THACKER-GRIGSBY TELEPHONE COMPANY, INC.
AND SUBSIDIARIES
KY 536

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2019

C O N T E N T S

Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Thacker-Grigsby Telephone Company, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the 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, 2019, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 14, Thacker-Grigsby Telephone Company, Inc. and Subsidiaries have adopted Financial Accounting Standards Update 2014-09, *Revenue from Contracts with Customers.* Our opinion is not modified with respect to this matter.

Correction of Error

As described in Note 16 to the financial statements, the Company discovered an error resulting in an understatement of amounts previously reported for deferred tax liabilities prior to January 1, 2018. In addition, the Company discovered an error resulting in an overstatement of amounts previously reported for intangible assets for periods prior to January 1, 2018. Accordingly, amounts presented for deferred tax liabilities and intangible assets have been restated in the 2018 financial statements now presented, and a cumulative effect adjustment has been made to stockholders' equity as of January 1, 2018. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2020, on our consideration of Thacker-Grigsby Telephone Company, Inc. and Subsidiaries' internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Company's internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of Thacker-Grigsby Telephone Company, Inc. and Subsidiaries, as of and for the year ended December 31, 2018 were audited by other auditors whose report dated January 27, 2019 expressed an unmodified opinion on those statements.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
June 19, 2020

THACKER-GRIGSBY TELEPHONE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018

ASSETS	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	$ 5,609,794	$ 1,931,408
Accounts receivable, less allowance for 2019 of $329,512 and 2018 of $283,252	1,224,631	1,724,316
Materials and supplies, at average cost	3,182,423	3,297,176
Prepaid expenses	13,447	23,882
Prepaid income taxes	703,643	2,666,183
Prepaid pension cost	- -	1,396,372
Total current assets	10,733,938	11,039,337
NON-CURRENT ASSETS		
Investment in limited liability company	33,530,671	30,564,691
Investment in equity securities	2,647,645	1,966,830
Investment securities available for sale	11,311,311	10,838,537
Nonregulated investments	1,144,553	1,386,705
Total non-current assets	48,634,180	44,756,763
PROPERTY AND EQUIPMENT		
In service	92,267,925	91,021,323
Under construction	5,573,426	4,242,834
	97,841,351	95,264,157
Less accumulated depreciation	51,559,416	50,704,428
	46,281,935	44,559,729
OTHER ASSETS		
Intangible assets, net of accumulated amortization of $5,621,503 in 2019 and $5,424,916 in 2018	516,865	681,952
	$ 106,166,918	$ 101,037,781

LIABILITIES AND STOCKHOLDERS' EQUITY	2019	2018
CURRENT LIABILITIES		
Current portion of long-term debt	$ 1,889,880	$ 1,986,000
Accounts payable	1,486,844	1,884,915
Customer deposits	192,906	188,601
Other current and accrued expenses	656,371	434,620
Total current liabilities	4,226,001	4,494,136
NON-CURRENT LIABILITY		
Long-term debt, less current portion	11,596,024	12,416,156
Pension liability	4,700,403	- -
Deferred income taxes	2,763,456	3,665,416
Total non-current liabilities	19,059,883	16,081,572
STOCKHOLDERS' EQUITY		
Common stock		
Common capital stock, voting; 26,460 authorized, issued and outstanding	261,600	261,600
Preferred stock, nonvoting; 22 shares authorized, issued and outstanding	5,200	5,200
Retained earnings	85,153,830	78,361,225
Accumulated other comprehensive income (loss)	(2,539,596)	1,834,048
Total stockholders' equity	82,881,034	80,462,073
	$ 106,166,918	$ 101,037,781

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

THACKER-GRIGSBY TELEPHONE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues:		
Local network service	$ 1,377,951	$ 1,404,065
Network access services	6,717,288	5,646,849
Cable television services	8,417,518	8,219,994
Cable internet services	4,601,755	4,126,876
Billing and collection	12,201	13,610
Miscellaneous	1,465,746	1,207,338
Less provision for uncollectibles	(161,280)	(180,000)
Total operating revenues	22,431,179	20,438,732
Operating Expenses:		
Plant specific	4,531,706	4,151,325
Plant nonspecific	1,350,677	1,456,401
Depreciation and amortization	5,005,706	4,058,585
Programming costs	4,805,570	4,943,146
Customer operations	1,621,910	1,879,092
Corporate operations	2,305,642	2,272,418
Other operating taxes	632,296	638,664
Other expenses	145,784	76,244
Total operating expenses	20,399,291	19,475,875
Operating income	2,031,888	962,857
Other Income and Expenses:		
Investment income	1,214,696	415,371
Net income from limited liability company	4,694,564	1,010,637
Nonregulated activities	2,018,067	1,299,447
Total other income	7,927,327	2,725,455
Income before interest and income tax	9,959,215	3,688,312
Other interest	36,288	- -
Interest on long-term debt	400,069	433,054
Total interest expense	436,357	433,054
Income before income tax	9,522,858	3,255,258
Income tax	2,518,463	368,408
Net income	7,004,395	2,886,850
Other comprehensive income (loss):		
Investment securities	198,936	(487,007)
Pension plans	(4,572,581)	483,441
Total comprehensive income	$ 2,630,750	$ 2,883,284

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

THACKER-GRIGSBY TELEPHONE COMPANY, INC. AND SUBSIDIARIES

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

	Capital Investments	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance - January 1, 2018, as previously reported	$ 266,800	$ 80,180,497	$ 2,450,153	$ 82,897,450
Prior period adjustment		(4,494,332)	(612,539)	(5,106,871)
Balance - January 1, 2018, as adjusted	266,800	75,686,165	1,837,614	77,790,579
Net income		2,886,850		2,886,850
Unrealized (loss) on marketable securities			(487,007)	(487,007)
Minimum pension liability			483,440	483,440
Dividends paid		(211,790)		(211,790)
Balance - December 31, 2018	266,800	78,361,225	1,834,048	80,462,073
Net income		7,004,395		7,004,395
Unrealized gain on debt securities			198,936	198,936
Minimum pension liability			(4,572,580)	(4,572,580)
Dividends paid		(211,790)		(211,790)
Balance - December 31, 2019	$ 266,800	$ 85,153,830	$ (2,539,596)	$ 82,881,034

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

THACKER-GRIGSBY TELEPHONE COMPANY, INC. AND SUBSIDIARIES

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

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,004,395	$ 2,886,850
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,809,119	3,861,515
Amortization	196,587	196,587
Deferred income taxes	(125,923)	444,150
Income in limited liability company	(4,698,122)	(1,010,637)
Change in current assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable	499,685	(4,286,868)
Material and supplies	114,753	(600,419)
Prepaid expenses	10,435	(3,387)
Prepaid income taxes	1,962,540	(2,257,964)
Accounts payable	(398,071)	4,343,213
Customer deposits	4,305	(290)
Other current and accrued expenses	221,750	243,244
Net cash provided by operating activities	9,601,453	3,815,994
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction of plant	(6,572,120)	(8,376,892)
Salvage recovered from plant retirements	9,265	(17,078)
Distribution from limited liability company	1,732,158	2,108,181
Purchases of investment securities	(2,151,905)	(557,505)
Proceeds from sale of investment securities	1,945,425	777,168
Nonregulated investments and others	242,152	(323,650)
Net cash (used in) investing activities	(4,795,025)	(6,389,776)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term borrowings	1,418,053	4,285,650
Payments on long term debt	(2,334,305)	(2,335,237)
Dividends paid	(211,790)	(211,790)
Net cash provided by (used in) financing activities	(1,128,042)	1,738,623
Net increase in cash and cash equivalents	3,678,386	(835,159)
Cash and cash equivalents:		
Beginning of year	1,931,408	2,766,567
End of year	$ 5,609,794	$ 1,931,408
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash interest paid	$ 436,357	$ 433,054
Income taxes paid	- -	2,382,905

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Business

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 consolidated 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 PSC 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States 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 consolidated 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 consolidated 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.

Accounts Receivable

Accounts receivable are stated at face amount less an allowance for doubtful accounts. The allowance for doubtful accounts is based on the aging of accounts receivable. Accounts are written off when they are deemed to be uncollectible. There were no customers whose individual account balance exceeded ten percent of outstanding accounts receivable at December 31, 2019 and 2018. The number of access lines was 5,466 and 5,374 fo r 2019 and 2018, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Materials and Supplies

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

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.

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.

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.

Note 2. Summary of Significant Accounting Policies (Continued)

Utility Plant (Continued)

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:

	2019	2018
Thacker Grigsby plant:		
General support	$ 14,452,232	$ 12,873,398
Central office switching	1,052,729	5,300,488
Central office transmission	10,029,762	7,188,546
Cable and wire facilities	36,432,984	36,996,819
	61,967,707	62,359,251
Elk Glen plant:		
Vehicles	81,883	81,883
Work and other equipment	636,804	600,430
	718,687	682,313
TV Service plant:		
General support	2,125,901	1,984,644
Headend and electronics	8,801,468	7,996,428
Conductor and distribution	18,654,162	17,998,687
	29,581,531	27,979,759
	$ 92,267,925	$ 91,021,323

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%	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Acquisitions

TV Service purchases smaller cable companies from unrelated parties on a routine basis. These purchases were all accounted for on the purchase method of accounting, and accordingly, the results of operations have been included in the consolidated financial statements. The excess of the payment price over the value of assets acquired has been recorded as goodwill and is amortized over a period of 15 years.

Risk Management

The Companies 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.

Income Taxes

Thacker-Grigsby and TV Service are “C” corporations that pay income taxes on their net income. Allied Services and Elk Glen are single-member limited liability companies and their activity is reported on Thacker-Grigsby’s consolidated tax return. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of investments in associated organizations, investment securities, pension liability, and accumulated depreciation. The deferred tax assets and liabilities represent future tax return consequences of those differences, which will either be taxable or deductible when the assets or liabilities are recovered or settled.

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

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

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

Comprehensive Income

Comprehensive income includes both net income and other comprehensive income. Other comprehensive income represents the change in funded status of pension plans and unrealized gains and losses on debt securities.

Note 2. Summary of Significant Accounting Policies (Continued)

Advertising

The Company expenses advertising costs as incurred. For the years ended December 31, 2019 and 2018, these costs were $143,760 and $149,703, respectively.

Adoption of New Accounting Standards

In January 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities.* The standard segregates the accounting for debt and equity securities. The standard eliminates the distinction between trading and available-for-sale securities for equity investments. All equity investments are required to be measured at fair value with the unrealized gain or loss recognized in net income. The standard does not change the accounting for debt securities which will continue to be classified as trading, available-for-sale, or held-to-maturity securities. The Company adopted the standard as of January 1, 2019, using the modified retrospective method.

The Company adopted ASU 2014-09, *Revenue from Contracts with Customers*, as of January 1, 2019, using a modified retrospective method (see Note 14).

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases.* The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of revenue and comprehensive income. This standard will be effective for the year ending December 31, 2022.

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

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

Subsequent Events

Management has evaluated subsequent events through June 19, 2020, the date the consolidated financial statements were available to be issued.

Note 3. Investment Securities

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

The fair values are based primarily on quoted market prices. The Company has classified all debt investments as available-for-sale. Investment securities measured at fair value on a recurring basis are as follows:

		Fair value measurements using:	
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2019			
Certificates of deposit	$ 811,500	$ - -	$ 811,500
Stocks	2,647,645	2,647,645	- -
Fixed-income securities	10,499,811	- -	10,499,811
	$ 13,958,956	$ 2,647,645	$ 11,311,311
December 31, 2018			
Certificates of deposit	$ 804,754	$ - -	$ 804,754
Stocks	1,966,830	1,966,830	- -
Fixed-income securities	10,033,783	- -	10,033,783
	$ 12,805,367	$ 1,966,830	$ 10,838,537

Note 4. Intangible Assets

Intangible assets used in operations consist of the following at December 31, 2019:

	Gross Amount	Accumulated Amortization
Goodwill	$ 3,946,715	(3,434,003)
Non-compete agreements	1,312,500	(1,312,500)
Customer lists and other	879,153	(875,000)
	$ 6,138,368	$ (5,621,503)

Note 4. Intangible Assets (Continued)

Intangible assets used in operations consist of the following at December 31, 2019:

	Gross Amount	Accumulated Amortization
Goodwill	$ 3,915,215	$ (3,237,416)
Non-compete agreements	1,312,500	(1,312,500)
Customer lists and other	879,153	(875,000)
	$ 6,106,868	$ (5,424,916)

Aggregate amortization expense related to these intangible assets for the years ended December 31, 2019 and 2018 totaled $176,578. The following represents the total estimated amortization of intangible assets for each of the succeeding five years:

Year ending December 31:	
2020	$ 198,687
2021	198,687
2022	26,776
2023	22,109
2024	22,109

Note 5. Associated Organizations

The amounts for East Kentucky Network, LLC ("EKN") represents the Company's investment in a limited liability company with other telephone companies in eastern Kentucky for the purpose of providing cellular telephone, paging, and other services. The investment is accounted for using the equity method since the Company is a 20% member and has the ability to significantly influence EKN's operations and financial policies. EKN has been paying distributions of approximately 50% of the income allocated in cash during the following year. The following is summarized financial information of EKN as of and for the years ended December 31, 2019 and 2018:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Non-Regulated Activities

Deregulated customer premises equipment (CPE) 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.

Non-regulated property includes the following as of December 31:

	2019	2018
Radio Equipment	$ 36,313	$ 36,313
Cable System	85,500	85,000
Tower	408,829	408,829
Video	208,987	208,987
Outside plant	138,021	137,408
Broadband	2,107,003	1,886,282
Customer-premises equipment	1,047,675	1,032,333
Other	304,491	453,049
Depreciation	(3,192,265)	(2,861,495)
	$ 1,144,553	$ 1,386,705

Non-regulated activities consisted of:

	Income	Expense	Net
Long distance services	$ 70,396	$ 22,393	$ 48,003
Internet services	2,450,981	1734482	716,499
Customer premises equipment	147,948	133783	14,165
Fiber to the Home	1,364,591	125191	1,239,400
Total - 2019	$ 4,033,916	$ 2,015,849	$ 2,018,067
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

Note 7. Long-Term Debt

All assets of Thacker-Grigsby, except motor vehicles, are pledged as collateral on the first mortgage notes due to RUS and Rural Telephone Bank (RTB) under a joint mortgage agreement. The long-term debt payable to RUS and RTB is due in monthly installments of varying amounts through 2033.

Note 7. Long-Term Debt (Continued)

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 to CoBank. The long-term debt due CoBank is a seven (7) year note bearing interest at 3.65%.

In January 2019, Thacker-Grigsby borrowed $804,622 from Ditch Witch Financial Services to purchase equipment. The note is payable in 60 monthly installments with an interest rate of 6.13%. The note is secured by the equipment.

In April 2019, TV Service borrowed $55,000 to acquire the assets of B&B Communications, LLC, a cable company. The note is payable in five annual installments at an interest rate of 5.00%.

In December 2019, TV Service borrowed $345,935 from Harmonic Inc. to purchase equipment. The note is payable in 24 monthly installments with an interest rate of zero percent. The note is secured by the equipment.

Long-term debt consisted of the following as of December 31:

	2019	2018
Thacker Grigsby:		
Due RUS at 1.69% to 4.84%	$8,359,236	$8,959,714
Due RUS at 2.02% to 3.42%, ARRA loan	1,449,714	1,582,192
Due RTB at 2.10% to 5.13%	- -	336,250
Ditch Witch Financial at 6.13%	580,018	- -
	10,388,969	10,878,156
Less current portion	883,542	1,170,000
	9,505,427	9,708,156
Allied Services:		
CoBank at 3.65%	2,708,000	3,524,000
Less current portion	816,000	816,000
	1,892,000	2,708,000
TV Service:		
Harmonic Inc. at zero percent	345,935	- -
B&B Communications, LLC at 5.00%	43,000	- -
	388,935	- -
Less current portion	190,338	- -
	198,597	- -
Total long-term debt	$11,596,024	$12,416,156

Note 7. Long-Term Debt (Continued)

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

2020	$ 1,889,880
2021	1,902,435
2022	1,765,567
2023	1,239,176
2024	846,268
Thereafter	5,842,578
	$ 13,485,904

Note 8. 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, 2019, there was approximately $1,500,000 available for payment of dividends or redemption of capital stock.

Note 9. 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, 2019 and 2018 for Thacker-Grigsby and August 31, 2019 and 2018 for TV Service. There have been no significant changes that affect the comparability of 2019 and 2018.

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.

Note 9. Pension Plans (Continued)

Thacker-Grigsby Telephone Company, Inc.

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

	2019	2018
Projected benefit obligation	($6,621,262)	($3,224,686)
Fair value of plan assets	3,772,491	4,099,588
Funded status (deficit)	($2,848,771)	$874,902

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

	2019	2018
Beginning balance	$4,099,589	$3,762,401
Employer contributions	375,000	225,000
Employer contributions receivable	(225,000)	225,000
Actual return on assets	167,330	(91,627)
Payments to participants	(644,427)	(21,185)
Ending balance	$3,772,492	$4,099,589

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

	2019		2018	
Prepaid benefit cost	$	- -	$	874,902
Accrued benefit liability		(2,848,771)		- -
Net amount recognized	$	(2,848,771)	$	874,902

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

	2019		2018	
Service cost	$	281,630	$	145,162
Interest cost		224,372		110,964
Expected return on assets		(186,994)		(118,811)
Amortization of Gains (Losses)		140,053		- -
Net Pension Cost	$	459,061	$	137,315

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

	2019	2018
Discount rate	3.50%	5.81%
Rate of increase in compensation level	3.00%	3.00%
Expected long term rate of return on assets	5.00%	6.29%

Expected retiree pension benefit payments are projected to be as follows: 2020 - $150,742; 2021 - $177,446; 2022 - $210,559; 2023 - $270,133; 2024 - $280,221.

Note 9. Pension Plans (Continued)

The Plan's investments are reported at fair value as follows:

		Fair value measurements using:	
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2019			
Cash and cash equivalents	$ 1,169,473	$ 1,169,473	
Stocks	2,074,871	2,074,871	
Investment grade debt instruments	528,149		528,149
	$ 3,772,492	$ 3,244,343	$ 528,149
December 31, 2019			
Cash and cash equivalents	$ 1,270,873	$ 1,270,873	
Stocks	2,254,774	2,254,774	
Investment grade debt instruments	573,942		573,942
	$ 4,099,589	$ 3,525,647	$ 573,942

In 2020, 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:

	2019	2018
Projected benefit obligation	$ (4,720,206)	$ (2,289,561)
Fair value of plan assets	2,868,574	2,811,031
Funded status	$ (1,851,632)	$ 521,470
Accumulated benefit obligation	$ 4,720,206	$ 2,289,561

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

	2019	2018
Beginning balance	$ 2,811,031	$ 2,463,077
Actual return on assets	69,294	147,914
Employer contributions	250,000	250,000
Contributions receivable	(100,000)	100,000
Benefits paid	(161,751)	(149,960)
Ending balance	$ 2,868,574	$ 2,811,031

Note 9. Pension Plans (Continued)

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

	2019	2018
Prepaid benefit cost	$ - -	$ 521,470
Accrued benefit liability	(1,851,632)	- -
Net amount recognized	$ (1,851,632)	$ 521,470

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

	2019	2018
Service cost	$ 157,363	$ 145,162
Interest cost	139,642	110,964
Expected return on assets	(139,552)	(118,811)
Amortization of Gains (Losses)	80,185	- -
Net Pension Cost	$ 237,638	$ 137,315

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

	2019	2018
Discount rate	3.00%	5.87%
Rate of increase in compensation level	3.00%	3.00%
Expected long term rate of return on assets	5.00%	6.29%

Expected retiree pension benefit payments are projected to be as follows: 2020 - $49,750; 2021 - $50,579; 2022 - $101,851; 2023 - $183,284; 2024 - $185,796.

In 2020, TV Service expects to contribute $250,000 to the pension plan trust.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Pension Plans (Continued)

The Plan's investments are reported at fair value as follows:

December 31, 2019	Fair value	Fair value measurements using: Unadjusted quoted prices (Level 1)	Fair value measurements using: Significant other observable inputs (Level 2)
Cash and cash equivalents	$ 774,515	$ 774,515	
Stocks	1,462,973	1,462,973	
Investment grade debt instruments	631,086		631,086
	$ 2,868,574	$ 2,237,488	$ 631,086
December 31, 2019			
Cash and cash equivalents	$ 758,978	$ 758,978	
Stocks	1,433,626	1,433,626	
Investment grade debt instruments	618,427		618,427
	$ 2,811,031	$ 2,192,604	$ 618,427

Note 10. Income Taxes

The components of income tax are as follows:

	December 31, 2019	December 31, 2018
Current:		
Federal	$ 1,528,684	$ 289,372
State	433,856	144,270
	1,962,540	433,642
Deferred:		
Federal	444,738	(52,187)
State	111,185	(13,047)
	555,923	(65,234)
	$ 2,518,463	$ 368,408

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Income Taxes (Continued)

The deferred tax liabilities in the accompanying balance sheets consist of the following components:

	December 31,	
	2019	2018
Deferred tax liabilities:		
Federal	$ 2,319,378	$ 3,037,346
State	444,078	628,070
	$ 2,763,456	$ 3,665,416

Note 11. 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 12. 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 13. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Revenue Recognition

Adoption of accounting pronouncement

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

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

Nature of goods and services

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

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

Significant judgments

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

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

Multiple performance obligations

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

Note 14. Revenue Recognition (Continued)

Multiple performance obligations (continued)

From time to time, the Company may offer certain promotions to incentivize customers to switch to, or to purchase additional services from the Company. Under these types of promotions, an eligible customer may receive an incentive in the form of a discount off additional services purchased shown as a rebate or credit to the customer's monthly bill. Rebates are amortized over the life of the contract and are recognized when included in the customer's monthly bill.

Disaggregation of revenue

In the following table, revenue for the years ended December 31, 2019 and 2018 is disaggregated by type of service and timing of revenue recognition. Telecommunication service revenues are recognized over time and equipment sales at a point in time.

	2019	2018
Regulated income:		
Local network services	$ 1,377,951	$ 1,404,065
Network access services	6,717,288	5,646,849
Cable television services	8,417,518	8,219,994
Cable internet services	4,601,755	4,126,876
Miscellaneous	1,465,746	1,207,338
Carrier billing and collection	12,201	13,610
	$ 22,592,459	$ 20,618,732
Nonregulated income:		
Long distance services	$ 70,396	$ 173,155
Internet services	2,450,981	1,271,007
Customer premises equipment	147,948	154,551
Fiber to the Home	1,364,591	1,730,743
	$ 4,033,916	$ 3,329,456

Contract cost liabilities

Contract cost liabilities include customer deposits. The balance in contract liabilities was $192,906 and $188,601 as of December 31, 2019 and 2018, respectively.

Note 15. Uncertainties

Subsequent to December 31, 2019, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Company as of June 19, 2020, management believes that a material impact on the Company's financial position and results of future operations is reasonably possible.

Note 16. Correction of Errors

The Company discovered it understated its deferred tax liabilities prior to January 1, 2018, by $1,795,054. In addition, the Company discovered it had overstated its amount of intangible assets for periods prior to January 1, 2018, by $3,311,817. The cumulative effect of the correction decreased beginning stockholders' equity by $5,106,871.

The Company has restated its 2018 previously issued consolidated financial statements to reflect the correction of these errors. The effect of the corrections decreased income tax expense from $2,476,372 to $368,408, increased deferred tax liabilities from $454,066 to $3,665,416, and decreased intangible assets from $3,989,616 to $681,952.

Note 17. Small Business Administration Loan Under Paycheck Protection Program

The Company applied for and was granted a $1,073,237 loan under the PPP administered by a Small Business Administration (SBA) approved lender. The loan is uncollateralized and is fully guaranteed by the Federal government. The loan accrues interest at 1%, but payments are not required to begin for six months to one year after the funding of the loan. The Company is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Company intends to take measures to maximize the loan forgiveness but cannot reasonably determine the portion of the loan that will ultimately be forgiven.

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT ON
THE SUPPLEMENTARY INFORMATION

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

We have audited the consolidated financial statements of Thacker-Grigsby Telephone Company Inc. and Subsidiaries as of and for the year ended December 31, 2019, and our report thereon dated June 19, 2020, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information found on pages 26 and 27, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
June 19, 2020

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

THACKER-GRIGSBY TELEPHONE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET
December 31, 2019

Assets	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Current Assets:						
Cash and cash equivalents	$ 3,379,839	$ 249,722	$ 235,161	$ 1,745,072	$ - -	$ 5,609,794
Accounts receivable, less allowance of $329,512	691,418	3,164	- -	908,442	(378,393)	1,224,631
Material and supplies	1,135,642	- -	- -	2,046,781	- -	3,182,423
Prepaid expenses	10,452	2,995	- -	- -	- -	13,447
Prepaid income taxes	703,643	- -	- -	- -	- -	703,643
	5,920,994	255,881	235,161	4,700,295	(378,393)	10,733,938
Other Assets:						
Invest in limited liability companies	56,683,507	- -	12,299,220	- -	(35,452,056)	33,530,671
Invest in equity securities	2,214,930	- -	432,715	- -	- -	2,647,645
Invest in securities held to maturity	1,185,866	- -	10,125,445	- -	- -	11,311,311
Nonregulated and others	1,087,290	4,082	45,224	7,957	- -	1,144,553
	61,171,593	4,082	22,902,604	7,957	(35,452,056)	48,634,180
Utility Plant, at original cost:						
In service	61,967,707	718,687	- -	29,581,531	- -	92,267,925
Under construction	2,043,653	2,356,237	- -	1,173,536	- -	5,573,426
Less accumulated depreciation	(30,079,533)	(572,518)	- -	(20,907,365)	- -	(51,559,416)
	33,931,827	2,502,406	- -	9,847,702	- -	46,281,935
Other Intangibles, net of amortization of $2,289,677	13,153	- -	- -	503,712	- -	516,865
Total	$101,037,567	$2,762,369	$23,137,765	$15,059,666	($35,830,449)	$106,166,918
Member's Equities and Liabilities						
Current Liabilities:						
Current portion of long term debt	$ 883,542	$ - -	$ 816,000	$ 190,338	$ - -	$ 1,889,880
Accounts payable	999,120	35,618	1,007	829,492	(378,393)	1,486,844
Customer deposits	190,306	2,600	- -	- -	- -	192,906
Accrued expenses	503,003	73	- -	153,295	- -	656,371
	2,575,971	38,291	817,007	1,173,125	(378,393)	4,226,001
Long-term debt, less current portion	9,505,427	- -	1,892,000	198,597	- -	11,596,024
Pension liability	2,848,771	- -	- -	1,851,632	- -	4,700,403
Deferred income taxes	3,226,364	- -	- -	(462,908)	- -	2,763,456
	15,580,562	- -	1,892,000	1,587,321	- -	19,059,883
Stockholders' and Members' Equities:						
Capital investments	266,800	4,614,720	21,061,506	11,242,436	(36,918,662)	266,800
Retained earnings	85,153,830	(1,890,642)	(475,350)	2,445,508	(79,516)	85,153,830
Accum comprehensive income	(2,539,596)	- -	(157,398)	(1,388,724)	1,546,122	(2,539,596)
	82,881,034	2,724,078	20,428,758	12,299,220	(35,452,056)	82,881,034
Total	$101,037,567	$ 2,762,369	$ 23,137,765	$ 15,059,666	$ (35,830,449)	$ 106,166,918

CONSOLIDATING STATEMENT OF REVENUE AND COMPREHENSIVE INCOME
Year Ended December 31, 2019

	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Operating Revenues:						
Local network services	$ 1,377,951	$ - -	$ - -	$ - -	$ - -	$ 1,377,951
Network access services	6,357,318	- -	- -	359,970	- -	6,717,288
Cable television services	- -	- -	- -	8,417,518	- -	8,417,518
Cable internet services	- -	- -	- -	4,601,755	- -	4,601,755
Carrier billing and collection	12,201	- -	- -	- -	- -	12,201
Miscellaneous	1,026,990	22,077	- -	416,679	- -	1,465,746
Less provision for uncollectibles	(17,280)	- -	- -	(144,000)	- -	(161,280)
	8,757,180	22,077	- -	13,651,922	- -	22,431,179
Operating Expenses:						
Plant specific operations	1,715,178	93,788	- -	2,722,740	- -	4,531,706
Plant non specific operations	609,155	9,439	- -	732,083	- -	1,350,677
Depreciation and amortization	2,945,074	38,962	483	2,021,187	- -	5,005,706
Programming and cost of sales	- -	- -	- -	4,805,570	- -	4,805,570
Customer operations	691,322	1,326	- -	929,262	- -	1,621,910
Corporate operations	1,235,727	9,011	5,760	1,055,144	- -	2,305,642
Taxes, other than income	491,136	14,145	- -	127,015	- -	632,296
Other expenses	129,299	- -	- -	16,485	- -	145,784
	7,816,891	166,671	6,243	12,409,486	- -	20,399,291
	940,289	(144,594)	(6,243)	1,242,436	- -	2,031,888
Nonoperating Activities:						
Other income, principally investments	$ 787,016	$ 4,537	$ 396,168	$ 26,975	$ - -	$ 1,214,696
Income (loss) in associated companies	5,757,546	- -	933,696	- -	(1,996,678)	4,694,564
Nonregulated and other net income	2,018,067	- -	- -	- -	- -	2,018,067
	8,562,629	4,537	1,329,864	26,975	(1,996,678)	7,927,327
Income before interest and taxes	9,502,918	(140,057)	1,323,621	1,269,411	(1,996,678)	9,959,215
Interest Charges:						
Long term debt	279,487	- -	120,582	- -	- -	400,069
Other interest	36,288	- -	- -	- -	- -	36,288
	315,775	- -	120,582	- -	- -	436,357
Income before income tax (benefit)	9,187,143	(140,057)	1,203,039	1,269,411	(1,996,678)	9,522,858
Income Taxes	2,182,748	- -	- -	335,715	- -	2,518,463
Net Income	7,004,395	(140,057)	1,203,039	933,696	(1,996,678)	7,004,395
Items of comprehensive income:						
Investment securities	198,936	- -	561,356	- -	(561,356)	198,936
Pension plans	(4,572,581)	- -	- -	(1,779,826)	1,779,826	(4,572,581)
Total Comprehensive Income	$ 2,630,750	$ (140,057)	$ 1,764,395	$ (846,130)	$ (778,208)	$ 2,630,750

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Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S 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. and Subsidiaries
Hindman, Kentucky

We 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 consolidated financial statements of Thacker-Grigsby Telephone Company, Inc. and Subsidiaries (the Company), as of and for the year ended December 31, 2019, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 19, 2020.

Internal Control Over Financial Reporting

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

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.

Our 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Certified Public Accountants and Advisors
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free from material misstatement, we performed tests 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 our audit, and accordingly, we do not express such an opinion. The results of our 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 our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
June 19, 2020

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. and Subsidiaries
Hindman, Kentucky

We 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 consolidated financial statements of Thacker-Grigsby Telephone Company, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of income and comprehensive income, changes in stockholders' equities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 19, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2020 on our consideration of the Company's internal control over financial reporting and on our 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 our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us 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 and Grantees*, §1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our 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 our audit, we 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;

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- Obtain written of the RUS to enter into any contract, agreement, or lease with an Subsidiary 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 is listed below.

Thacker-Grigsby Telephone Company Inc. 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:

	Investments	Profits	Total
Beginning of year	$ 3,241,250	$ 27,321,097	$ 30,562,347
Activity for 2019	- -	2,968,324	2,968,324
End of Year	$ 3,241,250	$ 30,289,421	$ 33,530,671

During 2006, Thacker-Grigsby Telephone Company Inc. 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:

	Investments	Profits	Total
Beginning of year	$ 5,545,000	$ (2,678,521)	$ 2,866,479
Activity for 2019	- -	(142,401)	(142,401)
End of Year	$ 5,545,000	$ (2,820,922)	$ 2,724,078

During 2006, Thacker-Grigsby Telephone Company Inc. 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:

	Investments	Profits	Total
Beginning of year	$ 21,061,506	$ (2,397,143)	$ 18,664,363
Activity for 2019	- -	1,764,395	1,764,395
End of Year	$ 21,061,506	$ (632,748)	$ 20,428,758

The purpose of this report is solely to communicate, in connection with the audit of the consolidated financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for telecommunication 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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
June 19, 2020