

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2020 and 2019

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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, 2020 and 2019, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

Opinion

In our opinion, the consolidated 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, 2020 and 2019, 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 April 7, 2021 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 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 Highland Telephone Cooperative, Inc. and Subsidiary's internal control over financial reporting and compliance.

Jotherow, Spate, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
April 7, 2021

CONSOLIDATED BALANCE SHEETS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

| | 2020 | 2019 |
|--|----------------------|----------------------|
| <u>ASSETS</u> | | |
| <u>CURRENT ASSETS</u> | | |
| Cash - general | \$ 14,563,137 | \$ 10,214,929 |
| Temporary investments | 703,031 | 702,264 |
| Securities available for sale | 16,961,686 | 16,398,690 |
| Telecommunications accounts receivable, less allowances of \$184,505 in 2020 and \$152,198 in 2019 | 1,226,238 | 1,171,412 |
| Other accounts receivable | 1,106,543 | 1,087,383 |
| Materials and supplies | 1,522,453 | 1,414,571 |
| Prepayments | 618,428 | 564,895 |
| Other current assets | 90,657 | 127,253 |
| TOTAL CURRENT ASSETS | \$ 36,792,173 | \$ 31,681,397 |
| <u>NONCURRENT ASSETS</u> | | |
| Other investments | \$ 2,309,020 | \$ 1,954,827 |
| Nonregulated investments | 5,859,918 | 4,754,289 |
| Deferred tax asset | 33,313 | 6,894 |
| Deposits | 4,023 | 4,023 |
| TOTAL NONCURRENT ASSETS | \$ 8,206,274 | \$ 6,720,033 |
| <u>PROPERTY, PLANT AND EQUIPMENT</u> | | |
| Telecommunications plant in service | \$ 94,635,951 | \$ 96,814,486 |
| Telecommunications plant under construction | 1,257,201 | 953,029 |
| | \$ 95,893,152 | \$ 97,767,515 |
| Less accumulated depreciation | 63,437,114 | 63,781,703 |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | \$ 32,456,038 | \$ 33,985,812 |
| | <u>\$ 77,454,485</u> | <u>\$ 72,387,242</u> |

See the accompanying notes and independent auditors' report.

CONSOLIDATED BALANCE SHEETS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

| | 2020 | 2019 |
|---|----------------------|----------------------|
| <u>LIABILITIES AND MEMBERS' EQUITY</u> | | |
| <u>CURRENT LIABILITIES</u> | | |
| Accounts payable | \$ 120,208 | \$ 262,483 |
| Advance billings and payments | 1,182,967 | 1,097,118 |
| Customer deposits | 3,042 | 1,340 |
| Current maturities on long-term debt | 520,794 | 559,608 |
| Accrued taxes | 274,808 | 297,115 |
| Accrued rents | 1,108,765 | 1,026,957 |
| Accrued salaries and wages | 307,780 | 376,860 |
| Accrued compensated absences | 1,925,847 | 1,822,793 |
| Accrued federal and state income taxes | 260,119 | 184,949 |
| Other current liabilities | 361,405 | 643,840 |
| | <hr/> | <hr/> |
| TOTAL CURRENT LIABILITIES | \$ 6,065,735 | \$ 6,273,063 |
| <u>LONG-TERM DEBT</u> | | |
| Rural Utilities Service - mortgage notes | 8,846,191 | 10,087,954 |
| <u>OTHER LIABILITIES</u> | | |
| Postretirement benefits other than pension | 3,780,096 | 3,367,621 |
| Deferred taxes | 282,446 | 239,051 |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES | \$ 18,974,468 | \$ 19,967,689 |
| <u>MEMBERS' EQUITY</u> | | |
| Patronage equity | \$ 56,610,895 | \$ 50,515,801 |
| Accumulated other comprehensive income | 1,869,122 | 1,903,752 |
| | <hr/> | <hr/> |
| TOTAL EQUITY | \$ 58,480,017 | \$ 52,419,553 |
| | <hr/> | <hr/> |
| | <u>\$ 77,454,485</u> | <u>\$ 72,387,242</u> |

CONSOLIDATED STATEMENTS OF OPERATIONS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2020 and 2019

| | 2020 | 2019 |
|--------------------------------------|----------------------|----------------------|
| Operating revenues: | | |
| Local network services revenue | \$ 7,692,860 | \$ 7,064,036 |
| Long distance services revenue | 469,862 | 500,678 |
| Network access services revenue | 5,776,689 | 5,829,125 |
| Miscellaneous revenues | 4,849,094 | 4,887,110 |
| Less uncollectible revenue | <u>(139,012)</u> | <u>(139,250)</u> |
| TOTAL OPERATING REVENUES | \$ 18,649,493 | \$ 18,141,699 |
| Operating expenses: | | |
| Plant specific operations expense | \$ 4,539,429 | \$ 4,709,938 |
| Plant nonspecific operations expense | 2,316,311 | 2,385,319 |
| Provision for depreciation | 4,217,110 | 4,485,011 |
| Customer operations expense | 1,903,907 | 1,858,156 |
| Corporate operations expense | 2,339,596 | 2,217,503 |
| Operating taxes | <u>314,465</u> | <u>357,462</u> |
| TOTAL OPERATING EXPENSES | <u>\$ 15,630,818</u> | <u>\$ 16,013,389</u> |
| OPERATING INCOME | \$ 3,018,675 | \$ 2,128,310 |
| Other income (expense): | | |
| Interest income | \$ 561,436 | \$ 564,526 |
| Income (loss) from investments | (314,995) | (7,020) |
| Forgiveness of loan | 121,252 | 0 |
| Gain from sale of investment | 724,413 | 0 |
| Nonregulated income (loss) | <u>2,803,110</u> | <u>743,486</u> |
| TOTAL OTHER INCOME (EXPENSE) | \$ 3,895,216 | \$ 1,300,992 |

See the accompanying notes and independent auditors' report.

CONSOLIDATED STATEMENTS OF OPERATIONS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|------------------|------------------|
| Fixed charges: | | |
| Interest on long-term debt | \$ 290,538 | \$ 322,054 |
| Interest charged to construction - credit | (50,324) | (21,970) |
| Interest on customer deposits | 17 | 245 |
| | <u>240,231</u> | <u>300,329</u> |
| TOTAL FIXED CHARGES | \$ 240,231 | \$ 300,329 |
| | | |
| INCOME BEFORE TAXES ON INCOME | \$ 6,673,660 | \$ 3,128,973 |
| Taxes on income | 586,840 | 421,161 |
| | <u>586,840</u> | <u>421,161</u> |
| | | |
| NET INCOME | \$ 6,086,820 | \$ 2,707,812 |
| | <u>6,086,820</u> | <u>2,707,812</u> |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|---------------------|---------------------|
| Net income | \$ 6,086,820 | \$ 2,707,812 |
| Other comprehensive income: | | |
| Unrealized gain (loss) from securities available for sale | 436,177 | 451,223 |
| Postretirement benefits other than pension: | | |
| Unrecognized gain (loss) | (331,070) | (192,203) |
| Unrecognized past service liability | <u>(139,737)</u> | <u>(139,737)</u> |
| COMPREHENSIVE INCOME | <u>\$ 6,052,190</u> | <u>\$ 2,827,095</u> |

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, 2020 and 2019

| | Memberships | Patronage Capital | Accumulated Other Comprehensive Income (Loss) | Total Members' Equity |
|--|-------------------|----------------------|--|-----------------------------|
| Balance at December 31, 2018 | \$ 229,538 | \$ 47,578,631 | \$ 1,784,469 | \$ 49,592,638 |
| Net income for 2019 | 0 | 2,707,812 | 0 | 2,707,812 |
| Unrealized gain on investment of securities available for sale | 0 | 0 | 451,223 | 451,223 |
| Memberships refunded | (180) | 0 | 0 | (180) |
| Postretirement benefits other than pension: | | | | |
| Unamortized prior service cost | 0 | 0 | (139,737) | (139,737) |
| Unrecognized loss | 0 | 0 | (192,203) | (192,203) |
| Balance at December 31, 2019 | \$ 229,358 | \$ 50,286,443 | \$ 1,903,752 | \$ 52,419,553 |
| Net income for 2020 | 0 | 6,086,820 | 0 | 6,086,820 |
| Unrealized gain on investment of securities available for sale | 0 | 0 | 436,177 | 436,177 |
| Memberships refunded | 8,274 | 0 | 0 | 8,274 |
| Postretirement benefits other than pension: | | | | |
| Unamortized prior service cost | 0 | 0 | (139,737) | (139,737) |
| Unrecognized loss | 0 | 0 | (331,070) | (331,070) |
| Balance at December 31, 2020 | <u>\$ 237,632</u> | <u>\$ 56,373,263</u> | <u>\$ 1,869,122</u> | <u>\$ 58,480,017</u> |

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, 2020 and 2019

| | 2020 | 2019 |
|--|----------------|----------------|
| Cash flows from operating activities: | | |
| Cash received from customers | \$ 18,661,356 | \$ 18,034,476 |
| Cash paid to suppliers and employees | (11,000,997) | (10,175,028) |
| Interest and dividends received | 561,436 | 564,526 |
| Interest paid | (240,231) | (300,329) |
| Taxes paid | (831,466) | (673,664) |
| | <hr/> | <hr/> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 7,150,098 | \$ 7,449,981 |
| Cash flows from investing activities: | | |
| Construction and acquisition of plant | \$ (3,124,948) | \$ (3,190,307) |
| Salvage | 13,500 | 8,505 |
| (Increase) Decrease in nonregulated assets | (1,105,629) | (1,105,250) |
| (Increase) Decrease in securities available for sale | (562,996) | (4,346,932) |
| (Increase) Decrease in other investments | (669,187) | (438,373) |
| (Increase) Decrease in temporary investments | (767) | (255) |
| Cash received from sale of investment | 724,413 | 0 |
| Increase (Decrease) in reserve for market valuation of securities | 436,177 | 451,223 |
| (Increase) Decrease in deposits | 0 | 150 |
| (Increase) Decrease in: | | |
| Materials and supplies | (107,882) | 272,309 |
| Nonregulated income | 2,803,110 | 743,486 |
| | <hr/> | <hr/> |
| NET CASH USED BY INVESTING ACTIVITIES | \$ (1,594,209) | \$ (7,605,444) |

See the accompanying notes and independent auditors' report.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|--------------|--------------|
| Net income (loss) | \$ 6,086,820 | \$ 2,707,812 |
| Nonregulated expense (income) | (2,803,110) | (743,486) |
| Loss (income) from investments | 314,995 | 7,020 |
| Forgiveness of loan | (121,252) | 0 |
| Gain from sale of equity investment | (724,413) | 0 |
| Deferred tax expense (benefit) | 16,976 | 71,891 |
| | <hr/> | <hr/> |
| Net income from regulated operations | \$ 2,770,016 | \$ 2,043,237 |
| Adjustments to reconcile net income from regulated operations to net cash provided by operating activities: | | |
| Depreciation | \$ 4,641,221 | \$ 4,974,294 |
| Decrease (Increase) in: | | |
| Customer and other accounts receivable | (73,986) | (160,563) |
| Current and accrued assets - other | 36,596 | 1,992 |
| Prepaid expenses | (53,533) | 31,421 |
| Increase (Decrease) in: | | |
| Accounts payable | (142,275) | (62,167) |
| Advance billings and payments | 85,849 | 53,340 |
| Accrued taxes | (22,307) | (52,271) |
| Accrued rents | 81,808 | 19,815 |
| Accrued salaries and compensated absences | 33,974 | 164,545 |
| Accrued federal and state income taxes | 75,170 | 85,339 |
| Other current liabilities | (282,435) | 350,999 |
| | <hr/> | <hr/> |
| TOTAL ADJUSTMENTS | \$ 4,380,082 | \$ 5,406,744 |
| | <hr/> | <hr/> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 7,150,098 | \$ 7,449,981 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

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 2020 reflect the results of operations from January 1 through December 31 for the Cooperative, and October 1, 2019 through September 30, 2020 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

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 \$29,354 and \$176,159 at December 31, 2020 and 2019, 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 \$56,483 in 2020 and \$125,326 in 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

Note A – (Cont'd):

- (10) On January 1, 2019 the Company adopted Accounting Standards Update (“ASU”) 2014-09 Revenue from Contracts with Customers and all subsequent amendments (“ASC 606”) which creates a single framework for recognizing revenue from contracts that fall within its scope. Under the standard, the core principle will be achieved by 1) identifying the contract with the customer, 2) identifying the performance obligation, 3) determining the transaction price, 4) allocating the transaction price to the performance obligation, and 5) recognizing revenue when the entity satisfies a performance obligation.

The Company adopted ASC 606 using the modified retrospective method applied to all contracts not complete as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606 while prior period amounts continue to be reported under legacy GAAP. The modified retrospective method requires that the Company record a net change, if any, in beginning retained earnings as of January 1, 2019 due to the cumulative effect of adopting ASC 606. The adoption of ASC 606 did not result in a change to the accounting of any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded by the Company.

- (11) 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. \$7,365,259 was uninsured at December 31, 2020.

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 \$7,360,000 of US Treasury Notes.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

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;

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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

Note C – (Cont'd):

| | <u>Fair Value</u> | Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--------------------------|---------------------|---|---|--|
| <u>December 31, 2020</u> | | | | |
| Available for sale | \$11,130,901 | \$11,130,901 | \$ 0 | \$ 0 |
| Total | <u>\$11,130,901</u> | <u>\$11,130,901</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| <u>December 31, 2019</u> | | | | |
| Available for sale | \$10,765,275 | \$10,765,275 | \$ 0 | \$ 0 |
| Total | <u>\$10,765,275</u> | <u>\$10,765,275</u> | <u>\$ 0</u> | <u>\$ 0</u> |

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

Note C – (Cont'd):

Investments in debt and equity securities consist of the following:

| | <u>Amortized Cost</u> | <u>Gross Unrealized Gains (Losses)</u> | <u>Estimated Market Value</u> |
|---------------------|---------------------------|--|---------------------------------------|
| December 31, 2020 | | | |
| Available for sale: | | | |
| U.S. Treasury Notes | \$ 5,055,478 | \$259,194 | \$ 5,314,672 |
| Corporate Bonds | 2,790,594 | 165,982 | 2,956,575 |
| Mutual Funds | <u>2,789,730</u> | <u>69,924</u> | <u>2,859,654</u> |
| Available for sale | <u>\$10,635,802</u> | <u>\$495,100</u> | <u>\$11,130,901</u> |
| December 31, 2019 | | | |
| Available for sale: | | | |
| U.S. Treasury Notes | \$5,577,919 | \$ 91,373 | \$5,669,292 |
| Corporate Bonds | 2,790,387 | 86,105 | 2,876,492 |
| Mutual Funds | <u>2,187,273</u> | <u>32,218</u> | <u>2,219,491</u> |
| Available for sale | <u>\$10,555,579</u> | <u>\$209,696</u> | <u>\$10,765,275</u> |

The following is a summary of maturities of securities available for sale as of December 31, 2019:

| | <u>Amortized Cost</u> | <u>Fair Value</u> |
|----------------------------|---------------------------|-----------------------|
| Amounts maturing in: | | |
| Due in one year or less | \$ 1,146,112 | \$ 1,159,328 |
| Due from one to five years | 2,250,694 | 2,363,945 |
| Due from six to ten years | 3,306,250 | 3,562,316 |
| Due beyond ten years | 1,143,016 | 1,185,658 |
| Mutual funds | <u>2,789,730</u> | <u>2,859,654</u> |
| Total | <u>\$10,635,802</u> | <u>\$11,130,901</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

Note C – (Cont'd):

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, 2020, 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 December 31, 2020, 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:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------|--------------------|--------------------|
| Proceeds from sales and redemptions | <u>\$2,917,704</u> | <u>\$6,409,508</u> |

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, 2020:

| | <u>Fair Value</u> | Quoted Prices In Active Markets for Identical Assets/Liabilities <u>(Level 1)</u> | Significant Other Observable Inputs <u>(Level 2)</u> | Significant Unobservable Inputs <u>(Level 3)</u> |
|----------------------------------|--------------------|--|--|---|
| Securities available for sale | <u>\$5,830,785</u> | <u>\$5,830,785</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| Total | <u>\$5,830,785</u> | <u>\$5,830,785</u> | <u>\$ 0</u> | <u>\$ 0</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

Note C – (Cont'd):

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

| | <u>Amortized Cost</u> | <u>Gross Unrealized Gain (Loss)</u> | <u>Estimated Market Value</u> |
|--------------------------|-----------------------|---|-----------------------------------|
| September 30, 2020: | | | |
| U.S. Government agencies | \$ 2,569,288 | \$ 153,590 | \$2,722,878 |
| Corporate bonds | 1,526,573 | 84,427 | \$1,611,000 |
| Mutual funds | <u>1,459,601</u> | <u>37,306</u> | <u>\$1,496,907</u> |
| Available for Sale | <u>\$5,555,462</u> | <u>\$ 275,323</u> | <u>\$5,830,785</u> |

The following is a summary of maturities of securities available for sale as of September 30, 2020:

| | <u>Amortized cost</u> | <u>Fair value</u> |
|----------------------------|-----------------------|---------------------|
| Amounts maturing in: | | |
| Due in one year or less | \$ 386,916 | \$ 391,021 |
| Due from one to five years | 1,458,526 | 1,523,747 |
| Due from six to ten years | 1,670,719 | 1,812,802 |
| Due beyond ten years | 579,701 | 606,308 |
| Mutual funds | <u>1,459,600</u> | <u>1,496,907</u> |
| Total | <u>\$ 5,555,462</u> | <u>\$ 5,830,785</u> |

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, 2020, 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, 2020, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

Note C – (Cont'd):

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

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------|-------------|-------------|
| Proceeds from sales and redemptions | \$1,928,929 | \$3,669,014 |

Note D – Other Investments:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Foursight Communications, LLC (TriLight)(17.33%) | \$ 602,218 | \$ 442,352 |
| Iris Networks (11.97%) | 1,666,464 | 1,472,137 |
| National Rural Telecommunications Cooperative | 36,913 | 36,913 |
| Other investments | <u>3,425</u> | <u>3,425</u> |
| | <u>\$ 2,309,020</u> | <u>\$ 1,954,827</u> |

Ownership percentages are in parentheses for investments in which Highland Telephone Cooperative, 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:

| | <u>2020</u> | <u>2019</u> |
|--|--------------------|--------------------|
| Nonregulated customer premises equipment, paystations, and key systems | \$6,913,067 | \$5,904,341 |
| Less accumulated depreciation | <u>(1,579,336)</u> | <u>(1,526,743)</u> |
| Net nonregulated customer premises equipment, paystations, and key systems | \$5,333,731 | \$4,377,598 |
| Nonregulated materials and supplies | <u>526,187</u> | <u>376,691</u> |
| TOTAL | <u>\$5,859,918</u> | <u>\$4,754,289</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

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:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Land | \$ 364,473 | \$ 364,473 |
| Buildings | 4,177,518 | 4,134,874 |
| Central office equipment | 17,175,086 | 16,632,328 |
| Poles, cables, and wire | 55,190,454 | 59,234,297 |
| Furniture and office equipment | 3,469,071 | 2,944,399 |
| Vehicles and other work equipment | 4,318,552 | 3,990,863 |
| Intangibles | <u>282,632</u> | <u>2,422</u> |
| Telecommunications plant in service as contained on the Cooperative's records | <u>\$84,977,786</u> | <u>\$87,303,656</u> |

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

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Plant under construction | \$ 28,983 | \$ 2,409 |
| Land | 248,539 | 248,539 |
| Buildings and improvements | 1,570,128 | 1,569,429 |
| Furniture | 278,991 | 278,202 |
| Vehicles | 80,098 | 77,063 |
| Tools and work equipment | 7,085 | 7,085 |
| Central office transmission equipment | <u>7,444,340</u> | <u>7,328,103</u> |
| Telecommunications plant in service as contained on Highland Holdings, Inc. records | <u>\$ 9,658,164</u> | <u>\$ 9,510,830</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

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 4.81% in 2020 and 5.06% in 2019. 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 \$496,626 in 2020 and \$552,074 in 2019.

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:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| 2.268% - 3.444% Rural Development Utilities Programs notes | \$ 9,366,985 | \$10,647,562 |
| Less current maturities | <u>520,794</u> | <u>559,608</u> |
| TOTAL | <u>\$ 8,846,191</u> | <u>\$10,087,954</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

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:

| <u>Year</u> | <u>Amount</u> |
|----------------|---------------------|
| 2021 | \$ 520,794 |
| 2022 | 535,925 |
| 2023 | 551,501 |
| 2024 | 567,536 |
| 2025 | 584,043 |
| Beyond 5 years | <u>6,607,186</u> |
| TOTAL | <u>\$ 9,366,985</u> |

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

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:

| | <u>2020</u> | <u>2019</u> |
|--|--------------------|--------------------|
| Accumulated postretirement obligation attributable to: | | |
| Retirees | \$ 324,063 | \$ 175,785 |
| Other active plan participants | <u>3,456,033</u> | <u>3,191,836</u> |
| Total accumulated postretirement benefit obligation | \$3,780,096 | \$3,367,621 |
| Fair value of plan assets | <u>0</u> | <u>0</u> |
| Net unfunded status | <u>\$3,780,096</u> | <u>\$3,367,621</u> |
| Amounts recognized in other comprehensive income: | | |
| Unrecognized net (gains) loss | \$ 812,069 | \$ 908,698 |
| Unrecognized prior service cost | <u>366,102</u> | <u>697,172</u> |
| Total included in other comprehensive income | <u>\$1,178,171</u> | <u>\$1,605,870</u> |

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

| | <u>2020</u> | <u>2019</u> |
|---|------------------|------------------|
| Benefits earned during the year | \$115,968 | \$105,354 |
| Interest on accumulated postretirement benefit obligation | <u>144,066</u> | <u>141,897</u> |
| Postretirement benefit cost | <u>\$260,034</u> | <u>\$247,251</u> |

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 2020, premiums for this group of participants were approximately \$50 less than it would have been without the adjustment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

Note H – (Cont'd):

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

| | <u>2020</u> | <u>2019</u> |
|--------------------------------|-------------|-------------|
| Discount rate | 3.00% | 4.25% |
| 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 2020 was approximately 7.50% grading down to an ultimate rate in 2026 of 4.0%. 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 2020 net periodic postretirement benefit cost by \$36,816 and would have increased the postretirement benefit obligation as of December 31, 2020 by \$479,815. A one percentage point decrease in the assumed medical cost trend rates for each future year would have decreased the aggregate of the service and the interest components of the 2020 net periodic postretirement benefit cost by \$31,104 and would have decreased the postretirement benefit obligation as of December 31, 2020 by \$411,892.

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

| <u>Year</u> | <u>Amount</u> |
|-------------------|--------------------|
| 2021 | \$ 149,734 |
| 2022 | 125,589 |
| 2023 | 167,772 |
| 2024 | 169,759 |
| 2025 | 211,417 |
| Years 2026 – 2030 | <u>1,245,464</u> |
| TOTAL | <u>\$2,069,735</u> |

The Company generally does not make an annual contribution to the plan and a contribution is not anticipated in 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

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 \$246,171 in 2020 and \$393,541 in 2019.

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 \$19,500 for 2020 and \$19,000 for 2019. The Company matches the amount that each employee contributes to the plan up to 10%. Retirement expenses related to this plan amounted to \$35,611 in 2020 and \$35,611 in 2019.

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.

| | <u>2020</u> | <u>2019</u> |
|--|------------------|------------------|
| Current income tax expense: | | |
| Federal | \$428,504 | \$292,039 |
| State | 141,360 | 134,480 |
| Deferred income tax expense (benefit): | | |
| Federal | 14,378 | (4,447) |
| State | <u>2,598</u> | <u>(911)</u> |
| Income tax | <u>\$586,840</u> | <u>\$421,161</u> |

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

| | <u>2020</u> | <u>2019</u> |
|------------------------|--------------------|--------------------|
| Deferred tax asset | \$ 33,313 | \$ 6,894 |
| Deferred tax liability | <u>(282,446)</u> | <u>(239,051)</u> |
| | <u>\$(249,133)</u> | <u>\$(232,157)</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

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, 2020 and 2019.

Note K – Labor Force:

Approximately 80% of the Cooperative's labor force is subject to a collective bargaining agreement. A five year agreement was negotiated and approved for the period October 1, 2018 to September 30, 2022 between the Cooperative and the Communications Workers of America.

Note L – Gain on extinguishment of debt:

The Company received a loan from First National Bank in the amount of \$1,409,035 under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The Company applied for and has been notified that \$1,409,035 in eligible expenditures for payroll and other expenses described in the CARES Act has been forgiven. Loan forgiveness is reflected in other income in the accompanying statement of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020 and 2019

Note M – COVID-19:

The COVID-19 pandemic developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our people (such as social distancing and working from home) and securing the supply of materials that are essential to providing services to our customers. At this stage, the impact on our business and results has not been significant and based on our experience to date we expect this to remain the case. We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardizing the health of our people.

Note N – 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, 2020 and before the date these financial statements were available to be issued, April 7, 2021, and determined that no additional disclosures are necessary.

CONSOLIDATING INFORMATION



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, 2020 and 2019, and our report thereon dated April 7, 2021, 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
April 7, 2021

CONSOLIDATING BALANCE SHEETS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020

| | Highland Telephone Cooperative, Inc. | Highland Holdings, Inc. | Eliminations/ Reclassifications | Total |
|--|---|----------------------------|------------------------------------|----------------------|
| <u>ASSETS</u> | | | | |
| <u>CURRENT ASSETS</u> | | | | |
| Cash - general | \$ 9,447,245 | \$ 5,115,892 | \$ 0 | \$ 14,563,137 |
| Temporary investments | 600,000 | 103,031 | 0 | 703,031 |
| Securities available for sale | 11,130,901 | 5,830,785 | 0 | 16,961,686 |
| Telecommunications accounts receivable | 1,226,238 | 716,988 | (716,988) | 1,226,238 |
| Other accounts receivable | 844,269 | 0 | 262,274 | 1,106,543 |
| Materials and supplies | 1,522,453 | 0 | 0 | 1,522,453 |
| Prepayments | 560,530 | 57,898 | 0 | 618,428 |
| Due from affiliate | 1,733,527 | 8,093 | (1,741,620) | 0 |
| Other current assets | 66,013 | 24,644 | 0 | 90,657 |
| | | | | |
| TOTAL CURRENT ASSETS | \$ 27,131,176 | \$ 11,857,331 | \$ (2,196,334) | \$ 36,792,173 |
| <u>NONCURRENT ASSETS</u> | | | | |
| Investment in subsidiaries | \$ 12,919,328 | \$ 0 | \$ (12,919,328) | \$ 0 |
| Other investments | 1,669,889 | 639,131 | 0 | 2,309,020 |
| Nonregulated investments | 5,859,918 | 0 | 0 | 5,859,918 |
| Deferred tax asset | 0 | 33,313 | 0 | 33,313 |
| Deposits | 2,573 | 1,450 | 0 | 4,023 |
| | | | | |
| TOTAL NONCURRENT ASSETS | \$ 20,451,708 | \$ 673,894 | \$ (12,919,328) | \$ 8,206,274 |
| <u>PROPERTY, PLANT AND EQUIPMENT</u> | | | | |
| Telecommunications plant in service | \$ 84,977,787 | \$ 9,658,164 | \$ 0 | \$ 94,635,951 |
| Telecommunications plant under construction | 1,257,201 | 0 | 0 | 1,257,201 |
| | | | | |
| | \$ 86,234,988 | \$ 9,658,164 | \$ 0 | \$ 95,893,152 |
| Less accumulated depreciation | 56,602,267 | 6,834,847 | 0 | 63,437,114 |
| | | | | |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | \$ 29,632,721 | \$ 2,823,317 | \$ 0 | \$ 32,456,038 |
| | | | | |
| | <u>\$ 77,215,605</u> | <u>\$ 15,354,542</u> | <u>\$ (15,115,662)</u> | <u>\$ 77,454,485</u> |

CONSOLIDATING BALANCE SHEETS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2020

| | Highland Telephone Cooperative, Inc. | Highland Holdings, Inc. | Eliminations/ Reclassifications | Total |
|---|---|----------------------------|------------------------------------|----------------------|
| <u>LIABILITIES AND MEMBERS' EQUITY</u> | | | | |
| <u>CURRENT LIABILITIES</u> | | | | |
| Accounts payable | \$ 762,135 | \$ 75,061 | \$ (716,988) | \$ 120,208 |
| Advance billings and payments | 1,117,881 | 65,086 | 0 | 1,182,967 |
| Customer deposits | 3,042 | 0 | 0 | 3,042 |
| Current maturities on long-term debt | 520,794 | 0 | 0 | 520,794 |
| Accrued taxes | 244,808 | 30,000 | 0 | 274,808 |
| Accrued rent | 1,108,765 | 0 | 0 | 1,108,765 |
| Accrued salaries and wages | 307,780 | 0 | 0 | 307,780 |
| Accrued compensated absences | 1,925,847 | 0 | 0 | 1,925,847 |
| Accrued federal and state income taxes | 0 | 260,119 | 0 | 260,119 |
| Advance from related company | 0 | 1,479,346 | (1,479,346) | 0 |
| Other current liabilities | 314,101 | 47,304 | 0 | 361,405 |
| TOTAL CURRENT LIABILITIES | \$ 6,305,153 | \$ 1,956,916 | \$ (2,196,334) | \$ 6,065,735 |
| <u>LONG-TERM DEBT</u> | | | | |
| Rural Utilities Service | 8,846,191 | 0 | 0 | 8,846,191 |
| <u>OTHER LIABILITIES</u> | | | | |
| Postretirement benefits other than pension | 3,780,096 | 0 | 0 | 3,780,096 |
| Deferred taxes | 0 | 282,446 | 0 | 282,446 |
| TOTAL LIABILITIES | \$ 18,931,440 | \$ 2,239,362 | \$ (2,196,334) | \$ 18,974,468 |
| <u>MEMBERS' EQUITY</u> | | | | |
| Memberships | \$ 237,632 | \$ 0 | \$ 0 | \$ 237,632 |
| Patronage capital | 56,373,262 | 0 | 0 | 56,373,262 |
| Accumulated other comprehensive income | 1,673,271 | 195,852 | 0 | 1,869,123 |
| Capital stock | 0 | 200,000 | (200,000) | 0 |
| Paid-in capital | 0 | 8,553,643 | (8,553,643) | 0 |
| Retained earnings | 0 | 4,165,685 | (4,165,685) | 0 |
| TOTAL MEMBERS' EQUITY | \$ 58,284,165 | \$ 13,115,180 | \$ (12,919,328) | \$ 58,480,017 |
| | <u>\$ 77,215,605</u> | <u>\$ 15,354,542</u> | <u>\$ (15,115,662)</u> | <u>\$ 77,454,485</u> |

CONSOLIDATING STATEMENTS OF OPERATIONS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the year ended December 31, 2020

| | Highland Telephone Cooperative, Inc. | Highland Holdings, Inc. | Eliminations/ Reclassifications | Total |
|---|---|----------------------------|------------------------------------|----------------------|
| Operating revenues: | | | | |
| Local network services revenue | \$ 7,692,860 | \$ 0 | \$ 0 | \$ 7,692,860 |
| Long distance services revenue | 0 | 469,862 | 0 | 469,862 |
| Network access services revenue | 5,776,689 | 0 | 0 | 5,776,689 |
| Broadband revenue | 0 | 8,753,698 | (8,753,698) | 0 |
| Video revenue | 0 | 2,998,027 | (2,998,027) | 0 |
| Miscellaneous revenues | 6,091,023 | 207,386 | (1,449,315) | 4,849,094 |
| Less uncollectible revenue | <u>(69,125)</u> | <u>(69,887)</u> | <u>0</u> | <u>(139,012)</u> |
| TOTAL OPERATING REVENUES | \$ 19,491,447 | \$12,359,086 | \$ (13,201,040) | \$ 18,649,493 |
| Operating expenses: | | | | |
| Plant specific operations expense | \$ 4,539,429 | \$ 1,756,181 | \$ (1,756,181) | \$ 4,539,429 |
| Plant nonspecific operations expense | 2,316,311 | 83,108 | (83,108) | 2,316,311 |
| Provision for depreciation | 4,144,595 | 496,626 | (424,111) | 4,217,110 |
| Customer operations expense | 1,903,907 | 4,047,323 | (4,047,323) | 1,903,907 |
| Corporate operations expense | 3,881,525 | 2,169,525 | (3,711,454) | 2,339,596 |
| Operating taxes | <u>314,465</u> | <u>124,311</u> | <u>(124,311)</u> | <u>314,465</u> |
| TOTAL OPERATING EXPENSES | \$ 17,100,232 | \$ 8,677,074 | \$ (10,146,488) | \$ 15,630,818 |
| OPERATING INCOME | \$ 2,391,215 | \$ 3,682,012 | \$ (3,054,552) | \$ 3,018,675 |
| Other income (expense): | | | | |
| Interest income | \$ 365,663 | \$ 195,773 | \$ 0 | \$ 561,436 |
| Nonregulated income (loss) | 1,833,975 | (2,085,416) | 3,054,551 | 2,803,110 |
| Income from subsidiaries | 1,668,540 | 0 | (1,668,540) | 0 |
| Forgiveness of loan | | 121,252 | 0 | 121,252 |
| Gain from sale of investment | 67,658 | 656,755 | 0 | 724,413 |
| Income (loss) from investment | | <u>(314,995)</u> | <u>0</u> | <u>(314,995)</u> |
| TOTAL OTHER INCOME (EXPENSE) | \$ 3,935,836 | \$ (1,426,631) | \$ 1,386,011 | \$ 3,895,216 |

CONSOLIDATING STATEMENTS OF OPERATIONS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the year ended December 31, 2020

| | Highland Telephone Cooperative, Inc. | Highland Holdings, Inc. | Eliminations/ Reclassifications | Total |
|--|---|----------------------------|------------------------------------|----------------------------|
| Fixed charges: | | | | |
| Interest on long-term debt | \$ 290,538 | \$ 0 | \$ 0 | \$ 290,538 |
| Interest charged to construction - credit | (50,324) | 0 | 0 | (50,324) |
| Interest on customer deposits | <u>17</u> | <u>0</u> | <u>0</u> | <u>17</u> |
| TOTAL FIXED CHARGES | \$ 240,231 | \$ 0 | \$ 0 | \$ 240,231 |
| Taxes on income | <u>\$ 0</u> | <u>\$ 586,840</u> | <u>\$ 0</u> | <u>\$ 586,840</u> |
| NET INCOME | <u>\$ 6,086,820</u> | <u>\$ 1,668,541</u> | <u>\$ (1,668,541)</u> | <u>\$ 6,086,820</u> |

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the year ended December 31, 2020

| | Highland Telephone Cooperative, Inc. | Highland Holdings, Inc. | Eliminations/ Reclassifications | Total |
|---|---|----------------------------|------------------------------------|---------------------|
| Net income | \$ 6,086,820 | \$ 1,668,541 | \$ (1,668,541) | \$ 6,086,820 |
| Other comprehensive income: | | | | |
| Unrealized gain from securities available for sale | 332,681 | 103,496 | 0 | 436,177 |
| Postretirement benefits other than pension: | | | | |
| Unrecognized loss | (331,070) | 0 | 0 | (331,070) |
| Unrecognized past service liability | (139,737) | 0 | 0 | (139,737) |
| COMPREHENSIVE INCOME | <u>\$ 5,948,694</u> | <u>\$ 1,772,037</u> | <u>\$ (1,668,541)</u> | <u>\$ 6,052,190</u> |