

**SOUTH CENTRAL RURAL TELECOMMUNICATIONS
COOPERATIVE, INC.
AND SUBSIDIARY**

**Report on Audit of Consolidated Financial Statements
and Supplementary Information**

**For the Years Ended
June 30, 2019 and 2018**

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Independent Auditors' Report

Board of Directors
South Central Rural Telecommunications
Cooperative, Inc.
Glasgow, Kentucky 42141

We have audited the accompanying consolidated financial statements of South Central Rural Telecommunications Cooperative, Inc. and subsidiary, which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, patronage capital and other equities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of South Central Rural Telecommunications Cooperative, Inc. and subsidiary, as of June 30, 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 Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise South Central Rural Telecommunications Cooperative, Inc. and subsidiary's basic financial statements. The consolidating schedules on pages 18-22 and the statistical and analytical information on pages 23-24 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

This data is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 on pages 18-22 and the statistical and analytical information on pages 23-24 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2019, on our consideration of the South Central Rural Telecommunications Cooperative, Inc. and subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Central Rural Telecommunications Cooperative, Inc. and subsidiary's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

September 25, 2019

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
BALANCE SHEETS
June 30, 2019 and 2018

ASSETS	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 13,006,205	\$ 7,878,200
Temporary cash investments	500,000	500,000
Accounts and notes receivable, less allowance for doubtful accounts of \$31,672 in 2019 and \$45,022 in 2018	2,272,225	2,225,571
Materials and supplies at average cost	2,412,039	2,318,201
Accrued interest receivable	4,859	4,859
Prepaid expenses	5,970,489	6,011,490
Total current assets	24,165,817	18,938,321
Other assets:		
Marketable securities	37,351,854	31,498,168
Nonregulated investments	712,918	737,379
Investment in affiliated companies	80,616,363	80,295,990
Deferred debits	1,799,789	1,278,651
Total other assets	120,480,924	113,810,188
Telecommunication plant, at cost		
Telecommunication plant in service	220,926,662	221,599,051
Telecommunication plant under construction	10,077,900	10,689,301
Total	231,004,562	232,288,352
Less accumulated depreciation	163,573,320	164,561,007
Telecommunication plant, net	67,431,242	67,727,345
TOTAL ASSETS	\$ 212,077,983	\$ 200,475,854

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
 BALANCE SHEETS, CONCLUDED
 June 30, 2019 and 2018

LIABILITIES AND MEMBERS' EQUITIES	<u>2019</u>	<u>2018</u>
Current liabilities:		
Accounts payable	\$ 5,720,685	\$ 5,234,779
Accrued expenses	<u>2,502,967</u>	<u>3,495,856</u>
Total current liabilities	<u>8,223,652</u>	<u>8,730,635</u>
Long-term liabilities:		
Deferred taxes	11,325,614	9,911,880
Other long-term liabilities	<u>17,515,336</u>	<u>13,119,343</u>
Total long-term liabilities	<u>28,840,950</u>	<u>23,031,223</u>
Other liabilities and deferred credits:		
Deferred Credit	<u>1,554,821</u>	<u>763,826</u>
Total other liabilities and deferred credits	<u>1,554,821</u>	<u>763,826</u>
Total Liabilities	<u>38,619,423</u>	<u>32,525,684</u>
Members' equities:		
Patronage capital	37,400,649	39,774,385
Accumulated other comprehensive loss	(12,286,243)	(9,415,600)
Other equities	146,675,413	135,898,890
Other member capital	<u>1,668,741</u>	<u>1,692,495</u>
Total members' equities	<u>173,458,560</u>	<u>167,950,170</u>
TOTAL LIABILITIES AND MEMBERS' EQUITIES	<u>\$ 212,077,983</u>	<u>\$ 200,475,854</u>

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

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
 STATEMENTS OF OPERATIONS
 For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Basic local network service	\$ 6,067,140	\$ 6,894,975
Network access service revenues	13,240,010	11,727,465
Carrier billing and collection	280,449	271,774
Miscellaneous	<u>1,270,505</u>	<u>1,232,464</u>
Total operating revenues	<u>20,858,104</u>	<u>20,126,678</u>
Operating expenses:		
Plant specific operations	5,513,199	5,092,823
Plant nonspecific operations	2,852,492	2,794,740
Depreciation and amortization	9,445,156	8,874,589
Customer operations	2,101,671	1,920,314
Corporate operations	2,518,295	3,074,591
Other operating taxes	<u>1,289,793</u>	<u>1,220,793</u>
Total operating expenses	<u>23,720,606</u>	<u>22,977,850</u>
Operating income	<u>(2,862,502)</u>	<u>(2,851,172)</u>
Nonoperating net income	9,766,513	15,081,113
Provision for income taxes	<u>1,010,010</u>	<u>(1,144,049)</u>
Income before interest charges	<u>7,914,021</u>	<u>11,085,892</u>
Nonregulated net income (loss)	<u>2,131,430</u>	<u>1,163,373</u>
Net income	<u>\$ 10,045,451</u>	<u>\$ 12,249,265</u>

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

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net income	\$10,045,451	\$12,249,265
Other comprehensive income (loss)		
Postretirement benefit other than pension:		
Unrecognized gain/(loss) on assets	<u>(2,870,643)</u>	<u>(169,587)</u>
Comprehensive income	<u>\$ 7,174,808</u>	<u>\$ 12,079,678</u>

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

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
 STATEMENTS OF PATRONAGE CAPITAL AND OTHER EQUITIES
 For the Years Ended June 30, 2019 and 2018

	Patronage Capital			Accumulated Other Comprehensive Income (Loss)	Other Equities
	Assignable	Assigned	Balance		
Balances, July 1, 2017	\$ (7,675,222)	\$ 50,830,569	\$ 43,155,347	\$ (9,246,013)	\$ 121,961,826
Distribution of patronage capital	-	(1,500,000)	(1,500,000)	-	-
Patronage capital assigned for the year ended December 31, 2017	1,615,932	(1,615,932)	-	-	-
Retirement of patronage capital of estates of deceased members	-	(496,301)	(496,301)	-	-
Transfer of unclaimed patronage capital	-	303,138	303,138	-	-
Postretirement benefit other than pension Unrecognized loss on assets	-	-	-	(169,587)	-
Recalculation of prior year allocated loss	-	-	-	-	-
Net income for the year ended June 30, 2018:					
Operating margins	(1,687,799)	-	(1,687,799)	-	-
Nonoperating margins	-	-	-	-	13,937,064
Balances, June 30, 2018	(7,747,089)	47,521,474	39,774,385	(9,415,600)	135,898,890
Distribution of patronage capital	-	(1,500,000)	(1,500,000)	-	-
Patronage capital assigned for the year ended December 31, 2018	969,592	(969,592)	-	-	-
Retirement of patronage capital of estates of deceased members	-	(509,976)	(509,976)	-	-
Transfer of unclaimed patronage capital	-	367,312	367,312	-	-
Postretirement benefit other than pension Unrecognized income on assets	-	-	-	(2,870,643)	-
Net income for the year ended June 30, 2019:					
Operating margins	(731,072)	-	(731,072)	-	-
Nonoperating margins	-	-	-	-	10,776,523
Balances, June 30, 2019	<u>\$ (7,508,569)</u>	<u>\$ 44,909,218</u>	<u>\$ 37,400,649</u>	<u>\$ (12,286,243)</u>	<u>\$ 146,675,413</u>

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

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Net income	\$ 10,045,451	\$ 12,249,265
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,780,947	11,015,602
Deferred taxes on income	1,755,010	(4,939,725)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts and notes receivable	(46,654)	24,864
Decrease (increase) in inventory	(93,838)	207,785
Decrease (increase) in prepaid expenses	41,001	507,060
Increase (decrease) in accounts payable	485,906	(73,913)
Increase (decrease) in accrued expenses	(992,889)	197,088
Net cash provided by (used in) operating activities	<u>22,974,934</u>	<u>19,188,026</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(13,645,562)	(10,267,777)
Plant removal costs	(265,385)	(302,929)
Salvage recovered from retirement of plant	5,179	-
Decrease (increase) in nonregulated investment	24,461	62,846
Decrease (increase) in other deferred charges	(521,138)	366,339
(Increase) in investment in affiliated companies	(320,373)	(1,466,104)
Purchases of Marketable Securities	(9,042,351)	(4,530,462)
Redemptions of Marketable Securities	3,188,665	1,480,000
Net cash provided by (used in) investing activities	<u>(20,576,504)</u>	<u>(14,658,087)</u>

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

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
 STATEMENTS OF CASH FLOWS, CONCLUDED
 For the Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from financing activities:		
Distributions of patronage capital	(1,500,000)	(1,500,000)
Retirements of patronage capital	(509,976)	(496,301)
Increase (decrease) in long-term liabilities	4,395,993	551,209
Increase (decrease) in other member capital	(23,754)	34,583
Transfers of unclaimed patronage capital	<u>367,312</u>	<u>303,138</u>
Net cash provided by (used in) financing activities	<u>2,729,575</u>	<u>(1,107,371)</u>
Net increase (decrease) in cash and cash equivalents	5,128,005	3,422,568
Cash and cash equivalents at beginning of year	<u>7,878,200</u>	<u>4,455,632</u>
Cash and cash equivalents at end of year	<u>\$ 13,006,205</u>	<u>\$ 7,878,200</u>
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	<u>\$ 2,090,000</u>	<u>\$ 6,083,774</u>

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

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

1. Summary of Significant Accounting Policies:

Nature of Business:

South Central Rural Telecommunications Cooperative, Inc. (the Cooperative), provides telecommunication service in a nine-county area of south central Kentucky. The Cooperative grants credit to customers, substantially all of whom are local residents and commercial businesses. The Cooperative maintains its accounts in accordance with the Uniform System of Accounts prescribed for telephone companies by the Federal Communications Commission. The consolidated financial statements include the accounts of the Cooperative and its wholly-owned subsidiary, South Central Telcom, LLC. All significant intercompany accounts and transactions have been eliminated.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management to make estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues and expenses during the reporting period. Actual results could differ from those estimates.

Telecommunication Plant:

The telecommunication plant in service and under construction at June 30, 2019 and 2018 is stated substantially at original cost, which includes material, labor, transportation and such indirect items as engineering, supervision, employee fringe benefits and interest on funds used during construction. As property units are retired in the ordinary course of business, the cost of the property plus removal cost, less salvage, is charged to accumulated depreciation. Listed below are the major classes of the telephone plant as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Organization	\$ 20,038	\$ 20,039
Land	757,270	720,374
Buildings	9,215,892	8,742,205
Central Office Equipment	44,110,964	50,289,171
Station Equipment	997,697	997,697
Cable and Wire Facilities	154,333,541	149,812,807
Furniture and Office Equipment	716,959	705,209
General Purpose Computers	4,047,352	3,848,800
Vehicles	6,591,429	6,327,229
Garage and Work Equipment	135,520	135,520
	<u>\$ 220,926,662</u>	<u>\$ 221,599,051</u>

Depreciation:

Depreciation is calculated by the straight-line method designed to amortize the cost of various classes of depreciable assets over their estimated useful lives.

Depreciation for the consolidated financial statements for the years ended June 30, 2019 and 2018 was \$11,780,947 and \$11,015,602 respectively.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued:

Deregulated Customer Premises Equipment (CPE):

Deregulated CPE 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.

Nonregulated Investments:

This balance reflects the Cooperative's permanent investment in deregulated CPE, net of applicable depreciation, plus deregulated inventory and accounts receivable, less deregulated accounts payable.

Following is a summary of net income (loss) from deregulated operations for the years ending June 30, 2019 and 2018, net of intercompany transactions:

	SCRTC		Telcom	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Income from operations	\$ 22,285,411	\$ 20,817,615	\$ 5,829,686	\$ 5,599,779
Expenses	<u>20,093,189</u>	<u>19,747,426</u>	<u>5,890,478</u>	<u>5,506,595</u>
Net Income (loss)	<u>\$ 2,192,222</u>	<u>\$ 1,070,189</u>	<u>\$ (60,792)</u>	<u>\$ 93,184</u>

Cash and Cash Equivalents:

For purposes of the Statements of Cash Flows, the Cooperative considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts and Notes Receivable:

The Cooperative estimates uncollectable accounts as a percentage of monthly revenues and compares this to invoices dated over 90 days when they are considered uncollectible. The Cooperative writes off receivables as a charge to the allowance for credit losses, in their estimation, it is probable that the receivable is worthless.

Other Member Capital:

This balance represents unclaimed distributions of patronage capital. After a statutory waiting period, these balances will be re-assigned to the Cooperative's existing patrons.

Inventories:

Inventory is stated at lower of cost or net realizable value using the average cost method. Inventory consists of materials and expendable supplies held for future consumption or capitalization. The cost is recorded as an expense or capitalized as inventory items are consumed.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Concluded:

Investment in Affiliated Companies:

This balance reflects the Cooperative's investment in partnerships and limited liability companies with other telephone companies in Kentucky, for the purpose of providing cellular telephone services and local telephone service. The investment is accounted for using the equity method. Investments in affiliated companies are listed as follows:

	Percentage Owned	<u>2019</u>	<u>2018</u>
RSA #3 Partnership	25%	27,090,670	\$ 26,872,893
RSA #4 Partnership	50%	37,553,724	38,338,469
Cumberland Cellular Partnership	12.5%	10,002,473	9,469,659
Bluegrass Network LLC	20%	5,658,342	5,328,456
Bluegrass Telcom LLC	20%	311,154	286,513
		<u>\$ 80,616,363</u>	<u>\$ 80,295,990</u>

2. Cash and Temporary Investments:

All deposits are in various financial institutions and are carried at cost. Temporary Investments reflect Certificates of Deposit held at various financial institutions. Insured amounts reflect those covered by FDIC or by collateral pledged by the respective financial institutions.

	<u>2019</u>		<u>2018</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$12,018,571	\$12,730,125	\$8,033,470	\$8,665,517
Uninsured:				
Uncollateralized	<u>1,487,634</u>	<u>1,595,754</u>	<u>344,730</u>	<u>341,285</u>
Total cash and temporary investments	<u>\$13,506,205</u>	<u>\$14,325,879</u>	<u>\$ 8,378,200</u>	<u>\$ 9,006,802</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

3. Pension Plan:

All eligible non-union employees of the Cooperative participate in the National Telephone Association (NTCA) Pension Plan (R&S Plan), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 52-0741336 and the Plan Number is 333. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

In October, 1988, the Cooperative approved the retroactive purchase of all prior service benefits as of December 31, 1988, at a cost of \$487,804. Contributions to the Plan for the years ended June 30, 2019 and 2018 were \$977,363 and \$930,262, respectively. The Plan has been approved by the Internal Revenue Service. As the Cooperative is only one of several employers participating in the Plan, it is not practicable to determine if the vested benefits of the Cooperative's employees exceed the Cooperative's portion of the Plan assets.

The following table presents certain information regarding the Plan's status as a whole, derived from actuarial valuations performed as of the dates indicated:

	<u>Pension Benefits</u>	
	<u>January 1, 2019</u>	<u>January 1, 2018</u>
Fair value of plan assets	\$ 2,088,136,896	\$ 2,113,681,696
Present value of accumulated benefits	<u>(2,086,251,559)</u>	<u>(2,009,054,518)</u>
Overfunded/(Unfunded)	<u>\$ 1,885,337</u>	<u>\$ 104,627,178</u>

	<u>Pension Benefits</u>	
	<u>January 1, 2019</u>	<u>January 1, 2018</u>
Weighted – average assumptions as of January 1:		
Valuation interest rate	7.00%	7.00%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	age related	age related

On September 30, 2016, the Cooperative made a prepayment in the amount of \$3,948,353 for its R&S Plan. The prepayment amount is a cooperative's share of future contributions required to fund the R&S Plan's unfunded value of benefits earned to date using R&S Plan actuarial valuation assumptions. The prepayment amount will typically equal approximately 2.5 times a cooperative's annual R&S Plan required contribution. After making the prepayment, for most cooperatives the billing rate is reduced by approximately 25%, retroactive to January 1 of the year in which the amount is paid to the R&S Plan. The 25% differential in billing rates is expected to continue for approximately 15 years. However, several factors may have an impact on the differential in billing rates and the 15 year period. These factors include the following: changes in interest rates, asset returns and other plan experience different from expected as well as plan assumption changes.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

4. Postretirement Benefits:

The Cooperative sponsors a defined benefit plan that provides medical and life insurance coverage to retirees and their dependents. Participating retirees and dependents contribute 0% of the projected cost of coverage. Spouses of employees hired before January 1, 2015 are eligible. The plan is partially funded.

The following sets forth the accumulated post-retirement benefit obligation, the change in plan assets, and the component of accrued post-retirement benefit cost and net periodic benefit cost as of June 30, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Accumulated post-retirement benefit obligation, beginning	\$ 36,112,284	\$ 33,969,148
Service cost	1,219,419	1,094,476
Interest cost	1,745,386	1,529,232
Employer contributions	(761,466)	(650,159)
Actuarial loss/(gain)	2,870,643	169,587
Accumulated post retirement benefit obligation, ending	<u>\$ 41,186,266</u>	<u>\$ 36,112,284</u>
Fair value of plan assets - beginning of year	\$ 21,885,525	\$ 20,405,088
Employer contributions	761,466	650,159
Unrealized gains on assets	1,657,173	1,531,987
Benefits paid	<u>(630,268)</u>	<u>(701,709)</u>
Fair value of plan assets - end of year	<u>23,673,896</u>	<u>21,885,525</u>
Unfunded status	\$ 17,512,370	\$ 14,226,759
Unrecognized net actuarial loss	<u>12,286,262</u>	<u>9,415,600</u>
Net amount recognized	<u>\$ 5,226,108</u>	<u>\$ 4,811,159</u>
Unfunded status	\$ 17,512,370	\$ 14,226,759
Current liabilities	<u>1,204,457</u>	<u>1,109,180</u>
Noncurrent liabilities	<u>\$ 16,307,913</u>	<u>\$ 13,117,579</u>
Service cost	\$ 1,219,419	\$ 1,094,476
Interest cost	1,745,386	1,529,232
Amortization of net actuarial gain	517,375	371,928
Expected return on assets	<u>(1,657,173)</u>	<u>(1,531,987)</u>
Net periodic benefit cost	<u>\$ 1,825,007</u>	<u>\$ 1,463,649</u>
Net amount recognized (included in other comprehensive income)	<u>\$ (2,870,643)</u>	<u>\$ (169,587)</u>
Amounts in other comprehensive income expected to be realized in the subsequent year - actuarial gain	<u>\$ 517,375</u>	<u>\$ 371,928</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

4. Postretirement Benefits, Concluded:

The discount rate used in determining the accumulated postretirement benefit obligation was 4.3% and 4.3% for the years ending June 30, 2019 and 2018, respectively.

Expected benefit payments from the plan for year ending June 30, 2019 total \$1,137,003.

The Cooperative contributes to a 401(h) trust that will be used to fund post-retirement benefits for future retirees. These monies are invested with NTCA, who manages such funds for cooperatives. NTCA invests in common stocks, high quality bonds, and US government securities. The estimated rates of return for plan assets are 7.00% and is based on recent historical performance.

For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered health care benefits was used for the year ended June 30, 2019. The anticipated future rates are as follows:

2018	6.50%	6.50%
2019	6.00%	6.00%
2020	5.50%	5.50%
2021	5.00%	5.00%
2022	5.00%	5.00%
2023-2027	5.00%	5.00%

An additional 1% increase in the trend utilized for measurement purposes in 2019 would have resulted in an increase in the accumulated postretirement benefit obligation of approximately \$8.3 million.

The Trust Committee of the NTCA is responsible for the investment of the assets of the Alternative Funding Trusts. The asset allocation of the Trust's investments at 6/30/19 are as follows:

<u>Investment</u>	<u>Plan Percentage</u>
Vanguard Total Bond Market Index Fund	13.7%
Vanguard Total Stock Market Index Fund	24.7%
Vanguard High Yield Corporate Fund	8.1%
Vanguard FTSE All World Ex US Index Fund	26.2%
Vanguard REIT Index Fund	8.3%
Ishares ACWQI Minimum Volatility ETF	17.0%
Cash	<u>2.0%</u>
Total	100.0%

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

5. Marketable Securities:

All debt securities of the Cooperative are considered to be held to maturity. The maturities of held to maturity investments and their approximate market values at June 30, 2019 and 2018, were as follows:

	Amortized Cost	Net Unrealized Gains (Losses)	Market Value
June 30, 2019	\$ 37,851,854	\$ 827,931	\$ 38,679,785
June 30, 2018	\$ 31,998,168	\$ (1,392,591)	\$ 30,605,577

	Amortized Cost	Market Value
Due in one year or less (included in Temporary Cash Investments)	\$ 500,000	\$ 500,000
Due after one year	37,351,854	38,179,785
Balances, June 30, 2019	<u>\$ 37,851,854</u>	<u>\$ 38,679,785</u>

	Amortized Cost	Market Value
Due in one year or less (included in Temporary Cash Investments)	\$ 500,000	\$ 500,000
Due after one year	31,498,168	30,105,577
Balances, June 30, 2018	<u>\$ 31,998,168</u>	<u>\$ 30,605,577</u>

6. Income Taxes:

The Cooperative has been exempt from federal income taxes as a cooperative telephone company under Section 501(c)(12) of the Internal Revenue Code. In 1991, the Internal Revenue Service issued a Technical Advice Memorandum, which interprets certain types of revenues to be excluded in determining when the Cooperative satisfies the 85 percent income test to qualify for tax exempt status. By applying these interpretations, the Cooperative does not qualify in the current year for the tax exempt status. The Company's provision for income taxes differs from applying the statutory U.S. federal income tax rate to income before income taxes. The primary differences result from providing for state income taxes and from deducting certain expenses for financial statement purposes but not for federal tax purposes.

The provision for income taxes for 2019 and 2018 consists of the following:

Provision for Income Taxes:	<u>2019</u>	<u>2018</u>
Current tax expense	\$ 745,000	\$ 6,083,774
Deferred tax (benefit)	<u>(1,755,010)</u>	<u>(4,939,725)</u>
Total	<u>\$ (1,010,010)</u>	<u>\$ 1,144,049</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

6. Income Taxes, Concluded:

A cumulative net deferred tax liability is included in other liabilities. The components of the liability are as follows:

	<u>2019</u>	<u>2018</u>
Differences in depreciation methods	<u>\$ 11,325,614</u>	<u>\$ 9,911,880</u>

The Cooperative follows the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles. The Cooperative has no tax position at June 30, 2019 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Cooperative's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively. No such interest or penalties were recognized during the periods presented.

The Cooperative files income tax returns in the U.S. federal jurisdiction, and various state and local jurisdictions. The Cooperative is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2016.

7. Subsequent Events:

Management has evaluated subsequent events thru September 25, 2019, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ■ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ■ L. Joe Rutledge, CPA ■ Ryan A. Mosier, CPA ■ Jenna B. Glass, CPA ■ Van Shepard, CPA

Independent Auditors' Report
on Consolidating and Supplementary Information

Board of Directors
South Central Rural Telecommunications
Cooperative, Inc.
Glasgow, Kentucky 42141

We have audited the consolidated financial statements of South Central Rural Telecommunications Cooperative, Inc. and subsidiary as of and for the years ended June, 2019 and 2018, and our report thereon dated September 25, 2019, which expressed an unmodified opinion on those financial statements appears on pages 1-2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information presented on pages 18-22 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. The statistical and analytical information also is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating and other supplementary 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 on pages 19-22 and the statistical and analytical information on pages 23-24, is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Campbell, Myers & Rutledge, PLLC
Certified Public Accountants
Glasgow, Kentucky

September 25 2019

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
SCHEDULE I – CONSOLIDATING BALANCE SHEET
June 30, 2019

	South Central Rural Telecommunications Cooperative, Inc	South Central Telcom, LLC	Consolidating Entries	Consolidated Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 11,268,571	\$ 1,737,634	\$ -	\$ 13,006,205
Temporary cash investments	500,000	-	-	500,000
Accounts and notes receivable, less allowance for doubtful accounts of \$31,672	860,704	2,296,210	(884,689)	2,272,225
Materials and supplies at average cost	2,412,039	-	-	2,412,039
Accrued interest receivable	4,859	-	-	4,859
Prepaid expenses	5,970,489	-	-	5,970,489
Total current assets	<u>21,016,662</u>	<u>4,033,844</u>	<u>(884,689)</u>	<u>24,165,817</u>
Other assets:				
Marketable securities	37,351,854	-	-	37,351,854
Nonregulated investments	712,918	-	-	712,918
Investment in affiliated companies	97,714,715	-	(17,098,352)	80,616,363
Other deferred charges	1,630,590	169,199	-	1,799,789
Total other assets	<u>137,410,077</u>	<u>169,199</u>	<u>(17,098,352)</u>	<u>120,480,924</u>
Telephone plant, at cost (substantially all pledged as collateral on long- term debt to RUS):				
Telephone plant in service	191,608,940	29,317,722	-	220,926,662
Telephone plant under construction	10,077,900	-	-	10,077,900
Total telephone plant	201,686,840	29,317,722	-	231,004,562
Less accumulated depreciation	148,765,359	14,807,961	-	163,573,320
Telephone plant, net	<u>52,921,481</u>	<u>14,509,761</u>	<u>-</u>	<u>67,431,242</u>
TOTAL ASSETS	<u>\$ 211,348,220</u>	<u>\$ 18,712,804</u>	<u>\$ (17,983,041)</u>	<u>\$ 212,077,983</u>
LIABILITIES AND MEMBERS' EQUITIES				
Current liabilities:				
Accounts payable	\$ 5,498,441	\$ 1,106,933	\$ (884,689)	\$ 5,720,685
Accrued expenses	3,612,147	-	-	3,612,147
Total current liabilities	<u>9,110,588</u>	<u>1,106,933</u>	<u>(884,689)</u>	<u>9,332,832</u>
Long-term liabilities:				
Deferred taxes	11,325,614	-	-	11,325,614
Other long-term liabilities	16,406,156	-	-	16,406,156
Total long-term liabilities	<u>27,731,770</u>	<u>-</u>	<u>-</u>	<u>27,731,770</u>
Other liabilities and deferred credits				
Deferred Credits	1,047,302	507,519	-	1,554,821
Total other liabilities and deferred credits	<u>1,047,302</u>	<u>507,519</u>	<u>-</u>	<u>1,554,821</u>
Members' equities:				
Patronage capital	37,400,649	-	-	37,400,649
Accumulated other comprehensive loss	(12,286,243)	-	-	(12,286,243)
Other equities	146,675,413	17,098,352	(17,098,352)	146,675,413
Other member capital	1,668,741	-	-	1,668,741
Total members' equities	<u>173,458,560</u>	<u>17,098,352</u>	<u>(17,098,352)</u>	<u>173,458,560</u>
TOTAL LIABILITIES AND MEMBERS' EQUITIES	<u>\$ 211,348,220</u>	<u>\$ 18,712,804</u>	<u>\$ (17,983,041)</u>	<u>\$ 212,077,983</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
SCHEDULE II – CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE
INCOME

For the Year Ended June 30, 2019

	South Central Rural Telecommunications Cooperative, Inc	South Central Telcom, LLC	Consolidating Entries	Consolidated Totals
Operating revenues:				
Basic local network service	\$ 6,067,140	\$ -	\$ -	\$ 6,067,140
Network access service revenues	13,240,010	-	-	13,240,010
Carrier billing and collection	280,449	-	-	280,449
Miscellaneous	<u>1,270,505</u>	<u>-</u>	<u>-</u>	<u>1,270,505</u>
Total operating revenues	<u>20,858,104</u>	<u>-</u>	<u>-</u>	<u>20,858,104</u>
Operating expenses:				
Plant specific operations	5,513,199	-	-	5,513,199
Plant nonspecific operations	2,852,492	-	-	2,852,492
Depreciation and amortization	9,445,156	-	-	9,445,156
Customer operations	2,101,671	-	-	2,101,671
Corporate operations	2,518,295	-	-	2,518,295
Other operating taxes	<u>1,289,793</u>	<u>-</u>	<u>-</u>	<u>1,289,793</u>
Total operating expenses	<u>23,720,606</u>	<u>-</u>	<u>-</u>	<u>23,720,606</u>
Operating income	(2,862,502)	-	-	(2,862,502)
Nonoperating net income	9,705,721	-	60,792	9,766,513
Provision for income taxes	1,010,010	-	-	1,010,010
Nonregulated net income (loss)	<u>2,192,222</u>	<u>(60,792)</u>	<u>-</u>	<u>2,131,430</u>
Net Income	<u>\$ 10,045,451</u>	<u>\$ (60,792)</u>	<u>\$ 60,792</u>	<u>\$ 10,045,451</u>
Other comprehensive income (loss)				
Postretirement benefit other than pension:				
Unrecognized gain (loss) on assets	<u>(2,870,643)</u>	<u>-</u>	<u>-</u>	<u>\$ (2,870,643)</u>
Comprehensive income	<u>\$ 7,174,808</u>	<u>\$ (60,792)</u>	<u>\$ 60,792</u>	<u>\$ 7,174,808</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
SCHEDULE III – CONSOLIDATING BALANCE SHEET

June 30, 2018

	South Central Rural Telecommunications Cooperative, Inc	South Central Telcom, LLC	Consolidating Entries	Consolidated Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 7,305,856	572,344	\$ -	\$ 7,878,200
Temporary cash investments	500,000	-	-	500,000
Accounts and notes receivable, less allowance for doubtful accounts of \$45,022	836,544	2,257,525	(868,498)	2,225,571
Materials and supplies at average cost	2,318,201	-	-	2,318,201
Accrued interest receivable	4,859	-	-	4,859
Prepaid expenses	<u>6,011,490</u>	<u>-</u>	<u>-</u>	<u>6,011,490</u>
Total current assets	<u>16,976,950</u>	<u>2,829,869</u>	<u>(868,498)</u>	<u>18,938,321</u>
Other assets:				
Marketable securities	31,498,168	-	-	31,498,168
Nonregulated investments	737,379	-	-	737,379
Investment in affiliated companies	96,705,130	-	(16,409,140)	80,295,990
Other deferred charges	<u>1,252,516</u>	<u>26,135</u>	<u>-</u>	<u>1,278,651</u>
Total other assets	<u>130,193,193</u>	<u>26,135</u>	<u>(16,409,140)</u>	<u>113,810,188</u>
Telephone plant, at cost (substantially all pledged as collateral on long- term debt to RUS):				
Telephone plant in service	193,461,899	28,137,152	-	221,599,051
Telephone plant under construction	<u>10,689,301</u>	<u>-</u>	<u>-</u>	<u>10,689,301</u>
Total telephone plant	204,151,200	28,137,152	-	232,288,352
Less accumulated depreciation	<u>151,536,291</u>	<u>13,024,716</u>	<u>-</u>	<u>164,561,007</u>
Telephone plant, net	<u>52,614,909</u>	<u>15,112,436</u>	<u>-</u>	<u>67,727,345</u>
TOTAL ASSETS	<u>\$ 199,785,052</u>	<u>\$ 17,968,440</u>	<u>\$ (17,277,638)</u>	<u>\$ 200,475,854</u>
LIABILITIES AND MEMBERS' EQUITIES				
Current liabilities:				
Accounts payable	5,051,496	1,051,781	\$ (868,498)	\$ 5,234,779
Accrued expenses	<u>3,495,856</u>	<u>-</u>	<u>-</u>	<u>3,495,856</u>
Total current liabilities	<u>8,547,352</u>	<u>1,051,781</u>	<u>(868,498)</u>	<u>8,730,635</u>
Long-term liabilities				
Deferred taxes	9,911,880	-	-	9,911,880
Other long-term liabilities	<u>13,119,343</u>	<u>-</u>	<u>-</u>	<u>13,119,343</u>
Total long-term liabilities	<u>23,031,223</u>	<u>-</u>	<u>-</u>	<u>23,031,223</u>
Other liabilities and deferred credits				
Deferred Credits	<u>256,307</u>	<u>507,519</u>	<u>-</u>	<u>763,826</u>
Total other liabilities and deferred credits	<u>256,307</u>	<u>507,519</u>	<u>-</u>	<u>763,826</u>
Members' equities:				
Patronage capital	39,774,385	-	-	39,774,385
Accumulated other comprehensive loss	(9,415,600)	-	-	(9,415,600)
Other equities	135,898,890	16,409,140	(16,409,140)	135,898,890
Other member capital	<u>1,692,495</u>	<u>-</u>	<u>-</u>	<u>1,692,495</u>
Total members' equities	<u>167,950,170</u>	<u>16,409,140</u>	<u>(16,409,140)</u>	<u>167,950,170</u>
TOTAL LIABILITIES AND MEMBERS' EQUITIES	<u>\$ 199,785,052</u>	<u>\$ 17,968,440</u>	<u>\$ (17,277,638)</u>	<u>\$ 200,475,854</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
SCHEDULE IV – CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE
INCOME

For the Year Ended June 30, 2018

	South Central Rural Telecommunications Cooperative, Inc	South Central Telcom, LLC	Consolidating Entries	Consolidated Totals
Operating revenues:				
Basic local network service	6,894,975	\$ -	\$ -	\$ 6,894,975
Network access services revenues	11,727,465	-	-	11,727,465
Carrier billing and collection	271,774	-	-	271,774
Miscellaneous	<u>1,232,464</u>	-	-	<u>1,232,464</u>
Total operating revenues	<u>20,126,678</u>	<u>-</u>	<u>-</u>	<u>20,126,678</u>
Operating expenses:				
Plant specific operations	5,092,823	-	-	5,092,823
Plant nonspecific operations	2,794,740	-	-	2,794,740
Depreciation and amortization	8,874,589	-	-	8,874,589
Customer operations	1,920,314	-	-	1,920,314
Corporate operations	3,074,591	-	-	3,074,591
Other operating taxes	<u>1,220,793</u>	-	-	<u>1,220,793</u>
Total operating expenses	<u>22,977,850</u>	<u>-</u>	<u>-</u>	<u>22,977,850</u>
Operating income	(2,851,172)	-	-	(2,851,172)
Nonoperating net income	15,174,297	-	(93,184)	15,081,113
Provision for income taxes	(1,144,049)	-	-	(1,144,049)
Nonregulated net income (loss)	<u>1,070,189</u>	<u>93,184</u>	<u>-</u>	<u>1,163,373</u>
Net Income	<u>\$ 12,249,265</u>	<u>\$ 93,184</u>	<u>\$ (93,184)</u>	<u>\$ 12,249,265</u>
Other comprehensive income (loss)				
Postretirement benefit other than pension:				
Unrecognized gain (loss) on assets	<u>(169,587)</u>	<u>-</u>	<u>-</u>	<u>\$ (169,587)</u>
Comprehensive income	<u>\$ 12,079,678</u>	<u>\$ 93,184</u>	<u>\$ (93,184)</u>	<u>\$ 12,079,678</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC.
LIMITED DATA – SCRTC ONLY
STATISTICAL AND ANALYTICAL INFORMATION
June 30, 2019 and 2018

	2019	2018
<u>Telephone Plant in Service - June 30:</u>	\$ 191,608,940	\$ 193,461,899
Investment per subscriber - June 30	10,433	8,842
Investment per dollar of operating revenue	9.19	9.61
 <u>Depreciation Reserve - June 30:</u>	 148,765,359	 151,536,291
Percent of plant in service	77.64%	78.33%
Annual depreciation	9,445,156	8,874,589
Percent of annual depreciation to plant in service	4.93%	4.59%
 <u>Average Annual Revenue Per Subscriber:</u>		
Local service	330	315
Toll service and access charges	721	536
Total operating revenue	1,136	920
 <u>Number of Stations - June 30:</u>		
Residence:		
Main stations	15,678	19,084
Business:		
Main stations (access lines)	2,688	2,796
Total main stations	18,366	21,880

Computations involving number of subscribers are based on the number of subscribers at June 30.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC.
LIMITED DATA – SCRTC ONLY
STATISTICAL AND ANALYTICAL INFORMATION, CONCLUDED
June 30, 2019 and 2018

	2019		2018	
<u>For the year ended June 30,</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Local network service	\$ 6,067,140	29.09%	\$ 6,894,975	34.26%
Network access and long- distance network service	13,240,010	63.48%	11,727,465	58.27%
Miscellaneous	<u>1,550,954</u>	<u>7.44%</u>	<u>1,504,238</u>	<u>7.47%</u>
Total operating revenue	<u>20,858,104</u>	<u>100.00%</u>	<u>20,126,678</u>	<u>100.00%</u>
Cost of telephone service, net of other income and expenses	<u>10,812,653</u>	<u>51.84%</u>	<u>7,877,413</u>	<u>39.14%</u>
Net income	<u>\$ 10,045,451</u>	<u>48.16%</u>	<u>\$ 12,249,265</u>	<u>60.86%</u>

	2019		2018	
<u>Source of Funds Invested in</u> <u>Total Assets - June 30:</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Members' equities	\$ 173,458,560	82.07%	\$ 167,950,170	83.78%
Long-term liabilities	27,731,770	13.12%	23,031,223	11.49%
Other liabilities	<u>10,157,890</u>	<u>4.81%</u>	<u>9,494,461</u>	<u>4.74%</u>
Total assets	<u>\$ 211,348,220</u>	<u>100.00%</u>	<u>\$ 200,475,854</u>	<u>100.00%</u>



Cindy L. Greer, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ L. Joe Rutledge, CPA ▪ Ryan A. Mosier, CPA ▪ Jenna B. Glass, CPA ▪ Van Shepard, CPA

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Board of Directors
South Central Rural Telecommunications
Cooperative, Inc.
Glasgow, Kentucky 42141

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of South Central Rural Telecommunications Cooperative, Inc. and subsidiary which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, patronage capital and other equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Central Rural Telecommunications Cooperative, Inc. and subsidiary's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Central Rural Telecommunications Cooperative, Inc. and subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of South Central Rural Telecommunications Cooperative, Inc. and subsidiary's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

September 25, 2019



Cindy L. Greer, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ L. Joe Rutledge, CPA ▪ Ryan A. Mosier, CPA ▪ Jenna B. Glass, CPA ▪ Van Shepard, CPA

Independent Auditors' Report on Compliance with Aspects
of Contractual Agreements and Regulatory Requirements
For Telecommunication Borrowers

Board of Directors
South Central Rural Telecommunications
Cooperative, Inc.
Glasgow, Kentucky 42141

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of South Central Rural Telecommunications Cooperative, Inc. and subsidiary, which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of operations, comprehensive income, patronage capital and other equities, and cash flows for the years ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2019. In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2019, on our consideration of South Central Rural Telecommunications Cooperative, Inc. and subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that South Central Rural Telecommunications Cooperative, Inc. and subsidiary failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*, 1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding South Central Rural Telecommunications Cooperative, Inc. and subsidiary's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding South Central Rural Telecommunications Cooperative, Inc. and subsidiary's accounting and records to indicate that South Central Rural Telecommunications Cooperative, Inc. and subsidiary did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;
- Record and properly price the retirement of plant;
- Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written RUS approval to enter into any contract, agreement, or lease with an affiliate as defined in 1773.33(d)(2)(i);
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Comply with the requirements for the detailed schedule of investments. A detailed schedule of investments is as follows:

RSA #3 Partnership represents the Cooperative's 25% investment in a partnership which provides cellular telephone service. The Cooperative accounts for the investment on the equity basis.

RSA #4 represents the Cooperative's 50% investment in a partnership which provides cellular telephone service. The Cooperative accounts for the investment on the equity basis.

Cumberland Cellular Partnership represents the Cooperative's 12.5% investment in a partnership which provides cellular telephone service. The Cooperative accounts for the investment on the equity basis.

Bluegrass Network LLC represents the Cooperative's 20% investment in a partnership which provides cellular telephone service. The Cooperative accounts for the investment on the equity basis.

Bluegrass Telcom LLC represents the Cooperative's 20% investment in a partnership which provides cellular telephone service. The Cooperative accounts for the investment on the equity basis.

	<u>RSA #3</u>	<u>RSA #4</u>	<u>RSA #5</u>	<u>Bluegrass Network LLC</u>	<u>Bluegrass Telecom LLC</u>	<u>Total</u>
Book Value of Investment as of 12/31/16	\$ 25,359,218	\$ 38,458,100	\$ 9,245,605	\$ 5,459,203	\$ 307,760	\$ 78,829,886
Dividends as of 12/31/17	\$ 3,125,000	\$ 7,350,000	\$ 1,437,500	\$ 600,000	\$ 265,737	
Earnings/(Loss) as of 12/31/17	\$ 4,638,675	\$ 7,230,369	\$ 1,661,554	\$ 469,253	\$ 244,490	
Book Value of Investment as of 12/31/17	\$ 26,872,893	\$ 38,338,469	\$ 9,469,659	\$ 5,328,456	\$ 286,513	\$ 80,295,990
Dividends as of 12/31/18	\$ 2,125,000	\$ 5,125,000	\$ 843,750	\$ 280,000	\$ 210,415	
Earnings/(Loss) as of 12/31/18	\$ 2,342,777	\$ 4,340,255	\$ 1,376,564	\$ 609,886	\$ 238,056	
Book Value of Investment as of 12/31/18	\$ 27,090,670	\$ 37,553,724	\$ 10,002,473	\$ 5,658,342	\$ 314,154	\$ 80,619,363

The purpose of this report is solely to communicate, in connection with the audit of financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for telecommunications borrowers based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*. Accordingly, this report is not suitable for any other purpose.

Campbell, Myers & Rutledge, PLLC
Glasgow, Kentucky

September 25, 2019

