GEARHEART COMMUNICATIONS, INC.
DBA COALFIELDS TELEPHONE COMPANY

FINANCIAL REPORT

DECEMBER 31, 2023

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Gearheart Communications, Inc.
dba Coalfields Telephone Company
Harold, Kentucky

Qualified Opinion

We have audited the accompanying financial statements of Gearheart Communications, Inc. dba Coalfields Telephone Company, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the effects of not consolidating all majority-owned subsidiaries, as described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of Coalfields 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 Qualified Opinion

Coalfields Telephone Company's 90% owned subsidiary, PDNS, LLC, is not included in these financial statements. In our opinion, accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be included in the accompanying financial statements. If the financial statements of PDNS, LLC had been consolidated with the 2023 financial statements of Coalfields Telephone Company, total assets and total liabilities would be increased by approximately $2,900,000 and $17,400,000, respectively, as of December 31, 2023, and revenues and expenses would be increased by approximately $3,300,000 and $3,200,000, respectively for the year ended December 31, 2023. If the financial statements of PDNS, LLC had been consolidated with the 2022 financial statements of Coalfields Telephone Company, total assets and total liabilities would be increased by approximately $3,100,000 and $17,800,000, respectively, as of December 31, 2022, and revenues and expenses would be increased by approximately $3,000,000 and $3,100,000, respectively for the year ended December 31, 2022.

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 Coalfields 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 qualified audit opinion.

Certified Public Accountants and Advisors

401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589.1680 www.jnmcpa.com

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Coalfields 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.

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 Coalfields 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 Coalfields 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 22, 2024

GEARHEART COMMUNICATIONS, INC.
DBA COALFIELDS TELEPHONE COMPANY

BALANCE SHEETS
December 31, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,824,866	$ 2,508,083
Accounts receivable, less allowance for credit losses of $36,250 in 2023 and $26,127 in 2022	358,193	298,419
Other receivables	258,396	- -
Materials and supplies, at average cost	237,036	198,519
Prepaid expenses	10,630	2,675
Prepaid income taxes	- -	78,695
Total current assets	2,689,121	3,086,391
INVESTMENTS AND OTHER ASSETS		
Certificates of deposit	58,746	66,373
Associated organizations	33,545,091	33,427,759
Due from related parties	33,392,484	31,334,762
Interest rate swap	12,468	9,180
Nonregulated investments, net of depreciation	1,022,852	1,045,857
Total investments and other assets	68,031,641	65,883,931
PROPERTY AND EQUIPMENT		
In service	45,293,562	43,723,822
Under construction	28,648	3,122
	45,322,210	43,726,944
Less accumulated depreciation	31,296,997	29,875,251
	14,025,213	13,851,693
Finance lease right-of-use assets	396,585	76,811
	14,421,798	13,928,504
	$ 85,142,560	$ 82,898,826

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

	2023	2022
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 770,092	$ 739,392
Accounts payable	260,264	123,182
Customer deposits	10,891	1,075
Accrued income taxes	732,318	- -
Other current and accrued liabilities	29,045	87,667
Short-term finance lease liabilities	116,834	45,440
Total current liabilities	1,919,444	996,756
NON-CURRENT LIABILITIES		
Long-term debt, less current maturities, net	3,645,205	4,412,598
Deferred income taxes	4,833,000	5,072,000
Long-term finance lease liabilities	281,179	31,857
Total non-current liabilities	8,771,852	9,516,455
STOCKHOLDERS' EQUITY		
Common stock, no par value:		
Class A voting; 100 shares authorized;		
89 shares issued and outstanding	10,025	10,025
Class B nonvoting; 10,000 shares authorized;		
9,867 shares issued and outstanding	30,075	30,075
Retained earnings	74,411,164	72,345,515
	74,451,264	72,385,615
	$ 85,142,560	$ 82,898,826

GEARHEART COMMUNICATIONS, INC.
DBA COALFIELDS TELEPHONE COMPANY

STATEMENTS OF INCOME
Years Ended December 31, 2023 and 2022

	2023	2022
Operating revenues:		
Local network service	$ 1,732,648	$ 1,765,431
Network access services	4,020,581	3,705,266
Miscellaneous	297,944	364,915
Bundle discount	(369,522)	(388,997)
Total operating revenues	5,681,651	5,446,615
Operating expenses:		
Plant specific	1,783,492	1,499,440
Plant nonspecific	391,602	400,995
Depreciation and amortization	1,640,970	1,668,389
Customer operations	1,717,122	1,711,185
Corporate operations	2,471,471	1,947,626
Other operating taxes	114,101	204,141
Total operating expenses	8,118,758	7,431,776
Operating (loss)	(2,437,107)	(1,985,161)
Other income (expense):		
Interest income	601,750	545,042
Interest expense	(194,238)	(222,367)
Interest expense - other	(10,213)	(3,843)
Income from associated organizations	1,874,893	1,644,018
Total other income	2,272,192	1,962,850
Income (loss) before income tax expense	(164,915)	(22,311)
Income tax expense	816,036	342,851
Net income (loss) before nonregulated income	(980,951)	(365,162)
Nonregulated items:		
Income	5,083,595	4,415,350
Expenses	(2,036,995)	(2,016,651)
	3,046,600	2,398,699
Net income	$ 2,065,649	$ 2,033,537

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

GEARHEART COMMUNICATIONS, INC.
DBA COALFIELDS TELEPHONE COMPANY

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

	Common Stock	Retained Earnings	Total
Balance, January 1, 2022	$ 40,100	$ 70,344,506	$ 70,384,606
Net income	- -	2,033,537	2,033,537
Repurchase of shares	- -	(32,528)	(32,528)
Balance, December 31, 2022	40,100	72,345,515	72,385,615
Net income	- -	2,065,649	2,065,649
Balance, December 31, 2023	$ 40,100	$ 74,411,164	$ 74,451,264

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

GEARHEART COMMUNICATIONS, INC.
DBA COALFIELDS TELEPHONE COMPANY

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

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,065,649	$ 2,033,537
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,556,231	1,605,980
Amortization of right-of-use assets	84,739	62,409
Amortization of debt issuance costs included in interest expense	5,000	5,000
Associated organization (income)	(1,874,893)	(1,644,018)
Deferred income taxes	(239,000)	27,000
Interest rate swap	(3,288)	(11,401)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable, net	(59,774)	(58,039)
Other receivables	(258,396)	- -
Prepaid expenses	(7,955)	(50)
Prepaid income taxes	78,695	234,750
Materials and supplies	(38,517)	(21,025)
Accounts payable	137,082	(4,075)
Customer deposits	9,816	(17,375)
Accrued income taxes	732,318	- -
Other current and accrued liabilities	(58,622)	25,407
Net cash provided by operating activities	2,129,085	2,238,100
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction of plant	(1,713,811)	(752,136)
Salvage proceeds recovered from plant retirements	8,668	43,749
Certificates of deposit redeemed	7,627	7,194
Distribution from associated organization	1,753,611	1,745,211
Proceeds from sale of miscellaneous physical property	6,549	73,188
Net cash provided by investing activities	62,644	1,117,206
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(741,693)	(714,043)
Payments from (advances to) related party, net	(2,057,722)	(939,959)
Payments on finance lease liabilities	(75,531)	(61,322)
Repurchase of shares	- -	(32,528)
Net cash (used in) financing activities	(2,874,946)	(1,747,852)
Net increase (decrease) in cash and cash equivalents	(683,217)	1,607,454
Cash and cash equivalents:		
Beginning of year	2,508,083	900,629
End of year	$ 1,824,866	$ 2,508,083
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash interest paid	$ 197,526	$ 242,949
Income taxes paid	$ 244,023	$ 118,433

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Coalfields Telephone Company (the Company) 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 to generally accepted accounting principles in all material respects. The significant policies are as follows:

Nature of Business

Coalfields Telephone Company is engaged in providing telephone communications services to residential and business customers located in portions of two eastern Kentucky counties. They provide telephone service, long distance, broadband and digital HDTV bundled television packages from Inter Mountain Cable, Inc. (a related party).

Use of Estimates

The preparation of 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 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 financial statements.

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.

Certificates of Deposit

Certificates of deposit at Rural Telephone Finance Cooperative are carried at cost, which approximates fair value, and are held to maturity.

Accounts receivable and allowance for credit losses

The Company operates in the telecommunications industry, and its accounts receivable are primarily derived from telecommunications customer services provided. Accounts receivable are stated at net realizable value. The Company 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 Company 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 $358,193, $298,419, and $240,380, respectively.

Note 1. Summary of Significant Accounting Policies

Accounts Receivable (continued)

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 as 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. Subsequent recoveries are credited to the allowance for credit losses. Changes in the allowance for credit losses are as follows:

	2023	2022
Beginning balances	$ 26,127	$ 20,958
Write-offs	(172,947)	(161,280)
Recoveries	183,070	166,449
	$ 36,250	$ 26,127

The number of subscribers, and those with enhanced DSL service at December 31, are as follows:

	2023		2022		2021	
	Amount	% of HSD	Amount	% of HSD	Amount	% of HSD
Passings (Homes and Businesses)	9,097		9,097		9,097	
Relationships	4,731		4,347		4,158	
High Speed Data						
Cable Modems	4,270		3,747		3,510	
DSL	8		30		50	
Total	4,278		3,777		3,560	
% of Passings	47%		42%		39%	
Landline Phone	3,325	78%	3,619	97%	3,870	110%
Managed Wifi	2,500	59%	1,556	42%	813	23%
Total RGUs	10,103		8,952		8,243	

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.

Note 1. Summary of Significant Accounting Policies (Continued)

Telecommunications Revenue Recognition

The Company is a Kentucky corporation engaged in telephone communications services to residential and business customers located in portions of two eastern Kentucky counties. The Company bills customers on credit with certain customers required to pay a refundable deposit. Payments are due 20 days from the date of billing, at which time a disconnect notice is sent with payment to be made within 10 days.

Compensation for interstate access services is received through tariffed access charges filed by the National Exchange Carrier Association (NECA) with the Federal Communications Commission (FCC) on behalf of the member companies as an average schedule company. Compensation for intrastate/intralata services is received through tariffed long-distance rates filed with the FCC and billed to the end user. The resulting revenues are pooled with like revenues from all telephone companies in the state. The portion of the pooled long-distance revenue received by the Company is based upon a contractual agreement with the long-distance carrier. 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.

Customers who select services to include Coalfields Telephone Company telephone service, long distance and any combination of cable television packages from Inter Mountain Cable, Inc. (a related party) receive a discount for selecting these “bundled services”. The bundled discount is based on the level of services received by the customer.

Taxes

The Company is required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. The Company’s policy is to exclude taxes from revenues when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

Risk Management

The Company 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 $368,975 and $394,632, respectively.

Telecommunications Plant

Telecommunications plant in service is 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. There was no interest required to be capitalized during the year.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Telecommunications Plant (continued)

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 telecommunications 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:

Vehicles	12.1%
Buildings	2.7%
Furniture, office and work equipment	6.6% - 15.8%
Central office switch	7.5%
Circuit equipment	10.0%
Cable and wire facilities	5.6% - 9.4%

Debt Issuance Costs

Debt issuance costs are presented net of related debt and are amortized through interest expense over the respective term of the related loans using the straight-line method, which equates to the effective interest method.

Income Taxes

The Company 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 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 Corporation has no uncertain tax positions resulting in an accrual of tax expense or benefit.

The Company’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.

Subsequent Events

Management has evaluated subsequent events through March 22, 2024, the date the financial statements were available to be issued.

Note 1. Summary of Significant Accounting Policies (Continued)

Leases

The Company leases vehicles. The Company determines if an arrangement is a lease at inception. Finance leases are included in finance lease right-of-use (ROU) assets, short-term finance lease liability, and long-term finance lease liabilities on the balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. When a lease does not provide an implicit rate, the Company uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The lease terms may include options to extend or terminate the lease when it is reasonably certain the option will be exercised.

The Company has lease agreements with lease and non-lease components, which are generally accounted for separately. For certain leases, such as vehicles, the Company accounts for the lease and non-lease components as a single lease component. For arrangements accounted for as a single lease component, there may be variability in future lease payments as the amount of the non-lease components is typically revised from one period to the next. These variable lease payments, which are primarily comprised of maintenance and taxes that are passed on from the lessor, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

The Company has elected to apply the short-term lease exemption to its underlying assets.

Adoption of 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 new and enhanced disclosures only.

Note 2. Fair Value Measurements

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 of identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflect a company's own assumptions of market participant valuation (Level 3). There have been no changes in methodologies used as of December 31, 2023 and 2022.

The Company invests idle funds with local banks or with Rural Telephone Finance Cooperative in certificates of deposits.

The Company's certificates of deposit measured at fair value on a recurring basis are as follows:

		Fair value measurements using:	
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2023			
Certificates of deposit	$ 58,746	$ - -	$ 58,746
December 31, 2022			
Certificates of deposit	$ 66,373	$ - -	$ 66,373

Note 3. Associated Organizations

The amounts for East Kentucky Network, LLC (EKN) represents Coalfields Telephone Company'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 the Company is a 20% member and has the ability to significantly influence EKN's operations and financial policies. EKN has been paying distributions of approximately 50% of the income allocated in cash during the following year.

Note 3. Associated Organizations (Continued)

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

The major classification of telecommunications plant in service is:

	2023	2022
General support	$ 13,209,253	$ 12,630,870
Central office switching	8,174,907	8,002,000
Circuit equipment	398,715	398,715
Cable and wire facilities	23,484,814	22,670,901
Intangibles	25,873	21,336
	$ 45,293,562	$ 43,723,822

Note 5. Related Parties

The Company transacts business with Inter Mountain Cable, Inc. (Inter Mountain Cable) and PDNS, LLC (PDNS), which are related parties because of common ownership. PDNS has a division that operates under the name of Mountain Telephone Service (MTS), which also conducts business with the Company. The Company also provides personnel for AJSPD, LLC, which is considered a related party because of common ownership. The officers and majority shareholders of the Company also own 100% of the outstanding stock of Inter Mountain Cable. The Company also transacts business with EKN as a 20% owner.

The Company and Inter Mountain Cable, PDNS and MTS share common office space, office equipment and/or personnel of the Company. A fee is charged for these services. During 2005, the Company advanced funds to Inter Mountain Cable for operating cash. These advances do not have a repayment schedule and bear interest at 5%.

Note 5. Related Parties (Continued)

Amounts due from (to) related parties are as follows:

	2023	2022
Inter Mountain Cable, Inc.	$ 6,786,873	$ 4,714,119
Inter Mountain Cable, Inc. - CABS	6,040,152	6,041,906
PDNS, LLC	7,789,600	8,499,118
Echo Trust	(6,939)	(6,693)
Mountain Telephone Service (PDNS)	1,304,322	1,264,411
AJSPD, LLC	127,475	102,916
SGSNPDG, LLC	4,820,918	4,574,988
Oil and Gas projects	6,530,083	6,143,997
	$ 33,392,484	$ 31,334,762

The Company rents two lots for $100 each, a portion of rental property for $200 per month, and a billboard for $325 per month from related parties. The Company pays $6,250 per month to SGSNPDG, LLC for lot rental and extra parking spaces. The Company also pays $1,750 per month for radio advertising from related companies. The Company leases fiber from EKN, with the amount being determined by the number of fiber leased and traffic along the fiber network. The Company leases circuits from EKN for trunk lines to carry long distance traffic. The amounts for fiber and circuits for 2023 were $260,342 and $306,385, respectively, and for fiber and circuits for 2022 were $259,813 and $307,553, respectively.

The above related party leases can be cancelled by the Company without significant penalties at any time.

Note 6. Leases

The Company has finance leases for vehicles. The leases have remaining lease terms of 1 to 4 years. The Company assesses whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed.

Note 6. Leases (Continued)

The components of lease expense were as follows for the year ended December 31:

	2023	2022
Finance lease cost		
Right-of-use asset amortization	$ 84,739	$ 62,409
Interest expense	2,968	1,418
Variable lease cost	22,231	16,188
Total lease cost, net	$ 109,938	$ 80,015

Other information related to leases was as follows for the year ended December 31:

	2023	2022
Supplemental cash flow information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	$ 2,540	$ 1,318
Financing cash flows from finance leases	75,531	61,322
Right-of-use assets obtained in exchange for lease obligations		
Finance leases	395,819	138,520
Weighted average remaining lease term		
Finance leases	3.50 years	2.12 years
Weighted average discount rate		
Finance leases	1.59%	1.55%

Future undiscounted lease payments for finance leases with initial terms of one year or more as of December 31, 2023 were as follows:

2024	$ 122,165
2025	114,587
2026	108,525
2027	63,726
	$ 409,003
Less: imputed interest	(10,990)
Net lease liabilities	$ 398,013

Note 7. Nonregulated Activities

Nonregulated customer premises equipment (CPE) is stated at cost; material held for lease or resale is stated at average cost. CPE also includes inside wire revenues and expenses. Depreciation is provided on a straight-line basis at 11.9% per year. Fiber cable outside of the service territory of the Company is considered as a nonregulated investment. The depreciation rate for fiber cable is 5.1% per year.

Note 7. Nonregulated Activities (Continued)

Nonregulated property includes the following as of December 31:

	2023	2022
Material held for lease or resale	$ 80,854	$ 93,673
Station apparatus / modems	174,027	174,422
Capital credit	7,767	5,950
Fiber cable	1,148,576	1,148,578
Land and buildings	816,214	816,214
Less accumulated depreciation	(1,204,586)	(1,192,980)
Total	$ 1,022,852	$ 1,045,857

Note 8. Long-Term Debt

Long term debt outstanding is as follows as of December 31:

	2023	2022
Fixed rate note, 3.86% and 5.61% (a)	$ 4,405,398	$ 5,135,399
Fixed rate note, 0.415% (b)	21,564	33,256
	4,426,962	5,168,655
Less loan fees	11,665	16,665
	4,415,297	5,151,990
Less current portion	770,092	739,392
	$ 3,645,205	$ 4,412,598

(a) On April 22, 2019, the Company refinanced its loans with a term loan from Fifth Third Bank for $7,586,199 with principal and interest payments due in monthly installments with a maturity date of May 1, 2026. The interest rate is fixed at 3.86% with a swap agreement (see Note 13). A new interest rate swap contract was signed in August 2023 that will effectively fix $2,591,799 at an interest rate of 5.61% from May 1, 2026 until May 1, 2029. Substantially all assets are pledged as collateral on the note. The note has been personally guaranteed by the Company's stockholders. The Company must, among other things, meet certain Funded Debt to EBITDA ratios. As of December 31, 2023, these ratios have been met.

(b) On October 22, 2020, the Company entered into a note with Wells Fargo Bank for a piece of heavy machinery for $58,426 with principal and interest payments due in monthly installments beginning on November 16, 2020, and a maturity date of October 16, 2025. The interest rate is fixed at 0.415%. The note is secured by the machinery.

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt

Principal payments for the next five years and thereafter are due as follows:

2024	$	770,092
2025		800,541
2026		753,622
2027		847,200
2028		896,400
Thereafter		359,107
	$	4,426,962

Note 9. Pension Plan

Effective January 1, 2008, the Company discontinued its defined benefit retirement plan and implemented a defined contribution pension plan (Gearheart Communications, Inc. 401(k) Plan (the Plan)). The assets in the defined benefit plan were frozen as of December 31, 2007 in the National Telephone Company Association (NTCA) Pension Plan. The defined contribution plan is qualified as being tax exempt from federal income tax under the Internal Revenue Code.

Participants may elect to defer a percentage of compensation, not to exceed a dollar limit set by law. After participants have entered the Plan, they are eligible to share in matching contributions that are made for any year they defer. Contributions are 100% vested immediately upon entry to the Plan. Contributions were $245,428 for 2023 and $227,534 for 2022.

Note 10. Income Taxes

The provision for income taxes consists of the following:

	December 31, 2023	December 31, 2022
Current:		
Federal	$ 852,141	$ 194,785
State	202,895	121,066
	1,055,036	315,851
Deferred:		
Federal	(193,000)	21,800
State	(46,000)	5,200
	(239,000)	27,000
	$ 816,036	$ 342,851

Note 10. Income Taxes (Continued)

	December 31, 2023		December 31, 2022	
Deferred tax liabilities:				
Federal	$	3,904,000	$	4,097,000
State		929,000		975,000
	$	4,833,000	$	5,072,000

Note 11. Contingencies

The Company, on occasion, 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 12. 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 Company has no contract assets or long-term contract liabilities.

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

Telecommunications revenues – The Company'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 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.

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.

Note 12. Revenue Recognition (Continued)

Multiple performance obligations

The Company sells bundled service and equipment offerings. In these instances, the Company recognizes its revenue based on the relative standalone selling prices for each distinct service or equipment performance obligation or bundles thereof. The Company estimates the standalone selling price of the device or accessory to be its retail price excluding discounts. The Company 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 Company may offer certain promotions to incentivize 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 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.

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.

Regulated Revenues

	2023	%	2022	%
Local network service	$ 1,334,522	23%	$ 1,360,574	24%
Intrastate Intralata	60,539	1%	81,995	2%
Intrastate Interlata	267,875	5%	257,960	5%
Interstate	3,720,771	66%	3,381,171	62%
Miscellaneous	297,944	5%	364,915	7%
Total	$ 5,681,651	100%	$ 5,446,615	100%

Nonregulated Revenues

	2023	%	2022	%
Cable modem revenue	$ 3,695,181	72%	$ 3,007,982	67%
Fiber lease	900,000	18%	900,000	20%
CPE and main of inside wire	156,550	3%	174,450	4%
Miscellaneous revenue	35,426	1%	37,192	1%
DSL revenue	14,532	0%	25,360	1%
Fiber and managed revenue	245,124	5%	245,364	6%
Billing and collection	36,782	1%	25,002	1%
Total	$ 5,083,595	100%	$ 4,415,350	100%

Note 12. Revenue Recognition (Continued)

Investments in fiber are as follows at December 31:

	2023	2022
Fiber Ring	$ 4,498,820	$ 4,498,820
Accumulated Depreciation	(1,168,569)	(939,129)
	$ 3,330,251	$ 3,559,691

The future minimum rental payments expected to be received under these lease agreements for each of the succeeding five years are approximately $900,000 each year.

Contract cost liabilities

Contract cost liabilities include customer deposits. The balances in contract liabilities, included in customer deposits, were $10,891, $1,075 and $18,450 as of December 31, 2023, 2022 and 2021, respectively.

Note 13. Derivative Financial Instruments, Interest Rate Swap

The Company entered into an interest rate swap contract with Fifth Third Bank for the purpose of converting floating-rate interest on its long-term debt to fixed rates. The interest rate swap contract effectively fixed $7,586,199 at 3.86% until May 1, 2026. A new interest rate swap contract agreement dated August 24, 2023, that will effectively fix $2,591,799 at an interest rate of 5.61% from May 1, 2026 until May 1, 2029. The Company pays interest at these rates on the notional amounts and receives interest at the US prime rate minus 1.50% observed daily (7.00% at December 31, 2023). The interest rate swap qualifies as, and is designated as, a cash flow hedge. The swap is designed to hedge the risk of changes in interest payments on the notes caused by changes in interest rates. The notional amounts do not represent actual amounts exchanged by the parties, but instead represent the amounts on which the contracts are based.

The swap was issued at market terms so that it had no fair value or carrying value at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year, which because of changes in forecasted levels of the US prime rate, resulted in reporting a liability for the fair value of future net settlements forecasted under the swap. The swap contract permits settlement prior to maturity only through termination by the Company. The settlement amounts are determined based on forecasted changes in interest rates required under fixed and variable legs of the swap. The Company believes the settlement amounts are the best representation of the fair value of the swap and has adjusted its carrying amounts to the settlement amounts at the end of the year.

The carrying amount of the swap is classified as noncurrent since management does not intend to terminate the swap during 2024. Since the critical terms of the swap and the note are approximately the same, the swap is assumed to be effective as a hedge, and the changes in fair value of the swap would be excluded from income and included in accumulated other comprehensive income as a separate component of stockholders' equity. However, management has determined the amount to include in accumulated other comprehensive income is not material; therefore, the changes in fair value of the swap have been included in income. The Company does not hold or issue interest rate swaps or other financial instruments for trading purposes.