Kentucky 536
Thacker Grigsby Telephone Company, Inc.
and Subsidiaries
Hindman, Kentucky

Audited Financial Statements
December 31, 2014 and 2013

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Independent Auditor's Report

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

Report on the Financial Statements

I have audited the accompanying consolidated financial statements of Thacker Grigsby Telephone Company, Inc. and Subsidiaries, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenue and comprehensive income, changes in equities, and cash flows for the years then ended, and the related notes to the financial statements.

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

My responsibility is to express an opinion on these financial statements based on my audits. I did not audit the financial statements of East Kentucky Network, LLC. As discussed in Note 3, these financial statements account for an investment in East Kentucky Network, LLC under the equity method. The investment was $21,074,941 and $20,947,348 at December 31, 2014 and 2013, respectively, and the equity in its net margins was $1,139,152 and $2,119,215 for the years then ended. The financial statements of East Kentucky Network, LLC were audited by other auditors, whose report has been furnished to me, and my opinion, insofar as it relates to amounts for East Kentucky Network, LLC is based solely on the report of the other auditors. 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 procedures 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made my management, as well as evaluating the overall presentation of the financial statements.

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

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thacker Grigsby Telephone Company, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated January 29, 2015, 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, and other matters. The purpose of that report is to describe the scope of my 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* in considering internal control over financial reporting and compliance.

Report on Supplemental Information

My audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the consolidated financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Alan Zumstein

Alan M. Zumstein, CPA
January 29, 2015

Thacker Grigsby Telephone Company, Inc.
Consolidated Balance Sheets, December 31, 2014 and 2013

Assets	2014	2013
Current Assets:		
Cash and cash equivalents	$4,035,035	$ 2,380,074
Accounts receivable, less allowance for 2014 of $291,129 and 2013 of $271,774	2,495,128	2,360,488
Materials and supplies, at average cost	1,427,617	1,401,001
Prepayments	971,915	666,833
	8,929,695	6,808,396
Investments and Other Assets:		
Investment in limited liability companies	21,116,050	20,947,352
Investment securities available for sale	2,613,222	2,131,519
Investment securities held to maturity	10,666,378	9,911,800
Nonregulated investments	478,691	463,401
	34,874,341	33,454,072
Telecommunications Plant:		
In service	75,675,520	70,824,993
Under construction	3,925,119	6,298,636
Less accumulated depreciation	(42,162,192)	(38,881,066)
	37,438,447	38,242,563
Total	$ 81,242,483	$ 78,505,031

Liabilities and Stockholder's Equities	2014	2013
Current Liabilities:		
Accounts payable	$1,346,924	$ 1,015,049
Current portion of long term debt	1,965,000	1,985,000
Customer's deposits	190,093	175,152
Advance billings	835,739	855,849
Other current and accrued expenses	958,659	787,766
	5,296,415	4,818,816
Long Term Debt	11,594,241	13,224,335
Deferred Income Taxes	627,000	818,000
Stockholders' and Members' Equities:		
Capital investments	269,800	269,800
Retained earnings	60,895,668	58,384,175
Other comprehensive income	2,562,359	992,705
Treasury stock, 8 shares, at cost	(3,000)	(2,800)
	63,724,827	59,643,880
Total	$ 81,242,483	$ 78,505,031

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

Consolidated Statements of Income and Comprehensive Income
for the years ended December 31, 2014 and 2013

	2014	2013
Operating Revenue:		
Local network service	$1,504,272	$ 1,374,502
Network access services	5,960,239	5,076,299
Cable television services	7,748,641	7,690,347
Cable internet services	2,904,734	2,549,197
Billing and collection	14,040	78,401
Miscellaneous	851,831	802,721
Less provision for uncollectibles	(240,810)	(279,175)
	18,742,947	17,292,292
Operating Expenses:		
Plant specific	3,636,383	3,337,564
Plant nonspecific	1,323,991	1,098,566
Depreciation	3,591,967	3,864,982
Programming costs	4,215,000	3,679,756
Customer operations	1,501,785	1,784,775
Corporate operations	1,938,716	1,917,997
Other operating taxes	540,465	585,450
Other expenses	110,845	37,852
	16,859,152	16,306,942
Income from operations	1,883,795	985,350
Other Income and Expenses:		
Other income, principally interest and dividend:	514,096	664,278
Net income from limited liability companies	1,180,257	2,119,215
Nonregulated activities	365,543	42,537
	2,059,896	2,826,030
Income before interest and taxes	3,943,691	3,811,380
Interest Charges:		
Interest on long term debt	818,060	909,532
Other interest expense	-	4,392
	818,060	913,924
Income Taxes	402,338	1,623,927
Net income	2,723,293	1,273,529
Items of comprehensive income:		
Investment securities	1,127,263	463,180
Pension plans	442,391	529,525
Total Comprehensive Income	$ 4,292,947	$ 2,266,234

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, 2013 and 2014

	Capital Investments	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Members' Equity
Balance - Beginning of year	$ 269,800	$ 57,322,446	$ (2,300)	$ 1,495,615	$ 59,085,561
Comprehensive income:					
Net income		1,273,529			1,273,529
Unrealized gain/(loss) on marketable securities				(843,335)	(843,335)
Minimum pension liability				340,425	340,425
Total comprehensive income					770,619
Dividends paid		(211,800)			(211,800)
Purchase treasury stock			(500)		(500)
Balance - December 31, 2013	269,800	58,384,175	(2,800)	992,705	59,643,880
Comprehensive income:					
Net income		2,723,293			2,723,293
Unrealized gain/(loss) on marketable securities				1,127,263	1,127,263
Minimum pension liability				442,391	442,391
Total comprehensive income					4,292,947
Dividends paid		(211,800)			(211,800)
Purchase treasury stock			(200)		(200)
Balance - December 31, 2014	$ 269,800	$ 60,895,668	$ (3,000)	$ 2,562,359	$ 63,724,827

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

Consolidated Statements of Cash Flows
for the years ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Net income	$2,723,293	$ 1,273,529
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	3,591,967	3,864,982
Deferred income taxes	(191,000)	(35,000)
Income in limited liability company	(1,180,257)	(2,119,215)
Net change in current assets and liabilities:		
Receivables	(336,762)	786,616
Material and supplies	(26,616)	126,938
Other current assets	34,025	(642,375)
Accounts payable	513,887	75,237
Customer deposits	14,941	(9,114)
Other current and accrued expenses	274,177	464,909
	5,417,655	3,786,507
Cash Flows from Investing Activities:		
Construction of plant	(2,798,429)	(5,162,456)
Salvage recovered from plant retirements	10,578	48,697
Additional investment securities, net	(109,018)	301,405
Nonregulated investments and others	(15,290)	96,887
	(2,912,159)	(4,715,467)
Cash Flows from Financing Activities:		
Capital in limited liability companies	1,011,560	1,231,440
Additional long term borrowings	430,037	843,466
Payments on long term debt	(2,080,132)	(1,936,480)
Treasury stock purchased	(200)	(500)
Dividends paid	(211,800)	(211,800)
	(850,535)	(73,874)
Net increase in cash balances	1,654,961	(1,002,834)
Cash balances - beginning of period	2,380,074	3,382,908
Cash balances - end of period	$ 4,035,035	$ 2,380,074

Supplemental disclosures of cash flows information:		
Interest on long term debt	$818,060	$ 909,532
Income taxes	460,838	1,524,969

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, 2014 or 2013.

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, 2014 or 2013.

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:

	2014	2013
Thacker Grigsby plant:		
General support	$10,591,115	$8,913,907
Central office switching	9,206,233	8,686,956
Central office transmission	1,625,230	1,623,543
Cable and wire facilities	22,842,336	21,291,383
Intangibles	4,153	4,153
	44,269,067	40,519,942
Elk Glen plant:		
Vehicles	81,883	81,883
Work and other equipment	598,029	555,201
	679,912	637,084
TV Service plant:		
General support	1,954,655	1,935,136
Headend and electronics	5,133,016	4,757,153
Conductor and distribution	17,548,655	16,885,463
Intangibles	6,090,215	6,090,215
	30,726,541	29,667,967
	$75,675,520	$70,824,993

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 29, 2015, 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 ($11,055) for 2014 and $159,076 for 2013. 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 - 2014	$2,131,538	$481,684	-	$2,613,222
Thacker Grigsby - 2013	$2,066,511	$65,008	-	$2,131,519
Held to maturity securities:				
2014				
Thacker Grigsby	771,421	56,683	-	828,104
Allied Services	$8,786,198	$1,052,076	-	9,838,274
2013				
Thacker Grigsby	743,808	48,231	($13,032)	779,007
Allied Services	8,769,820	362,973	-	9,132,793

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	$19,501	$19,501
Due in five through ten years	10,176	9,909
Due after ten years	741,744	798,694
	771,421	828,104
Held to maturity, Allied Services:		
Due in one through five years	372,681	372,681
Due in five through ten years	386,647	386,647
Due after ten years	8,026,870	9,078,946
	8,786,198	9,838,274
	$9,557,619	$10,666,378

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	$35,800	$34,871	$929
Internet services	1,138,347	757,596	380,751
Customer premises equipment	183,894	317,563	(133,669)
Fiber to the Home	165,274	47,742	117,532
Total - 2014	$1,523,315	$1,157,772	$365,543
Long distance services	$64,326	$97,487	($33,161)
Internet services	731,721	870,133	(138,412)
Customer premises equipment	189,366	207,032	(17,666)
Fiber to the Home	307,592	75,816	231,776
Total - 2013	$1,293,005	$1,250,468	$42,537

Note 5 Notes Payable

Long term debt consisted of:

	2014	2013
Thacker Grigsby:		
Due RUS at 2.08% to 6.047%	$3,114,360	$3,695,209
Due RUS at 2.1% to 3.1%, ARRA loan	1,700,160	1,412,381
Due RTB at 5.13%	1,751,636	2,000,110
	6,566,156	7,107,700
Less current portion	1,000,000	950,000
	5,566,156	6,157,700
Allied Services:		
Monthly principal and interest payments of approximately $120,000	6,789,988	7,650,822
Less current portion	850,000	800,000
	5,939,988	6,850,822
TV Service:		
William Gorman, Jr, note dated March 16, 2011 six annual principal payments of $45,833 plus interest at 5.42%	$131,036	$171,680
Robert Thacker, President of TV Service, note dated June, 2008 with 84 monthly payments of $17,671 at 6.5% interest	72,061	279,133
	203,097	450,813
Less current portion	115,000	235,000
	88,097	215,813
Total long term debt	$11,594,241	$13,224,335

Note 5 Notes Payable, continued

All assets of Thacker Grigsby, except motor vehicles, are pledged as collateral on the first mortgage notes due RUS and Rural Telephone Bank (RTB) under a joint mortgage agreement.

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 7.55%.

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 varying amounts through 2033. At December 31, 2014, annual maturities of principal for long term debt outstanding for the next five years are as follows: 2015 - $1,965,000; 2016 - $1,920,000; 2017 - $1,975,000; 2018 - $2,010,000; 2019 - $2,050,000.

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, 2014, 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, 2014 and 2013 for Thacker Grigsby and August 31, 2014 and 2013 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:

	2014	2013
Projected benefit obligation	($3,011,883)	($2,891,696)
Fair value of plan assets	3,546,780	3,149,986
Funded status	$534,897	$258,290
Accumulated benefit obligation	$2,891,696	$2,326,088

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

Prepaid benefit cost	$794,897	$455,790
Accrued benefit liability	(260,000)	(197,500)
Net amount recognized	$534,897	$258,290

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

	2014	2013
Benefit cost	$125,014	$159,833
Benefits paid	-	84,506
Employer contribution	260,000	195,000

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

	2014	2013
Discount rate	6.51%	6.33%
Rate of increase in compensation level	3.00%	3.00%
Expected long term rate of return on assets	4.47%	4.88%

Expected retiree pension benefit payments are projected to be as follows: 2015 - $81,732; 2016 - $56,021; 2017 - $89,557; 2018 - $85,645; 2019 - $58,711.

In 2015, 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:

	2014	2013
Projected benefit obligation	($1,565,943)	($1,542,867)
Fair value of plan assets	1,742,962	1,616,602
Funded status	$177,019	$73,735
Accumulated benefit obligation	$1,542,867	$1,353,761

Note 7 Pension Plans, continued

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

Prepaid benefit cost	$177,019	$73,735
Accrued benefit liability	-	-
Net amount recognized	$177,019	$73,735

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

Benefit cost	$86,503	$94,442
Benefits paid	178,495	4,982
Employer contribution	200,000	200,000

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

Discount rate	6.64%	6.46%
Rate of increase in compensation level	3.00%	3.00%
Expected long term rate of return on assets	6.44%	5.01%

Expected retiree pension benefit payments are projected to be as follows: 2015 - $36,812; 2016 - $40,650; 2017 - $24,364; 2018 - $15,645; 2019 - $25,854.

In 2015, 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.

	2014	2013
Currently payable:		
Federal	$387,629	$1,373,103
State	73,209	180,824
	460,838	1,553,927
Deferred liability	(191,000)	(35,000)
Thacker Grigsby total	269,838	1,518,927
Currently payable:		
Federal	110,000	85,000
State	22,500	20,000
TV Service total	132,500	105,000
	$402,338	$1,623,927

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, 2014 or 2013. Income taxes are as follows:

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

	2014	2013
Depreciation adjustment	$627,000	$818,000

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 $363,531 in 2014 and $397,493 in 2013 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 2013. The Grant requires that the project be completed within three (3) years from the date of the Grant. The project will be completed during 2015.

Note 16. Contingencies

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

* * * * * *

Thacker Grigsby Telephone Company, Inc.
and Subsidiaries
Consolidating Balance Sheet, December 31, 2014

Assets	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Current Assets:						
Cash and cash equivalents	$1,902,829	$39,426	$853,003	$1,239,777		$4,035,035
Accounts receivable, less allowance for Thacker Grigsby of $139,909 and TV Service of $151,220	944,390			1,767,635	(216,897)	2,495,128
Material and supplies, at average cost	527,336			900,281		1,427,617
Prepayments	794,897			177,018		971,915
	4,169,452	39,426	853,003	4,084,711	(216,897)	8,929,695
Other Assets:						
Investment in limited liability companies	43,989,213		17,237,153		(40,110,316)	21,116,050
Investment in securities available for sale	2,613,222					2,613,222
Investment in securities held to maturity	828,104		9,838,274			10,666,378
Nonregulated investments and others	455,223	8,343	15,125			478,691
	47,885,762	8,343	27,090,552		(40,110,316)	34,874,341
Utility Plant, at original cost:						
In service	44,269,067	679,912		30,726,541		75,675,520
Under construction	1,042,957	2,441,540		440,622		3,925,119
Less accumulated depreciation	(26,148,846)	(379,156)		(15,634,190)		(42,162,192)
	19,163,178	2,742,296	0	15,532,973	0	37,438,447
Total	$71,218,392	$2,790,065	$27,943,555	$19,617,684	($40,327,213)	$81,242,483
Member's Equities and Liabilities						
Current Liabilities:						
Accounts payable	$783,527	$18,392		$761,902	($216,897)	$1,346,924
Current portion of long term debt	1,000,000		850,000	115,000		1,965,000
Customer deposits	185,938			4,155		190,093
Advance billings				835,739		835,739
Accrued expenses	560,039			398,620		958,659
	2,529,504	18,392	850,000	2,115,416	(216,897)	5,296,415
Long Term Debt	5,566,156		5,939,988	88,097		11,594,241
Deferred Income Taxes	627,000					627,000
Stockholders' and Members' Equities:						
Capital investments	$269,800	5,025,000	21,061,506	14,582,436	(40,668,942)	269,800
Retained earnings	60,895,668	(2,253,327)	(960,015)	2,654,716	558,626	60,895,668
Other comprehensive income	1,333,264		1,052,076	177,019		2,562,359
Treasury stock, 9 shares, at cost	(3,000)					(3,000)
	62,495,732	2,771,673	21,153,567	17,414,171	(40,110,316)	63,724,827
Total	$71,218,392	$2,790,065	$27,943,555	$19,617,684	($40,327,213)	$81,242,483

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

Consolidating Statements of Revenue and Comprehensive Income
for the year ended December 31, 2014

	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Operating Revenues:						
Local network services	$1,504,272					$1,504,272
Network access services	5,468,875			491,364		5,960,239
Cable television services				7,748,641		7,748,641
Cable internet services				2,904,734		2,904,734
Carrier billing and collection	14,040					14,040
Miscellaneous	510,466	44,492		296,873		851,831
Less provision for uncollectibles	(36,000)			(204,810)		(240,810)
	7,461,653	44,492		11,236,802		18,742,947
Operating Expenses:						
Plant specific operations	1,204,874	93,198	2,965	2,335,346		3,636,383
Plant non specific operations	733,035	10,431	483	580,042		1,323,991
Depreciation and amortization	1,760,325	39,734		1,791,908		3,591,967
Programming and cost of sales				4,215,000		4,215,000
Customer operations	765,296	461	2,474	733,554		1,501,785
Corporate operations	1,288,656	15,523	1,766	632,771		1,938,716
Taxes, other than income	360,957	10,951		168,557		540,465
Other expenses	56,991			53,854		110,845
	6,170,134	170,298	7,688	10,511,032		16,859,152
	1,291,519	(125,806)	(7,688)	725,770	0	1,883,795
Nonoperating Activities:						
Other income, principally investments	90,896	83	422,247	870		514,096
Income (loss) in associated companies	1,503,687		576,904		(900,334)	1,180,257
Nonregulated net income	365,543					365,543
	1,960,126	83	999,151	870	(900,334)	2,059,896
Income available for interest charges	3,251,645	(125,723)	991,463	726,640	(900,334)	3,943,691
Interest Charges:						
Long term debt	258,514		542,310	17,236		818,060
Other interest	0					0
	258,514	0	542,310	17,236	0	818,060
Income Taxes	269,838			132,500		402,338
Net Income	2,723,293	(125,723)	449,153	576,904	(900,334)	2,723,293
Items of comprehensive income:						
Investment securities	438,160		689,103			1,127,263
Pension plans	339,107			103,284		442,391
Comprehensive Income	$3,500,560	($125,723)	$1,138,256	$680,188	($900,334)	$4,292,947

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

ALAN M. ZUMSTEIN
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Thacker Grigsby Telephone Company, Inc., which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenue and comprehensive income, stockholders' equities and cash flows for the years then ended, and related notes to the financial statements, and have issued my report thereon dated January 29, 2015. My report includes a reference to other auditors who audited the financial statements of East Kentucky Network, LLC, as described in my report on Thacker Grigsby Telephone Company, Inc.'s financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Thacker Grigsby Telephone's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Thacker Grigsby Telephone's internal control.

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

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

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

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 29, 2015

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Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Telephone Borrowers

Board of Directors
Thacker Grigsby Telephone Company, Inc.

Independent Auditor's Report

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Thacker Grigsby Telephone Company, Inc. ("the Company"), which comprise the balance sheet as of December 31, 2014, and the related statements of revenue and comprehensive income, stockholders' equity, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated January 29, 2015. In accordance with *Government Auditing Standards*, we have also issued my report dated January 29, 2015, on my consideration of the Company's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and my schedule of findings and recommendations related to my audit have been furnished to management.

In connection with my audit, nothing came to my attention that caused me to believe that the Company failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, my audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had I performed additional procedures, other matters may have come to my attention regarding the Company's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with my audit, I noted no matters regarding the Company's accounting and records to indicate that the Company did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

- Maintain adequate control over material and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles, and;
- Comply with the requirements for the detailed schedule of investments, which are listed below.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The detail of investments is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information 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	($10,153,827)	$27,859,925
Activity for 2014	-	(1,011,553)	1,180,255
End of year	$3,241,250	($11,165,380)	$29,040,180

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	$4,900,000	($2,127,604)
Activity for 2014	125,000	(125,723)
End of year	$5,025,000	($2,253,327)

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

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	$21,061,500	($1,409,164)
Activity for 2014	-	449,155
End of year	$21,061,500	($960,009)

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 distributions is not limited.

Alan Zumstein

Alan M. Zumstein, CPA
January 29, 2014