

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

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2021

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1-3
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated balance sheets	4
Consolidated statements of income and comprehensive income	5
Consolidated statements of changes in stockholders' equity	6
Consolidated statements of cash flows	7
Notes to consolidated financial statements	8-24
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION	25
Consolidating balance sheet	26
Consolidating statements of income and comprehensive income	27
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 <i>Government Auditing Standards</i>	28-29
Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements For Telephone Borrowers	30-31



Jones, Nale & Mattingly PLC

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Thacker-Grigsby Telephone Company, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Thacker-Grigsby Telephone Company, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Thacker-Grigsby Telephone Company, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Thacker-Grigsby Telephone Company, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2022, 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 Thacker-Grigsby Telephone Company, Inc. and Subsidiaries' internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
March 29, 2022

THACKER-GRIGSBY TELEPHONE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2021 and 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,718,492	\$ 7,045,143
Accounts receivable, less allowance for 2021 of \$38,117 and 2020 of \$269,321	1,506	282,384
Materials and supplies, at average cost	1,574,547	2,756,227
Prepaid expenses	<u>209,007</u>	<u>69,581</u>
Total current assets	<u>9,503,552</u>	<u>10,153,335</u>
NON-CURRENT ASSETS		
Investment in limited liability company	33,528,952	32,338,538
Investment in equity securities	3,383,829	2,667,720
Investment securities available for sale	12,548,160	12,781,855
Nonregulated investments	<u>3,337,054</u>	<u>1,431,779</u>
Total non-current assets	<u>52,797,995</u>	<u>49,219,892</u>
PROPERTY AND EQUIPMENT		
In service	105,558,730	99,382,409
Under construction	<u>13,716,138</u>	<u>6,593,627</u>
	119,274,868	105,976,036
Less accumulated depreciation	<u>61,517,960</u>	<u>56,019,108</u>
	<u>57,756,908</u>	<u>49,956,928</u>
OTHER ASSETS		
Intangible assets, net of accumulated amortization of \$6,014,676 in 2021 and \$5,818,090 in 2020	<u>123,691</u>	<u>320,278</u>
	<u>\$ 120,182,146</u>	<u>\$ 109,650,433</u>
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 1,633,313	\$ 1,724,787
Accounts payable	760,101	581,621
Customer deposits	190,631	199,216
Other current and accrued expenses	<u>110,816</u>	<u>177,864</u>
Total current liabilities	<u>2,694,861</u>	<u>2,683,488</u>
NON-CURRENT LIABILITIES		
Long-term debt, less current portion	14,090,641	9,965,842
Pension liability	4,440,374	5,372,053
Deferred income taxes	<u>3,068,758</u>	<u>2,602,161</u>
Total non-current liabilities	<u>21,599,773</u>	<u>17,940,056</u>
STOCKHOLDERS' EQUITY		
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	97,572,335	91,391,518
Accumulated other comprehensive (loss)	<u>(1,951,623)</u>	<u>(2,631,429)</u>
Total stockholders' equity	<u>95,887,512</u>	<u>89,026,889</u>
	<u>\$ 120,182,146</u>	<u>\$ 109,650,433</u>

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, 2021 and 2020

	2021	2020
Operating Revenues:		
Local network services	\$ 1,349,366	\$ 1,388,276
Network access services	8,106,235	7,723,828
Cable television services	7,883,540	8,347,590
Cable internet services	6,021,468	5,339,300
Billing and collection	12,016	16,363
Miscellaneous	1,713,370	1,535,325
Less provision for uncollectibles	(14,317)	(136,880)
Total operating revenues	25,071,678	24,213,802
Operating Expenses:		
Plant specific	4,749,217	4,473,480
Plant nonspecific	1,676,126	1,489,341
Depreciation and amortization	6,673,280	5,639,888
Programming costs	4,687,000	4,626,004
Customer operations	1,701,761	1,595,332
Corporate operations	2,706,564	2,307,942
Other operating taxes	731,188	711,059
Other expenses	734,880	684,849
Total operating expenses	23,660,016	21,527,895
Operating income	1,411,662	2,685,907
Other Income and Expenses:		
Investment income	810,033	565,665
Net income from limited liability company	3,677,442	2,172,410
Loan forgiveness	-	1,073,237
Nonregulated activities	2,924,492	2,274,559
Total other income	7,411,967	6,085,871
Income before interest and income tax	8,823,629	8,771,778
Other interest	15,487	36,212
Interest on long-term debt	346,322	332,856
Total interest expense	361,809	369,068
Income before income tax	8,461,820	8,402,710
Income tax	2,069,213	1,953,232
Net income	6,392,607	6,449,478
Other comprehensive income (loss):		
Investment securities	(71,057)	190,320
Pension plans	750,863	(282,153)
Total comprehensive income	\$ 7,072,413	\$ 6,357,645

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, 2021 and 2020

	<u>Capital Investments</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
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
Net income	--	6,392,607	--	6,392,607
Unrealized loss on debt securities, net of deferred tax benefit of \$24,966	--	--	(71,057)	(71,057)
Minimum pension liability, net of deferred tax expense of \$263,817	--	--	750,863	750,863
Dividends paid	--	(211,790)	--	(211,790)
Balance - December 31, 2021	<u>\$ 266,800</u>	<u>\$ 97,572,335</u>	<u>\$ (1,951,623)</u>	<u>\$ 95,887,512</u>

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, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 6,392,607	\$ 6,449,478
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,476,694	5,443,301
Amortization	196,586	196,587
Deferred income taxes (benefit)	227,922	(83,270)
Pension benefit expense	549,950	705,145
Pension benefit contributions	(550,000)	(475,000)
Unrealized (gain) on equity securities	(470,289)	(154,095)
Income in limited liability company	(3,677,442)	(2,172,410)
Forgiveness of PPP loan	--	(1,073,237)
Change in current assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable, net	280,878	(131,290)
Material and supplies	1,181,680	426,196
Prepaid expenses	(139,426)	(56,134)
Prepaid income taxes	--	703,643
Accounts payable	178,480	168,314
Customer deposits	(8,585)	6,310
Other current and accrued expenses	(67,048)	(478,507)
Net cash provided by operating activities	10,572,007	9,475,031
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction of plant	(12,016,555)	(9,033,384)
Retirement costs, net of salvage recovered from plant	70,695	(102,595)
Distribution from limited liability company	2,344,804	3,364,543
Purchases of investment securities	(1,770,221)	(1,812,490)
Proceeds from sale of investment securities	154,671	1,302,950
Nonregulated investments and others	(2,503,587)	(287,841)
Net cash (used in) investing activities	(13,720,193)	(6,568,817)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	5,826,124	1,073,237
Payments on long-term debt	(1,792,799)	(1,795,275)
Dividends paid	(211,790)	(211,790)
Net cash provided by (used in) financing activities	3,821,535	(933,828)
Net increase in cash and cash equivalents	673,349	1,972,386
Cash and cash equivalents:		
Beginning of year	7,045,143	5,072,757
End of year	\$ 7,718,492	\$ 7,045,143
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash interest paid	\$ 361,809	\$ 369,068
Income taxes paid	1,972,228	1,264,513

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

THACKER-GRIGSBY TELEPHONE COMPANY, INC.

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.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

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, 2021 and 2020. The number of access lines was 5,537 and 5,592 for 2021 and 2020, respectively.

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 taxes from revenue when collected and expenses when paid and instead, record collection and payment of 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 costs 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:

	2021	2020
Thacker Grigsby plant:		
General support	\$ 17,882,465	\$ 15,736,104
Central office switching	1,104,481	1,115,393
Central office transmission	12,116,702	11,056,880
Cable and wire facilities	38,828,899	38,562,800
	69,932,547	66,471,177
Elk Glen plant:		
Vehicles	81,883	81,883
Work and other equipment	934,707	775,973
	1,016,590	857,856
TV Service plant:		
General support	2,326,045	2,415,974
Headend and electronics	9,488,992	9,115,544
Conductor and distribution	22,794,556	20,521,858
	34,609,593	32,053,376
	\$ 105,558,730	\$ 99,382,409

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%

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. 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, 2021 and 2020, 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, 2021 and 2020, respectively.

The Company’s income tax return is subject to possible examination by taxing authorities until the expiration of related statutes 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Advertising

The Company expenses advertising costs as incurred. For the years ended December 31, 2021 and 2020, these costs were \$139,098 and \$131,011, 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, 2022, 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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

	<u>Fair value</u>	<u>Fair value measurements using:</u>	
		<u>Unadjusted quoted prices (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>
<u>December 31, 2021</u>			
Certificates of deposit	\$ 563,303	\$ --	\$ 563,303
Equities	3,383,829	3,383,829	--
Fixed-income securities	11,984,857	--	11,984,857
	<u>\$ 15,931,989</u>	<u>\$ 3,383,829</u>	<u>\$ 12,548,160</u>
<u>December 31, 2020</u>			
Certificates of deposit	\$ 681,598	\$ --	\$ 681,598
Equities	2,667,720	2,667,720	--
Fixed-income securities	12,100,257	--	12,100,257
	<u>\$ 15,449,575</u>	<u>\$ 2,667,720</u>	<u>\$ 12,781,855</u>

Note 4. Intangible Assets

Intangible assets used in operations consist of the following as of December 31, 2021:

	<u>Gross Amount</u>	<u>Accumulated Amortization</u>
Goodwill	\$ 3,946,714	\$ (3,827,176)
Non-compete agreements	1,312,500	(1,312,500)
Customer lists and other	879,153	(875,000)
	<u>\$ 6,138,367</u>	<u>\$ (6,014,676)</u>

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Intangible Assets (Continued)

Aggregate amortization expense related to these intangible assets for the years ended December 31, 2021 and 2020 totaled \$196,586. The following represents the total estimated amortization of intangible assets for each of the succeeding five years:

Year ending December 31:

2022	\$	24,677
2023		20,009
2024		20,009
2025		20,009
2026		3,335

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, 2021 and 2020:

	2021	2020
Assets	\$ 227,194,142	\$ 213,440,853
Liabilities	\$ 59,549,380	\$ 51,748,153
Equity	\$ 167,644,762	\$ 161,692,700
Revenues and other income	\$ 128,797,860	\$ 131,986,587
Expenses and other expenses	\$ 111,426,894	\$ 120,802,140
Net income	\$ 17,370,966	\$ 11,184,447

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

	2021	2020
Radio Equipment	\$ 36,313	\$ 148,065
Cable System	85,500	85,500
Tower	408,829	408,829
Video	208,987	208,987
Outside plant	1,758,297	138,021
Broadband	3,373,051	2,470,796
Customer-premises equipment	1,081,572	1,062,322
Other	303,458	319,774
Depreciation	(3,918,953)	(3,410,515)
	<u>\$ 3,337,054</u>	<u>\$ 1,431,779</u>

Non-regulated activities consisted of:

	Income	Expense	Net
Long distance services	\$ 22,286	\$ 16,040	\$ 6,246
Internet services	3,452,182	2,181,627	1,270,555
Customer premises equipment	147,379	226,106	(78,727)
Fiber to the Home	1,371,380	196,395	1,174,985
Competitive Local Exchange Carrier (CLEC)	435,321	174,708	260,613
Consumer Broadband-Only Loop (CBOL)	290,820	-	290,820
Total - 2021	<u>\$ 5,719,368</u>	<u>\$ 2,794,876</u>	<u>\$ 2,924,492</u>
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	126,902	20,954
Fiber to the Home	1,182,456	132,421	1,050,035
Total - 2020	<u>\$ 4,281,428</u>	<u>\$ 2,006,869</u>	<u>\$ 2,274,559</u>

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

	2021	2020
Thacker Grigsby:		
Due RUS at 1.69% to 4.84%	\$ 13,121,475	\$ 7,836,117
Due RUS at 2.02% to 3.42%, ARRA loan	1,174,755	1,312,849
Ditch Witch Financial at 6.13%	313,983	451,066
	14,610,213	9,600,032
Less current portion	791,222	732,890
	13,818,991	8,867,142
Allied Services:		
CoBank at 3.65%	1,076,000	1,892,000
Less current portion	816,000	816,000
	260,000	1,076,000
TV Service:		
Harmonic Inc. at zero percent	15,041	165,447
B&B Communications, LLC at 5.00%	22,700	33,150
	37,741	198,597
Less current portion	26,091	175,897
	11,650	22,700
Total long-term debt	\$ 14,090,641	\$ 9,965,842

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Long-Term Debt (Continued)

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

2022	\$	1,633,313
2023		1,089,172
2024		693,523
2025		698,231
2026		720,396
Thereafter		10,889,319
	\$	<u>15,723,954</u>

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, 2021, 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 27, 2021 and 2020 for Thacker-Grigsby and August 31, 2021 and 2020 for TV Service. There have been no significant changes that affect the comparability of 2021 and 2020.

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 asset 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Pension Plans (Continued)

Thacker-Grigsby Telephone Company, Inc.

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

	2021	2020
Projected benefit obligation	\$ (7,618,448)	\$ (7,596,381)
Fair value of plan assets	4,995,173	4,219,183
Funded status (deficit)	<u>\$ (2,623,275)</u>	<u>\$ (3,377,198)</u>

The change in projected benefit obligation is as follows:

	2021	2020
Obligation at beginning of year	\$ 7,596,381	\$ 6,621,262
Service cost	304,016	291,487
Interest cost	173,189	229,129
Actuarial (gain) loss	(153,862)	471,676
Benefit payments	(301,276)	(17,173)
Obligation at December 31	<u>\$ 7,618,448</u>	<u>\$ 7,596,381</u>

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

	2021	2020
Beginning balance	\$ 4,219,183	\$ 3,772,492
Employer contributions	300,000	300,000
Actual return on assets	777,266	163,864
Benefits paid	(301,276)	(17,173)
Ending balance	<u>\$ 4,995,173</u>	<u>\$ 4,219,183</u>

The amounts recognized in the consolidated balance sheets are as follows:

	2021	2020
Pension liability	<u>\$ (2,623,275)</u>	<u>\$ (3,377,198)</u>

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

	2021	2020
Service cost	\$ 304,016	\$ 291,487
Interest cost	173,189	229,129
Expected return on assets	(214,239)	(193,617)
Amortization of Gains (Losses)	140,053	140,053
Net Pension Cost	<u>\$ 403,019</u>	<u>\$ 467,052</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Pension Plans (Continued)

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

	2021	2020
Discount rate	2.31%	2.31%
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: 2022 - \$234,596; 2023 - \$247,550; 2024 - \$243,900; 2025 - \$272,641; 2026 - \$278,951.

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

	Fair value	Fair value measurements using:	
		Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2021			
Cash and cash equivalents	\$ 1,998,069	\$ 1,998,069	\$ --
Stocks	2,247,828	2,247,828	--
Investment grade debt instruments	749,276	--	749,276
	\$ 4,995,173	\$ 4,245,897	\$ 749,276
December 31, 2020			
Cash and cash equivalents	\$ 1,687,673	\$ 1,687,673	\$ --
Stocks	1,898,633	1,898,633	--
Investment grade debt instruments	632,877	--	632,877
	\$ 4,219,183	\$ 3,586,306	\$ 632,877

Thacker-Grigsby expects to contribute \$300,000 to the pension plan trust in 2022.

TV Service, Inc.

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

	2021	2020
Projected benefit obligation	\$ (5,766,598)	\$ (5,278,991)
Fair value of plan assets	3,949,499	3,284,136
Funded status	\$ (1,817,099)	\$ (1,994,855)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Pension Plans (Continued)

The change in projected benefit obligation is as follows:

	2021	2020
Obligation at beginning of year	\$ 5,278,991	\$ 4,720,206
Service cost	181,403	166,947
Interest cost	139,214	140,865
Actuarial loss	187,984	263,073
Benefit payments	(20,994)	(12,100)
Obligation at December 31	<u>\$ 5,766,598</u>	<u>\$ 5,278,991</u>

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

	2021	2020
Beginning balance	\$ 3,284,136	\$ 2,868,574
Actual return on assets	436,357	177,662
Employer contributions	250,000	250,000
Benefits paid	(20,994)	(12,100)
Ending balance	<u>\$ 3,949,499</u>	<u>\$ 3,284,136</u>

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

	2021	2020
Pension liability	<u>\$ (1,817,099)</u>	<u>\$ (1,994,855)</u>

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

	2021	2020
Service cost	\$ 181,403	\$ 166,947
Interest cost	139,214	140,865
Expected return on assets	(170,821)	(149,904)
Amortization of Gains (Losses)	80,185	80,185
Net Pension Cost	<u>\$ 229,981</u>	<u>\$ 238,093</u>

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

	2021	2020
Discount rate	2.65%	2.65%
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: 2022 - \$94,164; 2023 - \$176,436; 2024 - \$177,536; 2025 - \$201,285; 2026 - \$201,702.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Pension Plans (Continued)

TV Service expects to contribute \$250,000 to the pension plan trust in 2022.

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

December 31, 2021	Fair value	Fair value measurements using:	
		Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
Cash and cash equivalents	\$ 908,385	\$ 908,385	\$ --
Stocks	2,725,154	2,725,154	--
Investment grade debt instruments	315,960	--	315,960
	\$ 3,949,499	\$ 3,633,539	\$ 315,960
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

Note 10. Income Taxes

The components of income tax are as follows:

	December 31,	
	2021	2020
Current:		
Federal	\$ 1,516,253	\$ 1,522,223
State	325,038	514,279
	1,841,291	2,036,502
Deferred:		
Federal	184,091	(67,257)
State	43,831	(16,013)
	227,922	(83,270)
	\$ 2,069,213	\$ 1,953,232

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,	
	2021	2020
Deferred tax liabilities:		
Federal	\$ 2,478,612	\$ 2,101,745
State	590,146	500,416
	<u>\$ 3,068,758</u>	<u>\$ 2,602,161</u>

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Revenue Recognition (Continued)

Disaggregation of revenue

In the following table, revenue for the years ended December 31, 2021 and 2020 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.

	2021	2020
<u>Regulated income:</u>		
Local network services	\$ 1,349,366	\$ 1,388,276
Network access services	8,106,235	7,723,828
Cable television services	7,883,540	8,347,590
Cable internet services	6,021,468	5,339,300
Miscellaneous	1,713,370	1,535,325
Carrier billing and collection	12,016	16,363
	\$ 25,085,995	\$ 24,350,682
<u>Nonregulated income:</u>		
Long distance services	\$ 22,286	\$ 74,896
Internet services	3,452,182	2,876,220
Customer premises equipment	147,379	147,856
Fiber to the Home	1,371,380	1,182,456
Competitive Local Exchange Carrier (CLEC)	435,321	-
Consumer Broadband-Only Loop (CBOL)	290,820	-
	\$ 5,719,368	\$ 4,281,428

Contract cost liabilities

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

	2021	2020	2019
Customer deposits	\$ 190,631	\$ 199,216	\$ 192,906

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, 2022, management believes that a material impact on the Company's financial position and results of future operations is reasonably possible.



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, 2021 and 2020, and our report thereon dated March 29, 2022, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1, 2 and 3. 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 26 and 27, is presented for purposes of additional analysis and is not a required part of the 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 P.C.

Louisville, Kentucky
March 29, 2022

THACKER-GRIGSBY TELEPHONE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

December 31, 2021

<u>Assets</u>	<u>Thacker Grigsby</u>	<u>Elk Glen</u>	<u>Allied Services</u>	<u>TV Services</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current Assets:						
Cash and cash equivalents	\$ 5,272,820	\$ 368,593	\$ 341,789	\$ 1,735,290	\$ --	\$ 7,718,492
Accounts receivable, less allowance of \$38,117	171,538	--	--	(53,450)	(116,582)	1,506
Material and supplies, at average cost	1,315,117	--	--	259,430	--	1,574,547
Prepaid expenses	98,010	2,734	--	108,263	--	209,007
	<u>6,857,485</u>	<u>371,327</u>	<u>341,789</u>	<u>2,049,533</u>	<u>(116,582)</u>	<u>9,503,552</u>
Noncurrent Assets:						
Investment in limited liability companies	58,342,952	--	12,210,894	--	(37,024,894)	33,528,952
Investment in equity securities	2,909,816	--	474,013	--	--	3,383,829
Investment in securities	1,616,703	--	10,297,324	634,133	--	12,548,160
Nonregulated investments	3,275,648	3,818	57,161	427	--	3,337,054
	<u>66,145,119</u>	<u>3,818</u>	<u>23,039,392</u>	<u>634,560</u>	<u>(37,024,894)</u>	<u>52,797,995</u>
Property and Equipment:						
In service	69,932,547	1,016,590	--	34,609,593	--	105,558,730
Under construction	10,308,514	1,759,419	--	1,648,205	--	13,716,138
Less accumulated depreciation	(36,062,614)	(621,622)	--	(24,833,724)	--	(61,517,960)
	<u>44,178,447</u>	<u>2,154,387</u>	<u>--</u>	<u>11,424,074</u>	<u>--</u>	<u>57,756,908</u>
Intangible assets, net of accumulated amortization of \$6,014,676						
	<u>13,153</u>	<u>--</u>	<u>--</u>	<u>110,538</u>	<u>--</u>	<u>123,691</u>
Total	<u>\$117,194,204</u>	<u>\$ 2,529,532</u>	<u>\$ 23,381,181</u>	<u>\$ 14,218,705</u>	<u>\$ (37,141,476)</u>	<u>\$ 120,182,146</u>
<u>Liabilities and Stockholders' Equity</u>						
Current Liabilities:						
Current portion of long term debt	\$ 791,222	\$ --	\$ 816,000	\$ 26,091	\$ --	\$ 1,633,313
Accounts payable	347,467	14,451	4,920	509,845	(116,582)	760,101
Customer deposits	189,431	1,200	--	--	--	190,631
Other current and accrued expenses	759	142	--	109,915	--	110,816
	<u>1,328,879</u>	<u>15,793</u>	<u>820,920</u>	<u>645,851</u>	<u>(116,582)</u>	<u>2,694,861</u>
Non-Current Liabilities:						
Long-term debt, less current portion	13,818,991	--	260,000	11,650	--	14,090,641
Pension liability	2,623,275	--	--	1,817,099	--	4,440,374
Deferred income taxes	3,535,547	--	--	(466,789)	--	3,068,758
	<u>19,977,813</u>	<u>--</u>	<u>260,000</u>	<u>1,361,960</u>	<u>--</u>	<u>21,599,773</u>
Stockholders' Equity:						
Capital investments	266,800	4,614,720	19,261,506	10,042,436	(33,918,662)	266,800
Retained earnings	97,572,335	(2,100,981)	2,977,004	3,497,009	(4,373,032)	97,572,335
Accum comprehensive income (loss)	(1,951,623)	--	61,751	(1,328,551)	1,266,800	(1,951,623)
	<u>95,887,512</u>	<u>2,513,739</u>	<u>22,300,261</u>	<u>12,210,894</u>	<u>(37,024,894)</u>	<u>95,887,512</u>
Total	<u>\$117,194,204</u>	<u>\$ 2,529,532</u>	<u>\$ 23,381,181</u>	<u>\$ 14,218,705</u>	<u>\$ (37,141,476)</u>	<u>\$ 120,182,146</u>

THACKER-GRIGSBY TELEPHONE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2021

	Thacker <u>Grigsby</u>	Elk <u>Glen</u>	Allied <u>Services</u>	TV <u>Services</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating Revenues:						
Local network services	\$ 1,349,366	\$ --	\$ --	\$ --	\$ --	\$ 1,349,366
Network access services	7,752,912	--	--	353,323	--	8,106,235
Cable television services	--	--	--	7,883,540	--	7,883,540
Cable internet services	--	--	--	6,021,468	--	6,021,468
Billing and collection	12,016	--	--	--	--	12,016
Miscellaneous	919,828	385,544	--	407,998	--	1,713,370
Less provision for uncollectibles	(43,045)	--	--	28,728	--	(14,317)
Total operating revenues	<u>9,991,077</u>	<u>385,544</u>	<u>--</u>	<u>14,695,057</u>	<u>--</u>	<u>25,071,678</u>
Operating Expenses:						
Plant specific	2,223,363	129,017	--	2,396,837	--	4,749,217
Plant nonspecific	790,616	11,503	--	874,007	--	1,676,126
Depreciation and amortization	3,946,166	25,036	483	2,701,595	--	6,673,280
Programming costs	--	--	--	4,687,000	--	4,687,000
Customer operations	747,644	412	--	953,705	--	1,701,761
Corporate operations	1,444,892	14,710	6,852	1,240,110	--	2,706,564
Other operating taxes	542,417	13,391	--	175,380	--	731,188
Other expenses	338,367	334,210	--	62,303	--	734,880
Total operating expenses	<u>10,033,465</u>	<u>528,279</u>	<u>7,335</u>	<u>13,090,937</u>	<u>--</u>	<u>23,660,016</u>
Operating income (loss)	<u>(42,388)</u>	<u>(142,735)</u>	<u>(7,335)</u>	<u>1,604,120</u>	<u>--</u>	<u>1,411,662</u>
Other Income and Expense:						
Investment income	420,487	686	369,839	19,021	--	810,033
Net income from limited liability companies	5,176,946	--	1,337,010	--	(2,836,514)	3,677,442
Nonregulated activities	2,924,492	--	--	--	--	2,924,492
	<u>8,521,925</u>	<u>686</u>	<u>1,706,849</u>	<u>19,021</u>	<u>(2,836,514)</u>	<u>7,411,967</u>
Income (loss) before interest and tax	<u>8,479,537</u>	<u>(142,049)</u>	<u>1,699,514</u>	<u>1,623,141</u>	<u>(2,836,514)</u>	<u>8,823,629</u>
Other interest	15,487	--	--	--	--	15,487
Interest on long-term debt	286,960	--	57,786	1,576	--	346,322
Total interest expense	<u>302,447</u>	<u>--</u>	<u>57,786</u>	<u>1,576</u>	<u>--</u>	<u>361,809</u>
Income (loss) before income taxes	<u>8,177,090</u>	<u>(142,049)</u>	<u>1,641,728</u>	<u>1,621,565</u>	<u>(2,836,514)</u>	<u>8,461,820</u>
Income tax	1,784,483	175	--	284,555	--	2,069,213
Net income (loss)	6,392,607	(142,224)	1,641,728	1,337,010	(2,836,514)	6,392,607
Other comprehensive income (loss):						
Investment securities	(71,057)	--	79,809	(4,164)	(75,645)	(71,057)
Pension plans	750,863	--	--	116,726	(116,726)	750,863
Total comprehensive income (loss)	<u>\$ 7,072,413</u>	<u>\$ (142,224)</u>	<u>\$ 1,721,537</u>	<u>\$ 1,449,572</u>	<u>\$ (3,028,885)</u>	<u>\$ 7,072,413</u>



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, 2021, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 29, 2022.

Report on 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) as basis for designing 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. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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

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 or significant deficiencies may exist that were not identified.

Report on 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 consolidated financial statements. 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 entity'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, 2022



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, 2021, 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, 2022. In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2022 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;

- 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:

	<u>Investments</u>	<u>Profits</u>	<u>Total</u>
Beginning of year	\$ 3,241,250	\$ 29,097,288	\$ 32,338,538
Activity for 2021	-	1,190,414	1,190,414
End of Year	<u>\$ 3,241,250</u>	<u>\$ 30,287,702</u>	<u>\$ 33,528,952</u>

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:

	<u>Investments</u>	<u>Profits</u>	<u>Total</u>
Beginning of year	\$ 5,545,000	\$ (2,889,037)	\$ 2,655,963
Activity for 2021	-	(142,224)	(142,224)
End of Year	<u>\$ 5,545,000</u>	<u>\$ (3,031,261)</u>	<u>\$ 2,513,739</u>

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:

	<u>Investments</u>	<u>Profits</u>	<u>Total</u>
Beginning of year	\$ 21,061,506	\$ 1,317,218	\$ 22,378,724
Activity for 2021	(1,720,191)	1,641,728	(78,463)
End of Year	<u>\$ 19,341,315</u>	<u>\$ 2,958,946</u>	<u>\$ 22,300,261</u>

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 P.C.

Louisville, Kentucky
March 29, 2022