

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

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

**For the Years Ended
June 30, 2022 and 2021**

C O N T E N T S

	<u>Pages</u>
Independent Auditors' Report	1-3
Financial Statements:	
Consolidated Balance Sheets	4-5
Consolidated Statements of Operations	6
Consolidated Statements of Comprehensive Income	7
Consolidated Statements of Patronage Capital and Other Equities	8
Consolidated Statements of Cash Flows	9-10
Notes to Financial Statements	11-21
Supplementary Information:	
Independent Auditors' Report on Consolidating and Supplementary Information	22
Schedule I - 2022 Consolidating Balance Sheet	23
Schedule II - 2022 Consolidating Statement of Operations and Comprehensive Income	24
Schedule III - 2021 Consolidating Balance Sheet	25
Schedule IV - 2021 Consolidating Statement of Operations and Comprehensive Income	26
Statistical and Analytical Information	27-28
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>	29-30
Independent Auditors' Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements For Telecommunication Borrowers	31-33



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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

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, 2022 and 2021 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of South Central Rural Telecommunications Cooperative, Inc. and subsidiary, as of June 30, 2022 and 2021, and the results of their operations and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of South Central Rural Telecommunications Cooperative, Inc. and subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the South Central Rural Telecommunications Cooperative, Inc. and subsidiary's ability to continue as a

going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

Exercise professional judgment and maintain professional skepticism throughout the audit.

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

Obtain an understanding of internal control relevant to the audit 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 South Central Rural Telecommunications Cooperative, Inc. and subsidiary's internal control. Accordingly, no such opinion is expressed.

Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the South Central Rural Telecommunications Cooperative, Inc. and subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary 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 23-26 and the statistical and analytical information on pages 27-28 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 23-26 and the statistical and analytical information on pages 27-28 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 23, 2022, 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 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 Rural Telecommunications Cooperative, Inc., and subsidiary'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 Rural Telecommunications Cooperative, Inc. and subsidiary's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

September 23, 2022

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
BALANCE SHEETS
June 30, 2022 and 2021

ASSETS	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents	\$ 19,515,624	\$ 20,355,549
Temporary cash investments	750,000	500,000
Accounts and notes receivable, less allowance for doubtful accounts of \$27,136 in 2022 and \$23,997 in 2021	3,305,341	5,137,735
Materials and supplies at average cost	4,233,337	2,989,451
Accrued interest receivable	690,921	646,047
Prepaid expenses	<u>6,447,452</u>	<u>5,002,258</u>
Total current assets	<u>34,942,675</u>	<u>34,631,040</u>
Other assets:		
Marketable securities	155,241,639	171,676,152
Nonregulated investments	807,029	636,242
Investment in affiliated companies	8,132,016	7,452,855
Deferred debits	<u>1,531,812</u>	<u>738,109</u>
Total other assets	<u>165,712,496</u>	<u>180,503,358</u>
Telecommunication plant, at cost		
Telecommunication plant in service	252,313,516	242,300,631
Telecommunication plant under construction	<u>10,900,113</u>	<u>13,094,953</u>
Total	263,213,629	255,395,584
Less accumulated depreciation	<u>193,301,474</u>	<u>183,504,171</u>
Telecommunication plant, net	<u>69,912,155</u>	<u>71,891,413</u>
TOTAL ASSETS	<u>\$ 270,567,326</u>	<u>\$ 287,025,811</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
BALANCE SHEETS, CONCLUDED
June 30, 2022 and 2021

LIABILITIES AND MEMBERS' EQUITIES	<u>2022</u>	<u>2021</u>
Current liabilities:		
Accounts payable	\$ 5,356,974	\$ 6,228,676
Accrued income taxes	-	12,262,506
Accrued expenses	<u>4,344,739</u>	<u>2,629,059</u>
Total current liabilities	<u>9,701,713</u>	<u>21,120,241</u>
Long-term liabilities:		
Deferred taxes	6,258,898	9,433,429
Other long-term liabilities	<u>24,135,098</u>	<u>31,851,915</u>
Total long-term liabilities	<u>30,393,996</u>	<u>41,285,344</u>
Other liabilities and deferred credits:		
Deferred credit	<u>2,550,017</u>	<u>2,638,456</u>
Total other liabilities and deferred credits	<u>2,550,017</u>	<u>2,638,456</u>
 Total Liabilities	 <u>42,645,726</u>	 <u>65,044,041</u>
Members' equities:		
Patronage capital	36,590,201	33,356,200
Accumulated other comprehensive loss	(31,091,429)	(23,226,938)
Other equities	220,514,534	210,145,384
Other member capital	<u>1,908,294</u>	<u>1,707,124</u>
Total members' equities	<u>227,921,600</u>	<u>221,981,770</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITIES	 <u>\$ 270,567,326</u>	 <u>\$ 287,025,811</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues:		
Basic local network service	\$ 6,508,870	\$ 6,918,366
Network access service revenues	19,129,670	17,731,993
Carrier billing and collection	441,819	439,052
Miscellaneous	<u>1,857,041</u>	<u>1,601,271</u>
Total operating revenues	<u>27,937,400</u>	<u>26,690,682</u>
Operating expenses:		
Plant specific operations	6,844,098	6,227,014
Plant nonspecific operations	3,748,815	3,576,801
Depreciation and amortization	12,217,429	12,945,956
Customer operations	2,727,812	2,621,671
Corporate operations	3,339,015	6,577,156
Other operating taxes	<u>1,136,825</u>	<u>1,813,066</u>
Total operating expenses	<u>30,013,994</u>	<u>33,761,664</u>
Operating income	(2,076,594)	(7,070,982)
Nonoperating net income	4,252,138	71,654,815
Provision for income taxes - Benefit/(Expense)	<u>6,117,012</u>	<u>(19,581,287)</u>
Income before interest charges	8,292,556	45,002,546
Nonregulated net income (loss)	<u>7,220,250</u>	<u>6,887,369</u>
Net income	<u>\$ 15,512,806</u>	<u>\$ 51,889,915</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Net income	\$ 15,512,806	\$ 51,889,915
Other comprehensive income (loss)		
Unrealized gain/(loss) on investments	(14,669,076)	1,282,777
Post-retirement benefit other than pension:		
Unrecognized gain/(loss) on assets	<u>6,804,585</u>	<u>(4,755,347)</u>
Comprehensive income	<u>\$ 7,648,315</u>	<u>\$ 48,417,345</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, 2022 and 2021

	Patronage Capital			Accumulated Other Comprehensive	Other Equities
	Assignable	Assigned	Balance	Income (Loss)	
Balances, July 1, 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	788,033	(788,033)	-	-	-
Retirement of patronage capital of estates of deceased members	-	(96,275)	(96,275)	-	-
Transfer of unclaimed patronage capital	-	215,055	215,055	-	-
Unrealized gain/(loss) on investments	-	-	-	1,282,777	-
Post-retirement benefit other than pension Unrecognized gain/(loss) 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	(6,920,822)	40,277,022	33,356,200	(23,226,938)	210,145,384
Distribution of patronage capital	-	(2,000,000)	(2,000,000)	-	-
Patronage capital assigned for the year ended December 31, 2021	347,571	(347,571)	-	-	-
Retirement of patronage capital of estates of deceased members	-	(132,333)	(132,333)	-	-
Transfer of unclaimed patronage capital	-	222,678	222,678	-	-
Unrealized gain/(loss) on investments	-	-	-	(14,669,076)	-
Post-retirement benefit other than pension Unrecognized income/(loss) on assets	-	-	-	6,804,585	-
Net income for the year ended June 30, 2022:					
Operating margins	5,143,656	-	5,143,656	-	-
Nonoperating margins	-	-	-	-	10,369,150
Balances, June 30, 2022	<u>\$ (1,429,595)</u>	<u>\$ 38,019,796</u>	<u>\$ 36,590,201</u>	<u>\$ (31,091,429)</u>	<u>\$ 220,514,534</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Net income	\$ 15,512,806	\$ 51,889,915
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,825,835	13,431,554
Deferred taxes on income	3,174,531	2,883,713
Non operating Income	3,572,975	(6,418,853)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts and notes receivable	1,832,394	(2,906,115)
Decrease (increase) in inventory	(1,243,886)	(692,100)
Decrease (increase) in prepaid expenses	(1,445,194)	193,835
Increase (decrease) in accounts payable	(871,702)	(657,326)
Increase (decrease) in accrued expenses	<u>(10,546,826)</u>	<u>8,805,845</u>
Net cash provided by (used in) operating activities	<u>22,810,933</u>	<u>66,530,468</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(15,816,072)	(13,870,181)
Plant removal costs	(233,700)	(216,257)
Salvage recovered from retirement of plant	1,226	65,652
Decrease (increase) in nonregulated investment	(170,787)	49,128
Decrease (increase) in other deferred charges	(793,703)	2,413,579
(Increase) in investment in affiliated companies	(679,161)	78,073,668
Purchases of marketable securities	(29,359,793)	(141,216,594)
Redemptions of marketable securities	<u>25,109,617</u>	<u>11,972,016</u>
Net cash provided by (used in) investing activities	<u>(21,942,373)</u>	<u>(62,728,989)</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from financing activities:		
Distributions of patronage capital	(2,000,000)	(1,500,000)
Retirements of patronage capital	(132,333)	(96,275)
Increase (decrease) in other member capital	201,170	75,984
Transfers of unclaimed patronage capital	<u>222,678</u>	<u>215,055</u>
Net cash provided by (used in) financing activities	<u>(1,708,485)</u>	<u>(1,305,236)</u>
Net increase (decrease) in cash and cash equivalents	(839,925)	2,496,243
Cash and cash equivalents at beginning of year	<u>20,355,549</u>	<u>17,859,306</u>
Cash and cash equivalents at end of year	<u>\$ 19,515,624</u>	<u>\$ 20,355,549</u>
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	<u>\$ 5,000,000</u>	<u>\$ 10,000,000</u>

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

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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, 2022 and 2021 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Organization	\$ 20,038	\$ 20,038
Land	772,270	772,270
Buildings	10,008,265	9,938,075
Central Office Equipment	48,522,596	48,429,164
Station Equipment	997,697	997,697
Cable and Wire Facilities	178,336,624	168,869,185
Furniture and Office Equipment	887,739	881,161
General Purpose Computers	4,396,650	4,150,531
Vehicles	8,236,114	8,106,987
Garage and Work Equipment	135,523	135,523
	<u>\$ 252,313,516</u>	<u>\$ 242,300,631</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, 2022 and 2021 was \$12,825,835 and \$13,431,554 respectively.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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, 2022 and 2021, net of intercompany transactions of \$11,031,044 and \$11,086,324, respectively:

	SCRTC		Telcom	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Income from operations	\$ 27,015,405	\$ 25,496,619	\$ 4,338,164	\$ 3,830,854
Expenses	<u>22,345,438</u>	<u>20,816,062</u>	<u>1,787,881</u>	<u>1,624,042</u>
Net Income (loss)	<u>\$ 4,669,967</u>	<u>\$ 4,680,557</u>	<u>\$ 2,550,283</u>	<u>\$ 2,206,812</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, if 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 2021 financial statements have been reclassified to conform with the 2022 presentation.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

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>2022</u>	<u>2021</u>
Bluegrass Network LLC	20%	7,816,502	7,139,189
Bluegrass Telcom LLC	20%	315,516	313,666
		<u>\$ 8,132,018</u>	<u>\$ 7,452,855</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>2022</u>		<u>2021</u>	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured	17,462,532	17,930,761	20,670,862	22,194,048
Uninsured:				
Uncollateralized	2,803,092	3,355,753	184,687	368,894
Total cash and temporary investments	<u>\$ 20,265,624</u>	<u>\$ 21,286,514</u>	<u>\$ 20,855,549</u>	<u>\$ 22,562,942</u>

3. Deferred Debits and Deferred Credits:

Following is a summary of amounts recorded as deferred debits and deferred credits:

<u>Deferred Debits:</u>	<u>2022</u>	<u>2021</u>
Prepays	\$ 32,244	\$ 16,900
Job Orders	46,289	55,999
South Central Telcom Construction	1,453,279	665,210
Total	<u>\$ 1,531,812</u>	<u>\$ 738,109</u>
 <u>Deferred Credits:</u>	 <u>2022</u>	 <u>2021</u>
Special Project	\$ 2,550,017	\$ 2,638,456
Total	<u>\$ 2,550,017</u>	<u>\$ 2,638,456</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

4. 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, 2022 and 2021 were \$1,133,703 and \$1,025,299, 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, 2022</u>	<u>January 1, 2021</u>
Fair value of plan assets	\$ 2,383,744,073	\$ 2,404,875,259
Present value of accumulated benefits	<u>(2,365,262,909)</u>	<u>(2,306,308,070)</u>
Overfunded/(Unfunded)	<u>\$ 18,481,164</u>	<u>\$ 98,567,189</u>
Weighted - average assumptions		
as of January 1:		
Valuation Interest rate	6.75%	7.00%
Expected return on plan assets	6.75%	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 2022 and 2021, respectively were \$81,614 and \$81,313 and employee contributions were \$775,559 and \$822,266, respectively.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

5. 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, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Accumulated post-retirement benefit obligation, beginning	\$ 61,416,051	\$ 49,126,267
Service cost	1,565,026	1,915,935
Interest cost	1,762,524	1,821,393
Benefits paid	(3,589,514)	(3,786,868)
Actuarial loss/(gain)	<u>(8,581,155)</u>	<u>12,339,324</u>
Accumulated post retirement benefit obligation, ending	<u>\$ 52,572,932</u>	<u>\$ 61,416,051</u>
 Fair value of plan assets - beginning of year	 \$ 29,567,102	 \$ 23,878,160
Employer contributions	1,284,253	1,148,732
Return on plan assets	(300,160)	8,327,078
Benefits paid	<u>(3,589,514)</u>	<u>(3,786,868)</u>
Fair value of plan assets - end of year	<u>26,961,681</u>	<u>29,567,102</u>
 Unfunded status	 \$ 25,611,251	 \$ 31,848,949
Unrecognized net actuarial loss	<u>16,729,050</u>	<u>24,509,714</u>
Net amount recognized	<u>\$ 8,882,201</u>	<u>\$ 7,339,235</u>
 Unfunded status	 \$ 25,611,251	 \$ 31,848,949
Current liabilities	<u>1,480,331</u>	<u>1,416,383</u>
Noncurrent liabilities	<u>\$ 24,130,920</u>	<u>\$ 30,432,566</u>
 Service cost	 \$ 1,565,026	 \$ 1,915,935
Interest cost	1,762,524	1,821,393
Amortization of net actuarial gain	779,286	1,198,277
Expected return on assets	<u>(1,887,318)</u>	<u>(2,069,697)</u>
Net periodic benefit cost	<u>\$ 2,219,518</u>	<u>\$ 2,865,908</u>
 Net amount recognized (included in other comprehensive income)	 <u>\$ 6,804,585</u>	 <u>\$ (4,755,347)</u>
 Amounts in other comprehensive income expected to be realized in the subsequent year - actuarial gain	 <u>\$ 779,286</u>	 <u>\$ 1,198,277</u>

SOUTH CENTRAL RURAL TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

5. Postretirement Benefits, Concluded:

The discount rate used in determining the accumulated postretirement benefit obligation was 3.4% and 3.0% for the years ending June 30, 2022 and 2021, respectively.

Expected benefit payments from the plan for year ending June 30, 2022 total \$1,480,331.

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, 2022. The anticipated future rates are as follows:

	2022	2021
2022	7.0%	6.5%
2023	6.5%	6.0%
2024	6.0%	5.5%
2025	5.5%	5.0%
2026	5.0%	5.0%
2027-2031	5.0%	5.0%

An additional 1% increase in the trend utilized for measurement purposes in 2022 would have resulted in an increase in the accumulated postretirement benefit obligation of approximately \$15.9 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 6/30/22 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, 2022 and 2021

6. 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 member'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, 2022 and 2021 were as follows:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Cost - Certificates of deposits	\$ 325,000	\$ 595,000
Cost - Bonds	101,736,013	112,522,297
Cost - Equities	35,048,419	29,300,874
Gross unrealized gain/(loss) - CD's	137	1,469
Gross unrealized gain/(loss) - Bonds	(10,233,752)	502,214
Gross unrealized /(loss) - Equities	<u>(3,152,684)</u>	<u>779,094</u>
Fair Value	<u>\$ 123,723,133</u>	<u>\$ 143,700,948</u>

At June 30, 2022, maturities of marketable debt securities classified as available for sale were as follows:

	Cost	Fair Value
Less than one year	\$ 40,952,271	\$ 37,473,279
One through five years	19,166,452	17,826,632
After five years	<u>41,617,290</u>	<u>36,202,350</u>
	<u>\$ 101,736,013</u>	<u>\$ 91,502,261</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, 2022 and 2021

6. Marketable Securities, Concluded:

		<u>Fair value measurements using:</u>	
	<u>Fair Value</u>	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
<u>June 30, 2022</u>			
Certificates of deposit	\$ 325,137	\$ -	\$ 325,137
Bonds	91,502,261	-	91,502,261
Equities	31,895,735	31,895,735	-
	<u>\$ 123,723,133</u>	<u>\$ 31,895,735</u>	<u>\$ 91,827,398</u>

		<u>Fair value measurements using:</u>	
	<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
Bond	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>

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, 2022 and 2021, were as follows:

	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>
Due in one year or less (included in Temporary Cash Investments)	\$ 1,725,002	\$ 1,720,173	\$ (4,829)
Due after one year	30,543,504	26,201,501	(4,342,003)
Balances, June 30, 2022	<u>\$ 32,268,506</u>	<u>\$ 27,921,674</u>	<u>\$ (4,346,832)</u>
	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>
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>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

7. 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 2022 and 2021 consists of the following:

Provision for Income Taxes:	<u>2022</u>	<u>2021</u>
Current tax expense	\$ 250,000	\$ 22,465,000
Deferred tax (benefit)	<u>(6,367,012)</u>	<u>(2,883,713)</u>
Total	<u>\$ (6,117,012)</u>	<u>\$ 19,581,287</u>

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

	<u>2022</u>	<u>2021</u>
Differences in depreciation methods	\$ 9,070,021	\$ 9,169,947
Unrealized Gains/(Losses)	<u>(2,811,123)</u>	<u>263,482</u>
Total	<u>\$ 6,258,898</u>	<u>\$ 9,433,429</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, 2022 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 2019.

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

8. 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, 2022 and 2021

8. Revenue Recognition, Concluded:

Disaggregation of revenue

In the following table, revenue for the years ended June 30, 2022 and 2021 is disaggregated by type of service.

Regulated Income	<u>2022</u>	<u>2021</u>
South Central Telecommunications Cooperative, Inc.		
Local network services	\$ 4,536,736	\$ 4,878,617
Network access services	19,129,670	17,726,768
Carrier billing and collections	333,411	309,413
Directory revenue	144,415	157,896
Lease revenue	961,693	748,092
Miscellaneous	441,715	369,468
	<u>\$ 25,547,640</u>	<u>\$ 24,190,254</u>
South Central Telcom, LLC		
Local network services	\$ 1,972,134	\$ 2,039,749
Network access services	-	5,225
Carrier billing and collections	108,408	129,639
Lease revenue	256,534	163,711
Miscellaneous	142,684	162,104
	<u>\$ 2,479,760</u>	<u>\$ 2,500,428</u>
Nonregulated Income	<u>2022</u>	<u>2021</u>
South Central Telecommunications Cooperative, Inc.		
Internet services	\$ 11,770,942	\$ 10,272,792
Cable television	14,345,462	14,375,155
Sales revenue	733,246	733,391
Lease revenue	165,755	115,281
	<u>\$ 27,015,405</u>	<u>\$ 25,496,619</u>
South Central Telcom, LLC		
Internet services	\$ 2,081,751	\$ 1,689,929
Cable television	2,039,617	1,953,566
Other	216,796	187,359
	<u>\$ 4,338,164</u>	<u>\$ 3,830,854</u>

Contract cost liabilities

Contract cost liabilities include customer deposits. The balance in contract liabilities was \$103,240 and \$96,855 as of June 30, 2022 and 2021, respectively.

9. Subsequent Events:

Management has evaluated subsequent events through September 23, 2022, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

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 • Jordan T. Constant, 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, 2022 and 2021, and our report thereon dated September 23, 2022, which expressed an unmodified opinion on those financial statements appears on pages 1-3. 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 23-26 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 23-26 and the statistical and analytical information on pages 27-28, 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 23, 2022

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
SCHEDULE I – CONSOLIDATING BALANCE SHEET
June 30, 2022

	South Central Rural Telecommunications Cooperative, Inc	South Central Telcom, LLC	Consolidating Entries	Consolidated Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 16,462,532	\$ 3,053,092	\$ -	\$ 19,515,624
Temporary cash investments	750,000	-	-	750,000
Accounts and notes receivable, less allowance for doubtful accounts of \$27,136	1,859,335	2,285,790	(839,784)	3,305,341
Materials and supplies at average cost	4,233,337	-	-	4,233,337
Accrued interest receivable	690,921	-	-	690,921
Prepaid expenses	6,447,452	-	-	6,447,452
Total current assets	<u>30,443,577</u>	<u>5,338,882</u>	<u>(839,784)</u>	<u>34,942,675</u>
Other assets:				
Marketable securities	155,241,639	-	-	155,241,639
Nonregulated investments	807,029	-	-	807,029
Investment in affiliated companies	26,189,769	-	(18,057,753)	8,132,016
Deferred debits	1,499,568	32,244	-	1,531,812
Total other assets	<u>183,738,005</u>	<u>32,244</u>	<u>(18,057,753)</u>	<u>165,712,496</u>
Telecommunication plant, at cost (substantially all pledged as collateral on long- term debt to RUS):				
Telecommunication plant in service	215,108,841	37,204,675	-	252,313,516
Telecommunication plant under construction	10,900,113	-	-	10,900,113
Total telecommunication plant	226,008,954	37,204,675	-	263,213,629
Less accumulated depreciation	172,398,827	20,902,647	-	193,301,474
Telecommunication plant, net	53,610,127	16,302,028	-	69,912,155
TOTAL ASSETS	<u>\$ 267,791,709</u>	<u>\$ 21,673,154</u>	<u>\$ (18,897,537)</u>	<u>\$ 270,567,326</u>
LIABILITIES AND MEMBERS' EQUITIES				
Current liabilities:				
Accounts payable	\$ 5,017,993	\$ 1,178,765	\$ (839,784)	\$ 5,356,974
Accrued income taxes	-	-	-	-
Accrued expenses	4,344,739	-	-	4,344,739
Total current liabilities	<u>9,362,732</u>	<u>1,178,765</u>	<u>(839,784)</u>	<u>9,701,713</u>
Long-term liabilities:				
Deferred taxes	6,258,898	-	-	6,258,898
Other long-term liabilities	24,135,098	-	-	24,135,098
Total long-term liabilities	<u>30,393,996</u>	<u>-</u>	<u>-</u>	<u>30,393,996</u>
Other liabilities and deferred credits				
Deferred credits	113,381	2,436,636	-	2,550,017
Total other liabilities and deferred credits	<u>113,381</u>	<u>2,436,636</u>	<u>-</u>	<u>2,550,017</u>
Members' equities:				
Patronage capital	36,590,201	-	-	36,590,201
Accumulated other comprehensive loss	(31,091,429)	-	-	(31,091,429)
Other equities	220,514,534	18,057,753	(18,057,753)	220,514,534
Other member capital	1,908,294	-	-	1,908,294
Total members' equities	<u>227,921,600</u>	<u>18,057,753</u>	<u>(18,057,753)</u>	<u>227,921,600</u>
TOTAL LIABILITIES AND MEMBERS' EQUITIES	<u>\$ 267,791,709</u>	<u>\$ 21,673,154</u>	<u>\$ (18,897,537)</u>	<u>\$ 270,567,326</u>

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

For the Year Ended June 30, 2022

	South Central Rural Telecommunications Cooperative, Inc	South Central Telcom, LLC	Consolidating Entries	Consolidated Totals
Operating revenues:				
Basic local network service	\$ 4,536,736	\$ 1,972,134	\$ -	\$ 6,508,870
Network access service revenues	19,129,670	-	-	19,129,670
Carrier billing and collection	333,411	108,408	-	441,819
Miscellaneous	<u>1,457,823</u>	<u>399,218</u>	<u>-</u>	<u>1,857,041</u>
Total operating revenues	<u>25,457,640</u>	<u>2,479,760</u>	<u>-</u>	<u>27,937,400</u>
Operating expenses:				
Plant specific operations	5,852,396	991,702	-	6,844,098
Plant nonspecific operations	3,591,503	157,312	-	3,748,815
Depreciation and amortization	9,894,474	2,322,955	-	12,217,429
Customer operations	2,230,861	496,951	-	2,727,812
Corporate operations	2,008,764	1,330,251	-	3,339,015
Other operating taxes	<u>945,785</u>	<u>191,040</u>	<u>-</u>	<u>1,136,825</u>
Total operating expenses	<u>24,523,783</u>	<u>5,490,211</u>	<u>-</u>	<u>30,013,994</u>
Operating income	933,857	(3,010,451)	-	(2,076,594)
Nonoperating net income	3,791,970	-	460,168	4,252,138
Provision for income taxes - Benefit/(Expense)	<u>6,117,012</u>	<u>-</u>	<u>-</u>	<u>6,117,012</u>
Income before interest charges	10,842,839	(3,010,451)	460,168	8,292,556
Nonregulated net income (loss)	<u>4,669,967</u>	<u>2,550,283</u>	<u>-</u>	<u>7,220,250</u>
Net Income	<u>\$ 15,512,806</u>	<u>\$ (460,168)</u>	<u>\$ 460,168</u>	<u>\$ 15,512,806</u>
Other comprehensive income (loss)				
Unrealized gain/(loss) on investments	(14,669,076)	-	-	(14,669,076)
Postretirement benefit other than pension:				
Unrecognized gain (loss) on assets	<u>6,804,585</u>	<u>-</u>	<u>-</u>	<u>6,804,585</u>
Comprehensive income	<u>\$ 7,648,315</u>	<u>\$ (460,168)</u>	<u>\$ 460,168</u>	<u>\$ 7,648,315</u>

SOUTH CENTRAL RURAL TELECOMMUNICATIONS COOPERATIVE, INC. AND SUBSIDIARY
SCHEDULE III – 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	<u>5,002,258</u>	<u>-</u>	<u>-</u>	<u>5,002,258</u>
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	<u>703,734</u>	<u>34,375</u>	<u>-</u>	<u>738,109</u>
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	<u>13,094,953</u>	<u>-</u>	<u>-</u>	<u>13,094,953</u>
Total telecommunication plant	219,103,953	36,291,631	-	255,395,584
Less accumulated depreciation	<u>164,845,960</u>	<u>18,658,211</u>	<u>-</u>	<u>183,504,171</u>
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	<u>2,629,059</u>	<u>-</u>	<u>-</u>	<u>2,629,059</u>
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	<u>31,851,915</u>	<u>-</u>	<u>-</u>	<u>31,851,915</u>
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	<u>117,313</u>	<u>2,521,143</u>	<u>-</u>	<u>2,638,456</u>
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	<u>1,707,124</u>	<u>-</u>	<u>-</u>	<u>1,707,124</u>
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 IV – 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 services 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/(loss) 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.
LIMITED DATA – SCRTC ONLY
STATISTICAL AND ANALYTICAL INFORMATION
June 30, 2022 and 2021

	2022	2021
<u>Telecommunication Plant in Service - June 30:</u>	\$ 215,108,841	\$ 206,009,000
Investment per subscriber - June 30	15,757	13,620
Investment per dollar of operating revenue	7.70	7.72
<u>Depreciation Reserve - June 30:</u>	172,398,827	164,845,960
Percent of plant in service	80.14%	80.02%
Annual depreciation	9,894,474	10,854,733
Percent of annual depreciation to plant in service	4.60%	5.27%
<u>Average Annual Revenue Per Subscriber:</u>		
Local service	477	457
Toll service and access charges	1,426	1,172
Total operating revenue	1,865	1,765
<u>Number of Stations - June 30:</u>		
Residence:		
Main stations	11,212	12,560
Business:		
Main stations (access lines)	2,440	2,565
Total main stations	13,652	15,125

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, 2022 and 2021

	2022		2021	
<u>For the year ended June 30,</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Local network service	\$ 4,536,736	17.82%	\$ 4,878,617	20.17%
Network access and long-distance network service	19,463,081	76.45%	18,036,181	74.56%
Miscellaneous	<u>1,457,823</u>	<u>5.73%</u>	<u>1,275,456</u>	<u>5.27%</u>
Total operating revenue	<u>25,457,640</u>	<u>100.00%</u>	<u>24,190,254</u>	<u>100.00%</u>
Cost of telephone service, net of other income and expenses	<u>9,944,834</u>	<u>39.06%</u>	<u>(27,699,661)</u>	<u>-114.51%</u>
Net income	<u>\$ 15,512,806</u>	<u>60.94%</u>	<u>\$ 51,889,915</u>	<u>214.51%</u>

	2022		2021	
<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	\$ 227,921,600	85.11%	\$ 221,981,770	78.13%
Long-term liabilities	30,393,996	11.35%	41,285,344	14.53%
Other liabilities	<u>9,476,113</u>	<u>3.54%</u>	<u>20,858,390</u>	<u>7.34%</u>
Total assets	<u>\$ 267,791,709</u>	<u>100.00%</u>	<u>\$ 284,125,504</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 • Jordan T. Constant, 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, 2022 and 2021, 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 23, 2022.

Report on 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, or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

September 23, 2022

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 • Jordan T. Constant, 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, 2022 and 2021, 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 23, 2022. In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2022, 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 12/31/19	\$ 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
Dividends as of 12/31/22	\$ -	\$ -	\$ -	\$ -	\$ 111,182	
Earnings/(Loss) as of 12/31/22	\$ -	\$ -	\$ -	\$ 677,313	\$ 113,032	
Book Value of Investments as of 12/31/22	\$ -	\$ -	\$ -	\$ 7,816,502	\$ 315,516	\$ 8,132,018

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

Campbell, Myers & Rutledge, PLLC
Glasgow, Kentucky

September 23, 2022

