

**PEOPLES RURAL TELEPHONE COOPERATIVE
AND SUBSIDIARY
KY 514**

FINANCIAL REPORT

DECEMBER 31, 2023

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Peoples Rural Telephone Cooperative and Subsidiary
McKee, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Peoples Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income and comprehensive income, changes in members' equity, 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 Peoples Rural Telephone Cooperative and Subsidiary as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Peoples Rural Telephone Cooperative and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Peoples Rural Telephone Cooperative and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Peoples Rural Telephone Cooperative and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2024, on our consideration of Peoples Rural Telephone Cooperative and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Peoples Rural Telephone Cooperative and Subsidiary's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Peoples Rural Telephone Cooperative and Subsidiary's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 25, 2024

PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2023 and 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,321,214	\$ 4,410,871
Accounts receivable, less allowance for credit losses of \$44,603 in 2023 and \$19,602 in 2022	251,856	208,453
Materials and supplies	5,096,925	6,700,159
Prepaid income taxes	-	204,663
Prepaid insurance	53,997	91,652
Total current assets	8,723,992	11,615,798
OTHER ASSETS		
Investment securities	10,089,966	9,739,877
Associated organizations	33,545,091	33,427,759
Nonregulated property	1,440,611	1,552,050
Deferred debits	408,655	542,484
Total other assets	45,484,323	45,262,170
TELECOMMUNICATIONS PLANT, AT ORIGINAL COST		
In service	77,462,210	74,434,481
Under construction	16,946,512	10,210,827
	94,408,722	84,645,308
Less accumulated depreciation	(44,303,231)	(40,562,417)
	50,105,491	44,082,891
	\$ 104,313,806	\$ 100,960,859

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

	<u>2023</u>	<u>2022</u>
LIABILITIES AND MEMBERS' EQUITIES		
CURRENT LIABILITIES		
Current portion of long term debt	\$ 332,839	\$ 357,418
Accounts payable	653,912	948,761
Accrued income taxes	193,710	- -
Other current and accrued liabilities	863,732	942,862
Total current liabilities	<u>2,044,193</u>	<u>2,249,041</u>
NON-CURRENT LIABILITIES		
Long-term debt, less current portion	4,132,980	3,583,402
Deferred tax liabilities	2,395,000	2,633,000
Accumulated postretirement benefits	11,621,870	14,528,933
Total non-current liabilities	<u>18,149,850</u>	<u>20,745,335</u>
MEMBERS' EQUITIES		
Memberships and capital investment	239,587	236,584
Patronage capital	84,138,527	81,764,485
Donated capital	1,646,193	1,646,193
Accumulated other comprehensive (loss)	(1,904,544)	(5,680,779)
Total members' equities	<u>84,119,763</u>	<u>77,966,483</u>
	<u>\$ 104,313,806</u>	<u>\$ 100,960,859</u>

PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years Ended December 31, 2023 and 2022

	2023	2022
Operating Revenue:		
Local network services	\$ 7,736,770	\$ 8,764,260
Network access services	8,244,615	8,439,662
Carrier billing and collection	56,710	44,906
Miscellaneous	1,096,654	733,843
Total operating revenues	17,134,749	17,982,671
Operating Expenses:		
Plant specific operations	5,086,172	4,605,042
Plant nonspecific operations	969,888	1,176,656
Depreciation	4,065,131	4,108,711
Customer operations	1,701,722	1,369,006
Corporate operations	1,893,618	2,068,865
Taxes, other than income	713,029	649,843
Total operating expenses	14,429,560	13,978,123
Operating income	2,705,189	4,004,548
Other income (expense):		
Other (expense), net	(327,581)	(1,475,993)
Investment income (loss)	812,978	(826,176)
Interest expense	(102,934)	(117,395)
Income from associated organization	1,891,709	1,644,017
Total other income	2,274,172	(775,547)
Income before income taxes	4,979,361	3,229,001
Income tax (expense)	(752,799)	(384,971)
Net income before nonregulated (loss)	4,226,562	2,844,030
Nonregulated (loss)	(1,296,674)	(2,450,253)
Net income	2,929,888	393,777
Other comprehensive income (loss)		
Accumulated postretirement benefits (expense)	3,619,642	(3,496,074)
Unrealized gain (loss) on debt securities	156,593	(347,124)
	3,776,235	(3,843,198)
Total comprehensive income (loss)	\$ 6,706,123	\$ (3,449,421)

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

PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

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

	Memberships	Patronage Capital				Total	Other Equities	Accumulated Other Comprehensive (Loss)	Total Members' Equities
		Assignable	Assigned	Unassigned	Retirements				
Balance, January 1, 2022	\$ 233,191	\$ 4,818,809	\$ 36,958,111	\$ 55,698,303	\$ (15,784,411)	\$ 81,690,812	\$ 1,646,193	\$ (1,837,581)	\$ 81,732,615
Assign margins	--	(4,818,809)	738,895	4,079,914	--	--	--	--	--
Net income	--	393,777	--	--	--	393,777	--	--	393,777
Postretirement benefit obligations	--	--	--	--	--	--	--	--	--
Amortization	--	--	--	--	--	--	--	396,000	396,000
Adjustments	--	--	--	--	--	--	--	(3,892,074)	(3,892,074)
Unrealized (loss) on debt securities	--	--	--	--	--	--	--	(347,124)	(347,124)
Capital credits	--	--	(386,349)	386,349	(320,104)	(320,104)	--	--	(320,104)
Memberships, net	3,393	--	--	--	--	--	--	--	3,393
Balance, December 31, 2022	236,584	393,777	37,310,657	60,164,566	(16,104,515)	81,764,485	1,646,193	(5,680,779)	77,966,483
Assign margins	--	(393,777)	254,294	139,483	--	--	--	--	--
Net income	--	2,929,888	--	--	--	2,929,888	--	--	2,929,888
Postretirement benefit obligations	--	--	--	--	--	--	--	--	--
Amortization	--	--	--	--	--	--	--	374,460	374,460
Adjustments	--	--	--	--	215	215	--	3,245,182	3,245,397
Unrealized gain (loss) on debt securities	--	--	--	--	--	--	--	156,593	156,593
Capital credits	--	--	--	--	(556,061)	(556,061)	--	--	(556,061)
Memberships, net	3,003	--	--	--	--	--	--	--	3,003
Balance, December 31, 2023	\$ 239,587	\$ 2,929,888	\$ 37,564,951	\$ 60,304,049	\$ (16,660,361)	\$ 84,138,527	\$ 1,646,193	\$ (1,904,544)	\$ 84,119,763

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

PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,929,888	\$ 393,777
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,065,131	4,108,711
Net profit in associated organization	(1,891,709)	(1,644,017)
Net realized and unrealized (gains) losses on investments	(623,614)	1,085,160
Postretirement benefits costs (contributions)	728,088	1,553,747
Deferred debits	133,829	277,730
Change in assets and liabilities, net of the effects of investing and financing activities:		
Receivables, net	(43,403)	(69,654)
Material and supplies	1,603,234	(3,359,495)
Prepaid income taxes	204,663	(44,090)
Prepaid insurance	37,655	33,466
Accounts payable	(294,849)	(297,975)
Deferred tax liabilities	(238,000)	193,000
Accrued income taxes	193,710	--
Other current and accrued liabilities	(79,130)	(203,983)
Net cash provided by operating activities	6,725,493	2,026,377
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction of plant	(9,946,432)	(8,432,403)
Salvage, net of removals	--	21,288
Proceeds from sale and maturities of investment securities	2,591,562	2,139,754
Purchases of investment securities	(2,318,037)	(1,987,383)
Associated organizations	1,774,377	1,745,211
Nonregulated property	111,439	269,561
Net cash (used in) investing activities	(7,787,091)	(6,243,972)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(359,614)	(345,153)
Advances on long-term debt	884,613	--
Memberships and capital investments	3,003	3,393
Net cash (used in) financing activities	(28,059)	(661,864)
Net (decrease) in cash and cash equivalents	(1,089,657)	(4,879,459)
Cash and cash equivalents:		
Beginning of year	4,410,871	9,290,330
End of year	\$ 3,321,214	\$ 4,410,871
Supplemental disclosures of cash flows information:		
Interest on long-term debt	\$ 102,934	\$ 117,395
Income taxes paid	\$ 590,000	\$ 245,974

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

PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

The significant policies are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative and its wholly-owned subsidiary, Peoples Telecom, LLC (“Peoples Telecom”). All significant inter-company accounts and transactions have been eliminated.

Nature of Business

The Cooperative is constructing an expanded services network. This network establishes the Cooperative as a full-service network (“FSN”) provider allowing it to provide expanded video services with over 200 channels, and high definition television. It is also able to provide high speed internet and virtual private networks which will allow it to provide voice over internet protocol (“VoIP”). This is accomplished through Fiber to the Home (“FTTH”) technology.

Use of Estimates

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

Cash and Cash Equivalents

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

Investments and Allowance for Credit Losses

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Investments and Allowance for Credit Losses (continued)

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

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

Accounts Receivable and Allowance for Credit Losses

The Cooperative operates in the telecommunications industry, and its accounts receivable are primarily derived from telecommunications customer services provided. Accounts receivables are stated at net realizable value. The Cooperative uses the allowance method to account for uncollectible accounts receivable. Management maintains an allowance for potential credit losses based on its assessment of the current status of the customer accounts. At each balance sheet date, the Cooperative recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist. Accounts receivable are usually collected within thirty days. The balance in accounts receivable as of December 31, 2023, 2022 and 2021 was \$251,856, \$208,453, and \$138,799, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable and Allowance for Credit Losses (continued)

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

	2023	2022
Beginning balances	\$ 19,602	\$ 38,481
Provision (reduction in) for credit losses	(31,696)	50,413
Write-offs	(44,687)	(117,846)
Recoveries	101,384	48,554
	\$ 44,603	\$ 19,602

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 approximately the 1st of the month with local service being billed a month in advance of service. Sales are concentrated in portions of two southeastern Kentucky counties. Payments are due 15 days from the date of billing. If payment has not been made, then customers are subject to disconnect in another 15 days.

The number of customers is as follows:

	2023	2022
Access lines	4,460	4,723
Total number of customers	6,868	6,841
Telephone customers	3,944	4,192
Broadband customers	6,283	6,108
Cable television customers	2,215	2,385

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

FTTH CATV Revenue Recognition

FTTH CATV revenue is recognized when earned regardless of the period in which they are billed. Cable transmission is purchased from networks at various amounts based on the number of customers receiving the service. Sales are concentrated in two southeastern Kentucky counties.

Taxes

Peoples Telephone and Peoples Telecom are required to collect, on behalf of the State of Kentucky, sales taxes based on six percent of gross sales from customers and a three percent school tax from certain counties on most gross sales. Peoples Telephone and Peoples Telecom's policy is to exclude taxes from revenue when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2023 and 2022, these costs were \$204,599 and \$193,744, respectively.

Telecommunications and CATV Plant

Telecommunications and CATV plant are stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead costs including any construction period interest and taxes. There was no interest required to be capitalized during 2023 and 2022.

Any difference between the purchase price of existing CATV plant facilities and cost when first dedicated to public service is recorded as an acquisition adjustment and are being amortized over a period of 15 years.

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, 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	10.0%	
Cable wire facilities	5.1% - 9.4%	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Cooperative is exempt from federal and state income taxes under IRS Code Section 501(c)(12). Certain unrelated business activities are subject to federal income taxes. Peoples Telecom is a single member limited liability company that is considered a disregarded entity for federal income tax purposes. Income taxes are provided for the Cooperative and Peoples Telecom's unrelated business activities 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, 2023 and 2022.

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.

Comprehensive Income

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

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Subsequent Events

Management has evaluated subsequent events through March 25, 2024, the date the consolidated financial statements were available to be issued.

Adopted Accounting Pronouncement

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

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

Note 2. Fair Value Measurements

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

	Fair value	Fair value measurements using:	
		Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
<u>December 31, 2023</u>			
Certificates of deposit	\$ 2,491,895	\$ - -	\$ 2,491,895
Stocks	4,525,743	4,525,743	- -
Debt securities	3,072,328	- -	3,072,328
	<u>\$ 10,089,966</u>	<u>\$ 4,525,743</u>	<u>\$ 5,564,223</u>
<u>December 31, 2022</u>			
Certificates of deposit	\$ 3,222,385	\$ - -	\$ 3,222,385
Stocks	4,007,553	4,007,553	- -
Debt securities	2,509,939	- -	2,509,939
	<u>\$ 9,739,877</u>	<u>\$ 4,007,553</u>	<u>\$ 5,732,324</u>

The amortized cost of debt securities available for sale was \$3,262,859 and \$2,857,061 as of December 31, 2023 and 2022, respectively. Unrealized gains (losses) as of December 31, 2023 and 2022 were (\$190,531) and (\$347,122), respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Fair Value Measurements (Continued)

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

	2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Due within one year	\$ --	\$ --	\$ --	\$ --
Due from 1 to 5 years	1,725,244	7,695	(85,587)	1,647,352
Due from 6 to 10 years	904,594	6,200	(35,134)	875,660
Due from 11 to 15 years	24,433	--	(3,648)	20,785
Due from 16 to 20 years	88,671	1,034	(1,470)	88,235
Due from 21 to 30 years	294,794	820	(73,070)	222,544
Due from over 30 years	225,123	1,661	(9,032)	217,752
	\$ 3,262,859	\$ 17,410	\$ (207,941)	\$ 3,072,328

	2022			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Due within one year	\$ --	\$ --	\$ --	\$ --
Due from 1 to 5 years	1,523,462	195	(127,607)	1,396,050
Due from 6 to 10 years	894,454	--	(123,377)	771,077
Due from 11 to 15 years	27,589	--	(3,946)	23,643
Due from 16 to 20 years	44,761	1,049	--	45,810
Due from 21 to 30 years	187,398	--	(61,575)	125,823
Due from over 30 years	179,397	--	(31,861)	147,536
	\$ 2,857,061	\$ 1,244	\$ (348,366)	\$ 2,509,939

For the year ending, December 31, 2023, proceeds from the sale of available-for-sale debt securities were \$751,295 with associated realized gains and losses of \$28,931 and (\$100,684), respectively. For the year ending, December 31, 2022, proceeds from the sale of available-for-sale debt securities were \$529,840 with associated realized gains and losses of \$1,200 and (\$28,023), respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Associated Organizations

The amounts for East Kentucky Network, LLC (“EKN”) represents Peoples Rural Telephone Cooperative’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 Cooperative 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, 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 plant in service is as follows for December 31:

	2023	2022
Telecommunications Plant:		
General support	\$ 17,349,668	\$ 17,074,238
Central office switching	1,713,722	2,169,239
Central office transmission	9,714,900	9,407,104
Cable wire facilities	37,879,950	37,143,722
Intangibles	5,844	5,844
	66,664,084	65,800,147
CATV Plant:		
General support	\$ 244,042	\$ 244,042
Headend plant	1,520,537	1,520,537
Cable and wire facilities	9,033,547	6,869,755
	10,798,126	8,634,334
Total	\$ 77,462,210	\$ 74,434,481

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 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 Peoples Long Distance (PLD). PLD revenues are billed and collected through the Cooperative. A monthly fee is recorded based on telephone usage. PLD purchases minutes of long distance to resell to its customers from an unrelated party. Nonregulated investments also include amounts that the Cooperative has invested to provide internet services to its customers. The Cooperative pays an unrelated party for the help desk and access to the internet system. The following is a summary of non-regulated activities:

	2023	2022	
Plant assets	\$ 3,691,999	\$ 3,518,632	
Reserve for depreciation	(2,251,388)	(1,966,582)	
	\$ 1,440,611	\$ 1,552,050	
	Income	Expenses	Net Income (Loss)
Customer premises equipment	\$ 391,467	\$ 791,256	\$ (399,789)
Internet activities	119,172	357,712	(238,540)
Long distance services	106,347	70,143	36,204
Fiber to the Home (FTTH)	2,748,827	3,443,376	(694,549)
Total - 2023	\$ 3,365,813	\$ 4,662,487	\$ (1,296,674)
	Income	Expenses	Net Income (Loss)
Customer premises equipment	\$ 256,775	\$ 743,805	\$ (487,030)
Internet activities	113,902	1,719,844	(1,605,942)
Long distance services	114,810	91,410	23,400
Fiber to the Home (FTTH)	2,841,369	3,222,050	(380,681)
Total - 2022	\$ 3,326,856	\$ 5,777,109	\$ (2,450,253)

Note 6. Deferred Debits

Deferred debits are as follows:

	2023	2022
Pension plan prefunding	\$ 408,655	\$ 542,484
	\$ 408,655	\$ 542,484

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. 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 (“USDA”) Rural Utilities Service (“RUS”). The long-term debt payable to RUS is due in monthly installments of various amounts through 2032.

Long-term debt is as follows for December 31:

	2023	2022
RUS Broadband Loans 2.2287%-4.3994%	\$ 4,465,819	\$ 3,940,820
Less current portion	332,839	357,418
Long-term portion	\$ 4,132,980	\$ 3,583,402

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

2024	\$ 332,839
2025	376,901
2026	387,521
2027	398,446
2028	409,655
Thereafter	2,560,457
	\$ 4,465,819

Note 8. 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 net worth to assets, as defined. The net worth of the Cooperative was 81% and 77% at December 31, 2023 and 2022, respectively.

Note 9. Pension Plan

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

The Cooperative’s contributions to the R&S Plan in 2023 and 2022 represent less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of \$150,000 in 2023 and \$200,000 in 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Pension Plan (Continued)

In the R&S Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (“PPA”) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan was 100 percent funded at January 1, 2023 and 2022, respectively, based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

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

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

Over the past several years, various actions have been taken to sustain the reserve of funds available to help meet the programs legally required minimum contribution amount. However, adverse economic conditions and regulatory changes have negatively affected all pension plans, including the R&S Program. Despite prudent decision-making by the program’s trust committee, the R&S Program’s minimum contribution amount is projected to exceed the current reserve and member contributions alone will not meet the minimum requirement. This expectation has led the program’s actuary to recommend the new surcharge contribution beginning in 2019. The R&S Program is offering prefunding to give members flexibility in addressing this situation at the Cooperative.

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

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

During 2016, the Cooperative prefunded the surcharge in an amount of \$1,143,692 (see Note 6). This amount will be amortized over the 12-year period the surcharge is expected to continue. The prefunding is invested by NTCA and the earnings are reinvested in the prefunding. Amortization expense for the years ended December 31, 2023 and 2022 was \$223,138 and \$277,484, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Accumulated Postretirement Benefits

Contributions rates are as follows:

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 qualify with a minimum age of 55 and meeting the Rule of 85. There have been no significant changes that affect the comparability of 2023 and 2022. The Cooperative uses a December 31, 2023 and 2022 measurement date for the plan.

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

	2023	2022
Benefit obligation, beginning of year	\$ 20,075,414	\$ 14,930,390
Service cost	297,562	402,913
Interest cost	871,568	673,178
Benefits paid	(613,613)	(556,784)
Actuarial (gain) loss	(2,720,401)	4,625,717
Benefit obligation, end of year	\$ 17,910,530	\$ 20,075,414
Fair value of plan assets, beginning of year	\$ 5,546,481	\$ 6,049,224
Actual return (loss) on plan assets	1,205,792	(145,959)
Employer contributions	150,000	200,000
Benefits paid	(613,613)	(556,784)
Fair value of plan assets, end of year	\$ 6,288,660	\$ 5,546,481
	2023	2022
Reconciliation of funded status:		
Funded status	\$ (11,621,870)	\$ (14,528,933)
Net amount recognized at year end	\$ (11,621,870)	\$ (14,528,933)
Amounts recognized in the balance sheet consists of:		
Noncurrent (liabilities)	\$ (11,621,870)	\$ (14,528,933)
Amounts included in accumulated other comprehensive income:		
Unrecognized actuarial (loss)	\$ (1,714,013)	\$ (5,333,655)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Accumulated Postretirement Benefits (Continued)

	2023	2022
Components of net periodic benefit cost:		
Service cost	\$ 297,562	\$ 402,913
Amortization cost	149,164	605,939
Interest cost	871,568	673,178
Expected return on plan assets	(440,206)	(388,254)
Net periodic benefit cost	\$ 878,088	\$ 1,293,776
	2023	2022
Weight-average assumptions as of December 31:		
Discount rate	4.95%	3.40%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	3.00%	3.00%
Effect of 1% trend sensitivity for medical plan:		
Projected benefit obligation	\$ 20,770,915	\$ 25,489,065
Net periodic benefit cost	1,301,621	2,013,707

The projected retiree benefit payments are expected to be as follows: 2024 – \$643,987; 2025 – \$675,864; 2026 – \$709,319; 2027 – \$744,430; 2028 – \$781,279.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Accumulated Postretirement Benefits (Continued)

The Plan's investments are reported at fair value 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, 2023</u>			
US Equity	\$ 1,553,300	\$ 1,553,300	\$ --
International Equity	1,647,629	--	1,647,629
Low Volatility	1,069,072	--	1,069,072
High Yield	509,381	--	509,381
Real Estate	521,959	--	521,959
Investment Grade Fixed Income	861,546	--	861,546
Cash	125,773	125,773	--
	<u>\$ 6,288,660</u>	<u>\$ 1,679,073</u>	<u>\$ 4,609,587</u>
<u>December 31, 2022</u>			
US Equity	\$ 1,369,980	\$ 1,369,980	\$ --
International Equity	1,453,178	--	1,453,178
Low Volatility	942,902	--	942,902
High Yield	449,265	--	449,265
Real Estate	460,358	--	460,358
Investment Grade Fixed Income	759,868	--	759,868
Cash	110,930	110,930	--
	<u>\$ 5,546,481</u>	<u>\$ 1,480,910</u>	<u>\$ 4,065,571</u>

Note 11. Income Taxes

The components of income tax expense are as follows:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Current:		
Federal	\$ 990,799	\$ 191,971
Deferred:		
Federal	<u>(238,000)</u>	<u>193,000</u>
	<u>\$ 752,799</u>	<u>\$ 384,971</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Income Taxes (Continued)

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

	December 31,	
	2023	2022
Deferred tax liabilities:		
Federal	<u>\$ 2,395,000</u>	<u>\$ 2,633,000</u>

Note 12. Contingencies

The Cooperative, on occasion, is subject to various lawsuits that arise in the normal course of business. The Cooperative's management does not believe the outcome of these cases will have a material effect on the consolidated 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, video revenue and other service charges. The Cooperative's nonregulated sources of revenue are customer premises and equipment, internet activities, long distance services, video services, and security/surveillance/bus systems.

Significant judgments

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13. Revenue Recognition (Continued)

Multiple performance obligations

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

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

Disaggregation of revenue

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

	2023	2022
<u>Regulated income:</u>		
Local network services	\$ 7,736,770	\$ 8,764,260
Network access services	8,244,615	8,439,662
Carrier billing and collections	56,710	44,906
Miscellaneous	1,096,654	733,843
	\$ 17,134,749	\$ 17,982,671
<u>Nonregulated income:</u>		
Customer premises equipment	\$ 391,467	\$ 256,775
Internet activities	119,172	113,902
Long distance services	106,347	114,810
Fiber to the Home (FTTH)	2,748,827	2,841,369
	\$ 3,365,813	\$ 3,326,856

Contract cost liabilities

Contract cost liabilities include customer deposits and are included in other current and accrued liabilities in the accompanying consolidated balance sheets. The balance in contract liabilities was \$111,943, \$108,771 and \$118,186 as of December 31, 2023, 2022 and 2021, respectively.



Jones, Nale & Mattingly PLC

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

To the Board of Directors
Peoples Rural Telephone Cooperative and Subsidiary
McKee, Kentucky

We have audited the consolidated financial statements of Peoples Rural Telephone Cooperative and Subsidiary as of and for the years ended December 31, 2023 and 2022, and our report thereon dated March 25, 2024, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 through 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information found on pages 25 and 26, is presented for purposes of additional analysis and is not a required part of the basic 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
March 25, 2024

PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET

December 31, 2023

	Peoples Rural Telephone Cooperative	Peoples Telecom	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,350,766	\$ 1,970,448	\$ --	\$ 3,321,214
Accounts receivable, net	1,492,655	80,184	(1,320,983)	251,856
Materials and supplies	5,094,224	2,701	--	5,096,925
Prepaid insurance	53,997	--	--	53,997
Total current assets	<u>7,991,642</u>	<u>2,053,333</u>	<u>(1,320,983)</u>	<u>8,723,992</u>
OTHER ASSETS				
Investment securities	10,089,966	--	--	10,089,966
Associated organizations	55,355,586	--	(21,810,495)	33,545,091
Nonregulated property	1,440,611	--	--	1,440,611
Deferred debits	408,655	--	--	408,655
Total other assets	<u>67,294,818</u>	<u>--</u>	<u>(21,810,495)</u>	<u>45,484,323</u>
TELECOMMUNICATIONS PLANT				
In service	66,664,084	10,798,126	--	77,462,210
Under construction	3,116,505	13,830,007	--	16,946,512
	<u>69,780,589</u>	<u>24,628,133</u>	<u>--</u>	<u>94,408,722</u>
Less accumulated depreciation	<u>(41,926,901)</u>	<u>(2,376,330)</u>	<u>--</u>	<u>(44,303,231)</u>
	<u>27,853,688</u>	<u>22,251,803</u>	<u>--</u>	<u>50,105,491</u>
	<u>\$ 103,140,148</u>	<u>\$ 24,305,136</u>	<u>\$ (23,131,478)</u>	<u>\$ 104,313,806</u>
LIABILITIES AND MEMBERS' EQUITIES				
CURRENT LIABILITIES				
Current portion of long term debt	\$ 332,839	\$ --	\$ --	\$ 332,839
Accounts payable	393,695	1,581,200	(1,320,983)	653,912
Accrued income taxes	193,710	--	--	193,710
Other current and accrued liabilities	834,904	28,828	--	863,732
Total current liabilities	<u>1,755,148</u>	<u>1,610,028</u>	<u>(1,320,983)</u>	<u>2,044,193</u>
NON-CURRENT LIABILITIES				
Long-term debt, less current portion	3,248,367	884,613	--	4,132,980
Deferred tax liabilities	2,395,000	--	--	2,395,000
Accumulated postretirement benefits	11,621,870	--	--	11,621,870
Total non-current liabilities	<u>17,265,237</u>	<u>884,613</u>	<u>--</u>	<u>18,149,850</u>
MEMBERS' EQUITIES				
Memberships and capital investment	239,587	21,899,513	(21,899,513)	239,587
Capital investment (Reconnect)	--	1,301,000	(1,301,000)	--
Patronage capital	84,138,527	(1,390,018)	1,390,018	84,138,527
Donated capital	1,646,193	--	--	1,646,193
Accumulated other comprehensive (loss)	<u>(1,904,544)</u>	<u>--</u>	<u>--</u>	<u>(1,904,544)</u>
Total members' equities	<u>84,119,763</u>	<u>21,810,495</u>	<u>(21,810,495)</u>	<u>84,119,763</u>
	<u>\$ 103,140,148</u>	<u>\$ 24,305,136</u>	<u>\$ (23,131,478)</u>	<u>\$ 104,313,806</u>

PEOPLES RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

Year Ended December 31, 2023

	Peoples Rural Telephone Cooperative	Peoples Telecom	Eliminations	Consolidated
Operating Revenue:				
Local network services	\$ 6,998,271	\$ 2,561,679	\$ (1,823,180)	\$ 7,736,770
Network access services	7,634,804	609,811	--	8,244,615
Carrier billing and collection	55,344	1,366	--	56,710
Miscellaneous	678,701	417,953	--	1,096,654
Total operating revenues	<u>15,367,120</u>	<u>3,590,809</u>	<u>(1,823,180)</u>	<u>17,134,749</u>
Operating Expenses:				
Plant specific operations	3,993,556	1,092,616	--	5,086,172
Plant nonspecific operations	855,110	114,778	--	969,888
Depreciation	3,386,290	678,841	--	4,065,131
Customer operations	1,509,178	192,544	--	1,701,722
Corporate operations	1,700,209	193,409	--	1,893,618
Taxes, other than income	504,829	208,200	--	713,029
Total operating expenses	<u>11,949,172</u>	<u>2,480,388</u>	<u>--</u>	<u>14,429,560</u>
Operating income	<u>3,417,948</u>	<u>1,110,421</u>	<u>(1,823,180)</u>	<u>2,705,189</u>
Other income (expense):				
Other (expense), net	(327,581)	--	--	(327,581)
Investment income	812,978	--	--	812,978
Interest expense	(102,934)	--	--	(102,934)
Income from associated organization	3,002,130	--	(1,110,421)	1,891,709
Total other income	<u>3,384,593</u>	<u>--</u>	<u>(1,110,421)</u>	<u>2,274,172</u>
Income before income taxes	6,802,541	1,110,421	(2,933,601)	4,979,361
Income tax (expense)	<u>(752,799)</u>	<u>--</u>	<u>--</u>	<u>(752,799)</u>
Net income before nonregulated income (loss)	6,049,742	1,110,421	(2,933,601)	4,226,562
Nonregulated income (loss)	<u>(3,119,854)</u>	<u>--</u>	<u>1,823,180</u>	<u>(1,296,674)</u>
Net income	2,929,888	1,110,421	(1,110,421)	2,929,888
Other comprehensive income (loss)				
Accumulated postretirement benefits	3,619,642	--	--	3,619,642
Unrealized gain on debt securities	156,593	--	--	156,593
	<u>3,776,235</u>	<u>--</u>	<u>--</u>	<u>3,776,235</u>
Total comprehensive income (loss)	<u>\$ 6,706,123</u>	<u>\$ 1,110,421</u>	<u>\$ (1,110,421)</u>	<u>\$ 6,706,123</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**

To the Board of Directors
Peoples Rural Telephone Cooperative and Subsidiary
McKee, 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 Peoples Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheet as of December 31, 2023 and the related consolidated statements of income and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 25, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly P.C.

Louisville, Kentucky
March 25, 2024



Jones, Nale & Mattingly PLC

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

Board of Directors
Peoples Rural Telephone Cooperative and Subsidiary
McKee, 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 Peoples Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of income and comprehensive income, changes in members' equities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2024. In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2024, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above related to our audit have been furnished to management.

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

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over material and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written permission of the RUS to enter into any contract, agreement, or lease with an affiliate as defined in Part 1773.33 (e)(2)(i);
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles, and;
- Comply with the requirements for the detailed schedule of investments, which are listed below.

The Cooperative is a 20% owner of East Kentucky Network, LLC, that provides cellular and other communication services in Eastern Kentucky. The initial investment was \$10,000. The investment is comprised of the following:

	<u>Investments</u>	<u>Profits</u>	<u>Returns</u>
Beginning of year	\$ 4,294,013	\$ 68,711,781	\$ (39,578,036)
Activity for 2023	-	1,891,709	(1,774,376)
End of year	<u>\$ 4,294,013</u>	<u>\$ 70,603,490</u>	<u>\$ (41,352,412)</u>

During 2004, the Cooperative formed a wholly owned subsidiary, Peoples Telecom, LLC, which provides telecommunications services outside of the Cooperative's service territory. The initial investment was \$1,130,000. The investment is comprised of the following:

	<u>Investments</u>	<u>Profits (Losses)</u>
Beginning of year	\$ 14,000,797	\$ (811,352)
Activity for 2023	7,510,629	1,110,421
End of year	<u>\$ 21,511,426</u>	<u>\$ 299,069</u>

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

Jones, Nale & Mattingly P.C.

Louisville, Kentucky
March 25, 2024