

SOUTH CENTRAL TELCOM, LLC

Report on Audit of Financial Statements

For the Years Ended
June 30, 2021 and 2020

CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1-2
Financial Statements:	
Balance Sheets	3
Income Statements	4
Statements of Member's Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7-10
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with <i>Government Auditing Standards</i>	11-12



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ R. Brent Billingsley, CPA ▪ Ryan A. Mosier, CPA

Skip R. Campbell, CPA ▪ L. Joe Rutledge, CPA ▪ Jenna B. Glass, CPA ▪ L. Caitlin Hagan, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
South Central Telcom, LLC
Glasgow, Kentucky 42141

Report on the Financial Statements

We have audited the accompanying financial statements of South Central Telcom, LLC (a wholly owned subsidiary of South Central Telecommunications Cooperative, Inc.), which comprise the balance sheets as of June 30, 2021 and 2020, and the related statements of income, member's equity, 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 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Central Telcom, LLC (a wholly owned subsidiary of South Central Rural Telecommunications Cooperative, Inc.) as of June 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2021, on our consideration of South Central Telcom, LLC'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of South Central Telcom LLC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Central Telcom's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants

Glasgow, Kentucky

September 28, 2021

SOUTH CENTRAL TELCOM, LLC
BALANCE SHEETS
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets:		
Cash	\$ 2,291,630	\$ 844,537
Accounts receivable	<u>2,310,197</u>	<u>2,253,219</u>
Total Current Assets	<u>4,601,827</u>	<u>3,097,756</u>
Property and Equipment:		
Equipment	36,291,631	31,549,179
Less: accumulated depreciation	<u>(18,658,211)</u>	<u>(16,706,583)</u>
Total Property and Equipment	<u>17,633,420</u>	<u>14,842,596</u>
Deferred debits	<u>34,375</u>	<u>450,105</u>
Total Other Assets	<u>34,375</u>	<u>450,105</u>
Total Assets	<u>\$ 22,269,622</u>	<u>\$ 18,390,457</u>
LIABILITIES AND MEMBER'S EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,230,558	\$ 1,180,546
Total Current Liabilities	<u>1,230,558</u>	<u>1,180,546</u>
Deferred credits	<u>2,521,143</u>	<u>507,519</u>
Total Liabilities	<u>3,751,701</u>	<u>1,688,065</u>
Member's Equity	<u>18,517,921</u>	<u>16,702,392</u>
Total Liabilities and Member's Equity	<u>\$ 22,269,622</u>	<u>\$ 18,390,457</u>

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

SOUTH CENTRAL TELCOM, LLC
STATEMENTS OF INCOME
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Basic local network service	\$ 2,039,749	\$ 2,046,185
Network access service revenues	5,225	10,925
Carrier billing and collection	129,639	166,914
Miscellaneous	<u>325,815</u>	<u>218,267</u>
Total operating revenue	2,500,428	2,442,291
Operating expenses:		
Plant specific operations	860,686	902,570
Plant nonspecific operations	141,054	127,944
Depreciation and amortization	2,091,223	1,853,805
Customer operations	451,994	418,042
Corporate operations	1,279,486	1,099,123
Other operating taxes	<u>331,066</u>	<u>391,616</u>
Total operating expenses	<u>5,155,509</u>	<u>4,793,100</u>
Operating Income	<u>(2,655,081)</u>	<u>(2,350,809)</u>
Nonoperating net income	13,800	751
Nonregulated net income (loss)	<u>2,206,812</u>	<u>1,954,098</u>
Net Income (Loss)	<u>\$ (434,469)</u>	<u>\$ (395,960)</u>

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

SOUTH CENTRAL TELCOM, LLC
STATEMENTS OF MEMBER'S EQUITY
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Beginning Member's Equity	\$ 16,702,392	\$ 17,098,352
Contribution of Capital from SCRTC	2,249,998	-
Net Income (Loss)	<u>(434,469)</u>	<u>(395,960)</u>
Ending Member's Equity	<u>\$ 18,517,921</u>	<u>\$ 16,702,392</u>

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

SOUTH CENTRAL TELCOM, LLC
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities:		
Net Income (Loss)	\$ (434,469)	\$ (395,960)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,091,223	1,853,805
(Increase) decrease in		
Accounts receivable	(56,978)	42,991
Other assets	415,730	(280,906)
Increase (decrease) in		
Accounts payable and accrued expenses	50,012	73,613
Other liabilities	<u>2,521,143</u>	<u>-</u>
Net Cash Provided (Used) by Operating Activities	<u>4,586,661</u>	<u>1,293,543</u>
Cash Flows From Investing Activities:		
Purchase of equipment	<u>(5,389,566)</u>	<u>(2,186,640)</u>
Net Cash Provided (Used) by Investing Activities	<u>(5,389,566)</u>	<u>(2,186,640)</u>
Cash Flows From Financing Activities:		
Contribution of capital from SCRTC	<u>2,249,998</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>2,249,998</u>	<u>-</u>
Increase (Decrease) in Cash	1,447,093	(893,097)
Cash at Beginning of Year	<u>844,537</u>	<u>1,737,634</u>
Cash at End of Year	<u>\$ 2,291,630</u>	<u>\$ 844,537</u>

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

SOUTH CENTRAL TELCOM, LLC
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Nature of Operations:

The Company, a single member LLC, is a competitive local exchange carrier (CLEC), furnishing cable TV content and signal, local telephone, internet, DSL, and digital TV services to business and residential customers in Glasgow, Kentucky. The Company is located in Glasgow, Kentucky, and is a wholly owned subsidiary of South Central Rural Telecommunications Cooperative, Inc.

Basis of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting.

Subsequent Events:

Management has evaluated subsequent events through September 28, 2021, the date which the financial statements were available to be issued.

Use of Estimates:

Management uses estimates and assumptions in preparing financial statements in conformity with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Property and Equipment:

Property and equipment are stated at cost. Depreciation of property and equipment is provided utilizing the straight-line method, over the estimated useful lives. Listed below are the major classes of property and equipment as of June 30, 2021 and 2020 and their estimated useful lives:

	<u>2021</u>	<u>2020</u>	<u>Depreciation</u>
			<u>Rate</u>
Land	\$ 222,470	\$ 222,470	-
Other support assets	1,034,593	810,223	2.7%
Central office equipment	11,120,996	9,710,228	7.5-11.9%
Cable and wire facilities	23,913,572	20,806,258	2.2-9.4%
	<u>\$ 36,291,631</u>	<u>\$ 31,549,179</u>	

Accounts Receivable:

The Company uses the direct write-off method to account for bad debts and no allowance for bad debts has been provided. For the years ended June 30, 2021 and 2020, the Company had no bad debt write-offs.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents

SOUTH CENTRAL TELCOM, LLC
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Concluded:

Income Taxes:

The Company is not a taxpaying entity for federal or state income tax purposes, and thus no income tax expense has been recorded in the financial statements. All income or loss of the LLC will be reported by its 100% owner, South Central Rural Telecommunications Cooperative, Inc.

Reclassifications:

Certain amounts in the 2020 financial statements have been reclassified to conform with the 2021 presentation.

2. Related Party Transactions:

The Company had a receivable due from its 100% owner (South Central Rural Telecommunications Cooperative) in the amount of \$851,394 and \$826,525 for the years ended June 30, 2021 and 2020, respectively.

South Central Telcom, LLC pays South Central Rural Telecommunications Cooperative for switch port costs and billing and collection services on a monthly basis.

South Central Telcom, LLC provides content to South Central Rural Telecommunications Cooperative for its cable television services. Content is charged on a monthly basis at cost plus 5% to the Cooperative. Sales totaled \$11,076,260 and \$10,789,702 for the years ended June 30, 2021 and 2020, respectively.

South Central Rural Telecommunications Cooperative, Inc. performs and contracts construction services for the addition of plant and infrastructure for its subsidiary. These amounts are billed to the subsidiary when completed and ready to be placed in service. As of June 30, 2021, and 2020, South Central Rural Telecommunications had \$606,725 and \$2,369,170 of construction-in-progress for South Central Telcom, LLC.

3. Cash and Cash Equivalents:

The carrying amount of the Company's cash deposits was \$2,291,630 and \$844,537 for the years ending June 30, 2021 and 2020, respectively and the bank balances at various institutions were \$2,293,914 and \$857,639. The difference between book and bank balances primarily represents checks that have been issued, but have not cleared the bank. Of these deposits, \$250,000 were covered by FDIC.

4. Provision for Income Taxes:

The Company follows the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles. The Company has no tax position at June 30, 2021 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Company'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 Company files income tax returns in the U.S. federal jurisdiction, and various state and local jurisdictions. The Company is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2018.

SOUTH CENTRAL TELCOM, LLC
NOTES TO FINANCIAL STATEMENTS

5. Deferred Debits:

Following is a summary of amounts recorded as deferred debits:

<u>Deferred Debits:</u>	<u>2021</u>	<u>2020</u>
Prepaid Insurance	\$ -	\$ 2,233
Job Orders	-	25,376
Construction	34,375	422,496
	<u>\$ 34,375</u>	<u>\$ 450,105</u>

6. Deferred Credits:

Following is a summary of amounts recorded as deferred credits:

<u>Deferred Credits:</u>	<u>2021</u>	<u>2020</u>
Special project	\$ 2,521,143	\$ 507,519
	<u>\$ 2,521,143</u>	<u>\$ 507,519</u>

7. Revenue Recognition:

The timing of recognition of revenue for each performance obligation may differ from the timing of the customer billing, potentially creating a contract asset or contract liability. Short-term contract liabilities are classified as customer deposits. South Central Telcom has no contract assets or long-term contract liabilities.

Nature of goods and services

The following is a description of principal activities from which South Central Telcom generates its revenues.

Telecommunication revenues – South Central Telcom's regulated sources of revenue are local network services, network access services (interstate and intrastate), carrier billing, video revenue, and other service charges. South Central Telcom's nonregulated sources of revenue are customer premises and equipment, internet activities, long distance services, video services and security, and business systems revenue.

Revenues from sales of equipment are recognized when control has transferred to the customer. Telecommunication service revenues are recognized as the related service is provided. Services are deemed to be highly interrelated when the method and timing of transfer and performance risk are the same. Highly interrelated services that are determined to not be distinct have been grouped into single performance obligation. Each month of services promised is a performance obligation. The series of monthly service performance obligations promised over the course of the contract are combined into a single performance obligation for purposes of the allocation.

South Central Telcom has made judgements regarding transaction price, including but not limited to issues relating to variable consideration, time value of money and returns. When determined to be significant in the context of the contract, these items are considered in the valuation of transaction price at contract inception or modification as appropriate.

SOUTH CENTRAL TELCOM, LLC
NOTES TO FINANCIAL STATEMENTS

7. Revenue Recognition, Concluded:

Multiple performance obligations

South Central Telcom sells bundled service and equipment offerings. In these instances, South Central Telcom recognizes its revenue based on the relative standalone selling prices for each distinct service or equipment performance obligation or bundles thereof. South Central Telcom estimates the standalone selling price of the device or accessory to be its retail price excluding discounts. South Central Telcom estimates the standalone selling price of telecommunication service to be the price offered to customers on month-to-month contracts.

From time to time, South Central Telcom may offer certain promotions to incentivize customers to switch to or to purchase additional services from the Company. Under these types of promotions, an eligible customer may receive an incentive in the form of a discount off additional services purchased shown as a rebate or credit to the customer's monthly bill. Rebates are amortized over the life of the contract and are recognized when included in the customer's monthly bill.

Disaggregation of revenue

In the following table, revenue for the years ended June 30, 2021 and 2020 is disaggregated by type of service.

Regulated Income	<u>2021</u>	<u>2020</u>
South Central Telcom, LLC		
Local network services	\$ 2,039,749	\$ 2,046,185
Network access services	5,225	10,925
Carrier billing and collections	129,639	166,914
Lease revenue	162,024	18,912
Miscellaneous	163,791	199,355
	<u>\$ 2,500,428</u>	<u>\$ 2,442,291</u>
Nonregulated Income	<u>2021</u>	<u>2020</u>
South Central Telcom, LLC		
Internet services	\$ 1,689,929	\$ 1,323,993
Cable television	1,953,566	1,875,023
Other	187,359	232,433
	<u>\$ 3,830,854</u>	<u>\$ 3,431,449</u>

8. Subsequent Events:

Management has evaluated subsequent events thru September 28, 2021, the date which the financial statements were available to be issued.



CAMPBELL, MYERS AND RUTLEDGE, PLLC

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To the Board of Directors
South Central Telcom, LLC
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 financial statements of South Central Telcom, LLC, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise South Central Telcom, LLC's basic financial statements, and have issued our report thereon dated September 28, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the South Central Telcom, LLC'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 the South Central Telcom, LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of the South Central Telcom, LLC'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 the South Central Telcom, LLC'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 and Rattledge, PLLC

Glasgow, Kentucky
September 28, 2021



CAMPBELL, MYERS AND RUTLEDGE, PLLC

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Skip R. Campbell, CPA ▪ L. Joe Rutledge, CPA ▪ Jenna B. Glass, CPA ▪ L. Caitlin Hagan, CPA

September 28, 2021

To the Board of Directions and Management
South Central Rural Telecommunications Cooperative, Inc.
And Subsidiary

We have audited the financial statements of South Central Rural Telecommunications Cooperative, Inc. and subsidiary for the years ended June 30, 2021 and 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 15, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by South Central Rural Telecommunications Cooperative, Inc. and subsidiary are described in Note 1 to the financial statements. The Company adopted ASU 606 in the current year; however, no material adjustments were warranted. We noted no transactions entered into by South Central Rural Telecommunications Cooperative, Inc. and subsidiary during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the depreciable lives of capital assets is based on required guidelines as prescribed by their regulatory bodies, the Kentucky Public Service Commission and Rural Utilities Service. We evaluated the key factors and assumptions used to develop the depreciable lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of deferred income taxes is based on timing differences between book and tax differences and anticipated tax rates at which time these differences will reverse. We evaluated key factors and assumptions used to develop the conversion rates in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of OPEB liability is based on actuarial valuation of its OPEB plan. We evaluated key factors and assumptions used to develop this estimate and determined that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 28, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to South Central Rural Telecommunications Cooperative, Inc. and subsidiary's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as South Central Rural Telecommunications Cooperative, Inc. and subsidiary's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We were engaged to report on supplementary information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of Board of Directors and management of South Central Rural Telecommunications Cooperative, Inc. and subsidiary and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Campbell, Myers & Ratledge, PLLC

Certified Public Accountants

Glasgow, Kentucky

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

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

**For the Years Ended
June 30, 2021 and 2020**

CONTENTS

	<u>Pages</u>
Independent Auditors' Report	1-2
Financial Statements:	
Consolidated Balance Sheets	3-4
Consolidated Statements of Operations	5
Consolidated Statements of Comprehensive Income	6
Consolidated Statements of Patronage Capital and Other Equities	7
Consolidated Statements of Cash Flows	8-9
Notes to Financial Statements	10-20
Supplementary Information:	
Independent Auditors' Report on Consolidating and Supplementary Information	21
Schedule I - 2021 Consolidating Balance Sheet	22
Schedule II - 2021 Consolidating Statement of Operations and Comprehensive Income	23
Schedule III - 2020 Consolidating Balance Sheet	24
Schedule IV - 2020 Consolidating Statement of Operations and Comprehensive Income	25
Statistical and Analytical Information	26-27
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 <i>Government Auditing Standards</i>	28-29
Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements For Telecommunication Borrowers	30-32



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2021 and 2020, 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, 2021 and 2020, 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 22-25 and the statistical and analytical information on pages 26-27 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 22-25 and the statistical and analytical information on pages 26-27 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 28, 2021, 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 28, 2021

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
BALANCE SHEETS
June 30, 2021 and 2020

ASSETS	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and cash equivalents	\$ 20,355,549	\$ 17,859,306
Temporary cash investments	500,000	500,000
Accounts and notes receivable, less allowance for doubtful accounts of \$23,997 in 2021 and \$31,134 in 2020	5,137,735	2,231,620
Materials and supplies at average cost	2,989,451	2,297,351
Accrued interest receivable	646,047	4,859
Prepaid expenses	5,002,258	5,196,093
Total current assets	<u>34,631,040</u>	<u>28,089,229</u>
Other assets:		
Marketable securities	171,676,152	38,378,337
Nonregulated investments	636,242	685,370
Investment in affiliated companies	7,452,855	85,526,523
Deferred debits	738,109	3,151,688
Total other assets	<u>180,503,358</u>	<u>127,741,918</u>
Telecommunication plant, at cost		
Telecommunication plant in service	242,300,631	231,512,434
Telecommunication plant under construction	13,094,953	9,973,820
Total	<u>255,395,584</u>	<u>241,486,254</u>
Less accumulated depreciation	<u>183,504,171</u>	<u>173,287,443</u>
Telecommunication plant, net	<u>71,891,413</u>	<u>68,198,811</u>
TOTAL ASSETS	<u>\$ 287,025,811</u>	<u>\$ 224,029,958</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
BALANCE SHEETS, CONCLUDED
June 30, 2021 and 2020

LIABILITIES AND MEMBERS' EQUITIES		
	<u>2021</u>	<u>2020</u>
Current liabilities:		
Accounts payable	\$ 6,228,676	\$ 6,886,002
Accrued income taxes	12,262,506	-
Accrued expenses	<u>2,629,059</u>	<u>3,714,637</u>
Total current liabilities	<u>21,120,241</u>	<u>10,600,639</u>
Long-term liabilities:		
Deferred taxes	9,433,429	12,317,141
Other long-term liabilities	<u>31,851,915</u>	<u>24,141,073</u>
Total long-term liabilities	<u>41,285,344</u>	<u>36,458,214</u>
Other liabilities and deferred credits:		
Deferred credit	<u>2,638,456</u>	<u>2,101,444</u>
Total other liabilities and deferred credits	<u>2,638,456</u>	<u>2,101,444</u>
 Total Liabilities	 <u>65,044,041</u>	 <u>49,160,297</u>
Members' equities:		
Patronage capital	33,356,200	34,921,033
Accumulated other comprehensive loss	(23,226,938)	(19,754,368)
Other equities	210,145,384	158,071,856
Other member capital	<u>1,707,124</u>	<u>1,631,140</u>
Total members' equities	<u>221,981,770</u>	<u>174,869,661</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITIES	 <u>\$ 287,025,811</u>	 <u>\$ 224,029,958</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Basic local network service	\$ 6,918,366	\$ 7,259,529
Network access service revenues	17,731,993	15,242,196
Carrier billing and collection	439,052	454,099
Miscellaneous	<u>1,601,271</u>	<u>1,510,393</u>
Total operating revenues	<u>26,690,682</u>	<u>24,466,217</u>
Operating expenses:		
Plant specific operations	6,227,014	6,574,085
Plant nonspecific operations	3,576,801	3,539,763
Depreciation and amortization	12,945,956	11,585,819
Customer operations	2,621,671	2,534,411
Corporate operations	6,577,156	3,956,361
Other operating taxes	<u>1,813,066</u>	<u>1,645,331</u>
Total operating expenses	<u>33,761,664</u>	<u>29,835,770</u>
Operating income	(7,070,982)	(5,369,553)
Nonoperating net income	71,654,815	9,971,964
Provision for income taxes - Benefit/(Expense)	<u>(19,581,287)</u>	<u>1,425,230</u>
Income before interest charges	45,002,546	6,027,641
Nonregulated net income (loss)	<u>6,887,369</u>	<u>4,522,142</u>
Net income	<u>\$ 51,889,915</u>	<u>\$ 10,549,783</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net income	\$51,889,915	\$10,549,783
Other comprehensive income (loss)		
Unrealized gain on investments	1,282,777	-
Post-retirement benefit other than pension:		
Unrecognized gain/(loss) on assets	<u>(4,755,347)</u>	<u>(7,468,125)</u>
Comprehensive income	<u>\$ 48,417,345</u>	<u>\$ 3,081,658</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, 2021 and 2020

	Patronage Capital			Accumulated Other Comprehensive Income (Loss)	Other Equities
	Assignable	Assigned	Balance		
Balances, July 1, 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	-	-
Post-retirement benefit other than pension Unrecognized loss on assets	-	-	-	(7,468,125)	-
Recalculation of prior year allocated loss	-	-	-	-	-
Net income for the year ended June 30, 2020:					
Operating margins	(846,660)	-	(846,660)	-	-
Nonoperating margins	-	-	-	-	11,396,443
Balances, June 30, 2020	(7,525,242)	42,446,275	34,921,033	(19,754,368)	158,071,856
Distribution of patronage capital	-	(1,500,000)	(1,500,000)	-	-
Patronage capital assigned for the year ended December 31, 2020	347,571	(347,571)	-	-	-
Retirement of patronage capital of estates of deceased members	-	(96,275)	(96,275)	-	-
Transfer of unclaimed patronage capital	-	215,055	215,055	-	-
Unrealized gain on investments	-	-	-	1,282,777	-
Post-retirement benefit other than pension Unrecognized income on assets	-	-	-	(4,755,347)	-
Net income for the year ended June 30, 2021:					
Operating margins	(183,613)	-	(183,613)	-	-
Nonoperating margins	-	-	-	-	52,073,528
Balances, June 30, 2021	<u>\$ (7,361,284)</u>	<u>\$ 40,717,484</u>	<u>\$ 33,356,200</u>	<u>\$ (23,226,938)</u>	<u>\$ 210,145,384</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Net income	\$ 51,889,915	\$ 10,549,783
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,431,554	12,069,095
Deferred taxes on income	2,883,713	1,953,818
Post-retirement benefit obligation	4,755,347	687,612
Unrealized gains and losses on investments	(1,282,777)	-
Changes in operating assets and liabilities:		
Decrease (increase) in accounts and notes receivable	(2,906,115)	40,605
Decrease (increase) in inventory	(692,100)	114,688
Decrease (increase) in prepaid expenses	193,835	774,396
Increase (decrease) in accounts payable	(657,326)	1,165,317
Increase (decrease) in accrued expenses	<u>(1,085,578)</u>	<u>256,472</u>
Net cash provided by (used in) operating activities	<u>66,530,468</u>	<u>27,611,786</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(13,870,181)	(13,164,076)
Plant removal costs	(216,257)	(157,715)
Salvage recovered from retirement of plant	65,652	26,656
Decrease (increase) in nonregulated investment	49,128	27,548
Decrease (increase) in other deferred charges	2,413,579	(1,351,899)
(Increase) in investment in affiliated companies	78,073,668	(4,910,159)
Purchases of Marketable Securities	(141,216,594)	(14,647,804)
Redemptions of Marketable Securities	<u>11,972,016</u>	<u>13,089,321</u>
Net cash provided by (used in) investing activities	<u>(62,728,989)</u>	<u>(21,088,128)</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from financing activities:		
Distributions of patronage capital	(1,500,000)	(1,500,000)
Retirements of patronage capital	(96,275)	(470,888)
Increase (decrease) in other member capital	75,984	(37,601)
Transfers of unclaimed patronage capital	<u>215,055</u>	<u>337,932</u>
Net cash provided by (used in) financing activities	<u>(1,305,236)</u>	<u>(1,670,557)</u>
Net increase (decrease) in cash and cash equivalents	2,496,243	4,853,101
Cash and cash equivalents at beginning of year	<u>17,859,306</u>	<u>13,006,205</u>
Cash and cash equivalents at end of year	<u>\$ 20,355,549</u>	<u>\$ 17,859,306</u>
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	<u>\$ 10,000,000</u>	<u>\$ -</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, 2021 and 2020

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, 2021 and 2020 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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Organization	\$ 20,038	\$ 20,038
Land	772,270	772,270
Buildings	9,938,075	9,424,093
Central Office Equipment	48,429,164	47,251,559
Station Equipment	997,697	997,697
Cable and Wire Facilities	168,869,185	160,748,945
Furniture and Office Equipment	881,161	743,063
General Purpose Computers	4,150,531	3,988,325
Vehicles	8,106,987	7,430,924
Garage and Work Equipment	135,523	135,520
	<u>\$ 242,300,631</u>	<u>\$ 231,512,434</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, 2021 and 2020 was \$13,431,554 and \$12,069,095 respectively.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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.

The following is a summary of net income (loss) from deregulated operations for the years ending June 30, 2021 and 2020, net of intercompany transactions of \$11,086,324 and \$10,789,702, respectively:

	SCRTC		Telcom	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Income from operations	\$ 25,496,619	\$ 22,647,875	\$ 3,830,854	\$ 3,431,449
Expenses	<u>20,816,062</u>	<u>20,079,831</u>	<u>1,624,042</u>	<u>1,477,351</u>
Net Income (loss)	<u>\$ 4,680,557</u>	<u>\$ 2,568,044</u>	<u>\$ 2,206,812</u>	<u>\$ 1,954,098</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 2020 financial statements have been reclassified to conform with the 2021 presentation.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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>2021</u>	<u>2020</u>
RSA #3 Partnership	25%	-	28,915,801
RSA #4 Partnership	50%	-	39,759,434
Cumberland Cellular Partnership	12.5%	-	10,706,962
Bluegrass Network LLC	20%	7,139,189	5,827,640
Bluegrass Telcom LLC	20%	313,666	316,686
		<u>\$ 7,452,855</u>	<u>\$ 85,526,523</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>2021</u>		<u>2020</u>	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured	<u>20,670,862</u>	<u>22,194,048</u>	<u>\$ 17,195,697</u>	<u>\$ 17,134,128</u>
Uninsured:				
Uncollateralized	<u>184,687</u>	<u>368,894</u>	<u>1,163,610</u>	<u>1,338,775</u>
Total cash and temporary investments	<u>\$ 20,855,549</u>	<u>\$ 22,562,942</u>	<u>\$ 18,359,307</u>	<u>\$ 18,472,883</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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, 2021 and 2020 were \$1,025,299 and \$1,035,036, 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>January 1, 2021</u>	<u>January 1, 2020</u>
Fair value of plan assets	\$ 2,404,875,259	\$ 2,218,909,611
Present value of accumulated benefits	<u>(2,306,308,070)</u>	<u>(2,239,305,135)</u>
Overfunded/(Unfunded)	<u>\$ 98,567,189</u>	<u>\$ (20,395,524)</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 compensated 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 2021 and 2020, respectively were \$81,313 and \$78,018 and employee contributions were \$822,266 and \$739,520, respectively.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Accumulated post-retirement benefit obligation, beginning	\$ 49,126,267	\$ 41,186,266
Service cost	1,915,935	1,460,380
Interest cost	1,821,393	1,818,769
Benefits paid	(3,786,868)	(2,561,676)
Actuarial loss/(gain)	12,339,324	7,222,528
Accumulated post retirement benefit obligation, ending	<u>\$ 61,416,051</u>	<u>\$ 49,126,267</u>
Fair value of plan assets - beginning of year	\$ 23,878,160	\$ 23,673,896
Employer contributions	1,148,732	1,094,469
Return on plan assets	8,327,078	1,671,471
Benefits paid	(3,786,868)	(2,561,676)
Fair value of plan assets - end of year	<u>29,567,102</u>	<u>23,878,160</u>
Unfunded status	\$ 31,848,949	\$ 25,248,107
Unrecognized net actuarial loss	24,509,714	19,334,387
Net amount recognized	<u>\$ 7,339,235</u>	<u>\$ 5,913,720</u>
Unfunded status	\$ 31,848,949	\$ 25,248,107
Current liabilities	1,416,383	1,263,162
Noncurrent liabilities	<u>\$ 30,432,566</u>	<u>\$ 23,984,945</u>
Service cost	\$ 1,915,935	\$ 1,460,380
Interest cost	1,821,393	1,818,769
Amortization of net actuarial gain	1,198,277	955,235
Expected return on assets	(2,069,697)	(1,671,471)
Net periodic benefit cost	<u>\$ 2,865,908</u>	<u>\$ 2,562,913</u>
Net amount recognized (included in other comprehensive income)	<u>\$ (4,755,347)</u>	<u>\$ (7,468,125)</u>
Amounts in other comprehensive income expected to be realized in the subsequent year - actuarial gain	<u>\$ 1,198,277</u>	<u>\$ 955,235</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

4. Postretirement Benefits, Concluded:

The discount rate used in determining the accumulated postretirement benefit obligation was 3.0% and 3.75% for the years ending June 30, 2021 and 2020, respectively.

Expected benefit payments from the plan for year ending June 30, 2021 total \$1,416,383.

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, 2021. The anticipated future rates are as follows:

	2021	2020
2021	7.0%	6.00%
2022	6.5%	5.50%
2023	6.0%	5.00%
2024	5.5%	5.00%
2025	5.0%	5.00%
2026-2031	5.0%	5.00%

An additional 1% increase in the trend utilized for measurement purposes in 2021 would have resulted in an increase in the accumulated postretirement benefit obligation of approximately \$13.8 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 6/30/21 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, 2021 and 2020

5. Marketable Securities:

The Cooperative has classified its equity securities and a portion of its debt securities as available for sale securities. Available for sale investments are stated at fair value with unrealized gains and losses included in stockholder's equity. The cost of the investments sold is based on the specific identification method.

The cost and fair market values of marketable securities available for sale at June 30, 2021 and 2020 were as follows:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Cost - Certificates of deposits	\$ 595,000	\$ -
Cost - Bonds	112,522,297	-
Cost - Equities	29,300,874	-
Gross unrealized gains - CD's	1,469	-
Gross unrealized gains - Bonds	502,214	-
Gross unrealized gains - Equities	779,094	-
Fair Value	<u>\$ 143,700,948</u>	<u>\$ -</u>

At June 30, 2021, maturities of marketable debt securities classified as available for sale were as follows:

	Cost	Fair Value
Less than one year	\$ 16,738,648	\$ 16,717,751
One through five years	32,262,146	32,244,557
After five years	63,521,503	64,062,203
	<u>\$ 112,522,297</u>	<u>\$ 113,024,511</u>

US GAAP provides a framework for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methodology for measuring fair value specifies a three-tier hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are based on quoted prices or identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflects a company's own assumptions of market participation valuation (Level 3).

Level 1 Fair Value Measurements

The fair values of common stock are based on quoted market prices.

Level 2

The value of corporate bonds, US Government securities, foreign obligations and state and municipal securities for which quoted market prices are not available are valued on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

5. Marketable Securities, Concluded:

		Fair value measurements using:	
	<u>Fair Value</u>	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
<u>June 30, 2021</u>			
Certificates of deposit	\$ 596,469	\$ -	\$ 596,469
Bonds	113,024,511	-	113,024,511
Equities	30,079,968	30,079,968	-
	<u>\$ 143,700,948</u>	<u>\$ 30,079,968</u>	<u>\$ 113,620,980</u>

		Fair value measurements using:	
	<u>Fair Value</u>	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
<u>June 30, 2020</u>			
Certificates of deposit	\$ -	\$ -	\$ -
Bond	-	-	-
Equities	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The remaining portion of its debt securities are considered to be held to maturity. The maturities of held to maturity investments and their approximate market values at June 30, 2021 and 2020, were as follows:

	Amortized Cost	Market Value	Unrealized Gain
Due in one year or less (included in Temporary Cash Investments)	\$ 500,000	\$ 500,000	\$ -
Due after one year	27,975,204	28,439,573	464,369
Balances, June 30, 2021	<u>\$ 28,475,204</u>	<u>\$ 28,939,573</u>	<u>\$ 464,369</u>
	Amortized Cost	Market Value	Unrealized Gain
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	443,605
Balances, June 30, 2020	<u>\$ 38,878,337</u>	<u>\$ 39,321,942</u>	<u>\$ 443,605</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

6. Income Taxes:

The Cooperative has been exempted 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 2021 and 2020 consists of the following:

Provision for Income Taxes:	<u>2021</u>	<u>2020</u>
Current tax expense	\$ 22,465,000	\$ 528,588
Deferred tax (benefit)	<u>(2,883,713)</u>	<u>(1,953,818)</u>
Total	<u>\$ 19,581,287</u>	<u>\$ (1,425,230)</u>

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

	<u>2021</u>	<u>2020</u>
Differences in depreciation methods	\$ 9,169,947	\$ 12,317,141
Unrealized Gains	<u>263,482</u>	<u>-</u>
Total	<u>\$ 9,433,429</u>	<u>\$ 12,317,141</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, 2021 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 2018.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

7. Revenue Recognition:

The timing of recognition of revenue for each performance obligation may differ from the timing of the customer billing, creating a contract asset or contract liability. Short-term contract liabilities are classified as customer deposits. The Cooperative has no contract assets or long-term contract liabilities.

Nature of goods and services

The following is a description of principal activities from which the Cooperative generates its revenues.

Telecommunication revenues – The Cooperative's regulated sources of revenue are local network services, network access services (interstate and intrastate), carrier billing, video revenue and other service charges. The Cooperative's nonregulated sources of revenue are customer premises and equipment, internet activities, long distance services, video services and security and business systems revenue.

Revenues from sales of equipment are recognized when control has transferred to the customer. Telecommunication service revenues are recognized as the related service is provided. Services are deemed to be highly interrelated when the method and timing of transfer and performance risk are the same. Highly interrelated services that are determined to not be distinct have been grouped into single performance obligation. Each month of services promised is a performance obligation. The series of monthly service performance obligations promised over the course of the contract are combined into a single performance obligation for purposes of the allocation.

The Cooperative has made judgements regarding transaction price, including but not limited to issues relating to variable consideration, time value of money and returns. When determined to be significant in the context of the contract, these items are considered in the valuation of transaction price at contract inception or modification, as appropriate.

Multiple performance obligations

The Cooperative sells bundled service and equipment offerings. In these instances, the Cooperative recognizes its revenue based on the relative standalone selling prices for each distinct service or equipment performance obligation or bundles thereof. The Cooperative estimates the standalone selling price of the device or accessory to be its retail price excluding discounts. The Cooperative estimates the standalone selling price of telecommunication service to be the price offered to customers on month-to-month contracts.

From time to time, the Cooperative may offer certain promotions to incentivize customers to switch to, or to purchase additional services from the Company. Under these types of promotions, an eligible customer may receive an incentive in the form of a discount off additional services purchased shown as a rebate or credit to the customer's monthly bill. Rebates are amortized over the life of the contract and are recognized when included in the customer's monthly bill.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

7. Revenue Recognition, Concluded:

Disaggregation of revenue

In the following table, revenue for the years ended June 30, 2021 and 2020 is disaggregated by type of service.

Regulated Income	2021	2020
South Central Telecommunications Cooperative, Inc.		
Local network services	\$ 4,878,617	\$ 5,213,344
Network access services	17,726,768	15,231,271
Carrier billing and collections	309,413	287,185
Directory revenue	157,896	199,457
Lease revenue	748,092	663,987
Miscellaneous	369,468	428,682
	<u>\$ 24,190,254</u>	<u>\$ 22,023,926</u>
South Central Telcom, LLC		
Local network services	\$ 2,039,749	\$ 2,046,185
Network access services	5,225	10,925
Carrier billing and collections	129,639	166,914
Lease revenue	177,796	159,319
Miscellaneous	148,019	58,948
	<u>\$ 2,500,428</u>	<u>\$ 2,442,291</u>
Nonregulated Income	2021	2020
South Central Telecommunications Cooperative, Inc.		
Internet services	\$ 10,272,792	\$ 8,237,989
Cable television	14,375,155	13,640,982
Sales revenue	733,391	699,787
Lease revenue	115,281	69,117
	<u>\$ 25,496,619</u>	<u>\$ 22,647,875</u>
South Central Telcom, LLC		
Internet services	\$ 1,689,929	\$ 1,323,993
Cable television	1,953,566	1,875,023
Other	187,359	232,433
	<u>\$ 3,830,854</u>	<u>\$ 3,431,449</u>

Contract cost liabilities

Contract cost liabilities include customer deposits. The balance in contract liabilities was \$96,855 and \$85,320 as of June 30, 2021 and 2020, respectively.

8. Subsequent Events:

Management has evaluated subsequent events thru September 28, 2021, 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 ▪ Ryan A. Mosier, CPA

Skip R. Campbell, CPA ▪ L. Joe Rutledge, CPA ▪ Jenna B. Glass, CPA ▪ L. Caitlin Hagan, 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 30, 2021 and 2020, and our report thereon dated September 28, 2021, 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 22-25 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 22-25 and the statistical and analytical information on pages 26-27, 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 28, 2021

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
SCHEDULE I – CONSOLIDATING BALANCE SHEET
June 30, 2021

	South Central Rural Telecommunications Cooperative, Inc	South Central Telcom, LLC	Consolidating Entries	Consolidated Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 18,063,919	\$ 2,291,630	\$ -	\$ 20,355,549
Temporary cash investments	500,000	-	-	500,000
Accounts and notes receivable, less allowance for doubtful accounts of \$23,997	3,678,932	2,310,197	(851,394)	5,137,735
Materials and supplies at average cost	2,989,451	-	-	2,989,451
Accrued interest receivable	646,047	-	-	646,047
Prepaid expenses	5,002,258	-	-	5,002,258
Total current assets	<u>30,880,607</u>	<u>4,601,827</u>	<u>(851,394)</u>	<u>34,631,040</u>
Other assets:				
Marketable securities	171,676,152	-	-	171,676,152
Nonregulated investments	636,242	-	-	636,242
Investment in affiliated companies	25,970,776	-	(18,517,921)	7,452,855
Deferred debits	703,734	34,375	-	738,109
Total other assets	<u>198,986,904</u>	<u>34,375</u>	<u>(18,517,921)</u>	<u>180,503,358</u>
Telecommunication plant, at cost (substantially all pledged as collateral on long- term debt to RUS):				
Telecommunication plant in service	206,009,000	36,291,631	-	242,300,631
Telecommunication plant under construction	13,094,953	-	-	13,094,953
Total telecommunication plant	219,103,953	36,291,631	-	255,395,584
Less accumulated depreciation	164,845,960	18,658,211	-	183,504,171
Telecommunication plant, net	54,257,993	17,633,420	-	71,891,413
TOTAL ASSETS	<u>\$ 284,125,504</u>	<u>\$ 22,269,622</u>	<u>\$ (19,369,315)</u>	<u>\$ 287,025,811</u>
LIABILITIES AND MEMBERS' EQUITIES				
Current liabilities:				
Accounts payable	\$ 5,849,512	\$ 1,230,558	\$ (851,394)	\$ 6,228,676
Accrued income taxes	12,262,506			12,262,506
Accrued expenses	2,629,059	-	-	2,629,059
Total current liabilities	<u>20,741,077</u>	<u>1,230,558</u>	<u>(851,394)</u>	<u>21,120,241</u>
Long-term liabilities:				
Deferred taxes	9,433,429	-	-	9,433,429
Other long-term liabilities	31,851,915	-	-	31,851,915
Total long-term liabilities	<u>41,285,344</u>	<u>-</u>	<u>-</u>	<u>41,285,344</u>
Other liabilities and deferred credits				
Deferred credits	117,313	2,521,143	-	2,638,456
Total other liabilities and deferred credits	<u>117,313</u>	<u>2,521,143</u>	<u>-</u>	<u>2,638,456</u>
Members' equities:				
Patronage capital	33,356,200	-	-	33,356,200
Accumulated other comprehensive loss	(23,226,938)	-	-	(23,226,938)
Other equities	210,145,384	18,517,921	(18,517,921)	210,145,384
Other member capital	1,707,124	-	-	1,707,124
Total members' equities	<u>221,981,770</u>	<u>18,517,921</u>	<u>(18,517,921)</u>	<u>221,981,770</u>
TOTAL LIABILITIES AND MEMBERS' EQUITIES	<u>\$ 284,125,504</u>	<u>\$ 22,269,622</u>	<u>\$ (19,369,315)</u>	<u>\$ 287,025,811</u>

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

For the Year Ended June 30, 2021

	South Central Rural Telecommunications Cooperative, Inc	South Central Telcom, LLC	Consolidating Entries	Consolidated Totals
Operating revenues:				
Basic local network service	\$ 4,878,617	2,039,749	\$ -	\$ 6,918,366
Network access service revenues	17,726,768	5,225	-	17,731,993
Carrier billing and collection	309,413	129,639	-	439,052
Miscellaneous	<u>1,275,456</u>	<u>325,815</u>	<u>-</u>	<u>1,601,271</u>
Total operating revenues	<u>24,190,254</u>	<u>2,500,428</u>	<u>-</u>	<u>26,690,682</u>
Operating expenses:				
Plant specific operations	5,366,328	860,686	-	6,227,014
Plant nonspecific operations	3,435,747	141,054	-	3,576,801
Depreciation and amortization	10,854,733	2,091,223	-	12,945,956
Customer operations	2,169,677	451,994	-	2,621,671
Corporate operations	5,297,670	1,279,486	-	6,577,156
Other operating taxes	<u>1,482,000</u>	<u>331,066</u>	<u>-</u>	<u>1,813,066</u>
Total operating expenses	<u>28,606,155</u>	<u>5,155,509</u>	<u>-</u>	<u>33,761,664</u>
Operating income	(4,415,901)	(2,655,081)	-	(7,070,982)
Nonoperating net income	71,206,546	13,800	434,469	71,654,815
Provision for income taxes - (Benefit)/Expense	<u>(19,581,287)</u>	<u>-</u>	<u>-</u>	<u>(19,581,287)</u>
Income before interest charges	47,209,358	(2,641,281)	434,469	45,002,546
Nonregulated net income (loss)	<u>4,680,557</u>	<u>2,206,812</u>	<u>-</u>	<u>6,887,369</u>
Net Income	<u>\$ 51,889,915</u>	<u>\$ (434,469)</u>	<u>\$ 434,469</u>	<u>\$ 51,889,915</u>
Other comprehensive income (loss)				
Unrealized gain on investments	1,282,777	-	-	1,282,777
Postretirement benefit other than pension:				
Unrecognized gain (loss) on assets	<u>(4,755,347)</u>	<u>-</u>	<u>-</u>	<u>\$ (4,755,347)</u>
Comprehensive income	<u>\$ 48,417,345</u>	<u>\$ (434,469)</u>	<u>\$ 434,469</u>	<u>\$ 48,417,345</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
SCHEDULE III – 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	\$ 17,014,769	844,537	\$ -	\$ 17,859,306
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>25,817,998</u>	<u>3,097,756</u>	<u>(826,525)</u>	<u>28,089,229</u>
Other assets:				
Marketable securities	38,378,337	-	-	38,378,337
Nonregulated investments	685,370	-	-	685,370
Investment in affiliated companies	102,228,914	-	(16,702,391)	85,526,523
Deferred debits	2,701,583	450,105	-	3,151,688
Total other assets	<u>143,994,204</u>	<u>450,105</u>	<u>(16,702,391)</u>	<u>127,741,918</u>
Telecommunication plant, at cost (substantially all pledged as collateral on long- term debt to RUS):				
Telecommunication plant in service	199,963,255	31,549,179	-	231,512,434
Telecommunication plant under construction	9,973,820	-	-	9,973,820
Total telecommunication plant	209,937,075	31,549,179	-	241,486,254
Less accumulated depreciation	156,580,860	16,706,583	-	173,287,443
Telecommunication plant, net	53,356,215	14,842,596	-	68,198,811
TOTAL ASSETS	<u>\$ 223,168,417</u>	<u>\$ 18,390,457</u>	<u>\$ (17,528,916)</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	3,714,637	-	-	3,714,637
Total current liabilities	<u>10,246,618</u>	<u>1,180,546</u>	<u>(826,525)</u>	<u>10,600,639</u>
Long-term liabilities				
Deferred taxes	12,317,141			12,317,141
Other long-term liabilities	24,141,073	-	-	24,141,073
Total long-term liabilities	<u>36,458,214</u>	<u>-</u>	<u>-</u>	<u>36,458,214</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 IV – CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE
INCOME

For the Year Ended June 30, 2020

	South Central Rural Telecommunications Cooperative, Inc	South Central Telcom, LLC	Consolidating Entries	Consolidated Totals
Operating revenues:				
Basic local network service	5,213,344	\$ 2,046,185	\$ -	\$ 7,259,529
Network access services revenues	15,231,271	10,925	-	15,242,196
Carrier billing and collection	287,185	166,914	-	454,099
Miscellaneous	1,292,126	218,267	-	1,510,393
Total operating revenues	<u>22,023,926</u>	<u>2,442,291</u>	<u>-</u>	<u>24,466,217</u>
Operating expenses:				
Plant specific operations	5,671,515	902,570	-	6,574,085
Plant nonspecific operations	3,411,819	127,944	-	3,539,763
Depreciation and amortization	9,732,014	1,853,805	-	11,585,819
Customer operations	2,116,369	418,042	-	2,534,411
Corporate operations	2,857,238	1,099,123	-	3,956,361
Other operating taxes	1,253,715	391,616	-	1,645,331
Total operating expenses	<u>25,042,670</u>	<u>4,793,100</u>	<u>-</u>	<u>29,835,770</u>
Operating income	(3,018,744)	(2,350,809)	-	(5,369,553)
Nonoperating net income	9,575,253	751	395,960	9,971,964
Provision for income taxes	1,425,230	-	-	1,425,230
Income before interest charges	7,981,739	(2,350,058)	395,960	6,027,641
Nonregulated net income (loss)	2,568,044	1,954,098	-	4,522,142
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	(7,468,125)	-	-	\$ (7,468,125)
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.
LIMITED DATA – SCRTC ONLY
STATISTICAL AND ANALYTICAL INFORMATION
June 30, 2021 and 2020

	2021	2020
<u>Telephone Plant in Service - June 30:</u>	\$ 206,009,000	\$ 199,936,255
Investment per subscriber - June 30	13,620	12,127
Investment per dollar of operating revenue	7.72	9.08
<u>Depreciation Reserve - June 30:</u>	164,845,960	156,580,860
Percent of plant in service	80.02%	78.30%
Annual depreciation	10,854,733	9,732,014
Percent of annual depreciation to plant in service	5.27%	4.87%
<u>Average Annual Revenue Per Subscriber:</u>		
Local service	457	316
Toll service and access charges	1,172	924
Total operating revenue	1,765	1,336
<u>Number of Stations - June 30:</u>		
Residence:		
Main stations	12,560	13,873
Business:		
Main stations (access lines)	2,565	2,616
Total main stations	15,125	16,489

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, 2021 and 2020

	<u>2021</u>		<u>2020</u>	
<u>For the year ended June 30,</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Local network service	\$ 6,918,366	25.92%	\$ 5,213,344	23.67%
Network access and long-distance network service	17,731,993	66.44%	15,231,271	69.16%
Miscellaneous	<u>2,040,323</u>	<u>7.64%</u>	<u>1,579,311</u>	<u>7.17%</u>
Total operating revenue	<u>26,690,682</u>	<u>100.00%</u>	<u>22,023,926</u>	<u>100.00%</u>
Cost of telephone service, net of other income and expenses	<u>(25,199,233)</u>	<u>-94.41%</u>	<u>11,474,143</u>	<u>52.10%</u>
Net income	<u>\$ 51,889,915</u>	<u>194.41%</u>	<u>\$ 10,549,783</u>	<u>47.90%</u>
	<u>2021</u>		<u>2020</u>	
<u>Source of Funds Invested in</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
<u>Total Assets - June 30:</u>				
Members' equities	\$ 221,981,770	78.13%	\$ 174,869,661	78.36%
Long-term liabilities	41,285,344	14.53%	36,304,232	16.27%
Other liabilities	<u>20,858,390</u>	<u>7.34%</u>	<u>11,994,525</u>	<u>5.37%</u>
Total assets	<u>\$ 284,125,504</u>	<u>100.00%</u>	<u>\$ 223,168,418</u>	<u>100.00%</u>



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ R. Brent Billingsley, CPA ▪ Ryan A. Mosier, CPA

Skip R. Campbell, CPA ▪ L. Joe Rutledge, CPA ▪ Jenna B. Glass, CPA ▪ L. Caitlin Hagan, 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, 2021 and 2020, 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 28, 2021.

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) as a basis for designing 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 & Rathledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

September 28, 2021



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ R. Brent Billingsley, CPA ▪ Ryan A. Mosier, CPA

Skip R. Campbell, CPA ▪ L. Joe Rutledge, CPA ▪ Jenna B. Glass, CPA ▪ L. Caitlin Hagan, 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, 2021 and 2020, 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 28, 2021. In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2021, 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. The investment was liquidated in March, 2021.

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. The investment was liquidated in March, 2021.

RSA #5 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. The investment was liquidated in March, 2021.

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 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
Dividends as of 12/31/20	\$ 875,000	\$ -	\$ 375,000	\$ -	\$ 121,694	
Earnings/(Loss) as of 12/31/20	\$ 3,649,224	\$ 3,920,204	\$ 1,805,125	\$ 1,311,549	\$ 118,675	
Book Value of Investments as of 12/31/20	\$ 31,690,025	\$ 43,679,639	\$ 12,137,086	\$ 7,139,189	\$ 313,666	\$ 94,959,605
Earnings/(Loss) as of 6/30/21	\$ 804,750	\$ 846,000	\$ 427,125	\$ -	\$ -	
Gain on Sale	\$ 22,698,427	\$ 24,637,554	\$ 9,489,148	\$ -	\$ -	
Liquidating Dividend	\$ 55,193,202	\$ 69,163,193	\$ 22,053,359	\$ -	\$ -	
Book Value of Investments as of 6/30/21	\$ -	\$ -	\$ -	\$ 7,139,189	\$ 313,666	\$ 7,452,855

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 & Rathledge, PLLC

Glasgow, Kentucky

September 28, 2021

