

**MOUNTAIN RURAL TELEPHONE COOPERATIVE
AND SUBSIDIARY
KY 506**

FINANCIAL REPORT

DECEMBER 31, 2024

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mountain Rural Telephone Cooperative and Subsidiary
West Liberty, Kentucky

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Mountain Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, 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 the Cooperative as of December 31, 2024 and 2023, 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 Consolidated Financial Statements section of our report. We are required to be independent of the Cooperative 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the Cooperative's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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.

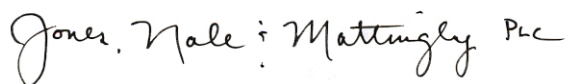
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- 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 the Cooperative'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 the Cooperative'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 February 28, 2025, on our consideration of Mountain Rural Telephone Cooperative and Subsidiary's (the Cooperative) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cooperative'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 the Cooperative's internal control over financial reporting and compliance.



Louisville, Kentucky
February 28, 2025

MOUNTAIN RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 41,340,076	\$ 42,962,369
Accounts receivable, less allowance for credit losses of \$11,429 in 2024 and \$10,492 in 2023	188,090	156,783
Materials and supplies	3,299,835	3,059,700
Prepaid expenses	41,134	31,583
Prepaid income taxes	202,042	--
Total current assets	<u>45,071,177</u>	<u>46,210,435</u>
NON-CURRENT ASSETS		
Investment securities	16,921,797	16,715,060
Associated organizations	33,175,697	33,545,090
Pension plan prefunding	1,491,621	1,651,516
Accumulated postretirement benefits	1,242,264	234,698
Nonregulated property	4,981,268	5,049,885
Total non-current assets	<u>57,812,647</u>	<u>57,196,249</u>
PROPERTY AND EQUIPMENT		
In service	142,824,386	138,960,470
Under construction	10,135,748	4,732,507
	<u>152,960,134</u>	<u>143,692,977</u>
Less accumulated depreciation	100,378,478	95,189,625
	<u>52,581,656</u>	<u>48,503,352</u>
	<u>\$ 155,465,480</u>	<u>\$ 151,910,036</u>

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

	<u>2024</u>	<u>2023</u>
LIABILITIES AND MEMBERS' EQUITIES		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 444,980	\$ 434,599
Accounts payable	1,684,718	934,607
Customer deposits	192,096	210,639
Accrued income taxes	--	726,996
Accrued leave	2,400,879	2,312,752
Accrued expenses	61,139	86,533
Total current liabilities	<u>4,783,812</u>	<u>4,706,126</u>
NON-CURRENT LIABILITIES		
Long-term debt, less current portion	3,648,357	4,092,775
Deferred tax liabilities	2,780,000	2,970,000
Total non-current liabilities	<u>6,428,357</u>	<u>7,062,775</u>
MEMBERS' EQUITIES		
Memberships and capital investments	155,777	146,722
Patronage capital and retained earnings	147,604,697	143,963,271
Donated capital	1,324,608	1,324,359
Accumulated other comprehensive (loss)	(4,831,771)	(5,293,217)
Total members' equities	<u>144,253,311</u>	<u>140,141,135</u>
	<u>\$ 155,465,480</u>	<u>\$ 151,910,036</u>

MOUNTAIN RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years Ended December 31, 2024 and 2023

	2024	2023
Operating revenues:		
Local network service	\$ 6,799,020	\$ 6,682,637
Network access service	11,696,574	10,563,074
Carrier billing and collection	216,479	224,096
Miscellaneous	638,197	687,860
Access revenue	35,000	36,000
Total operating revenues	19,385,270	18,193,667
Operating expenses:		
Plant specific operations expense	4,370,781	4,214,935
Plant non-specific	2,438,852	2,315,379
Depreciation	6,209,937	5,621,878
Customer operations expense	1,557,948	1,621,066
Corporate operations expense	2,607,942	2,536,781
Other deductions	155,592	179,450
Other taxes	798,393	805,880
Total operating expenses	18,139,445	17,295,369
Operating income	1,245,825	898,298
Other income (expense):		
Interest income	1,470,616	1,339,315
Interest expense	(102,735)	(112,003)
Other income	1,202,456	835,991
Income in limited liability company	1,840,094	1,895,250
Total other income	4,410,431	3,958,553
Income before income taxes	5,656,256	4,856,851
Income tax (expense)	(431,552)	(672,530)
Net income before nonregulated income	5,224,704	4,184,321
Nonregulated income	1,983,748	3,513,115
Net income	\$ 7,208,452	\$ 7,697,436
Other comprehensive income (loss)		
Accumulated postretirement benefit (expense)	461,446	(991,296)
Total comprehensive income	\$ 7,669,898	\$ 6,706,140

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

MOUNTAIN RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES

Years Ended December 31, 2024 and 2023

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equity</u>	<u>Accumulated Other Comprehensive (Loss)</u>	<u>Total</u>
Balance, January 1, 2023	\$ 142,908	\$ 139,467,563	\$ 1,323,975	\$ (4,301,921)	\$ 136,632,525
Net income	--	7,697,436	--	--	7,697,436
Postretirement benefit obligations					
Amortization	--	--	--	156,509	156,509
Adjustments	--	--	--	(1,147,805)	(1,147,805)
Refunds of capital credits	--	(3,201,728)	--	--	(3,201,728)
Memberships issued, net	3,814	--	384	--	4,198
Balance, December 31, 2023	146,722	143,963,271	1,324,359	(5,293,217)	140,141,135
Net income	--	7,208,452	--	--	7,208,452
Postretirement benefit obligations					
Amortization	--	--	--	(838)	(838)
Adjustments	--	--	--	462,284	462,284
Refunds of capital credits	--	(3,567,026)	--	--	(3,567,026)
Memberships issued, net	9,055	--	249	--	9,304
Balance at December 31, 2024	<u>\$ 155,777</u>	<u>\$ 147,604,697</u>	<u>\$ 1,324,608</u>	<u>\$ (4,831,771)</u>	<u>\$ 144,253,311</u>

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

MOUNTAIN RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 7,208,452	\$ 7,697,436
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,209,937	5,621,878
Net (income) in associated organization	(1,840,094)	(1,895,250)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable, net	(31,307)	106,859
Material and supplies	(240,135)	(325,679)
Prepaid expenses and income taxes	(211,593)	622,336
Accounts payable	750,111	(275,725)
Customer deposits	(18,543)	(8,242)
Accrued expenses	62,733	(29,185)
Accrued income taxes	(726,996)	726,996
Deferred tax liabilities	(190,000)	(290,000)
Net cash provided by operating activities	10,972,565	11,951,424
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(10,765,745)	(7,479,207)
Purchases of securities	(206,737)	(4,635,859)
Associated organizations	2,209,488	1,777,919
Net cash (used in) investing activities	(8,762,994)	(10,337,147)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(434,037)	(424,769)
Prefund pension plan	159,895	115,681
Membership and capital investments	9,055	3,814
Retirements of capital credits	(3,567,026)	(3,201,728)
Increase (decrease) in donated capital	249	384
Net cash (used in) financing activities	(3,831,864)	(3,506,618)
Net (decrease) in cash and cash equivalents	(1,622,293)	(1,892,341)
Cash and cash equivalents:		
Beginning of year	42,962,369	44,854,710
End of year	\$ 41,340,076	\$ 42,962,369
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest on long term debt	\$ 102,735	\$ 112,003
Income taxes paid	1,550,590	206

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

MOUNTAIN RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Mountain Rural Telephone Cooperative Corporation (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, Mountain Telecommunications, Inc. (Mountain Telecommunications). 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.

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

The Cooperative considers all short-term, highly liquid investments with original maturities of three months or less to be 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.

Investment Securities

Investment securities consist of certificates of deposit and bank repurchase agreements in local banks and are carried at cost, which approximates fair value, and are held to maturity. Fair value is determined by quoted prices for similar certificates of deposit in active markets (Level 2) and by quoted prices of bank repurchase agreements of identical assets and liabilities (Level 1) as defined under U.S GAAP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2024, 2023 and 2022 was \$188,090, \$156,783, and \$263,642, 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.

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. The number of access lines was 8,859 for 2024 and 9,644 for 2023. Changes in the allowance for credit losses are as follows:

	2024
Beginning Balance	\$ 10,492
Write-offs	(56,982)
Recoveries	57,919
Ending Balance	<u>\$ 11,429</u>

	2023
Beginning Balance	20,141
Write-offs	(62,829)
Recoveries	53,180
Ending Balance	<u>\$ 10,492</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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 the first of each month with local service being billed a month in advance of service. Sales are concentrated in a portion of five (5) southeastern Kentucky counties. Payments are due 10 days from the date of billing. If payment has not been made, then customers are subject to disconnect on the 21st day of the month.

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

Video Revenue Recognition

Video revenue is recognized when earned regardless of the period in which they are billed. Programming transmission is purchased from networks at various amounts based on the number of customers receiving the service.

Taxes

The Cooperative's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales 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, 2024 and 2023, these costs were \$91,881 and \$86,674, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Telecommunications Plant

Telecommunications plant 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. Interest capitalized during the year was \$113,423 for 2024 and \$60,985 for 2023.

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:

	<u>Telephone</u>	<u>Telecom</u>
General support	2.7% - 15.8%	20.0%
Central office switching	7.5%	
Central office transmission	11.0%	
Cable wire facilities	2.2% - 9.4%	

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. Mountain Telecommunications 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. 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, 2024 and 2023.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Reclassifications

Certain amounts presented in the 2023 financial statements have been reclassified to conform with the 2024 presentation.

Subsequent Events

Management has evaluated subsequent events through February 28, 2025, the date the consolidated financial statements were available to be issued.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 cooperative's own assumptions of market participant valuation (Level 3).

The Cooperative invests idle funds with local banks in certificates of deposits and U.S. Treasury Notes.

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

	<u>Fair value</u>	<u>Fair value measurements using:</u>	
		<u>Unadjusted quoted prices (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>
<u>December 31, 2024</u>			
Certificates of deposit	\$ 3,000,000	\$ --	\$ 3,000,000
Bank repurchase agreements	13,921,797	13,921,797	--
	<u>\$ 16,921,797</u>	<u>\$ 13,921,797</u>	<u>\$ 3,000,000</u>
<u>December 31, 2023</u>			
Certificates of deposit	\$ 3,000,000	\$ --	\$ 3,000,000
Bank repurchase agreements	13,715,060	13,715,060	--
	<u>\$ 16,715,060</u>	<u>\$ 13,715,060</u>	<u>\$ 3,000,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Associated Organizations

The amounts for East Kentucky Network, LLC (“EKN”) represents Mountain Telecommunications’ 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 Mountain Telecommunications 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. The following is summarized financial information of EKN as of and for the years ended December 31, 2024 and 2023:

	2024	2023
Assets	\$ 236,598,267	\$ 223,770,492
Liabilities	\$ 70,719,782	\$ 56,045,037
Equity	\$ 165,878,485	\$ 167,725,455
Revenues and other income	\$ 120,674,255	\$ 121,290,650
Expenses and other expenses	\$ 111,274,098	\$ 111,429,883
Net income	\$ 9,400,157	\$ 9,860,767

Note 4. Telecommunications Plant

The major classification of plant service is:

	2024	2023
Telecommunications Plant:		
General support	\$ 17,682,028	\$ 17,372,336
Central office switching	1,138,468	1,115,368
Central office transmission	28,316,198	26,506,075
Cable wire facilities	95,682,258	93,961,257
Intangibles	2,434	2,434
	142,821,386	138,957,470
Telecom Plant:		
General support	3,000	3,000
Total	\$ 142,824,386	\$ 138,960,470

Depreciation expense for the years ended December 31, 2024 and 2023 was \$6,209,937 and \$5,621,878, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Mountain Telephone Long Distance (“MTLD”). MTLD revenues are billed and collected through the Cooperative. A monthly fee is recorded based on telephone usage. MTLD 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 has an in-house help desk service department and utilizes an answering service after hours for emergencies only. The following is a summary of nonregulated activities:

	2024	2023
Investments	\$ 577,529	\$ 487,631
Material and supplies	1,420,789	1,645,659
Plant assets	10,787,985	9,595,498
Reserve for depreciation	(7,805,035)	(6,678,903)
	\$ 4,981,268	\$ 5,049,885

	Income	Expenses	Net
Customer premises equipment	\$ 1,358,119	\$ 2,714,210	\$ (1,356,091)
Internet activities	5,641,699	1,887,683	3,754,016
Long distance services	299,307	378,853	(79,546)
Video services	3,845,526	4,188,238	(342,712)
Security/Surveillance	298,248	290,167	8,081
Total - 2024	\$ 11,442,899	\$ 9,459,151	\$ 1,983,748

	Income	Expenses	Net
Customer premises equipment	\$ 1,247,681	\$ 2,177,854	\$ (930,173)
Internet activities	5,499,314	1,316,555	4,182,759
Long distance services	344,008	364,761	(20,753)
Video services	3,847,155	3,739,667	107,488
Security/Surveillance	485,415	311,621	173,794
Total - 2023	\$ 11,423,573	\$ 7,910,458	\$ 3,513,115

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Long-Term Debt

All telecommunications assets, except motor vehicles, are pledged as collateral on the long-term debt due to the U.S. Department of Agriculture, Rural Development (“USDA”). The debt was incurred for the FSN project as described earlier in Note 1 and is due in monthly installments of varying amounts. Long-term debt is as follows:

	2024	2023
RUS Broadband Loan		
2.27%-2.46%	\$ 4,093,337	\$ 4,527,374
Less current portion	444,980	434,599
Long-term portion	\$ 3,648,357	\$ 4,092,775

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

2025	\$	444,980
2026		455,596
2027		466,465
2028		477,581
2029		488,988
Thereafter		1,759,727
		\$ 4,093,337

Note 7. Patronage Capital

The long-term debt agreement contains restrictions on the return to patrons of capital contributed by them. The restrictions relate in general to the Cooperative’s patronage capital and assets, as defined. The patronage capital of the Cooperative at December 31, 2024 and 2023 was 95% and 93%, respectively of assets. Patronage capital consists of the following:

	2024	2023
Assigned	\$ 134,889,261	\$ 130,370,970
Assignable	7,208,452	7,697,436
Unassigned	66,333,304	63,154,159
Retirements to date	(60,826,320)	(57,259,294)
Total	\$ 147,604,697	\$ 143,963,271

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. 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 2024 and 2023. The Cooperative uses a January 1, 2024 and January 1, 2023 measurement date for the plan.

The Cooperative’s contributions to the R&S Plan in 2024 and 2023 represent less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of \$739,680 in 2024 and \$702,588 in 2023.

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 over 100 percent funded at both January 1, 2024 and 2023, 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.

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 contributions beginning in 2020. The R&S Program is offering prefunding to give members flexibility in addressing this situation at the Cooperative.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8. Pension Plan (Continued)

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 \$2,326,221. This amount will be amortized over the 12-year period the surcharge is expected to continue.

Note 9. Accumulated Postretirement Benefits

The Cooperative sponsors a defined benefit plan that provides medical insurance coverage to retirees and their dependents. Participating retirees and dependents do not contribute to the projected cost of coverage. Employees hired before January 1, 2016 (Schedule 1) qualify with a minimum age of 55 and meeting the Rule of 85. There have been no significant changes that affect the comparability of 2024 and 2023. The Cooperative uses a January 1, 2024 and January 1, 2023 measurement date for the plan.

The following illustrates the plan for those years ended December 31, 2024 and 2023:

	2024	2023
Benefit obligation, beginning of year	\$ 23,726,943	\$ 26,927,680
Service cost	519,132	521,798
Interest cost	1,185,696	1,154,260
Benefit payments	(739,680)	(702,588)
Actuarial loss (gain)	720,678	(4,174,207)
Benefit obligation, end of year	\$ 25,412,769	\$ 23,726,943
Fair value of plan assets, beginning of year	\$ 23,961,641	\$ 27,278,707
Actual return (loss) on plan assets	3,433,072	(2,614,478)
Benefit payments	(739,680)	(702,588)
Fair value of plan assets, end of year	\$ 26,655,033	\$ 23,961,641
Reconciliation of funded status:		
Funded status	\$ 1,242,264	\$ 234,698
Net amount recognized at year end	\$ 1,242,264	\$ 234,698

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Accumulated Postretirement Benefits (Continued)

	2024	2023
Amounts recognized in the balance sheet consists of:		
Noncurrent assets	\$ 1,242,264	\$ 234,698
Amounts included in accumulated other comprehensive income:		
Unrecognized actuarial (loss)	\$ (4,831,771)	\$ (5,293,217)
Components of net periodic benefit cost:		
Service cost	\$ 519,132	521,798
Interest cost	1,185,696	1,154,260
Expected return on plan assets	(1,865,852)	(1,677,315)
Amortization cost	238,512	280,237
Net periodic benefit cost	\$ 77,488	\$ 278,980
	2024	2023
Weight-average assumptions as of December 31:		
Discount rate	4.95%	4.95%
Expected return on plan assets	7.50%	7.25%
Rate of compensation increase	Varies	Varies
Effect of 1% trend sensitivity for medical plan:		
Projected benefit obligation	\$ 28,056,427	\$ 26,473,380
Net periodic benefit cost	\$ 735,759	\$ 883,402

The projected retiree benefit payments are expected to be as follows: 2025 - \$912,096; 2026 - \$955,000; 2027 - \$1,000,000; 2028 - \$1,048,000; 2029- \$1,098,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Accumulated Postretirement Benefits (Continued)

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

	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
<u>December 31, 2024</u>			
US Equity	\$ 6,583,793	\$ 6,583,793	\$ --
International Equity	6,983,619	--	6,983,619
Low Volatility	4,531,356	--	4,531,356
High Yield	2,159,056	--	2,159,056
Real Estate	2,212,368	--	2,212,368
Investment Grade Fixed Income	3,651,740	--	3,651,740
Cash	533,101	533,101	--
	<u>\$ 26,655,033</u>	<u>\$ 7,116,894</u>	<u>\$ 19,538,139</u>
<u>December 31, 2023</u>			
US Equity	\$ 5,918,525	\$ 5,918,525	\$ --
International Equity	6,277,950	--	6,277,950
Low Volatility	4,073,479	--	4,073,479
High Yield	1,940,893	--	1,940,893
Real Estate	1,988,816	--	1,988,816
Investment Grade Fixed Income	3,282,745	--	3,282,745
Cash	479,233	479,233	--
	<u>\$ 23,961,641</u>	<u>\$ 6,397,758</u>	<u>\$ 17,563,883</u>

Note 10. Income Taxes

The components of income tax are as follows:

	December 31,	
	2024	2023
Current:		
Federal	\$ 572,614	\$ 777,685
State	48,938	184,845
	<u>621,552</u>	<u>962,530</u>
Deferred:		
Federal	(153,000)	(234,000)
State	(37,000)	(56,000)
	<u>(190,000)</u>	<u>(290,000)</u>
	<u>\$ 431,552</u>	<u>\$ 672,530</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Income Taxes (Continued)

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

	December 31,	
	<u>2024</u>	<u>2023</u>
Deferred tax liabilities:		
Federal	\$ 2,245,000	\$ 2,399,000
State	<u>535,000</u>	<u>571,000</u>
	<u>\$ 2,780,000</u>	<u>\$ 2,970,000</u>

Note 11. 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 12. 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 13. 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.

Nature of goods and services

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, broadband only 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Revenue Recognition (Continued)

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 on 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Revenue Recognition (Continued)

Disaggregation of revenue

In the following table, revenue for the years ended December 31, 2024 and 2023 is disaggregated by type of service and timing of revenue recognition. Telecommunication service revenues and equipment sales are recognized at a point in time.

	2024	2023
<u>Regulated income:</u>		
Local network services	\$ 6,799,020	\$ 6,682,637
Network access services	11,696,574	10,563,074
Carrier billing and collections	216,479	224,096
Miscellaneous	638,197	687,860
Access revenue	35,000	36,000
	\$ 19,385,270	\$ 18,193,667
<u>Nonregulated income:</u>		
Customer premises equipment	\$ 1,358,119	\$ 1,247,681
Internet activities	5,641,699	5,499,314
Long distance services	299,307	344,008
Video services	3,845,526	3,847,155
Security/Surveillance	298,248	485,415
	\$ 11,442,899	\$ 11,423,573

Contract cost liabilities

Contract cost liabilities include customer deposits. The balance in contract liabilities was \$192,096, \$210,639 and \$218,881 as of December 31, 2024, 2023, and 2022, respectively.

Note 14. Associated Organizations

During 2004, the Cooperative formed a wholly-owned subsidiary, Mountain Telecommunications, Inc., which provides telecommunications services outside of the Cooperative's service territory and is also 20% owner of East Kentucky Network, LLC, that provides cellular and other communications services in Eastern Kentucky. The initial investment was \$1,130,000. This investment in Mountain Telecommunications, Inc. is comprised of the following:

	Investments	Profits	Total
Beginning of year	\$ 4,780,000	\$ 46,065,895	\$ 50,845,895
Activity for 2024	-	1,419,716	1,419,716
End of year	\$ 4,780,000	\$ 47,485,611	\$ 52,265,611



Jones, Nale & Mattingly PLC

**INDEPENDENT AUDITOR'S REPORT ON
THE SUPPLEMENTARY INFORMATION**

Board of Directors
Mountain Rural Telephone Cooperative and Subsidiary
West Liberty, Kentucky

We have audited the consolidated financial statements of Mountain Rural Telephone Cooperative and Subsidiary as of December 31, 2024 and 2023, and our report thereon dated February 28, 2025, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. 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 24 and 25 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 P.C.

Louisville, Kentucky
February 28, 2025

MOUNTAIN RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2024

	Mountain Rural Telephone Cooperative	Mountain Telecommunications	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 19,668,365	\$ 21,671,711	\$ --	\$ 41,340,076
Accounts receivable, net	194,288	--	(6,198)	188,090
Materials and supplies	3,299,835	--	--	3,299,835
Prepaid expenses	41,134	--	--	41,134
Prepaid income taxes	--	202,042	--	202,042
Total current assets	<u>23,203,622</u>	<u>21,873,753</u>	<u>(6,198)</u>	<u>45,071,177</u>
NON-CURRENT ASSETS				
Investment securities	16,921,797	--	--	16,921,797
Associated organizations	52,265,611	33,175,697	(52,265,611)	33,175,697
Pension plan prefunding	1,491,621	--	--	1,491,621
Accumulated postretirement benefits	1,242,264	--	--	1,242,264
Nonregulated property	4,981,268	--	--	4,981,268
Total non-current assets	<u>76,902,561</u>	<u>33,175,697</u>	<u>(52,265,611)</u>	<u>57,812,647</u>
PROPERTY AND EQUIPMENT				
In service	142,821,386	3,000	--	142,824,386
Under construction	10,135,748	--	--	10,135,748
	<u>152,957,134</u>	<u>3,000</u>	<u>--</u>	<u>152,960,134</u>
Less accumulated depreciation	100,377,837	641	--	100,378,478
	<u>52,579,297</u>	<u>2,359</u>	<u>--</u>	<u>52,581,656</u>
	<u>\$ 152,685,480</u>	<u>\$ 55,051,809</u>	<u>\$ (52,271,809)</u>	<u>\$ 155,465,480</u>
LIABILITIES AND MEMBERS' EQUITIES				
CURRENT LIABILITIES				
Current portion of long-term debt	\$ 444,980	\$ --	\$ --	\$ 444,980
Accounts payable	1,684,718	6,198	(6,198)	1,684,718
Customer deposits	192,096	--	--	192,096
Accrued leave	2,400,879	--	--	2,400,879
Accrued expenses	61,139	--	--	61,139
Total current liabilities	<u>4,783,812</u>	<u>6,198</u>	<u>(6,198)</u>	<u>4,783,812</u>
NON-CURRENT LIABILITIES				
Long-term debt, less current portion	3,648,357	--	--	3,648,357
Deferred tax liabilities	--	2,780,000	--	2,780,000
Total non-current liabilities	<u>3,648,357</u>	<u>2,780,000</u>	<u>--</u>	<u>6,428,357</u>
MEMBERS' EQUITIES				
Memberships and capital investments	155,777	4,780,000	(4,780,000)	155,777
Patronage capital and retained earnings	147,604,697	47,485,611	(47,485,611)	147,604,697
Donated capital	1,324,608	--	--	1,324,608
Accumulated other comprehensive (loss)	(4,831,771)	--	--	(4,831,771)
Total members' equities	<u>144,253,311</u>	<u>52,265,611</u>	<u>(52,265,611)</u>	<u>144,253,311</u>
	<u>\$ 152,685,480</u>	<u>\$ 55,051,809</u>	<u>\$ (52,271,809)</u>	<u>\$ 155,465,480</u>

MOUNTAIN RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2024

	Mountain Rural Telephone Cooperative	Mountain Telecommunications	Eliminations	Consolidated
Operating revenues				
Local network service	\$ 6,799,020	\$ --	\$ --	\$ 6,799,020
Network access service	11,696,574	--	--	11,696,574
Carrier billing and collection	216,479	--	--	216,479
Miscellaneous	638,197	--	--	638,197
Access revenue	35,000	--	--	35,000
Total operating revenues	<u>19,385,270</u>	<u>--</u>	<u>--</u>	<u>19,385,270</u>
Operating expenses				
Plant specific operations	4,370,781	--	--	4,370,781
Plant non-specific	2,438,852	--	--	2,438,852
Depreciation	6,209,884	53	--	6,209,937
Customer operations	1,557,948	--	--	1,557,948
Corporate operations	2,564,656	43,286	--	2,607,942
Other deductions	155,592	--	--	155,592
Other taxes	798,255	138	--	798,393
Total operating expenses	<u>18,095,968</u>	<u>43,477</u>	<u>--</u>	<u>18,139,445</u>
Operating income (loss)	<u>1,289,302</u>	<u>(43,477)</u>	<u>--</u>	<u>1,245,825</u>
Other income (expenses)				
Interest income	1,415,965	54,651	--	1,470,616
Interest expense	(102,735)	--	--	(102,735)
Other income	1,202,456	--	--	1,202,456
Income in limited liability company	1,419,716	1,840,094	(1,419,716)	1,840,094
Total other income (expenses)	<u>3,935,402</u>	<u>1,894,745</u>	<u>(1,419,716)</u>	<u>4,410,431</u>
Income before income taxes	5,224,704	1,851,268	(1,419,716)	5,656,256
Income tax (expense)	<u>--</u>	<u>(431,552)</u>	<u>--</u>	<u>(431,552)</u>
Net income before nonregulated income	5,224,704	1,419,716	(1,419,716)	5,224,704
Nonregulated income	1,983,748	--	--	1,983,748
Net income	<u>\$ 7,208,452</u>	<u>\$ 1,419,716</u>	<u>\$ (1,419,716)</u>	<u>\$ 7,208,452</u>
Other comprehensive income				
Accumulated postretirement benefi	<u>461,446</u>	<u>--</u>	<u>--</u>	<u>461,446</u>
Total comprehensive income	<u>\$ 7,669,898</u>	<u>\$ 1,419,716</u>	<u>\$ (1,419,716)</u>	<u>\$ 7,669,898</u>



Jones, Nale & Mattingly PLC

**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**

Board of Directors
Mountain Rural Telephone Cooperative and Subsidiary
West Liberty, 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 Mountain Rural Telephone Cooperative and Subsidiary (the Cooperative), as of and for the year ended December 31, 2024, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 28, 2025.

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 were not identified.

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 consolidated 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 P.C.

Louisville, Kentucky
February 28, 2025