

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

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

**For the Years Ended
June 30, 2020 and 2019**

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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, 2020 and 2019, 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, 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 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 19-22 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 19-22 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 14, 2020, 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 14, 2020

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
BALANCE SHEETS
June 30, 2020 and 2019

ASSETS	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 17,859,307	\$ 13,006,205
Temporary cash investments	500,000	500,000
Accounts and notes receivable, less allowance for doubtful accounts of \$31,134 in 2020 and \$31,672 in 2019	2,231,620	2,272,225
Materials and supplies at average cost	2,297,351	2,412,039
Accrued interest receivable	4,859	4,859
Prepaid expenses	5,196,093	5,970,489
Total current assets	28,089,230	24,165,817
Other assets:		
Marketable securities	38,378,337	37,351,854
Nonregulated investments	685,370	712,918
Investment in affiliated companies	85,526,522	80,616,363
Deferred debits	3,151,688	1,799,789
Total other assets	127,741,917	120,480,924
Telecommunication plant, at cost		
Telecommunication plant in service	231,512,434	220,926,662
Telecommunication plant under construction	9,973,820	10,077,900
Total	241,486,254	231,004,562
Less accumulated depreciation	173,287,443	163,573,320
Telecommunication plant, net	68,198,811	67,431,242
TOTAL ASSETS	\$ 224,029,958	\$ 212,077,983

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
BALANCE SHEETS, CONCLUDED

June 30, 2020 and 2019

LIABILITIES AND MEMBERS' EQUITIES	<u>2020</u>	<u>2019</u>
Current liabilities:		
Accounts payable	\$ 6,886,002	\$ 5,720,685
Accrued expenses	<u>3,868,619</u>	<u>3,612,147</u>
Total current liabilities	<u>10,754,621</u>	<u>9,332,832</u>
Long-term liabilities:		
Deferred taxes	12,317,141	11,325,614
Other long-term liabilities	<u>23,987,091</u>	<u>16,406,156</u>
Total long-term liabilities	<u>36,304,232</u>	<u>27,731,770</u>
Other liabilities and deferred credits:		
Deferred Credit	<u>2,101,444</u>	<u>1,554,821</u>
Total other liabilities and deferred credits	<u>2,101,444</u>	<u>1,554,821</u>
Total Liabilities	<u>49,160,297</u>	<u>38,619,423</u>
Members' equities:		
Patronage capital	34,921,033	37,400,649
Accumulated other comprehensive loss	(19,754,368)	(12,286,243)
Other equities	158,071,856	146,675,413
Other member capital	<u>1,631,140</u>	<u>1,668,741</u>
Total members' equities	<u>174,869,661</u>	<u>173,458,560</u>
TOTAL LIABILITIES AND MEMBERS' EQUITIES	<u>\$ 224,029,958</u>	<u>\$ 212,077,983</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Basic local network service	\$ 5,213,344	\$ 6,067,140
Network access service revenues	15,231,271	13,240,010
Carrier billing and collection	287,185	280,449
Miscellaneous	<u>1,292,126</u>	<u>1,270,505</u>
Total operating revenues	<u>22,023,926</u>	<u>20,858,104</u>
Operating expenses:		
Plant specific operations	5,671,515	5,513,199
Plant nonspecific operations	3,411,819	2,852,492
Depreciation and amortization	9,732,014	9,445,156
Customer operations	2,116,369	2,101,671
Corporate operations	2,857,238	2,518,295
Other operating taxes	<u>1,253,715</u>	<u>1,289,793</u>
Total operating expenses	<u>25,042,670</u>	<u>23,720,606</u>
Operating income	<u>(3,018,744)</u>	<u>(2,862,502)</u>
Nonoperating net income	9,971,213	9,766,513
Provision for income taxes	<u>1,425,230</u>	<u>1,010,010</u>
Income before interest charges	<u>8,377,699</u>	<u>7,914,021</u>
Nonregulated net income (loss)	<u>2,172,084</u>	<u>2,131,430</u>
Net income	<u>\$ 10,549,783</u>	<u>\$ 10,045,451</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net income	\$10,549,783	\$10,045,451
Other comprehensive income (loss)		
Postretirement benefit other than pension:		
Unrecognized gain/(loss) on assets	<u>(7,468,125)</u>	<u>(2,870,643)</u>
Comprehensive income	<u>\$ 3,081,658</u>	<u>\$ 7,174,808</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, 2020 and 2019

	Patronage Capital			Accumulated Other Comprehensive Income (Loss)	Other Equities
	Assignable	Assigned	Balance		
Balances, July 1, 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 loss on assets	-	-	-	(2,870,643)	-
Recalculation of prior year allocated loss	-	-	-	-	-
Net income for the year ended June 30, 2019:					
Operating margins	(731,072)	-	(731,072)	-	-
Nonoperating margins	-	-	-	-	10,776,523
Balances, June 30, 2019	(7,508,569)	44,909,218	37,400,649	(12,286,243)	146,675,413
Distribution of patronage capital	-	(1,500,000)	(1,500,000)	-	-
Patronage capital assigned for the year ended December 31, 2019	829,987	(829,987)	-	-	-
Retirement of patronage capital of estates of deceased members	-	(470,888)	(470,888)	-	-
Transfer of unclaimed patronage capital	-	337,932	337,932	-	-
Postretirement benefit other than pension Unrecognized income on assets	-	-	-	(7,468,125)	-
Net income for the year ended June 30, 2020:					
Operating margins	(846,660)	-	(846,660)	-	-
Nonoperating margins	-	-	-	-	11,396,443
Balances, June 30, 2020	<u>\$ (7,525,242)</u>	<u>\$ 42,446,275</u>	<u>\$ 34,921,033</u>	<u>\$ (19,754,368)</u>	<u>\$ 158,071,856</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net income	\$ 10,549,783	\$ 10,045,451
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,069,095	11,780,947
Deferred taxes on income	1,953,818	1,755,010
Post retirement benefit obligation	687,612	414,968
Changes in operating assets and liabilities:		
Decrease (increase) in accounts and notes receivable	40,605	(46,654)
Decrease (increase) in inventory	114,688	(93,838)
Decrease (increase) in prepaid expenses	774,396	41,001
Increase (decrease) in accounts payable	1,165,317	485,906
Increase (decrease) in accrued expenses	<u>256,472</u>	<u>(992,889)</u>
Net cash provided by (used in) operating activities	<u>27,611,786</u>	<u>23,389,902</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(13,164,076)	(9,664,537)
Plant removal costs	(157,715)	(265,385)
Salvage recovered from retirement of plant	26,656	5,179
Decrease (increase) in nonregulated investment	27,548	24,461
Decrease (increase) in other deferred charges	(1,351,899)	(521,138)
(Increase) in investment in affiliated companies	(4,910,159)	(320,373)
Purchases of Marketable Securities	(14,647,803)	(9,042,351)
Redemptions of Marketable Securities	<u>13,089,321</u>	<u>3,188,665</u>
Net cash provided by (used in) investing activities	<u>(21,088,127)</u>	<u>(16,595,479)</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from financing activities:		
Distributions of patronage capital	(1,500,000)	(1,500,000)
Retirements of patronage capital	(470,888)	(509,976)
Increase (decrease) in other member capital	(37,601)	(23,754)
Transfers of unclaimed patronage capital	<u>337,932</u>	<u>367,312</u>
Net cash provided by (used in) financing activities	<u>(1,670,557)</u>	<u>(1,666,418)</u>
Net increase (decrease) in cash and cash equivalents	4,853,102	5,128,005
Cash and cash equivalents at beginning of year	<u>13,006,205</u>	<u>7,878,200</u>
Cash and cash equivalents at end of year	<u>\$ 17,859,307</u>	<u>\$ 13,006,205</u>
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 2,090,000</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, 2020 and 2019

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, 2020 and 2019 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Organization	\$ 20,038	\$ 20,038
Land	772,270	757,270
Buildings	9,424,093	9,215,892
Central Office Equipment	47,251,559	44,110,964
Station Equipment	997,697	997,697
Cable and Wire Facilities	160,748,945	154,333,541
Furniture and Office Equipment	743,063	716,959
General Purpose Computers	3,988,325	4,047,352
Vehicles	7,430,924	6,591,429
Garage and Work Equipment	135,520	135,520
	<u>\$ 231,512,434</u>	<u>\$ 220,926,662</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, 2020 and 2019 was \$12,069,095 and \$11,780,947 respectively.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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, 2020 and 2019, net of intercompany transactions:

	SCRTC		Telcom	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Income from operations	\$ 22,647,875	\$ 22,285,411	\$ 5,873,740	\$ 5,829,686
Expenses	20,079,831	20,093,189	6,269,700	5,890,478
Net Income (loss)	<u>\$ 2,568,044</u>	<u>\$ 2,192,222</u>	<u>\$ (395,960)</u>	<u>\$ (60,792)</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.

Reclassifications:

Certain amounts in the 2019 financial statements have been reclassified to conform with the 2020 presentation.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

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>2020</u>	<u>2019</u>
RSA #3 Partnership	25%	28,915,801	27,090,670
RSA #4 Partnership	50%	39,759,434	37,553,724
Cumberland Cellular Partnership	12.5%	10,706,962	10,002,473
Bluegrass Network LLC	20%	5,827,640	5,658,342
Bluegrass Telcom LLC	20%	316,685	311,154
		<u>\$ 85,526,522</u>	<u>\$ 80,616,363</u>

Risks and Uncertainties:

In March, 2020, the World Health Organization declared the global novel coronavirus disease (COVID-19) outbreak a pandemic. Consequently, governments have encouraged self-isolation to curtail the spread. Many industries are experiencing disruptions and the Cooperative's operations could be adversely affected, but the impact is not known as this point. Accordingly, management believes that a material impact on the Cooperative's financial position and results of future operations is reasonably possible.

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>2020</u>		<u>2019</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$17,195,697	\$17,134,128	\$12,018,571	\$12,730,125
Uninsured:				
Uncollateralized	<u>1,163,610</u>	<u>1,338,775</u>	<u>1,487,634</u>	<u>1,595,754</u>
Total cash and temporary investments	<u>\$18,359,307</u>	<u>\$18,472,883</u>	<u>\$13,506,205</u>	<u>\$14,325,879</u>

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

June 30, 2020 and 2019

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, 2020 and 2019 were \$1,035,036 and \$977,363, 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, 2020</u>	<u>January 1, 2019</u>
Fair value of plan assets	\$ 2,218,909,611	\$ 2,088,136,896
Present value of accumulated benefits	<u>(2,239,305,135)</u>	<u>(2,086,251,559)</u>
Overfunded/(Unfunded)	<u>\$ (20,395,524)</u>	<u>\$ 1,885,337</u>

	<u>Pension Benefits</u>	
	<u>January 1, 2020</u>	<u>January 1, 2019</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.

The company also offers a 401K plan where the company will match 1% of the employees' salary. Company contributions for fiscal year 2020 and 2019, respectively were \$78,018 and \$74,159 and employee contributions were \$739,520 and \$722,546, respectively.

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

June 30, 2020 and 2019

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, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Accumulated post-retirement benefit obligation, beginning	\$ 41,186,266	\$ 36,112,284
Service cost	1,460,380	1,219,419
Interest cost	1,818,769	1,745,386
Employer contributions	(2,807,273)	(761,466)
Actuarial loss/(gain)	7,468,125	2,870,643
Accumulated post retirement benefit obligation, ending	<u>\$ 49,126,267</u>	<u>\$ 41,186,266</u>
Fair value of plan assets - beginning of year	\$ 23,673,896	\$ 21,885,525
Employer contributions	1,094,469	1,022,918
Unrealized gains on assets	1,671,471	1,657,173
Benefits paid	<u>(2,561,676)</u>	<u>(891,720)</u>
Fair value of plan assets - end of year	<u>23,878,160</u>	<u>23,673,896</u>
Unfunded status	\$ 25,248,107	\$ 17,512,370
Unrecognized net actuarial loss	<u>19,334,387</u>	<u>12,286,262</u>
Net amount recognized	<u>\$ 5,913,720</u>	<u>\$ 5,226,108</u>
Unfunded status	\$ 25,248,107	\$ 17,512,370
Current liabilities	<u>1,263,162</u>	<u>1,204,457</u>
Noncurrent liabilities	<u>\$ 23,984,945</u>	<u>\$ 16,307,913</u>
Service cost	\$ 1,460,380	\$ 1,219,419
Interest cost	1,818,769	1,745,386
Amortization of net actuarial gain	955,235	517,375
Expected return on assets	<u>(1,671,471)</u>	<u>(1,657,173)</u>
Net periodic benefit cost	<u>\$ 2,562,913</u>	<u>\$ 1,825,007</u>
Net amount recognized (included in other comprehensive income)	<u>\$ (7,468,125)</u>	<u>\$ (2,870,643)</u>
Amounts in other comprehensive income expected to be realized in the subsequent year - actuarial gain	<u>\$ 955,235</u>	<u>\$ 517,375</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2020 and 2019

4. Postretirement Benefits, Concluded:

The discount rate used in determining the accumulated postretirement benefit obligation was 3.75% and 4.3% for the years ending June 30, 2020 and 2019, respectively.

Expected benefit payments from the plan for year ending June 30, 2020 total \$1,198,464.

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, 2020. The anticipated future rates are as follows:

2021	6.00%
2022	5.50%
2023	5.00%
2024	5.00%
2025	5.00%
2026-2031	5.00%

An additional 1% increase in the trend utilized for measurement purposes in 2020 would have resulted in an increase in the accumulated postretirement benefit obligation of approximately \$10.4 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 6/30/20 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, 2020 and 2019

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, 2020 and 2019, were as follows:

	Amortized Cost	Net Unrealized Gains (Losses)	Market Value
June 30, 2020	\$ 38,878,337	\$ 443,605	\$ 39,321,942
June 30, 2019	\$ 37,851,854	\$ 827,931	\$ 38,679,785

	Amortized Cost	Market Value
Due in one year or less (included in Temporary Cash Investments)	\$ 500,000	\$ 500,000
Due after one year	38,378,337	38,821,942
Balances, June 30, 2020	<u>\$ 38,878,337</u>	<u>\$ 39,321,942</u>

	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>

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 2020 and 2019 consists of the following:

Provision for Income Taxes:	<u>2020</u>	<u>2019</u>
Current tax expense	\$ 528,588	\$ 745,000
Deferred tax (benefit)	<u>(1,953,818)</u>	<u>(1,755,010)</u>
Total	<u>\$ (1,425,230)</u>	<u>\$ (1,010,010)</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

6. Income Taxes, Concluded:

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

	<u>2020</u>	<u>2019</u>
Differences in depreciation methods	<u>\$ 12,317,141</u>	<u>\$ 11,325,614</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, 2020 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 2017.

7. Disaggregation of Revenue:

In the following table, revenue for the years ended June 30, 2020 and 2019 is disaggregated by type of service.

	2020	2019
Regulated Income		
Local network services	\$ 5,213,344	\$ 6,067,140
Network access services	15,231,271	13,240,010
Carrier billing and collections	287,185	280,449
Directory revenue	199,457	227,026
Lease revenue	663,987	563,382
Miscellaneous	428,682	480,097
	<u>\$ 22,023,926</u>	<u>\$ 20,858,104</u>
Nonregulated Income		
	2020	2019
South Central Telecommunications Cooperative, Inc.		
Internet services	\$ 8,237,989	\$ 7,177,796
Cable television	13,640,982	14,201,866
Sales revenue	699,787	847,372
Lease revenue	69,117	58,377
	<u>\$ 22,647,875</u>	<u>\$ 22,285,411</u>
South Central Telcom, LLC		
Internet services	\$ 1,323,993	\$ 1,100,319
Cable television	1,875,023	1,878,435
Local network services	2,044,063	2,094,450
Carrier billing and collections	462,817	534,994
Other	167,844	221,488
	<u>\$ 5,873,740</u>	<u>\$ 5,829,686</u>

8. Subsequent Events:

Management has evaluated subsequent events thru September 14, 2020, 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 ■ L. Caitlin Hagan, CPA ■ Matthew G. Nuckols

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 30, 2020 and 2019, and our report thereon dated September 14, 2020, 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 19-22 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. Such 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 14, 2020

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
SCHEDULE I – CONSOLIDATING BALANCE SHEET
June 30, 2020

	South Central Rural Telecommunications Cooperative, Inc	South Central Telcom, LLC	Consolidating Entries	Consolidated Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 17,014,770	\$ 844,537	\$ -	\$ 17,859,307
Temporary cash investments	500,000	-	-	500,000
Accounts and notes receivable, less allowance for doubtful accounts of \$31,134	804,926	2,253,219	(826,525)	2,231,620
Materials and supplies at average cost	2,297,351	-	-	2,297,351
Accrued interest receivable	4,859	-	-	4,859
Prepaid expenses	5,196,093	-	-	5,196,093
Total current assets	<u>25,817,999</u>	<u>3,097,756</u>	<u>(826,525)</u>	<u>28,089,230</u>
Other assets:				
Marketable securities	38,378,337	-	-	38,378,337
Nonregulated investments	685,370	-	-	685,370
Investment in affiliated companies	102,228,914	-	(16,702,392)	85,526,522
Other deferred charges	2,701,583	450,105	-	3,151,688
Total other assets	<u>143,994,204</u>	<u>450,105</u>	<u>(16,702,392)</u>	<u>127,741,917</u>
Telephone plant, at cost (substantially all pledged as collateral on long- term debt to RUS):				
Telephone plant in service	199,963,255	31,549,179	-	231,512,434
Telephone plant under construction	9,973,820	-	-	9,973,820
Total telephone plant	209,937,075	31,549,179	-	241,486,254
Less accumulated depreciation	156,580,860	16,706,583	-	173,287,443
Telephone plant, net	53,356,215	14,842,596	-	68,198,811
TOTAL ASSETS	<u>\$ 223,168,418</u>	<u>\$ 18,390,457</u>	<u>\$ (17,528,917)</u>	<u>\$ 224,029,958</u>
LIABILITIES AND MEMBERS' EQUITIES				
Current liabilities:				
Accounts payable	\$ 6,531,981	\$ 1,180,546	\$ (826,525)	\$ 6,886,002
Accrued expenses	3,868,619	-	-	3,868,619
Total current liabilities	<u>10,400,600</u>	<u>1,180,546</u>	<u>(826,525)</u>	<u>10,754,621</u>
Long-term liabilities:				
Deferred taxes	12,317,141	-	-	12,317,141
Other long-term liabilities	23,987,091	-	-	23,987,091
Total long-term liabilities	<u>36,304,232</u>	<u>-</u>	<u>-</u>	<u>36,304,232</u>
Other liabilities and deferred credits				
Deferred Credits	1,593,925	507,519	-	2,101,444
Total other liabilities and deferred credits	<u>1,593,925</u>	<u>507,519</u>	<u>-</u>	<u>2,101,444</u>
Members' equities:				
Patronage capital	34,921,033	-	-	34,921,033
Accumulated other comprehensive loss	(19,754,368)	-	-	(19,754,368)
Other equities	158,071,856	16,702,392	(16,702,392)	158,071,856
Other member capital	1,631,140	-	-	1,631,140
Total members' equities	<u>174,869,661</u>	<u>16,702,392</u>	<u>(16,702,392)</u>	<u>174,869,661</u>
TOTAL LIABILITIES AND MEMBERS' EQUITIES	<u>\$ 223,168,418</u>	<u>\$ 18,390,457</u>	<u>\$ (17,528,917)</u>	<u>\$ 224,029,958</u>

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

For the Year Ended June 30, 2020

	<u>South Central Rural Telecommunications Cooperative, Inc</u>	<u>South Central Telcom, LLC</u>	<u>Consolidating Entries</u>	<u>Consolidated Totals</u>
Operating revenues:				
Basic local network service	\$ 5,213,344	\$ -	\$ -	\$ 5,213,344
Network access service revenues	15,231,271	-	-	15,231,271
Carrier billing and collection	287,185	-	-	287,185
Miscellaneous	<u>1,292,126</u>	<u>-</u>	<u>-</u>	<u>1,292,126</u>
Total operating revenues	<u>22,023,926</u>	<u>-</u>	<u>-</u>	<u>22,023,926</u>
Operating expenses:				
Plant specific operations	5,671,515	-	-	5,671,515
Plant nonspecific operations	3,411,819	-	-	3,411,819
Depreciation and amortization	9,732,014	-	-	9,732,014
Customer operations	2,116,369	-	-	2,116,369
Corporate operations	2,857,238	-	-	2,857,238
Other operating taxes	<u>1,253,715</u>	<u>-</u>	<u>-</u>	<u>1,253,715</u>
Total operating expenses	<u>25,042,670</u>	<u>-</u>	<u>-</u>	<u>25,042,670</u>
Operating income	(3,018,744)	-	-	(3,018,744)
Nonoperating net income	9,575,253	-	395,960	9,971,213
Provision for income taxes	1,425,230	-	-	1,425,230
Nonregulated net income (loss)	<u>2,568,044</u>	<u>(395,960)</u>	<u>-</u>	<u>2,172,084</u>
Net Income	<u>\$ 10,549,783</u>	<u>\$ (395,960)</u>	<u>\$ 395,960</u>	<u>\$ 10,549,783</u>
Other comprehensive income (loss)				
Postretirement benefit other than pension:				
Unrecognized gain (loss) on assets	<u>(7,468,125)</u>	<u>-</u>	<u>-</u>	<u>\$ (7,468,125)</u>
Comprehensive income	<u>\$ 3,081,658</u>	<u>\$ (395,960)</u>	<u>\$ 395,960</u>	<u>\$ 3,081,658</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
SCHEDULE III – 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	<u>5,970,489</u>	<u>-</u>	<u>-</u>	<u>5,970,489</u>
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	<u>1,630,590</u>	<u>169,199</u>	<u>-</u>	<u>1,799,789</u>
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	<u>10,077,900</u>	<u>-</u>	<u>-</u>	<u>10,077,900</u>
Total telephone plant	201,686,840	29,317,722	-	231,004,562
Less accumulated depreciation	<u>148,765,359</u>	<u>14,807,961</u>	<u>-</u>	<u>163,573,320</u>
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	<u>3,612,147</u>	<u>-</u>	<u>-</u>	<u>3,612,147</u>
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	<u>16,406,156</u>	<u>-</u>	<u>-</u>	<u>16,406,156</u>
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	<u>1,047,302</u>	<u>507,519</u>	<u>-</u>	<u>1,554,821</u>
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	<u>1,668,741</u>	<u>-</u>	<u>-</u>	<u>1,668,741</u>
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 IV – 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 services 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.
LIMITED DATA – SCRTC ONLY
STATISTICAL AND ANALYTICAL INFORMATION
June 30, 2020 and 2019

	2020	2019
<u>Telephone Plant in Service - June 30:</u>	\$ 199,963,255	\$ 191,608,940
Investment per subscriber - June 30	12,127	10,433
Investment per dollar of operating revenue	9.08	9.19
<u>Depreciation Reserve - June 30:</u>	156,580,860	148,765,359
Percent of plant in service	78.30%	77.64%
Annual depreciation	9,732,014	9,445,156
Percent of annual depreciation to plant in service	4.87%	4.93%
<u>Average Annual Revenue Per Subscriber:</u>		
Local service	316	330
Toll service and access charges	924	721
Total operating revenue	1,336	1,136
<u>Number of Stations - June 30:</u>		
Residence:		
Main stations	13,873	15,678
Business:		
Main stations (access lines)	2,616	2,688
Total main stations	16,489	18,366

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, 2020 and 2019

	2020		2019	
	Amount	Percent	Amount	Percent
<u>For the year ended June 30.</u>				
Local network service	\$ 5,213,344	23.67%	\$ 6,067,140	29.09%
Network access and long-distance network service	15,231,271	69.16%	13,240,010	63.48%
Miscellaneous	<u>1,579,311</u>	<u>7.17%</u>	<u>1,550,954</u>	<u>7.44%</u>
Total operating revenue	<u>22,023,926</u>	<u>100.00%</u>	<u>20,858,104</u>	<u>100.00%</u>
Cost of telephone service, net of other income and expenses	<u>11,474,143</u>	<u>52.10%</u>	<u>10,812,653</u>	<u>51.84%</u>
Net income	<u>\$ 10,549,783</u>	<u>47.90%</u>	<u>\$ 10,045,451</u>	<u>48.16%</u>
	2020		2019	
	Amount	Percent	Amount	Percent
<u>Source of Funds Invested in Total Assets - June 30:</u>				
Members' equities	\$ 174,869,661	78.36%	\$ 173,458,560	82.07%
Long-term liabilities	36,304,232	16.27%	27,731,770	13.12%
Other liabilities	<u>11,994,525</u>	<u>5.37%</u>	<u>10,157,890</u>	<u>4.81%</u>
Total assets	<u>\$ 223,168,418</u>	<u>100.00%</u>	<u>\$ 211,348,220</u>	<u>100.00%</u>



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, 2020 and 2019, 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 14, 2020.

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 14, 2020



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 ▪ L. Caitlin Hagan, CPA ▪ Matthew G. Nuckols

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, 2020 and 2019, 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 14, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2020, 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 Telecom 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 12/31/17	\$ 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	\$ 213,415	
Earnings/(Loss) as of 12/31/18	\$ 2,342,777	\$ 4,340,255	\$ 1,376,564	\$ 609,886	\$ 238,056	
Book Value of Investments as of 12/31/18	\$ 27,090,670	\$ 37,553,724	\$ 10,002,473	\$ 5,658,342	\$ 311,154	\$ 80,616,363
Dividends as of 12/31/19	\$ 1,375,000	\$ 1,375,000	\$ 718,750	\$ 280,000	\$ 105,764	
Earnings/(Loss) as of 12/31/19	\$ 3,200,131	\$ 3,580,711	\$ 1,423,238	\$ 449,298	\$ 111,295	
Book Value of Investments as of 12/31/19	\$ 28,915,801	\$ 39,759,435	\$ 10,706,961	\$ 5,827,640	\$ 316,685	\$ 85,526,522

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 14, 2020

