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

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2022

C O N T E N T S

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, 2022 and 2021, 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, 2022 and 2021, 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.

Change in Accounting Principle

As discussed in Note 2, the Company has adopted Financial Accounting Standards Update 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

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.

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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 27, 2023, 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 27, 2023

THACKER-GRIGSBY TELEPHONE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021

ASSETS	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	$ 7,903,144	$ 7,718,492
Accounts receivable, less allowance of 2022 of $60,731 and 2021 of $38,117	813,693	1,506
Materials and supplies	2,189,758	1,574,547
Prepaid expenses	118,112	131,891
Prepaid income taxes	426,795	42,561
Total current assets	11,451,502	9,468,997
NON-CURRENT ASSETS		
Investment in limited liability company	33,427,780	33,528,952
Investment securities, at fair value	13,837,338	15,931,989
Nonregulated investments	6,432,581	3,337,054
Total non-current assets	53,697,699	52,797,995
PROPERTY AND EQUIPMENT		
In service	111,009,121	105,558,730
Under construction	19,067,451	13,716,138
	130,076,572	119,274,868
Less accumulated depreciation	67,350,026	61,517,960
	62,726,546	57,756,908
Operating lease right-of-use asset	283,301	- -
	63,009,847	57,756,908
OTHER ASSETS		
Intangible assets, net of accumulated amortization of $6,041,628 in 2022 and $6,014,677 in 2021	155,240	123,691
	$ 128,314,288	$ 120,147,591

LIABILITIES AND STOCKHOLDERS' EQUITY	2022	2021
CURRENT LIABILITIES		
Current portion of long-term debt	$ 1,816,407	$ 1,633,313
Accounts payable	1,339,609	760,101
Customer deposits	135,348	190,631
Other current and accrued expenses	111,758	76,261
Short-term operating lease liability	83,839	- -
Total current liabilities	3,486,961	2,660,306
NON-CURRENT LIABILITIES		
Long-term debt, less current portion	19,493,538	14,090,641
Pension liability	1,334,359	4,440,374
Deferred income taxes	3,922,887	3,068,758
Long-term operating lease liability	199,462	- -
Total non-current liabilities	24,950,246	21,599,773
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	101,538,422	97,572,335
Accumulated other comprehensive (loss)	(1,928,141)	(1,951,623)
Total stockholders' equity	99,877,081	95,887,512
	$ 128,314,288	$ 120,147,591

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, 2022 and 2021

	2022	2021
Operating Revenues:		
Local network services	$ 1,235,847	$ 1,349,366
Network access services	9,215,190	8,106,235
Cable television services	7,418,388	7,883,540
Cable internet services	5,788,654	6,021,468
Billing and collection	11,764	12,016
Miscellaneous	2,436,205	1,713,370
Less provision for uncollectibles	(233,571)	(14,317)
Total operating revenues	25,872,477	25,071,678
Operating Expenses:		
Plant specific	5,170,644	4,749,217
Plant nonspecific	1,917,353	1,676,126
Depreciation and amortization	6,816,410	6,673,280
Programming costs	4,307,500	4,687,000
Customer operations	1,841,597	1,701,761
Corporate operations	2,837,609	2,706,564
Other operating taxes	807,795	731,188
Other expenses	88,690	734,880
Total operating expenses	23,787,598	23,660,016
Operating income	2,084,879	1,411,662
Other Income and Expenses:		
Investment income (loss)	(168,302)	810,034
Net income from limited liability company	1,644,016	3,677,441
Nonregulated activities	3,303,611	2,924,492
Total other income	4,779,325	7,411,967
Income before interest and income tax expense	6,864,204	8,823,629
Other interest	- -	15,487
Interest on long-term debt	425,060	346,322
Total interest expense	425,060	361,809
Income before income tax expense	6,439,144	8,461,820
Income tax expense	2,261,267	2,069,213
Net income	4,177,877	6,392,607
Other comprehensive income (loss):		
Investment securities	(887,337)	(71,057)
Pension plans	910,819	750,863
Total comprehensive income	$ 4,201,359	$ 7,072,413

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, 2022 and 2021

	Capital Investments	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
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	266,800	97,572,335	(1,951,623)	95,887,512
Net income	- -	4,177,877	- -	4,177,877
Unrealized loss on debt securities, net of deferred tax benefit of $311,767	- -	- -	(887,337)	(887,337)
Minimum pension liability, net of deferred tax expense of $320,017	- -	- -	910,819	910,819
Dividends paid	- -	(211,790)	- -	(211,790)
Balance - December 31, 2022	$ 266,800	$ 101,538,422	$ (1,928,141)	$ 99,877,081

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, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,177,877	$ 6,392,607
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,789,459	6,476,694
Amortization	26,951	196,586
Non-cash operating lease expense	96,666	- -
Deferred income taxes (benefit)	854,129	227,922
Pension expense (benefit)	(406,486)	549,950
Unrealized (gain) loss on equity securities	1,925,257	(470,289)
Income in limited liability company	(1,644,016)	(3,677,442)
Change in current assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable, net	(812,187)	280,878
Material and supplies	(615,211)	1,181,680
Prepaid expenses	13,779	(139,426)
Prepaid income taxes	(392,486)	- -
Accounts payable	579,508	178,480
Customer deposits	(55,283)	(8,585)
Other current and accrued expenses	35,497	(67,048)
Pension liability	(2,699,529)	(1,481,679)
Operating lease liability	(96,666)	- -
Net cash provided by operating activities	7,777,259	9,640,328
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction of plant	(11,334,611)	(11,014,181)
Retirement costs, net of salvage recovered from plant	(1,013)	- -
Distributions from limited liability company	1,745,211	2,344,804
Purchases of investment securities	(1,185,967)	(1,770,221)
Proceeds from sale and maturities of investment securities	912,861	154,671
Nonregulated investments and others	(3,103,289)	(2,503,587)
Net cash (used in) investing activities	(12,966,808)	(12,788,514)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	7,195,849	5,826,124
Payments on long-term debt	(1,609,858)	(1,792,799)
Dividends paid	(211,790)	(211,790)
Net cash provided by financing activities	5,374,201	3,821,535
Net increase in cash and cash equivalents	184,652	673,349
Cash and cash equivalents:		
Beginning of year	7,718,492	7,045,143
End of year	$ 7,903,144	$ 7,718,492
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash interest paid	$ 425,060	$ 361,809
Income taxes paid	1,798,068	1,972,228

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.

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, 2022 and 2021. The number of access lines was 5,729 and 5,537 for 2022 and 2021, 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.

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:

	2022	2021
Thacker Grigsby plant:		
General support	$ 17,538,071	$ 17,882,465
Central office switching	1,164,024	1,104,481
Central office transmission	13,170,792	12,116,702
Cable and wire facilities	39,559,362	38,828,899
	71,432,249	69,932,547
Elk Glen plant:		
Vehicles	81,883	81,883
Work and other equipment	944,034	934,707
	1,025,917	1,016,590
TV Service plant:		
General support	2,514,262	2,326,045
Headend and electronics	10,642,452	9,488,992
Conductor and distribution	25,394,241	22,794,556
	38,550,955	34,609,593
	$ 111,009,121	$ 105,558,730

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)

Leases

Adopted Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted the standard effective January 1, 2022 and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption) with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

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The Company elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Company recognized on January 1, 2022, a lease liability of $379,967, which represents the present value of the remaining operating lease payments of $411,306, discounted using a risk-free rate of 2.92%, and a right-of-use asset of $379,967.

The standard had an impact on the consolidated balance sheets but did not have an impact on the consolidated income statements, nor consolidated statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

The Company leases equipment and office space. The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, short-term operating lease liabilities, and long-term operating lease liabilities on the consolidated balance sheets.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Company uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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, 2022 and 2021, 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, 2022 and 2021, 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.

Note 2. Summary of Significant Accounting Policies (Continued)

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.

Advertising

The Company expenses advertising costs as incurred. For the years ended December 31, 2022 and 2021, these costs were $154,630 and $139,097, respectively.

Reclassification

Certain amounts in the 2021 consolidated financial statements have been reclassified in order to conform to the 2022 presentation.

Recent Accounting Pronouncements

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

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

Subsequent Events

Management has evaluated subsequent events through March 27, 2023, the date the consolidated financial statements were available to be issued.

Note 3. Investment Securities

Investment securities consist of cash equivalents, certificates of deposit, debt securities classified as available for sale, and equity securities. Debt securities classified as available for sale are recorded at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Equity securities are recorded at fair value with unrealized gains and losses included in earnings. 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 measurements using:	
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2022			
Cash equivalents	$ 59,703	$ 59,703	$ - -
Certificates of deposit	1,443,729	- -	1,443,729
Equities	2,715,716	2,715,716	- -
Debt securities	9,618,190	- -	9,618,190
	$ 13,837,338	$ 2,775,419	$ 11,061,919
December 31, 2021			
Cash equivalents	$ 65,668	$ 65,668	$ - -
Certificates of deposit	1,438,213	- -	1,438,213
Equities	3,383,829	3,383,829	- -
Debt securities	11,044,279	- -	11,044,279
	$ 15,931,989	$ 3,449,497	$ 12,482,492

The amortized cost of debt securities available for sale was $9,682,602 and $9,617,517 as of December 31, 2022 and 2021, respectively. Unrealized gains (losses) as of December 31, 2022 and 2021 were ($64,412) and $1,426,762, respectively.

The amortized cost of equity securities was $2,036,281 and $2,007,587 as of December 31, 2022 and 2021, respectively. Unrealized gains (losses) as of December 31, 2022 and 2021 were $679,435 and $1,376,242, respectively.

The amortized cost of cash equivalents and certificates of deposit approximates fair value.

Note 4. Intangible Assets

Intangible assets used in operations consist of the following as of December 31, 2022:

	Gross Amount	Accumulated Amortization
Goodwill	$ 3,946,715	$ (3,851,853)
Non-compete agreements	1,312,500	(1,312,500)
Customer lists and other	937,653	(877,275)
	$ 6,196,868	$ (6,041,628)

Note 4. Intangible Assets (Continued)

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

	Gross Amount	Accumulated Amortization
Goodwill	$ 3,946,715	$ (3,827,177)
Non-compete agreements	1,312,500	(1,312,500)
Customer lists and other	879,153	(875,000)
	$ 6,138,368	$ (6,014,677)

Aggregate amortization expense related to these intangible assets for the years ended December 31, 2022 and 2021 totaled $26,951 and $196,586, respectively. The following represents the total estimated amortization of intangible assets for each of the succeeding five years:

Year ending December 31:

2023	$ 23,909
2024	23,909
2025	23,909
2026	7,235
2027	3,900

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, 2022 and 2021:

	2022	2021
Assets	$ 241,294,254	$ 227,194,142
Liabilities	$ 74,155,461	$ 59,549,380
Equity	$ 167,138,793	$ 167,644,762
Revenues and other income	$ 124,485,066	$ 128,797,860
Expenses and other expenses	$ 118,158,102	$ 111,426,894
Net income	$ 6,326,964	$ 17,370,966

Note 6. Leases

The Company has operating leases for equipment and office space. The leases have remaining lease terms of 3 to 5 years, some of which may include options to extend the leases for up to 6 years.

The components of lease expense were as follows for the year ended December 31:

		2022
Operating lease cost	$	105,480

Other information related to leases was as follows for the year ended December 31:

		2022
Supplemental cash flow information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$	105,480
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	$	379,967
Weighted average remaining lease term		
Operating leases		5.06 years
Weighted average discount rate		
Operating leases		2.92%

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2022 were as follows:

2023	$	91,242
2024		48,528
2025		48,528
2026		43,040
2027		32,064
Thereafter		45,342
	$	308,744
Less: imputed interest		(25,443)
Net lease liabilities	$	283,301

As of December 31, 2021, the Company's operating leases were accounted for under ASC 840, *Leases*.

The term of these leases are between 3 and 20 years. Total rental expense incurred from these operating lease commitments included in the statement of income was $801,724 for the year ended December 31, 2021.

Note 7. 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.

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:

	2022	2021
Radio Equipment	$ 36,313	$ 36,313
Cable System	85,500	85,500
Tower	408,829	408,829
Video	208,987	208,987
Outside plant	5,073,811	1,758,297
Broadband	3,937,358	3,373,051
Customer-premises equipment	1,131,031	1,081,572
Other	321,519	303,458
Depreciation	(4,770,767)	(3,918,953)
	$ 6,432,581	$ 3,337,054

Non-regulated activities consisted of:

	Income	Expense	Net
Long distance services	$ 20,019	$ 18,819	$ 1,200
Internet services	6,110,610	3,111,857	2,998,753
Customer premises equipment	155,672	344,145	(188,473)
Fiber to the Home	237,974	169,645	68,329
Competitive Local Exchange Carrier (CLEC)	543,049	119,327	423,722
Consumer Broadband-Only Loop (CBOL)	80	- -	80
Total - 2022	$ 7,067,404	$ 3,763,793	$ 3,303,611
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	$ 5,719,368	$ 2,794,876	$ 2,924,492

Note 8. 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 2041.

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 was secured by equipment and was paid off during 2022. In December 2022, TV Service borrowed $612,011 from Harmonic Inc. to purchase equipment. The note is payable in 36 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:

	2022	2021
Thacker Grigsby:		
Due RUS at 1.69% to 4.84%	$ 19,226,656	$ 13,121,475
Due RUS at 2.02% to 3.42%, ARRA loan	1,031,371	1,174,755
Ditch Witch Financial at 6.13%	168,257	313,983
	20,426,284	14,610,213
Less current portion	1,340,753	791,222
	19,085,531	13,818,991
Allied Services:		
CoBank at 3.65%	260,000	1,076,000
Less current portion	260,000	816,000
	- -	260,000
TV Service:		
Harmonic Inc. at zero percent	612,011	15,041
B&B Communications, LLC at 5.00%	11,650	22,700
	623,661	37,741
Less current portion	215,654	26,091
	408,007	11,650
Total long-term debt	$ 19,493,538	$ 14,090,641

Note 8. Long-Term Debt (Continued)

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

2023	$	1,816,407
2024		1,478,900
2025		1,499,684
2026		1,330,724
2027		1,366,762
Thereafter		13,817,468
	$	21,309,945

Note 9. 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, 2022, there was approximately $1,500,000 available for payment of dividends or redemption of capital stock.

Note 10. 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, 2022 and 2021 for Thacker-Grigsby and August 31, 2022 and 2021 for TV Service. There have been no significant changes that affect the comparability of 2022 and 2021.

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.

Note 10. Pension Plans (Continued)

Thacker-Grigsby Telephone Company, Inc.

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

	2022	2021
Projected benefit obligation	$ (4,234,847)	$ (7,618,448)
Fair value of plan assets	3,261,752	4,995,173
Funded status (deficit)	$ (973,095)	$ (2,623,275)

The change in projected benefit obligation is as follows:

	2022	2021
Obligation at beginning of year	$ 7,618,448	$ 7,596,381
Service cost	246,632	304,016
Settlement	(2,445,141)	- -
Interest cost	201,052	173,189
Actuarial (gain) loss	(1,367,253)	(153,862)
Benefit payments	(18,891)	(301,276)
Obligation at December 31	$ 4,234,847	$ 7,618,448

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

	2022	2021
Beginning balance	$ 4,995,173	$ 4,219,183
Employer contributions	600,000	300,000
Actual return on assets	(217,243)	777,266
Settlement	(2,097,287)	- -
Benefits paid	(18,891)	(301,276)
Ending balance	$ 3,261,752	$ 4,995,173

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

	2022	2021
Pension liability	$ (973,095)	$ (2,623,275)

Components of net pension cost, which is calculated based on actuarial assumptions at July 27, were as follows:

	2022	2021
Service cost	$ 246,632	$ 304,016
Interest cost	201,052	173,189
Expected return on assets	(248,413)	(214,239)
Settlement gain (loss)	(478,685)	- -
Amortization of gains (losses)	140,053	140,053
Net Pension Cost	$ (139,361)	$ 403,019

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Pension Plans (Continued)

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

	2022	2021
Discount rate	2.68%	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: 2023 - $107,370; 2024 - $106,198; 2025 - $138,448; 2026 - $147,640; 2027 - $156,033.

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, 2022			
Cash and cash equivalents	$ 750,203	$ 750,203	$ - -
Equity securities	1,206,848	1,206,848	- -
Debt securities	1,304,701	- -	1,304,701
	$ 3,261,752	$ 1,957,051	$ 1,304,701
December 31, 2021			
Cash and cash equivalents	$ 1,398,648	$ 1,398,648	$ - -
Equity securities	2,297,780	2,297,780	- -
Debt securities	1,298,745	- -	1,298,745
	$ 4,995,173	$ 3,696,428	$ 1,298,745

Thacker-Grigsby expects to contribute $300,000 to the pension plan trust in 2023.

TV Service, Inc.

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

	2022	2021
Projected benefit obligation	$ (2,019,689)	$ (5,766,598)
Fair value of plan assets	1,658,425	3,949,499
Funded status	$ (361,264)	$ (1,817,099)

Note 10. Pension Plans (Continued)

The change in projected benefit obligation is as follows:

	2022	2021
Obligation at beginning of year	$ 5,766,598	$ 5,278,991
Service cost	186,394	181,403
Interest cost	157,295	139,214
Settlement	(2,424,228)	- -
Actuarial loss	(1,645,376)	187,984
Benefit payments	(20,994)	(20,994)
Obligation at December 31	$ 2,019,689	$ 5,766,598

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

	2022	2021
Beginning balance	$ 3,949,499	$ 3,284,136
Actual return on assets	(119,929)	436,357
Employer contributions	510,000	250,000
Settlement	(2,660,151)	- -
Benefits paid	(20,994)	(20,994)
Ending balance	$ 1,658,425	$ 3,949,499

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

	2022	2021
Pension liability	$ (361,264)	$ (1,817,099)

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

	2022	2021
Service cost	$ 186,394	$ 181,403
Interest cost	157,295	139,214
Expected return on assets	(203,004)	(170,821)
Settlement gain (loss)	(487,995)	- -
Amortization of gains (losses)	80,185	80,185
Net Pension Cost	$ (267,125)	$ 229,981

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

	2022	2021
Discount rate	2.75%	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: 2023 - $26,552; 2024 - $29,416; 2025 - $55,483; 2026 - $57,833; 2027 - $62,120.

Note 10. Pension Plans (Continued)

TV Service expects to contribute $250,000 to the pension plan trust in 2023.

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, 2022			
Cash and cash equivalents	$ 199,011	$ 199,011	$ - -
Equity securities	812,628	812,628	- -
Other	646,786	- -	646,786
	$ 1,658,425	$ 1,011,639	$ 646,786
December 31, 2021			
Cash and cash equivalents	$ 552,930	$ 552,930	$ - -
Equity securities	2,764,649	2,764,649	- -
Other	631,920	- -	631,920
	$ 3,949,499	$ 3,317,579	$ 631,920

Note 11. Income Taxes

The components of income tax are as follows:

	December 31, 2022	December 31, 2021
Current:		
Federal	$ 1,109,588	$ 1,516,253
State	305,803	325,038
	1,415,391	1,841,291
Deferred:		
Federal	681,620	184,091
State	164,256	43,831
	845,876	227,922
	$ 2,261,267	$ 2,069,213

Note 11. Income Taxes (Continued)

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

	December 31, 2022	December 31, 2021
Deferred tax liabilities:		
Federal	$ 3,168,486	$ 2,478,612
State	754,401	590,146
	$ 3,922,887	$ 3,068,758

Note 12. 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 13. 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 14. 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 15. 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 15. Revenue Recognition (Continued)

Disaggregation of revenue

In the following table, revenue for the years ended December 31, 2022 and 2021 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.

	2022	2021
Regulated income:		
Local network services	$ 1,235,847	$ 1,349,366
Network access services	9,215,190	8,106,235
Cable television services	7,418,388	7,883,540
Cable internet services	5,788,654	6,021,468
Miscellaneous	2,436,205	1,713,370
Carrier billing and collection	11,764	12,016
	$ 26,106,048	$ 25,085,995
Nonregulated income:		
Long distance services	$ 20,019	$ 22,286
Internet services	6,110,610	3,452,182
Customer premises equipment	155,672	147,379
Fiber to the Home	237,974	1,371,380
Competitive Local Exchange Carrier (CLEC)	543,049	435,321
Consumer Broadband-Only Loop (CBOL)	80	290,820
	$ 7,067,404	$ 5,719,368

Contract cost liabilities

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

	2022	2021	2020
Customer deposits	$ 135,348	$ 190,631	$ 199,216

JNM

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, 2022 and 2021, and our report thereon dated March 27, 2023, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 through 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 28 and 29, 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 PLC

Louisville, Kentucky
March 27, 2023

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, 2022

Assets	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Current Assets:						
Cash and cash equivalents	$ 5,802,446	$ 339,164	$ 504,685	$ 1,256,849	$ - -	$ 7,903,144
Accounts receivable, less allowance of $60,731	319,842	3,780	- -	592,243	(102,172)	813,693
Material and supplies, at average cost	1,815,098	- -	- -	374,660	- -	2,189,758
Prepaid expenses	34,153	2,754	- -	81,205	- -	118,112
Prepaid income taxes	737,833	- -	- -	- -	(311,038)	426,795
	8,709,372	345,698	504,685	2,304,957	(413,210)	11,451,502
Noncurrent Assets:						
Investment in limited liability companies	58,521,731	- -	13,001,701	- -	(38,095,652)	33,427,780
Investment in securities	3,845,624	- -	9,394,697	597,017	- -	13,837,338
Nonregulated investments	6,349,805	3,686	60,221	18,869	- -	6,432,581
	68,717,160	3,686	22,456,619	615,886	(38,095,652)	53,697,699
Property and Equipment:						
In service	71,432,249	1,025,917	- -	38,550,955	- -	111,009,121
Under construction	17,191,582	1,692,781	- -	183,088	- -	19,067,451
Less accumulated depreciation	(39,479,145)	(643,572)	- -	(27,227,309)	- -	(67,350,026)
	49,144,686	2,075,126	- -	11,506,734	- -	62,726,546
Operating lease right-of-use asset	42,641	- -	- -	240,660	- -	283,301
	49,187,327	2,075,126	- -	11,747,394	- -	63,009,847
Intangible assets, net of accumulated amortization of $6,014,678	13,153	- -	- -	142,087	- -	155,240
Total	$126,627,012	$ 2,424,510	$ 22,961,304	$ 14,810,324	$ (38,508,862)	$ 128,314,288
Liabilities and Stockholders' Equity						
Current Liabilities:						
Current portion of long term debt	$ 1,340,753	$ - -	$ 260,000	$ 215,654	$ - -	$ 1,816,407
Accounts payable	874,840	29,687	971	536,283	(102,172)	1,339,609
Customer deposits	134,148	1,200	- -	- -	- -	135,348
Other current and accrued expenses	72,351	5	- -	39,402	- -	111,758
Accrued income taxes	- -	- -	- -	311,038	(311,038)	- -
Short-term operating lease liability	42,641	- -	- -	41,198	- -	83,839
	2,464,733	30,892	260,971	1,143,575	(413,210)	3,486,961
Non-Current Liabilities:						
Long-term debt, less current portion	19,085,531	- -	- -	408,007	- -	19,493,538
Pension liability	973,095	- -	- -	361,264	- -	1,334,359
Deferred income taxes	4,226,572	- -	- -	(303,685)	- -	3,922,887
Long-term operating lease liability	- -	- -	- -	199,462	- -	199,462
	24,285,198	- -	- -	665,048	- -	24,950,246
Stockholders' Equity:						
Capital investments	266,800	4,614,720	19,211,506	9,592,436	(33,418,662)	266,800
Retained earnings	101,538,422	(2,221,102)	4,357,275	4,273,599	(6,409,772)	101,538,422
Accum comprehensive income (loss)	(1,928,141)	- -	(868,448)	(864,334)	1,732,782	(1,928,141)
	99,877,081	2,393,618	22,700,333	13,001,701	(38,095,652)	99,877,081
Total	$126,627,012	$ 2,424,510	$ 22,961,304	$ 14,810,324	$ (38,508,862)	$ 128,314,288

THACKER-GRIGSBY TELEPHONE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2022

	Thacker Grigsby	Elk Glen	Allied Services	TV Services	Eliminations	Consolidated
Operating Revenues:						
Local network services	$ 1,235,847	$ - -	$ - -	$ - -	$ - -	$ 1,235,847
Network access services	8,865,734	- -	- -	349,456	- -	9,215,190
Cable television services	- -	- -	- -	7,418,388	- -	7,418,388
Cable internet services	- -	- -	- -	5,788,654	- -	5,788,654
Billing and collection	11,764	- -	- -	- -	- -	11,764
Miscellaneous	1,216,491	92,700	- -	1,127,014	- -	2,436,205
Less provision for uncollectibles	(84,050)	- -	- -	(149,521)	- -	(233,571)
Total operating revenues	11,245,786	92,700	- -	14,533,991	- -	25,872,477
Operating Expenses:						
Plant specific	2,449,786	81,038	- -	2,639,820	- -	5,170,644
Plant nonspecific	846,725	15,253	- -	1,055,375	- -	1,917,353
Depreciation and amortization	4,079,955	22,082	483	2,713,890	- -	6,816,410
Programming costs	- -	- -	- -	4,307,500	- -	4,307,500
Customer operations	805,383	1,022	- -	1,035,192	- -	1,841,597
Corporate operations	1,512,340	16,597	8,314	1,300,358	- -	2,837,609
Other operating taxes	659,743	13,631	- -	134,421	- -	807,795
Other expenses	- -	66,780	- -	21,910	- -	88,690
Total operating expenses	10,353,932	216,403	8,797	13,208,466	- -	23,787,598
Operating income (loss)	891,854	(123,703)	(8,797)	1,325,525	- -	2,084,879
Other Income and Expense:						
Investment income (expense)	(540,445)	3,582	340,060	28,501	- -	(168,302)
Net income from limited liability companie	2,904,166	- -	1,076,590	- -	(2,336,740)	1,644,016
Nonregulated activities	3,303,611	- -	- -	- -	- -	3,303,611
	5,667,332	3,582	1,416,650	28,501	(2,336,740)	4,779,325
Income (loss) before interest and tax	6,559,186	(120,121)	1,407,853	1,354,026	(2,336,740)	6,864,204
Interest on long-term debt	396,524	- -	27,582	954	- -	425,060
Total interest expense	396,524	- -	27,582	954	- -	425,060
Income (loss) before income taxes	6,162,662	(120,121)	1,380,271	1,353,072	(2,336,740)	6,439,144
Income tax expense	1,984,785	- -	- -	276,482	- -	2,261,267
Net income (loss)	4,177,877	(120,121)	1,380,271	1,076,590	(2,336,740)	4,177,877
Other comprehensive income (loss):						
Investment securities	(887,337)	- -	(930,199)	(38,028)	968,227	(887,337)
Pension plans	910,819	- -	- -	502,245	(502,245)	910,819
Total comprehensive income (loss)	$ 4,201,359	$ (120,121)	$ 450,072	$ 1,540,807	$ (1,870,758)	$ 4,201,359

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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, 2022, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 27, 2023.

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.

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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 enity'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 27, 2023

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS FOR TELEPHONE BORROWERS

Board of Directors
Thacker-Grigsby Telephone Company, Inc. 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, 2022, 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 27, 2023. In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2023 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	$ 30,287,702	$ 33,528,952
Activity for 2022	- -	(101,172)	(101,172)
End of Year	$ 3,241,250	$ 30,186,530	$ 33,427,780

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	$ (3,031,261)	$ 2,513,739
Activity for 2022	- -	(120,121)	(120,121)
End of Year	$ 5,545,000	$ (3,151,382)	$ 2,393,618

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	$ 19,341,315	$ 2,958,946	$ 22,300,261
Activity for 2022	(50,000)	450,072	400,072
End of Year	$ 19,291,315	$ 3,409,018	$ 22,700,333

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 27, 2023