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

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2020

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 (the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the years 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 audits. We conducted our 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 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
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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, 2020 and 2019, and the results of their operations and their 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*, we have also issued our report dated March 29, 2021, 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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 29, 2021

THACKER-GRIGSBY TELEPHONE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019

ASSETS	2020	2019
CURRENT ASSETS		
Cash and cash equivalents	$ 7,045,143	$ 5,072,757
Accounts receivable, less allowance for 2020 of $269,321 and 2019 of $329,512	282,384	151,094
Materials and supplies, at average cost	2,756,227	3,182,423
Prepaid expenses	69,581	13,447
Prepaid income taxes	- -	703,643
Total current assets	10,153,335	9,123,364
NON-CURRENT ASSETS		
Investment in limited liability company	32,338,538	33,530,671
Investment in equity securities	2,830,937	2,647,645
Investment securities available for sale	12,618,638	11,848,348
Nonregulated investments	1,431,779	1,144,553
Total non-current assets	49,219,892	49,171,217
PROPERTY AND EQUIPMENT		
In service	99,382,409	92,267,925
Under construction	6,593,627	5,573,426
	105,976,036	97,841,351
Less accumulated depreciation	56,019,108	51,559,416
	49,956,928	46,281,935
OTHER ASSETS		
Intangible assets, net of accumulated amortization of $5,818,090 in 2020 and $5,621,503 in 2019	320,278	516,865
	$ 109,650,433	$ 105,093,381

LIABILITIES AND STOCKHOLDERS' EQUITY	2020	2019
CURRENT LIABILITIES		
Current portion of long-term debt	$ 1,724,787	$ 1,889,880
Accounts payable	581,621	413,307
Customer deposits	199,216	192,906
Other current and accrued expenses	177,864	656,371
Total current liabilities	2,683,488	3,152,464
NON-CURRENT LIABILITIES		
Long-term debt, less current portion	9,965,842	11,596,024
Pension liability	5,372,053	4,700,403
Deferred income taxes	2,602,161	2,763,456
Total non-current liabilities	17,940,056	19,059,883
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	91,391,518	85,153,830
Accumulated other comprehensive (loss)	(2,631,429)	(2,539,596)
Total stockholders' equity	89,026,889	82,881,034
	$ 109,650,433	$ 105,093,381

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, 2020 and 2019

	2020	2019
Operating Revenues:		
Local network services	$ 1,388,276	$ 1,377,951
Network access services	7,723,828	6,717,288
Cable television services	8,347,590	8,417,518
Cable internet services	5,339,300	4,601,755
Billing and collection	16,363	12,201
Miscellaneous	1,535,325	1,465,746
Less provision for uncollectibles	(136,880)	(161,280)
Total operating revenues	24,213,802	22,431,179
Operating Expenses:		
Plant specific	4,473,480	4,531,706
Plant nonspecific	1,489,341	1,350,677
Depreciation and amortization	5,639,888	5,005,706
Programming costs	4,626,004	4,805,570
Customer operations	1,595,332	1,621,910
Corporate operations	2,307,942	2,305,642
Other operating taxes	711,059	632,296
Other expenses	684,849	145,784
Total operating expenses	21,527,895	20,399,291
Operating income	2,685,907	2,031,888
Other Income and Expenses:		
Investment income	565,665	1,214,696
Net income from limited liability company	2,172,410	4,694,564
Loan forgiveness	1,073,237	- -
Nonregulated activities	2,274,559	2,018,067
Total other income	6,085,871	7,927,327
Income before interest and income tax	8,771,778	9,959,215
Other interest	36,212	36,288
Interest on long-term debt	332,856	400,069
Total interest expense	369,068	436,357
Income before income tax	8,402,710	9,522,858
Income tax	1,953,232	2,518,463
Net income	6,449,478	7,004,395
Other comprehensive income (loss):		
Investment securities	190,320	198,936
Pension plans	(282,153)	(4,572,580)
Total comprehensive income	$ 6,357,645	$ 2,630,751

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

THACKER-GRIGSBY TELEPHONE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2020 and 2019

	Capital Investments	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
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, net of deferred tax expense of $51,723	- -	- -	198,936	198,936
Minimum pension liability, net of deferred tax benefit of $1,235,671	- -	- -	(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
Net income	- -	6,449,478	- -	6,449,478
Unrealized gain on debt securities, net of deferred tax expense of $49,483	- -	- -	190,320	190,320
Minimum pension liability, net of deferred tax benefit of $73,360	- -	- -	(282,153)	(282,153)
Dividends paid	- -	(211,790)	- -	(211,790)
Balance - December 31, 2020	$ 266,800	$ 91,391,518	$ (2,631,429)	$ 89,026,889

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, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,449,478	$ 7,004,395
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,443,301	4,809,119
Amortization	196,587	196,587
Deferred income taxes	(83,270)	555,923
Pension benefit expense	705,145	696,699
Pension benefit contributions	(475,000)	(800,000)
Unrealized gain on equity securities	(154,095)	(683,540)
Income in limited liability company	(2,172,410)	(4,694,564)
Forgiveness of PPP loan	(1,073,237)	- -
Change in current assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable	(131,290)	499,685
Material and supplies	426,196	114,753
Prepaid expenses	(56,134)	10,435
Prepaid income taxes	703,643	1,962,540
Accounts payable	168,314	(398,071)
Customer deposits	6,310	4,305
Other current and accrued expenses	(478,507)	150,051
Net cash provided by operating activities	9,475,031	9,428,317
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction of plant	(9,033,386)	(6,595,892)
Retirement costs, net of salvage recovered from plant	(102,595)	9,265
Distribution from limited liability company	3,364,543	1,732,158
Purchases of investment securities	(1,812,490)	(1,926,927)
Proceeds from sale of investment securities	1,302,950	1,917,355
Nonregulated investments and others	(287,841)	242,152
Net cash (used in) investing activities	(6,568,818)	(4,621,889)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	1,073,237	1,418,053
Payments on long-term debt	(1,795,275)	(2,334,305)
Dividends paid	(211,790)	(211,790)
Net cash (used in) financing activities	(933,828)	(1,128,042)
Net increase in cash and cash equivalents	1,972,386	3,678,386
Cash and cash equivalents:		
Beginning of year	5,072,757	1,394,371
End of year	$ 7,045,143	$ 5,072,757
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash interest paid	$ 369,068	$ 436,357
Income taxes paid	1,264,513	- -

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 net realizable value. 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, 2020 and 2019. The number of access lines was 5,592 and 5,466 for 2020 and 2019, respectively.

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 from 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

	2020	2019
Thacker Grigsby plant:		
General support	$ 15,736,104	$ 14,452,232
Central office switching	1,115,393	1,052,729
Central office transmission	11,056,880	10,029,762
Cable and wire facilities	38,562,800	36,432,984
	66,471,177	61,967,707
Elk Glen plant:		
Vehicles	81,883	81,883
Work and other equipment	775,973	636,804
	857,856	718,687
TV Service plant:		
General support	2,415,974	2,125,901
Headend and electronics	9,115,544	8,801,468
Conductor and distribution	20,521,858	18,654,162
	32,053,376	29,581,531
	$ 99,382,409	$ 92,267,925

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% - 20.0%

Note 2. Summary of Significant Accounting Policies (Continued)

Acquisitions

TV Service purchases smaller cable companies from unrelated parties on a routine basis. Goodwill represents the excess of consideration over the fair value of the identifiable net assets acquired in a business combination accounted for as a purchase. The Company has elected to amortize goodwill under Accounting Standards Update No. 2014-02. As a result of the election, the Company amortizes goodwill on a straight-line basis over 10 years and tests goodwill for impairment at the entity level. The Company tests goodwill for impairment when a triggering event occurs that indicates that the fair value of the entity may be below its carrying value. As of December 31, 2020 and 2019, management does not believe an impairment exists.

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 did not recognize any interest and penalties during the years ended December 31, 2020 and 2019, 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, 2020 and 2019, these costs were $131,011 and $143,760, respectively.

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 these ASUs on the Company's financial statements.

Subsequent Events

Management has evaluated subsequent events through March 29, 2021, 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).

Note 3. Investment Securities (Continued)

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	Fair value measurements using: Unadjusted quoted prices (Level 1)	Fair value measurements using: Significant other observable inputs (Level 2)
December 31, 2020			
Certificates of deposit	$ 681,598	$ - -	$ 681,598
Stocks	2,830,937	2,830,937	- -
Fixed-income securities	11,937,040	- -	11,937,040
	$ 15,449,575	$ 2,830,937	$ 12,618,638
December 31, 2019			
Certificates of deposit	$ 1,019,386	$ - -	$ 1,019,386
Stocks	2,647,645	2,647,645	- -
Fixed-income securities	10,828,962	- -	10,828,962
	$ 14,495,993	$ 2,647,645	$ 11,848,348

Note 4. Intangible Assets

Intangible assets used in operations consist of the following as of December 31, 2020:

	Gross Amount	Accumulated Amortization
Goodwill	$ 3,946,715	(3,630,590)
Non-compete agreements	1,312,500	(1,312,500)
Customer lists and other	879,153	(875,000)
	$ 6,138,368	$ (5,818,090)

Intangible assets used in operations consist of the following as of 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)

Aggregate amortization expense related to these intangible assets for the years ended December 31, 2020 and 2019 totaled $196,587. The following represents the total estimated amortization of intangible assets for each of the succeeding five years:

Year ending December 31:

2021	$ 198,687
2022	26,776
2023	22,109
2024	22,109
2025	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 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, 2020 and 2019:

	2020	2019
Assets	$ 213,440,853	$ 200,788,162
Liabilities	$ 51,748,153	$ 33,134,801
Equity	$ 161,692,700	$ 167,653,361
Revenues and other income	$ 131,986,587	$ 132,935,842
Expenses and other expenses	$ 120,802,140	$ 118,866,602
Net income	$ 11,184,447	$ 14,069,240

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 11.9% per year. Non-regulated investments also include amounts that Thacker-Grigsby has invested to provide internet services to its customers.

Note 6. Non-Regulated Activities (Continued)

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:

	2020	2019
Radio Equipment	$ 148,065	$ 36,313
Cable System	85,500	85,500
Tower	408,829	408,829
Video	208,987	208,987
Outside plant	138,021	138,021
Broadband	2,470,796	2,107,003
Customer-premises equipment	1,062,322	1,047,675
Other	319,774	304,491
Depreciation	(3,410,515)	(3,192,265)
	$ 1,431,779	$ 1,144,553

Non-regulated activities consisted of:

	Income	Expense	Net
Long distance services	$ 74,896	$ 18,205	$ 56,691
Internet services	2,876,220	1,729,341	1,146,879
Customer premises equipment	147,856	101,458	46,398
Fiber to the Home	1,182,456	157,865	1,024,591
Total - 2020	$ 4,281,428	$ 2,006,869	$ 2,274,559
Long distance services	$ 70,396	$ 22,393	$ 48,003
Internet services	2,450,981	1,734,482	716,499
Customer premises equipment	147,948	133,783	14,165
Fiber to the Home	1,364,591	125,191	1,239,400
Total - 2019	$ 4,033,916	$ 2,015,849	$ 2,018,067

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 of the outstanding stock of TV Service. During 2017, Allied Service 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 to CoBank is a seven-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:

	2020	2019
Thacker Grigsby:		
Due RUS at 1.69% to 4.84%	$ 7,836,117	$ 8,359,237
Due RUS at 2.02% to 3.42%, ARRA loan	1,312,849	1,449,714
Ditch Witch Financial at 6.13%	451,066	580,018
	9,600,032	10,388,969
Less current portion	732,890	883,542
	8,867,142	9,505,427
Allied Services:		
CoBank at 3.65%	1,892,000	2,708,000
Less current portion	816,000	816,000
	1,076,000	1,892,000
TV Service:		
Harmonic Inc. at zero percent	165,447	345,935
B&B Communications, LLC at 5.00%	33,150	43,000
	198,597	388,935
Less current portion	175,897	190,338
	22,700	198,597
Total long-term debt	$ 9,965,842	$ 11,596,024

Note 7. Long-Term Debt (Continued)

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

2021	$	1,724,787
2022		1,584,575
2023		1,054,790
2024		658,445
2025		662,440
Thereafter		6,005,592
	$	11,690,629

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, 2020, 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, 2020 and 2019 for Thacker-Grigsby and August 31, 2020 and 2019 for TV Service. There have been no significant changes that affect the comparability of 2020 and 2019.

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:

		2020		2019
Projected benefit obligation	$	(7,596,381)	$	(6,621,262)
Fair value of plan assets		4,219,183		3,772,491
Funded status (deficit)	$	(3,377,198)	$	(2,848,771)

The change in projected benefit obligation is as follows:

		2020		2019
Obligation at beginning of year	$	6,621,262	$	6,759,687
Service cost		291,487		281,630
Interest cost		229,129		224,372
Actuarial loss		471,675		- -
Benefit payments		(17,172)		(644,427)
Obligation at December 31	$	7,596,381	$	6,621,262

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

		2020		2019
Beginning balance	$	3,772,492	$	4,099,589
Employer contributions		300,000		375,000
Employer contributions receivable		- -		(225,000)
Actual return on assets		163,864		167,330
Payments to participants		(17,173)		(644,427)
Ending balance	$	4,219,183	$	3,772,492

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

		2020		2019
Pension liability	$	(3,377,198)	$	(2,848,771)

Components of net pension cost, which is calculated based on actuarial assumptions at July 31, were as follows:

		2020		2019
Service cost	$	291,487	$	281,630
Interest cost		229,129		224,372
Expected return on assets		(193,617)		(186,994)
Amortization of Gains (Losses)		140,053		140,053
Net Pension Cost	$	467,052	$	459,061

Note 9. Pension Plans (Continued)

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

	2020	2019
Discount rate	2.31%	3.50%
Rate of increase in compensation level	3.00%	3.00%
Expected long term rate of return on assets	5.00%	5.00%

Expected retiree pension benefit payments are projected to be as follows: 2021 - $199,142; 2022 - $215,261; 2023 - $234,670; 2024 - $245,157; 2025 - $272,687.

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, 2020			
Cash and cash equivalents	$ 1,687,673	$ 1,687,673	$ - -
Stocks	1,898,632	1,898,632	- -
Investment grade debt instruments	632,877	- -	632,877
	$ 4,219,183	$ 3,586,306	$ 632,877
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

Thacker-Grigsby expects to contribute $300,000 to the pension plan trust in 2021.

TV Service, Inc.

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

	2020	2019
Projected benefit obligation	$ (5,278,991)	$ (4,720,206)
Fair value of plan assets	3,284,136	2,868,574
Funded status	$ (1,994,855)	$ (1,851,632)

Note 9. Pension Plans (Continued)

The change in projected benefit obligation is as follows:

	2020	2019
Obligation at beginning of year	$ 4,720,206	$ 4,584,952
Service cost	166,947	157,363
Interest cost	140,865	139,642
Actuarial loss	263,073	- -
Benefit payments	(12,100)	(161,751)
Obligation at December 31	$ 5,278,991	$ 4,720,206

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

	2020	2019
Beginning balance	$ 2,868,574	$ 2,811,031
Actual return on assets	177,662	69,294
Employer contributions	250,000	250,000
Contributions receivable	- -	(100,000)
Benefits paid	(12,100)	(161,751)
Ending balance	$ 3,284,136	$ 2,868,574

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

	2020	2019
Pension liability	$ (1,994,855)	$ (1,851,632)

Components of net periodic pension cost, which is calculated based on actuarial assumptions at August 31, were as follows:

	2020	2019
Service cost	$ 166,947	$ 157,363
Interest cost	140,865	139,642
Expected return on assets	(149,904)	(139,552)
Amortization of Gains (Losses)	80,185	80,185
Net Pension Cost	$ 238,093	$ 237,638

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

	2020	2019
Discount rate	2.65%	3.00%
Rate of increase in compensation level	3.00%	3.00%
Expected long term rate of return on assets	5.00%	5.00%

Expected retiree pension benefit payments are projected to be as follows: 2021 - $51,595; 2022 - $90,163; 2023 - $171,333; 2024 - $173,743; 2025 - $197,512.

Note 9. Pension Plans (Continued)

TV Service expects to contribute $250,000 to the pension plan trust in 2021.

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

	Fair value	Fair value measurements using: Unadjusted quoted prices (Level 1)	Fair value measurements using: Significant other observable inputs (Level 2)
December 31, 2020			
Cash and cash equivalents	$ 755,351	$ 755,351	$ - -
Stocks	2,266,054	2,266,054	- -
Investment grade debt instruments	262,731	- -	262,731
	$ 3,284,136	$ 3,021,405	$ 262,731
December 31, 2019			
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

Note 10. Income Taxes

The components of income tax are as follows:

	December 31, 2020	December 31, 2019
Current:		
Federal	$ 1,522,223	$ 1,528,684
State	514,279	433,856
	2,036,502	1,962,540
Deferred:		
Federal	(67,257)	444,738
State	(16,013)	111,185
	(83,270)	555,923
	$ 1,953,232	$ 2,518,463

Note 10. Income Taxes (Continued)

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

	December 31, 2020	December 31, 2019
Deferred tax liabilities:		
Federal	$ 2,101,745	$ 2,319,378
State	500,416	444,078
	$ 2,602,161	$ 2,763,456

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.

Note 14. Revenue Recognition

Nature of goods and services

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

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

Significant judgments

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

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

Multiple performance obligations

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

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

Note 14. Revenue Recognition (Continued)

Disaggregation of revenue

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

	2020	2019
Regulated income:		
Local network services	$ 1,388,276	$ 1,377,951
Network access services	7,723,828	6,717,288
Cable television services	8,347,590	8,417,518
Cable internet services	5,339,300	4,601,755
Miscellaneous	1,535,325	1,465,746
Carrier billing and collection	16,363	12,201
	$ 24,350,682	$ 22,592,459
Nonregulated income:		
Long distance services	$ 74,896	$ 70,396
Internet services	2,876,220	2,450,981
Customer premises equipment	147,856	147,948
Fiber to the Home	1,182,456	1,364,591
	$ 4,281,428	$ 4,033,916

Contract cost liabilities

Contract cost liabilities include customer deposits. The balance in contract liabilities was as follows as of December 31:

	2020	2019	2018
Customer deposits	$ 199,216	$ 192,906	$ 188,601

Note 15. Uncertainties

Local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Company as of March 29, 2021, management believes that a material impact on the Company's financial position and results of future operations is reasonably possible.

Note 16. Paycheck Protection Program Loans

In April 2020, Thacker-Grigsby and TV Service applied for and were granted forgivable loans of $750,000 and $323,237, respectively, from the United States Small Business Administration (SBA) Paycheck Protection Program (PPP). Under the CARES Act, subject to limitations, as defined, the loans may be partially or fully forgiven, depending on specified actual payroll and other qualified costs for the covered period following receipt of the loans. Any amount not forgiven will be payable in 24 monthly installments of principal and interest at 1.00% and will be unsecured. Thacker-Grigsby and TV Service accounted for the loan proceeds as debt in accordance with ASC 470. Thacker-Grigsby and TV Service submitted their applications for forgiveness to the SBA and were notified in December 2020 that the entire amount of the loans were forgiven. As such, Thacker-Grigsby and TV Service, in compliance with guidance from RUS, have recognized the forgiveness of debt as other income for the qualified costs that were incurred during the covered period of the loans.

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 years ended December 31, 2020 and 2019, and our report thereon dated March 29, 2021, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information found on pages 25 and 26, 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 audits 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
March 29, 2021

Certified Public Accountants and Advisors
401 West Main Street, Suite 1100 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, 2020

Assets	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Current Assets:						
Cash and cash equivalents	$ 4,799,965	$ 297,864	$ 270,187	$ 1,677,127	$ - -	$ 7,045,143
Accounts receivable, less allowance of $269,321	681,914	- -	- -	1,068,135	(1,467,665)	282,384
Material and supplies, at average cost	1,466,980	- -	- -	1,289,247	- -	2,756,227
Prepaid expenses	(12,142)	2,726	- -	78,997	- -	69,581
Prepaid income taxes	- -	- -	- -	- -	- -	- -
	6,936,717	300,590	270,187	4,113,506	(1,467,665)	10,153,335
Other Assets:						
Invest in limited liability companies	57,373,225	- -	13,161,322	- -	(38,196,009)	32,338,538
Invest in equity securities	2,378,147	- -	452,790	- -	- -	2,830,937
Invest in securities available for sale	1,658,086	- -	10,335,509	625,043	- -	12,618,638
Nonregulated investments	1,374,687	3,950	52,161	981	- -	1,431,779
	62,784,145	3,950	24,001,782	626,024	(38,196,009)	49,219,892
Utility Plant, at original cost:						
In service	66,471,177	857,856	- -	32,053,376	- -	99,382,409
Under construction	2,709,447	2,092,420	- -	1,791,760	- -	6,593,627
Less accumulated depreciation	(32,736,881)	(596,719)	- -	(22,685,508)	- -	(56,019,108)
	36,443,743	2,353,557	- -	11,159,628	- -	49,956,928
Intangible assets, net of accumulated amortization of $5,818,090	13,153	- -	- -	307,125	- -	320,278
Total	$106,177,758	$2,658,097	$24,271,969	$16,206,283	($39,663,674)	$109,650,433
Member's Equities and Liabilities						
Current Liabilities:						
Current portion of long term debt	$ 732,890	$ - -	$ 816,000	$ 175,897	$ - -	$ 1,724,787
Accounts payable	1,202,256	835	1,245	844,950	(1,467,665)	581,621
Customer deposits	198,016	1,200	- -	- -	- -	199,216
Other current and accrued expenses	(335,131)	99	- -	512,896	- -	177,864
	1,798,031	2,134	817,245	1,533,743	(1,467,665)	2,683,488
Non-Current Liabilities:						
Long-term debt, less current portion	8,867,142	- -	1,076,000	22,700	- -	9,965,842
Pension liability	3,377,198	- -	- -	1,994,855	- -	5,372,053
Deferred income taxes	3,108,498	- -	- -	(506,337)	- -	2,602,161
	15,352,838	- -	1,076,000	1,511,218	- -	17,940,056
Stockholders' Equity:						
Capital investments	266,800	4,614,720	21,061,506	10,642,436	(36,318,662)	266,800
Retained earnings	91,391,518	(1,958,757)	1,335,276	3,959,999	(3,336,518)	91,391,518
Accum comprehensive income	(2,631,429)	- -	(18,058)	(1,441,113)	1,459,171	(2,631,429)
	89,026,889	2,655,963	22,378,724	13,161,322	(38,196,009)	89,026,889
Total	$106,177,758	$ 2,658,097	$ 24,271,969	$ 16,206,283	$ (39,663,674)	$ 109,650,433

THACKER-GRIGSBY TELEPHONE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2020

	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Operating Revenues:						
Local network services	$ 1,388,276	$ - -	$ - -	$ - -	$ - -	$ 1,388,276
Network access services	7,366,779	- -	- -	357,049	- -	7,723,828
Cable television services	- -	- -	- -	8,347,590	- -	8,347,590
Cable internet services	- -	- -	- -	5,339,300	- -	5,339,300
Carrier billing and collection	16,363	- -	- -	- -	- -	16,363
Miscellaneous	842,133	336,201	- -	356,991	- -	1,535,325
Less provision for uncollectibles	(2,880)	- -	- -	(134,000)	- -	(136,880)
Total operating revenues	9,610,671	336,201	- -	14,266,930	- -	24,213,802
Operating Expenses:						
Plant specific	1,505,359	77,259	- -	2,890,862	- -	4,473,480
Plant non specific	669,513	7,887	- -	811,941	- -	1,489,341
Depreciation and amortization	3,441,690	24,333	483	2,173,382	- -	5,639,888
Programming costs	- -	- -	- -	4,626,004	- -	4,626,004
Customer operations	681,512	1,470	- -	912,350	- -	1,595,332
Corporate operations	1,223,908	15,151	5,567	1,063,316	- -	2,307,942
Other operating taxes	521,993	14,005	- -	175,061	- -	711,059
Other expenses	353,843	264,777	- -	66,229	- -	684,849
Total operating expenses	8,397,818	404,882	6,050	12,719,145	- -	21,527,895
	1,212,853	(68,681)	(6,050)	1,547,785	- -	2,685,907
Other Income and Expense:						
Investment income	153,073	566	390,403	21,623	- -	565,665
Income in associated companies	3,914,920	- -	1,514,490	- -	(3,257,000)	2,172,410
Loan forgiveness	750,000	- -	- -	323,237	- -	1,073,237
Nonregulated activities	2,274,559	- -	- -	- -	- -	2,274,559
	7,092,552	566	1,904,893	344,860	(3,257,000)	6,085,871
Income before interest and tax	8,305,405	(68,115)	1,898,843	1,892,645	(3,257,000)	8,771,778
Other interest	36,212	- -	- -	- -	- -	36,212
Interest on long-term debt	242,478	- -	88,217	2,161	- -	332,856
Total interest expense	278,690	- -	88,217	2,161	- -	369,068
Income before income tax	8,026,715	(68,115)	1,810,626	1,890,484	(3,257,000)	8,402,710
Income tax	1,577,237	- -	- -	375,995	- -	1,953,232
Net income	6,449,478	(68,115)	1,810,626	1,514,489	(3,257,000)	6,449,478
Other comprehensive income (loss):						
Investment securities	190,320	- -	129,566	53,039	(182,605)	190,320
Pension plans	(282,153)	- -	- -	(105,428)	105,428	(282,153)
Total comprehensive income	$ 6,357,645	$ (68,115)	$ 1,940,192	$ 1,462,100	$ (3,334,177)	$ 6,357,645

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, 2020, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 29, 2021.

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
401 West Main Street, Suite 1100 Louisville, Kentucky 40202 tel: 502.583.0248 fax: 502.589-1680 www.jnmcpa.com

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
March 29, 2021

Jones, Nale & Mattingly PLC

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, 2020, 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 March 29, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2021 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 permission from RUS to enter into any contract, agreement, or lease with any 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	$ 30,289,421	$ 33,530,671
Activity for 2020	- -	(1,192,133)	(1,192,133)
End of Year	$ 3,241,250	$ 29,097,288	$ 32,338,538

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	$ (2,820,922)	$ 2,724,078
Activity for 2020	- -	(68,115)	(68,115)
End of Year	$ 5,545,000	$ (2,889,037)	$ 2,655,963

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	$ (632,748)	$ 20,428,758
Activity for 2020	- -	1,949,966	1,949,966
End of Year	$ 21,061,506	$ 1,317,218	$ 22,378,724

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
March 29, 2021