



Report of Independent Auditors
and Financial Statements

**Washington County Rural Telephone Cooperative, Inc.
(dba Tele-Media Solutions)**

June 30, 2023 and 2022

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Report of Independent Auditors

The Board of Directors and Members
Washington County Rural Telephone Cooperative, Inc. (dba Tele-Media Solutions)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Washington County Rural Telephone Cooperative, Inc. (dba Tele-Media Solutions), which comprise the balance sheet as of June 30, 2023, and the related statements of income, members' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Washington County Rural Telephone Cooperative, Inc. (dba Tele-Media Solutions) as of June 30, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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. 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 Washington County Rural Telephone Cooperative, Inc. (dba Tele-Media Solutions) 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.

Prior Year Financial Statements

The financial statements of Washington County Rural Telephone Cooperative, Inc. (dba Tele-Media Solutions) as of and for the year ended June 30, 2022, were audited by other auditors whose report dated March 3, 2023, expressed an unmodified opinion on those statements.

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 Washington County Rural Telephone Cooperative, Inc.'s (dba Tele-Media Solutions) ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Washington County Rural Telephone Cooperative, Inc.'s (dba Tele-Media Solutions) 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 Washington County Rural Telephone Cooperative, Inc.'s (dba Tele-Media Solutions) 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 November 6, 2023, on our consideration of Washington County Rural Telephone Cooperative, Inc.'s (dba Tele-Media Solutions) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Washington County Rural Telephone Cooperative, Inc.'s (dba Tele-Media Solutions) 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 Washington County Rural Telephone Cooperative, Inc.'s (dba Tele-Media Solutions) internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Overland Park, Kansas
November 6, 2023

Financial Statements

Washington County Rural Telephone Cooperative, Inc.
(dba Tele-Media Solutions)
Balance Sheets
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,461,945	\$ 3,807,121
Certificates of deposit	1,732,986	152,042
Accounts receivable	856,594	26,981
Materials and supplies	739,344	824,665
Prepaid expenses	91,501	93,485
Equity securities	-	223,560
	<u>4,882,370</u>	<u>5,127,854</u>
NONCURRENT ASSETS		
Certificates of deposit	856,968	175,768
Other investments - at cost	<u>116,780</u>	<u>116,780</u>
	<u>973,748</u>	<u>292,548</u>
Property, Plant, and Equipment		
Plant in service	47,576,542	37,445,325
Plant under construction	2,167	8,159,317
Less - accumulated depreciation	<u>22,796,941</u>	<u>21,304,374</u>
	<u>24,781,768</u>	<u>24,300,268</u>
TOTAL ASSETS	<u><u>\$ 30,637,886</u></u>	<u><u>\$ 29,720,670</u></u>

See accompanying notes.

Washington County Rural Telephone Cooperative, Inc.
(dba Tele-Media Solutions)
Balance Sheets
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 699,384	\$ 455,559
Accounts payable	77,616	3,351,955
Accrued taxes	171,009	169,091
Current portion of deferred revenue	145,772	-
Other current liabilities	<u>89,687</u>	<u>131,787</u>
Total current liabilities	<u>1,183,468</u>	<u>4,108,392</u>
LONG-TERM DEBT	<u>11,189,229</u>	<u>8,967,919</u>
DEFERRED REVENUE	<u>2,606,875</u>	<u>2,170,823</u>
MEMBERS' EQUITY		
Patronage capital	11,590,506	10,885,227
Margins	<u>4,067,808</u>	<u>3,588,309</u>
Total members' equity	<u>15,658,314</u>	<u>14,473,536</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$ 30,637,886</u></u>	<u><u>\$ 29,720,670</u></u>

See accompanying notes.

Washington County Rural Telephone Cooperative, Inc.
(dba Tele-Media Solutions)
Statements of Income
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Local service	\$ 317,593	\$ 331,410
Network access and support	4,940,252	4,028,884
Internet services	1,703,033	1,559,642
Miscellaneous revenues	<u>160,027</u>	<u>120,047</u>
Total operating revenues	<u>7,120,905</u>	<u>6,039,983</u>
OPERATING EXPENSES		
Costs of providing services		
Telephone	1,235,967	1,163,701
Internet	1,214,280	1,162,105
Other	29,179	27,816
Depreciation	1,995,333	1,794,228
Customer operations	303,364	349,811
Corporate operations	780,104	656,382
Other operating taxes	<u>164,793</u>	<u>162,494</u>
Total operating expenses	<u>5,723,020</u>	<u>5,316,537</u>
Net operating income	<u>1,397,885</u>	<u>723,446</u>
OTHER INCOME (EXPENSE)		
Investment income, net	29,480	62,699
Loss on investments	(4,028)	(15,366)
Allowance for funds used during construction	56,482	127,366
Interest expense	(242,147)	(146,618)
Nonoperating income tax	<u>(163)</u>	<u>(6,575)</u>
Total other income (expense)	<u>(160,376)</u>	<u>21,506</u>
NET MARGINS	<u><u>\$ 1,237,509</u></u>	<u><u>\$ 744,952</u></u>

See accompanying notes.

Washington County Rural Telephone Cooperative, Inc.
(dba Tele-Media Solutions)
Statements of Members' Equity
Years Ended June 30, 2023 and 2022

	2023	2022
PATRONAGE CAPITAL, beginning of year	\$ 10,885,227	\$ 7,867,208
Margins transferred to patronage capital	758,010	3,052,963
Patronage capital retired	(52,731)	(34,944)
PATRONAGE CAPITAL, end of year	\$ 11,590,506	\$ 10,885,227
RETAINED MARGINS, beginning of year	\$ 3,588,309	\$ 5,896,320
Net margins	1,237,509	744,952
Margins transferred to patronage capital	(758,010)	(3,052,963)
RETAINED MARGINS, end of year	\$ 4,067,808	\$ 3,588,309
TOTAL MEMBERS' EQUITY	\$ 15,658,314	\$ 14,473,536

See accompanying notes.

Washington County Rural Telephone Cooperative, Inc.
(dba Tele-Media Solutions)
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
CAHS FLOWS FROM OPERATING ACTIVITIES		
Net margins	\$ 1,237,509	\$ 744,952
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation and amortization	1,995,333	1,794,228
Loss on investments	4,028	15,366
Patronage allocations	-	(8,086)
Changes in operating assets and liabilities		
Accounts receivable	(829,613)	311,929
Materials and supplies	85,321	-
Other current assets	1,984	(90,040)
Accounts payable	(3,274,339)	1,579,450
Other current liabilities	(125,215)	27,486
Net cash from operating activities	(904,992)	4,375,285
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, and equipment, net of salvage and cost of removal	(2,340,676)	(7,094,630)
Purchase of investments	(2,414,186)	(22,720)
Proceeds from sale and maturity of investments	371,574	90,913
Net cash from investing activities	(4,383,288)	(7,026,437)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(569,205)	(179,759)
Proceeds from long-term debt	2,898,183	1,770,004
Proceeds from government grant	666,857	784,650
Payments of patronage capital credits	(52,731)	(34,944)
Net cash from financing activities	2,943,104	2,339,951
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,345,176)	(311,201)
CASH AND CASH EQUIVALENTS, beginning of year	3,807,121	4,118,322
CASH AND CASH EQUIVALENTS, end of year	\$ 1,461,945	\$ 3,807,121

See accompanying notes.

Washington County Rural Telephone Cooperative, Inc.
(dba Tele-Media Solutions)
Notes to Financial Statements

Note 1 – Significant Accounting Policies

General description of business – Washington County Rural Telephone Cooperative, Inc. (dba Tele-Media Solutions) (the Cooperative or Tele-Media) provides communications services to individuals and businesses located in Pekin, Indiana, and surrounding areas. The Cooperative also provides access services to inter-exchange carriers who sell long-distance telephone service to their subscribers.

The bylaws of the Cooperative provide that net margins from communication services are considered to be capital furnished by the patrons. Net margins are allocated to patrons' equity accounts based on each patron's business for the year. Allocated patronage is subject to redemption at the discretion of the board of directors.

Significant accounting policies – The accounting policies of the Cooperative conform to accounting principles generally accepted in the United States of America and reflect practices appropriate to the telephone industry. The accounting records of the Cooperative are maintained in accordance with the uniform system of accounts prescribed by the Federal Communications Commission (FCC).

Recently adopted accounting standards – As of July 1, 2022, the Cooperative adopted Accounting Standards Codification (ASC) 842, *Leases*. The standard establishes a new accounting model for leases, which requires lessees to recognize right-of-use assets and lease liabilities on the balance sheets, but lease expense will be recognized on the income statement in a manner similar to previous requirements. The Cooperative's existing leases are not significant. Therefore, adoption of this new standard did not have a material impact on the financial statements and related disclosures.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The Cooperative's financial statements include significant estimates related to composite depreciation rates and interstate access revenues that are subject to future adjustment upon final settlement of revenue pools administered by the National Exchange Carrier Association (NECA).

Cash and cash equivalents – For purposes of the statements of cash flows, cash equivalents consist of highly liquid investments with an original maturity of three months or less.

Certificates of deposit – Certificates of deposit (CD) are considered held-to-maturity debt securities and are carried at amortized cost. Certificates of deposit that mature within one year from the balance sheets date are included in current assets. There is not a material difference between cost and fair value of certificates of deposit.

Accounts receivable – Accounts receivable from customers are carried at their estimated collectible amounts. Credit is generally extended on a short-term basis; thus, receivables do not bear interest, although a late payment charge may be applied to such receivables that are past due. Accounts deemed to be uncollectible are charged to bad debts monthly following approval by the Board of Directors.

Washington County Rural Telephone Cooperative, Inc.
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Notes to Financial Statements

Materials and supplies – Materials and supplies primarily consist of items used for the construction and maintenance of the Cooperative’s communications network. Materials and supplies are valued at the lower of average cost and net realizable value.

Equity securities – Equity securities consist of investments in common stock of publicly traded entities. Equity securities are carried at fair value based on quoted market prices in an active market (Level 1 of the fair value hierarchy). Unrealized gains and losses from market fluctuations are reported in other income in the statements of income. Realized gains and losses on sales of equity securities are computed based the specific identification of the security’s original cost adjusted for any other-than-temporary declines in fair value.

Other investments – Other investments consist of investments in partnerships and other private companies. These investments are carried at cost and do not have readily determinable fair values. Some of these entities are cooperative organizations that allocate patronage in the form of cash and equity to the holder of the investment. Cash received for patronage retirements reduces the investment and is not included in earnings.

Property, plant, and equipment – Property, plant, and equipment is stated at the original cost. Regulated plant includes assets that are jointly used for regulated and nonregulated activities. The cost of additions and substantial betterments of property, plant, and equipment is capitalized, net of aid to construction and grant funds. The cost of maintenance and repairs is charged to operating expenses. The Cooperative records as income and capitalizes as a cost of construction, the cost of financing longer term or large construction projects. Capitalized interest is presented in the statements of income as allowance for funds used during construction.

Property, plant, and equipment are depreciated using straight-line methods over their estimated useful lives. In accordance with composite group depreciation methodology, when a portion of the Cooperative’s regulated depreciable property, plant, and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation with no gain or loss recorded.

Depreciation on the Cooperative’s nonregulated plant is provided by the straight-line method over the estimated useful lives of the assets. Upon retirement, sale, or other disposition of nonregulated plant, the cost and related accumulated depreciation are removed from the related accounts and the resulting gains or losses are included in net income.

Long-lived assets – Long-lived assets are reviewed whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. When such events occur, the Cooperative determines potential impairment by comparing the carrying value of its assets with the sum of the undiscounted cash flows expected to be provided by operating and eventually disposing of the asset. Should the sum of the expected future net cash flows be less than carrying values, the Cooperative would determine whether an impairment loss should be recognized. No impairment losses on long-lived assets have been identified in the financial statements.

Washington County Rural Telephone Cooperative, Inc.
(dba Tele-Media Solutions)
Notes to Financial Statements

Fair value measurements – Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The Cooperative has adopted FASB ASC 820 as it applies to financial assets and liabilities. The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the Cooperative has the ability to access at the measurement date.

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 that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Revenue recognition – The Cooperative primarily provides local telephone service, broadband internet service, network access, and long-distance to end user and enterprise customers within its geographic footprint. Most of the Cooperative's revenue is based on month-to-month contracts.

The Cooperative recognizes revenue for services as it provides the applicable service or when control of a product is transferred. Recognition of certain payments received in advance of services provided is deferred until the service is provided i.e., when the Cooperative satisfies its performance obligation.

Monthly service fees derived from local telephone and broadband services are billed one month in advance, but recognized in the month that service is provided.

Usage sensitive revenues such as access (revenues earned for originating/terminating long distance calls), and long distance are generally billed as a per-minute charge. Although these revenues are billed in arrears, an estimate of unbilled revenues is accrued in the month service is provided.

Customer contracts that include both equipment and services are evaluated to determine whether performance obligations are separable. If the performance obligations are deemed separable and separate earnings process exists, the total transaction price with the customer is allocated to each performance obligation based on the relative standalone selling price of the separate performance obligation. The standalone selling price is the price charged to similar customers for the individual services or equipment.

Washington County Rural Telephone Cooperative, Inc.
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Notes to Financial Statements

Network access and support revenues include settlements based on the Cooperative's participation in the revenue pools administered by the National Exchange Carrier Association (NECA). Settlement revenues are determined by annually prepared separations and interstate access cost studies. These studies are prepared after each calendar year end and therefore, the related revenues are recorded on the books based on an estimate of the Cooperative's costs, NECA pool earnings, and on other assumptions related to information utilized in the preparation of the Cooperative's cost study. The studies are subject to a 24-month pool earnings adjustment period and a review of the study by NECA. There were insignificant adjustments related to prior year differences between the recorded estimates and actual revenues. Management does not anticipate that 2023 and 2022 recorded revenues will require significant adjustments in future years.

Network access and support revenues also include universal service support revenue that is intended to compensate the Cooperative for the high cost of providing rural telephone and broadband service. Universal service support revenue includes funds received for high cost loop support (HCLS), Connect America Fund Broadband Loop Support (CAF BLS), Connect America Fund Intercarrier Compensation (CAF ICC), Indiana Universal Service, and other miscellaneous programs. HCLS and CAF BLS are based on the Cooperative's relative level of operating expense and plant investment. Support from the CAF ICC is based on a historical frozen amount related to 2011 investment and expenses associated with the switching function and certain 2011 intrastate access revenues, which together make up the CAF base. The CAF base is reduced by 5% each year in determining CAF ICC support. Indiana Universal Service is a state fund provided to telecommunications companies and is a fixed monthly payment.

Subsequent to its fiscal year-end, the Cooperative elected to receive federal high cost support beginning January 1, 2024 under the Enhanced Alternative Connect America Cost Model (E-ACAM) which replaces the Cooperatives existing HCLS and CAF BLS. E-ACAM support is fixed for 15 years and creates build-out obligations to provide 100/20 megabit broadband speeds to all required locations within a five-year period or be subject to E-ACAM support forfeiture penalties.

Regulation – The Cooperative's services are subject to rate regulation as follows:

- Indiana Universal Service and intrastate access services are regulated by the Indiana Utility Regulatory Commission. The FCC also has assumed preemptive authority to regulate intrastate telecommunications services, including intrastate terminating access rates.
- Interstate access revenues are regulated by the FCC through its regulation of rates and settlements procedures as administered by NECA.
- Universal Service support revenues are administered by Universal Service Administrative Company (USAC), based on rules established by the FCC.

Taxes imposed by governmental authorities – The Cooperative's customers are subject to taxes assessed by various governmental authorities on many different types of revenue transactions. These specific taxes are charged to and collected from customers and subsequently remitted to the appropriate taxing authority. The taxes are accounted for on a net basis and excluded from revenues.

Washington County Rural Telephone Cooperative, Inc.
(dba Tele-Media Solutions)
Notes to Financial Statements

Income taxes – The Cooperative is exempt from income tax on income received from its members. The Cooperative's unrelated business income is subject to federal and state income taxes which is immaterial.

Deferred taxes are provided on a liability method whereby deferred tax liabilities are recognized for deductible temporary differences, and deferred tax assets are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not some portion or all of the deferred tax will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The Cooperative did not have any deferred tax assets or deferred tax liabilities as of June 30, 2023 and 2022.

The Cooperative records uncertain tax positions if the likelihood the position will be sustained upon examination is less than 50%. As of June 30, 2023 and 2022, the Cooperative had no accrued amounts related to uncertain tax positions. Interest and penalties, if any, are recorded as interest expense and other expense, respectively.

Concentrations of credit risk – Cash deposits at banks are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. Brokerage accounts are insured by the Security Investors Protection Corporation up to \$500,000.

Revenue concentration – Revenue from NECA settlements and universal service support was approximately 52% and 47% of total operating revenue in 2023 and 2022, respectively.

Supplemental cash flow information – The Cooperative paid interest (net of amounts capitalized) of \$185,665 and \$19,252 during 2023 and 2022, respectively. Cash paid for income taxes was insignificant.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheets date but before the financial statements are available to be issued. The Cooperative recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheets, including the estimates inherent in the process of preparing the financial statements. The Cooperative's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheets but arose after the balance sheets date and before the financial statements are available to be issued.

Subsequent events have been evaluated through the date the financial statements were available to be issued, which is November 6, 2023.

Washington County Rural Telephone Cooperative, Inc.
(dba Tele-Media Solutions)
Notes to Financial Statements

Note 2 – Certificates of Deposit

The following table provides information about scheduled maturities, carrying amounts, fair values as determined by level 2 inputs of the fair value hierarchy, and the gain or loss position of the Cooperative's certificates of deposit:

	June 30, 2023			
	Carrying amount	Fair Value	Unrealized Gains	Unrealized Losses
CDs maturing within one year	\$ 1,732,986	\$ 1,732,178	\$ -	\$ (809)
CDs maturing 1-3 years	486,014	482,906	-	(3,108)
CDs maturing 3 years or more	370,954	352,485	-	(18,469)
Total	\$ 2,589,954	\$ 2,567,569	\$ -	\$ (22,386)
	June 30, 2022			
	Carrying Amount	Fair Value	Unrealized Gains	Unrealized Losses
CDs maturing within one year	\$ 152,042	\$ 152,323	\$ 281	\$ -
CDs maturing 1-3 years	95,000	95,310	310	-
CDs maturing 3 years or more	80,768	66,312	-	(14,456)
Total	\$ 327,810	\$ 313,945	\$ 591	\$ (14,456)

Unrealized losses on CDs are generally the result of changes in interest rates and are considered to be temporary.

Note 3 – Equity Securities

The Cooperatives investments in equity securities were sold and reinvested during 2023. The portion of unrealized gains and losses for the reporting period that relate to equity securities held at June 30, 2022 consists of:

	2023	2022
Net gains (losses) recognized during the period on equity securities	\$ (2,814)	\$ 17,947
Less gains and losses recognized during the period on equity securities sold during the period	(2,814)	2,581
Unrealized losses recognized during the period on equity securities still held	\$ -	\$ 15,366

Washington County Rural Telephone Cooperative, Inc.
(dba Tele-Media Solutions)
Notes to Financial Statements

Note 4 – Property, Plant, and Equipment

The major classes of property are detailed below for the years ended June 30:

	Life (Years)	Plant Account	Accumulated Depreciation	2023 Net Balance	2022 Net Balance
Land	N/A	\$ 63,493	\$ -	\$ 63,493	\$ 63,493
Buildings	40	1,579,079	950,573	628,506	677,314
Furniture and office equipment	3-10	242,677	223,437	19,240	17,644
Vehicles and work equipment	5–10	937,464	800,954	136,510	(10,000)
Central office equipment	10	7,347,139	5,924,871	1,422,268	1,567,553
Distribution plant	20-25	35,806,110	13,533,796	22,272,314	13,804,610
Internet and other nonreg	3-10	1,600,580	1,363,310	237,270	20,337
Plant under construction	N/A	2,167	-	2,167	8,159,317
Total		<u>\$47,578,709</u>	<u>\$22,796,941</u>	<u>\$24,781,768</u>	<u>\$24,300,268</u>

The annual composite depreciation rate on plant in service was 4.19% and 4.79% during the years ended June 30, 2023 and 2022, respectively. Capitalized interest added to plant under construction and plant in service was \$56,482 and \$127,366 during the years ended June 30, 2023 and 2022, respectively.

Note 5 – Long-term Debt

The Cooperative has established a revolving line of credit with a bank and can borrow up to \$250,000 against this line of credit. The line of credit expired on August 5, 2022. The line of credit was subsequently renewed and increased to \$1,000,000 in November 2022. Interest is payable monthly on any amounts borrowed based on the lender's prime rate plus 1.0%. As of June 30, 2023 and 2022 the interest rate was 8.5% and 5.75%, respectively. No amounts were outstanding on the line of credit as of June 30, 2023 and 2022.

On July 23, 2019, the Cooperative signed a promissory note to borrow up to \$14,359,000 from the United States of America acting through the Administrator of the Rural Utilities Service (RUS). This loan is secured by all assets of the Cooperative. The loan agreements provide for various restrictions on payment of patronage capital based on the ratio of net worth to total assets as defined. Interest only payments are due each month for the first two years based on the outstanding balances of each advance. After the initial two years, monthly principal and interest payments will be due on all funds advanced so that all principal and interest is paid off by the maturity date.

In November 2022 the Cooperative entered into a one-year financing agreement to purchase a bucket truck. The Cooperative will make monthly payments with the remaining purchase price to be paid at the end of the agreement.

Washington County Rural Telephone Cooperative, Inc.
(dba Tele-Media Solutions)
Notes to Financial Statements

Long-term debt consists of the following at June 30:

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>2023</u>	<u>2022</u>
RUS	1.10%–3.46%, fixed	7/23/2040	\$ 11,775,076	\$ 9,423,478
Other	N/A	11/12/2023	<u>113,537</u>	<u>-</u>
Total			11,888,613	9,423,478
Less current maturities			<u>(699,384)</u>	<u>(455,559)</u>
Total Long-term debt			<u>\$ 11,189,229</u>	<u>\$ 8,967,919</u>

The following amounts represent the principal payments due under long-term debt agreements during the next five years:

<u>Years Ended June 30,</u>	<u>Amount</u>
2024	\$ 699,384
2025	597,850
2026	609,750
2027	622,059
2028	634,554
Thereafter	<u>8,725,016</u>
Total	<u>\$ 11,888,613</u>

Note 6 – Pension Plan

Multiple employer defined benefit plan – The Cooperative participates in a multiple employer defined benefit pension plan covering substantially all of its employees. The legal plan name is Retirement & Security Program for Employees of the National Telecommunications Cooperative Association and Its Member Systems. The employer identification number/plan number is 52-0741336/333. The risks of participating in this multiple employer plan are different from single-employer plans in the following aspects: a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and c) if the Cooperative chooses to stop participating in the multiple employer plan, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Washington County Rural Telephone Cooperative, Inc.
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Notes to Financial Statements

Contributions to the plan are paid for the first eight months of each plan year and are calculated as a percentage of eligible employees' compensation. Total pension contributions during the years ended June 30, 2023 and 2022 were \$124,255 and \$128,891, respectively. These contributions represent less than 5% of the total contributions to the plan as indicated in the plan's most recently available annual report (Form 5500) for the year ended June 30, 2022. This plan does not have a certified zone status because the program is considered a multiple employer plan pursuant to the Internal Revenue Code and ERISA.

401(k) plan – The Cooperative has a 401(k) plan covering substantially all of its employees which began in January 2023. The Cooperative made contributions to the plan of 4% of union employee's and 5% of non-union employee's wages totaling \$5,937 for 2023.

Note 7 – Government Grants

The Cooperative was awarded a grant from the Indiana Office of Community and Rural Affairs under the Next Level Connections Grant Program. The Cooperative was originally required to provide broadband capabilities to over 300 individuals and businesses located in Clark and Floyd Counties of Indiana by November 2021. The Cooperative received an extension until September 30, 2022. This project was completed in December 2022 with no penalties for not meeting the deadline. The grant requires a minimum local match of \$754,320 which was provided by the Cooperative. A roll forward of the Cooperative's grant awards is below.

	<u>Total Awarded</u>	<u>Total Received</u>	<u>Received in 2023</u>	<u>Received in 2022</u>
Next Level Connections Grant Program	\$ 2,837,680	\$ 2,837,680	\$ 666,857	\$ 784,650

All grant funding received was recorded as deferred revenue and is being amortized into revenue over the life of the related broadband facilities which is 20 years for distribution plant and 10 years for electronics. The Cooperative recognized approximately \$85,000 of revenue related to amortization of the government grant deferred revenue during 2023 which is included in miscellaneous operating revenue in the statements of income.

Washington County Rural Telephone Cooperative, Inc.
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Note 8 – Revenue Recognition

Revenue from contracts with customers include the following for the years ended June 30:

	2023		
	Total	Revenue From Contracts With Customers	Other Revenue
Local service	\$ 317,593	\$ 317,593	\$ -
Network access and support	4,940,252	1,222,849	3,717,403
Internet services	1,703,033	1,703,033	-
Miscellaneous revenues	160,027	102,978	57,049
Total	<u>\$ 7,120,905</u>	<u>\$ 3,346,453</u>	<u>\$ 3,774,452</u>
	2022		
	Total	Revenue From Contracts With Customers	Other Revenue
Local service	\$ 331,410	\$ 331,410	\$ -
Network access and support	4,028,884	1,200,846	2,828,038
Internet services	1,559,642	1,559,642	-
Miscellaneous revenues	120,047	63,244	56,803
Total	<u>\$ 6,039,983</u>	<u>\$ 3,155,142</u>	<u>\$ 2,884,841</u>

Other revenue includes federal and state universal service, NECA settlements, rental revenues, and other miscellaneous revenues which are not considered revenue from contracts with customers.

Most of the Cooperative's revenues from contracts with customers are recognized over time as customers receive the services. Revenue from sales and installations of equipment or other nonrecurring services are recognized at a point in time when control of the equipment is transferred or when service is rendered.

The Cooperative does not have material contract assets or liabilities. Contract acquisition costs such as sales commissions are assessed each year to determine if they qualify for capitalization and deferral over the contract period or estimated life of the new customer. These costs were determined to be immaterial to the financial statements and expense in the period incurred. Fulfillment costs associated with contracts with customers primarily include network assets installed to serve the customer. These costs are accounted for under ASC 360, *Property, Plant, and Equipment*.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Washington County Rural Telephone Cooperative, Inc. (dba Tele-Media Solutions)

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Washington County Rural Telephone Cooperative, Inc. (dba Tele-Media Solutions) which comprise the balance sheet as of June 30, 2023, and the related statements of income, members' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit, we considered Washington County Rural Telephone Cooperative, Inc.'s (dba Tele-Media Solutions) internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Washington County Rural Telephone Cooperative, Inc.'s (dba Tele-Media Solutions) internal control. Accordingly, we do not express an opinion on the effectiveness of Washington County Rural Telephone Cooperative, Inc.'s (dba Tele-Media Solutions) internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington County Rural Telephone Cooperative, Inc.'s (dba Tele-Media Solutions) 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 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 Washington County Rural Telephone Cooperative, Inc.'s (dba Tele-Media Solutions) internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Washington County Rural Telephone Cooperative, Inc.'s (dba Tele-Media Solutions) internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Overland Park, Kansas
November 6, 2023