

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2021 and 2020

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CONTENTS

Consolidated Financial Statements:

Independent Auditors' Report	Page 5
Consolidated Balance Sheets	10
Consolidated Statements of Operations	12
Consolidated Statements of Comprehensive Income	15
Consolidated Statements of Changes in Members' Equity	17
Consolidated Statements of Cash Flows	18
Notes to Consolidated Financial Statements	23

Consolidating Information:

Independent Auditors' Report on Consolidating Information	45
Consolidating Balance Sheets	46
Consolidating Statements of Operations	48
Consolidating Statements of Comprehensive Income	51

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Highland Telephone Cooperative, Inc. (a Tennessee corporation) and subsidiary which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations, comprehensive income, changes in member's equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Highland Telephone Cooperative, Inc. and subsidiary as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Highland Telephone Cooperative Inc. and subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Highland Telephone Cooperative, Inc. and subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Highland Telephone Cooperative, Inc. and subsidiary's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2022 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 audits.

Jotherow, Hite, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 21, 2022

CONSOLIDATED BALANCE SHEETS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021 and 2020

	2021	2020
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 18,168,025	\$ 14,563,137
Temporary investments	100,000	703,031
Securities available for sale	16,735,036	16,961,686
Telecommunications accounts receivable, less allowances of \$96,372 in 2021 and \$184,505 in 2020	1,182,112	1,226,238
Other accounts receivable	1,014,684	1,106,543
Materials and supplies	1,699,827	1,522,453
Prepayments	749,546	618,428
Other current assets	83,210	90,657
TOTAL CURRENT ASSETS	\$ 39,732,440	\$ 36,792,173
<u>NONCURRENT ASSETS</u>		
Other investments	\$ 2,610,465	\$ 2,309,020
Nonregulated investments	7,351,866	5,859,918
Deposits	4,023	4,023
TOTAL NONCURRENT ASSETS	\$ 9,966,354	\$ 8,172,961
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service	\$ 95,795,692	\$ 94,635,951
Telecommunications plant under construction	1,630,191	1,257,201
	\$ 97,425,883	\$ 95,893,152
Less accumulated depreciation	66,072,886	63,437,114
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 31,352,997	\$ 32,456,038
	<u>\$ 81,051,791</u>	<u>\$ 77,421,172</u>

See the accompanying notes and independent auditors' report.

CONSOLIDATED BALANCE SHEETS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021 and 2020

	2021	2020
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 564,581	\$ 120,208
Advance billings and payments	1,226,073	1,182,967
Customer deposits	2,792	3,042
Current maturities on long-term debt	494,572	520,794
Accrued taxes	238,687	274,808
Accrued rents	1,041,350	1,108,765
Accrued salaries and wages	395,360	307,780
Accrued compensated absences	2,002,714	1,925,847
Accrued federal and state income taxes	0	260,119
Other current liabilities	752,874	361,405
	<u>6,719,003</u>	<u>6,065,735</u>
TOTAL CURRENT LIABILITIES	\$ 6,719,003	\$ 6,065,735
<u>LONG-TERM DEBT</u>		
Rural Utilities Service - mortgage notes	7,642,072	8,846,191
<u>OTHER LIABILITIES</u>		
Postretirement benefits other than pension	4,801,327	3,780,096
Deferred taxes	306,919	249,133
	<u>5,108,246</u>	<u>4,029,229</u>
TOTAL LIABILITIES	\$ 19,469,321	\$ 18,941,155
<u>MEMBERS' EQUITY</u>		
Patronage equity	\$ 61,360,309	\$ 56,610,895
Accumulated other comprehensive income	222,161	1,869,122
	<u>61,582,470</u>	<u>58,480,017</u>
TOTAL EQUITY	\$ 61,582,470	\$ 58,480,017
	<u>\$ 81,051,791</u>	<u>\$ 77,421,172</u>

CONSOLIDATED STATEMENTS OF OPERATIONS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2021 and 2020

	2021	2020
Operating revenues:		
Local network services revenue	\$ 8,524,299	\$ 7,692,860
Long distance services revenue	419,058	469,862
Network access services revenue	5,694,369	5,776,689
Miscellaneous revenues	5,036,340	4,849,094
Less uncollectible revenue	<u>(40,757)</u>	<u>(139,012)</u>
TOTAL OPERATING REVENUES	\$ 19,633,309	\$ 18,649,493
Operating expenses:		
Plant specific operations expense	\$ 4,881,810	\$ 4,539,429
Plant nonspecific operations expense	1,839,610	2,316,311
Provision for depreciation	4,229,652	4,217,110
Customer operations expense	1,890,345	1,903,907
Corporate operations expense	2,510,323	2,339,596
Operating taxes	<u>316,589</u>	<u>314,465</u>
TOTAL OPERATING EXPENSES	<u>\$ 15,668,329</u>	<u>\$ 15,630,818</u>
OPERATING INCOME	\$ 3,964,980	\$ 3,018,675
Other income (expense):		
Interest income	\$ 410,339	\$ 561,436
Income (loss) from investments	(262,571)	(314,995)
Forgiveness of loan	0	121,252
Gain from sale of investment	127,465	724,413
Nonregulated income (loss)	<u>1,836,173</u>	<u>2,803,110</u>
TOTAL OTHER INCOME (EXPENSE)	\$ 2,111,406	\$ 3,895,216

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, 2021 and 2020

	2021	2020
Fixed charges:		
Interest on long-term debt	\$ 259,437	\$ 290,538
Interest charged to construction - credit	(100,153)	(50,324)
Interest on customer deposits	<u>12</u>	<u>17</u>
TOTAL FIXED CHARGES	<u>\$ 159,296</u>	<u>\$ 240,231</u>
INCOME BEFORE TAXES ON INCOME	\$ 5,917,090	\$ 6,673,660
Taxes on income	<u>406,757</u>	<u>586,840</u>
NET INCOME	<u><u>\$ 5,510,333</u></u>	<u><u>\$ 6,086,820</u></u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2021 and 2020

	2021	2020
Net income	\$ 5,510,333	\$ 6,086,820
Other comprehensive income:		
Unrealized gain (loss) from securities available for sale	(628,490)	436,177
Postretirement benefits other than pension:		
Unrecognized gain (loss)	(878,734)	(331,070)
Unrecognized past service liability	<u>(139,737)</u>	<u>(139,737)</u>
COMPREHENSIVE INCOME	<u>\$ 3,863,372</u>	<u>\$ 6,052,190</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, 2021 and 2020

	Memberships	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
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	\$ 237,632	\$ 56,373,263	\$ 1,869,122	\$ 58,480,017
Net income for 2021	0	5,510,333	0	5,510,333
Unrealized loss on investment of securities available for sale	0	0	(628,490)	(628,490)
Memberships refunded	1,985	0	0	1,985
Capital credits paid, applied and forfeited	0	(762,904)	0	(762,904)
Postretirement benefits other than pension:				
Unamortized prior service cost	0	0	(139,737)	(139,737)
Unrecognized loss	0	0	(878,734)	(878,734)
Balance at December 31, 2021	<u>\$ 239,617</u>	<u>\$ 61,120,692</u>	<u>\$ 222,161</u>	<u>\$ 61,582,470</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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from customers	\$ 19,812,400	\$ 18,661,356
Cash paid to suppliers and employees	(9,976,255)	(11,000,997)
Interest and dividends received	410,339	561,436
Interest paid	(159,296)	(240,231)
Taxes paid	(961,800)	(831,466)
	<u> </u>	<u> </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 9,125,388	\$ 7,150,098
Cash flows from investing activities:		
Construction and acquisition of plant	\$ (3,466,441)	\$ (3,124,948)
Salvage	3,200	13,500
(Increase) Decrease in nonregulated assets	(1,491,948)	(1,105,629)
(Increase) Decrease in securities available for sale	226,650	(562,996)
(Increase) Decrease in other investments	(564,016)	(669,187)
(Increase) Decrease in temporary investments	603,031	(767)
Cash received from sale of investment	127,465	724,413
Increase (Decrease) in reserve for market valuation of securities	(628,490)	436,177
(Increase) Decrease in:		
Materials and supplies	(177,374)	(107,882)
Nonregulated income	1,836,173	2,803,110
	<u> </u>	<u> </u>
NET CASH USED BY INVESTING ACTIVITIES	\$ (3,531,750)	\$ (1,594,209)

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, 2021 and 2020

	2021	2020
Cash flows from financing activities:		
Payments on long-term borrowings	\$ (1,230,341)	\$ (1,280,577)
Postretirement benefits other than pension	2,760	(58,332)
Capital credits paid, applied and forfeited	(762,904)	0
Forgiveness of loan	0	121,252
Increase (Decrease) in:		
Customer deposits	(250)	1,702
Memberships	1,985	8,274
	<u> </u>	<u> </u>
NET CASH USED BY FINANCING ACTIVITIES	<u>\$ (1,988,750)</u>	<u>\$ (1,207,681)</u>
NET INCREASE (DECREASE) IN CASH	\$ 3,604,888	\$ 4,348,208
CASH AT BEGINNING OF YEAR	<u>14,563,137</u>	<u>10,214,929</u>
CASH AT END OF YEAR	<u>\$ 18,168,025</u>	<u>\$ 14,563,137</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2021 and 2020

	2021	2020
Net income (loss)	\$ 5,510,333	\$ 6,086,820
Nonregulated expense (income)	(1,836,173)	(2,803,110)
Loss (income) from investments	262,571	314,995
Forgiveness of loan	0	(121,252)
Gain from sale of equity investment	(127,465)	(724,413)
Deferred tax expense (benefit)	<u>57,786</u>	<u>16,976</u>
Net income from regulated operations	\$ 3,867,052	\$ 2,770,016
Adjustments to reconcile net income from regulated operations to net cash provided by operating activities:		
Depreciation	\$ 4,566,282	\$ 4,641,221
Decrease (Increase) in:		
Customer and other accounts receivable	135,985	(73,986)
Current and accrued assets - other	7,447	36,596
Prepaid expenses	(131,118)	(53,533)
Increase (Decrease) in:		
Accounts payable	444,373	(142,275)
Advance billings and payments	43,106	85,849
Accrued taxes	(36,121)	(22,307)
Accrued rents	(67,415)	81,808
Accrued salaries and compensated absences	164,447	33,974
Accrued federal and state income taxes	(260,119)	75,170
Other current liabilities	<u>391,469</u>	<u>(282,435)</u>
TOTAL ADJUSTMENTS	<u>\$ 5,258,336</u>	<u>\$ 4,380,082</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 9,125,388</u>	<u>\$ 7,150,098</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021 and 2020

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 2021 reflect the results of operations from January 1 through December 31 for the Cooperative, and October 1, 2020 through September 30, 2021 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, 2021 and 2020

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 \$10,511 and \$29,354 at December 31, 2021 and 2020, 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 \$52,187 in 2021 and \$56,483 in 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021 and 2020

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 inscope 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. \$9,217,485 was uninsured at December 31, 2021.

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 \$8,895,000 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, 2021 and 2020

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, 2021 and 2020

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, 2021</u>				
Available for sale	<u>\$10,951,502</u>	<u>\$10,951,502</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total	<u>\$10,951,502</u>	<u>\$10,951,502</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>December 31, 2020</u>				
Available for sale	<u>\$11,130,901</u>	<u>\$11,130,910</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total	<u>\$11,130,901</u>	<u>\$11,130,910</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, 2021 and 2020

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, 2021			
Available for sale:			
U.S. Treasury Notes	\$ 5,564,024	\$ 13,304	\$ 5,577,328
Corporate Bonds	2,544,145	14,342	2,558,488
Mutual Funds	<u>2,826,224</u>	<u>(10,538)</u>	<u>2,815,686</u>
Available for sale	<u>\$10,934,393</u>	<u>\$ 17,109</u>	<u>\$10,951,502</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>

The following is a summary of maturities of securities available for sale as of December 31, 2021:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Amounts maturing in:		
Due in one year or less	\$ 1,058,785	\$ 1,064,409
Due from one to five years	3,583,586	3,593,928
Due from six to ten years	2,075,631	2,071,900
Due beyond ten years	1,390,167	1,405,579
Mutual funds	<u>2,826,224</u>	<u>2,815,686</u>
Total	<u>\$10,934,393</u>	<u>\$10,951,502</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021 and 2020

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, 2021, 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, 2021, 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>2021</u>	<u>2020</u>
Proceeds from sales and redemptions	<u>\$4,919,124</u>	<u>\$2,917,704</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, 2021:

	<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)
Securities available for sale	<u>\$5,783,534</u>	<u>\$5,783,534</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total	<u>\$5,783,534</u>	<u>\$5,783,534</u>	<u>\$ 0</u>	<u>\$ 0</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021 and 2020

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, 2021:			
U.S. Government agencies	\$ 2,868,000	\$ 29,639	\$ 2,897,639
Corporate bonds	1,384,441	24,907	1,409,348
Mutual funds	<u>1,467,339</u>	<u>9,208</u>	<u>1,476,547</u>
Available for Sale	<u>\$ 5,719,780</u>	<u>\$ 63,754</u>	<u>\$ 5,783,534</u>

The following is a summary of maturities of securities available for sale as of September 30, 2021:

	<u>Amortized cost</u>	<u>Fair value</u>
Amounts maturing in:		
Due in one year or less	\$ 382,438	\$ 380,393
Due from one to five years	1,957,886	1,990,593
Due from six to ten years	1,126,860	1,135,852
Due beyond ten years	785,257	800,148
Mutual funds	<u>1,467,339</u>	<u>1,476,548</u>
Total	<u>\$ 5,719,780</u>	<u>\$ 5,783,534</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, 2021, 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, 2021, 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, 2021 and 2020

Note C – (Cont'd):

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

	<u>2021</u>	<u>2020</u>
Proceeds from sales and redemptions	<u>\$2,458,696</u>	<u>\$1,928,929</u>

Note D – Other Investments:

	<u>2021</u>	<u>2020</u>
Foursight Communications, LLC (TriLight)(17.33%)	\$ 789,689	\$ 602,218
Iris Networks (11.97%)	1,780,438	1,666,464
National Rural Telecommunications Cooperative	36,913	36,913
Other investments	<u>3,425</u>	<u>3,425</u>
	<u>\$ 2,610,465</u>	<u>\$ 2,309,020</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>2021</u>	<u>2020</u>
Nonregulated customer premises equipment, paystations, and key systems	\$8,594,528	\$6,913,067
Less accumulated depreciation	<u>(1,764,003)</u>	<u>(1,579,336)</u>
Net nonregulated customer premises equipment, paystations, and key systems	\$6,830,525	\$5,333,731
Nonregulated materials and supplies	<u>521,341</u>	<u>526,187</u>
TOTAL	<u>\$7,351,866</u>	<u>\$5,859,918</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021 and 2020

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>2021</u>	<u>2020</u>
Land	\$ 374,473	\$ 364,473
Buildings	4,119,405	4,177,518
Central office equipment	18,012,909	17,175,086
Poles, cables, and wire	55,023,242	55,190,454
Furniture and office equipment	3,245,024	3,469,071
Vehicles and other work equipment	4,641,088	4,318,552
Intangibles	<u>251,681</u>	<u>282,632</u>
Telecommunications plant in service as contained on the Cooperative's records	<u>\$85,667,822</u>	<u>\$84,977,786</u>

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

	<u>2021</u>	<u>2020</u>
Plant under construction	\$ 257,631	\$ 28,983
Land	248,539	248,539
Buildings and improvements	1,594,039	1,570,128
Furniture	324,648	278,991
Vehicles	85,621	80,098
Tools and work equipment	7,085	7,085
Central office transmission equipment	<u>7,610,307</u>	<u>7,444,340</u>
Telecommunications plant in service as contained on Highland Holdings, Inc. records	<u>\$ 10,127,870</u>	<u>\$ 9,658,164</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021 and 2020

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 4.88% in 2021 and 4.81% in 2020. 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 \$400,103 in 2021 and \$496,626 in 2020.

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>2021</u>	<u>2020</u>
2.268% - 3.444% Rural Development Utilities Programs notes	\$ 8,136,644	\$9,366,985
Less current maturities	<u>494,572</u>	<u>520,794</u>
TOTAL	<u>\$ 7,642,072</u>	<u>\$ 8,846,191</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021 and 2020

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	\$ 494,572
2022	508,741
2023	523,320
2024	538,321
2025	553,758
Beyond 5 years	<u>5,517,932</u>
TOTAL	<u>\$ 8,136,644</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, 2021 and 2020

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>2021</u>	<u>2020</u>
Accumulated postretirement obligation attributable to:		
Retirees	\$ 291,393	\$ 324,063
Other active plan participants	<u>4,509,934</u>	<u>3,456,033</u>
Total accumulated postretirement benefit obligation	\$4,801,327	\$3,780,096
Fair value of plan assets	<u>0</u>	<u>0</u>
Net unfunded status	<u>\$4,801,327</u>	<u>\$3,780,096</u>
Amounts recognized in other comprehensive income:		
Unrecognized net (gains) loss	\$ (512,632)	\$ 366,102
Unrecognized prior service cost	<u>672,332</u>	<u>812,069</u>
Total included in other comprehensive income	<u>\$ 159,700</u>	<u>\$1,178,171</u>

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

	<u>2021</u>	<u>2020</u>
Benefits earned during the year	\$135,535	\$115,968
Interest on accumulated postretirement benefit obligation	<u>112,387</u>	<u>144,066</u>
Postretirement benefit cost	<u>\$247,922</u>	<u>\$260,034</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 2021, 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, 2021 and 2020

Note H – (Cont'd):

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

	<u>2021</u>	<u>2020</u>
Discount rate	2.75%	3.00%
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 2021 was approximately 7.00% 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 2021 net periodic postretirement benefit cost by \$39,168 and would have increased the postretirement benefit obligation as of December 31, 2021 by \$602,604. 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 2021 net periodic postretirement benefit cost by \$32,647 and would have decreased the postretirement benefit obligation as of December 31, 2021 by \$518,337.

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>
2022	\$ 133,004
2023	183,538
2024	216,768
2025	270,399
2026	316,737
Years 2027 – 2031	<u>1,423,363</u>
TOTAL	<u>\$2,543,809</u>

The Company generally does not make an annual contribution to the plan and a contribution is not anticipated in 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021 and 2020

Note I – Pension Plan:

The Cooperative sponsors a union 401(k) savings plan and a non-union 401(k) savings plan in which employees can participate. The company matches employees' contributions based on a percentage of salary contributed by participants. Employer matches amounted to \$673,375 in 2021 and \$659,722 in 2020.

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 2021 and \$19,500 for 2020. The Company matches the amount that each employee contributes to the plan up to 10%. Retirement expenses related to this plan amounted to \$35,062 in 2021 and \$35,611 in 2020.

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>2021</u>	<u>2020</u>
Current income tax expense:		
Federal	\$160,066	\$428,504
State	188,905	141,360
Deferred income tax expense (benefit):		
Federal	7,236	14,378
State	<u>50,550</u>	<u>2,598</u>
Income tax	<u>\$406,757</u>	<u>\$586,840</u>

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

	<u>2021</u>	<u>2020</u>
Deferred tax asset	\$ 3,217	\$ 33,313
Deferred tax liability	<u>(310,136)</u>	<u>(282,446)</u>
	<u>\$(306,919)</u>	<u>\$(249,133)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021 and 2020

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, 2021 and 2020.

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:

In 2020, 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, 2021 and 2020

Note M – COVID-19:

The COVID-19 pandemic developed rapidly in 2020 and continued into 2021, 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 – Revenue from Contracts with Customers:

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services to its customers. The Company's revenue consists of sales of communication services and video services provided to the customers.

The Company offers landline telephone, including calling features, long distance and broadband connectivity (internet), network access revenue and video services on a standalone basis or in bundled service packages. Each service is considered distinct and therefore, are accounted for as separate performance obligations. Local service revenue is recognized over time according to the contract, as the customer simultaneously receives and consumes the benefits provided by the Company as the Company performs. Unbundled landline telephone requires no written contract. Customary terms require payment within 20 days from the bill date, and for customers, deposits may be required in advance of service. Billing is completed at the beginning of the month of service.

The following table presents the Company's revenues disaggregated by the timing of such service revenue recognized during the year ended December 31, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Local service revenue	\$ 8,524,299	\$ 7,692,860
Long distance revenue	419,058	469,862
Network access revenue	5,694,369	5,776,689
Broadband revenue	10,474,865	8,753,698
Video revenue	2,964,989	2,998,027

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021 and 2020

Note N – (Cont'd)

These amounts do not include revenues outside the scope of Topic 606. Therefore, revenue line items in this table may not agree to amounts presented in the statements of operations and retained earnings.

Accounting policies

For sales and other similar taxes collected from customers on behalf of third parties, the Company is applying an accounting policy election, which permits an entity to exclude from revenue (transaction price) any amounts collected from customers on behalf of governmental authorities, such as sales taxes, use tax and other similar taxes collected concurrent with revenue-producing activities. Therefore, the Company presents revenue net of sales taxes and similar revenue-based taxes.

Practical Expedient

The Company elected to use the portfolio approach to evaluate contracts. As a practical expedient, a portfolio approach is permitted if it is reasonably expected that the approach's impact on the financial statements will not be materially different from the impact of applying the revenue standard on an individual contract basis. In order to use the portfolio approach, an entity must reasonably expect that the accounting result will not be materially different from the result of applying the standard to the individual contracts.

For significant financing components, the Company elected a practical expedient, which allows an entity to recognize the promised amount of consideration without adjusting for the time value of money if the contract has a duration of one year or less, or if the reason the contract extended beyond one year is because the timing of delivery of the product is at the customer's discretion. As the Company's contracts are typically less than one year in length and do not have significant financing components, we have not presented revenue on a present value basis.

For sales and other similar taxes collected from customers on behalf of third parties, the company elected a practical expedient, which permits entities to exclude from the transaction price all sales taxes that are assessed by a governmental authority and that are "imposed on, and concurrent with a specific revenue-producing transaction and collected by the entity from a customer".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021 and 2020

Note N – (Cont'd)

For measuring progress for revenue recognized over time, the Company elected to use the right to invoice practical expedient. This practical expedient allows an entity to recognize revenue in the amount of consideration to which the entity has the right to invoice when the amount that the entity has the right to invoice corresponds directly to the value transferred to the customer. That is, the invoice practical expedient cannot be applied in all circumstances because the right to invoice a certain amount does not always correspond to the progress toward satisfying the performance obligation. Therefore, an entity should demonstrate its ability to apply the invoice practical expedient to performance obligations satisfied over time.

Note O – 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, 2021 and before the date these financial statements were available to be issued, March 21, 2022, and determined that no additional disclosures are necessary.

CONSOLIDATING INFORMATION



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, 2021 and 2020, and our report thereon dated March 21, 2022, 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 as a whole. The consolidating information on pages 46 through 51 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 as a whole.

Totherow, Haile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 21, 2022

CONSOLIDATING BALANCE SHEETS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash - general	\$ 11,793,327	\$ 6,374,698	\$ 0	\$ 18,168,025
Temporary investments	100,000	0	0	100,000
Securities available for sale	10,951,502	5,783,534	0	16,735,036
Telecommunications accounts receivable	1,182,112	762,538	(762,538)	1,182,112
Other accounts receivable	796,257	0	218,427	1,014,684
Materials and supplies	1,699,827	0	0	1,699,827
Prepayments	545,886	203,660	0	749,546
Due from affiliate	2,167,605	0	(2,167,605)	0
Other current assets	63,466	19,744	0	83,210
TOTAL CURRENT ASSETS	\$ 29,299,982	\$ 13,144,174	\$ (2,711,716)	\$ 39,732,440
<u>NONCURRENT ASSETS</u>				
Investment in subsidiaries	\$ 14,219,743	\$ 0	\$ (14,219,743)	\$ 0
Other investments	1,783,863	826,602	0	2,610,465
Nonregulated investments	7,351,866	0	0	7,351,866
Deposits	2,573	1,450	0	4,023
TOTAL NONCURRENT ASSETS	\$ 23,358,045	\$ 828,052	\$ (14,219,743)	\$ 9,966,354
<u>PROPERTY, PLANT AND EQUIPMENT</u>				
Telecommunications plant in service	\$ 85,667,822	\$ 10,127,870	\$ 0	\$ 95,795,692
Telecommunications plant under construction	1,630,191	0	0	1,630,191
	\$ 87,298,013	\$ 10,127,870	\$ 0	\$ 97,425,883
Less accumulated depreciation	58,866,850	7,206,036	0	66,072,886
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 28,431,163	\$ 2,921,834	\$ 0	\$ 31,352,997
	<u>\$ 81,089,190</u>	<u>\$ 16,894,060</u>	<u>\$ (16,931,459)</u>	<u>\$ 81,051,791</u>

CONSOLIDATING BALANCE SHEETS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2021

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
<u>LIABILITIES AND MEMBERS' EQUITY</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable	\$ 1,099,747	\$ 227,372	\$ (762,538)	\$ 564,581
Advance billings and payments	1,162,604	63,469	0	1,226,073
Customer deposits	2,792	0	0	2,792
Current maturities on long-term debt	494,572	0	0	494,572
Accrued taxes	208,687	30,000	0	238,687
Accrued rent	1,041,350	0	0	1,041,350
Accrued salaries and wages	395,360	0	0	395,360
Accrued compensated absences	2,002,714	0	0	2,002,714
Accrued federal and state income taxes	0	0	0	0
Advance from related company	0	1,949,178	(1,949,178)	0
Other current liabilities	700,847	52,027	0	752,874
TOTAL CURRENT LIABILITIES	\$ 7,108,673	\$ 2,322,046	\$ (2,711,716)	\$ 6,719,003
<u>LONG-TERM DEBT</u>				
Rural Utilities Service	7,642,072	0	0	7,642,072
<u>OTHER LIABILITIES</u>				
Postretirement benefits other than pension	4,801,327	0	0	4,801,327
Deferred taxes	0	306,919	0	306,919
TOTAL LIABILITIES	\$ 19,552,072	\$ 2,628,965	\$ (2,711,716)	\$ 19,469,321
<u>MEMBERS' EQUITY</u>				
Memberships	\$ 239,617	\$ 0	\$ 0	\$ 239,617
Patronage capital	61,120,692	0	0	61,120,692
Accumulated other comprehensive income	176,809	45,352	0	222,161
Capital stock	0	200,000	(200,000)	0
Paid-in capital	0	8,553,643	(8,553,643)	0
Retained earnings	0	5,466,100	(5,466,100)	0
TOTAL MEMBERS' EQUITY	\$ 61,537,118	\$ 14,265,095	\$ (14,219,743)	\$ 61,582,470
	<u>\$ 81,089,190</u>	<u>\$ 16,894,060</u>	<u>\$ (16,931,459)</u>	<u>\$ 81,051,791</u>

CONSOLIDATING STATEMENTS OF OPERATIONS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the year ended December 31, 2021

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
Operating revenues:				
Local network services revenue	\$ 8,524,299	\$ 0	\$ 0	\$ 8,524,299
Long distance services revenue	0	419,058	0	419,058
Network access services revenue	5,694,369	0	0	5,694,369
Broadband revenue	0	10,474,865	(10,474,865)	0
Video revenue	0	2,964,989	(2,964,989)	0
Miscellaneous revenues	6,430,950	216,305	(1,610,915)	5,036,340
Less uncollectible revenue	70,684	(111,441)	0	(40,757)
TOTAL OPERATING REVENUES	\$ 20,720,302	\$13,963,776	\$ (15,050,769)	\$ 19,633,309
Operating expenses:				
Plant specific operations expense	\$ 4,881,810	\$ 1,877,120	\$ (1,877,120)	\$ 4,881,810
Plant nonspecific operations expense	1,839,610	58,465	(58,465)	1,839,610
Provision for depreciation	4,166,179	400,103	(336,630)	4,229,652
Customer operations expense	1,890,345	5,200,344	(5,200,344)	1,890,345
Corporate operations expense	4,204,933	2,493,775	(4,188,385)	2,510,323
Operating taxes	316,589	112,358	(112,358)	316,589
TOTAL OPERATING EXPENSES	\$ 17,299,466	\$10,142,165	\$ (11,773,302)	\$ 15,668,329
OPERATING INCOME	\$ 3,420,836	\$ 3,821,611	\$ (3,277,467)	\$ 3,964,980
Other income (expense):				
Interest income	\$ 210,617	\$ 199,722	\$ 0	\$ 410,339
Nonregulated income (loss)	607,894	(2,049,188)	3,277,467	1,836,173
Income from subsidiaries	1,300,415	0	(1,300,415)	0
Gain from sale of investment	129,867	(2,402)	0	127,465
Income (loss) from investment	0	(262,571)	0	(262,571)
TOTAL OTHER INCOME (EXPENSE)	\$ 2,248,793	\$ (2,114,439)	\$ 1,977,052	\$ 2,111,406

CONSOLIDATING STATEMENTS OF OPERATIONS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the year ended December 31, 2021

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
Fixed charges:				
Interest on long-term debt	\$ 259,437	\$ 0	\$ 0	\$ 259,437
Interest charged to construction - credit	(100,153)	0	0	(100,153)
Interest on customer deposits	12	0	0	12
TOTAL FIXED CHARGES	\$ 159,296	\$ 0	\$ 0	\$ 159,296
Taxes on income	\$ 0	\$ 406,757	\$ 0	\$ 406,757
NET INCOME	\$ 5,510,333	\$ 1,300,415	\$ (1,300,415)	\$ 5,510,333

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the year ended December 31, 2021

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
Net income	\$ 5,510,333	\$ 1,300,415	\$ (1,300,415)	\$ 5,510,333
Other comprehensive income:				
Unrealized gain from securities available for sale	(477,990)	(150,500)	0	(628,490)
Postretirement benefits other than pension:				
Unrecognized loss	(878,734)	0	0	(878,734)
Unrecognized past service liability	<u>(139,737)</u>	<u>0</u>	<u>0</u>	<u>(139,737)</u>
COMPREHENSIVE INCOME	<u>\$ 4,013,872</u>	<u>\$ 1,149,915</u>	<u>\$ (1,300,415)</u>	<u>\$ 3,863,372</u>

