Kentucky 536

Thacker Grigsby Telephone Company, Inc. and Subsidiaries

Hindman, Kentucky

Audited Financial Statements
December 31, 2012 and 2011

ALAN ZUMSTEIN

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To the Board of Directors
Thacker Grigsby Telephone Company, Inc.

I have audited the financial statements of Thacker Grigsby Telephone Company, Inc. for the year ended December 31, 2012, and have issued my report thereon dated January 27, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on audits of the Rural Utilities Service (RUS) Borrowers. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing my audit of the financial statements of Thacker Grigsby Telephone for the year ended December 31, 2012, I considered its internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting that I consider to be a material weakness.

7 CFR Part 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters. I have grouped my comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, I performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, material control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(2) related transactions, depreciation rates, a schedule of deferred debits and credits and a schedule of investments, upon which I express an opinion. In addition, my audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. My Objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, I express no opinion thereon.

No reports, other than my independent auditor's report, and my independent auditor's report on internal control over financial reporting and compliance and other matters, all dated January 27, 2013, or summary of recommendations related to my audit have been furnished to management.

My comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions and other additional matters as required by 7 CFR Part 1773.33 are presented below.

Comments on Certain Specific Aspects of the Internal Control Over Financial Reporting

I noted no matters regarding Thacker Grigsby Telephone's internal control over financial reporting and its operation that I consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records;
- the process for accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement, and maintenance and other expense accounts, and;
- the material controls.

Comments on Compliance with Specific RUS Loan and Security Instrument Provisions

At your request, I have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts, and grants. The procedures I performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement, or lease between the borrower and Thacker Grigsby Telephone for the year ended December 31, 2012:
    1. Obtained and read a borrower-prepared schedule of new written contracts, agreements, or leases entered into during the year between the borrower and an affiliate as defined in Section 1773.33(e)(i), of which there were none.
    2. Reviewed Board of Director minutes to ascertain whether board-approved written contracts are included in the borrower-prepared schedule (of which none were noted).
    3. Noted no existence of written RUS approval since there were no contracts listed by the borrower.
- Procedures performed with respect to the requirement to submit a *Operating Report for Telecommunications Borrowers* to RUS:
    1. Agreed amounts reported in *Operating Report for Telecommunications Borrowers* to Thacker Grigsby Telephone's records as of December 31, 2012.

The results of my tests indicate that, with respect to the items tested, Thacker Grigsby Telephone complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. With respect to items not tested, nothing came to my attention that caused me to believe that Thacker Grigsby Telephone had not complied, in all material respects, with those provisions. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has not entered into any contract, agreement, or lease with an affiliate as defined in Section 1773.33(e)(i), and
- The borrower has submitted its *Operating Report for Telecommunications Borrowers*, as of December 31, 2012, represented by the borrower as having been submitted to RUS is in agreement with its audited records in all material respects.

Comments on Other Additional Matters

In connection with my audit of Thacker Grigsby Telephone, nothing came to my attention that caused me to believe that Thacker Grigsby Telephone failed to comply with respect to:

- The reconciliation of continuing property records to controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- Approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR Part 1773.33(c)(5);
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standard No. 57, Related party Transactions, for the year ended December 31, 2012, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR Part 1773.33(f); and,
- The detailed schedule of investments.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of deferred debits and deferred credits required by 7 CFR Part 1773(h) and provided below is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Thacker Grigsby Telephone is a one-fifth (1/5) owner of East Kentucky Network, LLC, which provides cellular and other communication services in Eastern Kentucky. The initial investment was $30,000. The investment is comprised of the following:

	Investment	Returns	Profits
Beginning of year	$3,241,250	($6,622,574)	$23,272,507
Activity for 2011		(2,299,810)	2,468,203
End of year	$3,241,250	($8,922,384)	$25,740,710

During 2006, Thacker Grigsby formed a limited liability company, Elk Glen, LLC, that purchased land for the purpose of developing lots for housing in Thacker Grigsby's service territory. The objective is to recover costs incurred, not to generate profits from the venture. The initial investment was $5,000. The investment is as follows:

	Investment	Profits
Beginning of year	$4,300,000	($1,534,147)
Activity for 2011	350,000	(298,352)
End of year	$4,650,000	($1,832,499)

During 2006, Thacker Grigsby formed a limited liability company, Allied Services, LLC that purchased all the outstanding stock of a cable television company. As a result of the acquisition, Thacker Grigsby expects to reduce overall costs through economies and sharing equipment and facilities. The initial investment in Allied Services was $15,061,506. The investment is as follows:

	Investment	Profits
Beginning of year	$20,721,506	($1,372,804)
Activity for 2011	340,000	20,414
End of year	$21,061,506	($1,352,390)

This report is intended solely for the information and use of the Board of Directors, management, RUS, and supplemental lenders 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.

Alan Zumstein

Alan M. Zumstein, CPA
January 27, 2013

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Independent Auditor's Report

To the Board of Directors
Thacker Grigsby Telephone Company, Inc.

I have audited the accompanying consolidated balance sheets of Thacker Grigsby Telephone Company, Inc. and Subsidiaries, as of December 31, 2012 and 2011, and the related statements of revenues and comprehensive income, changes in stockholders' equities, and cash flows for the years then ended. These financial statements are the responsibility of Thacker Grigsby Telephone Company, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my 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 I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinion.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated January 27, 2013, on my consideration of Thacker Grigsby Telephone Company, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audits.

Alan Zumstein

Alan M. Zumstein, CPA
January 27, 2013

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To the Board of Directors
Thacker Grigsby Telephone Company, Inc.

I have audited the financial statements of Thacker Grigsby Telephone Company, Inc. Corporation as of and for the years ended December 31, 2012 and 2011, and have issued my report thereon dated January 27, 2013. I conducted my audits in accordance with generally accepted auditing standards 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 my audit, I considered Thacker Grigsby Telephone's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Thacker Grigsby Telephone's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Thacker Grigsby Telephone's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more that a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Thacker Grigsby Telephone's financial statements are free of material misstatement, I performed test 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 the audit committee, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Alan Zumstein

Alan M. Zumstein, CPA
January 27, 2013

Thacker Grigsby Telephone Company, Inc.
Consolidated Balance Sheets, December 31, 2012 and 2011

Assets	2012	2011
Current Assets:		
Cash and cash equivalents	$ 3,382,908	$ 2,449,536
Accounts receivable, less allowance for 2012 of $302,547 and 2011 of $281,191	3,061,597	2,194,573
Materials and supplies, at average cost	1,527,939	783,868
Prepayments	24,458	2,062
	7,996,902	5,430,039
Investments and Other Assets:		
Investment in limited liability companies	20,059,576	19,891,183
Investment securities available for sale	2,075,738	1,862,203
Investment securities held to maturity	10,922,460	10,104,865
Nonregulated investments	560,288	587,844
	33,618,062	32,446,095
Telecommunications Plant:		
In service	67,673,227	65,895,843
Under construction	4,420,071	2,872,174
Less accumulated depreciation	(35,099,512)	(31,151,226)
	36,993,786	37,616,791
Total	$ 78,608,750	$ 75,492,925

Liabilities and Stockholder's Equities	2012	2011
Current Liabilities:		
Accounts payable	$ 939,812	$ 609,840
Current portion of long term debt	1,935,000	1,870,000
Customer's deposits	184,266	194,085
Advance billings	770,342	751,225
Other current and accrued expenses	473,421	106,239
	4,302,841	3,531,389
Long Term Debt	14,367,348	15,665,595
Deferred Income Taxes	853,000	853,000
Stockholders' and Members' Equities:		
Capital investments	269,800	269,800
Retained earnings	57,322,446	54,518,904
Other comprehensive income	1,495,615	656,037
Treasury stock, 7 shares, at cost	(2,300)	(1,800)
	59,085,561	55,442,941
Total	$ 78,608,750	$ 75,492,925

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Income and Retained Earnings
for the years ended December 31, 2012 and 2011

	2012	2011
Operating Revenue:		
Local network service	$ 1,122,859	$ 1,154,339
Network access services	6,112,603	5,970,166
Cable television services	7,686,339	7,379,701
Cable internet services	2,296,312	2,063,995
Billing and collection	157,582	177,767
Miscellaneous	870,104	785,711
Less provision for uncollectibles	(24,000)	(99,000)
	18,221,799	17,432,679
Operating Expenses:		
Plant specific	3,124,057	3,282,244
Plant nonspecific	872,590	1,090,461
Depreciation	3,982,249	3,955,530
Programming costs	3,544,443	3,301,728
Customer operations	1,704,573	1,450,594
Corporate operations	1,953,806	1,850,715
Other operating taxes	806,260	413,809
Other expenses	40,280	37,980
	16,028,258	15,383,061
Income from operations	2,193,541	2,049,618
Other Income and Expenses:		
Other income, principally interest and dividends	517,059	544,061
Net income from limited liability companies	2,468,202	4,599,612
Nonregulated activities	121,916	(10,854)
	3,107,177	5,132,819
Income before interest and taxes	5,300,718	7,182,437
Interest Charges:		
Interest on long term debt	1,012,952	1,141,005
Other interest expense	7,799	9,315
	1,020,751	1,150,320
Income Taxes	1,264,600	1,233,957
Net income	3,015,367	4,798,160
Items of comprehensive income:		
Investment securities	1,306,515	365,636
Pension plans	189,100	290,401
Comprehensive Income	$ 4,510,982	$ 5,454,197

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows
for the years ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Net income	$ 3,015,367	$ 4,798,160
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	3,982,249	3,955,530
Deferred income taxes	-	-
Income in limited liability company	(2,468,202)	(4,599,612)
Net change in current assets and liabilities:		
Receivables	(847,907)	41,757
Material and supplies	(744,071)	29,387
Other current assets	(2,859)	29,934
Accounts payable	329,972	(587,491)
Customer deposits	(9,819)	(3,762)
Other current and accrued expenses	265,881	(222,791)
	3,520,611	3,441,112
Cash Flows from Investing Activities:		
Construction of plant	(3,414,839)	(3,546,105)
Salvage recovered from plant retirements	36,058	(14,126)
Additional investment securities, net	(90,250)	7,366
Nonregulated investments and others	27,556	(86,272)
	(3,441,475)	(3,639,137)
Cash Flows from Financing Activities:		
Capital in limited liability companies	2,299,808	1,542,578
Additional long term borrowings	556,171	982,082
Payments on long term debt	(1,789,418)	(1,920,129)
Treasury stock purchased	(500)	-
Dividends paid	(211,825)	(211,850)
	854,236	392,681
Net increase in cash balances	933,372	194,656
Cash balances - beginning of period	2,449,536	2,254,880
Cash balances - end of period	$ 3,382,908	$ 2,449,536

	2012	2011
Supplemental disclosures of cash flows information:		
Interest on long term debt	$ 1,012,952	$ 1,141,005
Income taxes	1,151,245	1,590,301

The accompanying notes are an integral part of the financial statements.

Statements of Stockholder's and Member's Equities
for the years ended December 31, 2011 and 2012

	Capital Investments	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Members' Equity
Balance - Beginning of year	$ 269,800	$ 49,932,594	$ (1,800)	$ 456,716	$ 50,657,310
Comprehensive income:					
Net income		4,798,160			4,798,160
Unrealized gain/(loss) on marketable securities				(33,758)	(33,758)
Minimum pension liability				233,079	233,079
Total comprehensive income					4,997,481
Dividends paid		(211,850)			(211,850)
Purchase treasury stock					-
Balance - December 31, 2011	269,800	54,518,904	(1,800)	656,037	55,442,941
Comprehensive income:					
Net income		3,015,367			3,015,367
Unrealized gain/(loss) on marketable securities				940,879	940,879
Minimum pension liability				(101,301)	(101,301)
Total comprehensive income					3,854,945
Dividends paid		(211,825)			(211,825)
Purchase treasury stock			(500)		(500)
Balance - December 31, 2012	$ 269,800	$ 57,322,446	$ (2,300)	$ 1,495,615	$ 59,085,561

The accompanying notes are an integral part of the financial statements.

Note 1 Organization

Thacker Grigsby Telephone Company, Inc. (Thacker Grigsby) 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 with generally accepted accounting principles in all material respects. Thacker Grigsby is a local exchange telecommunications company providing local, long distance, and internet services. Elk Glen, LLC, (Elk Glen) was formed to provide economic development by constructing a subdivision from a reclaimed coal strip mine. Allied Services, LLC (Allied Services) was formed to purchase a cable television company. TV Service, Inc. (TV Service) operates a cable television company that also provides internet services. As a result of the cable television acquisition, Thacker Grigsby expects to reduce overall costs through economies of all the companies. The Company refers to all the companies collectively. The financial statements of the Company include the provisions of FASB ASC 980, *Certain Types of Regulation,* which gives recognition to the ratemaking and accounting practices of the KPSC and RUS.

Note 2 Summary of Significant Accounting Policies

Principles of Consolidation The consolidated financial statements include the accounts of Thacker Grigsby and its subsidiaries, Elk Glen and Allied Services, which owns 100% of TV Service. All significant inter-company accounts and transactions have been eliminated.

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

Cash and Cash Equivalents The Company considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. These financial institutions have strong credit ratings and management believes that credit risk related to the accounts is minimal.

Telecommunications Revenue Recognition Thacker Grigsby is a Kentucky corporation engaged in telephone communications services to residential and business customers located in portions of four eastern Kentucky counties. Thacker Grigsby's revenues are recognized when earned regardless of the period in which they are billed. Thacker Grigsby bills customers on credit with certain customers required to pay a refundable deposit. There were no customers whose individual account balance exceeded 10% of outstanding accounts receivable at December 31, 2012 or 2011.

Bills are sent to customers on the first of each month with local service being billed a month in advance of service. Payments are due 20 days from the date of billing, at which time a disconnect notice is sent with payment to be made within 10 days. If not paid by then, the customer is subject to disconnect. Accounts are written off when they are deemed to be uncollectible. The allowance is based on the aging of receivables and prior write-offs.

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

Note 2 Summary of Significant Accounting Policies, continued

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 Thacker Grigsby.

CATV Revenue Recognition TV Service recognizes revenues when earned regardless of the period in which they are billed. TV Service purchases cable transmissions from networks at various amounts based on the number of customers receiving the service. The Company's sales are concentrated in four eastern Kentucky counties. There are no customers whose individual account balance exceeded 10% of outstanding accounts receivable at December 31, 2012 or 2011.

Bills are sent to customers on the first of each month with local service being billed a month in advance of service. Payments are due 20 days from the date of billing. If payment has not been made, the customer is subject to disconnect on the 15th day of the next month, however, customers are generally given an extra month to pay. Accounts are written off when they are deemed to be uncollectible. The allowance is based on the aging of receivables and prior write-offs.

Elk Glen Revenue Recognition Elk Glen recognizes revenues as lots are sold in the subdivision. The cost of lots sold is the ratio of costs in relation to the subdivision, divided by the remaining unsold lots.

Taxes and Fees The Company is required to collect taxes and fees for various taxing authorities. The Company's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

Fiber to the Home Activities Thacker Grigsby and TV Service have each launched a fiber to the home (FTTH) network. This network will establish each company as a full service network (FSN) provider allowing them to provide video services, high speed internet, virtual private networks, and multiple voice lines to their customers.

Plans are to complete the FSN in several phases by building in the most populated areas followed by lower density areas. Long range plans for each system is to build on the initial network with additional equipment and facilities replacing existing copper facilities with fiber optics.

Investment in Limited Liability Company This balance represents Thacker Grigsby's investment in a limited liability company with four other telephone companies in eastern Kentucky for the purpose of providing cellular telephone services. The investment is accounted for using the equity method of accounting.

Fair Value Measurements The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures,* defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

> Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities

> Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Note 2 Summary of Significant Accounting Policies, continued

Level 3: Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The carrying amounts of the Company's cash and cash equivalents, other receivables, investments (except investment securities), inventories, other assets, trade accounts payable, accrued expenses and liabilities, and other liabilities approximate fair value due to their short maturity. Investments in associated organizations are not considered a financial instrument because they represent nontransferable interests in associated organizations. Other assets and liabilities are not considered financial instruments because they represent activities specifically related to the Company. Long term debt cannot be traded in the market, and is specifically for telecommunications companies and, therefore, a value other than its outstanding principal cannot be determined.

The company invests idle funds in funds and with local banks. The inputs used to measure idle funds are Level 1 measurements, as these funds are exchange traded funds in an active market.

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

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 utility plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. The major classification of plant in service is:

	2012	2011
Thacker Grigsby plant:		
General support	$8,582,677	$8,100,108
Central office switching	8,517,869	8,316,945
Central office transmission	1,598,137	1,583,904
Cable and wire facilities	19,597,065	18,989,544
Intangibles	4,153	4,153
	38,299,901	36,994,654
Elk Glen plant:		
Vehicles	81,883	81,883
Work and other equipment	551,415	526,190
	633,298	608,073
TV Service plant:		
General support	1,707,549	1,655,288
Headend and electronics	4,523,266	4,410,755
Conductor and distribution	16,418,998	16,136,859
Intangibles	6,090,215	6,090,214
	28,740,028	28,293,116
	$67,673,227	$65,895,843

Note 2 Summary of Significant Accounting Policies, continued

Depreciation Provision has been made for depreciation on the basis of estimated lives of assets, using the straight-line method. Rates are as follows:

	Thacker Grigsby	TV Service
General support	2.7%- 15.8%	14.3%
Central office switching and headend	7.2%	6.7%
Central office transmission	9.6%	
Cable and wire facilities	4.7% - 8.4%	
Cable conductor and distribution		5.1% - 20%

Acquisitions TV Service purchases smaller cable companies from unrelated parties on a routine basis. These purchases are all accounted for on the purchase method of accounting, and accordingly, the results of operations have been included in the consolidated financial statements. The difference between the purchase price and the net realizable assets is reported as goodwill, and is being amortized over 15 years.

TV Service reviews its intangibles and other long lived assets on an annual basis for potential impairment. It is estimated that the difference between amortization and impairment is not material, therefore, TV Service will continue to amortize the intangibles over their estimated remaining lives.

Risk Management The Company's are 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.

Comprehensive Income Comprehensive income includes both net margin and other comprehensive income. Other comprehensive income represents the change in funded status of investments and pension plans.

Advertising The Company expenses advertising costs as incurred.

Subsequent Events Management has evaluated subsequent events through January 27, 2013, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 3 Investment Securities

The Company's classify their investment in securities as held to maturity, available for sale, or trading categories in accordance with provisions of the *Financial Instruments Topic* of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"). Investment securities are classified as held to maturity when the Company's have the positive intent and ability to hold the securities until maturity. Held to maturity securities are stated at amortized cost. Investment securities not classified as held to maturity are classified as available for sale and are carried at fair market value, with unrealized gains and losses, net of tax, reported as a separate component in stockholders' equity.

The fair values are based primarily on quoted market prices and year end brokerage statements. Investments held to maturity consist of bonds issued by municipalities and with the state of Kentucky.

Realized gains (losses) were $10,833 for 2012 and $39,325 for 2011. Investments available for sale include stocks that are due to mature in one through five years.

Note 3 Investment Securities, continued

Amortized cost and estimated fair value of investment securities at December 31 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Thacker Grigsby - 2012	$1,850,823	$224,915	-	$2,075,738
Thacker Grigsby - 2011	$1,800,876	$61,327	-	$1,862,203
Held to maturity securities:				
2012				
Thacker Grigsby	1,084,392	65,153	-	1,149,545
Allied Services	8,756,468	1,016,447	-	9,772,915
2011				
Thacker Grigsby	1,065,480	49,617	-	1,115,097
Allied Services	8,735,077	254,691	-	8,989,768

The cost and estimated fair values of marketable investments by contractual maturity are as follows:

	Amortized Cost	Fair Value
Held to maturity, Thacker Grigsby:		
Due in one through five years	$607,730	$607,730
Due in five through ten years	136,114	144,296
Due after ten years	340,548	397,519
	1,084,392	1,149,545
Held to maturity, Allied Services:		
Due in one through five years	422,141	471,114
Due in five through ten years	369,737	412,653
Due after ten years	7,964,590	8,889,148
	8,756,468	9,772,915
	$9,840,860	$10,922,460

Note 4 Non Regulated Activities

Deregulated customer premises equipment is stated at cost; material held for lease or resale is stated at average cost. CPE also includes inside wire revenues and expenses. Depreciation is provided on a straight-line basis at 14.9% per year. Non-regulated investments also include amounts that Thacker Grigsby has invested to provide internet services to its customers.

Thacker Grigsby provides long distance telephone service under the name of Thacker Grigsby Long Distance (TGLD). TGLD revenues are billed and collected through Thacker Grigsby Telephone. A monthly fee is recorded based on telephone usage and for billing and collecting. TGLD purchases minutes of long distance to resell to its customers from an unrelated party.

Note 4 Non Regulated Activities, continued

Non regulated activities consisted of:

	Income	Expenses	Net
Long distance services	$51,064	$41,771	$9,293
Internet services	988,438	905,339	83,099
Customer premises and others	205,415	175,891	29,524
Total - 2012	$1,244,917	$1,123,001	$121,916
Long distance services	$56,429	$49,714	$6,715
Internet services	959,401	925,087	34,314
Customer premises and others	296,819	260,567	36,252
Total - 2011	$1,312,649	$1,235,368	$77,281

Note 5 Notes Payable

Long term debt consisted of:

	2012	2011
Thacker Grigsby:		
Due RUS at 2.08% to 6.047%	$4,255,759	$4,797,394
Due RUS at 2.08%, ARRA loan	620,612	67,910
Due RTB at 5.13% (5% to 6.05% in 2009)	2,285,305	2,558,453
	7,161,676	7,423,757
Less current portion	900,000	835,000
	6,261,676	6,588,757
Allied Services:		
Monthly principal and interest payments of approximately $120,000	8,456,658	9,208,322
Less current portion	800,000	800,000
	7,656,658	8,408,322
TV Service:		
William Gorman, Jr, note dated March 16, 2011 six annual principal payments of $45,833 plus interest at 5.42%	$210,807	$248,417
Robert Thacker, President of TV Service, note dated June, 2008 with 84 monthly payments of $17,671 at 6.5% interest	473,207	655,099
	684,014	903,516
Less current portion	235,000	235,000
	449,014	668,516
Total long term debt	$14,367,348	$15,665,595

Note 5 Notes Payable, continued

All assets, except motor vehicles, are pledged as collateral on the first mortgage notes due RUS and Rural Telephone Bank (RTB) under a joint mortgage agreement. Thacker Grigsby executed a promissory note from an unrelated party for the purchase of a building.

During 2006, Allied Services advanced $12,765,000 of long term bonds with Fifth Third Bank to purchase all the outstanding stock of TV Service. Substantially all assets of TV Service are pledged as collateral on the long term debt due Fifth Third Bank. During February, 2009, Allied Services consummated a transaction with Fifth Third Bank to convert the bonds to a note with monthly principal and interest payments. The effect of the transaction fixed the interest rate at 5.55%.

TV Service has purchased two (2) cable systems from individuals for cash and notes. In addition, the President of TV Service has advanced loans to TV Service at various times for plant additions. The loan to the President was separated into one loan to the President and another to a Revocable Trust. The monthly debt service payment did not change.

The long term debt payable to RUS and RTB is due in monthly installments of approximately $101,000 through 2033. At December 31, 2012, annual maturities of principal for long term debt outstanding for the next five years are as follows: 2013 - $1,925,000; 2014 - $2,045,000; 2015 - $2,025,000; 2016 - $2,075,000; 2017 - $2,205,000.

Note 6 Capital Stock and Retained Earnings Restriction

The long term debt agreement with RUS contains restrictions on the payment of dividends or redemption of capital stock. The restrictions relate primarily to Thacker Grigsby's net worth, assets, and working capital, as defined. At December 31, 2012, there was approximately $2,000,000 available for payment of dividends or redemption of capital stock.

Note 7 Pension Plans

Thacker Grigsby and TV Service have noncontributory defined benefit pension plans covering substantially all employees who meet minimum age and service requirements through participation in the Thacker Grigsby Employee Trust Agreement and TV Service, Inc Pension Plan. Both plans are qualified as tax exempt by the Internal Revenue Service and have pay-related pension benefit formulas. It is the policy to fund such plans in accordance with the requirements of the Employee Retirement Income Security Act (ERISA) of 1974. The plans are measured as of July 31, 2012 and 2011 for Thacker Grigsby and August 31, 2012 and 2011 for TV Service.

The expected long term rate of return on plan assets for determining net periodic pension cost for each fiscal year is chosen from the best range determined by applying anticipated long term returns for various assets categories to the target asset allocation of the plans, as well as taking into account historical returns.

The general investment objectives are to invest in a diversified portfolio, comprised of bond holdings, equity investments, and fixed income investments. The diversification is designed to minimize the risk of large losses while maximizing total return within reasonable and prudent levels of risk. The investment objectives specify a targeted investment allocation for the pension plan of approximately 35% each for equities and bond holdings. The remaining may be allocated among bond holdings or cash equivalent investments.

Note 7 Pension Plans, continued

Thacker Grigsby Telephone Company, Inc.

The following is an assessment of the noncontributory defined benefit plan:

	2012	2011
Projected benefit obligation	($2,786,483)	($2,430,004)
Fair value of plan assets	2,962,899	2,505,840
Funded status	$176,416	$75,836
Accumulated benefit obligation	$2,241,454	$1,954,701

The amounts recognized in the statement of financial position are as follows:

Prepaid benefit cost	$371,416	$270,836
Accrued benefit liability	(195,000)	(195,000)
Net amount recognized	$176,416	$75,836

Net periodic pension cost, which is calculated based on actuarial assumptions at July 31, for the years ended as follows:

	2012	2011
Benefit cost	$164,368	$263,368
Benefits paid	0	1,773
Employer contribution	260,000	260,000

Assumptions used to develop the projected benefit obligation were as follows:

	2012	2011
Discount rate	6.75%	6.48%
Rate of increase in compensation level	3.00%	3.00%
Expected long term rate of return on assets	4.30%	4.30%

Expected retiree pension benefit payments are projected to be as follows: 2013 - $81,732; 2014 - $56,021; 2015 - $89,557; 2016 - $85,645; 2017 - $58,711.

In 2013, Thacker Grigsby expects to contribute $260,000 to the pension plan trust.

TV Service, Inc.

The following is an assessment of the noncontributory defined benefit plan:

	2012	2011
Projected benefit obligation	($1,550,077)	($1,150,518)
Fair value of plan assets	1,367,761	1,118,113
Funded status	($182,316)	($32,405)

Accumulated benefit obligation	$1,353,761	$1,004,806

Note 7 Pension Plans, continued

The amounts recognized in the statement of financial position are as follows:

Prepaid benefit cost	($182,316)	$19,565
Accrued benefit liability	0	(51,970)
Net amount recognized	($182,316)	($32,405)

Net periodic pension cost, which is calculated based on actuarial assumptions at August 31, for the years ended as follows:

Benefit cost	$180,825	$97,728
Benefits paid	97	48,317
Employer contribution	195,000	165,000

Assumptions used to develop the projected benefit obligation were as follows:

Discount rate	6.79%	6.70%
Rate of increase in compensation level	3.00%	3.00%
Expected long term rate of return on assets	4.30%	4.30%

Expected retiree pension benefit payments are projected to be as follows: 2013 - $36,812; 2014 - $40,650; 2015 - $24,364; 2016 - $15,645; 2017 - $25,854.

In 2013, TV Service expects to contribute $160,000 to the pension plan trust.

Note 9 Income Taxes

Income taxes are provided on income as reported in the accompanying statements regardless of when such taxes are payable. Deferred taxes, which result from the recognition of certain income and expense items in different time periods for financial statement and tax return purposes, relate primarily to the use of accelerated depreciation for income tax purposes and the current deduction for tax purposes of certain costs incurred in the removal of telecommunications plant. Such removal costs are charged to accumulated depreciation for financial reporting purposes.

	2012	2011
Currently payable:		
Federal	$755,499	$952,892
State	394,101	206,065
	1,149,600	1,158,957
Deferred liability	0	0
Thacker Grigsby total	1,149,600	1,158,957
Currently payable:		
Federal	100,000	75,000
State	15,000	0
TV Service total	115,000	75,000
	$1,264,600	$1,233,957

Note 9 Income Taxes, continued

Effective January 1, 2008, the Company adopted the provisions of the Income Taxes Topic of the FASB ASC that pertains to accounting for uncertainty in income taxes. The Company had no prior unrecognized tax benefits as a result of the implementation. Management evaluates its potential exposures from tax positions taken that have or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statures, regulations, and rules. There are no tax positions for which the ultimate deductibility is highly uncertain included in the accompanying financial statements. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company did not recognize any interest or penalties during the years ended December 31, 2012 or 2011. Income taxes are as follows:

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are presented below:

	2012	2011
Depreciation adjustment	$853,000	$853,000

Note 10 Commitments

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

Note 11 Related Party Transactions

Thacker Grigsby and TV Service, in the ordinary course of business, purchase merchandise and services from two businesses owned by one of the major stockholders of The Company.

Thacker Grigsby transacts business with East Kentucky Network, LLC (East Kentucky Network), of which Thacker Grigsby is a one-fifth (1/5) owner. East Kentucky Network utilizes office space, office equipment, and personnel of Thacker Grigsby. Thacker Grigsby charges a monthly fee for these services aggregating $397,493 in 2012 and $410,680 in 2011 for each year.

Thacker Grigsby leases fiber from East Kentucky Network, with the amount being determined by the number of fiber leased and traffic along the fiber network. Thacker Grigsby leases circuits from East Kentucky Network for trunk lines to carry long distance traffic.

East Kentucky Network pays Thacker Grigsby $800 per month for a representative to attend monthly board meetings.

Note 12 Significant Event

The Company was awarded a Broadband Initiatives Program ("BIP") Grant from the United States of America through the Department of Agriculture, Rural Utilities Service ("RUS"). The project would provide broadband internet service to the small rural communities served in southeastern Kentucky. The total project cost is $7,408,474, of which $5,185,932 is in the form of a grant. The remaining funds must be secured with RUS debt. The Company started the project during 2012. The Grant requires that the project be completed within three (3) years from the date of the Grant.

Note 16. Contingencies

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

* * * * * *

Independent Auditor's Report

To the Board of Directors
Thacker Grigsby Telephone Company, Inc.

My report on the audits of the consolidated financial statements of Thacker Grigsby Telephone Company, Inc. and Subsidiaries as of December 31, 2012 and 2011, and for the years then ended appears on page 1. My audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies. The supplementary consolidating information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Alan Zumstein

Alan M. Zumstein, CPA
January 27, 2013

Thacker Grigsby Telephone Company, Inc.
and Subsidiaries
Consolidating Balance Sheet, December 31, 2012

Assets	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Current Assets:						
Cash and cash equivalents	$986,251	$67,319	$595,760	$1,733,578		$3,382,908
Accounts receivable, less allowance for Thacker Grigsby of $100,484 and TV Service of $202,063	1,580,635			1,606,853	(125,891)	3,061,597
Material and supplies, at average cost	933,695			594,244		1,527,939
Prepayments	0	4,921		19,537		24,458
	3,500,581	72,240	595,760	3,954,212	(125,891)	7,996,902
Other Assets:						
Investment in limited liability companies	42,586,193		18,801,665		(41,328,282)	20,059,576
Investment in securities available for sale	2,075,738					2,075,738
Investment in securities held to maturity	1,149,545		9,772,915			10,922,460
Nonregulated investments and others	539,191	5,006	16,091			560,288
	46,350,667	5,006	28,590,671		(41,328,282)	33,618,062
Utility Plant, at original cost:						
In service	38,299,901	633,298		28,740,028		67,673,227
Under construction	1,658,276	2,453,511		308,284		4,420,071
Less accumulated depreciation	(22,827,480)	(292,818)		(11,979,214)		(35,099,512)
	17,130,697	2,793,991	0	17,069,098	0	36,993,786
Total	$66,981,945	$2,871,237	$29,186,431	$21,023,310	($41,454,173)	$78,608,750
Member's Equities and Liabilities						
Current Liabilities:						
Accounts payable	$466,566	$53,736	$4,210	$541,191	($125,891)	$939,812
Current portion of long term debt	900,000		800,000	235,000		1,935,000
Customer deposits	174,491			9,775		184,266
Advance billings				770,342		770,342
Accrued expenses	74,782			398,639		473,421
	1,615,839	53,736	804,210	1,954,947	(125,891)	4,302,841
Long Term Debt	6,261,676		7,656,658	449,014		14,367,348
Deferred Income Taxes	853,000					853,000
Stockholders' and Members' Equities:						
Capital investments	$269,800	4,650,000	21,061,506	16,862,436	(42,573,942)	269,800
Retained earnings	57,322,446	(1,832,499)	(1,352,390)	1,939,229	1,245,660	57,322,446
Other comprehensive income	661,484		1,016,447	(182,316)		1,495,615
Treasury stock, 8 shares, at cost	(2,300)					(2,300)
	58,251,430	2,817,501	20,725,563	18,619,349	(41,328,282)	59,085,561
Total	$66,981,945	$2,871,237	$29,186,431	$21,023,310	($41,454,173)	$78,608,750

The accompanying notes are an integral part of the financial statements.

Thacker Grigsby Telephone Company, Inc.
and Subsidiaries
Consolidating Balance Sheet, December 31, 2011

Assets	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Current Assets:						
Cash and cash equivalents	$632,316	$69,638	$449,250	$1,298,332		$2,449,536
Accounts receivable, less allowance for Thacker Grigsby of $101,248 and TV Service of $179,943	1,047,973			1,272,491	(125,891)	2,194,573
Material and supplies, at average cost	468,017			315,851		783,868
Prepayments	0	2,062				2,062
	2,148,306	71,700	449,250	2,886,674	(125,891)	5,430,039
Other Assets:						
Investment in limited liability companies	42,005,737		19,361,295		(41,475,849)	19,891,183
Investment in securities available for sale	1,862,203					1,862,203
Investment in securities held to maturity	1,115,097		8,989,768			10,104,865
Nonregulated investments and others	566,132	5,138	16,574			587,844
	45,549,169	5,138	28,367,637		(41,475,849)	32,446,095
Utility Plant, at original cost:						
In service	36,994,654	608,073		28,293,116		65,895,843
Under construction	389,009	2,363,897		119,268		2,872,174
Less accumulated depreciation	(21,074,014)	(246,880)		(9,830,332)		(31,151,226)
	16,309,649	2,725,090	0	18,582,052	0	37,616,791
Total	$64,007,124	$2,801,928	$28,816,887	$21,468,726	($41,601,740)	$75,492,925
Member's Equities and Liabilities						
Current Liabilities:						
Accounts payable	$297,114	$36,075	$5,171	$397,371	($125,891)	$609,840
Current portion of long term debt	835,000		800,000	235,000		1,870,000
Customer deposits	182,285			11,800		194,085
Advance billings				751,225		751,225
Accrued expenses	82,284			23,955		106,239
	1,396,683	36,075	805,171	1,419,351	(125,891)	3,531,389
Long Term Debt	6,588,757		8,408,322	668,516		15,665,595
Deferred Income Taxes	853,000					853,000
Stockholders' and Members' Equities:						
Capital investments	$269,800	4,300,000	20,721,506	17,697,436	(42,718,942)	269,800
Retained earnings	54,518,904	(1,534,147)	(1,372,804)	1,663,858	1,243,093	54,518,904
Other comprehensive income	381,780		254,692	19,565		656,037
Treasury stock, 7 shares, at cost	(1,800)					(1,800)
	55,168,684	2,765,853	19,603,394	19,380,859	(41,475,849)	55,442,941
Total	$64,007,124	$2,801,928	$28,816,887	$21,468,726	($41,601,740)	$75,492,925

The accompanying notes are an integral part of the financial statements.

Consolidating Statements of Revenue and Retained Earnings
for the year ended December 31, 2012

	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Operating Revenues:						
Local network services	$1,122,859					$1,122,859
Network access services	5,770,727			341,876		6,112,603
Cable television services				7,686,339		7,686,339
Cable internet services				2,296,312		2,296,312
Carrier billing and collection	157,582					157,582
Miscellaneous	436,294	103,931		329,879		870,104
Less provision for uncollectibles	(24,000)					(24,000)
	7,463,462	103,931		10,654,406		18,221,799
Operating Expenses:						
Plant specific operations	1,037,884	310,876	2,906	1,772,391		3,124,057
Plant non specific operations	308,168	21,244	483	542,695		872,590
Depreciation and amortization	1,760,262	46,070		2,175,917		3,982,249
Programming and cost of sales				3,544,443		3,544,443
Customer operations	685,020	5,686	3,586	1,010,281		1,704,573
Corporate operations	1,218,190	11,106	1,935	722,575		1,953,806
Taxes, other than income	341,629	8,576		456,055		806,260
Other expenses	40,280					40,280
	5,391,433	403,558	8,910	10,224,357		16,028,258
	2,072,029	(299,627)	(8,910)	430,049	0	2,193,541
Nonoperating Activities:						
Other income, principally investments	79,221	1,275	430,791	5,772		517,059
Income (loss) in associated companies	2,190,264		275,371		2,567	2,468,202
Nonregulated net income	121,916					121,916
	2,391,401	1,275	706,162	5,772	2,567	3,107,177
Income available for interest charges	4,463,430	(298,352)	697,252	435,821	2,567	5,300,718
Interest Charges:						
Long term debt	290,664		676,838	45,450		1,012,952
Other interest	7,799					7,799
	298,463	0	676,838	45,450	0	1,020,751
Income Taxes	1,149,600			115,000		1,264,600
Net Income	3,015,367	(298,352)	20,414	275,371	2,567	3,015,367
Items of comprehensive income:						
Investment securities	290,068		1,016,447			1,306,515
Pension plans	371,416			(182,316)		189,100
Comprehensive Income	$3,676,851	($298,352)	$1,036,861	$93,055	$2,567	$4,510,982

The accompanying notes are an integral part of the financial statements.

Consolidating Statements of Revenue and Retained Earnings
for the year ended December 31, 2011

	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Operating Revenues:						
Local network services	$1,154,339					$1,154,339
Network access services	5,626,721			343,445		5,970,166
Cable television services				7,379,701		7,379,701
Cable internet services				2,063,995		2,063,995
Carrier billing and collection	177,767					177,767
Miscellaneous	383,025	49,704		352,982		785,711
Less provision for uncollectibles	(24,000)			(75,000)		(99,000)
	7,317,852	49,704		10,065,123		17,432,679
Operating Expenses:						
Plant specific operations	1,249,266	167,943	2,553	1,862,482		3,282,244
Plant non specific operations	517,570	8,909	483	563,499		1,090,461
Depreciation and amortization	1,779,600	45,683		2,130,247		3,955,530
Programming and cost of sales		37,490		3,264,238		3,301,728
Customer operations	726,126	10,322	4,424	709,722		1,450,594
Corporate operations	1,157,087	37,107	3,011	653,510		1,850,715
Taxes, other than income	230,118	8,553		175,138		413,809
Other expenses	37,980			0		37,980
	5,697,747	316,007	10,471	9,358,836		15,383,061
	1,620,105	(266,303)	(10,471)	706,287	0	2,049,618
Nonoperating Activities:						
Other income, principally investments	137,510	7	406,950	(406)		544,061
Income (loss) in associated companies	4,444,311		489,045		(333,744)	4,599,612
Nonregulated net income	77,281			(88,135)		(10,854)
	4,659,102	7	895,995	(88,541)	(333,744)	5,132,819
Income available for interest charges	6,279,207	(266,296)	885,524	617,746	(333,744)	7,182,437
Interest Charges:						
Long term debt	312,775		774,529	53,701		1,141,005
Other interest	9,315					9,315
	322,090	0	774,529	53,701	0	1,150,320
Income Taxes	1,158,957			75,000		1,233,957
Net Income	4,798,160	(266,296)	110,995	489,045	(333,744)	4,798,160
Items of comprehensive income:						
Investment securities	110,944		254,692			365,636
Pension plans	270,836			19,565		290,401
Comprehensive Income	$5,179,940	($266,296)	$365,687	$508,610	($333,744)	$5,454,197

The accompanying notes are an integral part of the financial statements.

Consolidating Statements of Cash Flows
for the year ended December 31, 2012

	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Cash Flows from Operating Activities:						
Net margins	$3,015,367	($298,352)	$20,414	$275,371	$2,567	$3,015,367
Adjustments to reconcile to net cash provided by operating activities:						
Depreciation	1,760,262	46,070		2,175,917		3,982,249
Deferred income taxes	0					0
Net loss (profit) in LLC's	(2,190,264)		(275,371)		(2,567)	(2,468,202)
Net change in current assets and liabilities:						
Accounts receivable	(532,662)			(315,245)	0	(847,907)
Material and supplies	(465,678)			(278,393)		(744,071)
Prepayments	0	(2,859)				(2,859)
Accounts payable	169,452	17,661	(961)	143,820	0	329,972
Customers deposits	(7,794)			(2,025)		(9,819)
Accrued expenses	93,078			172,803		265,881
	1,841,761	(237,480)	(255,918)	2,172,248		3,520,611
Cash Flows from Investing Activities:						
Plant additions	(2,589,700)	(114,971)		(710,168)		(3,414,839)
Salvage, net of removal costs	8,390			27,668		36,058
Marketable securities	(68,858)		(21,392)			(90,250)
Nonregulated property and others	26,940	132	484			27,556
	(2,623,228)	(114,839)	(20,908)	(682,500)		(3,441,475)
Net Cash Flows from Financing Activities:						
Capital in limited liability companies	1,609,808	350,000	1,175,000	(835,000)		2,299,808
Additional long term borrowings	556,171					556,171
Payments on long term debt	(818,252)		(751,664)	(219,502)		(1,789,418)
Treasury shares purchased	(500)					(500)
Dividends paid	(211,825)					(211,825)
	1,135,402	350,000	423,336	(1,054,502)		854,236
Net increase in cash balances	353,935	(2,319)	146,510	435,246		933,372
Cash and cash equivalents - beginning	632,316	69,638	449,250	1,298,332		2,449,536
Cash and cash equivalents - ending	$986,251	$67,319	$595,760	$1,733,578	$0	$3,382,908
Supplemental disclosures of cash flow information:						
Interest paid on long term debt	$290,664	-	$676,838	$45,450		$1,012,952
Income taxes paid	1,151,245	-	-	-		1,151,245

The accompanying notes are an integral part of the financial statements.

Consolidating Statements of Cash Flows
for the year ended December 31, 2011

	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Cash Flows from Operating Activities:						
Net margins	$4,798,160	($266,296)	$110,995	$489,045	($333,744)	$4,798,160
Adjustments to reconcile to net cash provided by operating activities:						
Depreciation	1,779,600	45,683		2,130,247		3,955,530
Deferred income taxes	0					0
Net loss (profit) in associated companies	(4,444,311)		(489,045)		333,744	(4,599,612)
Net change in current assets and liabilities:						
Accounts receivable	(57,507)			(297,890)	397,154	41,757
Material and supplies	252,258			(222,871)		29,387
Prepayments	31,719	(1,785)				29,934
Accounts payable	91,925	(3,277)	1,533	(280,518)	(397,154)	(587,491)
Customers deposits	(2,337)			(1,425)		(3,762)
Accrued expenses	(13,572)			(209,219)		(222,791)
	2,435,935	(225,675)	(376,517)	1,607,369		3,441,112
Cash Flows from Investing Activities:						
Plant additions	(1,991,402)	(197,388)		(1,357,315)		(3,546,105)
Salvage, net of removal costs	(8,033)			(6,093)		(14,126)
Marketable securities	22,090		(14,724)			7,366
Nonregulated property and others	(86,753)	0	481			(86,272)
	(2,064,098)	(197,388)	(14,243)	(1,363,408)		(3,639,137)
Net Cash Flows from Financing Activities:						
Capital in limited liability companies	357,578	480,000	1,005,000	(300,000)		1,542,578
Additional long term borrowings	608,665			373,417		982,082
Payments on long term debt	(803,744)		(791,344)	(325,041)		(1,920,129)
Dividends paid	(211,850)					(211,850)
	(49,351)	480,000	213,656	(251,624)		392,681
Net increase in cash balances	322,486	56,937	(177,104)	(7,663)		194,656
Cash and cash equivalents - beginning	309,830	12,701	626,354	1,305,995		2,254,880
Cash and cash equivalents - ending	$632,316	$69,638	$449,250	$1,298,332	$0	$2,449,536
Supplemental disclosures of cash flow information:						
Interest paid on long term debt	$312,775	-	$774,529	$53,701		$1,141,005
Income taxes paid	1,590,301	-	-	-		1,590,301

The accompanying notes are an integral part of the financial statements.