BRANDENBURG TELEPHONE COMPANY

FINANCIAL REPORT

DECEMBER 31, 2023

Jones, Nale & Mattingly PLC

CONTENTS

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Brandenburg Telephone Company
Brandenburg, Kentucky

Opinion

We have audited the accompanying financial statements of Brandenburg Telephone Company, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income, comprehensive income, changes in stockholder's equity, 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 Brandenburg 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. 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 Brandenburg 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 Brandenburg Telephone Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Certified Public Accountants and Advisors

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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 generally accepted 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 generally accepted 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 Brandenburg 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 Brandenburg 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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 20, 2024

BRANDENBURG TELEPHONE COMPANY

BALANCE SHEETS
December 31, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 11,774,558	$ 7,170,334
Short-term portfolio investments, available-for-sale	1,076,619	539,788
Accounts receivable	197,047	988,614
Income tax receivable	400,769	1,483,415
Due from affiliate	28,044,382	24,997,740
Materials and supplies, at average cost - based on the lower of cost or net realizable value	3,890,916	4,085,091
Prepaid insurance	20,681	20,081
Total current assets	45,404,972	39,285,063
NON-CURRENT ASSETS		
Portfolio investments, available-for-sale	1,384,526	2,302,667
Investment in nonregulated	11,678,874	10,110,840
Cash surrender value of life insurance	1,000,000	- -
Prepaid pension benefit cost	17,921,275	12,168,922
Total non-current assets	31,984,675	24,582,429
PROPERTY AND EQUIPMENT		
Telephone plant under construction	383,038	725,689
Telecommunications plant	82,015,636	77,810,785
	82,398,674	78,536,474
Less accumulated depreciation	58,611,502	55,938,839
	23,787,172	22,597,635
	$ 101,176,819	$ 86,465,127
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 297,641	$ 369,249
Other current and accrued liabilities	726,458	409,646
Total current liabilities	1,024,099	778,895
NON-CURRENT LIABILITIES		
Deferred tax liability	13,490,296	8,734,640
Total non-current liabilities	13,490,296	8,734,640
STOCKHOLDER'S EQUITY		
Common stock, $50 par value; authorized shares, 100,000; issued and outstanding shares, 100,000	5,000,000	5,000,000
Retained earnings	70,045,841	63,635,959
Accumulated other comprehensive income:		
Unrealized (loss) on securities	(112,673)	(169,952)
Pension unrecognized gain	11,729,256	8,485,585
Total stockholder's equity	86,662,424	76,951,592
	$ 101,176,819	$ 86,465,127

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

BRANDENBURG TELEPHONE COMPANY

STATEMENTS OF INCOME
Years Ended December 31, 2023 and 2022

	2023	2022
Operating revenues:		
Local network service	$ 1,528,986	$ 1,759,167
Network access service	10,394,178	10,360,015
Long distance network	174,885	357,321
Miscellaneous revenue	923,506	786,993
Total operating revenues	13,021,555	13,263,496
Operating expenses:		
Plant specific operations expense	4,745,439	4,076,068
Plant non-specific	1,326,018	1,327,375
Depreciation	3,042,675	2,612,605
Customer operations expense	1,721,868	1,699,500
Corporate operation expense	3,516,787	2,633,695
Other taxes	491,382	494,831
Total operating expenses	14,844,169	12,844,074
Operating income (loss)	(1,822,614)	419,422
Other income:		
Interest income	169,743	101,166
Other operating gains	1,759,719	383,680
Settlement	5,559,590	- -
Total other income	7,489,052	484,846
Income before income taxes	5,666,438	904,268
Income taxes	2,565,597	1,477,722
Net income before nonregulated income	3,100,841	(573,454)
Nonregulated income	3,309,041	3,393,518
Net income	$ 6,409,882	$ 2,820,064

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

BRANDENBURG TELEPHONE COMPANY

STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2023 and 2022

	2023	2022
Net income	$ 6,409,882	$ 2,820,064
Other comprehensive income (loss):		
Pension accrual	3,243,671	1,790,818
Unrealized gains (losses) on available-for-sale securities	57,279	(168,489)
Total other comprehensive income	3,300,950	1,622,329
Total comprehensive income	$ 9,710,832	$ 4,442,393

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

BRANDENBURG TELEPHONE COMPANY

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
Years Ended December 31, 2023 and 2022

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2022	$ 5,000,000	$ 60,815,895	$ 6,693,304	$ 72,509,199
Net income	--	2,820,064	--	2,820,064
Change in unrealized loss on securities available-for-sale net of tax benefit of $6,837	--	--	(168,489)	(168,489)
Change in pension accrual net of tax expense of $629,206	--	--	1,790,818	1,790,818
Balance at December 31, 2022	5,000,000	63,635,959	8,315,633	76,951,592
Net income	--	6,409,882	--	6,409,882
Change in unrealized loss on securities available-for-sale net of tax expense of $2,064	--	--	57,279	57,279
Change in pension accrual net of tax expense of $1,139,668	--	--	3,243,671	3,243,671
Balance at December 31, 2023	$ 5,000,000	$ 70,045,841	$ 11,616,583	$ 86,662,424

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

BRANDENBURG TELEPHONE COMPANY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,409,882	$ 2,820,064
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,042,675	2,612,605
Deferred tax provisions	622,600	360,298
(Gain) on sale of premises and equipment, net	(59,082)	(2,850)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable	791,567	(35,418)
Income tax receivable	1,082,646	173,224
Due from affiliate	(3,046,642)	(3,661,259)
Materials and supplies	194,175	(261,679)
Prepaid insurance	(600)	(498)
Accounts payable	(71,608)	(28,677)
Other current and accrued liabilities	316,812	37,400
Net cash provided by operating activities	9,282,425	2,013,210
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,558,358)	(3,321,295)
Proceeds from sales of property and equipment	62,087	2,850
Purchases of short-term portfolio investments	(28,896)	- -
Proceeds from maturities of short-term portfolio investments	415,000	- -
Purchase of company owned life insurance	(1,000,000)	- -
Nonregulated activities	(1,568,034)	939,795
Net cash (used in) investing activities	(4,678,201)	(2,378,650)
Net increase (decrease) in cash and cash equivalents	4,604,224	(365,440)
Cash and cash equivalents:		
Beginning of year	7,170,334	7,535,774
End of year	$ 11,774,558	$ 7,170,334
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid	$ 5,238,566	$ 2,106,491

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

BRANDENBURG TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Brandenburg Telephone Company (Company) maintains its records in accordance with practices prescribed or permitted by the Kentucky Public Service Commission and the Rural Utilities Service (RUS) which conforms to accounting principles generally accepted in the United States in all material respects. The significant policies are as follows:

Nature of operations

The Company is a telephone company that offers business and residential telephone service to customers located in Meade, Hardin and Breckinridge counties in Kentucky. Brandenburg Telephone Company is a wholly-owned subsidiary of Brandenburg Communications Corporation.

Telephone plant

Telephone plant in service is stated at original cost, which is the cost when first dedicated to public service. Such cost includes applicable supervisory and overhead cost.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of depreciable property units, as distinguished from minor items, is charged to utility plant. The cost of removal, net of any salvage value, is charged to accumulated depreciation. Gain or loss on the sale of assets is recognized as income in the year in which the assets are sold.

Depreciation

Provision has been made for depreciation for financial statement purposes on the basis of estimated useful lives of assets (as prescribed by the Kentucky Public Service Commission) using the straight-line method.

Use of estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and cash equivalents

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

Note 1. Summary of Significant Accounting Policies (Continued)

Securities

All marketable debt securities are classified as available-for-sale and are recorded at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Realized gains and losses on securities available-for-sale are included in other income or expense. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value below cost that are deemed to be credit losses are reflected in earnings as credit loss expense. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Accounts receivable

Accounts receivable are stated at net realizable value. The Company uses the allowance method to account for uncollectible accounts receivable. The Company's policy is not to accrue interest on accounts receivable. The balance in accounts receivable as of December 31, 2023, 2022, and 2021 was $197,047, $988,614, and $953,196, respectively.

The allowance estimate is derived from a review of the Company's historical losses based on the aging of receivables. This estimate is adjusted for management's assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Company. The Company believes historical loss information is a reasonable starting point with which to calculate the expected allowance for credit losses at the Company's portfolio segments have remained consistent since the Company's inception.

The Company writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized in income or an offset to credit loss expense in the year of recovery, in accordance with the Company's accounting policy election. The allowance for credit losses for the years as of December 31, 2023 and 2022 was not material to the financial statements.

Allowance for credit losses – available-for-sale securities

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Allowance for credit losses – available-for-sale securities (continued)

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement is met.

Telecommunications Revenue Recognition

Revenues are recognized when earned. Bills are sent to customers on credit according to their bill cycle with local service being billed in arrears. Sales are concentrated in a portion of three (3) central Kentucky counties. Payments are due 20 days from the date of billing. If payment has not been made, then customers are subject to disconnect on the 25th day after the billing date.

Interstate revenues are recognized on the cost basis recovery method. Compensation for intrastate/interlata service is received through tariffed access charges as filed with the FCC. These access charges are billed to the interlata long distance carrier and retained by the Company.

Income taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates.

The Company's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes the Company has no uncertain tax positions resulting in an accrual of tax expense or benefit.

The Company recognizes interest accrued related to uncertain tax positions in interest expense and penalties in operating expenses. The Company did not recognize any interest or penalties during the years ended December 31, 2023 and 2022.

The Company's income tax returns are subject to examination by the Internal Revenue Service and the Kentucky Department of Revenue until the expiration of the related statutes of limitations on those tax returns. In general, the tax returns have a three year statute of limitations for federal and a four year statute of limitations for state.

Comprehensive income

Comprehensive income is the total of (1) net income plus (2) all other changes in net assets arising from non-owner sources, which are referred to as other comprehensive income. Other comprehensive income includes defined benefit plan pension plan income (expenses) and unrealized gains (losses) on available-for-securities, net of deferred tax expense (benefit).

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Company owned life insurance

The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Adopted Accounting Pronouncement

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing the Company's exposure to credit risk and the measurement of credit losses. The Company's financial assets subject to the guidance include trade accounts receivable.

The Company adopted the standard effective January 1, 2023. The impact of the adoption was not material to the financial statements and primarily resulted in enhanced disclosures only.

Subsequent events

The Company has evaluated subsequent events through March 20, 2024, the date which the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Note 2. Pension Plan

The Company sponsors a defined benefit pension plan that covers substantially all employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Company and compensation rates near retirement.

The following illustrates the pension plan for the years ended December 31, 2023 and 2022:

	2023	2022
Benefit obligation at beginning of year	$ 33,144,164	$ 45,788,556
Service cost	724,544	1,173,685
Interest cost	1,612,140	1,320,335
Benefits paid	(1,440,214)	(1,360,369)
Actuarial (gain) loss	374,079	(13,778,043)
Benefit obligation at end of year	$ 34,414,713	$ 33,144,164

	2023	2022
Fair value of plan assets at beginning of year	$ 45,313,086	$ 53,996,386
Actual return on plan assets	8,463,116	(7,322,931)
Employer contributions	- -	- -
Benefits paid	(1,440,214)	(1,360,369)
Fair value of plan assets at end of year	$ 52,335,988	$ 45,313,086

Amounts recognized in the statements of financial position consists of:

	2023	2022
Reconciliation of funded status:		
Funded status	$ 17,921,275	$ 12,168,922
Unrecognized actuarial (gain) loss	- -	- -
Unrecognized transition (asset) obligation	- -	- -
Unrecognized prior service cost	- -	- -
Net amount recognized at year end	$ 17,921,275	$ 12,168,922

	2023	2022
Noncurrent assets	$ 17,921,275	$ 12,168,922
Noncurrent liabilities	- -	- -
Net amount recognized at year end	$ 17,921,275	$ 12,168,922

Note 2. Pension Plan (Continued)

Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income:

	2023	2022
Transition (obligation) asset	$ - -	$ - -
Prior service credit (cost)	- -	- -
Accumulated gain (loss)	15,850,346	11,467,006
Accumulated other comprehensive income before taxes	15,850,346	11,467,006
Cumulative employer contributions in excess of net periodic benefit cost	2,070,929	701,916
Net amount recognized in statements of financial position	$ 17,921,275	$ 12,168,922

Components of net periodic benefit cost:

	2023	2022
Service cost	$ 724,544	$ 1,173,685
Interest cost	1,612,140	1,320,335
Expected return on plan assets	(3,108,821)	(3,718,204)
Amortization of prior service cost	- -	- -
Amortization of transitional obligation	- -	- -
Amortization of net (gain)	(596,876)	(316,885)
Recognized acturial (gain) loss	- -	- -
Net periodic benefit cost	$ (1,369,013)	$ (1,541,069)

Weight-average assumptions as of December 31:

	2023	2022
Discount rate	5.00%	2.94%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	5.00%	5.00%

The following is an analysis of plan assets by category at measurement dates December 31:

	2023	2022
Cash	3%	4%
Debt securities	25%	24%
Equity securities	72%	72%
	100%	100%

Note 2. Pension Plan (Continued)

Benefits expected to be paid in each of the next five years and in the aggregate for the five years thereafter are:

Fiscal year		
2024	$	1,875,039
2025		1,863,159
2026		1,885,977
2027		1,886,283
2028		1,893,581
2029-2033		9,365,135

To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio. This resulted in the selection of the 7.00% long-term rate of return on assets assumption.

The Plan's investments measured at fair value on a recurring basis is as follows:

		Fair value measurements using;	
December 31, 2023	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Common stocks	$ 39,091,575	$ 39,091,575	$ --
Corporate bonds	10,262,305	--	10,262,305
U.S. government securities	2,110,335	--	2,110,335
Foreign obligations	299,031	--	299,031
State & municipal securities	422,014	--	422,014
Total	52,185,260	$ 39,091,575	$ 13,093,685
Cash accounts	150,728		
Total	$ 52,335,988		

Note 2. Pension Plan (Continued)

December 31, 2022	Fair value	Fair value measurements using; Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Common stocks	$ 33,155,466	$ 33,155,466	$ --
Corporate bonds	8,701,183	--	8,701,183
U.S. government securities	716,176	--	716,176
Foreign obligations	591,987	--	591,987
State & municipal securities	655,126	--	655,126
Total	43,819,938	$ 33,155,466	$ 10,664,472
Cash accounts	1,493,148		
Total	$ 45,313,086		

U.S. GAAP provides a framework for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methodology for measuring fair value specifies a three-tier hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are based on quoted prices or identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflects a company's own assumptions of market participant valuation (Level 3).

All financial assets and liabilities as of December 31, 2023 and 2022 are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. There have been no changes in the methodologies used at December 31, 2023 and 2022.

Level 1 Fair Value Measurements

The fair values of common stock are based on quoted market prices.

Level 2 Fair Value Measurements

The fair value of corporate bonds, U.S. Government securities, foreign obligations and state and municipal securities for which quoted market prices are not available are valued on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount.

NOTES TO FINANCIAL STATEMENTS

Note 3. Concentrations of Credit Risk

The Company maintains cash and cash equivalents at several banks. The total cash balances at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. A summary of total insured and uninsured amounts held at these financial institutions at December 31, 2023 and 2022 are as follows:

	2023	2022
Total cash and cash equivalents	$ 11,774,558	$ 7,170,334
Less: balance insured by FDIC	1,000,000	1,000,000
Uninsured and uncollateralized	$ 10,774,558	$ 6,170,334

Note 4. Portfolio Investments

The Company has classified all portfolio debt investments as available-for-sale. Available-for-sale investments are stated at fair value with unrealized gains and losses included in stockholder's equity. The cost of investments sold is based on the specific identification method.

The cost and fair market values of marketable debt securities available-for-sale at December 31, 2023 and 2022 were as follows:

	2023	2022
Municipal bonds:		
Amortized cost	$ 2,579,108	$ 3,019,761
Gross unrealized gain (loss)	(117,963)	(177,306)
Fair value	$ 2,461,145	$ 2,842,455

At December 31, 2023, maturities of investments classified as available-for-sale were as follows:

	Amortized cost	Fair value
Less than one year	$ 1,101,046	$ 1,070,783
One through five years	1,342,804	1,260,935
After five years	135,258	129,427
	$ 2,579,108	$ 2,461,145

Note 4. Portfolio Investments (Continued)

December 31, 2023	Fair value	Fair value measurements using; Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Municipal bonds	$ 2,461,145	$ --	$ 2,461,145
Total	$ 2,461,145	$ --	$ 2,461,145

December 31, 2022	Fair value	Fair value measurements using; Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Municipal bonds	$ 2,837,037	$ --	$ 2,837,037
Total	$ 2,837,037	$ --	$ 2,837,037

The fair value of municipal bonds for which quoted market prices are not available are valued on yields currently available on comparable securities of issuers with similar credit ratings.

NOTES TO FINANCIAL STATEMENTS

Note 5. Nonregulated Investments

Investments in nonregulated activities consist of the following:

	2023	2022
Due from affiliate	$ 10,901,745	$ 11,178,571
Inventory	288,770	255,845
Land and land improvements	330,989	330,989
Other equipment	128,633	128,633
Other receivables	- -	4,800
Fiber optic, mobile telephone and internet equipment	5,315,803	4,915,898
Total nonregulated investments	16,965,940	16,814,736
Less:		
Accumulated depreciation	4,297,191	3,918,516
Accounts payable	- -	38,581
Accrued expenses	989,875	2,746,799
	$ 11,678,874	$ 10,110,840

Following is a summary of net income from nonregulated investments for the year ending December 31, 2023 and 2022:

	2023	2022
Income	$ 7,967,110	$ 7,298,048
Expenses	4,658,069	3,904,530
	$ 3,309,041	$ 3,393,518

Income tax expense related to these activities totaled $838,967 in 2023 and $843,095 in 2022.

NOTES TO FINANCIAL STATEMENTS

Note 6. Telecommunications Plant

	2023	2022
Land	$ 1,026,121	$ 1,026,121
Buildings	9,860,478	9,860,477
Digital electronic equipment	2,839,210	2,821,245
Toll and subscriber carriers	6,986,534	6,696,689
Poles, cable and wire	48,465,223	45,716,983
Furniture and office equipment	6,334,737	6,334,737
Embedded accounts	300,712	300,712
Vehicles and other work equipment	6,202,621	5,053,821
Telephone plant in service	$ 82,015,636	$ 77,810,785

The Company provides depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of the telephone plant in service was 6.9% in both 2023 and 2022. Depreciation expense for the years ended December 31, 2023 and 2022 was $3,042,675 and $2,612,605, respectively.

Note 7. Income Taxes

The provision for income taxes consists of the following:

	2023	2022
Current:		
Federal income tax expense	$ 1,569,344	$ 902,535
State income tax expense	373,653	214,889
Deferred:		
Federal deferred tax expense	536,310	287,540
State deferred tax expense	86,290	72,758
Total income tax expense	$ 2,565,597	$ 1,477,722

NOTES TO FINANCIAL STATEMENTS

Note 7. Income Taxes (Continued)

The Company and its parent file a consolidated federal income tax return. Income tax expense in the Company's income statement has been allocated an amount equal to the income tax that would have been applicable on a separate return basis.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of the Company's assets and liabilities for financial reporting basis and the amounts used for income tax purposes. The principal sources of temporary differences are different depreciation methods used for financial accounting and tax purposes, as well as pension expense.

Deferred federal and state tax assets and liabilities in the accompanying balance sheets include the following:

	2023	2022
Deferred tax (liability), non-current:		
Federal	$ (11,593,120)	$ (7,721,518)
State	(1,897,176)	(1,013,122)
Total deferred tax (liability)	$ (13,490,296)	$ (8,734,640)

Note 8. Related Party Transactions

Brandenburg Telephone Company has certificates of deposit at Meade County Bank and West Point Bank at December 31, 2023 and 2022, as follows:

Bank	2023	2022
Meade County Bank	$ 1,123,355	$ 1,094,891
West Point Bank	992,709	982,317

Note 8. Related Party Transactions (Continued)

In addition, the Company has money market and operating accounts in the following banks:

	December 31, 2023	December 31, 2022
Operating accounts:		
Meade County Bank	$ 4,205,071	$ 965,379
First State Bank	866,923	473,235
West Point Bank	1,675,749	843,182
Total operating accounts	$ 6,747,743	$ 2,281,796
Money market accounts:		
First State Bank	$ 1,008,520	$ 1,004,404
River City Bank	1,863,291	1,803,776
Total money market accounts	$ 2,871,811	$ 2,808,180

Meade County Bank, West Point Bank, River City Bank, First State Bank and Brandenburg Telephone Company are related by common ownership.

Brandenburg Telecom, LLC (the Corporation), a wholly-owned subsidiary of Brandenburg Communications Corporation provides telecommunication services in Elizabethtown, Kentucky and other areas outside the franchise territory of Brandenburg Telephone Company. The Company pays for administrative, labor and employee benefits costs for Brandenburg Telecom, LLC, a total of $3,106,642 and $3,661,259 for the years ended December 31, 2023 and 2022. As of December 31, 2023 and 2022, the amount due to the Company was $28,044,382 and $24,997,740, respectively.

Note 9. Revenue Recognition

Telecommunications revenues – The Company's regulated sources of revenue are local network services, network access services (interstate and intrastate/interlata), carrier billing, and other service charges. The Company's nonregulated sources of revenue are customer premises and equipment, internet activities, long distance services, video services, and security/surveillance/bus systems.

Significant judgments

Revenues from sales of equipment are recognized when control has transferred to the customer. Telecommunication service revenues are recognized as the related service is provided. Services are deemed to be highly interrelated when the method and timing of transfer and performance risk are the same. Highly interrelated services that are determined to not be distinct have been grouped into a single performance obligation. Each month of services promised is a performance obligation. The series of monthly service performance obligations promised over the course of the contract are combined into a single performance obligation for purposes of the allocation.

Note 9. Revenue Recognition (Continued)

The Company has made judgments regarding transaction price, including but not limited to issues relating to variable consideration, time value of money and returns. When determined to be significant in the context of the contract, these items are considered in the valuation of transaction price at contract inception or modification, as appropriate.

Multiple performance obligations

From time to time, the Company may offer certain promotions to incentive customers to switch to, or to purchase additional services from the Company. Under these types of promotions, an eligible customer may receive an incentive in the form of a discount off additional services purchases shown as a credit to the customer's monthly bill.

Disaggregation of revenue

In the following table, revenue for the years ended December 31, 2023 and 2022 is disaggregated by type of service and timing of revenue recognition. Telecommunication service revenues are recognized over time.

	2023	2022
Regulated income:		
Local network services	$ 1,528,986	$ 1,759,167
Network access services	10,394,178	10,360,015
Carrier billing and collections	111,814	139,768
Long distance services	174,885	357,321
Miscellaneous	537,802	348,014
Directory revenue	273,890	299,211
	$ 13,021,555	$ 13,263,496
Nonregulated income:		
Housewire outlet revenue	$ 228,383	$ 263,274
Internet activities	5,695,116	5,189,226
Lease revenue	825,716	599,828
Sales revenue	99,030	101,214
Miscellaneous	837,843	814,261
Lease fiber optic revenue	281,022	330,245
	$ 7,967,110	$ 7,298,048

Contract cost liabilities:

Contract cost liabilities include customer deposits. The balance in contract liabilities was $2,229, $2,916 and $3,921 as of December 31, 2023, 2022 and 2021, respectively. The deposits are listed on the balance sheet under other current and accrued liabilities.

NOTES TO FINANCIAL STATEMENTS

Note 10. Employee Retention Credits

Under provisions of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), the Company determined they met the criteria and were eligible for the refundable Employee Retention Credit (ERC). The Company amended its Form 941 Employer Quarterly Federal Tax Return for two quarters to claim refunds related to this credit. For the year ended December 31, 2023, the Company claimed $1,502,417 with the amount included in other operating gains, in accordance with IAS 20, in the statement of income. In addition, the Company amended its 2021 income tax return for the effect of the ERC and incurred $315,508 of additional tax due. The IRS may subsequently initiate an ERC audit and request a refund, including penalties and interest, if they determine the Company was not eligible for the ERC claimed. The general statute of limitations is three years but the IRS has extended the statute to five years for ERC. The Company engaged a third-party service provider to assist in determining that the Company met the criteria for the ERC and management believes they have met the eligibility requirements.

Note 11. Settlement

During the current year, the Company received a settlement relating to its dispute with Sprint Communications over the jurisdiction of the Company's access charges on its 2007 billing to Sprint. Sprint withheld payments of $2,195,506 from these billings. In 2008, Sprint filed a complaint with the Public Service Commission in Kentucky. The case has been tied up in the courts since 2009. The United States District Court ruled in favor of the Company on February 28, 2023. On April 27, 2023, Sprint paid the Company $6,584,743, including interest, in settlement of the case. The Company had previously accrued $1,025,153 for the settlement.