FOOTHILLS RURAL TELEPHONE COOPERATIVE
AND SUBSIDIARY
KY 522

FINANCIAL REPORT

DECEMBER 31, 2023

C O N T E N T S

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Foothills Rural Telephone Cooperative and Subsidiary
Staffordsville, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Foothills Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Foothills Rural Telephone Cooperative and Subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 Foothills Rural Telephone Cooperative and Subsidiary 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 these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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Auditor's Responsibilities for the Audit of the 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 generally accepted auditing standards 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 generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Foothills Rural Telephone Cooperative and Subsidiary'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 consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Foothills Rural Telephone Cooperative and Subsidiary'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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2024, on our consideration of Foothills Rural Telephone Cooperative and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Foothills Rural Telephone Cooperative and Subsidiary's 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 Foothills Rural Telephone Cooperative and Subsidiary's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 4, 2024

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 27,209,766	$ 30,885,172
Accounts receivable, less allowance for credit losses of $131,396 in 2023 and $84,837 in 2022	1,287,298	1,183,997
Other receivables	969,294	838,489
Materials and supplies	2,914,346	2,191,141
Prepaid income taxes	364,863	447,639
Prepaid expenses	473,571	334,107
Total current assets	33,219,138	35,880,545
NON-CURRENT ASSETS		
Investment securities	3,806,065	3,639,096
Associated organizations	33,545,091	33,427,758
Pension plan prefunding	859,252	1,108,187
Nonregulated investments	3,619,255	3,562,456
Total non-current assets	41,829,663	41,737,497
PROPERTY, EQUIPMENT AND INTANGIBLES		
In service	150,815,390	144,418,333
Under construction	7,400,820	2,497,348
	158,216,210	146,915,681
Less accumulated depreciation	103,201,480	97,544,852
	55,014,730	49,370,829
Intangibles	3,431,827	3,431,827
Less accumulated amortization	933,333	700,000
	2,498,494	2,731,827
	$ 132,562,025	$ 129,720,698

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

	2023	2022
LIABILITIES AND MEMBERS' EQUITIES		
CURRENT LIABILITIES		
Accounts payable	$ 1,283,219	$ 1,829,682
Customer deposits	171,155	181,308
Accrued expenses	1,768,297	1,784,022
Total current liabilities	3,222,671	3,795,012
NON-CURRENT LIABILITIES		
Accumulated postretirement benefits	8,006,204	8,935,669
Deferred tax liabilities	4,325,542	3,686,451
Total non-current liabilities	12,331,746	12,622,120
MEMBERS' EQUITIES		
Memberships and capital investments	622,406	621,752
Patronage capital and retained earnings	120,217,290	118,223,608
Donated capital	124,537	124,537
Accumulated comprehensive (loss)	(3,956,625)	(5,666,331)
Total members' equities	117,007,608	113,303,566
	$ 132,562,025	$ 129,720,698

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

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

	2023	2022
Operating revenues:		
Local network service	$ 10,403,277	$ 8,783,099
Network access service	14,609,934	13,596,205
Carrier billing and collection	379,621	369,890
Miscellaneous	1,032,952	1,809,269
Less provision for uncollectibles	(92,062)	(43,200)
Total operating revenues	26,333,722	24,515,263
Operating expenses:		
Plant specific operations	11,112,138	9,096,546
Plant non-specific operations	1,456,427	1,679,856
Depreciation and amortization	7,086,588	6,791,467
Customer operations	2,478,097	2,373,043
Corporate operations	2,860,933	2,940,858
Taxes, other than income	763,501	850,943
Total operating expenses	25,757,684	23,732,713
Operating income	576,038	782,550
Other income (expense):		
Other nonoperating (expense)	(581,942)	(654,154)
Interest on long-term debt	- -	(1,582)
Other interest expense	(4,251)	(725)
Income in associated organizations	1,879,422	1,644,016
Total other income	1,293,229	987,555
Income before income taxes	1,869,267	1,770,105
Income tax (expense)	(751,504)	(552,841)
Net income before nonregulated income	1,117,763	1,217,264
Nonregulated income	3,083,304	2,663,780
Net income	4,201,067	3,881,044
Other comprehensive income (loss)		
Accumulated postretirement benefits (expenses)	1,703,845	(902,815)
Investment gains (losses)	5,861	(17,025)
	1,709,706	(919,840)
Total comprehensive income	$ 5,910,773	$ 2,961,204

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

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2023 and 2022

		Patronage Capital							Accumulated Other Comprehensive	
	Memberships	Assigned	Assignable	Unassigned	Unlocated	Retirements	Total	Other Equities	(Loss)	Total
Balance, January 1, 2022	$ 621,310	$ 107,658,954	$ 6,104,188	$ 38,887,696	$ 1,192,610	$ (37,540,694)	$ 116,302,754	$ 124,537	$ (4,746,491)	$ 112,302,110
Allocate margins	- -	2,885,823	(6,104,188)	3,218,365	- -	- -	- -	- -	- -	- -
Net income	- -	- -	3,881,044	- -	- -	- -	3,881,044	- -	- -	3,881,044
Postretirement benefit obligations										
Adjustment									(1,116,367)	(1,116,367)
Amortization	- -	- -	- -	- -	- -	- -	- -	- -	213,552	213,552
Investment (losses)									(17,025)	(17,025)
Memberships issued, net	442	- -	- -	- -	- -	- -	- -	- -	- -	442
Refunds of capital credits	- -	- -	- -	- -	- -	(1,969,133)	(1,969,133)	- -	- -	(1,969,133)
Other equities	- -	- -	- -	- -	8,943	- -	8,943	- -	- -	8,943
Balance, December 31, 2022	621,752	110,544,777	3,881,044	42,106,061	1,201,553	(39,509,827)	118,223,608	124,537	(5,666,331)	113,303,566
Allocate margins	- -	3,108,310	(3,881,044)	772,734	- -	- -	- -	- -	- -	- -
Net income	- -	- -	4,201,067	- -	- -	- -	4,201,067	- -	- -	4,201,067
Postretirement benefit obligations										
Adjustment									1,490,293	1,490,293
Amortization	- -	- -	- -	- -	- -	- -	- -	- -	213,552	213,552
Investment gains									5,861	5,861
Memberships issued, net	654	- -	- -	- -	- -	- -	- -	- -	- -	654
Refunds of capital credits	- -	- -	- -	- -	- -	(2,206,922)	(2,206,922)	- -	- -	(2,206,922)
Other equities	- -	- -	- -	- -	(463)	- -	(463)	- -	- -	(463)
Balance, December 31, 2023	$ 622,406	$ 113,653,087	$ 4,201,067	$ 42,878,795	$ 1,201,090	$ (41,716,749)	$ 120,217,290	$ 124,537	$ (3,956,625)	$ 117,007,608

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

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,201,067	$ 3,881,044
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,086,588	6,791,467
Income from associated organizations	(1,879,422)	(1,644,016)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable, net	(103,301)	(373,315)
Other receivables	(130,805)	(234,038)
Material and supplies	(723,205)	(349,400)
Prepaid income taxes	82,776	(350,313)
Prepaid expenses	(139,464)	343,155
Pension plan prefunding	248,935	537,862
Accounts payable	(546,463)	864,389
Customer deposits	(10,153)	(8,841)
Deferred tax liabilities	639,091	626,000
Accrued expenses	(15,725)	(92,387)
Net cash provided by operating activities	8,709,919	9,991,607
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(11,659,429)	(4,957,225)
Salvage, net of removal cost	(57,486)	83,568
Sales of investments	22,000	309,783
Purchase of investments	(188,969)	- -
Nonregulated property	(56,799)	40,814
Associated organizations	1,762,089	1,745,211
Net cash (used in) investing activities	(10,178,594)	(2,777,849)
CASH FLOWS FROM FINANCING ACTIVITIES		
Membership and other equities	654	442
Retirements of capital credits	(2,207,385)	(1,960,190)
Payments on long-term debt	- -	(172,934)
Net cash (used in) financing activities	(2,206,731)	(2,132,682)
Net increase (decrease) in cash and cash equivalents	(3,675,406)	5,081,076
Cash and cash equivalents:		
Beginning of year	30,885,172	25,804,096
End of year	$ 27,209,766	$ 30,885,172
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	$ 4,251	$ 2,307
Income taxes paid	29,637	462,148

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

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Foothills Rural Telephone Cooperative (the Cooperative) maintains its records in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS) Uniform System of Accounts, which conform in all material respects with generally accepted accounting principles. The significant policies are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative and its wholly owned Subsidiary, Cellular Services, LLC (Cellular Services). All significant inter-company accounts and transactions have been eliminated.

Nature of Business

The Cooperative has completed construction allowing it to expand its services network. This network establishes the Cooperative as a full-service network (FSN) provider allowing it to provide expanded video services with over 200 channels, high-definition television and Video on Demand. It is also able to provide high speed internet, virtual private networks, and voice over internet protocol (VoIP). This is accomplished through Fiber to the Home (FTTH) technology.

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Cooperative considers temporary investments having original maturities of three months or less to be cash equivalents. The Cooperative 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.

Investments and Allowance for Credit Losses

Investment securities consist of cash, certificates of deposit in local banks, and debt securities classified as available for sale. Debt securities available for sale are recorded at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Realized gains or losses are computed based on specific identifications of the securities sold.

Note 1. Summary of Significant Accounting Policies (Continued)

Investments and Allowance for Credit Losses (continued)

Management assesses the financial condition and near-term prospects of the issuer, industry and/or geographic conditions, credit ratings as well as other indicators at the individual security level. Impairments below cost in the estimated fair value of individual available for sale debt securities when there is an intent to sell or for which it is more likely than not the Cooperative will be required to sell before the impairment is recovered, are realized in other income in the statements of income and comprehensive income. When there is not an intent to sell or it is more likely than not the Cooperative will not be required to sell the security before the impairment is recovered, management assesses whether the decline in fair value has resulted from credit losses or other factors. If the present value of discounted cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for available for sale credit losses is recorded. Such losses are limited to the amount that amortized cost exceeds fair value, even if the amount of the credit loss is greater. Any future changes in the allowance for credit losses is recorded as provision for (reversal of) credit losses. Losses attributable to other factors are charged to accumulated other comprehensive income. There was no allowance for credit losses on investments as of December 31, 2023 and 2022.

Investments are required to be categorized based on fair value inputs of Levels 1, 2, or 3 (see Note 2). Investments valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Level 3 inputs are assets measured at fair value on a recurring basis using significant unobservable inputs.

Accounts Receivable and Allowance for Credit Losses

The Cooperative operates in the telecommunications industry, and its accounts receivable are primarily derived from telecommunications customer services provided. Accounts receivables are stated at net realizable value. The Cooperative uses the allowance method to account for uncollectible accounts receivable. Management maintains an allowance for potential credit losses based on its assessment of the current status of the customer accounts. At each balance sheet date, the Cooperative recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist. Accounts receivable are usually collected within thirty days. The balance in accounts receivable as of December 31, 2023, 2022 and 2021 was $1,287,298, $1,183,997, and $810,682, respectively.

The allowance estimate is derived from a review of the Cooperative’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 Cooperative. The Cooperative believes historical loss information is a reasonable starting point with which to calculate the expected allowance for credit losses as the Cooperative’s portfolio segments have remained consistent since the Cooperative's inception.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable and Allowance for Credit Losses (continued)

The Cooperative writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. Subsequent recoveries are credited to the allowance for credit losses. Changes in the allowance for credit losses are as follows:

	2023	2022
Beginning Balance	$ 84,837	$ 126,879
Provision for credit losses	255,728	120,000
Write-offs	(346,238)	(293,438)
Recoveries	137,069	131,396
Ending Balance	$ 131,396	$ 84,837

Materials and Supplies

Materials and supplies are composed primarily of telephone material and supplies used in the telecommunications plant. The inventory is valued at the lower of cost or net realizable value, cost being determined by the average cost method.

Telecommunications Revenue Recognition

Revenues are recognized when earned. Bills are sent to customers on credit based on three (3) monthly billing cycles, with local service being billed a month in advance of service. Sales are concentrated in portions of five (5) southeastern Kentucky counties. Payments are due 20 days from the date of billing, at which time a disconnect notice is sent to the customer with payment to be made within 10 days.

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 PSC. These access charges are billed to the interlata long distance carrier and retained by the Cooperative.

Video Revenue Recognition

Cellular Services' headend equipment provides the Cooperative with the capabilities to provide expanded video services with over 200 channels, high-definition television, and Video on Demand. The monthly charge is based on the capacity utilized by Foothills Telephone and other unrelated companies.

Fiber to Home Activities

The Cooperative has launched an expanded services network. This network establishes the Cooperative as a full-service network (FSN) provider allowing it to provide expanded video services with over 200 channels, high-definition television and Video on Demand. It also is able to provide high speed internet, virtual private networks and voice on internet protocol (VoIP). This is accomplished through Fiber to the Home (FTTH) technology. The Cooperative purchases cable transmissions from networks at various amounts based on the number of customers receiving the service.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Taxes

Foothills Telephone and Cellular Services are required to collect, on behalf of taxing authorities, excise taxes, sales, school taxes, and franchise fees. The Cooperative's policy is to exclude tax from revenue when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

Risk Management

The Cooperative is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2023 and 2022, these costs were $163,905 and $217,218, respectively.

Telecommunications and Video Plant

Telecommunications and video plant are stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. Interest capitalized during the year was zero for 2023 and 2022.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expenses. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Provision has been made for depreciation on the basis of estimated lives of assets (as prescribed by the Public Service Commission of Kentucky) using the straight-line method. Rates are as follows:

	Foothills	Cellular Services
General support	2.7% - 15.8%	
Central office switching	7.5%	5.0%
Central office transmission	11.9%	
Cable wire facilities	5.1% - 9.4%	5.1% - 6.6%

Intangible Assets

Intangibles purchased in the acquisition of Lycom Communications are recorded at fair value and are being amortized over the life of the asset by the straight-line method.

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Cooperative is exempt from federal and state income taxes under IRS Code Section 501(c)(12). Certain unrelated business activities are subject to federal income taxes. Cellular Services is a "C" corporation that pays income taxes on its net income. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of investments in associated organizations and accumulated depreciation. The deferred tax assets and liabilities represent future tax return consequences of those differences, which will either be taxable or deductible when the assets or liabilities are recovered or settled.

The Cooperative'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 Cooperative has no uncertain tax positions resulting in an accrual of tax expense or benefit.

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

The Cooperative's income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years for federal and four years for state.

Comprehensive Income

Comprehensive income includes both net income and other comprehensive income. Other comprehensive income represents the change in funded status of the accumulated postretirement benefit obligation and unrealized gains (losses) on available for sale debt securities.

Subsequent Events

Management has evaluated subsequent events through April 4, 2024, the date the consolidated financial statements were available to be issued.

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 Cooperatives exposure to credit risk and the measurement of credit losses. The Cooperatives financial assets subject to the guidance include trade accounts receivable and available for sale debt securities.

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

Note 2. Fair Value Measurements

The Cooperative's investment securities measured at fair value on a recurring basis are as follows:

	Fair value	Fair value measurements using: Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2023			
Cash	$ 6,393	$ 6,393	$ - -
Certificates of deposit	3,589,362	- -	3,589,362
Debt securities	210,310	- -	210,310
	$ 3,806,065	$ 6,393	$ 3,799,672
December 31, 2022			
Cash	$ 3,002	$ 3,002	$ - -
Certificates of deposit	3,430,355	- -	3,430,355
Debt securities	205,739		205,739
	$ 3,639,096	$ 3,002	$ 3,636,094

The amortized cost of cash equivalents and certificates of deposit approximates fair value.

Debt securities, disaggregated by maturity, are as follows for the years ending December 31:

2023	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Due within one year	$ 95,983	$ - -	$ (2,524)	$ 93,459
Due from one to five years	92,270	402	(4,205)	88,467
Due from five to ten years	33,221	- -	(4,837)	28,384
	$ 221,474	$ 402	$ (11,566)	$ 210,310

2022	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Due within one year	$ 21,476	$ 407	$ (52)	$ 21,831
Due from one to five years	167,451	- -	(11,377)	156,074
Due from five to ten years	33,837	- -	(6,003)	27,834
	$ 222,764	$ 407	$ (17,432)	$ 205,739

For the year ending December 31, 2023, proceeds from the sale of available-for-sale debt securities were $22,000, with no associated realized gains and losses. For the year ending, December 31, 2022, proceeds from the sale of available-for-sale debt securities were $18,000 with associated realized gains of $19.

Note 2. Fair Value Measurements (Continued)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the ability and intent to hold debt securities for the foreseeable future, no declines are deemed to be other than temporary.

Note 3. Associated Organizations

The amounts for East Kentucky Network, LLC ("EKN") represents Cellular Service's investment in a limited liability company with other telephone companies in eastern Kentucky for the purpose of providing cellular telephone and other services. The investment is accounted for using the equity method since Cellular Services is a 20% member and has the ability to significantly influence EKN's operations and financial policies.

The following is summarized financial information of EKN as of and for the years ended December 31, 2023 and 2022:

	2023	2022
Assets	$ 223,770,492	$ 241,294,254
Liabilities	$ 56,045,037	$ 74,155,461
Equity	$ 167,725,455	$ 167,138,793
Revenues and other income	$ 121,290,650	$ 124,485,066
Expenses and other expenses	$ 111,429,883	$ 118,158,102
Net income	$ 9,860,767	$ 6,326,964

Note 4. Telecommunications Plant and Intangibles

The major classification of plant service is:

	2023	2022
Telecommunications Plant:		
General support	$ 19,868,225	$ 19,035,546
Central office switching	1,279,600	1,279,600
Central office transmission	17,768,542	16,936,745
Cable wire facilities	90,944,725	90,679,962
Intangibles	3,453	3,453
	129,864,545	127,935,306
Video Plant:		
Headend equipment	6,912,231	6,882,811
Plant assets	14,038,614	9,600,216
	20,950,845	16,483,027
Total	$ 150,815,390	$ 144,418,333

Depreciation expense for the years ended December 31, 2023 and 2022 totaled $6,853,255 and $6,558,134, respectively.

Intangible assets used in operations consist of the following:

	2023	2022	Weighted Average Life (in years)
Customer list	$ 3,431,827	$ 3,431,827	15
Accumulated amortization	(933,333)	(700,000)	
	$ 2,498,494	$ 2,731,827	

Aggregate amortization expense related to this intangible for the year ended December 31, 2023 and 2022 totaled $233,333 each year. The following represents the total estimated amortization expense for each of the succeeding five years: 2024 - $233,333; 2025 - $233,333; 2026 - $233,333; 2027 - $233,333; 2028 - $233,333.

Note 5. Nonregulated Activities

Deregulated customer premises equipment is stated at cost; material held for lease or resale is stated at average cost. Customer Premises Equipment (CPE) also includes inside wire revenues and expenses. Depreciation is provided on a straight-line basis at 11.9% per year. The Cooperative provides long distance telephone service under the name of Foothills Long Distance ("FLD"). FLD revenues are billed and collected through the Cooperative. A monthly fee is recorded based on telephone usage. FLD purchases minutes of long distance to resell to its customers from an unrelated party. Nonregulated investments also include amounts that the Cooperative has invested to provide internet services to its customers. The Cooperative pays an unrelated party for the help desk and access to the internet system.

The following is a summary of nonregulated activities as of December 31:

	2023	2022
Investments	$ 271,997	$ 276,857
Material and supplies	1,426	1,426
Plant assets	7,932,168	7,109,991
Reserve for depreciation	(4,586,336)	(3,825,818)
	$ 3,619,255	$ 3,562,456

	Income	Expenses	Net
Customer premises equipment	$ 200,298	$ 354,586	$ (154,288)
VoIP	305,521	96,826	208,695
Internet activities	8,679,420	5,643,926	3,035,494
Long distance services	409,237	359,655	49,582
Fiber to home video	4,813,752	4,869,931	(56,179)
Total - 2023	$ 14,408,228	$ 11,324,924	$ 3,083,304

	Income	Expenses	Net
Customer premises equipment	$ 214,027	$ 419,881	$ (205,854)
VoIP	265,801	92,034	173,767
Internet activities	8,299,209	5,454,032	2,845,177
Long distance services	464,819	376,538	88,281
Fiber to home video	4,948,658	5,186,249	(237,591)
Total - 2022	$ 14,192,514	$ 11,528,734	$ 2,663,780

Note 6. Pension Plan

All eligible non-union employees of the Cooperative participate in the National Telephone Cooperative Association (NTCA) Pension Plan ("R&S Plan"), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 52-0741336 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers. There have been no significant changes that affect the comparability of 2023 and 2022. The Cooperative uses a December 31 measurement date for the plan.

The Cooperative's contributions to the R&S Plan in 2023 and 2022 represent less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made no contributions to the plan in 2023 and 2022.

In the R&S Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act ("PPA") of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan was 100 percent funded at December 31, 2023 and 2022, respectively, based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

The NTCA Board of Directors amended the 2018 R&S Program specifications at the recommendation of the Plan Trust Committee to include the following changes:

- Basic contribution rates will increase by 19%.
- The program's current surcharge will expire at the end of 2018, and a new surcharge contribution of 50% of the member's elected contribution rate will begin in 2019. This surcharge is expected to continue for approximately 12 years.
- A prefunding option was added to allow members the option to prefund their future surcharge contributions in a single payment prior to the start of the new surcharge effective in 2019.
- Beginning January 1, 2018, for members that have adopted the Rule-of-85 ("ROE") provision, the ROE charge will apply to both the member's elected employer contribution rate and any required employee contribution rate.

Note 6. Pension Plan (Continued)

Over the past several years, various actions have been taken to sustain the reserve of funds available to help meet the programs legally required minimum contribution amount. However, adverse economic conditions and regulatory changes have negatively affected all pension plans, including the R&S Program. Despite prudent decision-making by the program's trust committee, the R&S Program's minimum contribution amount is projected to exceed the current reserve and member contributions alone will not meet the minimum requirement. This expectation has led the program's actuary to recommend the new surcharge contribution beginning in 2020. The R&S Program is offering prefunding to give members flexibility in addressing this situation at the Cooperative.

The prefunding contribution is expected to fund the member's surcharge contribution for approximately 12 years.

- Each member's prefunding contribution will be maintained in a notional account within the R&S Program and used to pay that member's surcharge contributions.
- Each member's prefunding account is maintained separately from other member's prefunding accounts.
- Account funds will be invested with other R&S Program assets and grow at the same rate as the program's overall investment returns.
- An annual statement will be provided to each member showing their specific prefunding account activity.

During 2016, the Cooperative prefunded the surcharge in an amount of $2,078,772. This amount will be amortized over the 12-year period the surcharge is expected to continue. The prefunding is invested by NTCA and the earnings are reinvested in the prefunding.

Contributions rates are as follows:

	2023	2022
Employer contributions	15.40%	14.20%
Employee contributions	3.00%	3.00%
Rate of 85 charges	5.50%	5.50%

Note 7. Accumulated Postretirement Benefits

The Cooperative sponsors a defined benefit plan that provides medical insurance coverage for employees hired before February 1, 2006 to retirees and their dependents. Employees hired after that date are not eligible to receive paid health insurance after retirement. Participating retirees and dependents do not contribute to the projected cost of coverage. Employees qualify with a minimum age of 55 and 20 years of service for the Cooperative. There have been no significant changes that affect the comparability of 2023 and 2022. The Cooperative uses a December 31 measurement date for the plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Accumulated Postretirement Benefits (Continued)

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

	2023	2022
Benefit obligation, beginning of year	$ 14,079,233	$ 12,084,318
Service cost	214,514	313,624
Interest cost	634,695	418,509
Benefits paid	(450,654)	(339,545)
Actuarial loss	(1,433,062)	1,602,327
Benefit obligation, end of year	$ 13,044,726	$ 14,079,233
Fair value of plan assets, beginning of year	$ 5,143,564	$ 4,513,046
Actual return on plan assets	345,612	970,063
Employer contributions	- -	- -
Benefits paid	(450,654)	(339,545)
Fair value of plan assets, end of year	$ 5,038,522	$ 5,143,564
Reconciliation of funded status:		
Funded status	$ (8,006,204)	$ (8,935,669)
Net amount recognized at year end	$ (8,006,204)	$ (8,935,669)
Amounts recognized in the balance sheet consists of:		
Noncurrent (liabilities)	$ (8,006,204)	$ (8,935,669)
Amounts included in accumulated other comprehensive (loss):		
Unrecognized actuarial (loss)	$ (3,945,461)	$ (5,649,306)

	2023	2022
Components of net periodic benefit cost:		
Service cost	$ 214,514	$ 313,624
Interest cost	634,695	418,509
Expected return on plan assets	(352,697)	(360,049)
Amortization cost	313,845	365,014
Net periodic benefit cost	$ 810,357	$ 737,098

Note 7. Accumulated Postretirement Benefits (Continued)

Weight-average assumptions as of December 31:		
Discount rate	4.95%	3.00%
Expected return on plan assets	7.25%	7.00%
Rate of compensation increase	Varies	Varies
Effect of 1% trend sensitivity for medical plan:		
Projected benefit obligation	$ 15,098,816	$ 17,023,688
Net periodic benefit cost	1,180,358	1,142,579

The projected retiree benefit payments are expected to be as follows: 2024 - $450,654; 2025 - $472,961; 2026 - $496,373; 2027 - $520,943; 2028 - $546,730.

The Plan's investments reported at fair value are as follows:

		Fair value measurements using:	
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2023			
US Equity	$ 1,244,515	$ 1,244,515	$ - -
International Equity	1,320,093	- -	1,320,093
Low Volatility	856,549	- -	856,549
High Yield	408,120	- -	408,120
Real Estate	418,197	- -	418,197
Investment Grade Fixed Income	690,278	- -	690,278
Cash	100,770	100,770	- -
	$ 5,038,522	$ 1,345,285	$ 3,693,237
December 31, 2022			
US Equity	$ 1,270,460	$ 1,270,460	$ - -
International Equity	1,347,614	- -	1,347,614
Low Volatility	874,406	- -	874,406
High Yield	416,629	- -	416,629
Real Estate	426,916	- -	426,916
Investment Grade Fixed Income	704,668	- -	704,668
Cash	102,871	102,871	- -
	$ 5,143,564	$ 1,373,331	$ 3,770,233

Note 8. Income Taxes

The components of income tax expense are as follows:

	December 31, 2023	December 31, 2022
Current:		
Federal	$ 16,909	$ - -
State	95,504	110,390
	112,413	110,390
Deferred:		
Federal	525,091	322,451
State	114,000	120,000
	639,091	442,451
	$ 751,504	$ 552,841

The deferred tax liabilities in the accompanying balance sheets consist of the following components:

	December 31, 2023	December 31, 2022
Deferred tax liabilities:		
Federal	$ 3,467,542	$ 2,942,451
State	858,000	744,000
	$ 4,325,542	$ 3,686,451

Note 9. Commitments

The Cooperative has various agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction, maintenance, and other work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are one to three years.

Note 10. Contingencies

The Cooperative, occasionally, is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

Note 11. Revenue Recognition

The timing of recognition of revenue for each performance obligation may differ from the timing of the customer billing, creating a contract asset or contract liability. Short-term contract liabilities are classified as customer deposits. The Cooperative has no contract assets or long-term contract liabilities.

The following is a description of principal activities from which the Cooperative generates its revenues.

Telecommunications revenues – The Cooperative's regulated sources of revenue are local network services, network access services (interstate and intrastate/interlata), carrier billing, video revenue and other service charges. The Cooperative'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.

The Cooperative 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

The Cooperative sells bundled service and equipment offerings. In these instances, the Cooperative recognizes its revenue based on the relative standalone selling prices for each distinct service or equipment performance obligation or bundles thereof. The Cooperative estimates the standalone selling price of the device or accessory to be its retail price excluding discounts. The Cooperative estimates the standalone selling price of telecommunication service to be the price offered to customers on month-to-month contracts.

From time to time, the Cooperative may offer certain promotions to incentivize customers to switch to, or to purchase additional services from the Cooperative. Under these types of promotions, an eligible customer may receive an incentive in the form of a discount off additional services purchased shown as a rebate or credit to the customer's monthly bill. Rebates are amortized over the life of the contract and are recognized when included in the customer's monthly bill.

Note 11. Revenue Recognition (Continued)

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 and equipment sales at a point in time.

	2023	2022
Regulated income:		
Local network services	$ 10,403,277	$ 8,783,099
Network access services	14,609,934	13,596,205
Carrier billing and collections	379,621	369,890
Miscellaneous	1,032,952	1,809,269
	$ 26,425,784	$ 24,558,463
Nonregulated income:		
Customer premises equipment	$ 200,298	$ 214,027
VoIP	305,521	265,801
Internet activities	8,679,420	8,299,209
Long distance services	409,237	464,819
Fiber to the home video	4,813,752	4,948,658
	$ 14,408,228	$ 14,192,514

Contract cost liabilities

Contract cost liabilities include customer deposits. The balance in contract liabilities was $171,155, $181,308 and $190,149 as of December 31, 2023, 2022 and 2021, respectively.

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Directors
Foothills Rural Telephone Cooperative and Subsidiary
Staffordsville, Kentucky

We have audited the consolidated financial statements of Foothills Rural Telephone Cooperative and Subsidiary as of December 31, 2023 and 2022, and our report thereon dated April 4, 2024, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 through 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information found on pages 25 and 26, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 4, 2024

Certified Public Accountants and Advisors

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FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2023

	Foothills Rural Telephone Cooperative	Cellular Services	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 21,802,089	$ 5,407,677	$ - -	$ 27,209,766
Accounts receivable, less allowance for credit losses of $131,396	1,053,740	233,558	- -	1,287,298
Other receivables	7,904,356	- -	(6,935,062)	969,294
Materials and supplies	2,914,346	- -	- -	2,914,346
Prepaid income taxes	- -	364,863	- -	364,863
Prepaid expenses	470,630	2,941	- -	473,571
Total current assets	34,145,161	6,009,039	(6,935,062)	33,219,138
NON-CURRENT ASSETS				
Investment securities	2,695,865	1,110,200	- -	3,806,065
Associated organizations	50,113,558	33,545,091	(50,113,558)	33,545,091
Pension plan prefunding	859,252	- -	- -	859,252
Nonregulated investments	3,619,255	- -	- -	3,619,255
Total non-current assets	57,287,930	34,655,291	(50,113,558)	41,829,663
PROPERTY, EQUIPMENT AND INTANGIBLES				
In service	129,864,543	20,950,847	- -	150,815,390
Under construction	484,290	6,916,530	- -	7,400,820
	130,348,833	27,867,377	- -	158,216,210
Less accumulated depreciation	93,584,453	9,617,027	- -	103,201,480
	36,764,380	18,250,350	- -	55,014,730
Intangibles	- -	3,431,827	- -	3,431,827
Less accumulated amortization	- -	933,333	- -	933,333
	- -	2,498,494	- -	2,498,494
	$ 128,197,471	$ 61,413,174	$ (57,048,620)	$ 132,562,025

	Foothills Rural Telephone Cooperative	Cellular Services	Eliminations	Consolidated
LIABILITIES AND MEMBERS' EQUITIES				
CURRENT LIABILITIES				
Accounts payable	$ 1,255,038	$ 6,963,243	$ (6,935,062)	$ 1,283,219
Customer deposits	171,155	- -	- -	171,155
Accrued expenses	1,757,466	10,831	- -	1,768,297
Total current liabilities	3,183,659	6,974,074	(6,935,062)	3,222,671
NON-CURRENT LIABILITIES				
Accumulated postretirement benefits	8,006,204	- -	- -	8,006,204
Deferred tax liabilities	- -	4,325,542	- -	4,325,542
Total non-current liabilities	8,006,204	4,325,542	- -	12,331,746
MEMBERS' EQUITIES				
Memberships and capital investments	622,406	8,257,826	(8,257,826)	622,406
Patronage capital and retained earnings	120,217,290	41,855,732	(41,855,732)	120,217,290
Donated capital	124,537	- -	- -	124,537
Accumulated comprehensive (loss)	(3,956,625)	- -	- -	(3,956,625)
Total members' equities	117,007,608	50,113,558	(50,113,558)	117,007,608
	$ 128,197,471	$ 61,413,174	$ (57,048,620)	$ 132,562,025

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2023

	Foothills Rural Telephone Cooperative	Cellular Services	Eliminations	Consolidated
Operating revenues:				
Local network service	$ 2,113,387	$ 8,268,890	$ 21,000	$ 10,403,277
Network access service	14,418,068	191,866	- -	14,609,934
Carrier billing and collection	379,621	- -	- -	379,621
Miscellaneous	916,743	99,760	16,449	1,032,952
Less provision for uncollectibles	(92,062)	- -	- -	(92,062)
Total operating revenues	17,735,757	8,560,516	37,449	26,333,722
Operating expenses:				
Plant specific operations	4,487,242	6,660,596	(35,700)	11,112,138
Plant non-specific operations	1,371,025	85,402	- -	1,456,427
Depreciation and amortization	5,676,224	1,410,364	- -	7,086,588
Customer operations	2,372,012	106,085	- -	2,478,097
Corporate operations	2,192,418	668,515	- -	2,860,933
Taxes, other than income	638,720	124,781	- -	763,501
Total operating expenses	16,737,641	9,055,743	(35,700)	25,757,684
Operating income (loss)	998,116	(495,227)	73,149	576,038
Other income (expense):				
Other nonoperating income (expense)	(589,106)	7,164	- -	(581,942)
Other interest expense	(4,251)	- -	- -	(4,251)
Income in associated organizations	639,855	1,879,422	(639,855)	1,879,422
Total other income (expense)	46,498	1,886,586	(639,855)	1,293,229
Income before income taxes	1,044,614	1,391,359	(566,706)	1,869,267
Income tax (expense)	- -	(751,504)	- -	(751,504)
Net income before nonregulated income	1,044,614	639,855	(566,706)	1,117,763
Nonregulated income	3,156,453	- -	(73,149)	3,083,304
Net income	4,201,067	639,855	(639,855)	4,201,067
Other comprehensive (loss)				
Accumulated postretirement benefits	1,703,845	- -	- -	1,703,845
Investment gains	5,861	- -	- -	5,861
	1,709,706	- -	- -	1,709,706
Total comprehensive income (loss)	$ 5,910,773	$ 639,855	$ (639,855)	$ 5,910,773

INDEPENDENT AUDITOR'S REPORT 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*

To the Board of Directors
Foothills Rural Telephone Cooperative and Subsidiary
Staffordsville, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Foothills Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of income and comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 4, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Cooperative's 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

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

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

Certified Public Accountants and Advisors

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's consolidated financial statements are free from 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 4, 2024

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR TELEPHONE BORROWERS

Board of Directors
Foothills Rural Telephone Cooperative and Subsidiary
Staffordsville, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Foothills Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of income and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 4, 2024. In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2024 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees,* §1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;
- Prepare accurate and timely Financial and Operating Reports;

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- Obtain written permission from RUS to enter into any contract, agreement, or lease with any Subsidiary as defined in Part 1773.33 (e)(2)(i);
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles, and;
- Comply with the requirements for the detailed schedule of investments, which is listed below.

The Cooperative's subsidiary Cellular Services is a 20% owner of East Kentucky Network, LLC, that provides cellular and other communications services in Eastern Kentucky. The initial investment was $1,130,000.

	Investments	Profits	Returns
Beginning of year	$ 4,294,013	$ 68,711,781	$ (39,578,036)
Activity for 2023	- -	1,879,422	(1,762,089)
End of year	$ 4,294,013	$ 70,591,203	$ (41,340,125)

During 2004, the Cooperative formed a wholly owned Subsidiary, Cellular Services, which provides telecommunications services outside of the Cooperative's service territory.

	Investments	Profits (less Dividends)
Beginning of year	$ 11,757,826	$ 37,715,877
Activity for 2023	- -	639,855
End of year	$ 11,757,826	$ 38,355,732

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for telecommunication borrowers based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*. Accordingly, this report is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 4, 2024