GEARHEART COMMUNICATIONS, INC. D/B/A
COALFIELDS TELEPHONE COMPANY

FINANCIAL REPORT

DECEMBER 31, 2019

C O N T E N T S

JNM

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Coalfields Telephone Company
Harold, Kentucky

We have audited the accompanying financial statements of Coalfields Telephone Company, which comprise the balance sheet as of December 31, 2019, and the related statements of income, changes in stockholders' equity, and cash flows for the year 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 audit. We conducted our audit 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 our management, as well as evaluating the overall presentation of the financial statements.

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

Certified Public Accountants and Advisors
642 South Fourth Street, Suite 300 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coalfields Telephone Company as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11, Coalfields Telephone Company has adopted Financial Accounting Standards Update 2014-09, *Revenue from Contracts with Customers.* Our opinion is not modified with respect to this matter.

Correction of Errors

As described in Note 14 to the financial statements, the Company discovered an error resulting in an understatement of amounts previously reported for deferred tax liabilities and income tax expense. In addition, the Company discovered an error resulting in an overstatement of accrued income taxes for periods prior to January 1, 2018. Accordingly, amounts presented for deferred tax liabilities and income tax expense have been restated in the 2018 financial statements now presented, and a cumulative effect adjustment has been made to retained earnings as of January 1, 2018. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The financial statements of Coalfields Telephone Company, as of and for the year ended December 31, 2018 were audited by other auditors whose report dated March 14, 2019 expressed an unmodified opinion on those statements.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 27, 2020

COALFIELDS TELEPHONE COMPANY

BALANCE SHEETS
December 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 722,716	$ 882,307
Accounts receivable, less allowance for doubtful accounts of $16,616 in 2019 and $14,667 in 2018	344,567	312,299
Materials and supplies, at average cost	132,492	153,497
Total current assets	1,199,775	1,348,103
INVESTMENTS AND OTHER ASSETS		
Certificates of deposit	83,287	89,788
Associated organizations	33,530,674	30,476,151
Due from related parties	26,879,568	24,948,569
Nonregulated investments, net of depreciation	369,084	460,209
Total investments and other assets	60,862,613	55,974,717
PROPERTY AND EQUIPMENT		
In service	41,181,064	40,308,981
Under construction	66,960	51,473
	41,248,024	40,360,454
Less accumulated depreciation	25,144,886	23,606,933
	16,103,138	16,753,521
	$ 78,165,526	$ 74,076,341

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

	2019	2018
LIABILITIES AND MEMBERS' EQUITIES		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 595,500	$ 903,000
Accounts payable	92,655	119,592
Customer's deposits	36,499	121,473
Accrued income taxes	1,162,458	288,479
Other current and accrued liabilities	174,617	185,320
Total current liabilities	2,061,729	1,617,864
NON-CURRENT LIABILITIES		
Long-term debt, less current portion	6,568,299	6,938,099
Interest rate swap	3,791	27,908
Deferred income taxes	2,788,000	2,742,000
Total non-current liabilities	9,360,090	9,708,007
LIABILITIES AND STOCKHOLDERS' EQUITY		
Common stock, no par value:		
Class A voting; 100 shares authorized, issued and outstanding	10,025	10,025
Class B nonvoting; 10,000 shares authorized; 9,900 shares issued and outstanding	30,075	30,075
Retained earnings	66,703,607	62,710,370
	66,743,707	62,750,470
	$ 78,165,526	$ 74,076,341

COALFIELDS TELEPHONE COMPANY

STATEMENTS OF INCOME
Years Ended December 31, 2019 and 2018

	2019	2018
Operating revenues:		
Local network service	$ 1,957,431	$ 1,966,157
Network access services	3,994,149	4,092,807
Miscellaneous	120,074	276,636
Bundle discount	(436,784)	(414,543)
Total operating revenues	5,634,870	5,921,057
Operating expenses:		
Plant specific	1,562,748	1,441,280
Plant nonspecific	376,354	481,335
Depreciation	1,508,162	1,663,921
Customer operations	1,194,838	1,126,166
Corporate operations	2,500,856	2,800,288
Other operating taxes	217,958	240,578
Total operating expenses	7,360,916	7,753,568
Operating (loss)	(1,726,046)	(1,832,511)
Other income (expense):		
Interest income	464,469	434,390
Interest expense	(335,500)	(295,327)
Interest expense - other	(25,213)	(44,196)
Income from associated organizations	4,784,322	1,016,867
Total other income	4,888,078	1,111,734
Income (loss) before income taxes	3,162,032	(720,777)
Income tax (expense) related to income in associated organization	(1,143,643)	(277,612)
Income tax benefit (expense)	158,192	(121,925)
Total income tax (expense)	(985,451)	(399,537)
Net income before nonregulated income (expense)	2,176,581	(1,120,314)
Nonregulated items:		
Income	3,690,893	3,185,456
Expenses	(1,874,237)	(1,615,400)
	1,816,656	1,570,056
Net income	$ 3,993,237	$ 449,742

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

COALFIELDS TELEPHONE COMPANY

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2019 and 2018

	Common Stock	Retained Earnings	Total
Balance, January 1, 2018, as previously reported	$ 40,100	$ 61,230,127	$ 61,270,227
Prior period adjustment	- -	1,030,501	1,030,501
Balance, January 1, 2018, as adjusted	40,100	62,260,628	62,300,728
Net income	- -	449,742	449,742
Balance, December 31, 2018	40,100	62,710,370	62,750,470
Net income	- -	3,993,237	3,993,237
Balance, December 31, 2019	$ 40,100	$ 66,703,607	$ 66,743,707

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

COALFIELDS TELEPHONE COMPANY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,993,237	$ 449,742
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,508,162	1,663,921
Associated organization (income)	(4,784,322)	(1,016,867)
Deferred income taxes	46,000	(1,610,000)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable	(32,268)	66,325
Prepaid expenses	- -	5,438
Materials and supplies	21,005	19,035
Accounts payable	(26,937)	(617,942)
Customer deposits	(84,974)	(7,233)
Interest rate swap	(24,117)	- -
Accrued expenses	863,276	1,651,481
Net cash provided by operating activities	1,479,062	603,900
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction of plant	(924,300)	(1,984,265)
Salvage proceeds recovered from plant retirements	66,521	48,375
Certificates redeemed	6,501	- -
Distribution from associated organization	1,729,799	1,837,552
Miscellaneous physical property	91,125	77,057
Net cash provided by (used in) investing activities	969,646	(21,281)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(677,300)	(778,386)
Advances on long-term debt	- -	500,000
Payments from (advances to) related party, net	(1,930,999)	(1,932,800)
Net cash (used in) financing activities	(2,608,299)	(2,211,186)
Net (decrease) in cash and cash equivalents	(159,591)	(1,628,567)
Cash and cash equivalents:		
Beginning of year	882,307	2,510,874
End of year	$ 722,716	$ 882,307
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash interest paid	$ 387,689	$ 289,807
Income taxes paid	29,531	729,279

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

Note 1. Summary of Significant Accounting Policies

Coalfields Telephone Company (the Company) 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 to generally accepted accounting principles in all material respects. The significant policies are as follows:

Nature of Business

Coalfields Telephone Company is engaged in providing telephone communications services to residential and business customers located in portions of two eastern Kentucky counties. They provide telephone service, long distance, broadband and digital HDTV bundled television packages from Inter Mountain Cable, Inc. (a related party).

Estimates

The preparation of financial statements in accordance 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

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.

Certificates of Deposit

Certificates of deposit at Rural Telephone Finance Cooperative are carried at cost, which approximates fair value, and are held to maturity. Fair value is determined by quoted prices for similar certificates of deposit in active markets (Level 2) as defined under U.S GAAP.

Accounts Receivable

Accounts receivable are stated at face amount less an allowance for doubtful accounts. The allowance for doubtful accounts is based on the aging of accounts receivable. Accounts are written off when they are deemed to be uncollectible. There were no customers whose individual account balance exceeded ten percent of outstanding accounts receivable at December 31, 2019 and 2018.

Note 1. Summary of Significant Accounting Policies

Accounts Receivable (continued)

The number of subscribers, and those with enhanced DSL service at December 31, are as follows:

	2019		2018	
	Amount	%	Amount	%
Total subscribers	4,110		4,222	
Enhanced services included in total:				
DSL included in above	356	9%	827	20%
Inter Mountain Cable modems	2,639	64%	2,162	51%

Materials and Supplies

Materials and supplies are composed primarily of telephone material and supplies used in the telecommunications plant. The inventory is valued at the lower of cost or net realizable value, cost being determined by the average cost method.

Telecommunications Revenue Recognition

The Company is a Kentucky corporation engaged in telephone communications services to residential and business customers located in portions of two eastern Kentucky counties. The Company bills customers on credit with certain customers required to pay a refundable deposit. 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.

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 the Company is based upon a contractual agreement with the long-distance carrier. 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.

Customers who select services to include Coalfields Telephone Company telephone service, long distance and any combination of cable television packages from Inter Mountain Cable, Inc. (a related party) receive a discount for selecting these “bundled services”. The bundled discount is based on the level of services received by the customer.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Taxes

The Company is required to collect, on behalf of the Commonwealth of Kentucky, sales taxes based on 6 percent of gross sales from non-residential consumers, a 3 percent school tax from certain counties on most gross sales, and franchise fees in certain cities. 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.

Risk Management

The Company is 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.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2019 and 2018, these costs were $249,210 and $218,306, respectively.

Telecommunications plant

Telephone plant in service 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 expense. The cost of depreciable property units, as distinguished from minor items, is charged to telecommunications plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Provision has been made for depreciation on the basis of estimated lives of assets (as prescribed by the Public Service Commission of Kentucky) using the straight-line method. Rates are as follows:

Vehicles	12.1%
Buildings	2.7%
Furniture, office and work equipmen	6.6% - 15.8%
Central office switch	7.5%
Circuit equipment	10.0%
Cable and wire facilities	5.6% - 9.4%

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Company is a "C" corporation that pays income taxes on its net income. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of investments in associated organizations and accumulated depreciation. The deferred tax assets and liabilities represent future tax return consequences of those differences, which will either be taxable or deductible when the assets or liabilities are recovered or settled.

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 Corporation has no uncertain tax positions resulting in an accrual of tax expense or benefit.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company recognized zero and $18,487 of interest and penalties during the years ended December 31, 2019 and 2018, respectively.

The Company's income tax return is subject to possible examination by taxing authorities until the expiration of related statues of limitations on the return, which is generally three years for federal and four years for state.

Subsequent Events

Management has evaluated subsequent events through March 27, 2020, the date the consolidated financial statements were available to be issued.

Recently issued accounting pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheets at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statements of income. This standard will be effective for the year ending December 31, 2021.

In June 2016, the FASB issued ASU No. 2016-13 (ASU 2016-13), *Financial Instruments – Credit Losses*. This guidance replaces the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan and financing receivables, held-to-maturity debt securities and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. This standard is effective for the year ending December 31, 2023.

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Fair Value Measurements

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 of identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflect a company's own assumptions of market participant valuation (Level 3).

The Company invests idle funds with local banks or with Rural Telephone Finance Cooperative in certificates of deposits.

The Company's certificates of deposit measured at fair value on a recurring basis are as follows:

		Fair value measurements using:	
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2019			
Certificates of deposit	$ 83,287	$ - -	$ 83,287
	$ 83,287	$ - -	$ 83,287
December 31, 2018			
Certificates of deposit	$ 89,788	$ - -	$ 89,788
	$ 89,788	$ - -	$ 89,788

Note 3. Associated Organizations

The amounts for East Kentucky Network, LLC ("EKN") represents Coalfields Telephone Company's investment in a limited liability company with other telephone companies in eastern Kentucky for the purpose of providing cellular telephone, paging, and other services. The investment is accounted for using the equity method since the Company is a 20% member and has the ability to significantly influence EKN's operations and financial policies. EKN has been paying distributions of approximately 50% of the income allocated in cash during the following year.

NOTES TO FINANCIAL STATEMENTS

Note 3. Associated Organizations (Continued)

The following is summarized financial information of EKN as of and for the years ended December 31, 2019 and 2018:

	2019	2018
Assets	$ 200,788,162	$ 178,938,066
Liabilities	$ 33,134,801	$ 26,432,862
Equity	$ 167,653,361	$ 152,505,204
Revenues and other income	$ 132,935,842	$ 116,740,801
Expenses and other expenses	$ 118,866,602	$ 111,739,659
Net income	$ 14,069,240	$ 5,001,142

Note 4. Telecommunications Plant

The major classification of telecommunications plant in service is:

	2019	2018
General support	$ 11,531,192	$ 11,370,975
Central office switching	7,838,276	7,673,285
Circuit equipment	398,715	398,715
Cable and wire facilities	21,411,964	20,865,089
Intangibles	917	917
	$ 41,181,064	$ 40,308,981

Note 5. Related Parties

The Company transacts business with Inter Mountain Cable, Inc. and PDNS, LLC, which is a related party because of common ownership. PDNS has a division that operates under the name of Mountain Telephone Service (MTS), which also conducts business with the Company. The Company also provides personnel for AJSPD, LLC, which is considered a related party because of common ownership. The gas and oil well projects and AJSPD, LLC are related parties because of common ownership. The officers and majority shareholders of the Company also own 100% of the outstanding stock of Inter Mountain Cable. The Company also transacts business with East Kentucky Network, LLC as a 20% owner.

The Company and Inter Mountain Cable, PDNS and MTS share common office space, office equipment and/or personnel of the Company. A fee is charged for these services.

During 2003, the Company cashed in the value of a life insurance policy, using the proceeds to purchase a note receivable from an irrevocable trust fund set up by the majority stockholders of the Company. The note is dated January 1, 2003 with the current interest rate at 1.65%. There are no scheduled repayments of the note.

Note 5. Related Parties (Continued)

During 2005, the Company advanced funds to Inter Mountain Cable for operating cash. These advances do not have a repayment schedule and bear interest at 5%.

Amounts due (from) related parties are as follows:

	2019	2018
Inter Mountain Cable, Inc.	$ 746,773	$ (581,851)
Inter Mountain Cable, Inc. - CABS	6,049,027	5,922,179
PDNS, LLC	9,317,272	9,197,273
Irrevocable Trust, note receivable	425,321	425,321
Echo Trust	(5,806)	(5,465)
Mountain Telephone Service (PDNS)	1,236,040	1,221,156
AJSPD, LLC	72,996	102,536
SGSNPDG, LLC	3,894,297	3,665,094
Oil and Gas projects	5,143,648	5,002,326
	$ 26,879,568	$ 24,948,569

The Company rents two lots for $100 each, a portion of rental property for $200 per month, and a billboard for $325 per month from related parties. The Company also pays $1,000 per month for radio advertising and $8,000 per month for television advertising from Inter Mountain Cable, a related party. The Company leases fiber from East Kentucky Network, with the amount being determined by the number of fiber leased and traffic along the fiber network. The Company leases circuits from East Kentucky Network for trunk lines to carry long distance traffic. The amounts for fiber and circuits for 2019 were $257,921 and $292,724, respectively, and for fiber and circuits for 2018 were $257,921 and $269,699, respectively.

Note 6. Nonregulated Activities

Nonregulated 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 11.9% per year. Fiber cable outside of the service territory of the Company is considered as a nonregulated investment. The depreciation rate for fiber cable is 5.1% per year. Nonregulated property includes the following as of December 31:

	2019	2018
Material held for lease or resale	$ 84,577	$ 97,982
Station apparatus / modems	178,761	177,872
Fiber cable	415,713	450,165
Land and buildings	804,423	804,422
Less accumulated depreciation	(1,114,390)	(1,070,232)
Total	$ 369,084	$ 460,209

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Debt

On April 22, 2019 the Company refinanced its loans with a term loan from Fifth Third Bank for $7,586,199 with principal and interest payments due in monthly installments with a maturity date of May 1, 2026. The interest rate is equal to the "LIBOR" rate (equal to the "British Bankers Association Interest Rate Settlement") plus 140 basis points, plus or minus a swap interest rate adjustment. This has the effect of making the interest rate fixed to the Company. The interest rate is 3.86% at December 31, 2019. Substantially all assets are pledged as collateral on the note. The note has been personally guaranteed by the Company's stockholders. The Company must meet certain Funded Debt to EBITDA ratios. As of December 31, 2019, these ratios have been met. Long term debt outstanding is as follows as of December 31:

	2019	2018
Fixed rate notes, 3.25 - 4.00%	$ 7,163,799	$ 5,923,462
Fixed rate notes, 4.43%	- -	1,917,637
	7,163,799	7,841,099
Less current portion	595,500	903,000
	$ 6,568,299	$ 6,938,099

Principal payments for the next five years and thereafter are due as follows:

2020	$ 595,500
2021	673,500
2022	700,100
2023	727,700
2024	756,000
Thereafter	3,710,999
	$ 7,163,799

Note 8. Pension Plan

Effective January 1, 2008, the Company discontinued its defined benefit retirement plan and implemented a defined contribution pension plan (Gearheart Communications, Inc. 401(k) Plan (the Plan)). The assets in the defined benefit plan were frozen as of December 31, 2007 in the National Telephone Company Association (NTCA) Pension Plan. The defined contribution plan is qualified as being tax exempt from federal income tax under the Internal Revenue Code.

Participants may elect to defer a percentage of compensation, not to exceed a dollar limit set by law. After participants have entered the Plan, they are eligible to share in matching contributions that are made for any year they defer. Contributions are 100% vested immediately upon entry to the Plan. Contributions were $216,294 for 2019 and $169,427 for 2018.

Note 9. Income Taxes

The provision for income taxes consist of the following:

	December 31, 2019	December 31, 2018
Current:		
Federal	$ 760,362	$ 176,682
State	179,089	54,855
	939,451	231,537
Deferred:		
Federal	42,000	120,000
State	4,000	48,000
	46,000	168,000
`	$ 985,451	$ 399,537

	December 31, 2019	December 31, 2018
Deferred tax liabilities:		
Federal	$ 2,356,000	$ 2,190,000
State	432,000	552,000
	$ 2,788,000	$ 2,742,000

Note 10. Contingencies

The Company, on occasion, 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.

Note 11. Revenue Recognition

Adoption of accounting pronouncement

The Company adopted ASU 2014-09, *Revenue from Contracts with Customers* as of January 1, 2019 using a modified retrospective method. The new standard replaces existing revenue recognition rules with a single comprehensive model to use in accounting for revenue arising from contracts with customers. The adoption of ASU 2014-09 had no material impact on earnings or equity of the Company.

Note 11. Revenue Recognition (Continued)

Under ASU 2014-09, the timing of recognition of revenue for each performance obligation may differ from the timing of the customer billing, creating a contract asset or contract liability. Short-term contract liabilities are classified as customer deposits. The Company has no contract assets or long-term contract liabilities.

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, video revenue 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.

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 rebate or credit to the customer's monthly bill. Rebates are amortized over the life of the contract and are recognized when included in the customer's monthly bill.

Note 11. Revenue Recognition (Continued)

Disaggregation of revenue

In the following table, revenue for the years ended December 31, 2019 and 2018 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.

Regulated Revenues

	2019	%	2018	%
Local network service	$ 1,521,286	27%	$ 1,552,785	26%
Intrastate Intralata	139,727	2%	165,700	3%
Intrastate Intralata	351,011	6%	462,977	8%
Interstate	3,502,772	62%	3,462,779	58%
Miscellaneous	120,074	2%	276,816	5%
Total	$ 5,634,870	100%	$ 5,921,057	100%

Nonregulated Revenues

	2019	%	2018	%
Customer premises equipment	$ 188,225	5%	$ 200,423	6%
Internet / DSL activities	560,606	15%	393,235	12%
Fiber lease	907,436	25%	903,469	28%
Fiber to the Home (FTTH)	2,034,626	55%	1,688,329	53%
Total	$ 3,690,893	100%	$ 3,185,456	100%

Contract cost liabilities

Contract cost liabilities include customer deposits. The balances in contract liabilities were $36,499 and $121,473 as of December 31, 2019 and 2018, respectively.

Note 12. Risks and Uncertainties

Subsequent to December 31, 2019, 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 27, 2020, management believes that a material impact on the Company's financial position and results of future operations is reasonably possible.

Note 13. Derivative Financial Instruments, Interest Rate Swap

The Company entered into an interest rate swap contract with Fifth Third Bank for the purpose of converting floating-rate interest on its long-term debt to fixed rates. The interest rate swap contract effectively fixed $7,586,199 at rates ranging from 3.25% to 4.00% until May 1, 2026. The rates are based on the Company's debt to earnings ratio at the end of each quarter.

Under the swap contract, the Company pays interest at 3.86% on the notional amounts and receives interest at LIBOR observed monthly (1.65% at December 31, 2019). The interest rate swap qualifies as, and is designated as, a cash flow hedge. The swap is designed to hedge the risk of changes in interest payments on the notes caused by changes in LIBOR. The notional amounts do not represent actual amounts exchanged by the parties, but instead represent the amounts on which the contracts are based.

The swap was issued at market terms so that it had no fair value or carrying value at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year, which because of changes in forecasted levels of LIBOR, resulted in reporting an asset for the fair value of future net settlements forecasted under the swap. The swap contract permits settlement prior to maturity only through termination by the Company. The settlement amounts are determined based on forecasted changes in interest rates required under fixed and variable legs of the swap. The Company believes the settlement amounts are the best representation of the fair value of the swap and has adjusted its carrying amounts to the settlement amounts at the end of the year.

The carrying amount of the swap is classified as noncurrent since management does not intend to terminate the swap during 2020. Since the critical terms of the swap and the note are approximately the same, the swap is assumed to be effective as a hedge, and none of the changes in fair values are included in income. Accordingly, all of the adjustment of the swap's carrying amount is reported as other comprehensive income or loss in the accompanying statements of members' equity. If the swap is terminated early, the corresponding carrying amount would be reclassified into earnings. The Company does not hold or issue interest rate swaps or other financial instruments for trading purposes.

Note 14. Correction of Error

The Company discovered it understated its deferred tax liabilities related to its investment in an affiliated organization prior to January 1, 2018 by $2,450,000. In addition, the Company discovered it had overstated its amount of accrued taxes for periods prior to January 1, 2018 by $3,480,501. The cumulative effect of the correction increased beginning retained earnings as of January 1, 2018 by $1,030,501.

The Company has restated its 2018 previously issued financial statements to reflect the correction of these errors. The effect of the corrections increased income tax expense from $249,537 to $399,537 and increased deferred tax liabilities from $142,000 to $2,742,000.