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

Audited Financial Statements
December 31, 2018 and 2017

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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, 2018 and 2017, 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 $30,562,348 and $31,659,891 at December 31, 2018 and 2017, respectively, and the equity in its net margins was $1,010,638 and $9,572,018 for the years then ended. The financial statements of East Kentucky Network, LLC were audited by other auditors, whose report has been furnished to me, and my opinion, insofar as it relates to amounts for East Kentucky Network, LLC is based solely on the report of the other auditors. I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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, 2018 and 2017, 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, 2019, 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, 2019

Thacker-Grigsby Telephone Company, Inc.
Consolidated Balance Sheets, December 31, 2018 and 2017

Assets	2018	2017
Current Assets:		
Cash and cash equivalents	$ 1,931,408	$ 2,766,567
Accounts receivable, less allowance for 2018 of $283,252 and 2017 of $339,466	1,724,316	615,630
Materials and supplies, at average cost	3,297,176	2,696,757
Prepayments	1,420,254	772,280
	8,373,154	6,851,234
Investments and Other Assets:		
Investment in limited liability companies	30,564,691	31,659,891
Investment securities available for sale	1,966,830	1,991,753
Investment securities held to maturity	10,838,537	11,681,446
Nonregulated investments	1,386,705	1,063,055
	44,756,763	46,396,145
Telecommunications Plant:		
In service	97,128,191	86,032,277
Under construction	4,242,834	7,302,265
Less accumulated depreciation	(52,817,527)	(49,134,577)
	48,553,498	44,199,965
Total	$ 101,683,415	$ 97,447,344

Liabilities and Stockholder's Equities	2018	2017
Current Liabilities:		
Accounts payable	$ 1,884,915	$ 719,884
Current portion of long term debt	1,986,000	1,956,000
Customer's deposits	188,601	188,891
Other current and accrued expenses	763,320	520,076
	4,822,836	3,384,851
Long Term Debt	12,416,156	10,495,743
Deferred Income Taxes	454,066	669,300
Stockholders' Equities:		
Capital investments	269,800	269,800
Retained earnings	81,278,159	80,180,497
Accumulated comprehensive income	2,445,398	2,450,153
Treasury stock, 8 shares, at cost	(3,000)	(3,000)
	83,990,357	82,897,450
Total	$ 101,683,415	$ 97,447,344

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, 2018 and 2017

	2018	2017
Operating Revenue:		
Local network service	$ 1,404,065	$ 1,434,113
Network access services	5,646,849	5,367,592
Cable television services	8,219,994	7,863,579
Cable internet services	4,126,876	3,620,450
Billing and collection	13,610	10,938
Miscellaneous	1,207,338	2,160,948
Less provision for uncollectibles	(180,000)	(286,000)
	20,438,732	20,171,620
Operating Expenses:		
Plant specific	4,151,325	3,245,351
Plant nonspecific	1,456,401	1,301,589
Depreciation	4,038,576	4,264,780
Programming costs	4,943,146	4,620,993
Customer operations	1,879,092	1,535,636
Corporate operations	2,272,418	1,816,997
Other operating taxes	638,664	624,562
Other expenses	76,244	113,617
	19,455,866	17,523,525
Income from operations	982,866	2,648,095
Other Income and Expenses:		
Other income, principally interest and divider	415,371	(132,509)
Net income from limited liability companies	1,010,637	9,572,013
Less associated income taxes	(272,872)	(3,835,723)
Nonregulated activities	1,299,447	448,336
	2,452,583	6,052,117
Income before interest and taxes	3,435,449	8,700,212
Interest Charges:		
Interest on long term debt	433,054	371,531
Other interest expense	-	-
	433,054	371,531
Income Taxes	2,203,500	1,231,235
Net income	798,895	7,097,446
Items of comprehensive income:		
Investment securities	(649,342)	652,168
Pension plans	644,587	141,901
Total Comprehensive Income	$ 794,140	$ 7,891,515

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, 2017 and 2018

	Capital Investments	Retained Earnings	Treasury Stock	Accumulated Comprehensive Income (Loss)	Total Members' Equities
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	
Minimum pension liability				141,901	794,069
Total comprehensive income					7,891,515
Dividends paid		(211,790)			(211,790)
Other equities		(16)	-		(16)
Balance - December 31, 2017	269,800	80,180,497	(3,000)	2,450,153	82,897,450
Comprehensive income:					
Net income		798,895			798,895
Unrealized gain/(loss) on marketable securities				(649,342)	
Minimum pension liability				644,587	(4,755)
Total comprehensive income					794,140
Dividends paid		(211,790)			(211,790)
Correct deferred taxes		510,557	-		510,557
Balance - December 31, 2018	$ 269,800	$ 81,278,159	$ (3,000)	$ 2,445,398	$ 83,990,357

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, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Net income	$ 798,895	$ 7,097,446
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	4,038,093	4,264,780
Loss on disposal of plant	-	691,805
Deferred income taxes	295,339	53,000
Income in limited liability company	(1,010,637)	(9,572,013)
Net change in current assets and liabilities:		
Receivables	(4,286,868)	270,787
Material and supplies	(600,419)	(406,443)
Other current assets	(647,974)	(148,213)
Accounts payable	4,343,213	76,853
Customer deposits	(290)	5,205
Other current and accrued expenses	243,244	(218,106)
	3,172,596	2,115,101
Cash Flows from Investing Activities:		
Construction of plant	(8,376,892)	(9,545,679)
Salvage recovered from plant retirements	(17,078)	(87,462)
Additional investment securities, net	867,832	(1,099,142)
Nonregulated investments and others	(323,650)	(547,172)
	(7,849,788)	(11,279,455)
Cash Flows from Financing Activities:		
Capital in limited liability companies	2,108,181	5,582,238
Additional long term borrowings	4,285,650	3,906,887
Payments on long term debt	(2,335,237)	(1,998,000)
Other comprehensive income	(4,755)	794,069
Dividends paid	(211,806)	(211,806)
	3,842,033	8,073,388
Net increase in cash balances	(835,159)	(1,090,966)
Cash balances - beginning of period	2,766,567	3,857,533
Cash balances - end of period	$ 1,931,408	$ 2,766,567
Supplemental disclosures of cash flows information:		
Payment of interest on long term debt	$ 433,054	$ 371,531
Income taxes paid	2,382,905	5,225,198

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

Note 1 Organization

Thacker-Grigsby Telephone Company, Inc. (Thacker-Grigsby) maintains its records in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS) Uniform System of Accounts, which conform to 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, 2018 or 2017.

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

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

Note 2 Summary of Significant Accounting Policies, continued

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

CATV Revenue Recognition TV Service recognizes revenues when earned regardless of the period in which they are billed. TV Service purchases cable transmissions from networks at various amounts based on the number of customers receiving the service. The Company's sales are concentrated in four eastern Kentucky counties. There are no customers whose individual account balance exceeded 10% of outstanding accounts receivable at December 31, 2018 or 2017.

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.

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 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:

	2018	2017
Thacker Grigsby plant:		
General support	$12,873,398	$12,368,854
Central office switching	5,300,488	9,871,149
Central office transmission	7,188,546	1,727,818
Cable and wire facilities	36,996,819	28,726,880
Intangibles	4,153	4,153
	62,363,404	52,698,854
Elk Glen plant:		
Vehicles	81,883	81,883
Work and other equipment	600,430	600,430
	682,313	682,313
TV Service plant:		
General support	1,984,644	1,891,290
Headend and electronics	7,996,428	7,847,208
Conductor and distribution	17,998,687	16,822,397
Intangibles	6,102,715	6,090,215
	34,082,474	32,651,110
	$97,128,191	$86,032,277

Note 2 Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

Advertising The Company expenses advertising costs as incurred.

Subsequent Events Management has evaluated subsequent events through January 27, 2019, 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 $64,484 for 2018 and $56,308 for 2017. Investments available for sale include stocks that are due to mature in one through five years.

Note 3 Investment Securities, continued

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Thacker-Grigsby - 2018	$1,463,139	$503,691	-	$1,966,830
Thacker-Grigsby - 2017	$1,407,612	$584,141	-	$1,991,753
Held to maturity securities:				
2018				
Thacker-Grigsby	$1,074,099	$68,919	($6,435)	$1,136,583
Allied Services	$9,219,103	$482,851		$9,701,954
2017				
Thacker-Grigsby	$1,366,295	$80,143	($12,908)	$1,433,530
Allied Services	$9,200,924	$1,046,992		$10,247,916

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

	Amortized Cost	Fair Value
Held to maturity, Thacker Grigsby:		
Due in one through five years	$234,821	$234,821
Due in five through ten years	110,761	117,204
Due after ten years	728,517	784,558
	1,074,099	1,136,583
Held to maturity, Allied Services:		
Due in one through five years	787,026	787,026
Due in five through ten years	802,250	844,268
Due after ten years	7,629,827	8,070,660
	9,219,103	9,701,954
	$10,293,202	$10,838,537

Note 4 Non-Regulated Activities

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

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

Note 4 Non-Regulated Activities, continued

Non-regulated activities consisted of:

	Income	Expenses	Net
Long distance services	$173,155	$125,978	$47,177
Internet services	1,271,007	1,510,646	(239,639)
Customer premises equipment	154,551	227,950	(73,399)
Fiber to the Home	1,730,743	165,435	1,565,308
Total - 2018	$3,329,456	$2,030,009	$1,299,447
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	$2,845,540	$2,397,204	$448,336

Note 5 Notes Payable

Long term debt consisted of:

	2018	2017
Thacker Grigsby:		
Due RUS at 2.08% to 6.047%	$8,959,714	$5,696,886
Due RUS at 2.02% to 3.42%, ARRA loan	1,582,192	1,710,166
Due RTB at 2.10% to 5.13%	336,250	704,691
	10,878,156	8,111,743
Less current portion	1,170,000	1,140,000
	9,708,156	6,971,743
Allied Services:		
Monthly principal and interest payments of approximately $85,000	3,524,000	4,340,000
Less current portion	816,000	816,000
	2,708,000	3,524,000
Total long term debt	$12,416,156	$10,495,743

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 2017 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%.

Note 5 Notes Payable, continued

The long term debt payable to RUS and RTB is due in monthly installments of varying amounts through 2033. At December 31, 2018, annual maturities of principal for long term debt outstanding for the next five years are as follows: 2019 - $1,986,000; 2020 - $2,015,000; 2021 - $2,050,000; 2022 - $2,075,000; 2023 - $1,550,000.

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, 2018, 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, 2018 and 2017 for Thacker-Grigsby and August 31, 2018 and 2017 for TV Service. There have been no significant changes that affect the comparability of 2018 and 2017.

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:

	2018	2017
Projected benefit obligation	($3,224,686)	($3,116,125)
Fair value of plan assets	4,099,588	3,762,401
Funded status	$874,902	$646,276
Accumulated benefit obligation	$3,224,686	$3,116,125

Note 7 Pension Plans, continued

The change in fair value of plan assets are as follows:

Beginning balance	$3,762,401	$3,408,345
Employer contributions	225,000	260,000
Employer contributions receivable	225,000	0
Earnings	46,993	42,320
Change in market value	(132,084)	76,656
Payments to participants	(21,185)	(15,690)
Administrative expenses	(6,536)	(9,230)
Ending balance	$4,099,589	$3,762,401

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

	2018	2017
Prepaid benefit cost	$874,902	$646,276
Accrued benefit liability	(335,000)	(195,000)
Net amount recognized	$539,902	$451,276

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

	2018	2017
Benefit cost	$137,315	$117,249
Benefits paid	21,185	15,690
Employer contribution	450,000	260,000

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

	2018	2017
Discount rate	5.81%	4.66%
Rate of increase in compensation level	3.00%	3.00%
Expected long term rate of return on assets	6.29%	6.48%

Expected retiree pension benefit payments are projected to be as follows: 2019 - $81,732; 2020 - $56,021; 2021 - $89,557; 2022 - $85,645; 2023 - $58,711.

In 2019, 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:

	2018	2017
Projected benefit obligation	($2,289,561)	($2,123,696)
Fair value of plan assets	2,811,031	2,213,390
Funded status	$521,470	$89,694
Accumulated benefit obligation	$2,289,561	$2,121,619

Note 7 Pension Plans, continued

The change in fair value of plan assets are as follows:

	2018	2017
Beginning balance	$2,463,077	$2,213,390
Employer contributions	250,000	250,000
Employer contributions receivable	100,000	-
Earnings	-	-
Change in market value	147,914	66,927
Payments to participants	(149,960)	(67,240)
Administrative expenses	-	-
Ending balance	$2,811,031	$2,463,077

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

	2018	2017
Prepaid benefit cost	$521,470	$105,509
Accrued benefit liability	-	-
Net amount recognized	$521,470	$105,509

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

	2018	2017
Benefit cost	$79,442	$70,922
Benefits paid	149,960	67,240
Employer contribution	350,000	250,000

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

	2018	2017
Discount rate	5.87%	4.66%
Rate of increase in compensation level	3.00%	3.00%
Expected long term rate of return on assets	6.29%	6.48%

Expected retiree pension benefit payments are projected to be as follows: 2019 - $36,812; 2020 - $40,650; 2021 - $24,364; 2022 - $15,645; 2023 - $25,854.

In 2019, 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.

Note 8 Income Taxes, continued

Income taxes are as follows:

	2018	2017
Currently payable:		
Federal	$1,851,058	$3,891,314
State	531,848	802,644
	2,382,906	4,693,958
Deferred liability	(215,234)	53,000
Thacker Grigsby total	2,167,672	4,746,958
Currently payable:		
Federal	240,100	275,000
State	68,600	45,000
TV Service total	308,700	320,000
	$2,476,372	$5,066,958

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, 2018 or 2017. Income taxes are as follows:

The tax effects of temporary differences that give rise to deferred tax assets and liabilities all relate to timing differences related to depreciation for book and tax purposes.

Note 9 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 10 Commitments

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

Note 11 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, 2018

Assets	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Current Assets:						
Cash and cash equivalents	$29,868	$410,863	$301,569	$1,189,108		$1,931,408
Accounts receivable, less allowance for Thacker Grigsby of $52,536 and TV Service of $230,716	1,689,140			1,947,569	(1,912,393)	1,724,316
Material and supplies, at average cos	1,310,069			1,987,107		3,297,176
Prepayments	892,641	6,143		521,470		1,420,254
	3,921,718	417,006	301,569	5,645,254	(1,912,393)	8,373,154
Other Assets:						
Invest in limited liability companies	56,123,760		16,666,065		(42,225,134)	30,564,691
Invest in securities available for sale	1,966,830					1,966,830
Invest in securities held to maturity	1,136,583		9,701,954			10,838,537
Nonregulated and others	1,177,387	4,214	36,350	168,754		1,386,705
	60,404,560	4,214	26,404,369	168,754	(42,225,134)	44,756,763
Utility Plant, at original cost:						
In service	62,363,404	682,313		34,082,474		97,128,191
Under construction	1,331,996	2,330,167		580,671		4,242,834
Less accumulated depreciation	(31,012,880)	(533,689)		(21,270,958)		(52,817,527)
	32,682,520	2,478,791	0	13,392,187	0	48,553,498
Total	$97,008,798	$2,900,011	$26,705,938	$19,206,195	($44,137,527)	$101,683,415
Member's Equities and Liabilities						
Current Liabilities:						
Accounts payable	$2,067,681	$35,876	$4,153	$1,689,598	($1,912,393)	$1,884,915
Current portion of long term debt	1,170,000		816,000			1,986,000
Customer deposits	188,601					188,601
Accrued expenses	434,258			329,062		763,320
	3,860,540	35,876	820,153	2,018,660	(1,912,393)	4,822,836
Long Term Debt	9,708,156		2,708,000			12,416,156
Deferred Income Taxes	454,066					454,066
Stockholders' and Members' Equities:						
Capital investments	$269,800	5,545,000	21,061,506	11,842,436	(38,448,942)	269,800
Retained earnings	81,278,159	(2,680,865)	1,633,428	4,823,629	(3,776,192)	81,278,159
Accum comprehensive income	1,441,077		482,851	521,470		2,445,398
Treasury stock, 9 shares, at cost	(3,000)					(3,000)
	82,986,036	2,864,135	23,177,785	17,187,535	(42,225,134)	83,990,357
Total	$97,008,798	$2,900,011	$26,705,938	$19,206,195	($44,137,527)	$101,683,415

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, 2018

	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Operating Revenues:						
Local network services	$1,404,065					$1,404,065
Network access services	5,324,053			322,796		5,646,849
Cable television services				8,219,994		8,219,994
Cable internet services				4,126,876		4,126,876
Carrier billing and collection	13,610					13,610
Miscellaneous	516,246	278,071		413,021		1,207,338
Less provision for uncollectibles	(36,000)			(144,000)		(180,000)
	7,221,974	278,071		12,938,687		20,438,732
Operating Expenses:						
Plant specific operations	1,961,852	78,043		2,111,430		4,151,325
Plant non specific operations	639,914	13,316		803,171		1,456,401
Depreciation and amortization	2,202,223	38,587	483	1,797,283		4,038,576
Programming and cost of sales		212,709		4,730,437		4,943,146
Customer operations	799,095	988		1,079,009		1,879,092
Corporate operations	1,235,960	9,538	5,126	1,021,794		2,272,418
Taxes, other than income	442,918	14,163		181,583		638,664
Other expenses	76,244					76,244
	7,358,206	367,344	5,609	11,724,707		19,455,866
	(136,232)	(89,273)	(5,609)	1,213,980	0	982,866
Nonoperating Activities:						
Other income, principally investments	(9,083)	3,057	410,152	11,245		415,371
Income (loss) in associated companies	2,097,130		916,525		(2,003,018)	1,010,637
Less associated income taxes	(272,872)					(272,872)
Nonregulated and other net income	1,299,447					1,299,447
	3,114,622	3,057	1,326,677	11,245	(2,003,018)	2,452,583
Income available for interest charges	2,978,390	(86,216)	1,321,068	1,225,225	(2,003,018)	3,435,449
Interest Charges:						
Long term debt	284,695		148,359			433,054
Other interest	0					0
	284,695	0	148,359	0	0	433,054
Income Taxes	1,894,800			308,700		2,203,500
Net Income	798,895	(86,216)	1,172,709	916,525	(2,003,018)	798,895
Items of comprehensive income:						
Investment securities	(85,201)		(564,141)			(649,342)
Pension plans	228,626			415,961		644,587
Comprehensive Income	$942,320	($86,216)	$608,568	$1,332,486	($2,003,018)	$794,140

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

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

To the Board of Directors
Thacker-Grigsby Telephone Company, Inc.
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, 2018 and 2017, 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, 2019. My report includes a reference to other auditors who audited the financial statements of East Kentucky Network, LLC, as described in my report on Thacker-Grigsby Telephone Company, Inc.'s financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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, 2019

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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, 2018, 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, 2019. In accordance with *Government Auditing Standards*, we have also issued my report dated January 27, 2019, 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:

	Investment	Returns	Profits
Beginning of year	$3,241,250	($28,935,433)	$57,354,074
Activity for 2018	-	(2,108,181)	1,010,638
End of year	$3,241,250	($31,043,614)	$58,364,712

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

	Investment	Profits
Beginning of year	$5,545,000	($2,592,305)
Activity for 2018	-	(86,216)
End of year	$5,545,000	($2,678,521)

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

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

	Investment	Profits
Beginning of year	$21,061,500	$460,725
Activity for 2018	-	1,172,709
End of year	$21,061,500	$1,633,434

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers and Grantees. Accordingly, this report is not suitable for any other purpose.

Alan Zumstein

Alan M. Zumstein, CPA
January 27, 2019