

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

Audited Financial Statements
December 31, 2017 and 2016

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Independent Auditor's Report

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

Report on the Financial Statements

I have audited the accompanying consolidated financial statements of Thacker-Grigsby Telephone Company, Inc. and Subsidiaries, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenue and comprehensive income, changes in stockholders' equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I did not audit the financial statements of East Kentucky Network, LLC. As discussed in Note 1, these financial statements account for an investment in East Kentucky Network, LLC under the equity method. The investment was \$31,659,891 and \$27,670,117 at December 31, 2017 and 2016, respectively, and the equity in its net margins was \$9,572,018 and \$12,800,214 for the years then ended. The financial statements of East Kentucky Network, LLC were audited by other auditors, whose report has been furnished to me, and my opinion, insofar as it relates to amounts for East Kentucky Network, LLC is based solely on the report of the other auditors. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thacker-Grigsby Telephone Company, Inc. and Subsidiaries as of December 31, 2017 and 2016, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated January 27, 2018, on my consideration of Thacker-Grigsby Telephone Company, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

Report on Supplemental Information

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

Alan Zumstein

Alan M. Zumstein, CPA
January 27, 2018

Thacker-Grigsby Telephone Company, Inc.
Consolidated Balance Sheets, December 31, 2017 and 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash and cash equivalents	\$ 2,766,567	\$ 3,857,533
Accounts receivable, less allowance for 2017 of \$339,466 and 2016 of \$469,942	615,630	1,099,227
Materials and supplies, at average cost	2,696,757	2,290,314
Prepayments	772,280	624,067
	<u>6,851,234</u>	<u>7,871,141</u>
Investments and Other Assets:		
Investment in limited liability companies	31,659,891	27,670,117
Investment securities available for sale	1,991,753	1,617,341
Investment securities held to maturity	11,681,446	10,956,716
Nonregulated investments	1,063,055	518,555
	<u>46,396,145</u>	<u>40,762,729</u>
Telecommunications Plant:		
In service	86,032,277	81,677,416
Under construction	7,302,265	6,643,804
Less accumulated depreciation	(49,134,577)	(48,800,484)
	<u>44,199,965</u>	<u>39,520,736</u>
Total	<u>\$ 97,447,344</u>	<u>\$ 88,154,606</u>
<u>Liabilities and Stockholder's Equities</u>		
Current Liabilities:		
Accounts payable	\$ 719,884	\$ 855,841
Current portion of long term debt	1,866,000	1,911,196
Customer's deposits	188,891	183,686
Other current and accrued expenses	520,076	738,182
	<u>3,294,851</u>	<u>3,688,905</u>
Long Term Debt	<u>10,585,743</u>	<u>8,631,660</u>
Deferred Income Taxes	<u>669,300</u>	<u>616,300</u>
Stockholders' Equities:		
Capital investments	269,800	269,800
Retained earnings	80,180,497	73,294,857
Other comprehensive income	2,450,153	1,656,084
Treasury stock, 8 shares, at cost	(3,000)	(3,000)
	<u>82,897,450</u>	<u>75,217,741</u>
Total	<u>\$ 97,447,344</u>	<u>\$ 88,154,606</u>

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

Thacker-Grigsby Telephone Company, Inc.
Consolidated Statements of Revenue and Comprehensive Income
for the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenue:		
Local network service	\$ 1,434,113	\$ 1,464,310
Network access services	5,367,592	5,567,823
Cable television services	7,863,579	7,891,034
Cable internet services	3,620,450	3,132,442
Billing and collection	10,938	12,135
Miscellaneous	2,160,948	804,340
Less provision for uncollectibles	<u>(286,000)</u>	<u>(212,359)</u>
	<u>20,171,620</u>	<u>18,659,725</u>
Operating Expenses:		
Plant specific	3,245,351	3,332,581
Plant nonspecific	1,301,589	1,440,736
Depreciation	4,264,780	3,887,053
Programming costs	4,620,993	4,600,000
Customer operations	1,535,636	1,396,726
Corporate operations	1,816,997	1,558,390
Other operating taxes	624,562	606,255
Other expenses	<u>113,617</u>	<u>136,977</u>
	<u>17,523,525</u>	<u>16,958,718</u>
Income from operations	<u>2,648,095</u>	<u>1,701,007</u>
Other Income and Expenses:		
Other income, principally interest and dividend	(132,509)	457,955
Net income from limited liability companies	9,572,013	12,800,214
Less associated income taxes	(3,835,723)	(4,194,503)
Nonregulated activities	<u>448,336</u>	<u>(339,087)</u>
	<u>6,052,117</u>	<u>8,724,579</u>
Income before interest and taxes	<u>8,700,212</u>	<u>10,425,586</u>
Interest Charges:		
Interest on long term debt	371,531	474,391
Other interest expense	-	-
	<u>371,531</u>	<u>474,391</u>
Income Taxes	<u>1,231,235</u>	<u>486,559</u>
Net income	7,097,446	9,464,636
Items of comprehensive income:		
Investment securities	652,168	415,131
Pension plans	<u>141,901</u>	<u>66,958</u>
Total Comprehensive Income	<u>\$ 7,891,515</u>	<u>\$ 9,946,725</u>

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

Thacker Grigsby Telephone Company, Inc.
 Statements of Stockholder's and Member's Equities
 for the years ended December 31, 2016 and 2017

	<u>Capital</u> <u>Investments</u>	<u>Retained</u> <u>Earnings</u>	<u>Treasury</u> <u>Stock</u>	<u>Accumulated</u> <u>Other</u> <u>Comprehensive</u> <u>Income</u>	<u>Total</u> <u>Members'</u> <u>Equities</u>
Balance - December 31, 2015	\$ 269,800	\$ 64,042,011	\$ (3,000)	\$ 1,173,995	\$ 65,482,806
Comprehensive income:					
Net income		9,464,636			9,464,636
Unrealized gain/(loss) on marketable securities				415,131	415,131
Minimum pension liability				66,958	<u>66,958</u>
Total comprehensive income					9,946,725
Dividends paid		(211,790)			(211,790)
Purchase treasury stock			-		-
<hr/>					
Balance - December 31, 2016	269,800	73,294,857	(3,000)	1,656,084	75,217,741
Comprehensive income:					
Net income		7,097,446			7,097,446
Unrealized gain/(loss) on marketable securities				652,168	652,168
Minimum pension liability				141,901	<u>141,901</u>
Total comprehensive income					7,891,515
Dividends paid		(211,790)			(211,790)
Other equities		(16)	-		<u>(16)</u>
<hr/>					
Balance - December 31, 2017	<u>\$ 269,800</u>	<u>\$ 80,180,497</u>	<u>\$ (3,000)</u>	<u>\$ 2,450,153</u>	<u>\$ 82,897,450</u>

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

Thacker-Grigsby Telephone Company, Inc.
Consolidated Statements of Cash Flows
for the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Net income	\$ 7,097,446	\$ 9,464,636
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	4,264,780	3,887,053
Loss on disposal of plant	691,805	-
Deferred income taxes	53,000	-
Income in limited liability company	(9,572,013)	(12,800,214)
Net change in current assets and liabilities:		
Receivables	270,787	117,343
Material and supplies	(406,443)	(503,039)
Other current assets	(148,213)	(78,684)
Accounts payable	76,853	(117,167)
Customer deposits	5,205	(3,558)
Other current and accrued expenses	(218,106)	(1,525)
	<u>2,115,101</u>	<u>(35,155)</u>
Cash Flows from Investing Activities:		
Construction of plant	(9,545,679)	(6,384,181)
Salvage recovered from plant retirements	(87,462)	(137)
Additional investment securities, net	(1,099,142)	(42,969)
Nonregulated investments and others	(547,172)	82,137
	<u>(11,279,455)</u>	<u>(6,345,150)</u>
Cash Flows from Financing Activities:		
Capital in limited liability companies	5,582,238	9,428,694
Additional long term borrowings	3,906,887	561,019
Payments on long term debt	(1,998,000)	(1,835,095)
Other comprehensive income	794,069	482,089
Dividends paid	(211,806)	(211,790)
	<u>8,073,388</u>	<u>8,424,917</u>
Net increase in cash balances	(1,090,966)	2,044,612
Cash balances - beginning of period	<u>3,857,533</u>	<u>1,812,921</u>
Cash balances - end of period	<u>\$ 2,766,567</u>	<u>\$ 3,857,533</u>
Supplemental disclosures of cash flows information:		
Interest on long term debt	\$ 371,531	\$ 484,936
Income taxes	5,225,198	4,106,815

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

Thacker-Grigsby Telephone Company, Inc.
Notes to Financial Statements

Note 1 Organization

Thacker-Grigsby Telephone Company, Inc. (Thacker-Grigsby) maintains its records in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS) Uniform System of Accounts, which conform with generally accepted accounting principles in all material respects. Thacker-Grigsby is a local exchange telecommunications company providing local, long distance, and internet services. Elk Glen, LLC, (Elk Glen) was formed to provide economic development by constructing a subdivision from a reclaimed coal strip mine. Allied Services, LLC (Allied Services) was formed to purchase a cable television company. TV Service, Inc. (TV Service) operates a cable television company that also provides internet services. As a result of the cable television acquisition, Thacker-Grigsby expects to reduce overall costs through economies of all the companies. The Company refers to all the companies collectively. The financial statements of the Company include the provisions of FASB ASC 980, *Certain Types of Regulation*, which gives recognition to the ratemaking and accounting practices of the KPSC and RUS.

Note 2 Summary of Significant Accounting Policies

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

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

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

Telecommunications Revenue Recognition Thacker-Grigsby is a Kentucky corporation engaged in telephone communications services to residential and business customers located in portions of four eastern Kentucky counties. Thacker-Grigsby's revenues are recognized when earned regardless of the period in which they are billed. Thacker-Grigsby bills customers on credit with certain customers required to pay a refundable deposit. There were no customers whose individual account balance exceeded 10% of outstanding accounts receivable at December 31, 2017 or 2016.

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

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

Thacker-Grigsby Telephone Company, Inc.
Notes to Financial Statements

Note 2 Summary of Significant Accounting Policies, continued

Compensation for intrastate/interlata service is received through tariffed access charges as filed with the FCC. These access charges are billed to the interlata long distance carrier and retained by Thacker-Grigsby.

CATV Revenue Recognition TV Service recognizes revenues when earned regardless of the period in which they are billed. TV Service purchases cable transmissions from networks at various amounts based on the number of customers receiving the service. The Company's sales are concentrated in four eastern Kentucky counties. There are no customers whose individual account balance exceeded 10% of outstanding accounts receivable at December 31, 2017 or 2016.

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

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

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

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

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

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

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

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

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

Thacker-Grigsby Telephone Company, Inc.
Notes to Financial Statements

Note 2 Summary of Significant Accounting Policies, continued

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

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

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

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

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

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expenses. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to utility plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. The major classification of plant in service is:

	<u>2017</u>	<u>2016</u>
<i>Thacker-Grigsby plant:</i>		
General support	\$12,368,854	\$11,270,219
Central office switching	9,871,149	10,267,940
Central office transmission	1,727,818	1,657,359
Cable and wire facilities	28,726,880	25,841,106
Intangibles	4,153	4,153
	<u>52,698,854</u>	<u>49,040,777</u>
<i>Elk Glen plant:</i>		
Vehicles	81,883	81,883
Work and other equipment	600,430	600,430
	<u>682,313</u>	<u>682,313</u>
<i>TV Service plant:</i>		
General support	1,891,290	1,821,415
Headend and electronics	7,847,208	7,221,898
Conductor and distribution	16,822,397	16,820,798
Intangibles	6,090,215	6,090,215
	<u>32,651,110</u>	<u>31,954,326</u>
	<u>\$86,032,277</u>	<u>\$81,677,416</u>

Thacker-Grigsby Telephone Company, Inc.
Notes to Financial Statements

Note 2 Summary of Significant Accounting Policies, continued

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

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

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

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

Risk Management The Company's are exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

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

Advertising The Company expenses advertising costs as incurred.

Subsequent Events Management has evaluated subsequent events through January 27, 2018, the date the financial statements were available to be issued. There were no significant subsequent events to report.

Note 3 Investment Securities

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

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

Realized gains (losses) were \$56,308 for 2017 and \$17,644 for 2016. Investments available for sale include stocks that are due to mature in one through five years.

Thacker-Grigsby Telephone Company, Inc.
Notes to Financial Statements

Note 3 Investment Securities, continued

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

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	<u>Fair Value</u>
Available for sale securities:				
Thacker-Grigsby - 2017	\$1,407,612	\$584,141	-	\$1,991,753
Thacker-Grigsby - 2016	\$1,208,104	\$409,237	-	\$1,617,341
Held to maturity securities:				
2017				
Thacker-Grigsby	\$1,366,295	\$80,143	(\$12,908)	\$1,433,530
Allied Services	\$9,200,924	\$1,046,992		\$10,247,916
2016				
Thacker-Grigsby	\$1,136,887	\$60,055	(\$14,051)	\$1,182,891
Allied Services	\$9,182,866	\$590,959	\$-	\$9,773,825

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

	Amortized <u>Cost</u>	<u>Fair Value</u>
Held to maturity, Thacker-Grigsby:		
Due in one through five years	\$234,821	\$234,821
Due in five through ten years	110,761	116,212
Due after ten years	1,020,713	1,082,497
	<u>1,366,295</u>	<u>1,433,530</u>
Held to maturity, Allied Services:		
Due in one through five years	1,332,988	1,332,988
Due in five through ten years	758,012	844,268
Due after ten years	7,109,924	8,070,660
	<u>9,200,924</u>	<u>10,247,916</u>
	<u>\$10,567,219</u>	<u>\$11,681,446</u>

Note 4 Non-Regulated Activities

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

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

Thacker-Grigsby Telephone Company, Inc.
Notes to Financial Statements

Note 4 Non-Regulated Activities, continued

Non-regulated activities consisted of:

	<u>Income</u>	<u>Expenses</u>	<u>Net</u>
Long distance services	\$167,264	\$152,317	\$14,947
Internet services	1,706,608	1,840,589	(133,981)
Customer premises equipment	159,505	340,154	(180,649)
Fiber to the Home	812,163	64,144	748,019
Total - 2017	<u>\$2,845,540</u>	<u>\$2,397,204</u>	<u>\$448,336</u>
Long distance services	\$31,630	\$66,369	(\$34,739)
Dark fiber agreement (State of Kentucky)	307,533	0	307,533
Internet services	1,485,980	2,375,811	(889,831)
Customer premises equipment	165,534	373,465	(207,931)
Fiber to the Home	647,698	161,817	485,881
Total - 2016	<u>\$2,638,375</u>	<u>\$2,977,462</u>	<u>(\$339,087)</u>

Note 5 Notes Payable

Long term debt consisted of:

	<u>2017</u>	<u>2016</u>
<i>Thacker Grigsby:</i>		
Due RUS at 2.08% to 6.047%	\$5,696,886	\$2,450,641
Due RUS at 5.1% to 5.13%, ARRA loan	1,710,166	1,054,311
Due RTB at 2.0212% to 3.4232%	704,691	1,836,708
	<u>8,111,743</u>	<u>5,341,660</u>
Less current portion	<u>1,140,000</u>	<u>1,050,000</u>
	<u>6,971,743</u>	<u>4,291,660</u>
<i>Allied Services:</i>		
Monthly principal and interest payments of approximately \$85,000	4,340,000	5,156,000
Less current portion	<u>816,000</u>	<u>816,000</u>
	<u>3,524,000</u>	<u>4,340,000</u>
<i>TV Service:</i>		
William Gorman, Jr, note dated March 16, 2011 six annual principal payments of \$45,833 plus interest at 5.42%	-	45,196
	<u>-</u>	<u>45,196</u>
Less current portion	<u>-</u>	<u>45,196</u>
	<u>-</u>	<u>-</u>
Total long term debt	<u>\$10,495,743</u>	<u>\$8,631,660</u>

Thacker-Grigsby Telephone Company, Inc.
Notes to Financial Statements

Note 5 Notes Payable, continued

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

During 2006, Allied Services advanced \$12,765,000 of long term bonds with Fifth Third Bank to purchase all the outstanding stock of TV Service. During 2016 Allied Services refinanced the loan from Fifth Third Bank with proceeds from National Bank for Cooperatives (“CoBank”) in the amount of \$5,700,000. Substantially all assets of TV Service are pledged as collateral on the long term debt due CoBank. The long-term debt due CoBank is a seven (7) year note bearing interest at 3.65%.

The long term debt payable to RUS and RTB is due in monthly installments of varying amounts through 2033. At December 31, 2017, annual maturities of principal for long term debt outstanding for the next five years are as follows: 2018 - \$1,955,000; 2019 - \$1,965,000; 2020 - \$1,730,000; 2021 - \$1,700,000; 2022 - \$1,720,000.

Note 6 Capital Stock and Retained Earnings Restriction

The long term debt agreement with RUS contains restrictions on the payment of dividends or redemption of capital stock. The restrictions relate primarily to Thacker-Grigsby’s net worth, assets, and working capital, as defined. At December 31, 2017, there was approximately \$1,500,000 available for payment of dividends or redemption of capital stock.

Note 7 Pension Plans

Thacker-Grigsby and TV Service have noncontributory defined benefit pension plans covering substantially all employees who meet minimum age and service requirements through participation in the Thacker-Grigsby Employee Trust Agreement and TV Service, Inc Pension Plan. Both plans are qualified as tax exempt by the Internal Revenue Service and have pay-related pension benefit formulas. It is the policy to fund such plans in accordance with the requirements of the Employee Retirement Income Security Act (ERISA) of 1974. The plans are measured as of July 31, 2017 and 2016 for Thacker-Grigsby and August 31, 2017 and 2016 for TV Service. There have been no significant changes that affect the comparability of 2017 and 2016.

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

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

Thacker-Grigsby Telephone Company, Inc.

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

	<u>2017</u>	<u>2016</u>
Projected benefit obligation	(\$3,116,125)	(\$2,888,155)
Fair value of plan assets	<u>3,762,401</u>	<u>3,408,345</u>
Funded status	<u>\$646,276</u>	<u>\$520,190</u>

Thacker-Grigsby Telephone Company, Inc.
Notes to Financial Statements

Note 7 Pension Plans, continued

Accumulated benefit obligation	<u>\$3,116,125</u>	<u>\$2,886,907</u>
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The amounts recognized in the statement of financial position are as follows:

Prepaid benefit cost	\$646,276	\$520,190
Accrued benefit liability	<u>(195,000)</u>	<u>(195,000)</u>
Net amount recognized	<u>\$451,276</u>	<u>\$325,190</u>

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

	<u>2017</u>	<u>2016</u>
Benefit cost	\$117,249	\$115,944
Benefits paid	15,690	24,370
Employer contribution	260,000	260,000

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

	<u>2017</u>	<u>2016</u>
Discount rate	4.66%	4.62%
Rate of increase in compensation level	3.00%	3.00%
Expected long term rate of return on assets	6.48%	6.17%

Expected retiree pension benefit payments are projected to be as follows: 2018 - \$81,732; 2019 - \$56,021; 2020 - \$89,557; 2021 - \$85,645; 2022 - \$58,711.

In 2018, Thacker-Grigsby expects to contribute \$300,000 to the pension plan trust.

TV Service, Inc.

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

	<u>2017</u>	<u>2016</u>
Projected benefit obligation	(\$2,123,696)	(\$2,123,696)
Fair value of plan assets	<u>2,213,390</u>	<u>2,213,390</u>
Funded status	<u>\$89,694</u>	<u>\$89,694</u>
Accumulated benefit obligation	<u>\$2,121,619</u>	<u>\$2,121,619</u>

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

Prepaid benefit cost	\$105,509	\$89,694
Accrued benefit liability	<u>0</u>	<u>0</u>
Net amount recognized	<u>\$105,509</u>	<u>\$89,694</u>

Thacker-Grigsby Telephone Company, Inc.
Notes to Financial Statements

Note 7 Pension Plans, continued

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

Benefit cost	\$70,922	\$85,559
Benefits paid	67,240	5,604
Employer contribution	250,000	200,000

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

Discount rate	4.66%	4.16%
Rate of increase in compensation level	3.00%	3.00%
Expected long term rate of return on assets	6.48%	6.24%

Expected retiree pension benefit payments are projected to be as follows: 2018 - \$36,812; 2019 - \$40,650; 2020 - \$24,364; 2021 - \$15,645; 2022 - \$25,854.

In 2018, TV Service expects to contribute \$250,000 to the pension plan trust.

Note 8 Income Taxes

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

	<u>2017</u>	<u>2016</u>
Currently payable:		
Federal	\$3,891,314	\$3,719,186
State	802,644	813,676
	<u>4,693,958</u>	<u>4,532,862</u>
Deferred liability	53,000	0
<i>Thacker-Grigsby total</i>	<u>4,746,958</u>	<u>4,532,862</u>
Currently payable:		
Federal	275,000	124,755
State	45,000	23,445
<i>TV Service total</i>	<u>320,000</u>	<u>148,200</u>
	<u>\$5,066,958</u>	<u>\$4,681,062</u>

Thacker-Grigsby Telephone Company, Inc.
Notes to Financial Statements

Note 8 Income Taxes, continued

Effective January 1, 2008, the Company adopted the provisions of the Income Taxes Topic of the FASB ASC that pertains to accounting for uncertainty in income taxes. The Company had no prior unrecognized tax benefits as a result of the implementation. Management evaluates its potential exposures from tax positions taken that have or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations, and rules. There are no tax positions for which the ultimate deductibility is highly uncertain included in the accompanying financial statements. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Company did not recognize any interest or penalties during the years ended December 31, 2017 or 2016. Income taxes are as follows:

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

	<u>2017</u>	<u>2016</u>
Depreciation adjustment	<u>\$53,000</u>	<u>\$-</u>

Note 9 Commitments

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

Note 10 Related Party Transactions

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

Thacker-Grigsby transacts business with East Kentucky Network, LLC (East Kentucky Network), of which Thacker-Grigsby is a one-fifth (1/5) owner. East Kentucky Network utilizes office space, office equipment, and personnel of Thacker-Grigsby. Thacker-Grigsby leases fiber from East Kentucky Network, with the amount being determined by the number of fiber leased and traffic along the fiber network. Thacker-Grigsby leases circuits from East Kentucky Network for trunk lines to carry long distance traffic. East Kentucky Network pays Thacker-Grigsby \$800 per month for a representative to attend monthly board meetings.

Note 11. Contingencies

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

* * * * *

Thacker Grigsby Telephone Company, Inc.
and Subsidiaries
Consolidating Balance Sheet, December 31, 2017

<u>Assets</u>	<u>Thacker Grigsby</u>	<u>Elk Glen</u>	<u>Allied Services</u>	<u>TV Services</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current Assets:						
Cash and cash equivalents	\$280,366	\$190,304	\$287,344	\$2,008,553		\$2,766,567
Accounts receivable, less allowance for Thacker Grigsby of \$52,536 and TV Service of \$286,930	735,808			203,124	(323,302)	615,630
Material and supplies, at average cost	1,015,808			1,680,949		2,696,757
Prepayments	663,115	3,656		105,509		772,280
	<u>2,695,097</u>	<u>193,960</u>	<u>287,344</u>	<u>3,998,135</u>	<u>(323,302)</u>	<u>6,851,234</u>
Other Assets:						
Investment in limited liability companies	56,134,811		16,349,540		(40,824,460)	31,659,891
Investment in securities available for sale	1,991,753					1,991,753
Investment in securities held to maturity	1,433,530		10,247,916			11,681,446
Nonregulated investments and others	1,022,583	4,347	24,944	11,181		1,063,055
	<u>60,582,677</u>	<u>4,347</u>	<u>26,622,400</u>	<u>11,181</u>	<u>(40,824,460)</u>	<u>46,396,145</u>
Utility Plant, at original cost:						
In service	52,698,854	682,313		32,651,110		86,032,277
Under construction	4,493,331	2,570,903		238,031		7,302,265
Less accumulated depreciation	(29,032,005)	(495,233)		(19,607,339)		(49,134,577)
	<u>28,160,180</u>	<u>2,757,983</u>	<u>0</u>	<u>13,281,802</u>	<u>0</u>	<u>44,199,965</u>
Total	<u>\$91,437,954</u>	<u>\$2,956,290</u>	<u>\$26,909,744</u>	<u>\$17,291,118</u>	<u>(\$41,147,762)</u>	<u>\$97,447,344</u>
<u>Member's Equities and Liabilities</u>						
Current Liabilities:						
Accounts payable	\$223,072	\$3,595	\$527	\$815,992	(\$323,302)	\$719,884
Current portion of long term debt	1,140,000		816,000			1,956,000
Customer deposits	188,891					188,891
Accrued expenses	499,999			20,077		520,076
	<u>2,051,962</u>	<u>3,595</u>	<u>816,527</u>	<u>836,069</u>	<u>(323,302)</u>	<u>3,384,851</u>
Long Term Debt	<u>6,971,743</u>		<u>3,524,000</u>			<u>10,495,743</u>
Deferred Income Taxes	<u>669,300</u>					<u>669,300</u>
Stockholders' and Members' Equities:						
Capital investments	\$269,800	5,545,000	21,061,506	12,442,436	(39,048,942)	269,800
Retained earnings	80,180,497	(2,592,305)	460,719	3,907,104	(1,775,518)	80,180,497
Other comprehensive income	1,297,652		1,046,992	105,509		2,450,153
Treasury stock, 9 shares, at cost	(3,000)					(3,000)
	<u>81,744,949</u>	<u>2,952,695</u>	<u>22,569,217</u>	<u>16,455,049</u>	<u>(40,824,460)</u>	<u>82,897,450</u>
Total	<u>\$91,437,954</u>	<u>\$2,956,290</u>	<u>\$26,909,744</u>	<u>\$17,291,118</u>	<u>(\$41,147,762)</u>	<u>\$97,447,344</u>

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

Thacker-Grigsby Telephone Company, Inc.
Consolidating Statements of Revenue and Comprehensive Income
for the year ended December 31, 2017

	<u>Thacker Grigsby</u>	<u>Elk Glen</u>	<u>Allied Services</u>	<u>TV Services</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating Revenues:						
Local network services	\$1,434,113					\$1,434,113
Network access services	5,051,245			316,347		5,367,592
Cable television services				7,863,579		7,863,579
Cable internet services				3,620,450		3,620,450
Carrier billing and collection	10,938					10,938
Miscellaneous	1,555,816	219,801		385,331		2,160,948
Less provision for uncollectibles	(36,000)			(250,000)		(286,000)
	<u>8,016,112</u>	<u>219,801</u>		<u>11,935,707</u>		<u>20,171,620</u>
Operating Expenses:						
Plant specific operations	1,358,719	56,051	3,039	1,827,542		3,245,351
Plant non specific operations	629,338	13,758	483	658,010		1,301,589
Depreciation and amortization	2,428,200	38,877		1,797,703		4,264,780
Programming and cost of sales		146,493		4,474,500		4,620,993
Customer operations	694,841	832		839,963		1,535,636
Corporate operations	851,618	12,882	6,132	946,365		1,816,997
Taxes, other than income	393,116	15,205		216,241		624,562
Other expenses	52,213			61,404		113,617
	<u>6,408,045</u>	<u>284,098</u>	<u>9,654</u>	<u>10,821,728</u>		<u>17,523,525</u>
	<u>1,608,067</u>	<u>(64,297)</u>	<u>(9,654)</u>	<u>1,113,979</u>	<u>0</u>	<u>2,648,095</u>
Nonoperating Activities:						
Other income, principally investments	(540,387)	492	402,218	5,168		(132,509)
Income (loss) in associated companies	10,520,733		798,510		(1,747,230)	9,572,013
Less associated income taxes	(3,835,723)					(3,835,723)
Nonregulated and other net income	448,336					448,336
	<u>6,592,959</u>	<u>492</u>	<u>1,200,728</u>	<u>5,168</u>	<u>(1,747,230)</u>	<u>6,052,117</u>
Income available for interest charges	<u>8,201,026</u>	<u>(63,805)</u>	<u>1,191,074</u>	<u>1,119,147</u>	<u>(1,747,230)</u>	<u>8,700,212</u>
Interest Charges:						
Long term debt	192,345		178,549	637		371,531
Other interest	0					0
	<u>192,345</u>	<u>0</u>	<u>178,549</u>	<u>637</u>	<u>0</u>	<u>371,531</u>
Income Taxes	911,235			320,000		1,231,235
Net Income	7,097,446	(63,805)	1,012,525	798,510	(1,747,230)	7,097,446
Items of comprehensive income:						
Investment securities	196,135		456,033			652,168
Pension plans	126,086			15,815		141,901
Comprehensive Income	<u>\$7,419,667</u>	<u>(\$63,805)</u>	<u>\$1,468,558</u>	<u>\$814,325</u>	<u>(\$1,747,230)</u>	<u>\$7,891,515</u>

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

ALAN M. ZUMSTEIN
CERTIFIED PUBLIC ACCOUNTANT

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Thacker-Grigsby Telephone Company, Inc., which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenue and comprehensive income, stockholders' equities, and cash flows for the years then ended, and related notes to the financial statements, and have issued my report thereon dated January 27, 2018. My report includes a reference to other auditors who audited the financial statements of East Kentucky Network, LLC, as described in my report on Thacker-Grigsby Telephone Company, Inc.'s financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Thacker-Grigsby Telephone's financial statements are free of material misstatement, I performed test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing on internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alan Zumstein

Alan M. Zumstein, CPA
January 27, 2018

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

Board of Directors
Thacker-Grigsby Telephone Company, Inc.
Hindman, Kentucky

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Thacker-Grigsby Telephone Company, Inc. ("the Company"), which comprise the balance sheet as of December 31, 2017, and the related statements of revenue and comprehensive income, stockholders' equities, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated January 27, 2018. In accordance with *Government Auditing Standards*, we have also issued my report dated January 27, 2018, on my consideration of the Company's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above related to my audit have been furnished to management.

In connection with my audit, nothing came to my attention that caused me to believe that the Company failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2013, insofar as they relate to accounting matters as enumerated below. However, my audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had I performed additional procedures, other matters may have come to my attention regarding the Company's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with my audit, I noted no matters regarding the Company's accounting and records to indicate that the Company did not:

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

Board of Directors
Thacker-Grigsby Telephone Company, Inc.

- Obtain written of the RUS to enter into any contract, agreement, or lease with an affiliate as defined in Part 1773.33 (e)(2)(i);
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles, and;
- Comply with the requirements for the detailed schedule of investments, which are listed below.

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

However, I noted during my audit that return checks were recorded as debits in other receivables, but the offsetting credit was not recorded. I was informed the Company has a plan to investigate and correct this accounting for return checks.

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

	<u>Investment</u>	<u>Returns</u>	<u>Profits</u>
Beginning of year	\$3,241,250	(\$23,353,189)	\$47,782,056
Activity for 2017	-	(5,582,244)	9,572,018
End of year	<u>\$3,241,250</u>	<u>(\$28,935,433)</u>	<u>\$57,354,074</u>

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

	<u>Investment</u>	<u>Profits</u>
Beginning of year	\$5,545,000	(\$2,528,500)
Activity for 2017	-	(63,805)
End of year	<u>\$5,545,000</u>	<u>(\$2,592,305)</u>

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

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

	<u>Investment</u>	<u>Profits</u>
Beginning of year	\$21,061,500	(\$551,800)
Activity for 2017	-	1,012,525
End of year	<u>\$21,061,500</u>	<u>\$460,725</u>

This report is intended solely for the information and use of the board of directors, management, RUS, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distributions is not limited.

Alan Zumstein

Alan M. Zumstein, CPA
January 27, 2018