AUDITED CONSOLIDATED FINANCIAL STATEMENTS

TENNESSEE 554
HIGHLAND TELEPHONE COOPERATIVE, INC.
AND SUBSIDIARY
SUNBRIGHT, TENNESSEE

December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Highland Telephone Cooperative, Inc.
Sunbright, Tennessee

We have audited the accompanying consolidated financial statements of Highland Telephone Cooperative, Inc. and Subsidiary which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, changes in members' equity and cash flows for the years then ended, and the related notes to the consolidated 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 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Highland Telephone Cooperative, Inc. and Subsidiary as of December 31, 2017 and 2016, and the results of its operations and 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 March 9, 2018 on our consideration of Highland Telephone Cooperative, Inc. and Subsidiary's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Jatherow, Haile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 9, 2018

CONSOLIDATED BALANCE SHEETS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash - general	$ 8,690,164	$ 16,190,731
Cash - construction fund	1,000	1,000
Temporary investments	701,755	701,501
Securities available for sale	10,613,102	2,397,960
Telecommunications accounts receivable, less allowances of $125,153 in 2017 and $100,135 in 2016	1,189,117	1,145,787
Other accounts receivable	1,183,419	728,781
Materials and supplies	1,785,753	1,921,788
Prepayments	554,194	498,755
Other current assets	121,468	109,000
TOTAL CURRENT ASSETS	$ 24,839,972	$ 23,695,303
NONCURRENT ASSETS		
Other investments	$ 981,130	$ 933,431
Nonregulated investments	3,184,622	3,307,794
Deferred tax asset	19,010	18,182
Deposits	4,173	4,173
TOTAL NONCURRENT ASSETS	$ 4,188,935	$ 4,263,580
PROPERTY, PLANT AND EQUIPMENT		
Telecommunications plant in service	$ 94,161,054	$ 136,418,047
Telecommunications plant under construction	132,391	224,682
	$ 94,293,445	$ 136,642,729
Less accumulated depreciation	55,680,809	95,008,484
TOTAL PROPERTY, PLANT AND EQUIPMENT	$ 38,612,636	$ 41,634,245
	$ 67,641,543	$ 69,593,128

See the accompanying notes and independent auditors' report.

CONSOLIDATED BALANCE SHEETS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2017 and 2016

	2017	2016
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 257,001	$ 425,590
Advance billings and payments	1,034,549	1,003,317
Customer deposits	7,386	5,646
Current maturities on long-term debt	520,583	591,215
Accrued taxes	313,496	653,011
Accrued rents	964,649	925,072
Accrued salaries and wages	268,275	258,258
Accrued compensated absences	1,645,092	1,477,426
Accrued federal and state income taxes	3,082	39,082
Other current liabilities	283,901	220,872
TOTAL CURRENT LIABILITIES	$ 5,298,014	$ 5,599,489
LONG-TERM DEBT		
Rural Utilities Service - mortgage notes	11,297,650	14,158,331
OTHER LIABILITIES		
Postretirement benefits other than pension	3,513,600	4,265,096
Deferred taxes	256,426	271,480
TOTAL LIABILITIES	$ 20,365,690	$ 24,294,396
MEMBERS' EQUITY		
Patronage equity	$ 45,862,193	$ 44,644,810
Accumulated other comprehensive income (loss)	1,413,660	653,922
TOTAL EQUITY	$ 47,275,853	$ 45,298,732
	$ 67,641,543	$ 69,593,128

CONSOLIDATED STATEMENTS OF OPERATIONS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2017 and 2016

	2017	2016
Operating revenues:		
Local network services revenue	$ 7,202,088	$ 7,500,134
Long distance services revenue	553,367	597,518
Network access services revenue	6,502,777	7,075,780
Miscellaneous revenues	3,410,845	3,343,918
Less uncollectible revenue	(143,700)	(149,161)
TOTAL OPERATING REVENUES	$ 17,525,377	$ 18,368,189
Operating expenses:		
Plant specific operations expense	$ 4,806,520	$ 5,600,440
Plant nonspecific operations expense	2,219,892	2,395,963
Provision for depreciation	4,808,958	5,025,625
Customer operations expense	1,680,445	1,774,013
Corporate operations expense	1,682,970	2,364,974
Operating taxes	357,680	439,066
TOTAL OPERATING EXPENSES	$ 15,556,465	$ 17,600,081
OPERATING INCOME	$ 1,968,912	$ 768,108
Other income (expense):		
Interest income	$ 161,111	$ 34,304
Income from investments	44,509	9,001
Gain on sale of fixed asset	0	125
Nonregulated income (loss)	(452,661)	369,465
TOTAL OTHER INCOME (EXPENSE)	$ (247,041)	$ 412,895

See the accompanying notes and independent auditors' report.

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2017 and 2016

	2017	2016
Fixed charges:		
Interest on long-term debt	$ 389,131	$ 466,414
Interest charged to construction - credit	(5,307)	(6,395)
Interest on customer deposits	858	1,044
TOTAL FIXED CHARGES	$ 384,682	$ 461,063
INCOME BEFORE TAXES ON INCOME	$ 1,337,189	$ 719,940
Taxes on income	121,831	315,644
NET INCOME	$ 1,215,358	$ 404,296

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2017 and 2016

	2017	2016
Net income	$ 1,215,358	$ 404,296
Other comprehensive income:		
Unrealized loss from securities available for sale	(50,562)	(892)
Postretirement benefits other than pension:		
Unrecognized gain	940,700	477,000
Unrecognized past service liability	(130,400)	(130,400)
COMPREHENSIVE INCOME	$ 1,975,096	$ 750,004

See the accompanying notes and independent auditors' report.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2017 and 2016

	Memberships	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2015	$ 219,413	$ 44,019,981	$ 308,214	$ 44,547,608
Net income for 2016	0	404,296	0	404,296
Unrealized loss on investment of securities available for sale	0	0	(892)	(892)
Memberships collected	1,120	0	0	1,120
Postretirement benefits other than pension:				
Unamortized prior service cost			(130,400)	(130,400)
Unrecognized gain	0	0	477,000	477,000
Balance at December 31, 2016	$ 220,533	$ 44,424,277	$ 653,922	$ 45,298,732
Net income for 2017	0	1,215,358	0	1,215,358
Unrealized loss on investment of securities available for sale	0	0	(50,562)	(50,562)
Memberships collected	2,025	0	0	2,025
Postretirement benefits other than pension:				
Unamortized prior service cost	0	0	(130,400)	(130,400)
Unrecognized gain	0	0	940,700	940,700
Balance at December 31, 2017	$ 222,558	$ 45,639,635	$ 1,413,660	$ 47,275,853

See the accompanying notes and independent auditors' report.

CONSOLIDATED STATEMENTS OF CASH FLOWS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	$ 17,058,641	$ 18,829,592
Cash paid to suppliers and employees	(9,798,405)	(11,905,226)
Interest and dividends received	161,111	34,304
Interest paid	(384,682)	(461,063)
Taxes paid	(870,908)	(350,846)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 6,165,757	$ 6,146,761
Cash flows from investing activities:		
Construction and acquisition of plant	$ (2,379,307)	$ (2,953,684)
Plant removal cost	0	(10,574)
Salvage	44,329	46,000
Proceeds from sale of vehicle	0	4,000
(Increase) Decrease in nonregulated assets	123,172	243,355
(Increase) Decrease in securities available for sale	(8,215,142)	1,290
(Increase) Decrease in other investments	(3,190)	0
(Increase) Decrease in temporary investments	(254)	(253)
Increase (Decrease) in reserve for market valuation of securities	(50,562)	(892)
(Increase) Decrease in:		
Materials and supplies	136,035	(123,070)
Nonregulated income	(452,661)	369,465
NET CASH USED BY INVESTING ACTIVITIES	$ (10,797,580)	$ (2,424,363)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from financing activities:		
Payments on long-term borrowings	$ (2,931,313)	$ (568,694)
Postretirement benefits other than pension	58,804	191,715
Increase (Decrease) in:		
Customer deposits	1,740	(2,690)
Memberships	2,025	1,120
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	$ (2,868,744)	$ (378,549)
NET INCREASE IN CASH	$ (7,500,567)	$ 3,343,849
CASH AT BEGINNING OF YEAR	16,191,731	12,847,882
CASH AT END OF YEAR	$ 8,691,164	$ 16,191,731

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2017 and 2016

	2017	2016
Net income (loss)	$ 1,215,358	$ 404,296
Nonregulated expense (income)	452,661	(369,465)
Income from investments	(44,509)	(9,001)
Deferred tax expense (benefit)	(15,882)	225,807
Net income from regulated operations	$ 1,607,628	$ 251,637
Adjustments to reconcile net income from regulated operations to net cash provided by operating activities:		
Depreciation	$ 5,356,587	$ 5,537,084
Gain on sale of vehicle	0	(125)
Decrease (Increase) in:		
Customer and other accounts receivable	(497,968)	413,788
Refundable tax deposit	0	3,083
Current and accrued assets - other	(12,468)	(3,608)
Prepaid expenses	(55,439)	(86,183)
Increase (Decrease) in:		
Accounts payable	(168,589)	(334,383)
Advance billings and payments	31,232	47,615
Accrued taxes	(339,515)	144,127
Accrued rents	39,577	19,121
Accrued salaries and compensated absences	177,683	155,562
Accrued federal and state income taxes	(36,000)	30,847
Other current liabilities	63,029	(31,804)
TOTAL ADJUSTMENTS	$ 4,558,129	$ 5,895,124
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 6,165,757	$ 6,146,761

See the accompanying notes and independent auditors' report.

Note A – Highland Telephone Cooperative, Inc. provides telecommunications services to customers in Morgan County and Scott County, Tennessee and McCreary County, Kentucky. The Cooperative has adopted the following accounting policies:

(1) Principles of Consolidation:

Highland Telephone Cooperative, Inc. (Cooperative) owns 100% of the outstanding common stock of Highland Holdings, Inc. and Subsidiary (Subsidiary). The Subsidiary was formed for the purpose of providing long distance services, internet, and video services. Both the Cooperative and Subsidiary provide telecommunication services to a portion of east Tennessee. The consolidated financial statements include the accounts of Highland Holdings, Inc. and Subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Cooperative operates on a fiscal year ending December 31. Highland Holdings, Inc. and Subsidiaries operate on a fiscal year ending September 30. The consolidated financial statements of 2017 reflect the results of operations from January 1 through December 31 for the Cooperative, and October 1, 2016 through September 30, 2017 for Highland Holdings, Inc. and its subsidiaries.

(2) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(3) For purposes of financial statement presentation, the Cooperative and Subsidiary consider all highly-liquid investments with a maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of treasury bills and notes and commercial paper with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as temporary investments.

Note A – (Cont'd):

(4) Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. No interest is charged on accounts receivable balances that are past due. Past due accounts receivable are based upon contractual terms as defined on customer invoices. Accounts receivable past due 90 days or more amounted to $116,929 and $100,277 at December 31, 2017 and 2016, respectively.

The allowance for doubtful accounts is based upon a credit review of the accounts receivable, past bad debt experience, current economic conditions and other pertinent factors which form a basis for determining the adequacy of the allowance. The allowance represents an estimate based upon these and other factors and, it is at least reasonably possible that a change in the estimate will occur in the near term.

(5) Materials and supplies are valued at average cost accumulated in perpetual inventory records, which are periodically adjusted to physical counts.

(6) Compensated absences are accrued as the benefits are earned by employees according to an established policy.

(7) Revenue is recorded upon the billing of telecommunications services net of sales tax.

(8) Expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation.

(9) Advertising costs are expensed as incurred and included in customer operations. Advertising expense amounted to $131,525 in 2017 and $126,767 in 2016.

(10) Various items in the financial statements have been reclassified for comparative purposes.

Note B – Concentrations of Credit Risks:

Deposits

The Cooperative and Subsidiary maintains its cash in several commercial banks located within its trade area. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 on accounts. $7,159,745 was uninsured at December 31, 2017.

The Cooperative has entered into an arrangement with one financial institution which will enable it to purchase US Treasury Notes to be held in short term investments to reduce its credit risk. At year end, included in uninsured cash was $3,350,000 of US Treasury Notes.

The Companies had cash maintained by an investment firm totaling $2,461,934 as of December 31, 2016. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At December 31, 2016 $2,211,934 was uninsured. During 2017 this cash was converted to securities available for sale.

Accounts receivable

Telecommunications services are provided to the customers within its trade area on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

Note C –Securities available for sale consist of United States government agency bonds, corporate bonds and mutual funds.

The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Companies believe their valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad based levels. A description of the three levels follows:

Level 1 – Uses prices and other relevant information generated by active market transactions involving identical or comparable assets that the Cooperative has the ability to access at the measurement date;

Level 2 – Uses inputs other than quoted market prices included within Level 1 that are observable for valuing the asset, either directly or indirectly. This level of the hierarchy may use quoted prices for similar assets in an active or non-active market and may also include insignificant adjustments to market observable inputs;

Note C – (Cont'd):

Level 3 – Uses unobservable inputs used for valuing assets. Unobservable inputs are those that use valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts.

The Cooperative's investments are grouped and measured at fair value and use the aforementioned fair value hierarchy in the following manner:

	Fair Value	Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Available for sale	$6,276,800	$6,276,800	$ 0	$ 0
Total	$6,276,800	$6,276,800	$ 0	$ 0
December 31, 2016				
Available for sale: U.S. Treasury Notes	$2,397,960	$2,397,960	$ 0	$ 0
Total	$2,397,960	$2,397,960	$ 0	$ 0

Financial instruments are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

Note C – (Cont'd):

Investments in debt and equity securities consist of the following:

	Amortized Cost	Gross Unrealized Gains (Losses)	Estimated Market Value
December 31, 2017			
Available for sale:			
U.S. Treasury Notes	$2,623,152	$(25,538)	$2,597,614
Corporate Bonds	2,861,413	(15,737)	2,845,676
Mutual Funds	838,758	(5,248)	833,510
Available for sale	$6,323,323	$(46,523)	$6,276,800
December 31, 2016			
Available for sale:			
U.S. Treasury Notes	$2,395,256	$2,704	$2,397,960

The following is a summary of maturities of securities available for sale as of December 31, 2017:

	Amortized Cost	Fair Value
Amounts maturing in:		
Due in one year or less	$ 867,623	$ 865,805
Due from one to five years	2,892,999	2,868,564
Due from six to ten years	870,397	861,268
Due beyond ten years	853,547	847,654
Mutual funds	838,757	833,509
Total	$6,323,323	$6,276,800

Management evaluates securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the intent and ability of the Cooperative to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery. At December 31, 2017, management believes there are no other-than-temporary impairments in the debt and equity securities.

Note C – (Cont'd):

The amortized cost and estimated market value of debt securities at December 31, 2017, by contractual maturities, are shown above. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Proceeds from the sale of investments in debt securities were as follows:

	2017	2016
Proceeds from sales and redemptions	$3,274,856	$7,200,000

The Highland Holdings, Inc.'s available for sale securities are grouped and measured at fair value and use the aforementioned fair value hierarchy in the following manner at September 30, 2017:

	Fair Value	Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale	$4,336,302	$4,336,302	$ 0	$ 0
Total	$4,336,302	$4,336,302	$ 0	$ 0

The amortized cost of securities and their fair market values are as follows:

	Amortized Cost	Gross Unrealized Gain (Loss)	Estimated Market Value
September 30, 2017:			
U.S. Government agencies	$1,988,959	$(7,427)	$1,981,532
Corporate bonds	1,777,534	(1,039)	1,776,495
Mutual funds	578,052	223	578,275
Available for Sale	$4,344,545	$(8,243)	$4,336,302

Note C – (Cont'd):

The following is a summary of maturities of securities available for sale as of September 30, 2017:

	Amortized cost	Fair value
Amounts maturing in:		
Due in one year or less	$ 607,140	$ 607,182
Due from one to five years	1,965,209	1,962,757
Due from six to ten years	1,169,795	1,163,589
Due beyond ten years	24,349	24,499
Mutual funds	578,052	578,275
Total	$4,344,545	$4,336,302

Management evaluates securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation.

Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the intent and ability of the Cooperative to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery. At September 30, 2017, management believes there are no other-than-temporary impairments in the debt and equity securities.

The amortized cost and estimated market value of debt securities at September 30, 2017, by contractual maturities, are shown above. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Proceeds from the sale of investments in debt securities were as follows:

	2017	2016
Proceeds from sales and redemptions	$244,684	$ 0

Note D – Other Investments:

	2017	2016
Tennessee Independent Telecom Group (IRIS Networks) (10.556%)	$940,949	$896,518
National Rural Telecommunications Cooperative (NRTC)	40,181	36,913
	$981,130	$933,431

Ownership percentages are in parentheses for investments in which Highland Telephone Cooperative Corporation, Inc. owns a significant portion of the investment. All other investments are carried at cost.

Investments carried at cost are not normally evaluated for impairment because it is not practical to estimate fair value due to insufficient information being available. An evaluation is performed, however, if economic or market concerns warrant such an evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent or ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of fair value.

Management has not identified any events or circumstances that may have a significant adverse effect on the fair value of any cost method investment.

Note E – Nonregulated Investments:

	2017	2016
Nonregulated customer premises equipment, paystations, and key systems	$4,375,631	$4,934,696
Less accumulated depreciation	(1,455,287)	(1,941,231)
Net nonregulated customer premises equipment, paystations, and key systems	$2,920,344	$2,993,465
Nonregulated materials and supplies	264,278	314,329
TOTAL	$3,184,622	$3,307,794

Note F – Investment in Telecommunications Plant in Service:

Telecommunications plant in service and under construction is stated at cost. Listed below are the major classes of the telecommunications plant in the accounts of the Cooperative as of December 31:

	2017	2016
Land	$ 354,473	$ 359,473
Buildings	3,879,087	3,897,059
Central office equipment	17,655,914	32,384,967
Poles, cables, and wire	57,843,237	83,184,374
Furniture and office equipment	2,239,570	2,279,553
Vehicles and other work equipment	3,397,914	3,582,891
Intangibles	2,422	2,422
Telecommunications plant in service as contained on the Cooperative's records	$85,372,617	$125,690,739

Investment in property and equipment included in the accounts of Highland Holdings, Inc and Subsidiaries:

	2017	2016
Plant under construction	$ 2,409	$ 0
Land	248,539	248,539
Buildings and improvements	1,557,331	1,549,978
Furniture	280,476	291,187
Vehicles	77,063	77,063
Tools and work equipment	7,085	11,626
Central office transmission equipment	6,615,534	8,548,915
Telecommunications plant in service as contained on Highland Holdings, Inc. records	$8,788,437	$10,727,308

Note F – (Cont'd):

The Cooperative provides for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its estimated useful life. Such provision, as a percentage of the average balance of telecommunications plant in service, was 4.52% in 2017 and 3.98% in 2016. Individual depreciation rates are as follows:

Buildings	3.2%
Central office	8.6 – 13.9%
Poles, cables and wire	5.6% – 7.32%
Furniture and office equipment	7.92 – 19%
Vehicles and other work equipment	15%

Highland Holdings, Inc. and Subsidiaries provide for depreciation on a straight-line basis at annual rates, which will amortize the depreciable property over its useful life. Depreciation charged to expense on Highland Holdings, Inc.'s records amounted to $586,440 in 2017 and $583,198 in 2016.

Note G – Mortgage Notes:

Long-term debt is represented by mortgage notes payable to the United States of America. Substantially all assets are pledged as security for the long-term debt. Following is a summary of the outstanding long-term debt:

	2017	2016
2.268% - 4.474% Rural Development Utilities Programs notes	$11,818,233	$14,749,546
Less current maturities	520,583	591,215
TOTAL	$11,297,650	$14,158,331

Note G – (Cont'd):

Principal and interest installments on the above notes are due periodically. The maturities of long-term debt for each of the five years succeeding the balance sheet date are as follows:

Year		Amount
2018		$ 520,583
2019		535,958
2020		551,794
2021		568,106
2022		584,906
Beyond 5 years		9,056,886
	TOTAL	$11,818,233

Note H – The Cooperative accrues all postretirement benefits other than pensions. Under the prescribed accrual method, the Cooperative's obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. The cost of medical benefits for current and future associate retirees was recognized as determined under the projected united credit cost method.

Substantially all of the Cooperative's employees are covered under postretirement medical plans. The determination of postretirement benefit cost for postretirement medical benefit plan is based on comprehensive hospital, medical and surgical benefit provisions.

Note H – (Cont'd):

The following table sets forth the plan's funded status and the amounts recognized in the Cooperative's Consolidated Balance Sheet as of December 31:

	2017	2016
Accumulated postretirement obligation attributable to:		
Retirees	$ 282,200	$ 371,800
Other active plan participants	3,231,400	3,893,296
Total accumulated postretirement benefit obligation	$3,513,600	$4,265,096
Fair value of plan assets	0	0
Net unfunded status	$3,513,600	$4,265,096
Amounts recognized in other comprehensive income:		
Unrecognized net (gains) loss	$ 343,300	$(597,400)
Unrecognized prior service cost	1,119,800	1,250,200
Total included in other comprehensive income	$1,463,100	$ 652,800

Postretirement benefit cost is composed of the following for the year ended December 31:

	2017	2016
Benefits earned during the year	$110,900	$178,300
Interest on accumulated postretirement benefit obligation	155,200	214,500
Postretirement benefit cost	$266,100	$392,800

The Medicare and Prescription Drug, Improvement and Modernization Act of 2003 provides for a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the benefit established by the law. Currently, for the plan, the Medicare Part D Subsidy is a reduction to premiums paid for by participants that are at least 65 years old. For 2017, premiums for this group of participants were approximately $50 less than it would have been without the adjustment.

Note H – (Cont'd):

Weighted average assumptions to determine benefit obligations and net periodic cost for the years ended December 31:

	2017	2016
Discount rate	4.75%	5.50%
Expected return on plan assets	0.00%	0.00%

The Company's expected rate of return on plan assets is determined by the plan's historical long-term investment performance, current asset allocation, and estimates of future long-term return by asset class. To date the Company has chosen not to fund the liability.

The medical cost trend rate in 2017 was approximately 9.5% grading down to an ultimate rate in 2030 of 5.0%. A one percentage point increase in the assumed medical cost trend rates for each future year would have increased the aggregate of the service and the interest components of the 2017 net periodic postretirement benefit cost by $40,900 and would have increased the postretirement benefit obligation as of December 31, 2017 by $403,300.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the plan:

Year		Amount
2018		$ 145,300
2019		158,600
2020		193,100
2021		181,100
2022		176,600
Years 2023 – 2027		1,300,300
	TOTAL	$2,155,000

The Company generally does not make an annual contribution to the plan and a contribution is not anticipated in 2017.

Note I – Pension Plan:

The Cooperative sponsors a 401(k) savings plan in which both union and non-union employees can participate. The company matches employees' contributions based on a percentage of salary contributed by participants. Employer matches amounted to $363,468 in 2017 and $362,482 in 2016.

Highland Communications, LLC established a 401(k) plan effective May 19, 1997. The plan covers all full time employees. Employees have the option to contribute up to 15% of their pay up to a maximum of $18,000. The Company matches the amount that each employee contributes to the plan up to 10%. Retirement expense related to this plan amounted to $34,171 in 2017 and $31,903 in 2016.

Note J – Income Taxes:

The Company recognizes deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the Company's financial statements and tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Measurement is computed using applicable current tax rates.

	2017	2016
Current income tax expense:		
Federal	$115,468	$ 74,564
State	22,314	15,273
Deferred income tax expense (benefit):		
Federal	(13,251)	187,457
State	(2,700)	38,350
Income tax	$121,831	$315,644

The Company's total deferred tax assets and liabilities at December 31 are as follows:

	2017	2016
Deferred tax asset	$ 19,010	$ 18,182
Deferred tax liability	(256,426)	(271,480)
	$(237,416)	$(253,298)

Note J – (Cont'd):

The deferred tax asset is the result of amortizing organizational costs for tax purposes. The deferred tax liability is the result of timing differences in depreciation.

The individual companies included in the consolidation are responsible for their own tax liabilities. All companies are no longer subject to Internal Revenue or state taxing authority examinations beyond the statute of limitations of the respective tax authorities.

The Companies are no longer subject to federal or state income tax examinations for years beyond the statute of limitations of the respective taxing authorities. Penalties and interest, if any, that are assessed by income tax authorities are included in operating expenses. No interest or penalties were recognized during the years ending December 31, 2017 and 2016.

Note K – Labor Force:

Approximately 80% of the Cooperative's labor force is subject to a collective bargaining agreement. A three year agreement was negotiated and approved for the period October 1, 2014 to September 30, 2017 between the Cooperative and the Communications Workers of America. Management and union have agreed to extend the contract through September 30, 2018.

Note L – Subsequent Events:

Subsequent events are transactions or events that occur subsequent to the date of the financial statements and before the issuance of those financial statements. Management has evaluated transactions and events that occurred subsequent to December 31, 2017 and before the date these financial statements were available to be issued, March 9, 2018, and determined that no additional disclosures are necessary.

CONSOLIDATING INFORMATION

TH&W TOTHEROW HAILE & WELCH, PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
Highland Telephone Cooperative, Inc.
Sunbright, Tennessee

We have audited the consolidated financial statements of Highland Telephone Cooperative, Inc. and Subsidiary as of and for the years ended December 31, 2017 and 2016, and our report thereon dated March 9, 2018, which expresses an unmodified opinion on those financial statements, appears on page 5. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 40 through 45 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements, themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Totherow, Haile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 9, 2018

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CONSOLIDATING BALANCE SHEETS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2017

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
	ASSETS			
CURRENT ASSETS				
Cash - general	$ 5,794,222	$ 2,896,942	$ 0	$ 8,691,164
Temporary investments	600,000	101,755	0	701,755
Securities available for sale	6,276,800	4,336,302	0	10,613,102
Telecommunications accounts receivable	1,189,117	619,689	(619,689)	1,189,117
Other accounts receivable	852,173	0	331,246	1,183,419
Materials and supplies	1,785,753	0	0	1,785,753
Prepayments	462,175	92,019	0	554,194
Due from affiliate	1,892,266	51,463	(1,943,729)	0
Other current assets	101,503	19,965	0	121,468
TOTAL CURRENT ASSETS	$ 18,954,009	$ 8,118,135	$ (2,232,172)	$ 24,839,972
NONCURRENT ASSETS				
Investment in subsidiaries	$ 9,298,547	$ 0	$ (9,298,547)	$ 0
Other investments	944,217	36,913	0	981,130
Nonregulated investments	3,184,622	0	0	3,184,622
Deferred tax asset	0	19,010	0	19,010
Deposits	2,573	1,600	0	4,173
TOTAL NONCURRENT ASSETS	$ 13,429,959	$ 57,523	$ (9,298,547)	$ 4,188,935
PROPERTY, PLANT AND EQUIPMENT				
Telecommunications plant in service	$ 85,372,617	$ 8,788,437	$ 0	$ 94,161,054
Telecommunications plant under construction	132,391	0	0	132,391
	$ 85,505,008	$ 8,788,437	$ 0	$ 94,293,445
Less accumulated depreciation	50,161,660	5,519,149	0	55,680,809
TOTAL PROPERTY, PLANT AND EQUIPMENT	$ 35,343,348	$ 3,269,288	$ 0	$ 38,612,636
	$ 67,727,316	$ 11,444,946	$ (11,530,719)	$ 67,641,543

CONSOLIDATING BALANCE SHEETS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2017

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
LIABILITIES AND MEMBERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable	$ 730,447	$ 146,243	$ (619,689)	$ 257,001
Advance billings and payments	967,907	66,642	0	1,034,549
Customer deposits	7,386	0	0	7,386
Current maturities on long-term debt	520,583	0	0	520,583
Accrued taxes	286,496	27,000	0	313,496
Accrued rent	964,649	0	0	964,649
Accrued salaries and wages	268,275	0	0	268,275
Accrued compensated				0
absences	1,645,092	0	0	1,645,092
Accrued federal and state income taxes	3,082	0	0	3,082
Advance from related company	0	1,612,483	(1,612,483)	0
Other current liabilities	241,574	42,327	0	283,901
TOTAL CURRENT LIABILITIES	$ 5,635,491	$ 1,894,695	$ (2,232,172)	$ 5,298,014
LONG-TERM DEBT				
Rural Utilities Service	11,297,650	0	0	11,297,650
OTHER LIABILITIES				
Postretirement benefits other than pension	3,513,600	0	0	3,513,600
Deferred taxes	0	256,426	0	256,426
TOTAL LIABILITIES	$ 20,446,741	$ 2,151,121	$ (2,232,172)	$ 20,365,690
MEMBERS' EQUITY				
Memberships	$ 222,558	$ 0	$ 0	$ 222,558
Patronage capital	45,639,635	0	0	45,639,635
Accumulated other comprehensive income	1,418,382	(4,722)	0	1,413,660
Capital stock	0	200,000	(200,000)	0
Paid-in capital	0	8,553,643	(8,553,643)	0
Retained earnings	0	544,904	(544,904)	0
TOTAL MEMBERS' EQUITY	$ 47,280,575	$ 9,293,825	$ (9,298,547)	$ 47,275,853
	$ 67,727,316	$ 11,444,946	$ (11,530,719)	$ 67,641,543

CONSOLIDATING STATEMENTS OF OPERATIONS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the year ended December 31, 2017

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
Operating revenues:				
Local network services revenue	$ 7,202,088	$ 0	$ 0	$ 7,202,088
Long distance services revenue	13,360	540,007	0	553,367
Network access services revenue	6,502,777	0	0	6,502,777
Broadband revenue	0	6,835,490	(6,835,490)	0
Video revenue	0	2,921,036	(2,921,036)	0
Miscellaneous revenues	4,474,918	276,153	(1,340,226)	3,410,845
Less uncollectible revenue	(68,735)	(74,965)		(143,700)
TOTAL OPERATING REVENUES	$ 18,124,408	$10,497,721	$ (11,096,752)	$ 17,525,377
Operating expenses:				
Plant specific operations expense	$ 4,806,520	$ 1,379,211	$ (1,379,211)	$ 4,806,520
Plant nonspecific operations expense	2,219,892	89,870	(89,870)	2,219,892
Provision for depreciation	4,770,147	586,440	(547,629)	4,808,958
Customer operations expense	1,680,445	3,955,639	(3,955,639)	1,680,445
Corporate operations expense	3,047,043	1,961,111	(3,325,184)	1,682,970
Operating taxes	357,680	175,396	(175,396)	357,680
TOTAL OPERATING EXPENSES	$ 16,881,727	$ 8,147,667	$ (9,472,929)	$ 15,556,465
OPERATING INCOME	$ 1,242,681	$ 2,350,054	$ (1,623,823)	$ 1,968,912
Other income (expense):				
Interest income	$ 131,921	$ 29,190	$ 0	$ 161,111
Gain on sale of asset	0	0	0	0
Nonregulated income (loss)	(11,656)	(2,064,828)	1,623,823	(452,661)
Income from subsidiaries	194,559	0	(194,559)	0
Income from investment	44,509	0		44,509
TOTAL OTHER INCOME (EXPENSE)	$ 359,333	$ (2,035,638)	$ 1,429,264	$ (247,041)

CONSOLIDATING STATEMENTS OF OPERATIONS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the year ended December 31, 2017

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
Fixed charges:				
Interest on long-term debt	$ 389,131	$ 0	$ 0	$ 389,131
Interest charged to construction - credit	(5,307)	0	0	(5,307)
Interest on customer deposits	858	0	0	858
TOTAL FIXED CHARGES	$ 384,682	$ 0	$ 0	$ 384,682
Taxes on income	$ 1,974	$ 119,857	$ 0	$ 121,831
NET INCOME	$ 1,215,358	$ 194,559	$ (194,559)	$ 1,215,358

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the year ended December 31, 2017

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
Net income	$ 1,215,358	$ 194,559	$ (194,559)	$ 1,215,358
Other comprehensive income:				
Unrealized loss from securities available for sale	(45,840)	(4,722)	0	(50,562)
Postretirement benefits other than pension:				
Unrecognized gain	940,700	0	0	940,700
Unrecognized past service liability	(130,400)	0	0	(130,400)
COMPREHENSIVE INCOME	$ 1,979,818	$ 189,837	$ (194,559)	$ 1,975,096

TH &W TOTHEROWHAILE&WELCH, PLLC
Certified Public Accountants

Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements

Board of Directors
Highland Telephone Cooperative, Inc.
Sunbright, Tennessee

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 financial statements of Highland Telephone Cooperative, Inc., which comprise the balance sheet as of December 31, 2017, and the related statements of operations, comprehensive income, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 9, 2018. In accordance with *Government Auditing Standards,* we have also issued our report dated March 9, 2018, on our consideration of Highland Telephone Cooperative, Inc.'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 and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Highland Telephone Cooperative, Inc. 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,* Sec. 1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, 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 Highland Telephone Cooperative, Inc.'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 Highland Telephone Cooperative, Inc's accounting and records to indicate that Highland Telephone Cooperative, Inc. 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;

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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 Sec. 1733.33 (e)(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.

This report is intended solely for the information and use of the board of directors, management, and RUS and supplemental lenders and is not intended to be and should be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Jotherow, Haile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 9, 2018

Highland Telephone
Cooperative Inc.
Sunbright, Tennessee

Detailed schedule of investments

	Independent Group d/b/a IRIS Networks	Highland Holdings, Inc.
Book value of investments as of 12/31/15	$ 887,517	$ 7,959,090
Additional investments as of 12/31/16	0	0
Undistributed earnings as of 12/31/16	9,001	1,144,898
Book value of investments as of 12/31/16	$ 896,518	$ 9,103,988
Additional investments as of 12/31/17	0	0
Undistributed earnings as of 12/31/17	44,431	194,559
Book value of investments as of 12/31/17	$ 940,949	$ 9,298,547

TOTHEROWHAILE&WELCH, PLLC
Certified Public Accountants

To the Board of Directors of
Highland Telephone
Cooperative, Inc.
Sunbright, Tennessee

We have audited the consolidated financial statements of Highland Telephone Cooperative, Inc. for the year ended December 31, 2017, and have issued our report thereon dated March 9, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, 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 November 27, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Highland Telephone Cooperative, Inc. are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the Company 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 allowance for doubtful accounts is based on historical sales, historical loss levels, and an analysis of the collectability of the individual accounts.
>
> Management's estimate of the deferred tax asset and liability encompass the temporary differences in tax reporting and financial statement presentation based on future expected financial trends of the Company.
>
> Management's estimate of the accrued postretirement benefits is based on the actuarial findings of an independent actuary for the cost of medical benefits for current and future associate retirees.

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We evaluated the key factors and assumptions used to develop the above described accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements 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 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 the financial statements 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 auditors' 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 March 9, 2018.

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 the Company'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 the Company'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

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, 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.

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

Sincerely,

Jatherow, Haile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 12, 2018

TOTHEROW HAILE & WELCH, PLLC
Certified Public Accountants

Board of Directors
Highland Telephone Cooperative, Inc.
Sunbright, Tennessee

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 financial statements of Highland Telephone Cooperative, Inc. as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated March 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Highland Telephone Cooperative, Inc.'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 Highland Telephone Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Highland Telephone Cooperative, Inc.'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 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 the 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Highland Telephone Cooperative, Inc.'s financial statements are free of 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.

Jotherow, Haile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 9, 2018