

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 3, 2021, 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.

Sotherow, Haile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 3, 2021

CONSOLIDATED BALANCE SHEETS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2020 and 2019

	2020	2019
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 18,687,480	\$ 14,214,546
Cash - construction funds	397,446	765,853
Temporary cash investments	6,751,000	6,751,000
Telecommunications accounts receivable, less allowances of \$196,120 in 2020 and \$316,155 in 2019	1,073,282	1,069,486
Notes receivable	0	59,837
Other accounts receivable	39,655	68,118
Materials and supplies	1,474,871	1,351,922
Refundable tax deposit	38,464	12,203
Other current assets	<u>215,946</u>	<u>217,135</u>
TOTAL CURRENT ASSETS	\$ 28,678,144	\$ 24,510,100
<u>NONCURRENT ASSETS</u>		
Investments	\$ 42,088,294	\$ 37,718,089
Nonregulated investments	<u>261,185</u>	<u>238,057</u>
TOTAL NONCURRENT ASSETS	\$ 42,349,479	\$ 37,956,146
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service	\$ 199,335,366	\$ 190,264,947
Telecommunications plant under construction	<u>11,551,672</u>	<u>10,756,839</u>
	\$ 210,887,038	\$ 201,021,786
Less accumulated depreciation	<u>124,915,600</u>	<u>116,911,231</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>\$ 85,971,438</u>	<u>\$ 84,110,555</u>
	<u>\$ 156,999,061</u>	<u>\$ 146,576,801</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, 2020 and 2019

	2020	2019
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Notes Payable	\$ 1,864,383	\$ 0
Accounts payable	2,338,319	1,360,400
Advance billings and payments	484,518	432,947
Customer deposits	723,716	610,789
Current maturities on long-term debt	5,447,944	4,959,858
Accrued federal and state taxes	1,027,201	406,522
Accrued interest	53,604	48,157
Accrued rents	82,000	796,216
Accrued salaries and wages	373,428	288,436
Accrued property taxes	0	641,792
Accrued vacation and sick leave benefits	1,186,051	1,122,416
Deferred revenue	627,920	376,752
Other current liabilities	575,418	469,097
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	\$ 14,784,502	\$ 11,513,382
<u>LONG-TERM DEBT</u>		
Rural Utilities Service	33,662,559	35,965,577
Rural Telephone Bank	5,890,160	6,597,881
<u>OTHER LIABILITIES</u>		
Postretirement benefits other than pension	9,281,856	8,677,040
Deferred taxes	2,543,791	2,423,816
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TOTAL LIABILITIES	\$ 66,162,868	\$ 65,177,696
<u>MEMBERS' EQUITY</u>		
Patronage capital	\$ 97,462,513	\$ 86,694,790
Accumulated other comprehensive loss	(6,626,320)	(5,295,685)
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TOTAL MEMBERS' EQUITY	\$ 90,836,193	\$ 81,399,105
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	<u>\$ 156,999,061</u>	<u>\$ 146,576,801</u>

CONSOLIDATED STATEMENTS OF OPERATIONS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2020 and 2019

	2020	2019
Operating revenues:		
Local network services revenue	\$ 4,969,617	\$ 5,356,834
Network access services revenue	18,378,445	19,125,229
Long distance network services revenue	359,595	401,841
Miscellaneous revenue	<u>2,282,304</u>	<u>2,438,278</u>
TOTAL OPERATING REVENUES	\$25,989,961	\$27,322,182
Operating expenses:		
Plant specific operations expense	\$ 6,928,491	\$ 6,973,747
Plant nonspecific operations expense	1,852,361	2,105,970
Provision for depreciation and amortization	9,106,791	9,425,154
Customer operations expense	2,906,304	2,996,964
Corporate operations expense	2,032,326	2,014,603
Operating taxes	<u>887,157</u>	<u>912,400</u>
TOTAL OPERATING EXPENSES	<u>\$23,713,430</u>	<u>\$24,428,838</u>
OPERATING INCOME (LOSS)	\$ 2,276,531	\$ 2,893,344
Other income:		
Income from investments	\$ 5,139,841	\$ 3,723,484
Interest income	247,904	255,842
Nonregulated income	5,921,547	4,389,394
Insurance refund	1,433	0
Rent income	21,600	0
Gain (Loss) on sale of assets	<u>0</u>	<u>(90,163)</u>
TOTAL OTHER INCOME	\$11,332,325	\$ 8,278,557

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, 2020 and 2019

	2020	2019
Fixed charges:		
Interest expense	\$ 1,305,764	\$ 1,458,759
Interest charged to construction - credit	<u>(196,734)</u>	<u>(222,863)</u>
TOTAL FIXED CHARGES	<u>\$ 1,109,030</u>	<u>\$ 1,235,896</u>
INCOME BEFORE TAXES ON INCOME	\$ 12,499,826	\$ 9,936,005
Taxes on income	<u>1,732,103</u>	<u>1,494,962</u>
NET INCOME	<u><u>\$ 10,767,723</u></u>	<u><u>\$ 8,441,043</u></u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

For the years ended December 31, 2020 and 2019

	2020	2019
Net income	\$ 10,767,723	\$ 8,441,043
Other comprehensive income (loss):		
Postretirement benefit other than pension:		
Unrecognized prior service cost	(270,000)	(270,000)
Unrecognized (loss) gain on assets	<u>(1,060,635)</u>	<u>61,207</u>
COMPREHENSIVE INCOME	<u>\$ 9,437,088</u>	<u>\$ 8,232,250</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, 2020 and 2019

	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
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	(270,000)	(270,000)
Unrecognized loss	<u>0</u>	<u>61,027</u>	<u>61,027</u>
Balance at December 31, 2019	\$ 86,694,790	\$ (5,295,685)	\$ 81,399,105
Net income for 2020	10,767,723	0	10,767,723
Other comprehensive income (loss):			
Postretirement benefit other than pension:			
Unrecognized prior service cost	0	(270,000)	(270,000)
Unrecognized loss	<u>0</u>	<u>(1,060,635)</u>	<u>(1,060,635)</u>
Balance at December 31, 2020	<u>\$ 97,462,513</u>	<u>\$ (6,626,320)</u>	<u>\$ 90,836,193</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, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 26,288,829	\$ 26,667,952
Cash paid to suppliers and employees	(13,148,071)	(13,944,152)
Interest received	247,904	255,842
Interest paid	(1,103,583)	(1,230,360)
Taxes paid	(2,546,659)	(1,228,198)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 9,738,420	\$ 10,521,084
Cash flows from investing activities:		
Construction and acquisition of plant	\$ (10,914,961)	\$ (10,529,752)
Plant removal costs	(52,713)	(285,086)
Increase in investments	(1,334,160)	(2,464,000)
Cash distribution from investments	2,103,796	1,346,904
Investment in nonregulated CPE	(23,128)	(46,282)
Decrease (Increase) in:		
Materials and supplies	(122,949)	(66,509)
Nonregulated income	5,921,547	4,389,394
NET CASH USED BY INVESTING ACTIVITIES	\$ (4,422,568)	\$ (7,655,331)
Cash flows from financing activities:		
Increase in long-term borrowings	\$ 1,864,383	\$ 4,628,167
Payments on notes payable and long-term borrowings	(2,522,653)	(4,942,606)
(Increase) Decrease in notes receivable	59,837	327,573
Postretirement benefits other than pension	(725,819)	(98,992)
Increase in customer deposits	112,927	54,832
NET CASH (USED) BY FINANCING ACTIVITIES	\$ (1,211,325)	\$ (31,026)
NET INCREASE (DECREASE) IN CASH	\$ 4,104,527	\$ 2,834,727
CASH AT BEGINNING OF YEAR	14,980,399	12,145,672
CASH AT END OF YEAR	<u>\$ 19,084,926</u>	<u>\$ 14,980,399</u>

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, 2020 and 2019

	2020	2019
Net income	\$10,767,723	\$ 8,441,043
Nonregulated income	(5,921,547)	(4,389,394)
(Gain) Loss on sale of assets	0	90,163
Income from investments	<u>(5,139,841)</u>	<u>(3,723,484)</u>
Net Income (loss). from regulated operations	\$ (293,665)	\$ 418,328
Adjustments to reconcile net income (loss) from regulated operations to net cash provided by operating activities:		
Depreciation and amortization	\$ 9,106,791	\$ 9,425,154
Deferred taxes on income	119,975	112,205
Decrease (Increase) in:		
Customer and accounts receivable	24,667	(326,657)
Current and accrued assets - other	1,189	(54,410)
Refundable tax deposit	(26,261)	465,233
Increase (Decrease) in:		
Accounts payable	977,919	87,082
Advance billings and payments	51,571	26,409
Accrued federal and state taxes	620,679	333,565
Accrued interest	5,447	5,536
Accrued rents	(714,216)	119,415
Accrued salaries and employee benefits	148,627	(33,006)
Accrued property taxes	(641,792)	268,161
Deferred revenue	251,168	(327,573)
Other current liabilities	<u>106,321</u>	<u>1,642</u>
TOTAL ADJUSTMENTS	<u>\$10,032,085</u>	<u>\$10,102,756</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 9,738,420</u>	<u>\$10,521,084</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2020 and 2019

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 \$36,677 and \$50,673 at December 31, 2020 and 2019, 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, 2020 and 2019

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 \$40,972 in 2020 and \$64,820 in 2019.
- (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.
- (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, 2020 and 2019

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 \$15,417,663 was uninsured at December 31, 2020.

Restricted cash consists of employees' savings and flex plan accounts in which \$51,985 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>2020</u>	<u>2019</u>
NECA Services, Inc. stock - at cost	\$ 10,000	\$ 10,000
Cash value of life insurance	239,503	294,818
Investment in Kentucky RSA #3 cellular partnership (25%)	31,198,007	29,299,701
Investment in Bluegrass Network, LLC (20%)	7,139,067	6,107,509
Investment in Bluegrass Telecom, LLC (20%)	342,042	342,042
Qualified patronage capital certificates – NRTC	79,397	59,546
Tennessee 220 MHZ Radio	147,224	147,224
Tennessee Independent Telecom Group (IRIS Networks) (11.97%)	1,646,957	1,447,249
Foursight Communications, LLC d/b/a Trilight	1,221,697	0
CBRS Spectrum	54,400	0
Synergy Wireless, Inc. – at cost	<u>10,000</u>	<u>10,000</u>
	<u>\$42,088,294</u>	<u>\$37,718,089</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, 2020 and 2019

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, 2020 of selected financial information from the financial statements of the investments in which North Central Communications, Inc. owns a significant percentage:

	Kentucky RSA #3 cellular partnership	Bluegrass Network, LLC	Bluegrass Telecom, LLC	Tennessee Independent Telecom Group
Total assets	\$128,458,000	\$37,818,573	\$2,065,322	\$19,834,090
Total liabilities	\$ 3,663,000	\$ 1,923,288	\$ 355,325	\$ 7,868,921
Total equity	\$124,795,000	\$35,895,285	\$1,709,997	\$11,965,169
Net income	\$ 14,597,000	\$ 6,557,739	\$ 297,889	\$ 1,623,725

Note D – Nonregulated investments:

	<u>2020</u>	<u>2019</u>
Nonregulated customer premises equipment	\$10,144,809	\$9,837,589
Less accumulated provisions for depreciation	<u>9,883,624</u>	<u>9,599,532</u>
TOTAL	<u>\$ 261,185</u>	<u>\$ 238,057</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, 2020 and 2019

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>2020</u>	<u>2019</u>
Land	\$ 798,654	\$ 798,654
Buildings	11,057,808	10,806,353
Central office equipment	49,563,212	45,105,615
Outside plant network	117,867,207	113,778,075
Furniture and office equipment	2,871,310	2,808,725
Vehicles and other work equipment	<u>2,838,454</u>	<u>2,461,386</u>
Telecommunications plant in service as contained on the Cooperative's records	\$184,996,645	\$175,758,808
Land	\$ 35,000	\$ 35,000
Building	340,033	289,079
CATV equipment	75,545	75,545
Central office equipment	4,781,870	4,781,870
Outside plant network	4,264,477	4,484,849
Equipment	2,325,760	2,325,760
Vehicles	<u>2,516,036</u>	<u>2,516,036</u>
Telecommunications plant in service as contained on the Subsidiaries' records	\$ 14,338,721	\$ 14,506,139
Total telecommunications plant in service	<u>\$199,335,366</u>	<u>\$190,264,947</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 4.59 percent for 2020 and 4.99 percent for 2019. The provision for depreciation in 2020 and 2019 was \$8,282,019 and \$8,701,163, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2020 and 2019

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 \$824,772 in 2020 and \$723,991 in 2019.

Note F – A description of notes payable follows:

Notes Payable:

The Company applied for and received a loan from Macon Bank & Trust in the amount of \$1,864,383 under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The Company applied for forgiveness of this loan but as of the balance sheet date, has not been notified that the loan has been forgiven. The Company has submitted the eligible expenditures for payroll and other expenses described in the CARES Act.

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, 2020 and 2019

Note F – (Cont'd)

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

	<u>2020</u>	<u>2019</u>
2.92% to 5.15% Rural Utilities Service notes, matures January 2, 2029	\$ 2,564,722	\$ 2,847,565
5.00% to 5.13% Rural Telephone Bank notes, matures January 2, 2029	6,582,280	7,296,913
1.35% to 2.36% Rural Utilities Service notes, matures December 31, 2025	13,821,550	16,497,183
1.93% to 3.99% Rural Utilities Service notes, matures June 17, 2031	15,929,204	17,287,258
2.91-3.24% Rural Utilities Service notes, matures October 5, 2037	9,585,522	6,916,438
Less cushion of credit	<u>(3,482,615)</u>	<u>(3,322,039)</u>
	\$ 45,000,663	\$ 47,523,318
Less current maturities	<u>5,447,944</u>	<u>4,959,858</u>
TOTAL	<u>\$ 39,552,719</u>	<u>\$ 42,563,340</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 December 31,</u>	<u>Amount</u>
2021	\$ 5,447,944
2022	5,591,584
2023	5,740,171
2024	5,893,746
2025	5,981,808
Beyond five years	<u>16,345,410</u>
TOTAL	<u>\$45,000,663</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2020 and 2019

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 unit 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>2020</u>	<u>2019</u>
Accumulated postretirement obligation attributable to:		
Retirees	\$ 10,750,965	\$ 10,328,801
Fully eligible plan participants	2,609,810	1,424,666
Other active plan participants	<u>11,976,874</u>	<u>11,109,974</u>
Total accumulated postretirement benefit obligation	\$ 25,337,649	\$ 22,863,441
Fair value of plan assets	<u>(16,055,793)</u>	<u>(14,186,401)</u>
Net unfunded status	<u>\$ 9,281,856</u>	<u>\$8,677,040</u>

Amounts recognized in other comprehensive income (loss):

Unrecognized prior service cost	\$ 1,957,100	\$ 2,227,100
Unrecognized net loss	<u>(8,583,420)</u>	<u>(7,522,785)</u>
Total included in other comprehensive income (loss)	<u>\$(6,626,320)</u>	<u>\$(5,295,685)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2020 and 2019

Note G – (Cont'd):

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

	<u>2020</u>	<u>2019</u>
Benefits earned during the year	\$ 701,252	\$ 668,899
Interest on accumulated postretirement benefit obligation	874,610	897,919
Expected return on plan assets	<u>(1,063,980)</u>	<u>(867,601)</u>
Postretirement benefit cost	<u>\$ 511,882</u>	<u>\$699,217</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>2020</u>	<u>2019</u>
Discount rate	3.50%	3.90%
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 2020 was approximately 6.0% 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 2020 net periodic postretirement benefit cost by \$346,013 and would have increased the postretirement benefit obligation as of December 31, 2020 by \$4,596,540.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2020 and 2019

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 2020 net periodic postretirement benefit cost by \$260,108 and would have decreased the postretirement benefit obligation as of December 31, 2020 by \$3,554,966.

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>
2021	\$ 819,694
2022	857,408
2023	872,405
2024	865,564
2025	880,749
Years 2026 – 2030	<u>4,645,012</u>
TOTAL	<u>\$8,940,832</u>

The Cooperative contributed \$600,000 in 2020 and anticipates making monthly contributions to the plan in 2021.

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 \$1,270,067 for 2020 and \$1,066,736 for 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2020 and 2019

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>2020</u>	<u>2019</u>
Current income tax expense:		
Federal	\$ 1,303,584	\$ 1,239,072
State	308,544	143,685
Deferred income tax expense:		
Federal	70,938	56,425
State	<u>49,037</u>	<u>55,780</u>
Income tax expense	<u>\$ 1,732,103</u>	<u>\$ 1,494,962</u>

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

	<u>2020</u>	<u>2019</u>
Net deferred tax liability	<u>\$(2,543,791)</u>	<u>\$(2,423,816)</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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2020 and 2019

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, 2020 and 2019.

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 July 1, 2020 to June 30, 2025 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 – COVID-19:

The COVID-19 pandemic developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our people (such as social distancing and working from home) and securing the supply of materials that are essential to our processes. At this stage, the impact on our business and results have not been significant and based on our experience to date we expect this to remain the case. We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardizing the health of our people.

Note M – 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, 2020 and before the date these financial statements were available to be issued, March 3, 2021, 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, 2020 and 2019, and our report thereon dated March 3, 2021, 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 3, 2021

SCHEDULE 1 - CONSOLIDATING BALANCE SHEETS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2020

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Reclassifications /Eliminations	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash - general	\$ 15,315,753	\$ 3,371,727	\$ 0	\$ 18,687,480
Cash - construction funds	397,446	0	0	397,446
Temporary cash investments	4,601,000	2,150,000	0	6,751,000
Telecommunications accounts receivable	1,069,494	3,788	0	1,073,282
Other accounts receivable	39,655	0	0	39,655
Advance to related company	2,824,127	0	(2,824,127)	0
Materials and supplies	1,474,352	519	0	1,474,871
Refundable tax deposits	38,464	0	0	38,464
Other current assets	215,146	800	0	215,946
TOTAL CURRENT ASSETS	\$ 25,975,437	\$ 5,526,834	\$ (2,824,127)	\$ 28,678,144
<u>NONCURRENT ASSETS</u>				
Investment in subsidiary	\$ 46,551,516	\$ 0	\$ (46,551,516)	\$ 0
Investments	303,903	41,784,391	0	42,088,294
Nonregulated investments	261,185	0	0	261,185
TOTAL NONCURRENT ASSETS	\$ 47,116,604	\$ 41,784,391	\$ (46,551,516)	\$ 42,349,479
<u>PROPERTY, PLANT AND EQUIPMENT</u>				
Telecommunications plant in service	\$ 184,996,645	\$ 14,338,721	\$ 0	\$ 199,335,366
Telecommunications plant under construction	5,762,650	5,789,022	0	11,551,672
	\$ 190,759,295	\$ 20,127,743	\$ 0	\$ 210,887,038
Less accumulated depreciation	112,301,213	12,614,387	0	124,915,600
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 78,458,082	\$ 7,513,356	\$ 0	\$ 85,971,438
	<u>\$ 151,550,123</u>	<u>\$ 54,824,581</u>	<u>\$ (49,375,643)</u>	<u>\$ 156,999,061</u>

SCHEDULE 1 - CONSOLIDATING BALANCE SHEETS (CONT'D)

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

December 31, 2020

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Reclassifications /Eliminations	Total
<u>LIABILITIES AND MEMBERS' EQUITY</u>				
<u>CURRENT LIABILITIES</u>				
Notes Payable	\$ 1,864,383	\$ 0	\$ 0	\$ 1,864,383
Accounts payable	1,430,836	907,485	0	\$ 2,338,321
Advance billings and payments	343,883	140,635	0	484,518
Advance from related company	0	2,824,127	(2,824,127)	0
Customer deposits	723,716	0	0	723,716
Current maturities on long-term debt	5,447,944	0	0	5,447,944
Accrued federal and state taxes	0	1,027,201	0	1,027,201
Accrued interest	53,604	0	0	53,604
Accrued rent	82,000	0	0	82,000
Accrued salaries and wages	373,428	0	0	373,428
Accrued vacation and sick leave benefits	1,186,051	0	0	1,186,051
Deferred revenue	0	627,920	0	627,920
Other current liabilities	373,512	201,906	0	575,418
TOTAL CURRENT LIABILITIES	\$ 11,879,357	\$ 5,729,274	\$ (2,824,127)	\$ 14,784,504
<u>LONG-TERM DEBT</u>				
Rural Utilities Service	33,662,559	0	0	33,662,559
Rural Telephone Bank	5,890,160	0	0	5,890,160
<u>OTHER LIABILITIES</u>				
Postretirement benefits other than pension	9,281,856	0	0	9,281,856
Deferred tax liability	0	2,543,791	0	2,543,791
TOTAL LIABILITIES	\$ 60,713,932	\$ 8,273,065	\$ (2,824,127)	\$ 66,162,870
<u>MEMBERS' EQUITY</u>				
Capital stock	\$ 0	\$ 8,100,000	\$ (8,100,000)	\$ 0
Patronage capital	97,462,511	0	0	97,462,511
Accumulated comprehensive loss	(6,626,320)	0	0	(6,626,320)
Retained earnings	0	38,451,516	(38,451,516)	0
TOTAL MEMBERS' EQUITY	\$ 90,836,191	\$ 46,551,516	\$ (46,551,516)	\$ 90,836,191
	<u><u>\$ 151,550,123</u></u>	<u><u>\$ 54,824,581</u></u>	<u><u>\$ (49,375,643)</u></u>	<u><u>\$ 156,999,061</u></u>

SCHEDULE 2 - CONSOLIDATING STATEMENTS OF OPERATIONS

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2020

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Reclassifications /Eliminations	Total
Operating revenues:				
Local network services revenue	\$ 4,487,382	\$ 482,235	\$ 0	\$ 4,969,617
Network access service revenue	18,078,288	300,157	0	18,378,445
Long distance network services revenue	347,684	11,911	0	359,595
Internet and video revenues	11,707,296	8,052,959	(19,760,255)	0
Lease revenue	0	1,220,585	(1,220,585)	0
Miscellaneous revenue	2,144,618	249,286	(111,600)	2,282,304
TOTAL OPERATING REVENUES	\$ 36,765,268	\$ 10,317,133	\$ (21,092,440)	\$ 25,989,961
Operating expenses:				
Plant specific operations expense	\$ 7,567,605	\$ 581,471	\$ (1,220,585)	\$ 6,928,491
Plant nonspecific operations expense	1,826,486	25,875	0	1,852,361
Internet and video expenses	6,645,761	7,162,897	(13,808,658)	0
Provision for depreciation	8,282,019	824,772	0	9,106,791
Customer operations expense	2,730,790	175,514	0	2,906,304
Corporate operations expense	1,845,624	298,302	(111,600)	2,032,326
Operating taxes	740,915	146,242	0	887,157
TOTAL OPERATING EXPENSES	\$ 29,639,200	\$ 9,215,073	\$ (15,140,843)	\$ 23,713,430
OPERATING INCOME (LOSS)	\$ 7,126,068	\$ 1,102,060	\$ (5,951,597)	\$ 2,276,531

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

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2020

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Reclassifications /Eliminations	Total
Other income:				
Income from subsidiaries	\$ 4,471,576	\$ 0	\$ (4,471,576)	\$ 0
Income from investments	0	5,139,841	0	5,139,841
Interest & dividend income	233,559	28,745	(14,400)	247,904
Insurance refund	0	1,433	0	1,433
Rental income		21,600		21,600
Nonregulated income	<u>(30,050)</u>	<u>0</u>	<u>5,951,597</u>	<u>5,921,547</u>
 TOTAL OTHER INCOME	 \$ 4,675,085	 \$ 5,191,619	 \$ 1,465,621	 \$ 11,332,325
Fixed charges:				
Interest expense	\$ 1,320,164	\$ 0	\$ (14,400)	\$ 1,305,764
Interest charged to construction - credit	<u>(196,734)</u>	<u>0</u>	<u>0</u>	<u>(196,734)</u>
 TOTAL FIXED CHARGES	 \$ 1,123,430	 \$ 0	 \$ (14,400)	 \$ 1,109,030
 INCOME BEFORE TAXES ON INCOME	 \$ 10,677,723	 \$ 6,293,679	 \$ (4,471,576)	 \$ 12,499,826
Taxes on income	<u>(90,000)</u>	<u>1,822,103</u>	<u>0</u>	<u>1,732,103</u>
 NET INCOME	 <u>\$ 10,767,723</u>	 <u>\$ 4,471,576</u>	 <u>\$ (4,471,576)</u>	 <u>\$ 10,767,723</u>

SCHEDULE 3 - CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

NORTH CENTRAL TELEPHONE COOPERATIVE CORPORATION AND SUBSIDIARY

Year ended December 31, 2020

	North Central Telephone Cooperative, Corp.	North Central Communications, Inc. and Subsidiaries	Reclassifications /Eliminations	Total
Net income	\$ 10,767,723	\$ 4,471,576	\$ (4,471,576)	\$ 10,767,723
Other comprehensive income (loss):				
Postretirement benefit other than pension:				
Unrecognized prior service cost	(270,000)	0	0	(270,000)
Unrecognized loss	<u>(1,060,635)</u>	<u>0</u>	<u>0</u>	<u>(1,060,635)</u>
COMPREHENSIVE INCOME	<u>\$ 9,437,088</u>	<u>\$ 4,471,576</u>	<u>\$ (4,471,576)</u>	<u>\$ 9,437,088</u>