respectively, reflect overpayments of estimated state taxes.

Transfers related to federal income tax payments totaled $12,517 and $374,457 for the years 2023 and 2022, respectively.

## 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 $14,635 and $16,934 in 2023 and 2022 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 $(2,066) and $(33,669) in 2023 and 2022, respectively. The Company made no cash contributions to the plans in 2023 and 2022. At December 31, 2023 and 2022, the Company's asset for postretirement benefit was $124,158 and $122,092, respectively. The asset is included in other noncurrent assets.

At December 31, 2023 and 2022 the Company recorded an additional asset (liability) for its share of the funded status of the postretirement benefits in the amounts of $59,724 and $(109,645), 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 $44,438 and $(81,423) at December 31, 2023 and 2022, 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 $6,932,195 and $6,232,713 in 2023 and 2022, 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, 2023 and 2022.

The Company participates in a cash management account with other affiliates. As of December 31, 2023 and 2022 the Company has a balance of $517,831 and $365,867, respectively, in such accounts, classified as cash and cash equivalents on the accompanying balance sheets.

During 2022 and 2023, the Company's parent, TDS Telecom, contributed $730,000 and $1,200,000 in additional paid-in capital, respectively.

The Company purchases certain materials and supplies from an affiliate under common ownership. These purchases were $97,084 in 2023. For the year ended December 31, 2023, $20,622 of these purchases were expensed.

## 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 84$^{th}$ 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, 2023 and 2022, are:

| | 2023 | 2022 |
|---|---|---|
| Lease cost | | |
| Operating lease cost | $ 241,220 | $ 346,263 |
| Other information | | |
| Weighted-average remaining lease term | | |
| Operating leases | 10.8 years | 11.7 years |
| Weighted-average discount rate | | |
| Operating leases | 2.96% | 2.95% |

Future minimum lease payments and reconciliation to the balance sheet at December 31, 2023, are as follows:

| | Operating Leases |
|---|---|
| 2024 | 239,700 |
| 2025 | 240,900 |
| 2026 | 242,100 |
| 2027 | 243,400 |
| 2028 | 244,600 |
| Thereafter | 1,315,900 |
| Total future undiscounted lease payments | 2,526,600 |
| Less: imputed interest | 368,827 |
| Present value of lease liabilities | $ 2,157,773 |

## Note 8: 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 Risks***

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 39% and 41% of its 2023 and 2022 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, 2023 and 2022, the Company received $821,964 and $928,969, respectively, in A-CAM funds, which is included in network access services.

On July 24, 2023, the FCC issued a Report and Order, Notice of Proposed Rulemaking, and Notice of Inquiry for the Enhanced Alternative Connect America Cost Model (E-ACAM). The order expands buildout obligations related to locations served and speed available. E-ACAM would extend model-based support for 15 years beginning January 2024 and ending December 2038. The Company elected to accept the E-ACAM offered by the FCC. Effective January 1, 2024, the Company will receive $1,345,289 per year for six years and an average of $874,311 for the following nine years. The FCC could adjust amounts if fewer locations are deemed to exist than those shown on initial offer.

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.

## Note 12: Subsequent Events

Subsequent events have been evaluated through April 22, 2024, which is the date the financial statements were available to be issued.