

BRANDENBURG TELEPHONE COMPANY

FINANCIAL REPORT

DECEMBER 31, 2018

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Brandenburg Telephone Company
Brandenburg, Kentucky

We have audited the accompanying financial statements of Brandenburg Telephone Company, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, comprehensive income, changes in stockholder's equity, 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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brandenburg Telephone Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 19, 2019

BRANDENBURG TELEPHONE COMPANY

BALANCE SHEETS December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,577,300	\$ 6,886,626
Accounts receivable	1,176,735	1,262,518
Income tax receivable	891,955	1,267,955
Due from affiliate	17,868,526	16,893,076
Materials and supplies, at average cost - based on the lower of cost or net realizable value	4,972,739	3,986,192
Prepaid insurance	28,172	21,975
Total current assets	<u>31,515,427</u>	<u>30,318,342</u>
NON-CURRENT ASSETS		
Portfolio investments, available-for-sale	2,701,618	2,633,554
Investment in nonregulated	7,881,657	6,581,476
Deferred income taxes	936,265	2,265,039
Total non-current assets	<u>11,519,540</u>	<u>11,480,069</u>
PROPERTY AND EQUIPMENT		
Telephone plant under construction	320,217	192,043
Telecommunications plant	62,673,854	61,154,208
	<u>62,994,071</u>	<u>61,346,251</u>
Less accumulated depreciation	54,214,276	54,041,199
	<u>8,779,795</u>	<u>7,305,052</u>
	<u>\$ 51,814,762</u>	<u>\$ 49,103,463</u>

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

BRANDENBURG TELEPHONE COMPANY

BALANCE SHEETS (Continued)

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 311,209	\$ 307,850
Customer deposits	17,015	19,129
Other current and accrued liabilities	<u>500,397</u>	<u>616,696</u>
Total current liabilities	<u>828,621</u>	<u>943,675</u>
NON-CURRENT LIABILITY, Pension accrual	<u>1,025,224</u>	<u>3,237,459</u>
STOCKHOLDER'S EQUITY		
Common stock, \$50 par value; authorized shares, 100,000; issued and outstanding shares, 100,000	5,000,000	5,000,000
Retained earnings	43,744,735	40,337,040
Accumulated other comprehensive income (loss):		
Unrealized gains (losses) on securities	19,091	48,528
Pension unrecognized gain (loss)	<u>1,197,091</u>	<u>(463,239)</u>
Total stockholder's equity	49,960,917	44,922,329
	<u>\$ 51,814,762</u>	<u>\$ 49,103,463</u>

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

BRANDENBURG TELEPHONE COMPANY

STATEMENTS OF INCOME
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Local network service	\$ 2,639,567	\$ 2,889,838
Network access service	9,630,410	9,230,671
Long distance network	514,282	509,040
Miscellaneous revenue	1,326,736	1,295,359
Collection recoveries	2,516	23,366
Total operating revenues	<u>14,113,511</u>	<u>13,948,274</u>
Operating expenses:		
Plant specific operations expense	3,942,656	3,931,994
Plant non-specific	1,584,769	1,598,397
Depreciation	1,447,443	1,458,011
Customer operations expense	1,791,313	1,800,771
Corporate operation expense	2,049,698	2,474,192
Other taxes	391,419	315,086
Total operating expenses	<u>11,207,298</u>	<u>11,578,451</u>
Operating income	2,906,213	2,369,823
Other income:		
Interest income	86,014	26,023
Other operating gains	450,196	251,654
Total other income	<u>536,210</u>	<u>277,677</u>
Income before nonregulated income	3,442,423	2,647,500
Nonregulated income	<u>1,640,511</u>	<u>1,418,561</u>
Net income before income taxes	5,082,934	4,066,061
Income taxes	<u>1,675,239</u>	<u>1,354,512</u>
Net income	<u><u>\$ 3,407,695</u></u>	<u><u>\$ 2,711,549</u></u>

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

BRANDENBURG TELEPHONE COMPANY

STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net income	\$ 3,407,695	\$ 2,711,549
Other comprehensive income (loss):		
Defined benefit plan	1,660,330	(1,049,607)
Unrealized gains (losses) on available-for-sale securities	<u>(29,437)</u>	<u>48,528</u>
Total other comprehensive income (loss)	<u>1,630,893</u>	<u>(1,001,079)</u>
Total comprehensive income	<u>\$ 5,038,588</u>	<u>\$ 1,710,470</u>

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

BRANDENBURG TELEPHONE COMPANY

STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
Years Ended December 31, 2018 and 2017

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2017	\$ 5,000,000	\$ 37,625,491	\$ 586,368	\$ 43,211,859
Net income	--	2,711,549	--	2,711,549
Change in unrealized gains on marketable securities net of tax expense of \$8,664	--	--	48,528	48,528
Change in pension accrual net of tax benefit of \$323,006	--	--	(1,049,607)	(1,049,607)
Balance at December 31, 2017	5,000,000	40,337,040	(414,711)	44,922,329
Net income	--	3,407,695	--	3,407,695
Change in unrealized gains on marketable securities net of tax expense of \$5,154	--	--	(29,437)	(29,437)
Change in pension accrual net of tax expense of \$442,759	--	--	1,660,330	1,660,330
Balance at December 31, 2018	<u>\$ 5,000,000</u>	<u>\$ 43,744,735</u>	<u>\$ 1,216,182</u>	<u>\$ 49,960,917</u>

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

BRANDENBURG TELEPHONE COMPANY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,407,695	\$ 2,711,549
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,447,443	1,458,011
Deferred tax provisions	966,213	602,713
Change in assets and liabilities, net of the effects of investing activities:		
Accounts receivable	85,783	127,669
Income tax receivable	376,000	(143,645)
Due from affiliate	(975,450)	(1,162,058)
Materials inventory	(986,547)	(1,987,631)
Prepaid insurance	(6,197)	2,900
Accounts payable	3,359	(12,930)
Customer deposits	(2,114)	(341)
Other current and accrued liabilities	(116,299)	(88,802)
Net cash provided by operating activities	<u>4,199,886</u>	<u>1,507,435</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(4,868,142)	(4,207,544)
Proceeds from sales and disposals of property and equipment	18,600	10,150
Nonregulated activities	340,330	(29,788)
Net cash (used in) investing activities	<u>(4,509,212)</u>	<u>(4,227,182)</u>
 Net (decrease) in cash and cash equivalents	(309,326)	(2,719,747)
 Cash and cash equivalents:		
Beginning of year	<u>6,886,626</u>	<u>9,606,373</u>
 End of year	<u>\$ 6,577,300</u>	<u>\$ 6,886,626</u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Income taxes paid	\$ 1,718,861	\$ 1,523,120

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

BRANDENBURG TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

Nature of operations

The Brandenburg Telephone Company is a telephone company that offers business and residential telephone service to customers located in Meade, Hardin and Breckinridge counties in Kentucky. Brandenburg Telephone Company is a wholly-owned subsidiary of Brandenburg Communications Corporation.

Telephone plant

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

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

Depreciation

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

Estimates

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

Cash and cash equivalents

For purposes of the statement of cash flows, the Company considers temporary investments having 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. Management believes that credit risk related to the accounts is minimal.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts receivable

Accounts receivable are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial. Accounts are written off as uncollectible at the time management determines the collection is unlikely. The Company's policy is not to accrue interest on accounts receivable.

Income taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates.

The Company's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes the Company has no uncertain tax positions resulting in an accrual of tax expense or benefit.

The Company recognizes interest accrued related to uncertain tax positions in interest expense and penalties in operating expenses. The Company did not recognize any interest or penalties during the years ended December 31, 2018 and 2017.

The Company's income tax returns are subject to examination by the Internal Revenue Service and the Kentucky Department of Revenue until the expiration of the related statutes of limitations on those tax returns. In general, the tax returns have a three year statute of limitations for federal and a four year statute of limitations for state.

Comprehensive income

Comprehensive income is the total of (1) net income plus (2) all other changes in net assets arising from non-owner sources, which are referred to as other comprehensive income. Other comprehensive income includes defined benefit plan pension plan income (expenses) and unrealized gains (losses) on available-for-securities, net of deferred tax expense (benefit).

Recent accounting pronouncements

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the Company's contracts with customers. This standard will be effective for the year ending December 31, 2019.

Management is currently in the process of evaluating the impact of the adoption of this ASU on the Company's financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Subsequent events

Brandenburg Telephone Company has evaluated subsequent events through March 19, 2019, the date which the financial statements were available to be issued.

Note 2. Pension Plan

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

The following illustrates the pension plan for the years ended December 31, 2018 and 2017:

	2018	2017
Benefit obligation at beginning of year	\$ 37,744,417	\$ 32,921,341
Service cost	1,047,449	920,815
Interest cost	1,354,137	1,350,702
Benefits paid	(1,078,086)	(1,084,732)
Actuarial (gain) loss	(5,375,805)	3,636,291
Benefit obligation at end of year	\$ 33,692,112	\$ 37,744,417
	2018	2017
Fair value of plan assets at beginning of year	\$ 34,506,958	\$ 31,221,518
Actual return on plan assets	(761,984)	4,370,172
Employer contributions	--	--
Benefits paid	(1,078,086)	(1,084,732)
Fair value of plan assets at end of year	\$ 32,666,888	\$ 34,506,958
	2018	2017
Reconciliation of funded status:		
Funded status	\$ (1,025,224)	\$ (3,237,459)
Unrecognized actuarial (gain) loss	--	--
Unrecognized transition (asset) obligation	--	--
Unrecognized prior service cost	--	--
Net amount recognized at year end	\$ (1,025,224)	\$ (3,237,459)

NOTES TO FINANCIAL STATEMENTS

Note 2. Pension Plan (Continued)

Amounts recognized in the statements of financial position consists of:

Noncurrent assets	\$	--	\$	--
Noncurrent liabilities		(1,025,224)		(3,237,459)
Net amount recognized at year end		<u>\$ (1,025,224)</u>		<u>\$ (3,237,459)</u>

Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income:

	<u>2018</u>	<u>2017</u>
Transition (obligation) asset	\$ --	\$ --
Prior service credit (cost)	(7,506)	(13,840)
Accumulated gain (loss)	<u>1,647,357</u>	<u>(596,111)</u>
Accumulated other comprehensive income before taxes	1,639,851	(609,951)
Cumulative employer contributions in excess of net periodic benefit cost	<u>(2,665,075)</u>	<u>(2,627,508)</u>
Net amount recognized in statements of financial position	<u>\$ (1,025,224)</u>	<u>\$ (3,237,459)</u>

Components of net periodic benefit cost:

Service cost	\$ 1,047,449	\$ 920,815
Interest cost	1,354,137	1,350,702
Expected return on plan assets	(2,370,353)	(2,142,954)
Amortization of prior service cost	6,334	6,334
Amortization of transitional obligation	--	--
Recognized actuarial (gain) loss	--	--
Net periodic benefit cost	<u>\$ 37,567</u>	<u>\$ 134,897</u>

Weight-average assumptions as of December 31:

Discount rate	3.65%	4.18%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	6.00%	6.00%

NOTES TO FINANCIAL STATEMENTS

Note 2. Pension Plan (Continued)

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

	2018	2017
Cash	2%	1%
Debt securities	27%	26%
Equity securities	71%	73%
	100%	100%

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

Fiscal year	
2019	\$ 1,213,208
2020	1,282,418
2021	1,539,659
2022	1,633,522
2023	1,728,600
2024-2028	9,454,504

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

The Plan's investments are reported at fair value.

	Fair value measurements using:		
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2018			
Common stocks	\$ 23,447,768	\$ 23,447,768	\$ --
Corporate bonds	5,565,815	--	5,565,815
U.S. government securities	559,110	--	559,110
Foreign obligations	1,521,416	--	1,521,416
State & municipal	1,086,392	--	1,086,392
Total	32,180,501	\$ 23,447,768	\$ 8,732,733
Cash accounts	486,387		
Total	\$ 32,666,888		

NOTES TO FINANCIAL STATEMENTS

Note 2. Pension Plan (Continued)

December 31, 2017	Fair value measurements using;		
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Common stocks	\$ 25,129,349	\$ 25,129,349	\$ --
Corporate bonds	5,716,069	--	5,716,069
U.S. government securities	562,660	--	562,660
Foreign obligations	1,974,813	--	1,974,813
State & municipal	847,037	--	847,037
Total	34,229,928	\$ 25,129,349	\$ 9,100,579
Cash accounts	277,030		
Total	\$ 34,506,958		

U.S. GAAP provides a framework for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methodology for measuring fair value specifies a three-tier hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are based on quoted prices or identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflects a company's own assumptions of market participant valuation (Level 3).

Level 1 Fair Value Measurements

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

Level 2 Fair Value Measurements

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

NOTES TO FINANCIAL STATEMENTS

Note 3. Concentrations of Credit Risk

The Company maintains cash and cash equivalents at several banks. The total cash balances at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. A summary of total insured and uninsured amounts held at these financial institutions at December 31, 2018 and 2017 are as follows:

	2018	2017
Total cash and cash equivalents	\$ 6,577,300	\$ 6,886,626
Less: balance insured by FDIC	1,000,000	1,000,000
Uninsured and uncollateralized	\$ 5,577,300	\$ 5,886,626

Note 4. Portfolio Investments

The Company has classified all portfolio investments as available-for-sale. Available-for-sale investments are stated at fair value with unrealized gains and losses included in stockholder's equity. The cost of investments sold is based on the specific identification method.

The cost and fair market values of marketable securities available-for-sale at December 31, 2018 and 2017 were as follows:

	2018	2017
U.S. government securities:		
Amortized cost	\$ 2,633,554	\$ 2,591,701
Gross unrealized gain (loss)	68,064	41,853
Fair value	\$ 2,701,618	\$ 2,633,554

At December 31, 2018, maturities of investments classified as available-for-sale were as follows:

	Amortized cost	Fair value
Less than one year	\$ 2,633,554	\$ 2,701,618
One through five years	--	--
After five years	--	--
	\$ 2,633,554	\$ 2,701,618

NOTES TO FINANCIAL STATEMENTS

Note 4. Portfolio Investments (Continued)

	Fair value measurements using:		
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
<u>December 31, 2018</u>			
Municipal bonds	\$ 2,661,880	\$ --	\$ 2,661,880
Total	2,661,880	\$ --	\$ 2,661,880
Cash accounts	39,738		
Total	<u>\$ 2,701,618</u>		

	Fair value measurements using:		
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
<u>December 31, 2017</u>			
Municipal bonds	\$ 2,606,340	\$ --	\$ 2,606,340
Total	2,606,340	\$ --	\$ 2,606,340
Cash accounts	27,214		
Total	<u>\$ 2,633,554</u>		

The fair value of municipal bonds and agency securities for which quoted market prices are not available are valued on yields currently available on comparable securities of issuers with similar credit ratings.

NOTES TO FINANCIAL STATEMENTS

Note 5. Nonregulated Investments

Investments in nonregulated activities consist of the following:

	2018	2017
Due from affiliate	\$ 6,931,922	\$ 5,637,019
Inventory	287,017	231,755
Land and land improvements	330,989	330,989
Other equipment	128,633	128,633
Other receivables	--	4,800
Fiber optic, mobile telephone and internet equipment	3,442,478	3,148,572
 Total nonregulated investments	 11,121,039	 9,481,768
 Less:		
Accumulated depreciation	2,868,784	2,735,105
Accounts payable	38,966	49,721
Accrued expenses	331,632	115,466
	 \$ 7,881,657	 \$ 6,581,476

Following is a summary of net income from nonregulated investments for the year ending December 31, 2018 and 2017:

	2018	2017
Income	4,724,386	4,331,303
 Expenses	 3,083,875	 2,912,742
	 \$ 1,640,511	 \$ 1,418,561

Income tax expense related to these activities totaled \$478,402 in 2018 and \$453,069 in 2017.

NOTES TO FINANCIAL STATEMENTS

Note 6. Telecommunications Plant

	2018	2017
Land	\$ 1,037,121	\$ 1,037,121
Buildings	9,266,870	9,298,600
Digital electronic equipment	2,713,540	2,762,594
Toll and subscriber carriers	4,638,019	4,585,315
Poles, cable and wire	35,936,556	34,851,623
Furniture and office equipment	4,520,269	4,404,345
Embedded accounts	300,712	300,712
Vehicles and other work equipment	4,260,767	3,913,898
Telephone plant in service	\$ 62,673,854	\$ 61,154,208

The Company provides depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of the telephone plant in service was 6.9% in both 2018 and 2017.

Note 7. Income Taxes

The provision for income taxes (benefit) consists of the following:

	2018	2017
Current:		
Federal income tax expense	\$ 383,851	\$ 579,924
State income tax expense	325,175	171,875
Deferred:		
Federal deferred tax expense	652,237	780,753
State deferred tax expense (benefit)	313,976	(178,040)
Total income tax expense	\$ 1,675,239	\$ 1,354,512

NOTES TO FINANCIAL STATEMENTS

Note 7. Income Taxes (Continued)

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

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of the Company's assets and liabilities for financial reporting basis and the amounts used for income tax purposes. The principal sources of temporary differences are different depreciation methods used for financial accounting and tax purposes, as well as pension expense.

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

	2018	2017
Deferred tax assets, non-current:		
Federal	\$ 781,258	\$ 1,360,650
State	597,766	904,389
Total deferred tax assets	\$ 1,379,024	\$ 2,265,039

As a result of the 2017 Tax Cuts and Jobs Act (the Act), the Company re-measured certain deferred tax assets and liabilities based on the federal income tax rates at which they are expected to reverse in the future, which is 21% under the Act. The change had the effect of decreasing net deferred tax assets by \$684,097 at December 31, 2017, with a corresponding decrease in other comprehensive income of \$237,512 and a decrease to net income of \$446,585.

Note 8. Related Party Transactions

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

Bank	Date	Maturity Date	Certificate Number	Interest Rate	Amount
Meade County Bank	2/11/16	7/18/19	460	2.08%	1,024,448
West Point Bank	1/27/06	10/13/19	170	2.25%	928,574

NOTES TO FINANCIAL STATEMENTS

Note 8. Related Party Transactions (Continued)

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

	<u>Amount</u>
<u>Operating accounts:</u>	
Meade County Bank	\$ 491,779
First State Bank	614,067
West Point Bank	773,979
Total operating accounts	<u>\$ 1,879,825</u>
<u>Money market accounts:</u>	
First State Bank	\$ 998,521
River City Bank	1,742,181
Total money market accounts	<u>\$ 2,740,702</u>

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

During 2001, Brandenburg Telecom, LLC (the Corporation), a wholly-owned subsidiary of Brandenburg Communications Corporation was formed. The Company provides telecommunication services in Elizabethtown, Kentucky and other areas outside the franchise territory of Brandenburg Telephone Company. Brandenburg Telephone Company provided the Corporation with funding to assist the Corporation's organizational expenditures. The Company also pays for administrative, labor and employee benefits costs for Brandenburg Telecom, LLC. As of December 31, 2018 and 2017, the amount due to the Company was \$17,868,526 and \$16,893,076, respectively.