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THORNTON

West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries
December 31, 2019

Consolidated Financial Statements

West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries

Index

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Independent Auditor's Report

The Board of Directors
West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries
Mayfield, Kentucky

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries (the Company) which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, equities, and cash flows for the years then ended, and the related notes to consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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Change in Accounting Principle
As discussed in Note 1 to the financial statements, the Company adopted new accounting guidance FASB ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the Company also adopted new accounting guidance FASB ASU 2016-01, *Financial Instruments*. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the Company also adopted new accounting guidance FASB ASU 2017-07, *Compensation - Retirement Benefits.* Our opinion is not modified with respect to this matter.

Report on Consolidating Information
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information on pages 30 - 32 is presented for purposes of additional analysis of the financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the 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 financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued a report dated May 14, 2020 on our consideration of the Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Jackson Thornton & Co. PC

Franklin, Tennessee
May 14, 2020

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*

The Board of Directors
West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries
Mayfield, Kentucky

We have audited the accompanying consolidated financial statements of West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of income, comprehensive income, equities, and cash flows for the year then ended, and the related notes to consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated May 14, 2020. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of Telecom Management Services, Inc. and Synergy Technology Partners, Inc. and Subsidiary were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Telecom Management Services, Inc. and Synergy Technology Partners, Inc. and Subsidiary.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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 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 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jackson Thornton & Co. PC

Nashville, Tennessee
May 14, 2020

West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries
Consolidated Balance Sheets at December 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	$ 5,968,754	$ 4,018,254
Held-to-maturity securities		750,000
Accounts receivable		
Due from customers, less allowance for doubtful accounts of $906,873 in 2019 and $86,606 in 2018	906,873	795,658
Interexchange carriers, less allowance for doubtful accounts of $169,235 in 2019 and $213,485 in 2018	1,285,941	779,494
Other	56,496	9,871
Interest receivable	8,922	4,594
Materials and supplies	1,995,982	3,336,160
Prepaid taxes	46,945	484,919
Other prepayments	891,203	818,792
Total current assets	11,161,116	10,997,742
Other Noncurrent Assets		
Marketable debt and equity securities	54,287,195	46,831,881
Held-to-maturity securities	1,769,020	1,016,575
Other investments	3,251,873	3,626,308
Notes receivable	25,000	525,000
Intangibles, net of amortization	300,000	900,000
Prepayments, less current portion	3,601,666	3,463,424
Goodwill	1,679,749	1,959,709
Deferred tax asset	165,248	
Postretirement benefits	745,577	189,675
Total noncurrent assets	65,825,328	58,512,572
Property, Plant, and Equipment		
Telecommunications plant in service	167,726,405	157,650,426
Telecommunications plant under construction	4,265,452	6,738,111
	171,991,857	164,388,537
Less accumulated depreciation	88,501,609	83,047,228
Net property, plant, and equipment	83,490,248	81,341,309
Total assets	$ 160,476,692	$ 150,851,623

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

Liabilities and Equities

	2019	2018
Current Liabilities		
Current maturities on long-term debt	$ 5,259,899	$ 7,912,864
Line of credit	1,600,000	300,000
Accounts payable		
Interexchange carriers	261,550	392,326
Other	1,861,978	1,021,941
Advance billing	1,013,034	870,527
Customer deposits	83,463	86,063
Accrued taxes	362,641	440,825
Other	2,314,791	1,930,203
Total current liabilities	12,757,356	12,954,749
Long-Term Debt		
Notes payable	48,750,008	54,438,111
Less current maturities	5,259,899	7,912,864
Total long-term debt	43,490,109	46,525,247
Other Noncurrent Liabilities		
Postemployment liability	78,737	70,615
Deferred tax liability	2,274,609	2,365,296
Deferred compensation	910,210	1,348,802
Total deferred liabilities	3,263,556	3,784,713
Total liabilities	59,511,021	63,264,709
Equities		
Memberships	54,689	54,689
Patronage capital	71,711,717	67,609,113
Other comprehensive income (loss)	1,433,307	(747,355)
Other equities	27,393,655	20,409,641
	100,593,368	87,326,088
Noncontrolling interest	372,303	260,826
Total equities	100,965,671	87,586,914
Total liabilities and equities	$ 160,476,692	$ 150,851,623

West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries
Consolidated Statements of Income
For the Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Basic local network services	$ 5,030,251	$ 4,930,946
Network access services	18,168,389	16,933,800
Long-distance services	800,222	945,443
Broadband services	12,423,917	10,992,598
Video services	3,581,995	3,303,094
Security revenues	368,567	369,864
Retail sales revenues	25,397	70,641
Miscellaneous	1,410,521	1,324,745
Total operating revenues	41,809,259	38,871,131
Operating Expenses		
Plant specific operations	5,667,229	5,618,206
Plant nonspecific operations	1,821,056	1,756,227
Cost of long-distance services	288,703	331,708
Cost of broadband services	3,990,947	3,163,998
Cost of video services	2,962,428	3,424,315
Security expenses	171,140	205,986
Cost of goods sold - retail	48,817	139,080
Depreciation and amortization	8,894,715	8,367,338
Customer operations	4,578,623	4,154,434
Corporate operations	3,941,227	3,710,821
General taxes	1,081,200	1,080,619
Total operating expenses	33,446,085	31,952,732
Operating Income	8,363,174	6,918,399
Other Income (Expense)		
Interest income	1,186,135	1,384,206
Income from investments	900,615	1,511,243
Income (loss) from partnerships	(6,011)	187,273
Other, net	(2,331,829)	(240,405)
Total other (expense) income	(251,090)	2,842,317
Unrealized Gain on Marketable Equity Securities	5,224,630	
Fixed Charges		
Interest on long-term debt	1,577,703	1,762,703
Total fixed charges	1,577,703	1,762,703
Income Before Income Taxes and Noncontrolling Interest	11,759,011	7,998,013
Income Tax Expense (Benefit)	1,113,122	1,110,945
Net Income Before Noncontrolling Interest	10,645,889	6,887,068
Net Income Attributable to Noncontrolling Interest	64,979	68,726
Net Income Attributable to West Kentucky Rural Telephone Cooperative Corporation, Inc.	$ 10,580,910	$ 6,818,342

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

West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018

	2019	2018
Net Income	$ 10,580,910	$ 6,818,342
Other Comprehensive Income		
Unrealized gains (losses) on securities		
Unrealized holding gains (losses) arising during the period (net of tax of $61,021 in 2019 and ($670,088) in 2018)	290,577	(3,190,895)
Less reclassification adjustment for losses included in net income (net of tax of $0 in 2019 and ($177,029) in 2018)		(842,999)
Postemployment benefits other than pension		
Amortization of net loss	69,246	2,707
Net gain (loss) arising during period (net of tax of $91,604 in 2019 and ($141,320) in 2018)	2,435,843	(672,952)
Total other comprehensive income	2,795,666	(4,704,139)
Comprehensive Income	13,376,576	2,114,203
Less Comprehensive Income Attributable to the Noncontrolling Interest	49,945	(45,750)
Comprehensive Income	$ 13,326,631	$ 2,159,953

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

West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries
Consolidated Statements of Equities
At December 31, 2019

	Memberships	Patronage Capital	Unassigned	Accumulated Other Comprehensive Income	Noncontrolling	Total Members' Equity
Balance at December 31, 2017	$ 54,689	$63,975,820	$17,252,520	$ 3,911,034	$ 237,850	$ 85,431,913
Net income			6,818,342		68,726	6,887,068
Patronage capital assigned		3,661,221	(3,661,221)			
Patronage capital retired		(27,928)				(27,928)
Other comprehensive income				(4,658,389)	(45,750)	(4,704,139)
Balance at December 31, 2018	54,689	67,609,113	20,409,641	(747,355)	260,826	87,586,914
Cumulative effect of adoption of ASU 2016-01			568,506	(565,059)	(3,447)	
Net income			10,580,910		64,979	10,645,889
Patronage capital assigned		4,165,402	(4,165,402)			
Patronage capital retired		(62,798)				(62,798)
Other comprehensive income				2,745,721	49,945	2,795,666
Balance at December 31, 2019	$ 54,689	$71,711,717	$27,393,655	$ 1,433,307	$ 372,303	$ 100,965,671

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

West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows From (Used For) Operating Activities		
Net income	$ 10,645,889	$ 6,887,068
Adjustments to reconcile net income to net cash from operating activities		
Provision for depreciation and amortization	8,894,715	8,367,338
Provision for deferred income taxes	(255,935)	533,095
Provision for uncollectible accounts	300,091	300,091
Patronage in business conducted with cooperatives		(20,301)
Equity (income) loss in unconsolidated affiliates	6,011	(187,273)
Realized gain on marketable securities	(513,151)	(2,324,881)
Loss on investments	698,000	715,000
Postemployment benefits other than pension	2,795,666	(670,245)
Changes in operating assets and liabilities		
(Increase) decrease in operating assets		
Receivables	(968,706)	391,347
Materials and supplies	1,340,178	66,070
Prepayments	227,321	346,309
Pension funding	(555,902)	340,425
Increase (decrease) in operating liabilities		
Accounts payable	709,261	(515,694)
Advance billings	142,507	200,568
Accrued taxes	(78,184)	(113,634)
Customer deposits	(2,600)	(11,975)
Other postemployment funding	8,122	(5,485)
Other	(54,004)	386,738
Total adjustments	12,693,390	7,797,493
Net cash from operating activities	23,339,279	14,684,561
Cash Flows From (Used For) Investing Activities		
Purchases of property, plant, and equipment	(10,163,694)	(10,569,580)
Purchase of investments	(20,837,097)	(10,434,119)
Proceeds from sales of investments	14,062,912	6,484,210
Issuance of notes receivable		(500,000)
Net cash used for investing activities	(16,937,878)	(15,019,489)
Cash Flows From (Used For) Financing Activities		
Payments on long-term borrowings	(5,688,103)	(6,906,339)
Proceeds on line of credit	1,300,000	300,000
Patronage capital retired	(62,798)	(27,928)
Net cash used for financing activities	(4,450,901)	(6,634,267)
Increase (Decrease) in Cash and Cash Equivalents	1,950,500	(6,969,195)
Cash and Cash Equivalents at Beginning of Year	4,018,254	10,987,449
Cash and Cash Equivalents at End of Year	$ 5,968,754	$ 4,018,254

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

Note 1 - Summary of Significant Accounting Policies

West Kentucky Rural Telephone Company Corporation, Inc. and Subsidiaries (the Company) are providers of telecommunications exchange and local access services, broadband, video and telecommunications equipment in a service area located primarily in areas of Kentucky, Tennessee, and Alabama.

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Telephone operations reflect practices appropriate to the telephone industry. The accounting records of the telephone company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Federal Communications Commission (FCC) as modified by the state regulatory authority.

Principles of consolidation - The consolidated financial statements include the accounts of the parent company, West Kentucky Rural Telephone Company Corporation, Inc., and its 79% and 100%-owned subsidiaries, Telecom Management Services, Inc. and Synergy Technology Partners, Inc., respectively. In addition, Ardmore Telephone Company, Inc. is a 100%-owned subsidiary of Synergy Technology Partners, Inc. All material intercompany transactions have been eliminated in consolidation.

Accounting policies - The accounting records of the Company are maintained in accordance with the Uniform System of Accounts prescribed by the Federal Communications Commission (FCC). As a result, the application of accounting principles generally accepted in the United States of America by the Company differs in certain respects from the application of those principles by nonregulated enterprises. Such differences primarily concern the recognition of gains and losses on the retirement of assets. The revenues reported on the consolidated statements of income reflect the relative importance of each type of service. The principal market for these telecommunications services is local residential and business customers residing in the exchanges the Company serves. The more significant policies of the Company are described below.

Use of estimates - The preparation of financial statements in conformity 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents - All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Accounts receivable - Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected.

The Company grants credit to customers, all of whom are located in the franchised service area, and telecommunications intrastate and interstate long-distance carriers.

Inventories - Inventories include both merchandise held for resale and materials and supplies. Merchandise held for resale is recorded at the lower of cost or market with cost determined by the average cost method. Materials and supplies are recorded at average cost.

Investments - Equity investments over which the Company has significant influence are accounted for using the equity method.

Note 1 - Summary of Significant Accounting Policies (continued)

Securities - Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Marketable equity securities are recorded at fair value with changes in fair value included in earnings. Marketable debt securities not classified as held-to-maturity are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Nonmarketable equity investments over which the Company has significant influence are reflected on the equity method. Other nonmarketable equity investments and certificates of deposit are stated at cost.

Intangibles - Intangible assets with finite lives are being amortized on the straight-line basis over a period of 10 years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Goodwill - The Company has elected the private company accounting alternative for the subsequent measurement of goodwill. Under this alternative, goodwill is amortized on a straight-line basis over 10 years. The Company evaluates the recoverability of the carrying value of goodwill at the reporting unit level whenever events or circumstances indicate the carrying amount may not be recoverable.

In testing goodwill for impairment, the Company has the option first to perform a qualitative assessment to determine whether it is more likely than not that goodwill is impaired or the entity can bypass the qualitative assessment and proceed directly to the quantitative test by comparing the carrying amount, including goodwill, of the reporting unit with its fair value. The goodwill impairment loss, if any, is measured as the amount by which the carrying amount of a reporting unit, including goodwill, exceeds its fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Property, plant, and equipment - Property, plant, and equipment is capitalized at original cost including the capitalized cost of salaries and wages, materials, certain payroll taxes, employee benefits and interest during the construction period.

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. These estimates are subject to change in the near term.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	35-40 years
Furniture and equipment	7-15 years
Vehicles and work equipment	5-10 years
Cable and wire facilities	15-20 years
Other plant and equipment	5-10 years

Renewals and betterments of units of telephone property are charged to telephone plant in service. When telephone plant is retired, its cost is removed from the asset account and charged against accumulated depreciation less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable telephone property. Repairs and renewals of minor items of telephone property are included in plant specific operations expense.

Note 1 - Summary of Significant Accounting Policies (continued)

Long-lived asset impairment - The Company would provide for impairment losses on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Income taxes - The parent company (the Company) is organized under the cooperative laws of the State of Kentucky. The Company has obtained an exemption from federal income taxes under code Section 501(c)12. With respect to Company operations, the financial statements reflect no provision or liability for income taxes. However, as more fully explained in Note 10, the Company has provided for income taxes on certain portions of its operations.

Income taxes are accounted for using a liability method and provide for the tax effects of transactions reported in the financial statements including both taxes currently due and deferred. Deferred taxes are adjusted to reflect deferred tax consequences at current enacted tax rates. Deferred income taxes related to nonpatronage sourced activities reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes arise from differences in book and tax basis of plant, goodwill and certain investments. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible, when the assets and liabilities are recovered or settled. Temporary differences related to patronage sourced activities are not expected to offset tax liabilities when the differences are recovered or settled.

Revenue recognition - As of January 1, 2018, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), as modified (ASC 606), using the retrospective method. The new guidance establishes the principles to report useful information to users of financial statements about the nature, timing, and uncertainty of revenue from contracts with customers. The Company evaluated and determined that ASC 606 did not have a material effect on the financial statements.

The Company has contractual agreements with its customers for the provision of telecommunications services. Regulated and nonregulated revenues are recognized when services are provided to the customer regardless of the period in which they are billed. All regulated and nonregulated operating revenues are from customers and support administered by the National Exchange Carrier Association (NECA) as defined below.

Compensation for telephone, internet, and video service is received through monthly charges for providing telecommunications, access, and programming to customers that subscribe to these services. Customers are billed monthly for services and payment is due within 30 days of the invoice date.

Revenue recognized from contracts with customers that bundle services is allocated based on the stand-alone selling price of each service provided in the bundle. When bundling services results in a promotional discount, the discount is allocated to each service in the bundle based on the stand-alone selling price of each service. No discount is provided to regulated services included in the bundle that have a tariffed rate.

Local network service, broadband and video revenues are recognized over the period a subscriber is connected to the network.

Note 1 - Summary of Significant Accounting Policies (continued)

Network access and long-distance service revenues are derived from charges for access to the Company's local exchange network. The interstate portion of access revenues is based on an average schedule company formula for its study area in Tennessee and a cost separation procedure settlement formula for its study areas in Kentucky and Alabama. These formulas are administered by the National Exchange Carrier Association (NECA) which is regulated by the FCC. The intrastate portion of access revenues is billed based upon an individual company tariff access charge structure as approved by the state regulatory authority. The tariffs developed from this structure are used to charge the connecting carrier and recognize revenues in the period the traffic is transported based on the minutes of traffic carried. Long-distance revenues are recognized at the time a call is placed based on the minutes of traffic processed at contracted rates.

Reported network access revenues for the study areas in Kentucky and Alabama are estimates subject to settlement adjustments in the near term resulting from changes in expense and plant investment levels and rate of return experience.

The Company received 43% and 44% of its 2019 and 2018 revenues, respectively, from access revenues and assistance provided by the Federal Universal Service Fund. The manner in which access revenues and Universal Service Funds are determined has been modified in several recent Federal Communications Commission proceedings. Changes include modifications to rate-of-return support including caps on the recovery of certain expenditures, and reductions in terminating access charges billed with eventual transition to a bill-and-keep framework for the exchange of traffic between carriers.

The FCC released an Order and Further Notice of Proposed Rulemaking (FNPRM) that reforms the High Cost Program supporting rate-of-return carriers. The following changes have been implemented to modernize the program:

- Provides support for stand-alone broadband;
- Requires broadband deployment based on the number of locations lacking service and the cost of providing service;
- Requires allowances for capital investments and limits on operational expenses; and
- Phases out support for areas served by a qualifying competitor.

The FNPRM also created two paths to a Connect America Fund for rate-of-return carriers. The model-based option, known as the Alternative Connect America Cost Model (A-CAM) is voluntary and is a fixed amount of support for 10 years. The legacy mechanism reforms the existing Interstate Common Line Support mechanism to support stand-alone broadband and will now be known as the Connect America Fund Broadband Loop Support. The Company was not eligible to elect A-CAM support, and therefore will remain a legacy rate-of-return carrier. The amount of support that will be received is not certain due to constraints on the FCC's budget. Whether a rate-of-return carrier chooses model-based support or remains on legacy mechanisms, it will be required to meet service obligations, adhere to reporting obligations, and retain records.

In accordance with tariffs filed with the FCC by the National Exchange Carriers Association (NECA), the Company recognizes the regulated portion of internet revenue as network access services and the nonregulated portion of internet revenue as internet services in the consolidated statements of income. Revenue billed to customers for internet included in network access services totaled $2,622,397 and $2,236,186 in 2019 and 2018, respectively.

The Company recognizes taxes charged to customers on a net basis in the consolidated statements of income.

Comprehensive income - Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities and changes in the funded status of defined benefit postretirement plans.

As of January 1, 2019, the Company adopted the provisions of Accounting Standards Update 2016-01, *Financial Instruments*. The adoption of this guidance eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities. The adoption of this guidance also requires marketable equity securities to be carried on the consolidated balance sheets at fair value, with the difference between fair value and cost reported as other income on the consolidated statements of income. The standard was applied with a cumulative effect adjustment to beginning patronage capital as of January 1, 2019. The adjustment included reclassifying to patronage capital amounts reported in accumulated other comprehensive income for unrealized gains and losses on marketable equity securities. The cumulative effect of the reclassification to patronage capital from accumulated other comprehensive income at January 1, 2019 was $552,092.

Pension and postretirement benefit plans - Pension and postretirement benefit costs are accrued in accordance with accounting guidance for defined benefit pension and postretirement plans.

As of January 1, 2018, the Company adopted FASB ASU 2017-07 - *Compensation - Retirement Benefits*. The new guidance requires components of net periodic postemployment benefit cost other than service cost to be recorded as other income (loss) in the financial statements.

Patronage capital - Revenues in excess of costs and expenses are assigned to patrons on a patronage basis in accordance with the Company's bylaws and are represented by patronage capital.

Reclassifications - Certain reclassifications have been made to the 2018 financial statements to conform with the 2019 presentation.

New accounting pronouncements - In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The most significant change in the new lease guidance requires lessees to recognize right-of-use assets and lease liabilities for all leases other than those that meet the definition of short-term leases. ASU 2016-02 is effective for reporting periods beginning after December 15, 2020. The Company is evaluating the impact of the implementation of this standard on its financial statements.

Note 2 - Cash and Cash Equivalents

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company had approximately $4,692,260 and $2,871,000 in cash over federally insured limits at multiple financial institutions at December 31, 2019 and 2018, respectively. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 3 - Contract Receivable

	2019	2018	
	End of Year	**End of Year**	**Beginning of Year**
Receivables			
End users	$ 906,873	$ 795,658	$ 1,113,559
Interexchange carriers	1,285,941	779,494	1,108,871
Total receivables	2,192,814	1,575,152	2,222,430
Contract Liabilities			
Deferred revenue	$ 1,013,034	$ 870,527	$ 669,959

Note 4 - Equity Transactions with Noncontrolling Interest

The following shows the effects of any changes in the Company's ownership interest in its subsidiary on the Company's equity:

	2019	2018
Net income attributable to noncontrolling interest	$ 64,979	$ 68,726
Change from net income attributable to West Kentucky Rural Telephone Cooperative Corporation and transfers to noncontrolling interest	$ 64,979	$ 68,726

Note 5 - Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

2019	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable Securities				
Mutual funds				$ 26,509,001
Stocks				20,498,392
Certificates of deposit	$ 2,758,547	$ 279,310	$ (19,977)	3,017,880
Corporate bonds	4,261,922			4,261,922
Totals	$ 7,020,469	$ 279,310	$ (19,977)	$ 54,287,195
Held-to-Maturity				
U.S. government securities	$ 1,269,020	$ 15,306	$ (3,820)	$ 1,280,506
Corporate bonds	500,000	11,280		511,280
Totals	$ 1,769,020	$ 26,586	$ (3,820)	$ 1,791,786

Note 5 - Securities (continued)

2018	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities				
Mutual funds	$ 23,476,246	$ 400,821	$ 1,353,509	$ 22,523,558
Stocks	19,784,851	2,454,240	840,109	21,398,982
Certificates of deposit	2,046,246	195,076	77,221	2,164,101
Corporate bonds	800,000		54,760	745,240
Totals	$ 46,107,343	$ 3,050,137	$ 2,325,599	$ 46,831,881
Held-to-Maturity				
U.S. government securities	$ 1,016,575		$ 8,323	$ 1,008,252
Corporate bonds	750,000		2,583	747,417
Totals	$ 1,766,575	$ -	$ 10,906	$ 1,755,669

Management evaluates the need for recording an other than temporary impairment for these investments annually. Based on the nature and financial information available for each individual investment, the length of time and extent of its fair value being below cost (generally less than twelve months at December 31, 2019) and the Company's ability and intent to hold the investments for a sufficient time to allow for the recovery of the cost of the investment, an other than temporary impairment has not been recognized as of December 31, 2019 and 2018.

Proceeds from sales of marketable securities were $7,800,487 and $6,127,523 in 2019 and 2018, respectively. The gross realized gains on sales of marketable securities totaled $743,221 and $31,708 in 2019 and 2018, respectively, and the gross realized losses totaled $230,071 and $63,917 in 2019 and 2018, respectively.

The following shows the unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, at December 31.

	Less than 12 months		12 months or greater		Total	
2019	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Marketable Debt Securities						
Market linked certificates of deposit			$ 298,890	$ (19,977)	$ 298,890	$ (19,977)
Totals	$ -	$ -	$ 298,890	$ (19,977)	$ 298,890	$ (19,977)
Held-to-Maturity						
Corporate bonds			$ 36,180	$ (3,820)	$ 36,180	$ (3,820)
Totals	$ -	$ -	$ 747,418	$ (3,820)	$ 36,180	$ (3,820)

The amortized cost and fair value of debt securities at December 31, 2019, by contractual maturity date are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations without call or prepayment penalties.

Note 5 - Securities (continued)

	Cost	Fair Value
Held-to-Maturity		
Due within one year		
Due after one year through five years	$ 291,213	$ 300,966
Due after five years through 10 years		
Due after 10 years	1,477,807	1,490,819
Totals	$ 1,769,020	$ 1,791,785

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in with the fair value measurements fall at December 31, 2019 and 2018:

2019	Total	Level 1	Level 2	Level 3
Marketable Securities				
Mutual funds	$ 26,509,001	$ 26,509,001		
Stocks	20,498,392	20,498,392		
Certificates of deposit	3,017,880		$ 3,017,880	
Corporate bond	4,261,922		4,261,922	
Totals	$ 54,287,195	$ 47,007,393	$ 7,279,802	$ -

2018	Total	Level 1	Level 2	Level 3
Securities Available-for-Sale				
Mutual funds	$ 22,523,558	$ 22,523,558		
Stocks	21,398,982	21,398,982		
Certificates of deposit	2,164,101			$ 2,164,101
Corporate bond	1,276,320	810,040	$ 466,280	
Totals	$ 47,362,961	$ 44,732,580	$ 466,280	$ 2,164,101

Note 6 - Other Investments
Other investments consist of the following:

	2019	2018
Tennessee Independent Telecommunications Group, LLC	$ 1,466,166	$ 1,472,177
Associated Network Partners, Inc.	308,315	308,315
BLM Acquisition Corp		385,000
Rural Trust Insurance Company	993,500	993,500
National Telecom Corporation	279,933	279,933
CoBank	177,545	169,568
Synergy Wireless, LLC	10,000	10,000
Other	16,414	7,815
Total other investments	$ 3,251,873	$ 3,626,308

The Company has an 11.97% ownership interest in Tennessee Independent Telecommunications Group, LLC (IRIS). IRIS provides transport facilities, IP, and tandem switch leasing. The following is condensed financial data for IRIS:

	2019	2018
Current assets	$ 4,411,114	$ 4,458,888
Total property, plant, and equipment	12,489,913	12,853,814
Other assets	192,926	142,965
Total assets	$ 17,093,953	$ 17,455,667
Current liabilities	$ 3,388,679	$ 3,068,318
Long-term debt, less current portion	2,771,107	3,236,886
Other liabilities	592,723	621,844
Members' equity	10,341,444	10,528,619
Total liabilities and members' equity	$ 17,093,953	$ 17,455,667
Operating revenue	$ 24,569,564	$ 21,497,758
Operating expenses	23,802,944	20,310,512
Other income (loss)	(144,820)	464,732
Net income	$ 621,800	$ 1,651,978

The investments in IRIS is being accounted for on the equity method. For investments accounted for under the equity method, the Company recognizes its proportionate share of the income and losses accruing to it under the terms of the partnership agreement. The equity method is appropriate, since the Company's management sits on the Board of IRIS and can exert influence on its operations. All other investments are accounted for on the cost method.

The Company has an original investment in BLM Acquisition Corp for $1,000,000 as of December 31, 2019. Management believes that the assets are likely impaired below the stated value and has created a valuation allowance of $1,000,000 and $715,000 as of December 31, 2019 and 2018, respectively. The Company has recognized $285,000 and $715,000 in losses on the investment for the years ended 2019 and 2018, respectively.

In 2018, the Company had an additional investment in BLM Acquisition Corp in the form of a Convertible Secured Subordinate Note Receivable for $500,000. During 2019, the Company recognized an impairment loss for the full value of the note.

Note 7 - Goodwill and Intangibles

The gross carrying amounts of goodwill, accumulated amortization, and accumulated impairment loss were as follows for the years ended December 31:

	2019	2018
Goodwill	$ 2,799,587	$ 2,799,587
Less accumulated amortization	1,119,838	839,878
Goodwill, net	$ 1,679,749	$ 1,959,709

The carrying basis and accumulated amortization of recognized intangible assets at December 31 were:

	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized Intangibles				
Customer base	$ 4,000,000	$ 4,000,000	$ 4,000,000	$ 3,600,000
Regulatory rights	2,000,000	2,000,000	2,000,000	1,800,000
	$ 6,000,000	$ 6,000,000	$ 6,000,000	$ 5,400,000
Unamortized Intangibles				
Trade name	$ 300,000		$ 300,000	

Amortization expense was $879,960 for both years ended December 31, 2019 and 2018.

Estimated amortization expense for the next five years is:

2020	$ 279,959
2021	279,959
2022	279,959
2023	279,959
2024	279,959

The Company annually assesses its recorded balances of goodwill and unamortized intangibles for impairment. As a result, the Company determined no impairment needed to be recorded for the years ended December 31, 2019 and 2018.

Note 8 - Property, Plant, and Equipment

Property, plant, and equipment includes the following:

	2019	2018
Telecommunications Plant in Service		
Land	$ 1,786,972	$ 1,775,208
Buildings	10,896,603	10,276,838
Furniture and office equipment	3,024,419	3,455,017
Vehicles and other work equipment	4,833,130	5,077,720
Switching equipment	3,984,299	25,502,217
Outside plant	118,282,188	106,436,694
Other plant and equipment	24,910,518	5,118,456
Organization	8,276	8,276
Total telecommunications plant in service	$ 167,726,405	$ 157,650,426

Depreciation expense was $8,014,753 and $7,487,377 for the years ended December 31, 2019 and 2018, respectively.

Interest costs of $96,314 and $146,281 were capitalized in 2019 and 2018, respectively.

Note 9 - Long-Term Debt

Long-term debt consists of:

	2019	2018
Mortgage notes payable - RUS BIP; interest rates of 2.27% to 3.71%. Notes mature September 2036.	$ 43,655,506	$ 45,656,226
Mortgage notes payable - RUS; interest rates of 3.91% to 7.00%. Notes mature at various times through 2031.	2,869,502	5,443,222
Mortgage notes payable - RTB; interest rates of 5.17% and 6.05%. Notes mature August 2019.		413,663
Mortgage note payable - CoBank; interest rate of 4.18%. Note matures December 2019.	2,225,000	2,925,000
Totals	$ 48,750,008	$ 54,438,111

The annual requirements for principal payments on long-term debt for the next five years are as follows:

December 31, 2020	$ 5,259,899
December 31, 2021	2,460,079
December 31, 2022	2,361,811
December 31, 2023	2,436,010
December 31, 2024	2,512,530

Substantially all assets of the Company are pledged as security for the long-term debt under certain loan agreements with the Rural Development Utilities Programs (RDUP) and Rural Telephone Bank (RTB). These mortgage notes are to be repaid in equal monthly and quarterly installments covering principal and interest beginning after date of issue and expiring by 2036.

The mortgage to the United States of America, underlying the RDUP notes, contains certain restrictions on the declaration or payment of cash dividends, redemption of capital stock or investment in affiliated companies except as might be specifically authorized in writing in advance by the RDUP noteholders.

The security and loan agreements underlying the CoBank notes contain certain restrictions on distributions to stockholders, and investment in or loans to others. The Company is restricted from making any distributions if the distributions would cause the violation of any of the required financial ratios per the loan agreement, except as might be specifically authorized in writing in advance by the CoBank noteholders. In addition, the Company is required to maintain certain financial ratios for current assets to current liabilities, net worth to total assets, long-term debt to operating cash flow and debt service coverage.

Cash paid for interest, net of amounts capitalized, for 2019 and 2018 totaled $1,669,932 and $1,762,703, respectively.

At December 31, 2019, of the funds available for long-term notes and lines of credit, all funds were advanced.

During 2010, the Company applied for, and was awarded, a loan and grant combination to construct an updated broadband network in its service area. The total amount awarded to the Company was $123,800,000, of which $61,900,001 represents eligible loan proceeds and $61,899,999 which will be awarded as a grant. Under the Program, the Company will be reimbursed for eligible costs associated with the construction of the broadband facilities over a specified period of time. As of December 31, 2019, the Company has received $55,502,302 in loan proceeds and $55,502,299 of the grant portion.

Under the provisions of the loan contract, advances of loan funds shall be deposited in a special construction account and held in trust for the government until disbursed. The loan contract restricts disbursements to such expenditures as RUS may authorize. All payments from the trust accounts are subject to RUS approval.

Note 10 - Income Taxes

Income taxes reflected in the consolidated statements of income consist of the following:

	2019	2018
Current Income Tax Expense		
Federal	$ 1,224,884	$ 469,175
State	144,174	108,674
Total current income tax expense	1,369,058	577,849
Deferred Income Tax Expense (Benefit)		
Federal	(193,993)	532,072
State	(61,943)	1,024
Total deferred income tax expense (benefit)	(255,936)	533,096
Total income tax expense (benefit)	$ 1,113,122	$ 1,110,945

Cash paid for income taxes and estimated income taxes for 2019 and 2018 totaled $854,410 and $864,735, respectively.

Deferred federal and state tax liabilities and assets reflected in the consolidated balance sheets are summarized as follows:

	2019	2018
Deferred Tax Assets		
Federal	$ 331,976	$ 267,880
States	216,236	54,533
Total deferred tax assets	548,212	322,413
Deferred Tax Liabilities		
Federal	(2,363,079)	(2,261,043)
States	(294,494)	(426,666)
Total deferred tax liabilities	(2,657,573)	(2,687,709)
Net deferred tax asset (liability)	$ (2,109,361)	$ (2,365,296)

A valuation allowance is required to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of the evidence, both positive and negative, management determined that no valuation allowance was required at December 31, 2019 and 2018, to reduce the deferred tax assets to the amount that will more likely than not be realized.

The tax provision differs from the expense that would result from applying the federal statutory rates to operations before income taxes because of state income taxes being deductible in determining taxable income and the Company being permitted to exclude from taxable income, income generated from patronage sourced activities if those margins are appropriately allocated to patrons as capital credits. This excluded income will vary from year to year, resulting in fluctuations in the effective rate and income tax expense.

The Company has evaluated its income tax positions and has determined that there are no uncertain income tax positions that need to be recorded or reported in the financial statements at December 31, 2019.

The Company's federal and state income tax returns for years 2016 to present remain subject to examination.

Note 11 - Labor Agreement

Approximately 45% of the Company's labor force is subject to a collective bargaining agreement. A five - year agreement was negotiated and approved for the period of November 1, 2019 to October 31, 2024 between the Company and the International Brotherhood of Electrical Workers.

Note 12 - Deferred Compensation

The Company and Telecom Management Services, Inc. have implemented a funded deferred compensation agreement for certain management personnel. The funds are maintained in brokerage accounts and are held by the Company. Under the terms of the plan, an amount determined by the Board of Directors of the Company will be paid to an account established on behalf of the management personnel. The plan participants become vested in these balances based on years of services and expense is not recognized until vesting has occurred. The vested deferred compensation is to be paid to the individuals upon retirement or other reasons of discontinued service to the respective or other reasons of discontinued service to the respective Company.

Deferred compensation on the balance sheet was $910,210 and $1,348,802 as of December 31, 2019 and 2018, respectively. During the years ended December 31, 2019 and 2018, respectively, the Company made payments to retired participants totaling $0 and $11,015, respectively. Amounts accrued as part of corporate operations expense for the years ended December 31, 2019 and 2018, were $619,810 and $66,079, respectively.

Note 13 - Benefit Plan

Ardmore Telephone Company, Inc., a wholly-owned subsidiary of Synergy Technologies Partners, Inc., has a 401(k) plan covering substantially all of its employees. The Company makes matching contributions to the plan of one-half of the employee contribution up to 4% of the employee's salary. The Company's contribution to the plan for 2019 and 2018 was $12,881 and $14,116, respectively.

Note 14 - Multi-Employer Pension Plan

The employees of the Company and its subsidiary TMS participate in the "Retirement and Security Program (R&S) of the National Telephone Company Association (NTCA) and its Member Systems" (the Plan). The Plan is a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501(a) of the Internal Revenue Code. It is a multi-employer plan under the accounting standards. The Plan's Employer Identification Number is 52-0741336 and the Plan Number is 333.

At the February 2016 meeting of the NTCA Board of Directors, the Board approved an option to allow participating member companies in the R&S Program to make a prefunding contribution to reduce expected future surcharge contributions. The prefunding amount is intended to reflect the member company's share, calculated as of January 1, 2015, of surcharge contributions required in 2018 and beyond to fund the R&S Program's unfunded value of benefits earned to date using R&S Program actuarial valuation assumptions. A member company's prefunding contribution will be credited to a notional account established for this purpose. Thereafter, the surcharge contributions otherwise due from a member company will be deducted from its notional account. The member company will be exempt from the obligation to pay surcharge contributions so long as the notional account is greater than zero. In addition, the member company will be exempt from PBGC variable rate premiums through 2029. However, changes in interest rates, asset returns, and other plan experience different from expected, plan assumption changes, and other factors may have an impact on the period of time during which a member company is exempt from the surcharge contributions.

The Company makes quarterly contributions to the Plan equal to the amounts billed for pension expense. In this master multi-employer plan, which is available to all members of NTCA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. Benefits to employees at retirement are based on the High - 5 years of compensation. The Company's contributions to the Plan in 2019 and 2018 represented less than 5% of the total contributions made to the Plan by all participating employers. The Company's pension costs for the years ended December 31, 2019 and 2018 were $337,762 and $263,992, respectively. During 2017, the Company made an advanced funding payment of $2,738,558 to NTCA. Beginning in the year ended December 31, 2018, monthly surcharge costs are deducted from the advanced funding payment. The prefunding amount is designed to cover surcharge costs for a period of 12 years. However, this could vary depending upon gains or losses of the invested prefunding amount and the actual surcharges during the 12-year period beginning January 1, 2019.

In the Plan, a zone status determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Plan was at least 80% funded at December 31, 2019 and December 31, 2018 based on the PPA funding target and PPA actuarial value of assets on those dates.

At the date the consolidated financial statements were issued, Forms 5500 were not available for the Plan year ended December 31, 2019.

Note 15 - Accounting for Other Postretirement Benefits

In addition to providing pension benefits, the Company provides certain health care benefits for retired employees and directors under a defined benefit postretirement plan. Substantially all the Company's employees may become eligible for those benefits when they meet age and service requirements. Employees of the Company's subsidiaries are not eligible for these benefits.

The Company has adopted the Compensation Retirement Benefit Topic of the FASB Accounting Standards Codification, which requires accrual accounting for all postretirement benefits other than pensions. Accordingly, the Company's obligation for these benefits is to be fully accrued by the date at which an employee attains full eligibility for such benefits. In agreement with the Topic, for financial reporting purposes, election was made to amortize the cost of the initial obligation over a 20-year period in level principle payments.

The postretirement Plan's funded status and amounts recognized in the Company's financial statements are as follows:

	2019	2019 Percentage	2018	2018 Percentage
Accumulated postretirement benefit obligation	$ 3,521,586		$ 3,315,816	
Fair value of plan assets at December 31				
VEBA II Trust	4,267,163	100.00%	3,505,491	100.00%
Totals	4,267,163		3,505,491	
Accrued postretirement benefit asset	$ (745,577)		$ (189,675)	

The Company contributes to a 401(h) trust that will be used to fund postretirement benefits for future retirees. These monies are invested with NTCA, who manages such funds for cooperatives. NTCA invests in mutual funds invested in common stocks and high-quality corporate bonds and U.S. government securities.

The following sets forth the changes in plan assets at December 31, 2018 and 2017:

	2019	2018
Fair value of plan assets, beginning of year	$ 3,505,491	$ 3,728,900
Return on plan assets	761,672	(223,409)
Employer contributions	168,135	170,503
Plan participants contributions	189,033	178,162
Benefits paid	(357,168)	(348,665)
Fair value of plan assets at December 31	$ 4,267,163	$ 3,505,491

The actual rate-of-return on plan assets was a gain (loss) of 17.84% and (5.99%) % for 2019 and 2018, respectively. The long-term rate of return on plan assets assumption was selected using the historical trend and anticipation of the market in the future. The estimated contribution to the plan for 2019 is $175,580.

Note 15 - Accounting for Other Postretirement Benefits (continued)

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that is based on the valuation inputs used in the fair value measurements. Measurements using quoted prices in active markets for identical assets and liabilities fall within Level 1 of the hierarchy, measurements using significant other observable inputs fall within Level 2, and measurements using significant unobservable inputs fall within Level 3.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy at December 31, 2019.

	Total	Level 1	Level 2	Level 3
Plan assets	$ 4,267,163	$ 4,267,163		

Components of net periodic benefit cost recognized for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Service cost	$ 71,170	$ 78,457
Interest cost	131,548	130,239
Expected return on plan assets	(262,912)	(279,670)
Amortization of net losses	69,246	37,263
Net periodic benefit cost before settlement effects	9,052	(33,711)
Settlement loss	1,902,135	
Net periodic benefit cost	$ 1,911,187	$ (33,711)

During 2019, the Company offered current employees a cash settlement to settle the postretirement health insurance benefit for current employees. In accordance with ASC 715-60 *Defined Benefit Plans - Other Postretirement,* this qualifies as a curtailment of the postretirement benefit plan. As the loss associated with the curtailment was both probable and reasonably estimable as of December 31, 2019, the actuarial loss associated with the curtailment of the plan was included in the net periodic benefit cost in the December 31, 2019 financial statements.

The following sets forth the assumptions used to compute the accumulated postretirement benefit obligation at December 31, 2019 and 2018:

	2019	2018
Weighted-Average Assumptions as of December 31		
Discount rate	4.10%	4.00%
Expected long-term rate of return on assets	7.50%	7.50%
Healthcare cost trend rate assumed for next year	N/A	N/A
Rate to which the cost trend rate is assumed to decline to the ultimate trend rate	N/A	N/A
Year that the rate reaches the ultimate trend rate	N/A	N/A

Components of projected net periodic benefit cost for the year ending December 31, 2020 are as follows:

	2020
Service cost	$ 2,000
Interest cost	69,000
Expected return on plan assets	(320,000)
Amortization of prior service cost	166,000
Net periodic benefit cost	$ (83,000)

Estimated future benefit payments, which reflect expected future service, as appropriate, are expected as follows:

Year	Amount
2020	$ 168,823
2021	164,308
2022	159,514
2023	158,355
2024	153,063
2025-2029	680,711

Note 16 - Other Comprehensive Income
Changes in the accumulated balances for each component of other comprehensive income for the years ended December 31, 2019 and 2018 are presented below.

	Postretirement Benefit Obligation	Net Unrealized Gains (losses) on Securities	Accumulated Other Comprehensive Income
2019			
Beginning balance	$ (1,353,550)	$ 606,195	$ (747,355)
Current period adoption of ASU 2016-01		(568,506)	(568,506)
Comprehensive loss	2,505,089	290,577	2,795,666
Ending balance	$ 1,151,539	$ 328,266	$ 1,479,805
2018			
Beginning balance	$ (683,305)	$ 4,594,339	$ 3,911,034
Comprehensive income	(670,245)	(3,988,144)	(4,658,389)
Ending balance	$ (1,353,550)	$ 606,195	$ (747,355)

Note 17 - Subsequent Events

Subsequent events have been evaluated through May 14, 2020, which is the date the financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures of certain types of public places and businesses. The coronavirus and actions taken to mitigate it could have an adverse impact on the economies and financial markets of the geographical areas in which the Company operates. There has been no immediate impact on the Company’s operations. The future effect of these issues are unknown; however, the Company may experience a decline in the collectability of accounts receivable as individuals and businesses may be adversely impacted by the outbreak.

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Consolidating Balance Sheet at December 31, 2019

Assets

	West Kentucky Rural Telephone Cooperative Corporation, Inc.	Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Elimination Entries	Consolidated Balances
Current Assets					
Cash and cash equivalents	$ 5,783,274	$ 163,063	$ 22,417		$ 5,968,754
Accounts receivable					
Due from customers, less allowance $69,654	848,580	58,293			906,873
Interexchange carriers, less allowance $69,752	1,184,718	101,223			1,285,941
Affiliates	17,753,591		1,263,906	$ (19,017,497)	
Other	33,269	13,540	9,687		56,496
Interest receivable	8,922				8,922
Materials and supplies	1,676,199	319,783			1,995,982
Prepaid taxes		46,945			46,945
Other prepayments	808,838	61,953	20,412		891,203
Total current assets	28,097,391	764,800	1,316,422	(19,017,497)	11,161,116
Other Noncurrent Assets					
Marketable debt and equity securities	52,863,512		1,423,683		54,287,195
Held-to-maturity securities	1,769,020				1,769,020
Other investments	14,783,463	177,546	993,502	(12,702,638)	3,251,873
Notes receivable	25,000				25,000
Intangibles, net of amortization		300,000			300,000
Prepayments, less current portion	2,769,372	356,357	475,937		3,601,666
Goodwill		1,679,749			1,679,749
Deferred tax asset			165,248		165,248
Postretirement benefits	745,577				745,577
Total noncurrent assets	72,955,944	2,513,652	3,058,370	(12,702,638)	65,825,328
Property, Plant, and Equipment					
Telecommunications plant					
Telecommunications plant in service	122,524,613	44,956,093	245,699		167,726,405
Telecommunications plant under construction	2,347,446	1,918,006			4,265,452
	124,872,059	46,874,099	245,699		171,991,857
Less accumulated depreciation	54,033,053	34,237,087	231,469		88,501,609
Net property, plant, and equipment	70,839,006	12,637,012	14,230		83,490,248
Total assets	$ 171,892,341	$ 15,915,464	$ 4,389,022	$ (31,720,135)	$ 160,476,692

See Independent Auditor's Report.

Liabilities and Equities

	West Kentucky Rural Telephone Cooperative Corporation, Inc.	Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Elimination Entries	Consolidated Balances
Current Liabilities					
Current maturities on long-term debt	$ 3,034,899	$ 2,225,000			$ 5,259,899
Line of credit	1,600,000				1,600,000
Accounts payable					
Interexchange carriers	228,000	33,550			261,550
Affiliates	17,494,847	1,522,651		$ (19,017,498)	
Other	1,338,434	500,151	$ 23,393		1,861,978
Advance billing	1,013,034				1,013,034
Customer deposits	83,463				83,463
Accrued taxes	478,157	13,770	(129,286)		362,641
Other	1,659,366	105,085	550,340		2,314,791
Total current liabilities	26,930,200	4,400,207	444,447	(19,017,498)	12,757,356
Long-Term Debt					
Notes payable	46,525,008	2,225,000			48,750,008
Less current maturities	3,034,899	2,225,000			5,259,899
Total long-term debt	43,490,109				43,490,109
Other Noncurrent Liabilities					
Postretirement liability			78,737		78,737
Deferred tax liability	957,187	1,317,422			2,274,609
Deferred compensation			910,210		910,210
Total other noncurrent liabilities	957,187	1,317,422	988,947		3,263,556
Total liabilities	71,377,496	5,717,629	1,433,394	(19,017,498)	59,511,021
Equities					
Memberships	54,689				54,689
Common stock		4,600,000	200,000	(4,800,000)	
Additional paid-in capital		3,490,755	770,762	(4,261,517)	
Patronage capital	71,711,717				71,711,717
Other comprehensive income (loss)	1,354,784		115,124	(36,601)	1,433,307
Other equities	27,393,655	2,107,080	1,869,742	(3,976,822)	27,393,655
	100,514,845	10,197,835	2,955,628	(13,074,940)	100,593,368
Noncontrolling interest				372,303	372,303
Total equities	100,514,845	10,197,835	2,955,628	(12,702,637)	100,965,671
Total liabilities and equities	$ 171,892,341	$ 15,915,464	$ 4,389,022	$ (31,720,135)	$ 160,476,692

West Kentucky Rural Telephone Cooperative Corporation, Inc.
Consolidating Statements of Income and Comprehensive Income
For the Year Ended December 31, 2019

	West Kentucky Rural Telephone Cooperative Corporation, Inc.	Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Elimination Entries	Consolidated Balances
Operating Revenues					
Basic local network services	$ 3,653,731	$ 1,376,520			$ 5,030,251
Network access services	14,995,865	3,172,524			18,168,389
Long-distance services	519,648	280,574			800,222
Broadband services	9,303,221	3,120,696			12,423,917
Video services	3,581,995				3,581,995
Professional and management fee revenue			$ 2,339,010	$(2,339,010)	
Security revenues	329,414	39,153			368,567
Retail sales revenues	25,397				25,397
Miscellaneous	1,159,461	251,060			1,410,521
Total operating revenues	33,568,732	8,240,527	2,339,010	(2,339,010)	41,809,259
Operating Expenses					
Plant specific operations	4,477,267	1,159,216	30,746		5,667,229
Plant nonspecific operations	1,498,664	322,392			1,821,056
Cost of long-distance services	201,754	86,949			288,703
Cost of broadband services	2,748,682	1,242,265			3,990,947
Cost of video services	2,962,428				2,962,428
Security expenses	171,140				171,140
Cost of goods sold - retail	48,817				48,817
Depreciation and amortization	6,710,419	2,172,221	12,075		8,894,715
Customer operations	3,509,796	1,201,022	391,209	(523,404)	4,578,623
Corporate operations	3,012,464	858,800	1,885,569	(1,815,606)	3,941,227
General taxes	927,816	150,056	3,328		1,081,200
Total operating expenses	26,269,247	7,192,921	2,322,927	(2,339,010)	33,446,085
Operating Income	7,299,485	1,047,606	16,083		8,363,174
Other Income (Expense)					
Interest income	1,077,407	36,333	72,395		1,186,135
Income from investments	933,089		(32,474)		900,615
Income (loss) from partnerships	(6,011)				(6,011)
Income from subsidiaries	1,158,292			(1,158,292)	
Other, net	(2,331,829)				(2,331,829)
Total other income	830,948	36,333	39,921	(1,158,292)	(251,090)
Unrealized Gain on Marketable Equity Securities	4,968,111		256,519		5,224,630
Fixed Charges					
Interest Expense	1,476,523	101,180			1,577,703
Total fixed charges	1,476,523	101,180			1,577,703
Income Before Income Taxes and Noncontrolling Interest	11,622,021	982,759	312,523	(1,158,292)	11,759,011
Income Tax Expense (Benefit)	1,041,111	68,912	3,099		1,113,122
Net Income Before Noncontrolling Interest	10,580,910	913,847	309,424	(1,158,292)	10,645,889
Net Income Attributable to Noncontrolling Interest			64,979		64,979
Net Income Attributable to West Kentucky Rural Telephone Cooperative Corporation, Inc.	$ 10,580,910	$ 913,847	$ 244,445	$(1,158,292)	$ 10,580,910

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