

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TENNESSEE 545
NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION
AND SUBSIDIARY
LAFAYETTE, TENNESSEE

December 31, 2019 and 2018

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C O N T E N T S

Consolidated Financial Statements:

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TOTHEROW HAILE & WELCH, PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the accompanying consolidated financial statements of North Central Telephone Cooperative Corporation and Subsidiary which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, changes in members' equity and cash flows for the years then ended, and the related notes to the consolidated 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 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 of 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.

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of North Central Telephone Cooperative Corporation and Subsidiary as of December 31, 2019 and 2018, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 4, 2020, on our consideration of North Central Telephone Cooperative Corporation and Subsidiary'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Jotherow, Haile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 4, 2020

CONSOLIDATED BALANCE SHEETS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019 and 2018

| | 2019 | 2018 |
|----------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| <u>ASSETS</u> | | |
| <u>CURRENT ASSETS</u> | | |
| Cash - general | \$ 14,214,546 | \$ 12,000,983 |
| Cash - construction funds | 765,853 | 144,689 |
| Temporary cash investments | 6,751,000 | 4,251,000 |
| Telecommunications accounts receivable, less allowances of \$316,155 in 2019 and \$364,877 in 2018 | 1,069,486 | 754,566 |
| Notes receivable | 59,837 | 387,410 |
| Other accounts receivable | 68,118 | 56,381 |
| Materials and supplies | 1,351,922 | 1,285,413 |
| Refundable tax deposit | 12,203 | 477,436 |
| Other current assets | <u>217,135</u> | <u>162,725</u> |
| TOTAL CURRENT ASSETS | \$ 24,510,100 | \$ 19,520,603 |
| <u>NONCURRENT ASSETS</u> | | |
| Investments | \$ 37,718,089 | \$ 35,527,509 |
| Nonregulated investments | <u>238,057</u> | <u>191,775</u> |
| TOTAL NONCURRENT ASSETS | \$ 37,956,146 | \$ 35,719,284 |
| <u>PROPERTY, PLANT AND EQUIPMENT</u> | | |
| Telecommunications plant in service | \$ 190,264,947 | \$ 187,023,679 |
| Telecommunications plant under construction | <u>10,756,839</u> | <u>7,209,804</u> |
| | \$ 201,021,786 | \$ 194,233,483 |
| Less accumulated depreciation | <u>116,911,231</u> | <u>111,512,610</u> |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | <u>\$ 84,110,555</u> | <u>\$ 82,720,873</u> |
| | <u>\$ 146,576,801</u> | <u>\$ 137,960,760</u> |

See the accompanying independent accountants' report and notes to the financial statements.

CONSOLIDATED BALANCE SHEETS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019 and 2018

| | 2019 | 2018 |
|--------------------------------------------|----------------|----------------|
| <u>LIABILITIES AND MEMBERS' EQUITY</u> | | |
| <u>CURRENT LIABILITIES</u> | | |
| Accounts payable | \$ 1,360,400 | \$ 1,273,318 |
| Advance billings and payments | 432,947 | 406,538 |
| Customer deposits | 610,789 | 555,957 |
| Current maturities on long-term debt | 4,959,858 | 4,801,454 |
| Accrued federal and state taxes | 406,522 | 72,957 |
| Accrued interest | 48,157 | 42,621 |
| Accrued rents | 796,216 | 676,801 |
| Accrued salaries and wages | 288,436 | 273,329 |
| Accrued property taxes | 641,792 | 373,631 |
| Accrued vacation and sick leave benefits | 1,122,416 | 1,170,529 |
| Deferred revenue | 376,752 | 764,162 |
| Other current liabilities | 469,097 | 467,455 |
| | <hr/> | <hr/> |
| TOTAL CURRENT LIABILITIES | \$ 11,513,382 | \$ 10,878,752 |
| <u>LONG-TERM DEBT</u> | | |
| Rural Utilities Service | 35,965,577 | 35,746,112 |
| Rural Telephone Bank | 6,597,881 | 7,290,191 |
| <u>OTHER LIABILITIES</u> | | |
| Postretirement benefits other than pension | 8,677,040 | 8,567,059 |
| Deferred taxes | 2,423,816 | 2,311,611 |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES | \$ 65,177,696 | \$ 64,793,725 |
| <u>MEMBERS' EQUITY</u> | | |
| Patronage capital | \$ 86,694,790 | \$ 78,253,747 |
| Accumulated other comprehensive loss | (5,295,685) | (5,086,712) |
| | <hr/> | <hr/> |
| TOTAL MEMBERS' EQUITY | \$ 81,399,105 | \$ 73,167,035 |
| | <hr/> | <hr/> |
| | \$ 146,576,801 | \$ 137,960,760 |

CONSOLIDATED STATEMENTS OF OPERATIONS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---------------------------------------------|-------------------|-------------------|
| Operating revenues: | | |
| Local network services revenue | \$ 5,356,834 | \$ 5,485,927 |
| Network access services revenue | 19,125,229 | 17,423,169 |
| Long distance network services revenue | 401,841 | 420,200 |
| Miscellaneous revenue | 2,438,278 | 2,567,094 |
| | <u>27,322,182</u> | <u>25,896,390</u> |
| TOTAL OPERATING REVENUES | \$ 27,322,182 | \$ 25,896,390 |
| Operating expenses: | | |
| Plant specific operations expense | \$ 6,973,747 | \$ 7,096,682 |
| Plant nonspecific operations expense | 2,105,970 | 2,811,695 |
| Provision for depreciation and amortization | 9,425,154 | 9,629,604 |
| Customer operations expense | 2,996,964 | 2,910,356 |
| Corporate operations expense | 2,014,603 | 3,350,088 |
| Operating taxes | 912,400 | 1,067,919 |
| | <u>24,428,838</u> | <u>26,866,344</u> |
| TOTAL OPERATING EXPENSES | \$ 24,428,838 | \$ 26,866,344 |
| OPERATING INCOME (LOSS) | \$ 2,893,344 | \$ (969,954) |
| Other income: | | |
| Income from investments | \$ 3,723,484 | \$ 3,237,273 |
| Interest income | 255,842 | 204,417 |
| Nonregulated income | 4,389,394 | 3,548,178 |
| Gain (Loss) on sale of assets | (90,163) | 840,460 |
| | <u>8,278,557</u> | <u>7,830,328</u> |
| TOTAL OTHER INCOME | \$ 8,278,557 | \$ 7,830,328 |

See the accompanying independent accountants' report and notes to the financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2019 and 2018

| | 2019 | 2018 |
|-------------------------------------------|----------------------------|----------------------------|
| Fixed charges: | | |
| Interest expense | \$ 1,458,759 | \$ 1,533,800 |
| Interest charged to construction - credit | <u>(222,863)</u> | <u>(143,589)</u> |
| TOTAL FIXED CHARGES | <u>\$ 1,235,896</u> | <u>\$ 1,390,211</u> |
| INCOME BEFORE TAXES ON INCOME | \$ 9,936,005 | \$ 5,470,163 |
| Taxes on income | <u>1,494,962</u> | <u>311,569</u> |
| NET INCOME | <u><u>\$ 8,441,043</u></u> | <u><u>\$ 5,158,594</u></u> |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--------------------------------------------|---------------------|---------------------|
| Net income | \$ 8,441,043 | \$ 5,158,594 |
| Other comprehensive income (loss): | | |
| Postretirement benefit other than pension: | | |
| Unrecognized prior service cost | 61,207 | (1,623,912) |
| Unrecognized (loss) gain on assets | <u>(270,000)</u> | <u>(270,000)</u> |
| COMPREHENSIVE INCOME | <u>\$ 8,232,250</u> | <u>\$ 3,264,682</u> |

See the accompanying independent accountants' report and notes to the financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2019 and 2018

| | Patronage Capital | Accumulated Other Comprehensive Income (Loss) | Total Members' Equity |
|--------------------------------------------|----------------------|--------------------------------------------------------|-----------------------------|
| Balance at December 31, 2017 | \$ 73,095,153 | \$ (3,192,800) | \$ 69,902,353 |
| Net income for 2018 | 5,158,594 | 0 | 5,158,594 |
| Other comprehensive income (loss): | | | |
| Postretirement benefit other than pension: | | | |
| Unrecognized prior service cost | 0 | (1,623,912) | (1,623,912) |
| Unrecognized loss | 0 | (270,000) | (270,000) |
| Balance at December 31, 2018 | \$ 78,253,747 | \$ (5,086,712) | \$ 73,167,035 |
| Net income for 2019 | 8,441,043 | 0 | 8,441,043 |
| Other comprehensive income (loss): | | | |
| Postretirement benefit other than pension: | | | |
| Unrecognized prior service cost | 0 | 61,027 | 61,027 |
| Unrecognized loss | 0 | (270,000) | (270,000) |
| Balance at December 31, 2019 | <u>\$ 86,694,790</u> | <u>\$ (5,295,685)</u> | <u>\$ 81,399,105</u> |

See the accompanying independent accountants' report and notes to the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2019 and 2018

| | 2019 | 2018 |
|----------------------------------------------------|-----------------------|-----------------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 26,667,952 | \$ 26,930,218 |
| Cash paid to suppliers and employees | (13,944,152) | (17,926,093) |
| Interest received | 255,842 | 204,417 |
| Interest paid | (1,230,360) | (1,387,830) |
| Taxes paid | (1,228,198) | (2,123,395) |
| | <u>\$ 10,521,084</u> | <u>\$ 5,697,317</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 10,521,084 | \$ 5,697,317 |
| Cash flows from investing activities: | | |
| Construction and acquisition of plant | \$ (10,529,752) | \$ (9,343,588) |
| Plant removal costs | (285,086) | (176,807) |
| Salvage | 0 | 34,780 |
| Increase in investments | (2,464,000) | (2,026,309) |
| Cash distribution from investments | 1,346,904 | 3,415,030 |
| Proceeds from sale of assets | 0 | 1,800,597 |
| Investment in nonregulated CPE | (46,282) | 516,758 |
| Decrease (Increase) in: | | |
| Materials and supplies | (66,509) | 237,702 |
| Nonregulated income | 4,389,394 | 3,548,178 |
| | <u>\$ (7,655,331)</u> | <u>\$ (1,993,659)</u> |
| NET CASH USED BY INVESTING ACTIVITIES | \$ (7,655,331) | \$ (1,993,659) |
| Cash flows from financing activities: | | |
| Increase in long-term borrowings | \$ 4,628,167 | \$ 0 |
| Payments on notes payable and long-term borrowings | (4,942,606) | (1,565,681) |
| (Increase) Decrease in notes receivable | 327,573 | (375,957) |
| Postretirement benefits other than pension | (98,992) | (45,953) |
| Increase in customer deposits | 54,832 | 42,121 |
| | <u>\$ (31,026)</u> | <u>\$ (1,945,470)</u> |
| NET CASH (USED) BY FINANCING ACTIVITIES | \$ (31,026) | \$ (1,945,470) |
| NET INCREASE (DECREASE) IN CASH | \$ 2,834,727 | \$ 1,758,188 |
| CASH AT BEGINNING OF YEAR | 12,145,672 | 10,387,484 |
| | <u>\$ 14,980,399</u> | <u>\$ 12,145,672</u> |
| CASH AT END OF YEAR | \$ 14,980,399 | \$ 12,145,672 |

See the accompanying independent accountants' report and notes to the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Net income | \$ 8,441,043 | \$ 5,158,594 |
| Nonregulated income | (4,389,394) | (3,548,178) |
| (Gain) Loss on sale of assets | 90,163 | (840,460) |
| Income from investments | <u>(3,723,484)</u> | <u>(3,237,273)</u> |
| Net Income (loss). from regulated operations | \$ 418,328 | \$ (2,467,317) |
| Adjustments to reconcile net income (loss) from regulated operations to net cash provided by operating activities: | | |
| Depreciation and amortization | \$ 9,425,154 | \$ 9,629,604 |
| Deferred taxes on income | 112,205 | 413,762 |
| Decrease (Increase) in: | | |
| Customer and accounts receivable | (326,657) | 269,666 |
| Current and accrued assets - other | (54,410) | 46,890 |
| Refundable tax deposit | 465,233 | (467,187) |
| Increase (Decrease) in: | | |
| Accounts payable | 87,082 | (1,428,409) |
| Advance billings and payments | 26,409 | 3,678 |
| Accrued federal and state taxes | 333,565 | (543,084) |
| Accrued interest | 5,536 | 2,381 |
| Accrued rents | 119,415 | 74,434 |
| Accrued salaries and employee benefits | (33,006) | (370,789) |
| Accrued property taxes | 268,161 | (147,398) |
| Deferred revenue | (327,573) | 764,162 |
| Other current liabilities | <u>1,642</u> | <u>(83,076)</u> |
| TOTAL ADJUSTMENTS | <u>\$10,102,756</u> | <u>\$ 8,164,634</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$10,521,084</u> | <u>\$ 5,697,317</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019 and 2018

Note A – North Central Telephone Cooperative Corporation and Subsidiary provides retail telecommunications services to Macon County, Tennessee and surrounding counties including a portion of southern Kentucky. North Central Telephone Cooperative Corporation and Subsidiary has adopted the following accounting policies:

(1) Principles of Consolidation:

North Central Telephone Cooperative Corporation (Cooperative) owns 100% of the outstanding common stock of North Central Communications, Inc. and Subsidiaries (Subsidiary). North Central Communications, Inc. and Subsidiaries were formed for the purpose of providing long distance and other telephone services, computer sales, leasing services and security systems. The consolidated financial statements include the accounts of North Central Communications, Inc. and Subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

(2) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(3) For purposes of financial statement presentation, the Cooperative and Subsidiary consider all highly-liquid investments with a maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of treasury bills and notes and commercial paper with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as temporary investments.

(4) Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. No interest is charged on accounts receivable balances that are past due. Past due accounts receivable are based upon contractual terms as defined on customer invoices. Accounts receivable past due 90 days or more amounted to \$50,673 and \$26,168 at December 31, 2019 and 2018, respectively.

The allowance for doubtful accounts is based upon a credit review of the accounts receivable, past bad debt experience, current economic conditions and other pertinent factors which form a basis for determining the adequacy of the allowance. The allowance represents an estimate based upon these and other factors and, it is at least reasonably possible that a change in the estimate will occur in the near term.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019 and 2018

Note A – (Cont'd):

- (5) Material and supplies are valued at average cost accumulated in perpetual inventory records, which are periodically adjusted to physical counts.
- (6) Employee vacation and sick leave benefits are accrued as the benefits are earned according to an established policy.
- (7) Revenue is recorded upon the billing of telecommunication services net of sales tax.
- (8) The Cooperative's expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation.
- (9) Advertising costs are charged to expense as incurred. These costs amounted to \$64,820 in 2019 and \$70,478 in 2018.
- (10) On January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2014-09 Revenue from Contracts with Customers and all subsequent amendments ("ASC 606") which creates a single framework for recognizing revenue from contracts that fall within its scope. Under the standard, the core principle will be achieved by 1) identifying the contract with the customer, 2) identifying the performance obligation, 3) determining the transaction price, 4) allocating the transaction price to the performance obligation, and 5) recognizing revenue when the entity satisfies a performance obligations.

The company adopted ASC 606 using the modified retrospective method applied to all contracts not complete as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under 606 while prior period amounts continue to be reported under legacy GAAP. The modified retrospective method requires that the Company record a net change, if any, in beginning retained earnings as of January 1, 2019 due to the cumulative effect of adopting ASC 606. The adoption of ASC 606 did not result in a change to the accounting of any of the inscope revenue streams; as such, no cumulative effect adjustment was recorded by the Company.

- (11) Various amounts in the financial statements have been reclassified for comparative purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019 and 2018

Note B – Concentrations of Credit Risks:

Deposits

The Cooperative and Subsidiary maintains its cash in several commercial banks located within its trade area. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Approximately \$16,528,012 was uninsured at December 31, 2019.

Restricted cash consists of employees' savings and flex plan accounts in which \$54,959 has been deposited.

Accounts receivable

Telecommunications services are provided to the customers within its trade area on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

Note C – Investments:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------------------------------------------|---------------------|---------------------|
| NECA Services, Inc. stock - at cost | \$ 10,000 | \$ 10,000 |
| Cash value of life insurance | 294,818 | 330,818 |
| Investment in Kentucky RSA #3 cellular partnership (25%) | 29,299,701 | 27,098,671 |
| Investment in Bluegrass Network, LLC (20%) | 6,107,509 | 5,938,212 |
| Investment in Bluegrass Telecom, LLC (20%) | 342,042 | 342,041 |
| Qualified patronage capital certificates – NRTC | 59,546 | 17,856 |
| Tennessee 220 MHZ Radio | 147,224 | 147,224 |
| Tennessee Independent Telecom Group (IRIS Networks) (11.97%) | 1,447,249 | 1,482,687 |
| Codero Holdings | 0 | 150,000 |
| Synergy Wireless, Inc. – at cost | <u>10,000</u> | <u>10,000</u> |
| | <u>\$37,718,089</u> | <u>\$35,527,509</u> |

Ownership percentages are in parentheses for investments in which North Central Communications, Inc. owns a significant portion of the investment. All other investments are carried at cost.

Investments carried at cost are not normally evaluated for impairment because it is not practical to estimate fair value due to insufficient information being available. An evaluation is performed, however, if economic or market concerns warrant such an evaluation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019 and 2018

Note C – (Cont'd):

Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent or ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of fair value.

During 2019, information became available related to the Company's investment in Codero Holdings that Management believes could result in Codero ceasing operations. Because of this information, the Company has written off this investment.

Management has not identified any circumstances that may have a significant adverse effect on the fair value of any other cost method investment.

The following is a summary as of December 31, 2019 of selected financial information from the financial statements of the investments in which North Central Communications, Inc. owns a significant percentage:

| | <u>Kentucky RSA #3 cellular partnership</u> | <u>Bluegrass Network, LLC</u> | <u>Bluegrass Telecom, LLC</u> | <u>Tennessee Independent Telecom Group</u> |
|-------------------|---------------------------------------------------------|-----------------------------------|-----------------------------------|----------------------------------------------------|
| Total assets | \$125,848,000 | \$31,826,946 | \$2,080,676 | \$17,158,161 |
| Total liabilities | \$ 8,653,000 | \$ 1,289,400 | \$ 370,680 | \$ 6,816,717 |
| Total equity | \$117,195,000 | \$30,537,546 | \$1,709,996 | \$10,341,444 |
| Net income | \$ 12,801,000 | \$ 2,246,487 | \$ 111,294 | \$ 621,800 |

Note D – Nonregulated investments:

| | <u>2019</u> | <u>2018</u> |
|----------------------------------------------|-------------------|-------------------|
| Nonregulated customer premises equipment | \$9,837,589 | \$9,569,946 |
| Less accumulated provisions for depreciation | <u>9,599,532</u> | <u>9,378,171</u> |
| TOTAL | <u>\$ 238,057</u> | <u>\$ 191,775</u> |

Nonregulated customer premises equipment is stated at cost. The Cooperative provides for depreciation on a straight-line basis at an annual rate of depreciation, which will amortize the cost of the equipment over its estimated useful life.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019 and 2018

Note E – Telephone plant in service and under construction is stated at cost. Listed below are the major classes of the telephone plant as of December 31:

| | <u>2019</u> | <u>2018</u> |
|----------------------------------------------------------------------------------|----------------------|----------------------|
| Land | \$ 798,654 | \$ 798,654 |
| Buildings | 10,806,353 | 10,354,662 |
| Central office equipment | 45,105,615 | 43,207,103 |
| Outside plant network | 113,778,075 | 113,499,722 |
| Furniture and office equipment | 2,808,725 | 2,754,694 |
| Vehicles and other work equipment | <u>2,461,386</u> | <u>2,339,680</u> |
| Telecommunications plant in service as contained on the Cooperative's records | \$175,758,808 | \$172,954,515 |
| Land | \$ 35,000 | \$ 35,000 |
| Building | 289,079 | 266,239 |
| CATV equipment | 75,545 | 75,545 |
| Central office equipment | 4,781,870 | 4,781,870 |
| Outside plant network | 4,484,849 | 4,070,686 |
| Equipment | 2,325,760 | 2,325,760 |
| Vehicles | <u>2,516,036</u> | <u>2,514,064</u> |
| Telecommunications plant in service as contained on the Subsidiaries' records | <u>\$ 14,506,139</u> | <u>\$ 14,069,164</u> |
| Total telecommunications plant in service | <u>\$190,264,947</u> | <u>\$187,023,679</u> |

The Cooperative provides for depreciation on a straight-line basis of annual rates, which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of telephone plant in service was 4.99 percent for 2019 and 5.24 percent for 2018. The provision for depreciation in 2019 and 2018 was \$8,701,163 and \$8,709,844, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019 and 2018

Note E – (Cont'd)

Individual plant depreciation rates are as follows:

| | <u>Percent</u> |
|-----------------------------------|----------------|
| Buildings | 2.6 |
| Central office equipment | 6.7 – 21.0 |
| Public telephone equipment | 15.1 |
| Poles, cable and wire | 1.7 – 8.8 |
| Furniture and office equipment | 6.7 – 16.4 |
| Vehicles and other work equipment | 6.4 – 10.8 |
| DBS and internet equipment | 18.8 |

The Subsidiary provides for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its useful life. Depreciation charged to expense on the Subsidiary's records amounted to \$723,991 in 2019 and \$919,760 in 2018.

Note F – A description of notes payable follows:

Long-term debt is represented by mortgage notes payable to the United States of America. Substantially all assets are pledged as security for the long-term debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019 and 2018

Note F – (Cont'd)

The following is a summary of outstanding long-term debt:

| | <u>2019</u> | <u>2018</u> |
|----------------------------------------------------------------------------|--------------------------|-------------------------|
| 2.92% to 5.15% Rural Utilities Service notes, matures January 2, 2029 | \$ 2,847,565 | \$ 3,085,776 |
| 5.00% to 5.13% Rural Telephone Bank notes, matures January 2, 2029 | 7,296,913 | 8,109,365 |
| 1.35% to 2.36% Rural Utilities Service notes, matures December 31, 2025 | 16,497,183 | 19,089,910 |
| 1.93% to 3.99% Rural Utilities Service notes, matures June 17, 2031 | 17,287,258 | 18,428,273 |
| 2.91-3.24% Rural Utilities Service notes, matures October 5, 2037 | 6,916,438 | 2,288,271 |
| Less cushion of credit | <u>(3,322,039)</u> | <u>(3,163,838)</u> |
| | \$ 47,523,318 | \$47,837,757 |
| Less current maturities | <u>4,959,858</u> | <u>4,801,454</u> |
| TOTAL | <u>\$ 42,563,340</u> | <u>\$43,036,303</u> |

Principle and interest installments on the above notes are due quarterly and monthly. The Rural Utilities Service notes have various maturity dates.

Long-term debt matures as follows:

| <u>Year ending</u> <u>December 31,</u> | <u>Amount</u> |
|-------------------------------------------|-------------------------|
| 2020 | \$ 4,959,858 |
| 2021 | 5,290,152 |
| 2022 | 5,432,038 |
| 2023 | 5,578,670 |
| 2024 | 5,730,326 |
| Beyond five years | <u>20,532,274</u> |
| TOTAL | <u>\$47,523,318</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019 and 2018

Note G – As required by the Retirement Benefit Topic of the FASB ASC, the Cooperative accrues all postretirement benefits other than pensions. Under the prescribed accrual method, the Cooperative's obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. The cost of medical benefits for current and future associate retirees was recognized as determined under the projected united credit cost method.

Substantially all of the Cooperative's employees are covered under postretirement medical plans. The determination of postretirement benefit cost for postretirement medical benefit plan is based on comprehensive hospital, medical and surgical benefit provisions.

The following table sets forth the plan's funded status and the amounts recognized in the Cooperative's Consolidated Balance Sheet as of December 31:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------------------------------|----------------------|---------------------|
| Accumulated postretirement obligation attributable to: | | |
| Retirees | \$ 10,328,801 | \$ 8,893,627 |
| Fully eligible plan participants | 1,424,666 | 1,242,715 |
| Other active plan participants | <u>11,109,974</u> | <u>9,998,726</u> |
| Total accumulated postretirement benefit obligation | \$ 22,863,441 | \$ 20,135,068 |
| Fair value of plan assets | <u>(14,186,401)</u> | <u>(11,568,009)</u> |
| Net unfunded status | <u>\$ 8,677,040</u> | <u>\$ 8,567,059</u> |

Amounts recognized in other comprehensive income (loss):

| | | |
|-----------------------------------------------------|----------------------|----------------------|
| Unrecognized prior service cost | \$ 2,227,100 | \$ 2,497,100 |
| Unrecognized net loss | <u>(7,522,785)</u> | <u>(7,583,812)</u> |
| Total included in other comprehensive income (loss) | <u>\$(5,295,685)</u> | <u>\$(5,086,712)</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019 and 2018

Note G – (Cont'd):

Postretirement benefit cost is composed of the following for the year ended December 31:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------------------------------------|------------------|-------------------|
| Benefits earned during the year | \$ 668,899 | \$ 680,916 |
| Interest on accumulated postretirement benefit obligation | 897,919 | 809,455 |
| Expected return on plan assets | <u>(867,601)</u> | <u>(912,636)</u> |
| Postretirement benefit cost | <u>\$699,217</u> | <u>\$ 577,735</u> |

The Medicare and Prescription Drug, Improvement and Modernization Act of 2003 provides for a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the benefit established by the law. Currently, for the plan, the Medicare Part D Subsidy is a reduction to premiums paid for by participants that are at least 65 years old. For 2019, premiums for this group of participants were approximately \$50 less than it would have been without the adjustment.

Weighted average assumptions to determine benefit obligations and net periodic cost for the years ended December 31:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------|-------------|-------------|
| Discount rate | 3.90% | 4.25% |
| Rate of compensation increase | 3.00% | 3.00% |
| Expected return on plan assets | 7.50% | 7.50% |

The Cooperative's expected rate of return on plan assets is determined by the plan's historical long-term investment performance, current asset allocation, and estimates of future long-term return by asset class.

The medical cost trend rate in 2019 was approximately 7.0% grading down to an ultimate rate in 2024 of 4.0%. A one percentage point increase in the assumed medical cost trend rates for each future year would have increased the aggregate of the service and the interest components of the 2019 net periodic postretirement benefit cost by \$337,314 and would have increased the postretirement benefit obligation as of December 31, 2019 by \$4,042,741.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019 and 2018

Note G – (Cont'd):

A one percentage point decrease in the assumed medical cost trend rates for each future year would have decreased the aggregate of the service and the interest components of the 2019 net periodic postretirement benefit cost by \$254,104 and would have decreased the postretirement benefit obligation as of December 31, 2019 by \$3,127,142.

The plan attempts to mitigate investment risks by balancing between equity and debt classes of investments. Currently, the plan is invested in mutual funds with a target allocation of approximately 65% domestic and international stocks, 15% investment grade bonds, 10% high yield bonds, and 10% real estate. Although changes in interest rates may affect the fair value of a portion of the investment portfolio and cause unrealized gains and losses, such gains and losses would not be realized unless the investments are sold.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the plan:

| <u>Year</u> | <u>Amount</u> |
|-------------------|--------------------|
| 2020 | \$ 806,225 |
| 2021 | 807,902 |
| 2022 | 843,737 |
| 2023 | 853,521 |
| 2024 | 845,169 |
| Years 2025 – 2029 | <u>4,470,015</u> |
| TOTAL | <u>\$8,626,569</u> |

The Cooperative contributed \$250,000 in 2019 and anticipates making monthly contributions to the plan in 2020.

Note H – The Cooperative has adopted the retirement and security program of the National Telephone Cooperative Association as a pension plan covering all employees meeting certain age and length of service requirements for which it pays approximately 80% of the cost. The Cooperative funds the pension plan by making monthly contributions into the program based on salaries. The Cooperative's cost was \$1,066,736 for 2019 and \$1,088,319 for 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019 and 2018

Note I – As required by the Income Tax Topic of FASB ASC, the Company recognizes deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the Company's financial statements and tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Measurement is computed using applicable current tax rates.

| | <u>2019</u> | <u>2018</u> |
|------------------------------|---------------------|------------------|
| Current income tax expense: | | |
| Federal | \$ 1,239,072 | \$(120,863) |
| State | 143,685 | 18,667 |
| Deferred income tax expense: | | |
| Federal | 56,425 | 379,068 |
| State | <u>55,780</u> | <u>34,694</u> |
| Income tax expense | <u>\$ 1,494,962</u> | <u>\$311,566</u> |

The Company's total deferred tax assets and liabilities at December 31 are as follows:

| | <u>2019</u> | <u>2018</u> |
|----------------------------|----------------------|----------------------|
| Net deferred tax liability | <u>\$(2,423,816)</u> | <u>\$(2,311,611)</u> |

The deferred tax asset is primarily the result of net operating losses that are carried forward for state income tax reporting purposes from North Central Communication's investment in its wholly owned subsidiaries. The deferred tax liability is the result of timing differences related to the difference in financial reporting depreciation and income tax depreciation.

North Central Computer Technologies, Inc. has a net operating loss carryforward of approximately \$372,019, which is available to offset future state taxable income. This carryforward will expire in 1 to 15 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019 and 2018

Note I – (Cont'd)

The individual companies included in the consolidation are responsible for their own tax liabilities. All companies are no longer subject to Internal Revenue or state taxing authority examinations beyond the statute of limitations for the respective taxing authorities. Penalties and interest, if any, that are assessed by income tax authorities are included in operating expenses. No interest or penalties were recognized during the years ending December 31, 2019 and 2018.

Note J – Labor Force

Approximately 80% of the Cooperative's labor force is subject to a collective bargaining agreement. An agreement was approved for the period January 1, 2018 to June 30, 2020 between the Cooperative and the Communications Workers of America.

Note K – Deferred Compensation

The Cooperative has implemented a deferred compensation plan for certain management personnel. The plan is maintained by Wells Fargo. Under the terms of the plan, an amount determined by the Board of Directors of the Cooperative will be paid to an account established on behalf of the management personnel. The deferred compensation is to be paid to the individuals upon retirement or other reasons of discontinued service to the Cooperative.

Note L – Subsequent events are transactions or events that occur subsequent to the date of the financial statements and before the issuance of those financial statements. Management has evaluated transactions and events that occurred subsequent to December 31, 2019 and before the date these financial statements were available to be issued, March 4, 2020, and determined that no additional disclosures are necessary.

CONSOLIDATING INFORMATION

INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
North Central Telephone
Cooperative Corporation
Lafayette, Tennessee

We have audited the consolidated financial statements of North Central Telephone Cooperative Corporation and Subsidiary as of and for the years ended December 31, 2019 and 2018, and our report thereon dated March 4, 2020, which expresses an unmodified opinion on those financial statements, appears on page 5. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in Schedules 1, 2 and 3 is presented for purposes of additional analysis of the consolidated 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 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 consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements, themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Totherow, Haile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 4, 2020

SCHEDULE 1 - CONSOLIDATING BALANCE SHEETS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019

| | North Central Telephone Cooperative, Corp. | North Central Communications, Inc. and Subsidiaries | Reclassifications /Eliminations | Total |
|------------------------------------------------|--------------------------------------------------|-----------------------------------------------------------|------------------------------------|----------------|
| <u>ASSETS</u> | | | | |
| <u>CURRENT ASSETS</u> | | | | |
| Cash - general | \$ 11,350,738 | \$ 2,863,808 | \$ 0 | \$ 14,214,546 |
| Cash - construction funds | 765,853 | 0 | 0 | 765,853 |
| Temporary cash investments | 4,601,000 | 2,150,000 | 0 | 6,751,000 |
| Telecommunications | | | | |
| accounts receivable | 1,066,544 | 2,942 | 0 | 1,069,486 |
| Notes Receivable | 0 | 59,837 | 0 | 59,837 |
| Other accounts receivable | 68,118 | 0 | 0 | 68,118 |
| Advance to related company | 367,606 | 0 | (367,606) | 0 |
| Materials and supplies | 1,351,675 | 247 | 0 | 1,351,922 |
| Refundable tax deposits | 8,455 | 3,748 | 0 | 12,203 |
| Other current assets | 211,628 | 5,507 | 0 | 217,135 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL CURRENT ASSETS | \$ 19,791,617 | \$ 5,086,089 | \$ (367,606) | \$ 24,510,100 |
| <u>NONCURRENT ASSETS</u> | | | | |
| Investment in subsidiary | \$ 44,079,940 | \$ 0 | \$ (44,079,940) | \$ 0 |
| Investments | 304,818 | 37,413,271 | 0 | 37,718,089 |
| Nonregulated investments | 238,057 | 0 | 0 | 238,057 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL NONCURRENT ASSETS | \$ 44,622,815 | \$ 37,413,271 | \$ (44,079,940) | \$ 37,956,146 |
| <u>PROPERTY, PLANT AND EQUIPMENT</u> | | | | |
| Telecommunications plant in service | \$ 175,758,808 | \$ 14,506,139 | \$ 0 | \$ 190,264,947 |
| Telecommunications plant under construction | 7,493,135 | 3,263,704 | 0 | 10,756,839 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | \$ 183,251,943 | \$ 17,769,843 | \$ 0 | \$ 201,021,786 |
| Less accumulated depreciation | 105,121,473 | 11,789,758 | 0 | 116,911,231 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | \$ 78,130,470 | \$ 5,980,085 | \$ 0 | \$ 84,110,555 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | \$ 142,544,902 | \$ 48,479,445 | \$ (44,447,546) | \$ 146,576,801 |

SCHEDULE 1 - CONSOLIDATING BALANCE SHEETS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2019

| | North Central Telephone Cooperative, Corp. | North Central Communications, Inc. and Subsidiaries | Reclassifications /Eliminations | Total |
|-----------------------------------------------|--------------------------------------------------|-----------------------------------------------------------|------------------------------------|-----------------------|
| <u>LIABILITIES AND MEMBERS' EQUITY</u> | | | | |
| <u>CURRENT LIABILITIES</u> | | | | |
| Accounts payable | \$ 854,155 | \$ 506,245 | \$ 0 | \$ 1,360,400 |
| Advance billings and payments | 303,043 | 129,904 | 0 | 432,947 |
| Advance from related company | 0 | 367,606 | (367,606) | 0 |
| Customer deposits | 610,789 | 0 | 0 | 610,789 |
| Current maturities on long-term debt | 4,959,858 | 0 | 0 | 4,959,858 |
| Accrued federal and state taxes | 54,425 | 352,097 | 0 | 406,522 |
| Accrued interest | 48,157 | 0 | 0 | 48,157 |
| Accrued rent | 796,216 | 0 | 0 | 796,216 |
| Accrued salaries and wages | 288,436 | 0 | 0 | 288,436 |
| Accrued property taxes | 598,369 | 43,423 | 0 | 641,792 |
| Accrued vacation and sick leave benefits | 1,032,116 | 0 | 0 | 1,032,116 |
| Accrued group health deduction | 90,300 | 0 | 0 | 90,300 |
| Deferred revenue | 0 | 376,752 | 0 | 376,752 |
| Other current liabilities | 269,435 | 199,662 | 0 | 469,097 |
| TOTAL CURRENT LIABILITIES | \$ 9,905,299 | \$ 1,975,689 | \$ (367,606) | \$ 11,513,382 |
| <u>LONG-TERM DEBT</u> | | | | |
| Rural Utilities Service | 35,965,577 | 0 | 0 | 35,965,577 |
| Rural Telephone Bank | 6,597,881 | 0 | 0 | 6,597,881 |
| <u>OTHER LIABILITIES</u> | | | | |
| Postretirement benefits other than pension | 8,677,040 | 0 | 0 | 8,677,040 |
| Deferred tax liability | 0 | 2,423,816 | 0 | 2,423,816 |
| TOTAL LIABILITIES | \$ 61,145,797 | \$ 4,399,505 | \$ (367,606) | \$ 65,177,696 |
| <u>MEMBERS' EQUITY</u> | | | | |
| Capital stock | \$ 0 | \$ 8,100,000 | \$ (8,100,000) | \$ 0 |
| Patronage capital | 86,694,790 | 0 | 0 | 86,694,790 |
| Accumulated comprehensive loss | (5,295,685) | 0 | 0 | (5,295,685) |
| Retained earnings | 0 | 35,979,940 | (35,979,940) | 0 |
| TOTAL MEMBERS' EQUITY | \$ 81,399,105 | \$ 44,079,940 | \$ (44,079,940) | \$ 81,399,105 |
| | \$ 142,544,902 | \$ 48,479,445 | \$ (44,447,546) | \$ 146,576,801 |

SCHEDULE 2 - CONSOLIDATING STATEMENTS OF OPERATIONS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2019

| | North Central Telephone Cooperative, Corp. | North Central Communications, Inc. and Subsidiaries | Reclassifications /Eliminations | Total |
|------------------------------------------------------------------|--------------------------------------------------|-----------------------------------------------------------|------------------------------------|----------------------|
| Operating revenues: | | | | |
| Local network services revenue | \$ 4,886,210 | \$ 470,624 | \$ 0 | \$ 5,356,834 |
| Network access service revenue | 18,801,574 | 323,655 | 0 | 19,125,229 |
| Long distance network services revenue | 388,778 | 13,063 | 0 | 401,841 |
| Internet and video revenues | 9,413,972 | 7,492,862 | (16,906,834) | 0 |
| Security systems revenue | 0 | 14,400 | 0 | 14,400 |
| Lease revenue | 0 | 1,252,349 | (1,252,349) | 0 |
| Miscellaneous revenue | <u>2,297,579</u> | <u>262,349</u> | <u>(136,050)</u> | <u>2,423,878</u> |
| TOTAL OPERATING REVENUES | \$ 35,788,113 | \$ 9,829,302 | \$ (18,295,233) | \$ 27,322,182 |
| Operating expenses: | | | | |
| Plant specific operations expense | \$ 7,707,705 | \$ 517,521 | \$ (1,252,349) | \$ 6,972,877 |
| Plant nonspecific operations expense | 2,078,952 | 27,018 | 0 | 2,105,970 |
| Internet and video expenses | 5,459,517 | 7,240,772 | (12,700,289) | 0 |
| Security equipment cost of goods sold and monitoring expenses | 0 | 870 | | 870 |
| Provision for depreciation | 8,701,163 | 723,991 | 0 | 9,425,154 |
| Customer operations expense | 2,817,830 | 179,134 | 0 | 2,996,964 |
| Corporate operations expense | 1,742,983 | 407,670 | (136,050) | 2,014,603 |
| Operating taxes | <u>795,567</u> | <u>116,833</u> | <u>0</u> | <u>912,400</u> |
| TOTAL OPERATING EXPENSES | \$ 29,303,717 | \$ 9,213,809 | \$ (14,088,688) | \$ 24,428,838 |
| OPERATING INCOME (LOSS) | \$ 6,484,396 | \$ 615,493 | \$ (4,206,545) | \$ 2,893,344 |

SCHEDULE 2 - CONSOLIDATING STATEMENTS OF OPERATIONS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2019

| | North Central Telephone Cooperative, Corp. | North Central Communications, Inc. and Subsidiaries | Reclassifications /Eliminations | Total |
|----------------------------------------------|--------------------------------------------------|-----------------------------------------------------------|------------------------------------|----------------------------|
| Other income: | | | | |
| Income from subsidiaries | \$ 2,790,287 | \$ 0 | \$ (2,790,287) | \$ 0 |
| Income from investments | 0 | 3,723,484 | 0 | 3,723,484 |
| Interest & dividend income | 233,807 | 36,435 | (14,400) | 255,842 |
| Gain on sale of asset | 0 | (90,163) | 0 | (90,163) |
| Nonregulated income | <u>182,849</u> | <u>0</u> | <u>4,206,545</u> | <u>4,389,394</u> |
| TOTAL OTHER INCOME | \$ 3,206,943 | \$ 3,669,756 | \$ 1,401,858 | \$ 8,278,557 |
| Fixed charges: | | | | |
| Interest expense | \$ 1,473,159 | \$ 0 | \$ (14,400) | \$ 1,458,759 |
| Interest charged to construction - credit | <u>(222,863)</u> | <u>0</u> | <u>0</u> | <u>(222,863)</u> |
| TOTAL FIXED CHARGES | \$ 1,250,296 | \$ 0 | \$ (14,400) | \$ 1,235,896 |
| INCOME BEFORE TAXES ON INCOME | \$ 8,441,043 | \$ 4,285,249 | \$ (2,790,287) | \$ 9,936,005 |
| Taxes on income | <u>0</u> | <u>1,494,962</u> | <u>0</u> | <u>1,494,962</u> |
| NET INCOME | <u>\$ 8,441,043</u> | <u>\$ 2,790,287</u> | <u>\$ (2,790,287)</u> | <u>\$ 8,441,043</u> |

SCHEDULE 3 - CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2019

| | North Central Telephone Cooperative, Corp. | North Central Communications, Inc. and Subsidiaries | Reclassifications /Eliminations | Total |
|-----------------------------------------------|--------------------------------------------------|-----------------------------------------------------------|------------------------------------|---------------------|
| Net income | \$ 8,441,043 | \$ 2,790,287 | \$ (2,790,287) | \$ 8,441,043 |
| Other comprehensive income (loss): | | | | |
| Postretirement benefit other than pension: | | | | |
| Unrecognized prior service cost | 61,207 | 0 | 0 | 61,207 |
| Unrecognized loss | <u>(270,000)</u> | <u>0</u> | <u>0</u> | <u>(270,000)</u> |
| COMPREHENSIVE INCOME | <u>\$ 8,232,250</u> | <u>\$ 2,790,287</u> | <u>\$ (2,790,287)</u> | <u>\$ 8,232,250</u> |