

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2023 and 2022

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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.....	43
Consolidating Balance Sheets	44
Consolidating Statements of Operations	46
Consolidating Statements of Comprehensive Income.....	48

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TOTHEROW HAILE & WELCH, PLLC

Certified Public Accountants

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, 2023 and 2022, 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, 2023 and 2022, and the results of their operations and their 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.

Responsibilities 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 29, 2024 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, Faile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 29, 2024

CONSOLIDATED BALANCE SHEETS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

	2023	2022
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 19,794,921	\$ 19,674,267
Temporary investments	100,000	100,000
Marketable securities	17,879,500	17,122,386
Telecommunications accounts receivable, less allowances of \$83,639 in 2023 and \$66,388 in 2022	1,437,144	1,282,499
Other accounts receivable	1,286,305	1,180,669
Grant receivable	1,364,981	0
Materials and supplies	2,358,364	1,977,006
Prepayments	715,084	624,058
Other current assets	106,761	147,993
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TOTAL CURRENT ASSETS	\$ 45,043,060	\$ 42,108,878
<u>NONCURRENT ASSETS</u>		
Other investments	\$ 3,167,418	\$ 3,030,443
Nonregulated investments	9,511,945	8,506,018
Deposits	4,223	4,023
	<hr/>	<hr/>
TOTAL NONCURRENT ASSETS	\$ 12,683,586	\$ 11,540,484
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service	\$ 103,816,452	\$ 99,617,965
Telecommunications plant under construction	5,226,425	1,294,921
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	\$ 109,042,877	\$ 100,912,886
Less accumulated depreciation	75,441,921	70,382,915
	<hr/>	<hr/>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 33,600,956	\$ 30,529,971
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	\$ 91,327,602	\$ 84,179,333
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See the accompanying notes and independent auditors' report.

CONSOLIDATED BALANCE SHEETS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

	2023	2022
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 996,807	\$ 480,715
Advance billings and payments	1,311,396	1,260,084
Customer deposits	3,942	3,142
Current maturities on long-term debt	523,320	508,741
Accrued taxes	185,738	236,852
Accrued rent	1,177,718	1,080,231
Accrued salaries and wages	321,258	297,563
Accrued compensated absences	2,237,470	2,012,511
Other current liabilities	295,871	442,212
	<u>7,053,520</u>	<u>6,322,051</u>
TOTAL CURRENT LIABILITIES	\$ 7,053,520	\$ 6,322,051
 <u>LONG-TERM DEBT</u>		
Rural Utilities Service - mortgage notes	6,609,450	7,136,396
 <u>OTHER LIABILITIES</u>		
Postretirement benefits other than pension	4,250,675	3,912,810
Deferred grant revenue	2,386,217	714,641
Deferred taxes	313,037	234,672
	<u>6,950,929</u>	<u>4,862,123</u>
TOTAL LIABILITIES	\$ 20,612,899	\$ 18,320,570
 <u>MEMBERS' EQUITY</u>		
Patronage equity	\$ 71,282,864	\$ 66,497,813
Accumulated other comprehensive income	(568,161)	(639,050)
	<u>70,714,703</u>	<u>65,858,763</u>
TOTAL MEMBERS' EQUITY	\$ 70,714,703	\$ 65,858,763
	 <u>91,327,602</u>	 <u>84,179,333</u>

CONSOLIDATED STATEMENTS OF OPERATIONS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2023 and 2022

	2023	2022
Operating revenues:		
Local network services revenue	\$ 9,489,979	\$ 9,270,651
Long distance services revenue	200,032	386,415
Network access services revenue	5,331,455	5,410,174
Miscellaneous revenues	4,950,912	5,039,758
Less uncollectible revenue	<u>(128,128)</u>	<u>(88,565)</u>
TOTAL OPERATING REVENUES	\$ 19,844,250	\$ 20,018,433
Operating expenses:		
Plant specific operations expense	\$ 5,982,368	\$ 5,478,142
Plant nonspecific operations expense	2,122,367	2,031,177
Provision for depreciation	4,532,782	4,314,220
Customer operations expense	2,047,534	1,976,037
Corporate operations expense	2,723,371	2,532,856
Operating taxes	<u>230,211</u>	<u>306,834</u>
TOTAL OPERATING EXPENSES	<u>\$ 17,638,633</u>	<u>\$ 16,639,266</u>
OPERATING INCOME	\$ 2,205,617	\$ 3,379,167
Other income (expense):		
Interest and dividend income	\$ 1,230,601	\$ 505,747
Loss from investments	0	(74,407)
Unrealized gain (loss) on marketable securities (stocks)	238,434	(131,095)
Realized gain (loss) on marketable securities	(232,260)	(51,398)
Nonregulated income	<u>1,772,175</u>	<u>2,021,076</u>
TOTAL OTHER INCOME	\$ 3,008,950	\$ 2,269,923

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, 2023 and 2022

	2023	2022
Fixed charges:		
Interest on long-term debt	\$ 207,019	\$ 227,878
Interest charged to construction - credit	(99,979)	(118,457)
Interest on customer deposits	<u>33</u>	<u>7</u>
TOTAL FIXED CHARGES	<u>\$ 107,073</u>	<u>\$ 109,428</u>
INCOME BEFORE TAXES ON INCOME	\$ 5,107,494	\$ 5,539,662
Taxes on income	<u>327,283</u>	<u>405,833</u>
NET INCOME	<u>\$ 4,780,211</u>	<u>\$ 5,133,829</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2023 and 2022

	2023	2022
Net income	\$ 4,780,211	\$ 5,133,829
Other comprehensive income:		
Unrealized gain (loss) from marketable securities (bonds)	364,540	(1,770,473)
Postretirement benefits other than pension:		
Unrecognized gain (loss)	(153,914)	1,048,999
Unrecognized past service liability	<u>(139,737)</u>	<u>(139,737)</u>
COMPREHENSIVE INCOME	<u>\$ 4,851,100</u>	<u>\$ 4,272,618</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, 2023 and 2022

	Memberships	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2021	\$ 239,617	\$ 61,120,692	\$ 222,161	\$ 61,582,470
Net income for 2022	0	5,133,829	0	5,133,829
Unrealized loss on investment of marketable securities (bonds)	0	0	(1,770,473)	(1,770,473)
Memberships issued over refunded	3,675	0	0	3,675
Postretirement benefits other than pension:				
Unamortized prior service cost	0	0	(139,737)	(139,737)
Unrecognized loss	0	0	1,048,999	1,048,999
Balance at December 31, 2022	\$ 243,292	\$ 66,254,521	\$ (639,050)	\$ 65,858,763
Net income for 2023	0	4,780,211	0	4,780,211
Unrealized gain (loss) on investment of marketable securities (bonds)	0	0	364,540	364,540
Memberships issued over refunded	4,840	0	0	4,840
Postretirement benefits other than pension:				
Unamortized prior service cost	0	0	(139,737)	(139,737)
Unrecognized gain (loss)	0	0	(153,914)	(153,914)
Balance at December 31, 2023	<u>\$ 248,132</u>	<u>\$ 71,034,732</u>	<u>\$ (568,161)</u>	<u>\$ 70,714,703</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, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash received from customers	\$ 19,941,876	\$ 19,777,120
Cash paid to suppliers and employees	(11,407,831)	(11,640,897)
Cash received from grants	0	723,593
Interest and dividends received	1,230,601	505,747
Interest paid	(107,073)	(109,428)
Taxes paid	(530,243)	(786,749)
	<u> </u>	<u> </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 9,127,330	\$ 8,469,386
Cash flows from investing activities:		
Construction and acquisition of plant	\$ (8,405,478)	\$ (4,251,451)
(Increase) Decrease in nonregulated assets	(1,005,927)	(1,154,152)
(Increase) Decrease in marketable securities	(757,114)	(387,350)
(Increase) Decrease in other investments	(136,975)	(494,385)
(Increase) Decrease in deposits	(200)	0
Cash received (paid) from sale of investment	(232,260)	(51,398)
Increase (Decrease) in reserve for market valuation of securities	602,974	(1,901,568)
(Increase) Decrease in:		
Materials and supplies	(381,358)	(277,179)
Nonregulated income	1,772,175	2,021,076
	<u> </u>	<u> </u>
NET CASH USED BY INVESTING ACTIVITIES	\$ (8,544,163)	\$ (6,496,407)

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, 2023 and 2022

	2023	2022
Cash flows from financing activities:		
Payments on long-term borrowings	\$ (512,367)	\$ (491,507)
Postretirement benefits other than pension	44,214	20,745
Increase (Decrease) in:		
Customer deposits	800	350
Memberships	<u>4,840</u>	<u>3,675</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>\$ (462,513)</u>	<u>\$ (466,737)</u>
NET INCREASE IN CASH	\$ 120,654	\$ 1,506,242
CASH AT BEGINNING OF YEAR	<u>19,674,267</u>	<u>18,168,025</u>
CASH AT END OF YEAR	<u>\$ 19,794,921</u>	<u>\$ 19,674,267</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the years ended December 31, 2023 and 2022

	2023	2022
Net income	\$ 4,780,211	\$ 5,133,829
Nonregulated expense (income)	(1,772,175)	(2,021,076)
Loss (income) from investments	0	74,407
Unrealized (gain) loss on marketable securities (stocks)	(238,434)	131,095
Realized (gain) loss on marketable securities	232,260	51,398
Deferred tax expense (benefit)	78,365	(72,247)
Net income from regulated operations	\$ 3,080,227	\$ 3,297,406
Adjustments to reconcile net income from regulated operations to net cash provided by operating activities:		
Depreciation	\$ 5,334,493	\$ 5,074,477
Decrease (Increase) in:		
Customer and other accounts receivable	(260,281)	(266,372)
Grant receivable	(1,364,981)	0
Current and accrued assets - other	41,232	(64,783)
Prepaid expenses	(91,026)	125,488
Increase (Decrease) in:		
Accounts payable	516,092	(83,866)
Advance billings and payments	51,312	34,011
Accrued taxes	(51,114)	(1,835)
Accrued rent	97,487	38,881
Accrued salaries and compensated absences	248,654	(88,000)
Deferred grant revenue	1,671,576	714,641
Other current liabilities	(146,341)	(310,662)
TOTAL ADJUSTMENTS	\$ 6,047,103	\$ 5,171,980
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 9,127,330	\$ 8,469,386

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

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 2023 reflect the results of operations from January 1 through December 31 for the Cooperative, and October 1, 2022 through September 30, 2023 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.
- (4) Materials and supplies are valued at average cost accumulated in perpetual inventory records, which are periodically adjusted to physical counts.
- (5) Compensated absences are accrued as the benefits are earned by employees according to an established policy.
- (6) Revenue is recorded upon the billing of telecommunications services net of sales tax.
- (7) Advertising costs are expensed as incurred and included in customer operations. Advertising expense amounted to \$167,552 in 2023 and \$153,365 in 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

Note A – (Cont'd):

- (8) 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 \$4,590 and \$3,092 at December 31, 2023 and 2022, 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.

- (9) 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.
- (10) Various amounts in the financial statements have been reclassified for comparative purposes.
- (11) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

Note A – (Cont'd):

- (12) In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes existing guidance for accounting for leases under Topic 840, Leases. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU 2018-10, Codification Improvements to Topic 842, Leases; ASU 2018-11, Leases (Topic 842): Targeted Improvements; ASU 2018-20, Narrow-scope Improvements for Lessors; and ASU 2019-01, Leases (Topic 842): Codification Improvements. The most significant change in the new leasing guidance is the requirement to recognize right-to-use (ROU) assets and lease liabilities for operating leases on the balance sheet.

The Company elected to adopt this ASU effective January 1, 2022 and utilized all of the available practical expedients. The adoption did not have a material impact on the Company's balance sheet or income statement.

- (13) In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016" or "ASC 326"). ASU 2016-13 revises the accounting requirements related to the measurement of credit losses and requires organizations to measure all expected credit losses for financial assets based on historical experience, current conditions, and reasonable and supportable forecasts about collectability. Assets must be presented in the financial statements at the net amount expected to be collected.

The Company elected to adopt this ASU effective January 1, 2023 and utilized all of the available practical expedients. The adoption did not have a material impact on the Company's balance sheet and income statement.

Note B – Analysis of the Allowance for Credit Losses:

Balance at the beginning of the year	\$ 66,388
Provision for expected credit losses in the current year	66,123
Collections of accounts receivable previously written off	83,877
Write-offs against the allowance	<u>(132,749)</u>
Balance at the end of the year	<u>\$ 83,639</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

Note C – Concentrations of Credit Risks:

Deposits

The Cooperative and Subsidiary maintains their cash in several commercial banks located within their trade area. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 on accounts. \$16,690,728 was uninsured at December 31, 2023.

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 \$12,267,348 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.

Note D – Marketable securities consist of United States government agency bonds, corporate bonds, mutual funds, and stocks.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

Note D – (Cont'd):

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

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2023</u>				
Stocks	\$ 2,087,814	\$ 2,087,814		
Available for sale	<u>10,619,750</u>	<u>10,619,750</u>	\$ 0	\$ 0
Total	<u>\$12,707,564</u>	<u>\$12,707,564</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>December 31, 2022</u>				
Stocks	\$ 1,820,563	\$ 1,820,563		
Available for sale	<u>10,095,723</u>	<u>10,095,723</u>	\$ 0	\$ 0
Total	<u>\$11,916,286</u>	<u>\$11,916,286</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, 2023 and 2022

Note D – (Cont'd):

Investments in debt securities consist of the following:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains (Losses)</u>	<u>Estimated Market Value</u>
December 31, 2023			
Available for sale:			
U.S. Treasury Notes	\$ 6,185,012	\$ (334,239)	\$ 5,850,773
Corporate Bonds	2,255,596	(167,384)	2,088,212
Mutual Funds	<u>3,004,574</u>	<u>(323,809)</u>	<u>2,680,765</u>
Available for sale	<u>\$11,445,182</u>	<u>\$ (825,432)</u>	<u>\$10,619,750</u>
December 31, 2022			
Available for sale:			
U.S. Treasury Notes	\$ 6,103,673	\$ (521,966)	\$ 5,581,707
Corporate Bonds	2,282,823	(305,212)	1,977,611
Mutual Funds	<u>2,907,677</u>	<u>(371,272)</u>	<u>2,536,405</u>
Available for sale	<u>\$11,294,173</u>	<u>(\$1,198,450)</u>	<u>\$10,095,723</u>

The following is a summary of maturities of securities available for sale as of December 31, 2023:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Amounts maturing in:		
Due in one year or less	\$ 882,920	\$ 871,191
Due from one to five years	2,954,450	2,826,333
Due from six to ten years	3,037,326	2,834,629
Due beyond ten years	1,565,912	1,406,832
Mutual funds	<u>3,004,574</u>	<u>2,680,765</u>
Total	<u>\$11,445,182</u>	<u>\$10,619,750</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

Note D – (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, 2023, 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, 2023, 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 and equity securities were as follows:

	<u>2023</u>	<u>2022</u>
Proceeds from sales and redemptions	<u>\$2,318,473</u>	<u>\$4,924,988</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, 2023:

	<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>\$5,171,936</u>	<u>\$5,171,936</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total	<u>\$5,171,936</u>	<u>\$5,171,936</u>	<u>\$ 0</u>	<u>\$ 0</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

Note D – (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, 2023:			
U.S. Government agencies	\$3,233,343	\$(297,162)	\$2,936,181
Corporate bonds	1,118,697	(157,583)	961,114
Mutual funds	<u>1,521,229</u>	<u>(246,588)</u>	<u>1,274,641</u>
Available for Sale	<u>\$5,873,269</u>	<u>\$(701,333)</u>	<u>\$5,171,936</u>

The following is a summary of maturities of securities available for sale as of September 30, 2023:

	<u>Amortized cost</u>	<u>Fair value</u>
Amounts maturing in:		
Due in one year or less	\$ 463,981	\$ 459,702
Due from one to five years	1,607,870	1,481,114
Due from six to ten years	1,534,295	1,338,537
Due beyond ten years	745,894	617,942
Mutual funds	<u>1,521,229</u>	<u>1,274,641</u>
Total	<u>\$5,873,269</u>	<u>\$5,171,936</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, 2023, 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, 2023, 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>2023</u>	<u>2022</u>
Proceeds from sales and redemptions	<u>\$1,079,850</u>	<u>\$2,709,362</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

Note E – Other Investments:

	<u>2023</u>	<u>2022</u>
Foursight Communications, LLC (TriLight)(17.33%)	\$ 865,155	\$ 975,282
Iris Networks (11.97%)	2,261,925	2,014,823
National Rural Telecommunications Cooperative	36,913	36,913
Other investments	<u>3,425</u>	<u>3,425</u>
	<u>\$3,167,418</u>	<u>\$ 3,030,443</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 F – Nonregulated Investments:

	<u>2023</u>	<u>2022</u>
Nonregulated customer premises equipment, paystations, and key systems	\$11,374,188	\$10,129,163
Less accumulated depreciation	<u>(2,650,274)</u>	<u>(2,355,901)</u>
Net nonregulated customer premises equipment, paystations, and key systems	\$8,723,914	\$ 7,773,262
Nonregulated materials and supplies	<u>788,031</u>	<u>732,756</u>
	TOTAL <u>\$ 9,511,945</u>	<u>\$ 8,506,018</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

Note G – 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>2023</u>	<u>2022</u>
Land	\$ 377,998	\$ 377,998
Buildings	4,332,474	4,144,404
Central office equipment	20,326,771	18,901,978
Poles, cables, and wire	57,112,157	55,299,664
Furniture and office equipment	3,637,702	3,448,341
Vehicles and other work equipment	5,962,240	5,547,266
Intangibles	<u>251,681</u>	<u>251,681</u>
Telecommunications plant in service as contained on the Cooperative's records	<u>\$92,001,023</u>	<u>\$87,971,332</u>

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

	<u>2023</u>	<u>2022</u>
Plant under construction	\$ 4,290,714	\$ 224,794
Land	272,170	248,539
Buildings and improvements	1,572,767	1,596,398
Furniture	348,836	348,836
Vehicles	138,762	85,621
Tools and work equipment	7,085	7,085
Central office transmission equipment	<u>9,475,809</u>	<u>9,135,359</u>
Telecommunications plant in service as contained on Highland Holdings, Inc. records	<u>\$16,106,143</u>	<u>\$11,646,632</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

Note G – (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 4.93% in 2023 and 4.93% in 2022. 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 \$446,521 in 2023 and \$371,963 in 2022.

Note H – 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>2023</u>	<u>2022</u>
2.268% - 3.235% Rural Development Utilities Programs notes	\$7,132,770	\$7,645,137
Less current maturities	<u>523,320</u>	<u>508,741</u>
TOTAL	<u>\$6,609,450</u>	<u>\$7,136,396</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

Note H – (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>
2024	\$ 523,320
2025	538,321
2026	553,758
2027	569,642
2028	585,988
Beyond 5 years	<u>4,361,741</u>
TOTAL	<u>\$7,132,770</u>

Note I – 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, 2023 and 2022

Note I – (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>2023</u>	<u>2022</u>
Accumulated postretirement obligation attributable to:		
Retirees	\$ 477,951	\$ 558,401
Other active plan participants	<u>3,772,724</u>	<u>3,354,409</u>
Total accumulated postretirement benefit obligation	\$4,250,675	\$3,912,810
Fair value of plan assets	<u>0</u>	<u>0</u>
Net unfunded status	<u>\$4,250,675</u>	<u>\$3,912,810</u>
Amounts recognized in other comprehensive income:		
Unrecognized net (gains) loss	\$ 382,453	\$ 536,367
Unrecognized prior service cost	<u>392,858</u>	<u>532,595</u>
Total included in other comprehensive income	<u>\$ 775,311</u>	<u>\$1,068,962</u>

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

	<u>2023</u>	<u>2022</u>
Benefits earned during the year	\$123,498	\$161,530
Interest on accumulated postretirement benefit obligation	<u>191,062</u>	<u>127,247</u>
Postretirement benefit cost	<u>\$314,560</u>	<u>\$288,777</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 2023, 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, 2023 and 2022

Note I – (Cont'd):

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

	<u>2023</u>	<u>2022</u>
Discount rate	4.80%	4.90%
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 2023 was approximately 6.00% grading down to an ultimate rate in 2027 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 2023 net periodic postretirement benefit cost by \$41,044 and would have increased the postretirement benefit obligation as of December 31, 2023 by \$458,785. 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 2023 net periodic postretirement benefit cost by \$34,795 and would have decreased the postretirement benefit obligation as of December 31, 2023 by \$400,342.

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>
2024	\$ 208,989
2025	255,281
2026	313,304
2027	338,003
2028	344,512
Years 2029 – 2033	<u>1,534,589</u>
TOTAL	<u>\$2,994,678</u>

The Company generally does not make an annual contribution to the plan and a contribution is not anticipated in 2024.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

Note J – 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 \$757,859 in 2023 and \$701,988 in 2022.

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 \$20,500 for 2023 and \$19,500 for 2022. The Company matches the amount that each employee contributes to the plan up to 10%. Retirement expenses related to this plan amounted to \$44,771 in 2023 and \$37,240 in 2022.

Note K – 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>2023</u>	<u>2022</u>
Current income tax expense:		
Federal	\$194,626	\$358,563
State	54,291	119,517
Deferred income tax expense (benefit):		
Federal	72,234	(26,394)
State	<u>6,132</u>	<u>(45,853)</u>
Income tax	<u>\$327,283</u>	<u>\$405,833</u>

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

	<u>2023</u>	<u>2022</u>
Deferred tax asset	\$ 183,293	\$ 181,670
Deferred tax liability	<u>(496,330)</u>	<u>(416,342)</u>
	<u><u>\$(\$313,037)</u></u>	<u><u>\$(\$234,672)</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

Note K – (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. 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, 2023 and 2022.

Note L – 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, 2022 to September 30, 2026 between the Cooperative and the Communications Workers of America.

Note M – 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

Note M – (Cont'd):

The following table presents the Company's revenues disaggregated by the timing of such service revenue recognized during the year ended December 31, 2023 and 2022.

	<u>2023</u>	<u>2022</u>
Local service revenue	\$ 9,489,979	\$ 9,270,651
Long distance revenue	200,032	386,415
Network access revenue	5,331,455	5,410,174
Broadband revenue	13,641,806	12,191,939
Video revenue	2,627,768	2,796,845

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 polices

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023 and 2022

Note M – (Cont'd):

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".

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 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, 2023 and before the date these financial statements were available to be issued, March 29, 2024, 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, 2023 and 2022, and our report thereon dated March 29, 2024, 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 29, 2024

CONSOLIDATING BALANCE SHEETS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash - general	\$ 14,788,154	\$ 5,006,767	\$ 0	\$ 19,794,921
Temporary investments	100,000	0	0	100,000
Marketable securities	12,707,564	5,171,936	0	17,879,500
Telecommunications accounts receivable	1,435,599	759,090	(757,545)	1,437,144
Other accounts receivable	920,083	0	366,222	1,286,305
Grant receivable	0	1,364,981	0	1,364,981
Materials and supplies	2,358,364	0	0	2,358,364
Prepayments	596,327	118,757	0	715,084
Due from affiliate	2,447,971	0	(2,447,971)	0
Other current assets	80,892	25,869	0	106,761
	<u>\$ 35,434,954</u>	<u>\$ 12,447,400</u>	<u>\$ (2,839,294)</u>	<u>\$ 45,043,060</u>
<u>NONCURRENT ASSETS</u>				
Investment in subsidiaries	\$ 16,466,135	\$ 0	\$ (16,466,135)	\$ 0
Other investments	2,265,350	902,068	0	3,167,418
Nonregulated investments	9,511,945	0	0	9,511,945
Deposits	2,573	1,650	0	4,223
	<u>\$ 28,246,003</u>	<u>\$ 903,718</u>	<u>\$ (16,466,135)</u>	<u>\$ 12,683,586</u>
<u>PROPERTY, PLANT AND EQUIPMENT</u>				
Telecommunications plant in service	\$ 92,001,023	\$ 11,815,429	\$ 0	\$ 103,816,452
Telecommunications plant under construction	935,711	4,290,714	0	5,226,425
	<u>\$ 92,936,734</u>	<u>\$ 16,106,143</u>	<u>\$ 0</u>	<u>\$ 109,042,877</u>
Less accumulated depreciation	67,424,925	8,016,996	0	75,441,921
	<u>\$ 25,511,809</u>	<u>\$ 8,089,147</u>	<u>\$ 0</u>	<u>\$ 33,600,956</u>
	<u>\$ 89,192,766</u>	<u>\$ 21,440,265</u>	<u>\$ (19,305,429)</u>	<u>\$ 91,327,602</u>

CONSOLIDATING BALANCE SHEETS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

December 31, 2023

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
<u>LIABILITIES AND MEMBERS' EQUITY</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable	\$ 1,185,207	\$ 569,145	\$ (757,545)	\$ 996,807
Advance billings and payments	1,252,653	58,743	0	1,311,396
Customer deposits	3,942	0	0	3,942
Current maturities on long-term debt	523,320	0	0	523,320
Accrued taxes	155,738	30,000	0	185,738
Accrued rent	1,177,718	0	0	1,177,718
Accrued salaries and wages	321,258	0	0	321,258
Accrued compensated absences	2,237,470	0	0	2,237,470
Advance from related company	0	2,081,749	(2,081,749)	0
Other current liabilities	242,592	53,279	0	295,871
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	\$ 7,099,898	\$ 2,792,916	\$ (2,839,294)	\$ 7,053,520
<u>LONG-TERM DEBT</u>				
Rural Utilities Service	6,609,450	0	0	6,609,450
<u>OTHER LIABILITIES</u>				
Postretirement benefits other than pension	4,250,675	0	0	4,250,675
Deferred grant revenue	0	2,386,217	0	2,386,217
Deferred taxes	0	313,037	0	313,037
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	\$ 17,960,023	\$ 5,492,170	\$ (2,839,294)	\$ 20,612,899
<u>MEMBERS' EQUITY</u>				
Memberships	\$ 248,136	\$ 0	\$ 0	\$ 248,136
Patronage capital	71,034,728	0	0	71,034,728
Accumulated other comprehensive income	(50,121)	(518,040)	0	(568,161)
Capital stock	0	200,000	(200,000)	0
Paid-in capital	0	8,553,643	(8,553,643)	0
Retained earnings	0	7,712,492	(7,712,492)	0
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL MEMBERS' EQUITY	\$ 71,232,743	\$ 15,948,095	\$ (16,466,135)	\$ 70,714,703
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 89,192,766	\$ 21,440,265	\$ (19,305,429)	\$ 91,327,602

CONSOLIDATING STATEMENTS OF OPERATIONS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the year ended December 31, 2023

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
Operating revenues:				
Local network services revenue	\$ 9,489,979	\$ 0	\$ 0	\$ 9,489,979
Long distance services revenue	1,015	199,017	0	200,032
Network access services revenue	5,331,455	0	0	5,331,455
Broadband revenue	0	13,641,806	(13,641,806)	0
Video revenue	0	2,627,768	(2,627,768)	0
Miscellaneous revenues	6,567,742	202,294	(1,819,124)	4,950,912
Less uncollectible revenue	<u>(54,632)</u>	<u>(73,496)</u>	<u>0</u>	<u>(128,128)</u>
TOTAL OPERATING REVENUES	\$ 21,335,559	\$16,597,389	\$ (18,088,698)	\$ 19,844,250
Operating expenses:				
Plant specific operations expense	\$ 5,982,368	\$ 2,702,235	\$ (2,702,235)	\$ 5,982,368
Plant nonspecific operations expense	2,122,367	31,706	(31,706)	2,122,367
Provision for depreciation	4,431,945	446,521	(345,684)	4,532,782
Customer operations expense	2,047,534	7,514,045	(7,514,045)	2,047,534
Corporate operations expense	4,640,202	2,813,944	(4,730,775)	2,723,371
Operating taxes	<u>230,211</u>	<u>118,295</u>	<u>(118,295)</u>	<u>230,211</u>
TOTAL OPERATING EXPENSES	\$ 19,454,627	\$13,626,746	\$ (15,442,740)	\$ 17,638,633
OPERATING INCOME	\$ 1,880,932	\$ 2,970,643	\$ (2,645,958)	\$ 2,205,617
Other income (expense):				
Interest and dividend income	\$ 936,816	\$ 293,785	\$ 0	\$ 1,230,601
Nonregulated income (loss)	963,154	(1,836,937)	2,645,958	1,772,175
Income from subsidiaries	990,081	0	(990,081)	0
Unrealized loss on marketable securities (stocks)	238,434	0	0	238,434
Realized loss on marketable securities	<u>(122,133)</u>	<u>(110,127)</u>	<u>0</u>	<u>(232,260)</u>
TOTAL OTHER INCOME (EXPENSE)	\$ 3,006,352	\$ (1,653,279)	\$ 1,655,877	\$ 3,008,950

CONSOLIDATING STATEMENTS OF OPERATIONS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the year ended December 31, 2023

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
Fixed charges:				
Interest on long-term debt	\$ 207,019	\$ 0	\$ 0	\$ 207,019
Interest charged to construction - credit	(99,979)	0	0	(99,979)
Interest on customer deposits	33	0	0	33
	<u>107,073</u>	<u>0</u>	<u>0</u>	<u>107,073</u>
TOTAL FIXED CHARGES	\$ 107,073	\$ 0	\$ 0	\$ 107,073
Taxes on income	<u>0</u>	<u>327,283</u>	<u>0</u>	<u>327,283</u>
	<u>\$ 4,780,211</u>	<u>\$ 990,081</u>	<u>\$ (990,081)</u>	<u>\$ 4,780,211</u>
NET INCOME	<u>\$ 4,780,211</u>	<u>\$ 990,081</u>	<u>\$ (990,081)</u>	<u>\$ 4,780,211</u>

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

For the year ended December 31, 2023

	Highland Telephone Cooperative, Inc.	Highland Holdings, Inc.	Eliminations/ Reclassifications	Total
Net income	\$ 4,780,211	\$ 990,081	\$ (990,081)	\$ 4,780,211
Other comprehensive income:				
Unrealized gain (loss) from marketable securities (bonds)	373,019	(8,479)	0	364,540
Postretirement benefits other than pension:				
Unrecognized gain (loss)	(153,914)	0	0	(153,914)
Unrecognized past service liability	<u>(139,737)</u>	<u>0</u>	<u>0</u>	<u>(139,737)</u>
COMPREHENSIVE INCOME	<u>\$ 4,859,579</u>	<u>\$ 981,602</u>	<u>\$ (990,081)</u>	<u>\$ 4,851,100</u>



TOTHEROW HAILE & WELCH, PLLC

Certified Public Accountants

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Highland Telephone Cooperative, Inc., which comprise the balance sheet as of December 31, 2023, and the related statements of operations, comprehensive income, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2024. In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2024, on our consideration of Highland Telephone Cooperative, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Highland Telephone Cooperative, Inc. failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, Sec. 1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Highland Telephone Cooperative, Inc.'s noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Highland Telephone Cooperative, Inc.'s accounting and records to indicate that Highland Telephone Cooperative, Inc. did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract agreement or lease with an affiliate as defined in Sec. 1733.33 (e)(2)(i).

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Comply with the requirements for the detailed schedule of investments.

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

Jotherow, Spate, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 29, 2024

Highland Telephone
Cooperative Inc.
Sunbright, Tennessee

Detailed schedule of investments

	<u>Independent Group d/b/a IRIS Networks</u>	<u>Highland Holdings, Inc.</u>
Book value of investments as of 12/31/21	\$ 1,780,439	\$ 14,219,743
Undistributed earnings as of 12/31/22	<u>234,384</u>	<u>1,256,311</u>
Book value of investments as of 12/31/22	\$ 2,014,823	\$ 15,476,054
Undistributed earnings as of 12/31/23	<u>247,102</u>	<u>990,081</u>
Book value of investments as of 12/31/23	<u>\$ 2,261,925</u>	<u>\$ 16,466,135</u>

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

We have audited the consolidated financial statements of Highland Telephone Cooperative, Inc. for the year ended December 31, 2023, and we will issue our report thereon dated March 29, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 23, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Highland Telephone Cooperative, Inc. are described in Note A to the financial statements. As described in Note A, the Company changed accounting policies related to leases by adopting FASB Accounting Standards Update No. 2016-02, *Leases (Topic 842)* in 2023. Accordingly, the accounting has been retrospectively applied to prior periods presented as if the policy had always been used. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the allowance for doubtful accounts is based on historical sales, historical loss levels, and an analysis of the collectability of the individual accounts.

Management's estimate of the deferred tax asset and liability encompass the temporary differences in tax reporting and financial statement presentation based on future expected financial trends of the Company.

Management's estimate of the accrued postretirement benefits is based on the actuarial findings of an independent actuary for the cost of medical benefits for current and future associate retirees.

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

The financial statements disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements as a whole.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 29, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Sincerely,

Jotherow, Haile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
April 4, 2024



TOTHEROW HAILE & WELCH, PLLC

Certified Public Accountants

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Highland Telephone Cooperative, Inc. as of and for the year ended December 31, 2024, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Highland Telephone Cooperative, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Highland Telephone Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Highland Telephone Cooperative, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Highland Telephone Cooperative, Inc.
Sunbright, Tennessee
Page 2

Compliance and Other Matters

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

Purpose of this report

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

Satherow, Hails, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
April 4, 2024