



Helping *members* keep
customers connected

Annual Report

October 2019

To our Members

The value of NECA membership remains constant, even as the rural telecom industry continues to undergo significant change. Our 35 years of experience serving the industry and providing unique expertise continues to help members navigate the complexities and reporting requirements introduced by FCC orders, stay current with evolving technology and prepare for the future.

We help ensure our members' FCC compliance, manage the administrative burden of filings, and provide consistent and timely monthly cash flows to our pool members – enabling their day-to-day operations to continue uninterrupted.

We do all of this with the goals of efficiency and reducing costs where possible. In constant dollars, with inflation factored in, 2018 expenses were only 0.4% more than in 2017, and 6.3% less than in 2016. Additionally, viewed in constant dollars, this year's expenses are about 13.3% less than 2009 expenses.

Throughout the past year we worked directly with the FCC on our members' behalf to resolve industry and tariff matters related to USF/ICC reform, network testing, call completion and robocalls so members didn't have to expend efforts in these increasingly complex areas.

We worked closely with the FCC and USAC to clarify issues related to the December 2018 Rate-of-Return USF Reform Order, Connect America Fund Broadband Loop Support, operating expense allowance, consumer broadband-only loop rate calculations and the elimination of the local service rate floor. We also engaged in detailed discussions with the FCC to gain support for revisions and additions to NECA's Reporting Guidelines.

In the last year we continued to pursue innovative tariff solutions to address the evolving marketplace. We developed a new tariff offering in response to NECA pool member elections of the BDS framework, filing ex ante and non-ex ante BDS rate filings for a fee on behalf of companies electing incentive pricing regulation. In addition to increasing participation in our rate banding process, we minimized rate level swings of Ethernet Transport Service.

In response to member requests, we filed multiple new ETS service enhancements, including seven new ETS speeds. We also introduced a new ETS fixed rate option plan and continued the use of the E-rate option for ETS, enabling participating companies to offer lower stabilized rates to E-rate eligible schools and libraries in their service territories.

Members also took advantage of our free training sessions on a wide variety of topics. We introduced new training curriculums and throughout the year delivered classroom sessions, national webcasts and our annual EXPO, providing a solid foundation of knowledge to 10,200 attendees.

NECA is dedicated to helping members adapt to the evolving regulatory landscape while delivering the vital communications services needed to keep customers connected. We achieve all of this through our unwavering commitment to providing outstanding service and communications to members.



A handwritten signature in black ink that reads "Thomas E. Preston".

Thomas E. Preston
*Chairman
of the Board*

A handwritten signature in black ink that reads "Bill Hegmann".

Bill Hegmann
*President and
Chief Executive Officer*



Significant Undertakings and Industry Activities

Rural telecom support

- Worked closely with all stakeholders, especially the FCC and USAC, to get resolution on various industry and tariff matters such as: outstanding issues related to the December 2018 Rate-of-Return USF Reform Order; Connect America Fund Broadband Loop Support; operating expense allowance; consumer broadband-only loop rate calculations; and the elimination of the local service rate floor.
- Developed a new tariff offering in response to NECA pool member elections of the business data services framework. This included initializing rates, interpreting exogenous cost rules for RoR carriers and extensive discussion with FCC staff to ensure rules compliance.
- Provided timely and useful information and training to keep members informed of developments and their obligations on key issues, including USF/ICC reform, the local service rate floor, network testing, call completion and robocalls.
- Engaged in detailed conversations with the FCC to gain support for revisions and additions to NECA's Reporting Guidelines, such as integrated network interface devices, voice over internet protocol and proper treatment of lease expenses.
- Continued efforts on issues that affect members via formal filings, ex parte meetings and numerous informal discussions with FCC staff and other industry stakeholders.

Tariffs and pooling

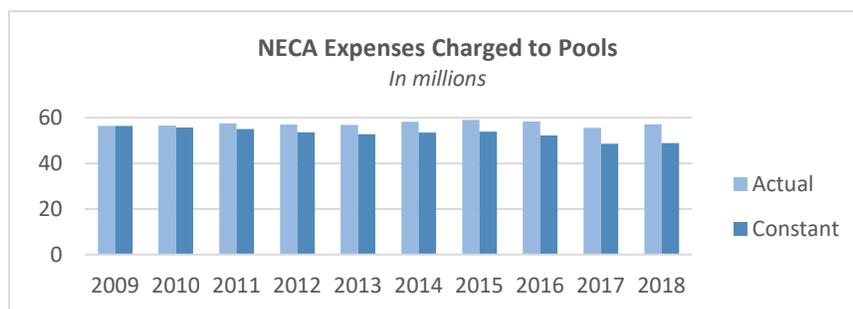
- Annual tariff filing went into effect on July 2, 2019, as filed.
- For the first time, filed ex ante and non-ex ante business data services rates for effect on July 2, 2019, for a fee on behalf of companies electing incentive pricing regulation for those services and opting to have NECA tariff the associated rates.
- Filed new average schedule formulas in December 2018, which became effective on July 1, 2019.
- Added new rate band buy down participants and minimized rate level swings of Ethernet Transport Service.
- Submitted mid-month filings for member consumer broadband-only loop and Access Recovery Charge tariff changes, and common line tariff changes for companies on model-based support. Filed to remove budget control mechanism effects from the CBOL maximum allowable rate calculation for 135 companies in March.
- Filed quarterly updates to Federal Universal Service Charge surcharge factors to reflect modified universal service contribution factors.
- Filed updated Connect America Fund Broadband Loop Support and Connect America Fund Intercarrier Compensation data with the FCC and USAC corresponding to mid-month filings, FCC-approved mergers or CAF II auction activity.
- In response to member requests, filed multiple new ETS service enhancements including seven new ETS speeds.
- Introduced an ETS Fixed Rate Option Plan 6, enabling participating companies to offer their ETS Term Discount Plan and Port Term Discount Plan customers the associated stabilized ETS monthly rates.
- Continued the use of the E-rate option for ETS, enabling participating companies to offer lower stabilized rates to E-rate eligible entities in their service territories (e.g., schools and libraries).
- Implemented common line and CBOL tariffing decisions made by 213 pooling study areas electing A-CAM II support. Removed these companies from common line pooling as required by FCC rules retroactive to January 2019.

Member services

- NECA employees participated in 64 association meetings, including 19 booths and 17 speakers.
- Region staff made approximately 67 customer service visits to members and consultants.
- Provided classroom training sessions, national webcasts and an annual EXPO, with a total of 10,200 attendees.

Financial Overview

In 2018 NECA conducted all its planned activities within budgeted limits, while striving to achieve both efficiency and high quality service. Our downward trend in expenses continued in 2018. When measured in constant dollars, expenses charged to the pools in 2018 were 13.3% less than in 2009.



Condensed consolidated financial statements

The following condensed financial statements were derived from the audited consolidated financial statements and provide an overview of NECA's financial activities.

National Exchange Carrier Association, Inc.
Condensed Consolidated Statements of Financial Position
(Thousands of dollars)

| | December 31 | |
|---|------------------|------------------|
| | 2018 | 2017 |
| Assets | | |
| Receivable from pool members | \$ 2,164 | \$ 1,041 |
| Receivable from Federal Universal Service Fund | 225,707 | 226,397 |
| Other current assets | 35,661 | 33,798 |
| Fixed assets, net of accumulated depreciation and amortization of \$13,588 and \$13,248, respectively | 863 | 953 |
| Other noncurrent assets | 28,514 | 32,311 |
| Total Assets | \$292,909 | \$294,500 |
| Liabilities and Net Assets | | |
| Payable to pool members | \$229,805 | \$229,224 |
| Other current liabilities | 24,802 | 27,002 |
| Other liabilities | 30,920 | 31,171 |
| Unrestricted net assets | 7,382 | 7,103 |
| Total Liabilities and Net Assets | \$292,909 | \$294,500 |

Condensed Consolidated Statements of Activities
(Thousands of dollars)

| | Year ended December 31 | |
|--|------------------------|-----------------|
| | 2018 | 2017 |
| Revenues | \$ 57,932 | \$ 60,252 |
| Personnel, general and administrative expenses | 56,708 | 55,123 |
| Depreciation and amortization | 432 | 436 |
| Change in net assets before other income, provision for income taxes | 792 | 4,693 |
| Other income | 200 | 74 |
| Change in net assets before provision for income taxes | 992 | 4,767 |
| Income taxes | 713 | 4,567 |
| Change in unrestricted net assets | 279 | 200 |
| Unrestricted net assets, beginning of year | 7,103 | 6,903 |
| Unrestricted net assets, end of year | \$7,382 | \$ 7,103 |

NECA Board of Directors

Chairman of the Board

Thomas E. Preston

CEO

Duo County Telephone

Evelyn C. Jerden

Senior Vice President - Regulatory Dynamics

LICT Corporation

Vice Chairman of the Board

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Retired

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Professor

Lindsey Wilson College

Raymond Henagan

CEO & General Manager

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Mid-America Computer Corporation

George Hopkins

Attorney

Little Rock, Arkansas

Michael Shultz

Vice President - Regulatory and Public Policy

Consolidated Communications

Randy Houdek

General Manager

Venture Communications Cooperative

Leslie Toombs, Ph.D.

Professor

Texas A&M University - Commerce

Hank Hultquist

Vice President - Federal Regulatory

AT&T Services, Inc.

NECA Officers

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President and

Chief Executive Officer

Peter Dunbar

Senior Vice President and

Chief Financial Officer

Regina McNeil

Senior Vice President and

General Counsel

