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BRANDENBURG TELEPHONE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

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William A. Talley
Jon D. Chesser
Bob E. Wientjes

INDEPENDENT AUDITORS' REPORT

Kentucky Offices:
Louisville
Brandenburg
Bardstown

To the Board of Directors
Brandenburg Telephone Company
Brandenburg, Kentucky

Report on the Financial Statements

We have audited the accompanying balance sheets of Brandenburg Telephone Company as of December 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of Brandenburg Telephone Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedure that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting policies made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brandenburg Telephone Company as of December 31, 2012 and 2011, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2013, on our consideration of Brandenburg Telephone Company's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.



Louisville, Kentucky
March 18, 2013

BRANDENBURG TELEPHONE COMPANY
BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

<u>ASSETS</u>	2012	2011
Current Assets:		
Cash and cash equivalents	\$ 13,413,381	\$ 15,189,023
Accounts receivable	2,010,805	2,199,709
Income tax receivable	988,271	825,209
Due from affiliate	11,946,200	12,655,607
Materials and supplies, at average cost - based on the lower of cost or market	1,003,363	1,211,962
Prepaid insurance	24,566	28,820
Total Current Assets	29,386,586	32,110,330
Non-Current Assets:		
Portfolio investments, available for sale	2,486,166	2,436,542
Investment in nonregulated	1,356,393	698,265
Deferred income taxes (Note J)	8,232,246	8,229,224
Total Non-Current Assets	12,074,805	11,364,031
Telephone Plant, at original cost (Note A):		
Telephone plant under construction	53,006	87,828
Telecommunications plant (Note I)	74,547,532	73,772,793
	74,600,538	73,860,621
Less: Accumulated Depreciation	74,156,307	73,401,747
Total Telephone Plant	444,231	458,874
TOTAL ASSETS	\$ 41,905,622	\$ 43,933,235

See independent auditors' report.
See notes to financial statements.

BRANDENBURG TELEPHONE COMPANY
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2012 AND 2011

LIABILITIES AND STOCKHOLDERS' EQUITY

<u>LIABILITIES</u>	<u>2012</u>	<u>2011</u>
Current Liabilities:		
Accounts payable	\$ 472,996	\$ 780,714
Customer deposits	22,033	24,431
Other current and accrued liabilities	<u>10,443,639</u>	<u>10,408,578</u>
 Total Current Liabilities	 <u>10,938,668</u>	 <u>11,213,723</u>
 TOTAL LIABILITIES	 10,938,668	 11,213,723
 <u>STOCKHOLDERS' EQUITY</u>		
Common stock, \$50 par value; authorized shares, 100,000; issued and outstanding shares, 100,000.	5,000,000	5,000,000
Retained Earnings	30,362,022	32,610,437
Accumulated other comprehensive income		
Unrealized gains (losses) on securities	14,639	14,035
Change in Pension Accrual	<u>(4,409,707)</u>	<u>(4,904,960)</u>
 TOTAL STOCKHOLDERS' EQUITY	 <u>30,966,954</u>	 <u>32,719,512</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 <u>\$ 41,905,622</u>	 <u>\$ 43,933,235</u>

See independent auditors' report.
See notes to financial statements.

BRANDENBURG TELEPHONE COMPANY
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Local network service	\$ 3,312,872	\$ 3,669,656
Network access service	10,504,888	11,433,869
Long distance network service	698,185	709,856
Miscellaneous revenue	1,235,503	1,526,890
Total Operating Revenues	<u>15,751,448</u>	<u>17,340,271</u>
Operating Expenses:		
Plant specific operations expense	3,166,244	3,198,340
Plant non-specific operations	1,311,524	1,112,191
Depreciation	1,504,484	1,194,189
Customer operation expense	2,002,604	2,042,549
Corporate operation expense	2,990,518	3,069,571
Other taxes	395,956	414,282
Total Operating Expenses	<u>11,371,330</u>	<u>11,031,122</u>
Operating Income	4,380,118	6,309,149
Other Income (Expense)		
Interest income	18,924	36,899
Interest expense	(339)	(1,265)
Other income	658,075	302,049
Total Other Income (Expenses)	<u>676,660</u>	<u>337,683</u>
Income Before Nonregulated Income	5,056,778	6,646,832
Nonregulated Income	<u>1,389,160</u>	<u>2,102,750</u>
Net Income Before Income Taxes	6,445,938	8,749,582
Income Taxes	<u>1,494,353</u>	<u>3,982,469</u>
Net Income	<u>\$ 4,951,585</u>	<u>\$ 4,767,113</u>

See independent auditors' report.
See notes to financial statements.

BRANDENBURG TELEPHONE COMPANY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Net income	\$ 4,951,585	\$ 4,767,113
Other comprehensive income		
Defined benefit plan	481,218	(3,066,652)
Unrealized gains on marketable securities	<u>14,639</u>	<u>14,035</u>
Total other comprehensive income	495,857	(3,052,617)
Total	<u>\$ 5,447,442</u>	<u>\$ 1,714,496</u>

BRANDENBURG TELEPHONE COMPANY
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Other Comprehensive Income</u>	<u>Total</u>
Balance, December 31, 2010	\$ 5,000,000	\$ 32,843,324	\$ (1,838,308)	\$ 36,005,016
Comprehensive Income				
Net income for the year ended December 31, 2011	-0-	4,767,113	-0-	4,767,113
Change in Unrealized gains on marketable securities net of tax expense of \$9,753	-0-	-0-	14,035	14,035
Change in Pension Accrual net of tax expense of \$2,131,063	-0-	-0-	(3,066,652)	(3,066.652)
	<hr/>	<hr/>	<hr/>	<hr/>
Comprehensive Income	-0-	4,767,113	(3,052,617)	1,714,496
Cash Dividends:				
Common stock, \$25.00 per share to Holding Company	-0-	(5,000,000)	-0-	(5,000,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, December 31, 2011	5,000,000	32,610,437	(4,890,925)	32,719,512
Comprehensive Income				
Net income for the year ended December 31, 2012	-0-	4,951,585	-0-	4,951,585
Change in Unrealized gains on marketable securities net of tax expense of \$10,173	-0-	-0-	14,639	14,639
Change in Pension Accrual net of tax expense of \$334,406	-0-	-0-	481,218	481,218
	<hr/>	<hr/>	<hr/>	<hr/>
Comprehensive Income	-0-	4,951,585	495,857	5,447,442
Cash Dividends:				
Common stock, \$25.00 per share to Holding Company	-0-	(7,200,000)	-0-	(7,200,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, December 31, 2012	<u>\$ 5,000,000</u>	<u>\$ 30,362,022</u>	<u>\$ (4,395,068)</u>	<u>\$ 30,966,954</u>

See independent auditors' report.

See notes to financial statements.

BRANDENBURG TELEPHONE COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Cash received from regulated services	\$ 15,940,352	\$ 17,274,860
Other receipts	658,075	302,049
Cash paid to suppliers, employees, and affiliates	(8,943,213)	(8,552,932)
Interest received	18,924	36,899
Interest paid	(339)	(1,265)
Taxes paid	(2,238,157)	(3,438,709)
	<u>5,435,642</u>	<u>5,620,902</u>
Net Cash Provided By Operating Activities		
Cash Provided (Used) In Investing Activities:		
Construction and acquisition of telecommunications plant	(739,917)	(1,306,294)
Nonregulated activities	731,031	1,833,778
	<u>(8,886)</u>	<u>527,484</u>
Net Cash (Used) Provided In Investing Activities		
Cash Provided (Used) in Financing Activities:		
Dividends paid	(7,200,000)	(5,000,000)
(Decrease) in customer deposits	(2,398)	(4,590)
	<u>(7,202,398)</u>	<u>(5,004,590)</u>
Net Cash Used In Financing Activities		
(Decrease) Increase in Cash	(1,775,642)	1,143,796
Cash and Cash Equivalents Beginning of Year	<u>15,189,023</u>	<u>14,045,227</u>
Cash and Cash Equivalents End of Year	<u>\$ 13,413,381</u>	<u>\$ 15,189,023</u>

See independent auditors' report.
See notes to financial statements.

BRANDENBURG TELEPHONE COMPANY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Activities:		
Net income	\$ 4,951,585	\$ 4,767,113
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,504,484	1,194,189
Deferred tax provisions	(3,022)	215,361
Decrease (Increase) in accounts receivable	188,904	(65,411)
Decrease (Increase) in income tax receivable	(163,062)	388,562
Decrease (Increase) in due from affiliate	709,407	(1,324,758)
Decrease (Increase) in materials inventory	208,599	163,895
Decrease (Increase) in prepaid insurance	4,254	53,310
Increase (Decrease) in accounts payable	(307,718)	252,726
Increase (Decrease) in customer deposits	(2,398)	(4,690)
Increase (Decrease) in accrued liabilities	<u>(1,655,391)</u>	<u>(19,395)</u>
Net Cash Provided By Operating Activities	<u>\$ 5,435,642</u>	<u>\$ 5,620,902</u>

See independent auditors' report.

See notes to financial statements.

BRANDENBURG TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note A - Summary of Significant Accounting Policies

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

Nature of Operations:

The Brandenburg Telephone Company is a telephone company that offers business and residential telephone service to customers located in Meade, Hardin and Breckinridge counties in Kentucky.

Telephone Plant:

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

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

Depreciation:

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

Estimates:

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

Accounts Receivable:

The Company considers its accounts receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. The Company's policy is not to accrue interest on accounts receivable. Accounts are written off as uncollectible at the time management determines the collection is unlikely.

Note B - Parent Subsidiary

As of December 31, 2012, the Brandenburg Telephone Company is a wholly owned subsidiary of Brandenburg Communications Corporation.

BRANDENBURG TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011

Note C – Pension Plan

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

The following illustrates the pension plan for the year ended December 31, 2012 and 2011:

Change in benefit obligation	<u>2012</u>	<u>2011</u>
Benefit obligation at beginning of year	\$ 29,352,488	\$ 23,354,885
Service cost	787,189	717,637
Interest cost	1,219,539	1,139,561
Benefits paid	(1,128,146)	(732,559)
Actuarial (gain) or lost	1,201,632	4,872,964
Benefit obligation at end of year	<u>\$ 31,432,702</u>	<u>\$ 29,352,488</u>
 Change in plan assets		
Fair value of plan assets at beginning of year	\$ 19,045,091	\$ 18,830,085
Actual return on plan assets	2,932,206	947,565
Employer contributions	598,905	-0-
Benefits paid	(1,128,146)	(732,559)
Fair value of plan assets at end of year	<u>\$ 21,448,056</u>	<u>\$ 19,045,091</u>
 Reconciliation of funded status		
Funded status	\$ (9,984,646)	\$ (10,307,397)
Unrecognized actuarial (gain) or loss	-0-	-0-
Unrecognized transition (asset) or obligation	-0-	-0-
Unrecognized prior service cost	-0-	-0-
Net amount recognized at year-end	<u>\$ (9,984,646)</u>	<u>\$ (10,307,397)</u>
 Amounts recognized in the statement of financial position consists of:		
Noncurrent liabilities	<u>\$ (9,984,646)</u>	<u>\$ (10,307,397)</u>
Net amount recognized at year-end	<u>\$ (9,984,646)</u>	<u>\$ (10,307,397)</u>
 Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income		
Transition obligation asset (obligation)	\$ -0-	\$ -0-
Prior service credit (cost)	(45,510)	(51,844)
Accumulated gain (loss)	(6,662,497)	(7,471,787)
Accumulated other comprehensive income (AOCI)	<u>(6,708,007)</u>	<u>(7,523,631)</u>
Cumulative employer contributions in excess of net periodic benefit cost	(3,276,639)	(2,783,766)
Net amount recognized in statement of financial position	<u>\$ (9,984,646)</u>	<u>\$ (10,307,397)</u>

BRANDENBURG TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011

Note C – Pension Plan (Continued)

**Additional year-end information for plans
with benefit obligations in excess
of plan assets:**

	<u>2012</u>	<u>2011</u>
Benefit obligation	\$ 31,432,702	\$ 29,352,488
Fair value of plan assets	21,448,056	19,045,091

Components of net periodic benefit cost

Service cost	\$ 787,189	\$ 717,637
Interest cost	1,219,539	1,139,561
Expected return on plan assets	(1,287,134)	(1,278,650)
Amortization of prior service cost	6,334	6,334
Amortization of transitional obligation	-0-	-0-
Recognized actuarial (gain) loss	365,850	-0-
Net periodic benefit cost	<u>\$ 1,091,778</u>	<u>\$ 584,882</u>

**Weighted-average assumptions as of
December 31:**

	<u>2012</u>	<u>2011</u>
Discount rate	4.25%	5.00%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	6.00%	6.00%

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

	<u>2012</u>	<u>2011</u>
Cash	3%	2%
Debt Securities	26%	28%
Equity Securities	<u>71%</u>	<u>70%</u>
	<u>100%</u>	<u>100%</u>

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

<u>Fiscal Year</u>	
2013	\$ 1,133,542
2014	1,140,703
2015	1,175,371
2016	1,217,820
2017	1,264,106
2018-2022	8,093,963

BRANDENBURG TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011

Note C – Pension Plan (Continued)

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

The Plan's investments are reported at fair value.

	Fair Value	Fair Value Measurements Using:	
		Unadjusted Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)
December 31, 2012			
Common stocks	\$ 15,232,093	\$ 15,232,093	\$ -0-
Corporate bonds	2,499,119	-0-	2,499,119
U.S. government securities	3,079,676	-0-	3,079,676
Total	20,810,888	\$ 15,232,093	\$ 5,578,795
Cash accounts	637,168		
Total	\$ 21,448,056		

FASB ASC Topic 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consists of observable inputs other than quoted market prices for identical assets, and Level 3 inputs have the lowest priority. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

Level 1 Fair Value Measurements

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

Level 2 Fair Value Measurements

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

BRANDENBURG TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011

Note D - Cash Flow Information

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Cash paid for interest and income taxes for 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Interest paid	\$ <u>339</u>	\$ <u>1,265</u>
Income taxes	\$ <u>2,238,157</u>	\$ <u>3,438,709</u>

Note E - Concentrations of Credit Risk

The Company maintains cash and cash equivalents at several banks. The total cash balances at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. A summary of total insured and uninsured amounts held at these financial institutions at December 31, 2012 are as follows:

Total Cash and Cash Equivalents	\$ 13,395,481
Less: Balance Insured by FDIC	<u>1,000,000</u>
Uninsured and Uncollateralized	<u>\$ 12,395,481</u>

Note F - Portfolio Investments

In accordance with FASB ASC Topic 320, Investments – Debt and Equity Securities, the company has classified all the Other Investments as available-for-sale. Available-for-sale investments are stated at fair value with unrealized gains and losses included in stockholder's equities. The cost of investments sold is based on the specific identification method.

The cost and fair market values of marketable securities available for sale at December 31, 2012 and 2011 were:

	2012	2011
U.S. Government Securities:		
Amortized Cost	\$ 2,436,542	\$ 2,412,754
Gross Unrealized Gain	<u>24,812</u>	<u>23,788</u>
Fair Value	<u>\$ 2,461,354</u>	<u>\$ 2,436,542</u>

BRANDENBURG TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011

Note F – Portfolio Investments (Continued)

At December 31, 2012, maturities of investments classified as available-for-sale were as follows:

	Amortized <u>Cost</u>	Fair <u>Value</u>
Less Than One Year	\$ 2,461,354	\$ 2,436,542
One Through Five Years	-0-	-0-
After Five Years	<u>-0-</u>	<u>-0-</u>
	<u>\$ 2,461,354</u>	<u>\$ 2,436,542</u>

The Plan's investments are reported at fair value in the accompanying statement of net assets available for benefit.

<u>December 31, 2012</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using: Significant Other Observable Inputs (Level 2)</u>
Municipal bonds	\$ 2,018,676	\$ 2,018,676
Agency securities	<u>166,036</u>	<u>166,036</u>
Total	2,184,712	<u>\$ 2,184,712</u>
Cash accounts	276,642	
Total	<u>\$ 2,461,354</u>	

FASB ASC Topic 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consists of observable inputs other than quoted market prices for identical assets, and Level 3 inputs have the lowest priority. The Plan uses appropriation valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

BRANDENBURG TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011

Note F – Portfolio Investments (Continued)

Level 2 Fair Value Measurements

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

Note G – Comprehensive Income

Comprehensive income is the total of (1) net income plus (2) all other changes in net assets arising from non-owner sources, which are referred to as other comprehensive income. The company has presented a statement of income that includes other comprehensive income. An analysis of changes in components of accumulated other comprehensive income is presented in the statement of changes in equity.

Note H– Nonregulated Investments

Investments in nonregulated activities consist of the following:

	<u>2012</u>	<u>2011</u>
Due from affiliate	\$ 1,114,620	\$ 410,066
Inventory	128,463	109,338
Land and land improvements	330,989	330,989
Other equipment	128,633	128,633
Fiber optic, mobile telephone and internet equipment	<u>2,292,997</u>	<u>2,392,315</u>
Total Nonregulated Investments	3,995,702	3,371,341
Less: Accumulated depreciation	2,169,350	2,252,248
Accounts payable	75,833	69,852
Accrued expenses	307,122	232,126
Other payable	<u>87,004</u>	<u>118,850</u>
	<u>\$ 1,356,393</u>	<u>\$ 698,265</u>

BRANDENBURG TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011

Note H– Nonregulated Investments (Continued)

Following is a summary of net income from nonregulated investments for the year ending December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Income	\$ 3,555,820	\$ 3,916,359
Expenses	<u>2,166,660</u>	<u>1,813,609</u>
	<u>\$ 1,389,160</u>	<u>\$ 2,102,750</u>

Income tax expense related to these activities totaled \$510,932 in 2012 and \$882,396 in 2011.

Note I – Telecommunications Plant:

	<u>2012</u>	<u>2011</u>
Land	\$ 1,037,122	\$ 1,037,122
Buildings	9,145,874	9,126,013
Digital electronic equipment	24,334,147	24,210,674
Toll and subscriber carriers	1,779,775	2,917,825
Poles, cable and wire	30,766,433	28,927,332
Furniture and office equipment	3,861,528	3,812,917
Embedded accounts	300,712	300,712
Vehicles and other work equipment	<u>3,321,941</u>	<u>3,440,198</u>
Telephone plant in service	<u>\$ 74,547,532</u>	<u>\$ 73,772,793</u>

The Company provides depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of the telephone plant in service was 6.9% in both 2012 and 2011. Individual plant depreciation rates are as follows:

	<u>Percent</u>
Buildings	2.7
Digital electronic equipment	7.5
Toll and subscriber equipment	11.9
Poles	5.6
Aerial cable – metallic	6.6
Aerial cable – fiber	5.1
Buried cable	5.5
Furniture	8.7
Computer equipment	15.8
Conduit Systems	2.2
Vehicles	12.1

BRANDENBURG TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011

Note J - Income Taxes and Deferred Income Taxes

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

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of the Company's assets and liabilities for financial reporting basis and the amounts used for income tax purposes.

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

	<u>2012</u>	<u>2011</u>
Deferred Tax Assets:		
Federal	\$ 6,806,554	\$ 7,214,947
State	1,425,692	1,014,277
Total Deferred Tax Assets	<u>8,232,246</u>	<u>8,229,224</u>
Net Deferred Benefit (Liability)	<u>\$ 8,232,246</u>	<u>\$ 8,229,224</u>
Current portion	\$ -0-	\$ -0-
Long-term portion	<u>8,232,246</u>	<u>8,229,224</u>
Net Deferred Tax Benefit (Liability)	<u>\$ 8,232,246</u>	<u>\$ 8,229,224</u>

Income taxes reflected in the Statement of Income include:

	<u>2012</u>	<u>2011</u>
Federal income taxes:		
Current tax expense	\$ 1,504,510	\$ 1,300,191
Deferred tax expense (benefit)	(363,637)	2,214,304
State income taxes:		
Current tax expense	369,290	262,730
Deferred tax expense (benefit)	<u>(15,810)</u>	<u>205,244</u>
Total income tax expense	<u>\$ 1,494,353</u>	<u>\$ 3,982,469</u>

The principal sources of temporary differences are different depreciation methods used for financial accounting and tax purposes, as well as pension expense.

**BRANDENBURG TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011**

Note K - Related Party Transactions:

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

<u>Bank</u>	<u>Date</u>	<u>Maturity Date</u>	<u>Certificate Number</u>	<u>Interest Rate</u>	<u>Amount</u>
Meade County	2/11/06	2/11/13	5547	0.750%	\$ 1,000,938
West Point	1/27/06	1/13/13	0058	1.002%	\$ 916,800

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

<u>Bank</u>	<u>Amount</u>
<u>Operating Accounts:</u>	
Meade County	\$ 1,475,744
First State	4,164,841
West Point	<u>3,165,300</u>
Total Operating Accounts	<u>\$ 8,805,885</u>
<u>Money Market Accounts:</u>	
First State	\$ 989,071
River City	<u>1,696,887</u>
Total Money Market Accounts	<u>\$ 2,685,958</u>

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

During 2001, Brandenburg Telecom, LLC (the Corporation), a wholly-owned subsidiary of Brandenburg Communications Corporation was formed. The Corporation will provide telecommunication services in Elizabethtown, Kentucky and other areas outside the franchise territory of Brandenburg Telephone Company. Brandenburg Telephone Company provided the Corporation with funding to assist the Corporation's organizational expenditures. As of December 31, 2012, the amount due to Brandenburg Telephone Company was \$11,946,200.

Note L - Subsequent Event Policy

Brandenburg Telephone Company has evaluated subsequent events through March 18, 2013, the date which the financial statements were available to be issued.

BRANDENBURG TELEPHONE COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012 AND 2011

Note M – Accounting for Uncertain Tax Positions

The company adopted the accounting standard regarding “Accounting for Uncertain Tax Positions”. This standard provides detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in the enterprise’s financial statements. It requires an entity to recognize the financial statement benefit of a tax position when it is more likely than not that the position will be sustained upon examination. The adoption of this standard had no material effect on the Company’s financial position, results of operations, or cash flow. The tax years of 2009-2012 remain subject to examination by taxing authorities.

William A. Talley
Jon D. Chesser
Bob E. Wientjes

Kentucky Offices:
Louisville
Brandenburg
Bardstown

**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***

The Board of Directors
Brandenburg Telephone Company
Brandenburg, KY 40108

We have audited the financial statements of the Brandenburg Telephone Company, as of and for the years ended December 31, 2012 and 2011, and have issued our report thereon dated March 18, 2013. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Brandenburg Telephone Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

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 misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brandenburg Telephone Company's financial statements are free of 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 determination of financial statement amounts. 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*.

This report is intended solely for the information and use of management and the Rural Telephone Bank and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Richardson, Pennington & Skinner, PSC

Louisville, Kentucky
March 18, 2013