

**BRANDENBURG TELEPHONE COMPANY**

**FINANCIAL REPORT**

**DECEMBER 31, 2020**

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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, 2020 and 2019, 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, 2020 and 2019, 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.

## Prior Period Adjustment

As described in Note 11 to the financial statements, the Company discovered a departure from generally accepted accounting principles in its regulatory accounting for depreciation of fixed assets. Accordingly, the Company has restated accumulated depreciation as of January 1, 2019, with a corresponding cumulative effect adjustment to retained earnings. Our opinion is not modified with respect to this matter.

*Jones, Nale & Mattingly PLC*

Louisville, Kentucky  
March 24, 2021

**BRANDENBURG TELEPHONE COMPANY**

**BALANCE SHEETS**  
**December 31, 2020 and 2019**

|   | <u>2020</u>          | <u>2019</u>          |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| <b>CURRENT ASSETS</b>   |                      |                      |
| Cash and cash equivalents   | \$ 8,142,469         | \$ 8,756,582         |
| Accounts receivable   | 1,135,047            | 1,194,932            |
| Income tax receivable   | 2,224,137            | 1,179,665            |
| Due from affiliate  | 19,160,755           | 18,648,364           |
| Materials and supplies, at average cost -<br>based on the lower of cost or net realizable value | 4,082,482            | 4,042,336            |
| Prepaid insurance   | 30,276               | 26,798               |
| <b>Total current assets</b>   | <u>34,775,166</u>    | <u>33,848,677</u>    |
| <b>NON-CURRENT ASSETS</b>   |                      |                      |
| Portfolio investments, available-for-sale   | 2,916,241            | 2,820,518            |
| Investment in nonregulated  | 10,893,610           | 9,386,825            |
| <b>Total non-current assets</b>   | <u>13,809,851</u>    | <u>12,207,343</u>    |
| <b>PROPERTY AND EQUIPMENT</b>   |                      |                      |
| Telephone plant under construction  | 976,672              | 384,087              |
| Telecommunications plant  | 68,680,283           | 64,836,550           |
|   | <u>69,656,955</u>    | <u>65,220,637</u>    |
| Less accumulated depreciation   | 50,941,072           | 49,959,689           |
|   | <u>18,715,883</u>    | <u>15,260,948</u>    |
|   | <u>\$ 67,300,900</u> | <u>\$ 61,316,968</u> |

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

**BRANDENBURG TELEPHONE COMPANY**

**BALANCE SHEETS (Continued)**

**December 31, 2020 and 2019**

|   | <u>2020</u>          | <u>2019</u>          |
|---|----------------------|----------------------|
| <b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>   |                      |                      |
| <b>CURRENT LIABILITIES</b>  |                      |                      |
| Accounts payable  | \$ 756,206           | \$ 370,697           |
| Customer deposits   | 20,837               | 18,306               |
| Other current and accrued liabilities   | <u>606,721</u>       | <u>824,081</u>       |
| Total current liabilities   | <u>1,383,764</u>     | <u>1,213,084</u>     |
| <b>NON-CURRENT LIABILITIES</b>  |                      |                      |
| Pension accrual   | 1,139,950            | 183,709              |
| Deferred tax liability  | <u>2,774,657</u>     | <u>1,555,841</u>     |
| Total non-current liabilities   | <u>3,914,607</u>     | <u>1,739,550</u>     |
| <b>STOCKHOLDER'S EQUITY</b>   |                      |                      |
| Common stock, \$50 par value; authorized shares,<br>100,000; issued and outstanding shares, 100,000 | 5,000,000            | 5,000,000            |
| Retained earnings   | 56,762,551           | 51,191,624           |
| Accumulated other comprehensive income:   |                      |                      |
| Unrealized gains on securities  | 47,887               | 5,457                |
| Pension unrecognized gain   | <u>192,091</u>       | <u>2,167,253</u>     |
| Total stockholder's equity  | <u>62,002,529</u>    | <u>58,364,334</u>    |
|   | <u>\$ 67,300,900</u> | <u>\$ 61,316,968</u> |

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

**BRANDENBURG TELEPHONE COMPANY**

**STATEMENTS OF INCOME**  
**Years Ended December 31, 2020 and 2019**

|                                       | <u>2020</u>                | <u>2019</u>                |
|---------------------------------------|----------------------------|----------------------------|
| Operating revenues:                   |                            |                            |
| Local network service                 | \$ 1,921,828               | \$ 2,209,973               |
| Network access service                | 10,531,359                 | 10,550,899                 |
| Long distance network                 | 371,182                    | 501,676                    |
| Miscellaneous revenue                 | 827,907                    | 1,403,212                  |
| Collection recoveries                 | 17,627                     | 13,011                     |
| Total operating revenues              | <u>13,669,903</u>          | <u>14,678,771</u>          |
| Operating expenses:                   |                            |                            |
| Plant specific operations expense     | 3,936,841                  | 3,600,992                  |
| Plant non-specific                    | 1,769,403                  | 1,573,230                  |
| Depreciation                          | 2,059,531                  | 1,681,914                  |
| Customer operations expense           | 1,881,927                  | 1,815,888                  |
| Corporate operation expense           | 1,865,611                  | 2,881,534                  |
| Other taxes                           | 552,562                    | 426,385                    |
| Total operating expenses              | <u>12,065,875</u>          | <u>11,979,943</u>          |
| Operating income                      | <u>1,604,028</u>           | <u>2,698,828</u>           |
| Other income:                         |                            |                            |
| Interest income                       | 126,808                    | 189,626                    |
| Other operating gains                 | 372,592                    | 385,459                    |
| PPP loan forgiveness                  | 1,675,200                  | --                         |
| Total other income                    | <u>2,174,600</u>           | <u>575,085</u>             |
| Income before income taxes            | 3,778,628                  | 3,273,913                  |
| Income taxes                          | <u>1,112,690</u>           | <u>1,565,947</u>           |
| Net income before nonregulated income | 2,665,938                  | 1,707,966                  |
| Nonregulated income                   | <u>2,904,989</u>           | <u>2,312,587</u>           |
| Net income                            | <u><u>\$ 5,570,927</u></u> | <u><u>\$ 4,020,553</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, 2020 and 2019**

|  | <u>2020</u>         | <u>2019</u>         |
|--|---------------------|---------------------|
| Net income   | \$ 5,570,927        | \$ 4,020,553        |
| Other comprehensive income (loss):                         |                     |                     |
| Defined benefit plan                                       | (1,980,619)         | 970,162             |
| Unrealized gains (losses) on available-for-sale securities | <u>47,887</u>       | <u>(13,634)</u>     |
| Total other comprehensive income (loss)                    | <u>(1,932,732)</u>  | <u>956,528</u>      |
| Total comprehensive income                                 | <u>\$ 3,638,195</u> | <u>\$ 4,977,081</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, 2020 and 2019**

|   | Common<br>Stock     | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total                |
|---|---------------------|----------------------|--|----------------------|
| Balance, January 1, 2019, as previously reported  | \$ 5,000,000        | \$ 43,744,735        | \$ 1,216,182   | \$ 49,960,917        |
| Prior period adjustment   | --                  | 3,426,336            | --   | 3,426,336            |
| Balance at January 1, 2019  | 5,000,000           | 47,171,071           | 1,216,182  | 53,387,253           |
| Net income  | --                  | 4,020,553            | --   | 4,020,553            |
| Change in unrealized (loss) on securities<br>available-for-sale net of tax (benefit) of \$4,545 | --                  | --                   | (13,634)   | (13,634)             |
| Change in pension accrual net of tax expense<br>of \$323,387                                    | --                  | --                   | 970,162  | 970,162              |
| Balance at December 31, 2019  | 5,000,000           | 51,191,624           | 2,172,710  | 58,364,334           |
| Net income  | --                  | 5,570,927            | --   | 5,570,927            |
| Change in unrealized gain on securities<br>available-for-sale net of tax expense of \$15,962    | --                  | --                   | 47,887   | 47,887               |
| Change in pension accrual net of tax (benefit)<br>of \$67,492                                   | --                  | --                   | (1,980,619)  | (1,980,619)          |
| Balance at December 31, 2020  | <u>\$ 5,000,000</u> | <u>\$ 56,762,551</u> | <u>\$ 239,978</u>                                      | <u>\$ 62,002,529</u> |

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

**BRANDENBURG TELEPHONE COMPANY**

**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2020 and 2019**

|   | <u>2020</u>         | <u>2019</u>         |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                     |                     |
| Net income  | \$ 5,570,927        | \$ 4,020,553        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |                     |
| Depreciation  | 2,059,531           | 1,681,914           |
| PPP loan forgiveness  | (1,675,200)         | --                  |
| Deferred tax provisions   | 1,179,268           | 1,077,007           |
| Change in assets and liabilities, net of the effects of investing activities:     |                     |                     |
| Accounts receivable   | 59,885              | (18,197)            |
| Income tax receivable   | (1,044,472)         | (287,710)           |
| Due from affiliate  | (512,391)           | (779,838)           |
| Materials inventory   | (40,146)            | 930,403             |
| Prepaid insurance   | (3,478)             | 1,374               |
| Accounts payable  | 385,509             | 59,488              |
| Customer deposits   | 2,531               | 1,291               |
| Other current and accrued liabilities   | (217,359)           | 323,685             |
| Net cash provided by operating activities   | <u>5,764,605</u>    | <u>7,009,970</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                     |                     |
| Purchase of property and equipment  | (6,569,100)         | (5,655,482)         |
| Proceeds from sales of property and equipment                                     | 21,967              | 17,375              |
| Nonregulated activities   | (1,506,785)         | 807,419             |
| Net cash (used in) investing activities   | <u>(8,053,918)</u>  | <u>(4,830,688)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                     |                     |
| PPP loan proceeds   | 1,675,200           | --                  |
| Net cash provided by financing activities   | <u>1,675,200</u>    | <u>--</u>           |
| Net increase (decrease) in cash and cash equivalents                              | (614,113)           | 2,179,282           |
| Cash and cash equivalents:  |                     |                     |
| Beginning of year   | <u>8,756,582</u>    | <u>6,577,300</u>    |
| End of year   | <u>\$ 8,142,469</u> | <u>\$ 8,756,582</u> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>                          |                     |                     |
| Income taxes paid   | \$ 571,950          | \$ 488,940          |

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 net realizable value. 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.

#### Telecommunications Revenue Recognition

Revenues are recognized when earned. Bills are sent to customers on credit the first of each month with local service being billed a month in advance of service. Sales are concentrated in a portion of three (3) central Kentucky counties. Payments are due 10 days from the date of billing. If payment has not been made, then customers are subject to disconnect on the 21<sup>st</sup> day after the billing date.

Interstate revenues are recognized on the cost basis recovery method. Compensation for intrastate/interlata service is received through tariffed access charges as filed with the FCC. These access charges are billed to the interlata long distance carrier and retained by the Company.

#### 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, 2020 and 2019.

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.

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Summary of Significant Accounting Policies (Continued)

#### 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).

#### Subsequent events

Brandenburg Telephone Company has evaluated subsequent events through March 24, 2021, 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, 2020 and 2019:

|  | 2020           | 2019          |
|--|----------------|---------------|
| Benefit obligation at beginning of year        | \$ 39,928,332  | \$ 33,692,112 |
| Service cost                                   | 1,171,351      | 885,155       |
| Interest cost                                  | 1,267,403      | 1,377,558     |
| Benefits paid                                  | (1,243,632)    | (1,159,896)   |
| Actuarial (gain) loss                          | 5,437,044      | 5,133,403     |
| Benefit obligation at end of year              | \$ 46,560,498  | \$ 39,928,332 |
|  | 2020           | 2019          |
| Fair value of plan assets at beginning of year | \$ 39,744,623  | \$ 32,666,888 |
| Actual return on plan assets                   | 5,919,557      | 8,237,631     |
| Employer contributions                         | 1,000,000      | --            |
| Benefits paid                                  | (1,243,632)    | (1,159,896)   |
| Fair value of plan assets at end of year       | \$ 45,420,548  | \$ 39,744,623 |
|  | 2020           | 2019          |
| Reconciliation of funded status:               |                |               |
| Funded status                                  | \$ (1,139,950) | \$ (183,709)  |
| Unrecognized actuarial (gain) loss             | --             | --            |
| Unrecognized transition (asset) obligation     | --             | --            |
| Unrecognized prior service cost                | --             | --            |
| Net amount recognized at year end              | \$ (1,139,950) | \$ (183,709)  |

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Pension Plan (Continued)

Amounts recognized in the statements of financial position consists of:

|                                   | 2020           | 2019         |
|-----------------------------------|----------------|--------------|
| Noncurrent assets                 | \$ --          | \$ --        |
| Noncurrent liabilities            | (1,139,950)    | (183,709)    |
| Net amount recognized at year end | \$ (1,139,950) | \$ (183,709) |

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

|   | 2020           | 2019         |
|---|----------------|--------------|
| Transition (obligation) asset   | \$ --          | \$ --        |
| Prior service credit (cost)   | --             | (1,172)      |
| Accumulated gain (loss)   | 259,583        | 2,510,904    |
| Accumulated other comprehensive income before taxes                         | 259,583        | 2,509,732    |
| Cumulative employer contributions in excess of<br>net periodic benefit cost | (1,399,533)    | (2,693,441)  |
| Net amount recognized in statements of financial position                   | \$ (1,139,950) | \$ (183,709) |

Components of net periodic benefit cost:

|   |              |             |
|---|--------------|-------------|
| Service cost                            | \$ 1,171,351 | \$ 885,155  |
| Interest cost                           | 1,267,403    | 1,377,558   |
| Expected return on plan assets          | (2,733,834)  | (2,240,681) |
| Amortization of prior service cost      | 1,172        | 6,334       |
| Amortization of transitional obligation | --           | --          |
| Recognized actuarial (gain) loss        | --           | --          |
| Net periodic benefit cost               | \$ (293,908) | \$ 28,366   |

Weight-average assumptions as of December 31:

|                                |       |       |
|--------------------------------|-------|-------|
| Discount rate                  | 3.23% | 4.17% |
| Expected return on plan assets | 7.00% | 7.00% |
| Rate of compensation increase  | 5.00% | 5.00% |

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Pension Plan (Continued)

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

|                   | 2020 | 2019 |
|-------------------|------|------|
| Cash              | 2%   | 2%   |
| Debt securities   | 22%  | 22%  |
| Equity securities | 76%  | 76%  |
|                   | 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 |              |
|-------------|--------------|
| 2021        | \$ 1,561,671 |
| 2022        | 1,641,542    |
| 2023        | 1,748,788    |
| 2024        | 1,910,424    |
| 2025        | 1,864,777    |
| 2026-2030   | 9,438,096    |

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 measured at fair value on a recurring basis is as follows:

|                            | Fair value<br>measurements using; |  |   |
|----------------------------|-----------------------------------|--|---|
|                            | Fair value                        | Unadjusted<br>quoted prices<br>(Level 1) | Significant other<br>observable inputs<br>(Level 2) |
| December 31, 2020          |                                   |  |   |
| Common stocks              | \$ 34,629,782                     | \$ 34,629,782                            | \$ --   |
| Corporate bonds            | 6,665,709                         | --                                       | 6,665,709   |
| U.S. government securities | 1,059,385                         | --                                       | 1,059,385   |
| Foreign obligations        | 1,169,055                         | --                                       | 1,169,055   |
| State & municipal          | 1,029,374                         | --                                       | 1,029,374   |
| Total                      | 44,553,305                        | \$ 34,629,782                            | \$ 9,923,523  |
| Cash accounts              | 867,243                           |  |   |
| Total                      | \$ 45,420,548                     |  |   |

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Pension Plan (Continued)

|                            | Fair value<br>measurements using; |  |   |
|----------------------------|-----------------------------------|--|---|
|                            |                                   | Unadjusted<br>quoted prices<br>(Level 1) | Significant other<br>observable inputs<br>(Level 2) |
| December 31, 2019          | Fair value                        |  |   |
| Common stocks              | \$ 30,516,526                     | \$ 30,516,526                            | \$ --   |
| Corporate bonds            | 5,495,171                         | --                                       | 5,495,171   |
| U.S. government securities | 794,150                           | --                                       | 794,150   |
| Foreign obligations        | 1,356,022                         | --                                       | 1,356,022   |
| State & municipal          | 951,062                           | --                                       | 951,062   |
| <br>                       |                                   |  |   |
| Total                      | 39,112,931                        | \$ 30,516,526                            | \$ 8,596,405  |
| Cash accounts              | 631,692                           |  |   |
| Total                      | \$ 39,744,623                     |  |   |

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, 2020 and 2019 are as follows:

|                                 | 2020         | 2019         |
|---------------------------------|--------------|--------------|
| Total cash and cash equivalents | \$ 8,142,469 | \$ 8,756,582 |
| Less: balance insured by FDIC   | 1,000,000    | 1,000,000    |
| Uninsured and uncollateralized  | \$ 7,142,469 | \$ 7,756,582 |

### Note 4. Portfolio Investments

The Company has classified all portfolio debt 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 debt securities available-for-sale at December 31, 2020 and 2019 were as follows:

|                       | 2020         | 2019         |
|-----------------------|--------------|--------------|
| Municipal bonds:      |              |              |
| Amortized cost        | \$ 2,852,392 | \$ 2,813,245 |
| Gross unrealized gain | 63,849       | 7,273        |
| Fair value            | \$ 2,916,241 | \$ 2,820,518 |

At December 31, 2020, maturities of investments classified as available-for-sale were as follows:

|                        | Amortized<br>cost | Fair value   |
|------------------------|-------------------|--------------|
| Less than one year     | \$ 2,852,392      | \$ 2,916,241 |
| One through five years | --                | --           |
| After five years       | --                | --           |
|                        | \$ 2,852,392      | \$ 2,916,241 |

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Portfolio Investments (Continued)

|                          | Fair value<br>measurements using: |  |   |
|--------------------------|-----------------------------------|--|---|
|                          | Fair value                        | Unadjusted<br>quoted prices<br>(Level 1) | Significant other<br>observable inputs<br>(Level 2) |
| <u>December 31, 2020</u> |                                   |  |   |
| Municipal bonds          | \$ 2,916,241                      | \$ --                                    | \$ 2,916,241  |
| Total                    | 2,916,241                         | \$ --                                    | \$ 2,916,241  |
| Cash accounts            | 22,127                            |  |   |
| Total                    | <u>\$ 2,938,368</u>               |  |   |

|                          | Fair value<br>measurements using: |  |   |
|--------------------------|-----------------------------------|--|---|
|                          | Fair value                        | Unadjusted<br>quoted prices<br>(Level 1) | Significant other<br>observable inputs<br>(Level 2) |
| <u>December 31, 2019</u> |                                   |  |   |
| Municipal bonds          | \$ 2,785,297                      | \$ --                                    | \$ 2,785,297  |
| Total                    | 2,785,297                         | \$ --                                    | \$ 2,785,297  |
| Cash accounts            | 35,221                            |  |   |
| Total                    | <u>\$ 2,820,518</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:

|  | 2020              | 2019             |
|--|-------------------|------------------|
| Due from affiliate                                   | \$ 10,756,801     | \$ 8,585,186     |
| Inventory  | 273,171           | 269,944          |
| Land and land improvements                           | 330,989           | 330,989          |
| Other equipment                                      | 128,633           | 128,633          |
| Other receivables                                    | 4,800             | 112,343          |
| Fiber optic, mobile telephone and internet equipment | 3,988,773         | 3,617,937        |
| <br>Total nonregulated investments                   | <br>15,483,167    | <br>13,045,032   |
| <br>Less:  |                   |                  |
| Accumulated depreciation                             | 3,203,032         | 3,020,171        |
| Accounts payable                                     | 51,704            | 50,665           |
| Accrued expenses                                     | 1,334,821         | 587,371          |
|  | <br>\$ 10,893,610 | <br>\$ 9,386,825 |

Following is a summary of net income from nonregulated investments for the year ending December 31, 2020 and 2019:

|              | 2020             | 2019             |
|--------------|------------------|------------------|
| Income       | 6,159,176        | 5,323,842        |
| <br>Expenses | <br>3,254,187    | <br>3,011,255    |
|              | <br>\$ 2,904,989 | <br>\$ 2,312,587 |

Income tax expense related to these activities totaled \$691,717 in 2020 and \$584,508 in 2019.

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Telecommunications Plant

|                                   | 2020          | 2019          |
|-----------------------------------|---------------|---------------|
| Land                              | \$ 1,026,121  | \$ 1,026,121  |
| Buildings                         | 9,719,708     | 9,613,786     |
| Digital electronic equipment      | 2,731,451     | 2,731,451     |
| Toll and subscriber carriers      | 4,981,157     | 4,711,764     |
| Poles, cable and wire             | 39,450,465    | 37,418,116    |
| Furniture and office equipment    | 5,636,457     | 4,520,269     |
| Embedded accounts                 | 300,712       | 300,712       |
| Vehicles and other work equipment | 4,834,212     | 4,514,331     |
| Telephone plant in service        | \$ 68,680,283 | \$ 64,836,550 |

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 2020 and 2019.

### Note 7. Income Taxes

The provision for income taxes consists of the following:

|                              | 2020         | 2019         |
|------------------------------|--------------|--------------|
| Current:                     |              |              |
| Federal income tax expense   | \$ (210,124) | \$ 238,698   |
| State income tax expense     | 143,546      | 250,242      |
| Deferred:                    |              |              |
| Federal deferred tax expense | 1,047,215    | 946,429      |
| State deferred tax expense   | 132,053      | 130,578      |
| Total income tax expense     | \$ 1,112,690 | \$ 1,565,947 |

## 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:

|   | 2020           | 2019           |
|---|----------------|----------------|
| Deferred tax assets (liability), non-current: |                |                |
| Federal                                       | \$ (2,778,236) | \$ (1,707,710) |
| State   | 3,579          | 151,869        |
| Total deferred tax assets (liability)         | \$ (2,774,657) | \$ (1,555,841) |

### Note 8. Related Party Transactions

Brandenburg Telephone Company has certificates of deposit at Meade County Bank and West Point Bank at December 31, 2020 and 2019, as follows:

| Bank              | 2020         | 2019         |
|-------------------|--------------|--------------|
| Meade County Bank | \$ 1,071,834 | \$ 1,049,526 |
| West Point Bank   | 965,419      | 932,393      |

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Related Party Transactions (Continued)

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

|                               | December 31, |              |
|-------------------------------|--------------|--------------|
|                               | 2020         | 2019         |
| <u>Operating accounts:</u>    |              |              |
| Meade County Bank             | \$ 1,133,924 | \$ 1,251,533 |
| First State Bank              | 1,092,853    | 1,176,173    |
| West Point Bank               | 1,070,737    | 1,578,855    |
| Total operating accounts      | \$ 3,297,514 | \$ 4,006,561 |
| <u>Money market accounts:</u> |              |              |
| First State Bank              | \$ 1,002,246 | \$ 1,001,149 |
| River City Bank               | 1,779,579    | 1,763,203    |
| Total money market accounts   | \$ 2,781,825 | \$ 2,764,352 |

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, 2020 and 2019, the amount due to the Company was \$19,160,755 and \$18,648,364, respectively.

### Note 9. Risks and Uncertainties

In April of 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Company as of March 24, 2021, management believes that a material impact on the Company's financial position and results of future operations is reasonably possible.

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Revenue Recognition

#### Nature of goods and services

The following is a description of principal activities from which the Company generates its revenues.

Telecommunications revenues – The Company’s regulated sources of revenue are local network services, network access services (interstate and intrastate/interlata), carrier billing, and other service charges. The Company’s nonregulated sources of revenue are customer premises and equipment, internet activities, long distance services, video services, and security/surveillance/bus systems.

#### Significant judgments

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

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

#### Multiple performance obligations

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

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Revenue Recognition (Continued)

From time to time, the Company may offer certain promotions to incentivize customers to switch to, or to purchase additional services from the Company. Under these types of promotions, an eligible customer may receive an incentive in the form of a discount off additional services purchased shown as a credit to the customer's monthly bill.

#### Disaggregation of revenue

In the following table, revenue for the years ended December 31, 2020 and 2019 is disaggregated by type of service and timing of revenue recognition. Telecommunication service revenues are recognized over time and equipment sales at a point in time.

|                                 | 2020          | 2019          |
|---------------------------------|---------------|---------------|
| <u>Regulated income:</u>        |               |               |
| Local network services          | \$ 1,921,829  | \$ 2,209,973  |
| Network access services         | 10,531,359    | 10,550,899    |
| Carrier billing and collections | 162,907       | 159,829       |
| Long distance services          | 371,182       | 501,676       |
| Miscellaneous                   | 213,304       | 727,950       |
| Directory revenue               | 469,322       | 528,444       |
|                                 | \$ 13,669,903 | \$ 14,678,771 |
| <br><u>Nonregulated income:</u> |               |               |
| Housewire outlet revenue        | \$ 220,541    | \$ 218,367    |
| Internet activities             | 4,106,740     | 3,545,066     |
| Lease revenue                   | 787,027       | 693,853       |
| Sales revenue                   | 75,819        | 32,060        |
| Miscellaneous                   | 630,339       | 519,010       |
| Lease fiber optic revenue       | 338,710       | 315,486       |
|                                 | \$ 6,159,176  | \$ 5,323,842  |

#### Contract cost liabilities:

Contract cost liabilities include customer deposits. The balance in contract liabilities was \$20,837, \$18,036 and \$17,015 as of December 31, 2020, 2019 and 2018, respectively.



## NOTES TO FINANCIAL STATEMENTS

### Note 11. Prior Period Adjustment

A change in regulatory accounting policies for fixed assets resulted in an overstatement of depreciation from past years. Accordingly, an adjustment of \$4,568,449 was made during 2020 to record an increase in income from past years as of the beginning of the year ended December 31, 2019. A corresponding entry was made to decrease the accumulated depreciation previously reported by the same amount. Deferred taxes were also adjusted by \$1,142,112 resulting in a decrease in deferred tax expense. The effect on the restatement had no effect on net earnings for 2019.

### Note 12. Paycheck Protection Program Loans

In April 2020, the Company applied for and was granted a forgivable loan of \$1,675,200 from the United States Small Business Administration (SBA) Paycheck Protection Program (PPP). Under the CARES Act, subject to limitations, as defined, the loan may be partially or fully forgiven, depending on specified actual payroll and other qualified costs for the covered period following receipt of the loan. Any amount not forgiven will be payable in 24 monthly installments of principal and interest at 1.00% and will be unsecured. The Company accounted for the loan proceeds as debt in accordance with ASC 470. The Company submitted their application for forgiveness to the SBA and were notified in December 2020 that the entire amount of the loan was forgiven. As such, the Company, in compliance with guidance from RUS, have recognized the forgiveness of debt as other income for the qualified costs that were incurred during the covered period of the loan.