



ATTORNEYS AT LAW PLLC
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www.jacksonkelly.com

July 20, 2010

Via Hand Delivery

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Blvd.
P. O. Box 615
Frankfort, KY 40602-0615

RECEIVED

JUL 20 2010

PUBLIC SERVICE
COMMISSION

**Re: In the Matter of: Adjustment of Rates of Highland Telephone Cooperative, Inc.
Case No. 2010-00227**

Dear Mr. Derouen:

Enclosed for filing in the above-referenced case, please find one original and ten (10) copies of Highland Telephone Cooperative, Inc.'s Notification of Adjustment in Existing Rates. I have also enclosed two copies of the pleading which we request be date stamped and returned to the person delivering this letter.

Thank you and please call if you have any questions.

Sincerely yours,

Jeffrey J. Yost

JJY/pom

Enclosures

c: Attorney General, Office of
Rate Intervention (w/encl)
Highland Telephone Cooperative, Inc. (w/encl)

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CASE NO. 2010-00227

**ADJUSTMENT OF RATES OF
HIGHLAND TELEPHONE
COOPERATIVE, INC.**

RECEIVED

**NOTIFICATION OF ADJUSTMENT IN
EXISTING RATES**

JUL 20 2010

**PUBLIC SERVICE
COMMISSION**

Pursuant to KRS 278.180 and 807 KAR 5:011, Section 6(3)(b), Highland Telephone Cooperative, Inc. ("Highland") hereby notifies the Commission that Highland will adjust its rates on August 20, 2010 by increasing its basic rate for residence service by \$5.00 per month and its basic rate for business service by \$8.00 per month. A proposed tariff showing the adjusted rates is attached as Exhibit "A", and a copy of the present tariff marked to show the proposed adjustments by striking over the current rates and underscoring the proposed rates is attached as Exhibit "B".

In connection with this notification, Highland provides the following information requested by 807 KAR 5:001, Sections 8 and 10, and 807 KAR 5:011, Sections 6 and 9:

1. The full name of Highland is Highland Telephone Cooperative, Inc., and its post office address is 7840 Morgan County Highway, Post Office Box 119, Sunbright, Tennessee 37872.
2. Highland is a rural telephone cooperative that provides telephone service in McCreary County, Kentucky and in adjoining areas of Tennessee.

3. Highland is a cooperative, nonprofit membership corporation organized under the laws of the State of Tennessee for the purpose of furnishing telephone service in rural areas, and it is authorized to do business in the Commonwealth of Kentucky.

4. A copy of Highland's Articles of Incorporation with all amendments thereto is annexed hereto as Exhibit "C". A certified copy of these has already been filed with the Public Service Commission in a prior proceeding styled In the Matter of: The Application of Highland Telephone Cooperative, Inc. for a Certificate of Public Convenience and Necessity, Case No. 2009-00048.

5. A Certificate of Existence from the Secretary of State of the State of Tennessee is attached hereto as Exhibit "D", and a Certificate of Authorization from the Secretary of State of the State of Kentucky is attached hereto as Exhibit "E".

6. No certificate of assumed name is necessary under KRS 365.015 as Highland only operates using its legal name.

7. The reason this rate adjustment is required is because Highland's revenues did not cover its revenue requirement in 2009. For the first time in many years, Highland sustained a net operating loss in 2009. This was a result of declining revenues and increasing costs. The Cooperative has implemented various cost cutting measures, but those efforts alone cannot offset the declining revenues and increasing costs. Highland has been able to operate since 1983 without increasing its basic rates, but can no longer avoid doing so. In fact, Rural Utility Services, its major lender, has advised that unless revenues are replaced, Highland will not be eligible to apply for stimulus funds or loans being made available for the continued upgrading and expansion of its telecommunication services.

8. This adjustment in existing rates is supported by a twelve-month historical test period using calendar year 2009 as the test period. A copy thereof is attached hereto as Exhibit “F”.

9. Highland’s annual reports, including the annual report for the most recent calendar year, are on file with the Commission in accordance with 807 KAR 5:006, Section 3(1).

10. The proposed tariff in a form which complies with 807 KAR 5:011 with an effective date not less than thirty (30) days from the date this notification is filed is attached as Exhibit “A”.

11. Highland’s proposed tariff changes, identified in compliance with 807 KAR 5:011, are shown by providing a copy of the present tariff, attached as Exhibit “B”, indicating the proposed addition by underscoring inserts and by striking over proposed deletions.

12. Notice of these rate adjustments has been given to Highland’s customers. This notice included the information required by 807 KAR 5:001, Section 10(3), as shown on the copy of the notice attached hereto as Exhibit “G”. This notice was given in compliance with the requirements of 807 KAR 5:001, Section 10(4)(c)1 by a typewritten notice mailed to all customers prior to the date this notification is filed with the Commission. In accordance with 807 KAR 5:001, Section 10(4)(e), a written statement signed by Highland’s chief officer in charge of Kentucky operations verifying the notice was mailed is attached hereto as Exhibit “H”. As required by 807 KAR 5:001, Section 10(4)(f), Highland posted a sample copy of the notice at its place of business prior to the date on which this notification is filed, which sample copy shall remain posted until the Commission has finally determined Highland’s rates.

13. Highland provides the following information in connection with the historical test period:

a. The only proposed adjustments made for the test period financials have been to increase revenues to reflect the proposed increases of basic rates and to eliminate the nonrecurring loss from disposal of obsolete inventory.

b. The witnesses that Highland proposes to use to support this notification are Steve Armes, Highland's Accounting Manager, and Gentry Underhill, an independent auditor. The prepared testimony of these witnesses is attached as Exhibits "I" and "J" respectively.

c. Highland estimates that the effect which the rate adjustments will have upon its revenues will total \$419,076.00 annually, which is an increase of 8.77% over total operating revenues during the historical test period.

d. The effect upon the average bill will be an increase of \$5.00 per month for residential customers and \$8.00 per month for business customers, which is an increase of 51% and 50% respectively in the cost of basic local service.

e. Revenues from the basic rates of Kentucky residential customers presently total \$51,753.87 per month and under the proposed rates will total \$78,348.87 per month. Revenues from the basic rates of Kentucky business customers presently total \$16,635.18 per month and under the proposed rates will total \$24,968.18 per month.

f. Highland does not determine its revenue requirements based on return on net investment rate base, return on capitalization, interest coverage, debt service coverage, or operating ratio. As a cooperative, if its revenues exceed its expenses, Highland allocates the excess to its members' capital accounts.

g. Highland does not determine its revenue requirements based on its rate base and capital used.

h. Highland uses the Uniform System of Accounts set forth in Part 32 of the regulations of the Federal Communication Commission, 47 C.F.R. 32, as prescribed by this Public Service Commission.

i. The annual opinion report of Totherow, Haile and Welch, Highland’s independent auditor, for the twelve-month test period is attached as Exhibit “K”. This auditor has not delivered any written communication to Highland which indicates the existence of a material weakness in Highland’s internal controls.

j. Highland is not audited by, and has no recent audit reports from, the Federal Communication Commission.

k. Highland does not file the Automated Reporting Management Information System Report with the Federal Communications Commission. The most recent Public Service Commission’s Form T for the period ending December 31, 2009 for Highland’s entire territory and the Supplement for its Kentucky territory alone are attached hereto as Exhibits “L” and “M” respectively.

l. Highland has adopted the Public Service Commission’s average depreciation rates. Attached as Exhibit “N” is a Depreciation Master File List that identifies by major plant accounts the depreciation rates used during the current and test period.

m. The computer software, programs and models used in the development of the schedules and work papers associated with the filing of this notification are:

Software, Program or Model	Use	Supplier	Description	Hardware and Operating Systems Requirements
AS400 8203-E4A		Dynamics Group	Main Frame	
Accounting		JJABLE		AS400

Billing		JJABLE		AS400
Microsoft Office		Microsoft		Windows XP

n. As a cooperative, Highland has not issued any stock. Nor has it issued any bond offerings. Thus, no prospectus of any stock or bond offering exists.

o. Highland's information, including a Treasurer's Report and a Manager's Report, that was provided to its members covering the two most recent years are attached as Exhibits "O" and "P" respectively. This information is the equivalent of Highland's annual report and was delivered to its members at their annual meetings.

p. The monthly reports providing financial results of operations for each of the twelve months in the test period are attached as Exhibit "Q". These reports are Highland's managerial reports and were provided to Highland's Board of Directors' monthly meetings.

q. As a cooperative, Highland does not file annual reports, Form 10-Ks, Form 8-Ks or Form 10-Qs with the Securities and Exchange Commission.

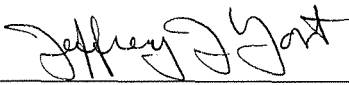
r. Highland has not had any amounts charged or allocated to it by an affiliate or general or home office or paid any monies to an affiliate or general or home office for goods and services provided to or for the benefit of Highland during the test period or during the previously three calendar years. However, Highland has charged or allocated amounts to its affiliates, Highland Communications Corporation and Highland Media Corporation, from time to time for goods and services provided to or for the benefit of its affiliates. As of December 31, 2009, the balances of Highland's accounts receivable from its affiliates were \$0 from Highland Communication Corporation and \$227,727 from Highland Media Corporation.

s. Highland has fewer than 50,000 access lines and therefore is not required to file cost of service studies.

Based upon the foregoing, Highland requests that the Commission enter an Order authorizing the adjustment of its existing rates for basic service and granting all other relief to which Highland may be entitled.

Respectfully submitted,

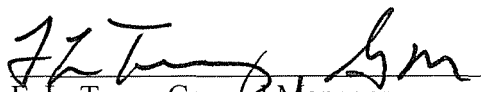
Highland Telephone Cooperative, Inc.

By:  _____

Jeffrey J. Yost
JACKSON KELLY PLLC
P. O. Box 2150
175 East Main Street, Suite 500
Lexington, Kentucky 40588-9945
(859) 255-9500
*Counsel for Highland Telephone
Cooperative, Inc.*

VERIFICATION

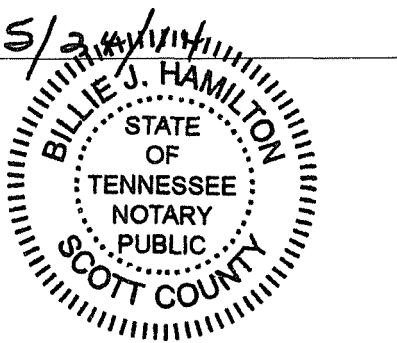
F. L. Terry, being duly sworn, hereby deposes and says that he is General Manager of Highland Telephone Cooperative, Inc., that he has personal knowledge of the matters set forth in the foregoing Notification of Adjustment in Existing Rates, and that the facts contained therein are true and correct to the best of his information, knowledge and belief.


F. L. Terry, General Manager

STATE OF TENNESSEE)
COUNTY OF Scott)

The foregoing verification was subscribed, sworn to and acknowledged before me this 15th day of July, 2010, by F. L. Terry as General Manager of Highland Telephone Cooperative, Inc., a Tennessee corporation, for and on behalf of the corporation.

MY COMMISSION EXPIRES:

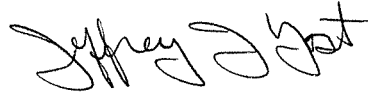



NOTARY PUBLIC

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing Notification of Adjustment in Existing Rates was served by U.S. Mail, postage prepaid, on this 20th day of July, 2010, upon the following:

Attorney General
Office of Rate Intervention
1024 Capital Center Drive
Frankfort, Kentucky 40601



*Counsel for Highland Telephone
Cooperative, Inc.*

EXHIBITS

- Exhibit "A" - Proposed Tariff
- Exhibit "B" - Present Tariff Showing Rate Adjustments
- Exhibit "C" - Articles of Incorporation
- Exhibit "D" - Certificate of Good Standing from Tennessee Secretary of State
- Exhibit "E" - Certificate of Authorization from Kentucky Secretary of State
- Exhibit "F" - Historical Income Statement
- Exhibit "G" - Notice to Customers of Rate Adjustments
- Exhibit "H" - Written Statement Verifying Mailing of Notice
- Exhibit "I" - Prepared Testimony of Steve Armes, Highland's Accounting Manager
- Exhibit "J" - Prepared Testimony of Gentry Underhill, Independent Auditor
- Exhibit "K" - Annual Opinion Report by Highland's Independent Auditor
- Exhibit "L" - 2009 Annual Report to Public Service Commission (Form T)
- Exhibit "M" - Supplement to Annual Report for Kentucky Operations Only
- Exhibit "N"- Depreciation Master File List
- Exhibit "O" - Highland's Annual Report for 2008
- Exhibit "P" - Highland's Annual Report for 2009
- Exhibit "Q" - Highland's Managerial Reports

EXHIBIT "A"
PROPOSED TARIFF

GENERAL SUBSCRIBER SERVICES TARIFF

Highland Telephone Cooperative
Incorporated

PSC 2
Section C
Third Revised Sheet 2
Replaces Second Revised
Sheet 2

C.1 Local Exchange Service Rates

C.1.1 Definitions

C.1.1.1 Network Access Charge - The recurring monthly charge for residential or business service that accounts for network services through the protector. This covers the Company's cost for bringing the entire national network to the local premise.

C.1.2 Monthly exchange service rates as authorized by the Kentucky Public Service Commission.

1. Monthly exchange rates for:
Pine Knot
Stearns-Whitley City

ONE-PARTY SERVICE RATE COMPONENTS	RESIDENCE	BUSINESS	(I)
Network Access Charge	\$14.73	\$23.98	

2. The rates specified herein, entitle subscribers to an unlimited number to messages to all parties as identified in the Toll free Calling Areas identified below:

EXCHANGE	TOLL FREE CALLING AREAS
Pine Knot	Stearns-Whitley City
Stearns/Whitley City	Oneida, Tennessee Pine Knot Oneida, Tennessee

C.2 Maps

Maps which indicate and define the exchange and base rate area limits of the respective exchanges are filed with the Kentucky Public Service Commission as part of the Certificate of Public Convenience and Necessity granted by the Kentucky Public Service Commission, and are also filed in Section Y of this tariff.

Issued: July 20, 2010

Effective: August 20, 2010

BY _____
GENERAL MANAGER

EXHIBIT "B"
PRESENT TARIFF SHOWING
RATE ADJUSTMENTS

GENERAL SUBSCRIBER SERVICES TARIFF

Highland Telephone Cooperative
Incorporated

PSC 2
Section C
~~Second Revised Sheet 2~~
Third Revised Sheet 2
Replaces Second Revised
Sheet 2

C.1 Local Exchange Service Rates

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C.1.2 Monthly exchange service rates as authorized by the Kentucky Public Service Commission.

1. Monthly exchange rates for:
Pine Knot
Stearns-Whitley City

ONE-PARTY SERVICE RATE COMPONENTS	RESIDENCE	BUSINESS	
Network Access Charge	\$9.73 <u>\$14.73</u>	\$15.98 <u>\$23.98</u>	(1)

2. The rates specified herein, entitle subscribers to an unlimited number to messages to all parties as identified in the Toll free Calling Areas identified below:

EXCHANGE	TOLL FREE CALLING AREAS
Pine Knot	Stearns-Whitley City Oneida, Tennessee
Stearns/Whitley City	Pine Knot Oneida, Tennessee

C.2 Maps

Maps which indicate and define the exchange and base rate area limits of the respective exchanges are filed with the Kentucky Public Service Commission as part of the Certificate of Public Convenience and Necessity granted by the Kentucky Public Service Commission, and are also filed in Section Y of this tariff.

Issued: ~~January 1, 1987~~
July 20, 2010

Effective: ~~June 20, 1987~~
August 20, 2010

BY _____
GENERAL MANAGER

EXHIBIT "C"
ARTICLES OF INCORPORATION

HIGHLAND TELEPHONE COOPERATIVE, INC.

Meeting of Incorporators and Board
of Directors

The first meeting of the Incorporators of Highland Telephone Cooperative, Inc. met at the offices of Howard H. Baker, Jr. in Huntsville, Tennessee, at 10:00 A. M. on the 26th day of June, 1954. Present were: Taskel Welch, Charles Byrd, Maynard Terry, W. H. Swain, and Milford Thompson, being all of the Incorporators of Highland Telephone Cooperative, Inc.

The meeting was called to order by W. H. Swain, who acted as Chairman, and Taskel Welch was appointed Secretary of the meeting and kept the minutes thereof. The application for a Charter of Incorporation, dated the 3rd day of June, 1954, applying to the State of Tennessee for a Charter of Incorporation under the style "Highland Telephone Cooperative, Inc.," together with a certificate of the Secretary of State dated the 14th day of June, 1954, granting a Charter of Incorporation on which appeared filing and recordation data, was presented to the meeting, and on motion it was ordered that said Certificate of Incorporation be accepted and be entered on the first pages on the book of minutes.

"STATE OF TENNESSEE "

"Department of State"

"I, G. EDWARD FRIAR, Secretary of State of the State of Tennessee, do hereby certify that the annexed Instrument with Certificate of Acknowledgement was filed in my office and recorded on the 14th day of June, 1954, in Corporation Record Book Miscellaneous A-25, page 55.

"IN TESTIMONY WHEREOF, I have hereunto subscribed my Official Signature and by order of the Governor affixed the Great Seal of the State of Tennessee at the Department in the City of Nashville, this 14th day of June A. D. 1954.

(SEAL)

G. Edward Friar
Secretary of State "

"CHARTER OR INCORPORATION"

"BE IT KNOWN, That W. H. Swain, Milford Thompson, Maynard Terry, Charles Byrd and Taskel Welch are hereby constituted a body politic and corporate, by the name of and style of Highland Telephone Cooperative, Inc. for the purpose of furnishing, improving and expanding telephone service to its members and other persons. The corporation shall be a nonprofit cooperative association within the purview of paragraph 10 of Section 4146 Williams Tennessee Code Ann. (1934), which provides that "nonprofit cooperative associations may be incorporated and organized." It shall have and may exercise all powers, rights and privileges granted by law to corporations organized for this purpose, including specifically, but not to the exclusion of other powers and purposes granted by statute, the following:

"To sue and be sued by the corporate name, to have and use a common seal, which it may alter at pleasure, to receive property, real, personal and mixed, by purchase, gift, demise or bequest, and to hold said property in its own name, to sell the same and apply the proceeds toward the promotion of the objects for which it is created, or to hold any such property and apply the income and profits toward such objects.

"To establish by-laws and make all rules and regulations not inconsistent with the laws and constitution deemed expedient for the management of corporate affairs. To appoint such subordinate officers and agents, in addition to a President and Secretary or Treasurer, as the business of the corporation may require.

"To borrow money to be used in payment for property bought by it and for erecting buildings, making improvements and for other purposes germane to the objects of its creation and to secure the repayment of the money thus borrowed by mortgage, pledge or deed of trust upon such property, real, personal or mixed, as may be owned by it, and in like manner to secure by mortgage, pledge or deed of trust any existing indebtedness which it may have lawfully contracted.

"The time of existence of this corporation shall be perpetual.

"The private property of the members and membership shall not be subject to the payment of corporate debts to any extent whatever.

"The property and business of this corporation shall be managed by its Board of Directors of not less than five (5) nor more than nine (9) in number.

"WE, THE UNDERSIGNED, THE INCORPORATORS ABOVE MENTIONED, HEREBY APPLY TO THE STATE OF TENNESSEE FOR A CHARTER OF INCORPORATION FOR THE PURPOSES DECLARED IN THE FOREGOING INSTRUMENT.

"Witness our hands this 3rd day of June, 1954.

Taskel Welch

Charles Byrd

Maynard Terry

W. H. Swain

Milford Thompson

"STATE OF TENNESSEE
SCOTT COUNTY

"Personally appeared before me, Taskel W. Welch, a Notary Public in and for said County and State, the within-named incorporator, W. H. SWAIN, with whom I am personally acquainted and who acknowledged that he executed the within application for a Charter of Incorporation for the purposes therein contained and expressed.

"Witness my hand and official seal at office this 3rd day of June, 1954.

(SEAL)

Taskel W. Welch
Notary Public

My Commission expires January 14, 1958.

"STATE OF TENNESSEE
SCOTT COUNTY

"Personally appeared before me, Taskel W. Welch, a Notary Public in and for said County and State, the within-named incorporator, Milford Thompson, with whom I am personally acquainted and who acknowledged that he executed the within application for a Charter of Incorporation for the purposes therein contained and expressed.

"Witness my hand and official seal at office this 3rd day of June, 1954.

(SEAL)

Taskel W. Welch
Notary Public

My Commission expires January 14, 1958.

"STATE OF TENNESSEE
SCOTT COUNTY

"Personally appeared before me, Taskel W. Welch, a Notary Public in and for said County and State, the within-named incorporator, MAYNARD TERRY, with whom I am personally acquainted and who acknowledged that he executed the within application for a Charter of Incorporation for the purposes therein contained and expressed.

"Witness my hand and official seal at office this 3rd day of June, 1954.

(SEAL)

Taskel W. Welch
Notary Public

My Commission expires January 14, 1958.

5

"STATE OF TENNESSEE
SCOTT COUNTY

"Personally appeared before me, Taskel W. Welch, a Notary Public in and for said County and State, the within-named incorporator, CHARLES BYRD, with whom I am personally acquainted and who acknowledged that he executed the within application for a Charter of Incorporation for the purposes therein contained and expressed.

"Witness my hand and official seal at office this 3rd day of June, 1954.

(SEAL)

Taskel W. Welch
Notary Public

My Commission expires January 14, 1958.

"STATE OF TENNESSEE
SCOTT COUNTY

Personally appeared before me, Howard H. Baker, Jr. a Notary Public in and for said County and State, the within-named incorporator, TASKEL WELCH, With whom I am personally acquainted and who acknowledged that he executed the within application for a Charter of Incorporation for the purposes therein contained and expressed.

"Witness my hand and official seal at office this 3rd day of June, 1954.

(SEAL)

Howard H. Baker, Jr.
Notary Public

My Commission expires December 16, 1957. "

State of Tennessee



Department of State

CERTIFICATE

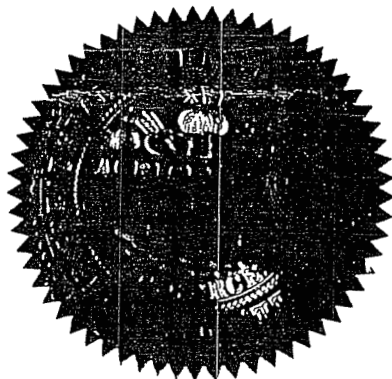
The undersigned, as Secretary of State of the State of Tennessee, hereby certifies that the attached document was received for filing on behalf of HIGHLAND TELEPHONE COOPERATIVE, INC.

(Name of Corporation)

Code Annotated 65-2901 through 65-2932
General Corporation Act

was duly executed in accordance with the Tennessee General Corporation Act, was found to conform to law and was filed by the undersigned, as Secretary of State, on the date noted on the document.

THEREFORE, the undersigned, as Secretary of State, and by virtue of the authority vested in him by law, hereby issues this certificate and attaches hereto the document which was duly filed on June Fourteenth, 1973.



[Signature]
Secretary of State

ARTICLES OF CONVERSION
OF
HIGHLAND TELEPHONE COOPERATIVE, INC.

Executed Pursuant to Chapter 29, Title 65,
TENNESSEE CODE ANNOTATED, as amended.

Highland Telephone Cooperative, Inc., for the purpose of becoming converted into a cooperative, non-profit membership corporation pursuant to the "Telephone Cooperative Act", Tennessee Public Acts of 1961, Chapter 330, Tennessee Code Annotated 65-2901 through 65-2932, hereby certifies and states as follows:

1. The name of the corporation prior to this conversion into a cooperative under Chapter 29, Title 65, of Tennessee Code Annotated, as amended, is HIGHLAND TELEPHONE COOPERATIVE, INC.
2. The address of the principal office of the corporation is SUNBRIGHT, TENNESSEE.
3. The date of the filing of the Articles of Incorporation of Highland Telephone Cooperative, Inc. in the office of the Secretary of State was June 14, 1954.
4. The corporation was organized pursuant to Chapter 11, of Title 48 of Tennessee Code Annotated.
5. The name assumed by the corporation is HIGHLAND TELEPHONE COOPERATIVE, INC.
6. The corporation elects to become a cooperative, non-profit, general welfare, membership corporation subject to and operate under the Telephone Cooperative Act, Tennessee Code Annotated 65-2901 and 65-2932 inclusive, and any and all amendments thereto.

Received for record the 16th day of Oct., 1971 at 10:00 clock A.M.

JAMES W. JONES, Register
MORGAN COUNTY

7. The manner and basis of converting membership and/or memberships of the corporation into membership and/or memberships in the converted corporation is that each member of the corporation shall be and become a member of the converted corporation, whether individually held, jointly held, or held by a partnership, corporation, or association, without the necessity of any affirmative action upon the part of such member, or upon written application by an individual member or an individual member's spouse, such member and such member's spouse shall jointly become a member therein and a certificate evidencing such individual or joint membership in the converted corporation shall be issued to such member or to such member and such member's spouse as the case may be.

8. (a) The Cooperative, upon conversion, shall be governed by a board of eleven directors, which Board of Directors shall be divided into classes serving staggered terms of from one to three years, as permitted by the current By-Laws of the Cooperative being converted. Additionally, the Directors shall be apportioned among the geographic areas served by the Cooperative by exchanges. The Class A Directors shall be as follows: (1) One director who shall reside either in the Deer Lodge or Sunbright Exchange; (2) One director who shall reside in the Whitley City portion of the Stearns-Whitley City Exchange, which portion is defined to be the area North of the line created by the junction of U. S. Highway 27 and Kentucky State Highway 478, continuing Westerly along Highway 478 to its junction with Kentucky State Highway 92 and then continuing Westerly to the McCreary-Wayne County line and a point on U. S. Highway 27, at approximately the same location as the junction of U. S. Highway 27 and Kentucky State Highway 478 and continuing Eastwardly along the most Westwardly branch of Bridge Fork Creek; (3) One director who shall

reside inside the city limits of the Town of Oneida; (4) One director who shall reside in the Oakdale Exchange. The Class B Directors shall be as follows: (1) One director who shall reside in the Pine Knot Exchange; (2) One director who shall reside in the Huntsville Exchange; (3) One director who shall reside in the Robbins Exchange; (4) One director who shall reside in the Petros Exchange. The Class C Directors shall be as follows: (1) One director who shall reside in the Wartburg Exchange; (2) One director who shall reside in the Oneida Exchange, outside the city limits; (3) One director who must reside in the Stearns portion of the Stearns-Whitley City Exchange, south of the above described line separating the Whitley City Exchange from the Stearns portion. The Class A Directors, as hereinafter designated, shall serve a three year term, or until their successors are duly elected and qualified. The Class B Directors shall serve a two year term, or until their successors are duly elected and qualified. The Class C Directors shall serve a one year term, or until their successors are duly elected and qualified. The following are hereby named and designated as the First Board of Directors of the Cooperative as converted: The Class A Directors shall be: Deer Lodge and Sunbright Exchange - O. C. Duncan; Whitley City or northern portion of the Stearns-Whitley City Exchange as above defined - Clifford Sutton; Oneida Exchange, residing inside the Town of Oneida - Fred H. Duncan; Oakdale Exchange - Wiley Summers. The Class B Directors shall be: Pine Knot Exchange - Herbert Gilreath; Huntsville Exchange - C. E. Byrd; Robbins Exchange - Taskel W. Welch; Petros Exchange - C. A. Haynes. The Class C Directors shall be: Wartburg Exchange - Gene Buxton; Oneida Exchange, residing outside the Town of Oneida - Clendon Blakley; Stearns portion of the Stearns-Whitley City Exchange as above defined - Bennie Chestnut.

8. (b) The Board of Directors shall adopt the first By-Laws after conversion. Thereafter, By-Laws shall be adopted,

amended or repealed by the members, as provided by the Telephone Cooperative Act.

8. (c) At the time of conversion, all assets of the corporation shall become the assets of the converted corporation and all liabilities and indebtedness of the current corporation shall become the liabilities and indebtedness of the converted corporation, the policies of the current corporation shall become the policies of the converted corporation, the rules, regulations, tariffs of the current corporation shall become those of the converted corporation, all contractual, employee, management, or other obligations shall become the obligations of the converted corporation and all property of the current corporation shall become the property of the converted corporation. The patronage capital of the corporation shall be and become patronage capital of the converted corporation, subject to all the rules and regulations and provisions of the converted corporation relating to patronage capital.

IN WITNESS WHEREOF, Highland Telephone Cooperative, Inc. has caused these Articles of Conversion to be executed in its name by its President, and its corporate seal to be hereto affixed and attested by its Secretary, this the 11th day of June, 1973.

HIGHLAND TELEPHONE COOPERATIVE, INC.

By [Signature]
President

ATTEST:
[Signature]
Secretary



STATE OF TENNESSEE)
COUNTY OF MORGAN)

Before me, Marilyn Hough, a Notary Public in and for said County and State, appeared O. C. DUNCAN, with whom I am personally acquainted and who upon oath acknowledged himself to be the President of HIGHLAND TELEPHONE COOPERATIVE, INC., a corporation, the within named bargainer, and that he as such President, being authorized to do so, executed the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as President.

WITNESS my hand and official seal this 11th day of June, 1973.

Marilyn Hough
Notary Public

My Commission expires: 3-18-'77

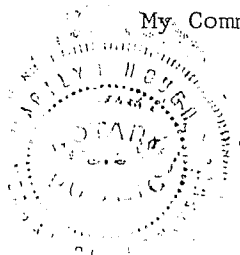
STATE OF TENNESSEE)
COUNTY OF MORGAN)

Before me, Marilyn Hough, a Notary Public in and for said County and State, appeared TASKEL W. WELCH, with whom I am personally acquainted and who upon his oath acknowledged himself to be the Secretary of HIGHLAND TELEPHONE COOPERATIVE, INC. and that he as such Secretary, being authorized to do so, attested the execution of the foregoing Articles of Conversion as such Secretary for the purposes therein contained.

WITNESS my hand and official seal this 11th day of June, 1973.


Marilyn Hough
Notary Public

My Commission expires: 3-18-'77



STATE OF TENNESSEE)
COUNTY OF MORGAN)

I, O. C. DUNCAN, make oath in due form of law that I am the President of Highland Telephone Cooperative, Inc. and that I acknowledged the execution of the Articles of Conversion hereinabove set out; that said execution and acknowledgment were made after the provisions of Section 65-2917 with respect to the approval of Highland Telephone Cooperative, Inc.'s directors and its members of the proposition for the conversion of such corporation into a cooperative and such Articles of Conversion were duly complied with; that the approval of the Board of Directors of Highland Telephone Cooperative, Inc. of the Articles of Conversion was duly adopted by resolution at a special meeting held May 21, 1973, and after the affirmative action of the members approving the Articles of Conversion at a special meeting held on the 4th day of June, 1973.


O. C. Duncan, President

Sworn to and subscribed before me
this 11th day of June, 1973.

Marilyn Hough
Notary Public

My Commission expires: 3-18-77

STATE OF TENNESSEE, MORGAN COUNTY

The foregoing instrument and certificate were noted in
note Book 1, Page 199 At 10⁰⁰ O'clock AM 10-16-73
and recorded in 11 Book # 50 Page 720
County Tax Paid \$ 1.00 Fee - Recording Fees 2.00 Total \$ 3.00

Witness My Hand
Receipt No. 30678

JAMES W. JONES
Register

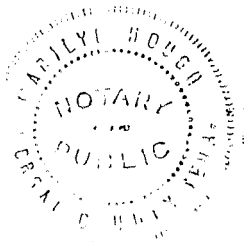


EXHIBIT "D"
CERTIFICATE OF GOOD STANDING
FROM TENNESSEE SECRETARY OF STATE



STATE OF TENNESSEE
Tre Hargett, Secretary of State
Division of Business Services
312 Rosa L. Parks Avenue
6th Floor, William R. Snodgrass Tower
Nashville, TN 37243

STANSBERRY PETROFF MARCUM & BLAKLEY, PC
PO BOX 240
Huntsville, TN 37756

June 10, 2010

Request Type: Certificate of Existence/Authorization

Request #: 0015322

Issuance Date: 06/10/2010

Copies Requested: 1

Document Receipt

Receipt #: 193847

Filing Fee: \$20.00

Payment-Check/MO - STANSBERRY PETROFF MARCUM & BLAKLEY, PC, Huntsville, TN

\$20.00

Regarding: HIGHLAND TELEPHONE COOPERATIVE, INC.

Filing Type: Corporation Non-Profit - Domestic

Control #: 119210

Charter/Qualification Date: 06/14/1954

Date Formed: 06/14/1954

Status: Active

Formation Locale: Scott County

Duration Term: Perpetual

Inactive Date:

CERTIFICATE OF EXISTENCE

I, Tre Hargett, Secretary of State of the State of Tennessee, do hereby certify that effective as of the issuance date noted above

HIGHLAND TELEPHONE COOPERATIVE, INC.

- * is a Corporation duly incorporated under the law of this State with a date of incorporation and duration as given above;
- * has paid all fees, taxes and penalties owed to this State (as reflected in the records of the Secretary of State and the Department of Revenue) which affect the existence/authorization of the business;
- * has filed the most recent corporation annual report required with this office;
- * has appointed a registered agent and registered office in this State;
- * has not filed Articles of Dissolution or Articles of Termination. A decree of judicial dissolution has not been filed.

Tre Hargett, Secretary of State
Business Services Division

Processed By: Sheila Keeling

EXHIBIT "E"
CERTIFICATE OF AUTHORIZATION
FROM KENTUCKY SECRETARY OF STATE

**Commonwealth of Kentucky
Trey Grayson, Secretary of State**

Trey Grayson
Secretary of State
P. O. Box 718
Frankfort, KY 40602-0718
(502) 564-3490
<http://www.sos.ky.gov>

Certificate of Authorization

Authentication number: 100956
Visit <http://apps.sos.ky.gov/business/obdb/certvalidate.aspx> to authenticate this certificate.

I, Trey Grayson, Secretary of State of the Commonwealth of Kentucky, do hereby certify that according to the records in the Office of the Secretary of State,

HIGHLAND TELEPHONE COOPERATIVE, INC.

, a corporation organized under the laws of the state of Tennessee, is authorized to transact business in the Commonwealth of Kentucky, and received the authority to transact business in Kentucky on December 9, 1997.

I further certify that all fees and penalties owed to the Secretary of State have been paid; that an application for certificate of withdrawal has not been filed; and that the most recent annual report required by KRS 273.3671 has been delivered to the Secretary of State.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 14th day of July, 2010, in the 218th year of the Commonwealth.



TG
Trey Grayson
Secretary of State
Commonwealth of Kentucky
100956/0442566

EXHIBIT "F"
HISTORICAL INCOME STATEMENT
ADJUSTED FOR RATE INCREASES

Highland Telephone Cooperative, Inc.

Historical Income Statement with projected rate increases

For the year ended December 31, 2009

	Historical 2009	Tennessee Rate increase Residential	Business	Kentucky Rate increase Residential	Business	Other Adjustments	With Increase 2009
Operating revenues:							
Local network services revenue	\$ 6,253,462	\$ 735,480	\$ 356,928	\$ 319,140	\$ 99,936	\$ 0	\$ 7,764,946
Network access services revenue	8,276,452						8,276,452
Miscellaneous revenues	2,706,554						2,706,554
Less uncollectible revenue	(830)						(830)
TOTAL OPERATING REVENUES	\$ 17,235,638	\$ 735,480	\$ 356,928	\$ 319,140	\$ 99,936	\$ 0	\$ 18,747,122
Operating expenses:							
Plant specific operations expense	\$ 5,366,784	\$ 0	\$ 0	\$ 0	\$ 0		\$ 5,366,784
Plant nonspecific operations expense	1,493,262						1,493,262
Provision for depreciation and amortization	4,919,736						4,919,736
Customer operations expense	2,003,595						2,003,595
Corporate operations expense	3,019,841						3,019,841
Operating taxes	323,599						323,599
TOTAL OPERATING EXPENSES	\$ 17,126,817	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 17,126,817
OPERATING INCOME	\$ 108,821	\$ 735,480	\$ 356,928	\$ 319,140	\$ 99,936		\$ 1,620,305
Other income (expense):							
Interest income	\$ 65,616	\$ 0	\$ 0	\$ 0	\$ 0		\$ 65,616
Nonregulated loss	(24,989)						(24,989)
Loss on obsolete inventory	(706,485)					706,485	0
Income (loss) from subsidiaries	(193,488)						(193,488)
Income from investment	49,657						49,657
TOTAL OTHER INCOME (EXPENSE)	\$ (809,689)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 706,485	\$ (103,204)
Fixed charges:							
Interest on long-term debt	\$ 451,231	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 451,231
Interest charged to construction - credit	(67,132)						(67,132)
Interest on customer deposits	642						642
TOTAL FIXED CHARGES	\$ 384,741	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 384,741
INCOME (LOSS) BEFORE TAXES ON INCOME	\$ (1,085,609)	\$ 735,480	\$ 356,928	\$ 319,140	\$ 99,936	\$ 706,485	\$ 1,132,360
Income tax expense (benefit)	6,325	0	0	0	0	0	6,325
NET INCOME (LOSS)	\$ (1,091,934)	\$ 735,480	\$ 356,928	\$ 319,140	\$ 99,936	\$ 706,485	\$ 1,126,035

Highland Telephone Cooperative, Inc.

Assumptions related to Income Statement Projections

For the year ended December 31, 2009

<u>Rate increase by State</u>	Lines	Monthly Rate increase	Number of Months		
Tennessee					
Residential	12,258	\$5.00	12	\$	735,480
Business	3,718	\$8.00	12	\$	356,928
Kentucky					
Residential	5,319	\$5.00	12	\$	319,140
Business	1,041	\$8.00	12	\$	99,936

Other Adjustment:

During 2009 it was determined that various items of inventory had become obsolete. This resulted in a one time write down of inventory in the amount of \$706,485

EXHIBIT "G"
NOTICE TO CUSTOMERS OF
RATE ADJUSTMENTS

**NOTICE TO CUSTOMERS OF
HIGHLAND TELEPHONE COOPERATIVE, INC.**

Highland Telephone Cooperative, Inc. ("Highland") hereby notifies you, as a customer of Highland, that Highland filed a Notification of Adjustment in Existing Rates with the Public Service Commission of the Commonwealth of Kentucky ("Commission") on July 20, 2010.

The adjustment will increase Highland's rates in Kentucky for basic residence service by \$5.00 per month, or 51%, and for basic business service by \$8.00 per month, or 50%. Highland's present rate in Kentucky for basic residence service is \$9.73 per month, and Highland's proposed rate for basic residence service is \$14.73. Highland's present rate in Kentucky for basic business service is \$15.98 per month, and Highland's proposed rate for basic business service is \$23.98. The effect of this adjustment upon the average bill will be an increase of \$5.00 per month for each residential customer and an increase of \$8.00 per month for each business customer. These increases are the same as the amounts by which Highland raised its rates for basic residence and business service in Tennessee on May 1, 2010.

The rates contained in this notice are the rates proposed by Highland. However, the Commission may order rates to be charged that differ from these proposed rates. Such action may result in rates for customers other than the rates in this notice.

Any corporation, association, body politic or person with a substantial interest in the matter may, by written request submitted to the Commission at its address below within thirty (30) days after mailing of this notice of the proposed rate changes, request to intervene. The request shall set forth the grounds for the request, including the status and interest of the party. Intervention may be granted beyond the thirty (30) day period for good cause shown. Any person who has been granted intervention by the Commission may obtain copies of the Notification of Adjustment of Existing Rates, testimony and any other filings made by Highland through Jo Shaw at Highland's Kentucky branch office. Any person may examine the Notification of Adjustment of Existing Rates and any other filings made by Highland at Highland's branch office or at the Commission's office. The addresses and telephone numbers of Highland and the Commission are:

Highland Telephone Cooperative, Inc.
Branch Office
26 Krit King Rd
Whitley City, KY 42653
(606) 376-5311

Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602
(502) 564-3940

To our valued members and customers:

Highland Telephone Cooperative, Inc. began serving its members and customers in June 1954 with the commitment to furnish, improve, and expand telephone service to its service area, which now includes Morgan and Scott Counties in Tennessee and McCreary County, Kentucky. The Cooperative has worked diligently since 1954 to fulfill this commitment and provide first rate telecommunication services at the lowest possible price.

Highland has not raised its basic monthly service rates since 1983. Additionally, Highland has returned to its membership a total of \$12,247,065.26 in the form of capital credit payments since 1991. Highland, through its commitment to provide a first-class communications network, is now providing high speed Internet service to everyone within its service area and is deploying fiber optic cable as quickly as feasible.

Yet, the increasing cost of providing advanced telecommunication services, the expense of materials and services purchased, and the constant need to upgrade our facilities have created a financial situation that must be addressed. For the first time in many years, Highland sustained a net operating loss in 2009. Our employees and management have worked under a total freeze of their wages since 2008. Many other cost cutting measures have been implemented by the Cooperative, but the simple fact is we cannot replace the continuing loss of revenue without raising our basic rates. The federal agency that oversees Highland's financial condition has advised that unless revenues are replaced, Highland will not be eligible to apply for stimulus funds or loans being made available for the continued upgrading and expansion of our telecommunication services. The inability to borrow funds or apply for stimulus grants would be devastating to the Cooperative and its membership.

We are all very much aware of the economic conditions and hardships being sustained by our membership, particularly in the past year. Yet, we cannot fall behind or fail in our commitment to the membership to provide and support the best telecommunication services possible. We are aware of no company that continues to charge the same prices for its products or services that were charged in 1983. In fact, the cost of living has increased more than 100% since the last rate increase.

Your monthly basic service billing will reflect a rate increase of \$5.00 for residential customers and \$8.00 for business customers. This increase still puts Highland in the middle of pricing and basic charges when compared with other telephone companies in our area. Please bear with us as this increase takes effect and know that Highland is committed to use this increase to develop and expand telecommunication services to our valued customers.

The formal notice of this rate increase required by the Kentucky Public Service Commission is set forth on the reserve side of this letter.

F. L. Terry,
General Manager

EXHIBIT "H"
WRITTEN STATEMENT VERIFYING
MAILING OF NOTICE

**WRITTEN STATEMENT VERIFYING MAILING OF NOTICE
OF RATE ADJUSTMENTS TO HIGHLAND'S CUSTOMERS**

F. L. Terry, General Manager of Highland Telephone Cooperative, Inc. ("Highland"), and Highland's chief officer in charge of Kentucky operations, hereby verifies that Highland has notified all affected customers of Highland's proposed adjustment of its basic service rates in accordance with 807 KAR 5:001, Subsections 10(3) and (4), and 807 KAR 5:001, Subsections 8(2) and (3). This required notice was given by a typewritten notice mailed to all affected customers with customer billings on or before the date the Notification of Adjustment in Existing Rates was filed with the Public Service Commission ("Commission"). A copy of the notice mailed to customers is attached to this statement. In addition to mailing a notice to all affected customers, Highland has posted a copy of the required notification at its place of business on or before the date the Notification of Adjustment in Existing Rates was filed with the Commission, which will remain posted until the Commission has finally determined Highland's rates.

Date: July 15, 2010

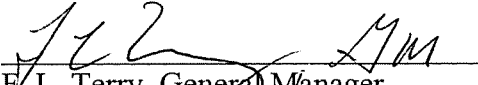

F. L. Terry, General Manager

EXHIBIT "I"
PREPARED TESTIMONY OF STEVE ARMES,
HIGHLAND'S ACCOUNTING MANAGER

**Prepared Testimony of Steve Armes
on behalf of
Highland Telephone Cooperative, Inc.**

I. Personal Information

Q.1. Please state your name and business address.

**A.1. Steve Armes, CPA
7840 Morgan County Highway
Sunbright, Tennessee 37872**

Q.2. By whom are you employed, and in what capacity?

A.2. I am employed by Highland Telephone Cooperative, Inc. ("Highland") as Accounting Manager.

Q.3. How long have you been the Accounting Manager?

A.3. Seven (7) years.

Q.4. What are the responsibilities of your current position?

A.4. As Accounting Manager for Highland, some of my direct responsibilities are the oversight of general ledger activity by preparing monthly account reconciliations, work papers, and financial statements. I prepare various tax returns for the local, state, and federal governments. I manage special projects as assigned by Highland's CFO and General Manager.

As of May 1, 2009, I assumed the duties of the resigned CFO in addition to my Accounting Manager responsibilities. Since that date, I have been responsible for all of Highland's accounting functions. As CFO and Accounting Manager, my management responsibilities have expanded beyond operating an accounting department to include other areas such as Investment and Finance, Insurance, Human Resources, and Retirement Plan administration.

Q.5. Please describe your work experience and education.

A.5. My education includes a BSBA in Accounting from Tennessee Technological University received in 1998. My professional certifications include a CPA license acquired in 2001 and maintained to present. My professional career

began in public accounting upon graduation from college when I was employed by the firm Lattimore, Black, Morgan, & Cain located in Brentwood, TN. My position with LBMC was as a staff accountant, which included preparation of work papers for audit engagements encompassing various sized corporations, non-profit organizations, and utilities. I continued my professional career in public accounting when I joined the firm Bible, Harris, Smith PC located in Knoxville in the year 2000. During my three years of employment with BHS, I also worked as a staff accountant preparing working audits and tax returns for various clients. Then, in 2003, my professional career switched from public to private accounting when I joined Highland as its Accounting Manager.

II. Cooperative Information

Q.6. What territory does Highland serve?

A.6. Highland provides telephone service to Morgan and Scott Counties in Tennessee and to McCreary County in Kentucky.

Q.7. How many of Highland's customers are in the two states it serves?

A.7. Highland has 12,258 residential customers and 3,718 business customers in Tennessee and 5,319 residential customers and 1,041 business customers in Kentucky.

Q.8. What services does Highland provide to its customers?

A.8. Highland is a local exchange carrier that provides telephone and broadband services to its retail carriers.

Q.9. Who owns Highland?

A.9. Highland is a rural telephone cooperative. Each rate-paying customer is a member and owner of the cooperative.

Q.10. How is Highland managed?

A.10. The business and affairs of Highland are managed by a Board of Directors elected by the members of the cooperative. Highland's operations are managed by a General Manager selected by the Board of Directors.

III. Adjustment of Rates

Q.11. How will Highland adjust its rates?

A.11. Highland will adjust its rates by increasing the basic rates it charges its Kentucky customers. The basic rate for residence service will be increased by \$5.00 per month, from \$9.73 to \$14.73, and the basic rate for business service will be increased by \$8.00 per month, from \$15.98 to \$23.98.

Q.12. When will Highland implement these rate increases for its Kentucky customers?

A.12. Highland intends to implement these changes for its Kentucky customers on August 20, 2010.

Q.13. Will Highland increase the rates it charges its Tennessee customers?

A.13. Highland implemented these same rate increases for its Tennessee customers on May 1, 2010.

Q.14. Was regulatory approval obtained in Tennessee for those rate increases?

A.14. No, the Tennessee Regulatory Authority does not regulate Highland or other cooperatives.

Q.15. How did the Tennessee customers respond to the rate increases?

A.15. The rate increases were accepted by the Tennessee customers. Any loss of customers due to the rate increase appears to have been negligible. Highland is not aware of any specific losses of Tennessee customers as a result of the rate increases.

Q.16. How long has it been since Highland increased its basic rates?

A.16. Twenty-seven (27) years. The last time Highland increased its basic rates was on June 26, 1983.

Q.17. Why is Highland increasing its basic rates?

A.17. Declining revenues and increasing costs have created a financial situation that Highland must address. For the first time in many years, Highland sustained a net operating loss in 2009.

Q.18. Why have Highland's revenues been declining?

A.18. Highland has been losing customers to cellular service providers. In addition, Highland's revenue from settlements through the National Exchange Carrier Association ("NECA") and with other telecommunications companies are declining as demand units decrease.

Q.19. What costs have been increasing?

A.19. The cost of providing advanced telecommunication services, the expense of materials and services purchased, and the constant need to upgrade its facilities have all caused Highland's costs of operating to increase.

Q.20. Has Highland taken any efforts to reduce its expenses?

A.20. All of Highland's employees (union and nonunion) and management have worked under a total freeze of their wages since 2008. Many other cost cutting measures have been implemented, including budget reductions and measures taken to reduce expenses. However, these efforts alone cannot replace the continuing loss of revenue; Highland must also raise its rates.

Q.21. Have these changes in its financial condition affected Highland's ability to continue upgrading its facility?

A.21. The federal agency that oversees Highland's financial condition has advised that unless revenues are replaced, Highland will not be eligible to apply for stimulus funds or loans being made available for the continued upgrading and expansion of our telecommunication services. The inability to borrow funds or apply for stimulus grants would be devastating to Highland and its membership.

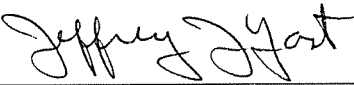
III. Conclusion

Q.22. Does this conclude your testimony?

A.22. Yes, it does.

Respectfully submitted,

Highland Telephone Cooperative, Inc.

By:  _____

Jeffrey J. Yost
JACKSON KELLY PLLC
P. O. Box 2150
175 East Main Street, Suite 500
Lexington, Kentucky 40588-9945
(859) 255-9500
*Counsel for Highland Telephone
Cooperative, Inc.*

EXHIBIT "J"
PREPARED TESTIMONY OF
GENTRY UNDERHILL,
INDEPENDENT AUDITOR

**Prepared Testimony of Gentry Underhill
on behalf of
Highland Telephone Cooperative, Inc.**

I. Background and Purpose

Q.1. Please state your name and business address.

**A.1. Gentry Underhill, Jr., CPA
Totherow, Haile, & Welch, PLLC
Certified Public Accountants
2355 South Chancery Street
McMinnville, TN 37110**

Q.2. What is your position with Totherow, Haile, & Welch, PLLC?

A.2. I am a certified public accountant, a partner in the accounting firm, and the partner responsible for our firm's utility practice.

Q.3. What are the responsibilities of your current position?

A.3. I manage our firm's work for utility clients. These clients include telephone and electric cooperatives, cellular telephone companies, and long distance resellers. The services we provide for these clients include audits of financial statements and assisting with federal and state income tax returns matters, depreciation studies, cost separations, inventory controls, and investment analyses.

Q.4. Please describe your education and work experience.

A.4. I received a Bachelor's degree in business administration with an emphasis in accounting from Middle Tennessee State University in 1979. I joined Totherow, Haile, & Welch, PLLC in January 1984 and throughout my tenure with the firm I have worked primarily with utility companies. I started working with those clients as a junior accountant and progressed to my current position as the partner responsible for our utility practice. I have experience in all areas of the services we provide for utility clients, including those identified in the preceding answer.

Q.5. What are the purposes of your testimony?

A.5. The purposes of my testimony are to explain the financial statements of Highland Telephone Cooperative, Inc. ("Highland") and to discuss the revenue requirement and revenue deficiency that are causing Highland to increase its basic rates for residence service and business service.

II. Highland's Financial Statements

Q.6. What services do you and your firm provide for Highland?

A.6. Our firm audits Highland's financial statements, prepares its federal and state income tax returns, and assists it with other accounting matters upon request. I have worked with Highland since 1998, and I am currently the partner responsible for our firm's work with Highland.

Q.7. How often and under what standards does Totherow, Haile, & Welch, PLLC audit Highland's financial statements?

A.7. We audit Highland's financial statements annually. A copy of our audit report for the year ended December 31, 2009 is attached to Highland's Notification of Adjustment in Existing Rates as Exhibit "K". The audit is completed in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Q.8. Does your audit report relate solely to Highland?

A.8. No, the financial statements in our audit report are the consolidated statements for Highland and its wholly owned subsidiaries, Highland Communications Corporation and Highland Media Corporation. The consolidating information is presented on pages 24 through 28 of our audit report. However, we have used only Highland's information for the historical test period, which is attached to the Notification of Adjustment in Existing Rates as Exhibit "F".

Q.9. Does your audit report include separate statements for Highland's operations in Kentucky and Tennessee?

A.9. No, Highland records its accounting information for Kentucky and Tennessee as a single operation, and we audit its financial records as they are maintained.

Q.10. What standard does Highland use for maintaining its financial records?

A.10. Highland maintains its financial statements in accordance with the Uniform System of Accounts for Telecommunications Companies prescribed by the Federal Communications Commission and published in Part 32 of its regulations. 47 CFR §§ 32.1 et seq. Part 32 does not require any separation of accounting records by the exchanges of telecommunications companies.

III. Highland's Revenue Requirement

Q.11. What does "revenue requirement" mean?

A.11. By the term "revenue requirement" I mean the amount of revenues needed to pay Highland's expenses. This is the amount of revenue Highland must collect to provide telecommunications services to its members. Highland's expenses for the historical test period are presented on Exhibit "F" attached to the Notification of Adjustment in Existing Rates.

Q.12. Over 70% of Highland's total operating expenses for the historical test period were for plant specific operations expense, plant nonspecific operations expense, customer operations expense, corporate operations expense and operating taxes. Based on your experience, are Highland's expenses for these categories appropriate?

A.12. Yes. Based upon the categories identified above, Highland's expenses are appropriate. Generalization is difficult because the costs incurred by telecommunication companies may vary significantly and include such diverse factors as location and geography, union verses non-union work force, and age of the work force, facilities and plant.

Q.13. Highland's operating expenses include a provision for depreciation and amortization, which are not cash expenditures. Are they properly included in the revenue requirement?

A.13. Yes, depreciation and amortization are deductions that match the costs of assets to accounting periods over which they are used. The costs of acquiring these assets were not deducted in the year of acquisition. Instead, they are prorated over the useful lives of the assets as they wear out or become obsolete. In other words, the costs of the assets are expensed throughout the lives of the assets rather than in a lump sum in the years they are purchased. Similar cash expenditures often are made as principal payments on loans that were obtained to acquire the assets, and those payments are not deductible as expenses.

Q.14. Highland's fixed charges are primarily interest on its long term debt. Is interest properly included in the revenue requirement?

A.14. Yes. Highland must borrow funds to finance its purchases of assets and its upgrading of facilities. As noted in the preceding answer, Highland often recovers the costs of these assets and facilities over their useful lives and uses those revenues to repay the debt. Interest incurred for those purchases and upgrades is a normal business expense and properly included in the revenue requirement.

Q.15. What is the amount of Highland's revenue requirement?

A.15. Based on the 2009 historical test period, Highland's revenue requirement is \$17,621,087. This is the sum of Highland's total operating expenses, total other expense (adjusted to remove the nonrecurring loss on obsolete inventory), total fixed charges and income tax expense.

IV. Highland's Revenue Deficiency

Q.16. What is Highland's revenue?

A.16. In the 2009 historical test period, Highland's total operating revenue was \$17,235,638.

Q.17. Does Highland's revenue equal or exceed its revenue requirement?

A.17. No, there is a deficiency of \$385,449. This is the net loss of \$1,091,934 for 2009, adjusted to eliminate the \$706,485 nonrecurring loss incurred on the write down of obsolete inventory.

V. Highland's Rate Adjustment

Q.18. How will Highland adjust its rates?

A.18. Highland will adjust its rates by increasing the basic rates it charges its customers. The basic rate for residence service will be increased by \$5.00 per month, and the basic rate for business service will be increased by \$8.00 per month. Rates are being increased by the same amounts for both Kentucky and Tennessee customers.

Q.19. How much revenue will the rate increases generate for Highland?

A.19. As shown on Exhibit "F" attached to the Notification of Adjustment in Existing Rates, the rate increases would have increased Highland's total operating revenues by \$1,511,484 if it had been in effect in 2009. Of this increase, \$419,076 will be billed to Kentucky customers.

Q.20. Will these rate increases enable Highland to eliminate its revenue deficiency?

A.20. Yes. These increased revenues will enable Highland to avoid a net loss as it incurred in 2009 and to meet its revenue requirement.

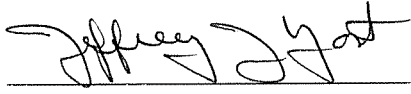
VI. Conclusion

Q.21. Does this conclude your testimony?

A.21. Yes, it does.

Respectfully submitted,

Highland Telephone Cooperative, Inc.

By:  _____

Jeffrey J. Yost
JACKSON KELLY PLLC
P. O. Box 2150
175 East Main Street, Suite 500
Lexington, Kentucky 40588-2150
(859) 255-9500
*Counsel for Highland Telephone
Cooperative, Inc.*

EXHIBIT "K"
ANNUAL OPINION REPORT BY HIGHLAND'S
INDEPENDENT AUDITOR

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2009 and 2008

--oo0oo--

CONTENTS

Consolidated Financial Statements:

Independent Auditors' Report	Page 3
Consolidated Balance Sheets	5
Consolidated Statements of Income and Comprehensive Income	7
Consolidated Statements of Changes in Members' Equity	9
Consolidated Statements of Cash Flows	10
Notes to Consolidated Financial Statements	13

Consolidating Information:

Independent Auditors' Report on Consolidating Information.....	24
Consolidating Balance Sheets	25
Consolidating Statements of Income and Comprehensive Income	27

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Highland Telephone Cooperative, Inc. and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income and comprehensive income, changes in member's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Highland Communications Corporation, a wholly owned subsidiary, which statements reflect total assets of \$3,357,790 and \$3,175,123 as of December 31, 2009 and 2008, respectively and total revenues of \$5,171,132 and \$4,994,180, respectively for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Highland Communications Corporation, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Highland Telephone Cooperative, Inc. and Subsidiaries as of December 31, 2009 and 2008, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONT'D)

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

In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2010 on our consideration of Highland Telephone Cooperative, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Johnson, Harte & Wald, P.C.

Certified Public Accountants

McMinnville, Tennessee
March 17, 2010

CONSOLIDATED

HIGHLAND TELEPHONE COOPERATIVE,

December 31, 2009

	2009	2008
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 6,435,269	\$ 6,971,331
Temporary investments	978,350	973,149
Securities available for sale	5,147,202	4,159,211
Telecommunications accounts receivable, less allowances of \$148,786 in 2009 and \$214,777 in 2008	988,260	995,145
Other accounts receivable	679,582	1,056,261
Materials and supplies	1,588,267	2,354,334
Prepayments	393,581	538,128
Refundable tax deposits	63,286	0
Other current assets	127,989	165,985
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	\$ 16,401,786	\$ 17,213,544
<u>NONCURRENT ASSETS</u>		
Other investments	\$ 950,489	\$ 845,274
Nonregulated investments	2,751,533	2,747,242
Deposits	4,173	4,173
	<hr/>	<hr/>
TOTAL NONCURRENT ASSETS	\$ 3,706,195	\$ 3,596,689
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service	\$ 106,130,907	\$ 103,550,703
Telecommunications plant under construction	1,564,392	1,204,682
	<hr/>	<hr/>
	\$ 107,695,299	\$ 104,755,385
Less accumulated depreciation	68,944,144	63,433,703
	<hr/>	<hr/>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 38,751,155	\$ 41,321,682
	<hr/>	<hr/>
	\$ 58,859,136	\$ 62,131,915
	<hr/>	<hr/>

See the notes to financial statements.

BALANCE SHEETS

INC. AND SUBSIDIARIES

and 2008

	2009	2008
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 528,614	\$ 1,227,189
Advance billings and payments	736,471	710,554
Customer deposits	1,699	4,399
Current maturities on long-term debt	1,864,295	1,773,058
Accrued taxes	563,073	489,532
Accrued interest	23,946	28,412
Accrued rents	571,107	546,187
Accrued salaries and wages	156,825	145,329
Accrued compensated absences	1,240,384	1,341,621
Accrued federal and state income taxes	5,204	23,992
Other current liabilities	156,430	230,993
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	\$ 5,848,048	\$ 6,521,266
 <u>LONG-TERM DEBT</u>		
Rural Utilities Service - mortgage notes	6,252,539	8,119,294
 <u>OTHER LIABILITIES</u>		
Postretirement benefits other than pension	3,995,335	3,890,066
Deferred taxes	55,676	60,084
	<hr/>	<hr/>
TOTAL LIABILITIES	\$ 16,151,598	\$ 18,590,710
 <u>MEMBERS' EQUITY</u>		
	42,707,538	43,541,205
	<hr/>	<hr/>
	<u>\$ 58,859,136</u>	<u>\$ 62,131,915</u>

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

For the years ended December 31, 2009 and 2008

	2009	2008
Operating revenues:		
Local network services revenue	\$ 6,253,462	\$ 6,793,052
Long distance services revenue	1,223,596	1,372,923
Network access services revenue	7,659,763	8,585,760
Miscellaneous revenues	2,429,646	1,967,184
Less uncollectible revenue	<u>(67,077)</u>	<u>(129,451)</u>
TOTAL OPERATING REVENUES	\$ 17,499,390	\$ 18,589,468
Operating expenses:		
Plant specific operations expense	\$ 5,377,800	\$ 5,802,204
Plant nonspecific operations expense	1,493,263	1,497,248
Provision for depreciation	5,010,945	4,834,052
Customer operations expense	2,500,243	2,498,447
Corporate operations expense	3,797,555	3,894,628
Operating taxes	<u>344,272</u>	<u>401,097</u>
TOTAL OPERATING EXPENSES	<u>\$ 18,524,078</u>	<u>\$ 18,927,676</u>
OPERATING LOSS	\$ (1,024,688)	\$ (338,208)
Other income (expense):		
Interest income	\$ 74,810	\$ 252,806
Nonregulated income	1,577,743	1,235,193
Income from investment	49,656	24,696
Gain from sale of fixed asset	3,500	0
Loss on obsolete inventory	<u>(706,485)</u>	<u>0</u>
TOTAL OTHER INCOME	\$ 999,224	\$ 1,512,695

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

For the years ended December 31, 2009 and 2008

	2009	2008
Fixed charges:		
Interest on long-term debt	\$ 451,232	\$ 538,494
Interest charged to construction - credit	(67,132)	(329,876)
Interest on customer deposits	<u>642</u>	<u>678</u>
TOTAL FIXED CHARGES	<u>\$ 384,742</u>	<u>\$ 209,296</u>
INCOME (LOSS) BEFORE TAXES ON INCOME	\$ (410,206)	\$ 965,191
Taxes on income	<u>514,369</u>	<u>619,302</u>
NET INCOME (LOSS)	\$ (924,575)	\$ 345,889
Other comprehensive income (loss):		
Unrealized gain (loss) on investment of securities available for sale	(9,725)	4,052
Postretirement benefits other than pension:		
Prior service costs	5,667	24,701
Unrecognized loss	<u>101,026</u>	<u>338,657</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ (827,607)</u>	<u>\$ 713,299</u>

See the notes to financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

For the years ended December 31, 2009 and 2008

	Memberships	Patronage Capital	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2007	\$ 273,987	\$ 44,701,127	\$ (1,389,407)	\$ 43,585,707
Net income for 2008	0	345,889	0	345,889
Capital credits paid and applied	0	(584,951)	0	(584,951)
Unrealized gain on investment securities available for sale	0	0	4,052	4,052
Memberships refunded	(5,485)	0	0	(5,485)
Prior period adjustment	0	(167,365)	0	(167,365)
Postretirement benefits other than pension:				
Prior service costs	0	0	24,701	24,701
Unrecognized gain	0	0	338,657	338,657
Balance at December 31, 2008	\$ 268,502	\$ 44,294,700	\$ (1,021,997)	\$ 43,541,205
Net loss for 2009	0	(924,575)	0	(924,575)
Unrealized loss on investment securities available for sale	0	0	(9,725)	(9,725)
Memberships refunded	(6,060)	0	0	(6,060)
Postretirement benefits other than pension:				
Prior service costs	0	0	5,667	5,667
Unrecognized gain	0	0	101,026	101,026
Balance at December 31, 2009	<u>\$ 262,442</u>	<u>\$ 43,370,125</u>	<u>\$ (925,029)</u>	<u>\$ 42,707,538</u>

See the notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

For the years ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from customers	\$ 17,908,871	\$ 18,416,535
Cash paid to suppliers and employees	(12,866,551)	(13,928,152)
Interest and dividends received	106,671	284,476
Interest paid	(389,208)	(213,545)
Taxes paid	(871,582)	(1,157,073)
	<hr/>	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,888,201	\$ 3,402,241
Cash flows from investing activities:		
Construction and acquisition of plant	\$ (3,445,813)	\$ (3,359,147)
Plant removal cost	(924)	(1,012)
Salvage	16,731	0
Proceeds from sale of fixed asset	3,500	0
Increase in nonregulated assets	(4,291)	(325,335)
Purchase of investment	(55,558)	0
Securities available for sale	(987,991)	2,478,440
Organization costs	0	(167,366)
Increase in temporary investments	(5,201)	(373,149)
Increase (decrease) in reserve for market valuation of securities	(9,725)	4,052
Decrease (Increase) in:		
Materials and supplies	59,582	625,920
Deposits	0	(1,500)
Nonregulated income	1,577,743	1,235,193
	<hr/>	<hr/>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$ (2,851,947)	\$ 116,096

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

For the years ended December 31, 2009 and 2008

	2009	2008
Cash flows from financing activities:		
Payments on long-term borrowings	\$ (1,775,518)	\$ (1,688,628)
Retirement and application of capital credits	0	(584,951)
Postretirement benefits other than pension	211,962	230,605
Decrease in:		
Customer deposits	(2,700)	(4,200)
Memberships	(6,060)	(5,485)
NET CASH USED BY FINANCING ACTIVITIES	<u>\$ (1,572,316)</u>	<u>\$ (2,052,659)</u>
NET INCREASE (DECREASE) IN CASH	\$ (536,062)	\$ 1,465,678
CASH AT BEGINNING OF YEAR	<u>6,971,331</u>	<u>5,505,653</u>
CASH AT END OF YEAR	<u>\$ 6,435,269</u>	<u>\$ 6,971,331</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

For the years ended December 31, 2009 and 2008

	2009	2008
Net income (loss)	\$ (924,575)	\$ 345,889
Nonregulated income	(1,577,743)	(1,235,193)
Income from investment	(49,656)	(24,696)
Gain from sale of fixed asset	(3,500)	0
Deferred tax expense (benefit)	(4,408)	42,943
Loss from obsolete inventory	706,485	0
	<hr/>	<hr/>
Net loss from regulated operations	\$ (1,853,397)	\$ (871,057)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	\$ 6,000,532	\$ 5,081,495
Decrease (Increase) in:		
Customer and other accounts receivable	383,564	(202,174)
Refundable tax deposit	(63,286)	0
Current and accrued assets - other	37,996	81,535
Prepaid expenses	144,547	79,081
Increase (Decrease) in:		
Accounts payable	(698,575)	(231,968)
Advance billings and payments	25,917	29,242
Accrued taxes	73,541	(152,073)
Accrued interest	(4,466)	(4,249)
Accrued rents	24,920	39,561
Accrued salaries and compensated absences	(89,741)	(296,891)
Accrued federal and state income taxes	(18,788)	(27,544)
Other current liabilities	(74,563)	(122,717)
	<hr/>	<hr/>
TOTAL ADJUSTMENTS	\$ 5,741,598	\$ 4,273,298
	<hr/>	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,888,201	\$ 3,402,241
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See the notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2009 and 2008

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 Communications Corporation and Highland Media Corporation. Highland Communications Corporation was formed on May 8, 1996 for the purpose of providing long distance telephone services, internet and other telecommunications services. Highland Media Corporation was formed to provide cable television services. The consolidated financial statements include the accounts of Highland Communications Corporation and Highland Media Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.
- (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) Certificates of deposit and United States treasury bills with original maturities over 90 days are classified as temporary investments.
- (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 \$17,853 at December 31, 2009.

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.

Telecommunications services are provided to the Cooperative's customers 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 SUBSIDIARIES

December 31, 2009 and 2008

Note A – (Cont'd):

- (5) Materials and supplies are valued at average cost accumulated in perpetual inventory records, which are periodically adjusted to physical counts. The lower of cost (first-in, first-out) or market method has been used in determining the inventory value at year-end for the subsidiaries.
- (6) Revenue is recorded upon the billing of telecommunications services net of sales tax.
- (7) 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.
- (8) Employee vacation pay is accrued as the benefits are earned according to an established policy.
- (9) Advertising costs are expensed as incurred and included in customer operations. Advertising expense amounted to \$194,983 in 2009 and \$169,646 in 2008.
- (10) Various amounts have been reclassified for comparative purposes.

Note B – Substantially all assets are pledged as security for the long-term debt to RUS.

Note C – The Cooperative maintains its cash accounts in several commercial banks located within its trade area. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. A summary of the total insured and uninsured cash balances follows:

Total cash and temporary investments held in commercial bank	\$7,053,786
Portion insured by FDIC	<u>2,039,405</u>
Uninsured cash balances	<u>\$5,014,381</u>

The Cooperative has an agreement with Regions Bank whereby \$2,220,000 of the uninsured cash is collateralized by United States Treasury Bills.

Highland Communications Corporation has a private insurance policy insuring \$14,237 of its otherwise uninsured cash balances that are included in the uninsured cash balances above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2009 and 2008

Note D -- Investments in Debt and Equity Securities:

Investments in debt and equity securities consist of the following:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Estimated Market Value</u>
December 31, 2009:			
Available for sale:			
U.S. Treasury Notes	<u>\$5,146,145</u>	<u>\$1,057</u>	<u>\$5,147,202</u>
December 31, 2008:			
Available for sale:			
U.S. Treasury Notes	<u>\$4,148,429</u>	<u>\$10,782</u>	<u>\$4,159,211</u>
	<u>Less than 12 months</u>		
Description of Securities	<u>Fair Value</u>	<u>Unrealized Gain</u>	
U.S. Treasury Notes	<u>\$5,146,145</u>	<u>\$1,057</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 December 31, 2009, 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, 2009, 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>2009</u>	<u>2008</u>
Proceeds from sales and redemptions	<u>\$8,531,109</u>	<u>\$8,419,653</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2009 and 2008

Note E – Other Investments:

	<u>2009</u>	<u>2008</u>
Nonregulated customer premises equipment, paystations, and key systems	\$4,624,015	\$4,417,919
Less accumulated depreciation	<u>(2,050,335)</u>	<u>(1,878,505)</u>
Net nonregulated customer premises equipment, paystations, and key systems	\$2,573,680	\$2,539,414
Nonregulated materials and supplies	177,853	207,828
Tennessee Independent Telecommunications Group, LLC (IRIS Networks) (10%)	<u>950,489</u>	<u>845,274</u>
TOTAL OTHER INVESTMENTS	<u>\$3,702,022</u>	<u>\$3,592,516</u>

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>2009</u>	<u>2008</u>
Land	\$ 259,586	\$ 259,586
Buildings	3,689,235	3,689,235
Central office equipment	30,131,024	29,514,932
Poles, cables, and wire	59,619,969	58,707,645
Furniture and office equipment	2,231,350	2,085,835
Vehicles and other work equipment	3,075,580	2,903,184
Intangibles	<u>2,422</u>	<u>2,422</u>
TELECOMMUNICATIONS PLANT IN SERVICE	<u>\$99,009,166</u>	<u>\$97,162,839</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2009 and 2008

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 5.39 % in 2009 and 5.19% in 2008. Individual depreciation rates are as follows:

Buildings	2.7%
Central office	8.9 – 11.6%
Poles, cables and wire	5.2%
Furniture and office equipment	6.6 – 15.8%
Vehicles and other work equipment	6.5 – 12.1%

Investment in property and equipment included in the accounts of Highland Communications:

	<u>2009</u>	<u>2008</u>
Land	\$ 194,289	\$ 194,289
Land improvements	15,579	15,579
Buildings and improvements	746,549	746,549
Furniture	23,042	23,042
Vehicles	101,564	95,121
Equipment	<u>735,425</u>	<u>711,054</u>
TOTAL	<u>\$1,816,448</u>	<u>\$1,785,634</u>

Investment in property and equipment included in the accounts of Highland Media:

	<u>2009</u>	<u>2008</u>
Land	\$ 54,250	\$ 54,250
Buildings	762,960	762,960
Vehicles	21,645	21,645
Furniture	173,452	173,453
Tools and other work equipment	12,210	12,210
Video equipment	4,259,736	3,556,672
Testing equipment	<u>21,040</u>	<u>21,040</u>
TOTAL	<u>\$5,305,293</u>	<u>\$4,602,230</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2009 and 2008

Note F – (Cont'd):

Highland Communications and Highland Media 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 Communication's records amounted to \$91,209 in 2009 and \$90,058 in 2008. Depreciation charged to expense on the records of Highland Media amounted to \$624,866 for 2009 and \$197,228 for 2008.

Note G – Mortgage Notes:

Long-term debt is represented by mortgage notes payable to the United States of America. Following is a summary of outstanding long-term debt:

	<u>2009</u>	<u>2008</u>
5% Rural Utilities Service	\$8,116,834	\$9,892,352
Less current maturities	<u>1,864,295</u>	<u>1,773,058</u>
TOTAL	<u>\$6,252,539</u>	<u>\$8,119,294</u>

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>
2010	\$1,864,295
2011	1,957,510
2012	2,055,385
2013	2,158,154
2014	<u>81,490</u>
TOTAL	<u>\$8,116,834</u>

Note H – As required by the Retirement Benefit Topic of the FASB ASC, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2009 and 2008

Note H – (Cont'd):

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.

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>2009</u>	<u>2008</u>
Accumulated postretirement obligation attributable to:		
Retirees	\$ 946,149	\$ 753,352
Other active plan participants	<u>3,049,186</u>	<u>3,136,714</u>
Total accumulated postretirement benefit obligation	\$3,995,335	\$3,890,066
Fair value of plan assets	<u>0</u>	<u>0</u>
Net unfunded status	<u>\$3,995,335</u>	<u>\$3,890,066</u>
Amounts recognized in other comprehensive income:		
Unrecognized net gains	\$ 905,217	\$1,006,244
Unamortized transition obligation	<u>22,674</u>	<u>28,341</u>
Total included in other comprehensive income	<u>\$ 927,891</u>	<u>\$1,034,585</u>

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

	<u>2009</u>	<u>2008</u>
Benefits earned during the year	\$117,726	\$116,399
Interest on accumulated postretirement benefit obligation	229,952	224,213
Net amortization of transition obligation over 20 years	<u>49,164</u>	<u>77,414</u>
Postretirement benefit cost	<u>\$396,842</u>	<u>\$418,026</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 2009, 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 SUBSIDIARIES

December 31, 2009 and 2008

Note H – (Cont'd):

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

	<u>2009</u>	<u>2008</u>
Discount rate	6.00%	6.00%
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 2009 was approximately 11.0% grading down to an ultimate rate in 2026 of 6.5%. 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 2009 net periodic postretirement benefit cost by \$51,019 and would have increased the postretirement benefit obligation as of December 31, 2009 by \$436,456.

The Plan attempts to mitigate investment risks by balancing between equity and debt classes of investments. Currently, the plan is invested in mutual funds with a target allocation of approximately 65% domestic and international stocks, 15% investment grade bonds, 10% high yield bonds, and 10% real estate. Although changes in interest rates may affect the fair value of a portion of the investment portfolio and cause unrealized gains and losses, such gains and losses would not be realized unless the investments are sold. In addition, no plan assets are expected to be returned to the Company in 2010.

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>
2010	\$ 188,578
2011	192,350
2012	196,197
2013	200,121
2014	204,123
Years 2015 – 2019	<u>1,083,510</u>
TOTAL	<u>\$2,064,879</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2009 and 2008

Note H – (Cont'd)

The Company generally does not make an annual contribution to the plan and a contribution is not anticipated in 2010.

Note I – The Cooperative has adopted the retirement and security program of the National Telephone Cooperative Association as a pension plan covering all employees meeting certain age and length of service requirements for which it pays approximately 80% of the cost. The Cooperative funds the pension plan by making monthly contributions into the program based on salaries. The Cooperative's cost was \$487,790 for 2009 and \$500,608 for 2008.

Note J – Pension Plan:

The Cooperative sponsors a 401(k) savings plan in which non-union employees can participate. The company matches employees' contributions based on a percentage of salary contributed by participants. Employer matches amounted to \$125,364 in 2009 and \$153,539 in 2008.

Highland Communications established a 401(k) plan effective May 19, 1997. The plan covers all full time employees. Employees have the option to contribute up to 10% of their pay up to a maximum of \$16,500 for 2009 and \$15,500 for 2008. The Company matches the entire amount that each employee contributes to the plan. Retirement expense related to this plan amounted to \$24,858 in 2009 and \$29,111 in 2008.

Note K – Lease Commitments:

Highland Communications has a one-year lease for its Oneida office space. The monthly rental expense for the office space is \$1,062. The lease for the Oneida office can be renewed for one additional year. Rent expense was \$13,409 in 2009 and \$13,546 in 2008.

Note L – Income Taxes:

The Cooperative is currently exempt from both federal and state taxes on income, except for directory advertising which has been determined to be unrelated income subject to federal and state income taxes.

Highland Communications and Highland Media are subject to state and federal corporation income taxes. Deferred income taxes are as follows on the books of Highland Communications:

	<u>2009</u>	<u>2008</u>
Net deferred tax liability	<u>\$55,676</u>	<u>\$60,084</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

December 31, 2009 and 2008

Note L – (Cont'd):

The deferred long-term tax liability results from timing differences in depreciation and unrealized gains from investments. The difference between the income tax provisions reflected in the income statement and the provision resulting from applying the federal and state statutory rates to income or loss before income taxes results primarily from redetermination of prior year income tax liabilities.

Note M – Labor Force:

Approximately 80% of the Cooperative's labor force is subject to a collective bargaining agreement. A three-year agreement was negotiated and approved for the period October 1, 2008 to September 30, 2011 between the Cooperative and the Communications Workers of America.

Note N – Commitments and Contingencies:

The Cooperative is a guarantor for loans in the amount of approximately \$550,000. These loans are the obligation of TN Independent Telecommunications Group d/b/a Iris Networks, a related party.

Note O – Related Party Transactions:

Highland Telephone Cooperative, Inc. (Cooperative) provides billing and collection services for Highland Communications Corporation and Highland Media Corporation and remits revenues as billed net of collection service fees and other adjustments including any uncollectible revenues from previous billings.

Note P – A prior period adjustment was recorded in Highland Media Corporation at September 30, 2008. During 2008, organizational costs of \$175,421 were capitalized and not expensed as incurred as prescribed by the FASB ASC 250-10-50-7. Amortization of the organization costs were also calculated during the year and amounted to \$8,056. The net amount of the correction to retained earnings for the year amounted to \$167,365.

Note Q – 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, 2009 and before the date these financial statements were available to be issued, March 17, 2010, and determined that no additional disclosures are necessary.

CONSOLIDATING INFORMATION

Gentry B. Underhill Jr., CPA
Stephen B. Boyd, CPA, CMA, CFE
Carol C. Boyd, CPA
L. Candice King, CPA
Kevin C. Sizemore, CPA
Kellie M. Rowland, CPA
James A. Welch, CPA of Counsel

TOTHEROW, HAILE & WELCH, PLLC

TIN 62-0693408

Certified Public Accountants

2355 South Chancery Street
McMinnville, Tennessee 37110

Tel. (931) 668-1272
Fax (931) 668-2752
www.thwcpa.com

INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

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

Our report on our audit of the consolidated financial statements of Highland Telephone Cooperative, Inc. and Subsidiaries as of December 31, 2009, and for the year then ended, appears on pages three and four. That audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information contained on pages 25 through 28 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements. In our opinion, which insofar as it relates to Highland Communications Corporation, is based on the report of other auditors, such information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Totherow, Haile & Welch, PLLC
Certified Public Accountants

McMinnville, Tennessee
March 17, 2010

CONSOLIDATING

HIGHLAND TELEPHONE COOPERATIVE,

December 31,

	Highland Telephone Cooperative, Inc.	Highland Communications Corporation	Highland Media Corporation	Eliminations	Total
<u>ASSETS</u>					
<u>CURRENT ASSETS</u>					
Cash - general	\$ 4,841,021	\$ 1,510,462	\$ 83,786	\$ 0	\$ 6,435,269
Temporary investments	600,000	378,350	0	0	978,350
Securities available for sale	5,147,202	0	0	0	5,147,202
Telecommunications accounts receivable	988,260	322,297	22,691	(344,988)	988,260
Other accounts receivable	679,582	0	0	0	679,582
Materials and supplies	1,588,267	0	0	0	1,588,267
Prepayments	393,581	0	0	0	393,581
Due from affiliate	358,293	0	0	(358,293)	0
Refundable tax deposits	15,596	47,690	0	0	63,286
Other current assets	127,989	0	0	0	127,989
TOTAL CURRENT ASSETS	\$ 14,739,791	\$ 2,258,799	\$ 106,477	\$ (703,281)	\$ 16,401,786
<u>NONCURRENT ASSETS</u>					
Investment in subsidiaries	\$ 7,504,199	\$ 0	\$ 0	\$ (7,504,199)	\$ 0
Other investments	950,489	0	0	0	950,489
Nonregulated investments	2,751,533	0	0	0	2,751,533
Deposits	2,573	1,200	400	0	4,173
TOTAL NONCURRENT ASSETS	\$ 11,208,794	\$ 1,200	\$ 400	\$ (7,504,199)	\$ 3,706,195
<u>PROPERTY, PLANT AND EQUIPMENT</u>					
Telecommunications plant in service	\$ 99,009,166	\$ 1,816,448	\$ 5,305,293	\$ 0	\$ 106,130,907
Telecommunications plant under construction	1,564,392	0	0	0	1,564,392
	\$ 100,573,558	\$ 1,816,448	\$ 5,305,293	\$ 0	\$ 107,695,299
Less accumulated depreciation	67,401,939	718,657	823,548	0	68,944,144
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 33,171,619	\$ 1,097,791	\$ 4,481,745	\$ 0	\$ 38,751,155
	<u>\$ 59,120,204</u>	<u>\$ 3,357,790</u>	<u>\$ 4,588,622</u>	<u>\$ (8,207,480)</u>	<u>\$ 58,859,136</u>

BALANCE SHEETS

INC. AND SUBSIDIARIES

2009

	Highland Telephone Cooperative, Inc.	Highland Communications Corporation	Highland Media Corporation	Eliminations	Total
<u>LIABILITIES AND MEMBERS' EQUITY</u>					
<u>CURRENT LIABILITIES</u>					
Accounts payable	\$ 775,276	\$ 84,067	\$ 14,259	\$ (344,988)	\$ 528,614
Advance billings and payments	730,463	0	6,008	0	736,471
Customer deposits	1,699	0	0	0	1,699
Current maturities on long-term debt	1,864,295	0	0	0	1,864,295
Accrued taxes	521,190	20,088	21,795	0	563,073
Accrued interest	23,946	0	0	0	23,946
Accrued rent	571,107	0	0	0	571,107
Advance from parent company	0	0	227,727	(227,727)	0
Accrued salaries and wages	156,825	0	0	0	156,825
Accrued compensated absences	1,240,384	0	0	0	1,240,384
Accrued federal and state income taxes	0	0	5,204	0	5,204
Other current liabilities	279,607	0	7,389	(130,566)	156,430
TOTAL CURRENT LIABILITIES	\$ 6,164,792	\$ 104,155	\$ 282,382	\$ (703,281)	\$ 5,848,048
<u>LONG-TERM DEBT</u>					
Rural Utilities Service	6,252,539	0	0	0	6,252,539
<u>OTHER LIABILITIES</u>					
Postretirement benefits other than pension	3,995,335	0	0	0	3,995,335
Deferred taxes	0	55,676	0	0	55,676
TOTAL LIABILITIES	\$ 16,412,666	\$ 159,831	\$ 282,382	\$ (703,281)	\$ 16,151,598
<u>MEMBERS' EQUITY</u>					
Memberships	\$ 262,442	\$ 0	\$ 0	\$ 0	\$ 262,442
Patronage capital	43,537,490	0	0	0	43,537,490
Accumulated other comprehensive loss	(1,092,394)	0	0	0	(1,092,394)
Capital stock	0	1,387,409	200,000	(1,587,409)	0
Paid-in capital	0	604,435	5,681,739	(6,286,174)	0
Retained earnings	0	1,206,115	(1,575,499)	369,384	0
TOTAL MEMBERS' EQUITY	\$ 42,707,538	\$ 3,197,959	\$ 4,306,240	\$ (7,504,199)	\$ 42,707,538
	<u>\$ 59,120,204</u>	<u>\$ 3,357,790</u>	<u>\$ 4,588,622</u>	<u>\$ (8,207,480)</u>	<u>\$ 58,859,136</u>

CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

Year ended December 31, 2009

	Highland Telephone Cooperative, Inc.	Highland Communications Corporation	Highland Media Corporation	Eliminations	Total
Operating revenues:					
Local network services revenue	\$ 6,253,462	\$ 0	\$ 0	\$ 0	\$ 6,253,462
Long distance services revenue	0	1,223,596	0	0	1,223,596
Network access services revenue	8,276,451	0	0	(616,688)	7,659,763
Miscellaneous revenues	2,706,554	4,321,466	189,060	(4,787,434)	2,429,646
Less uncollectible revenue	<u>(830)</u>	<u>(59,938)</u>	<u>0</u>	<u>(6,309)</u>	<u>(67,077)</u>
TOTAL OPERATING REVENUES	\$ 17,235,637	\$ 5,485,124	\$ 189,060	\$ (5,410,431)	\$ 17,499,390
Operating expenses:					
Plant specific operations expense	\$ 5,366,784	\$ 11,016	\$ 91,049	\$ (91,049)	\$ 5,377,800
Plant nonspecific operations expense	1,493,263	0	75,110	(75,110)	1,493,263
Provision for depreciation	4,919,736	91,209	624,866	(624,866)	5,010,945
Customer operations expense	2,003,596	2,970,672	22,429	(2,496,454)	2,500,243
Corporate operations expense	3,019,841	1,079,940	183,429	(485,655)	3,797,555
Operating taxes	<u>323,599</u>	<u>20,673</u>	<u>34,565</u>	<u>(34,565)</u>	<u>344,272</u>
TOTAL OPERATING EXPENSES	\$ 17,126,819	\$ 4,173,510	\$ 1,031,448	\$ (3,807,699)	\$ 18,524,078
OPERATING INCOME (LOSS)	\$ 108,818	\$ 1,311,614	\$ (842,388)	\$ (9,218,130)	\$ (1,024,688)
Other income (expense):					
Interest income	\$ 65,616	\$ 9,194	\$ 0	\$ 0	\$ 74,810
Nonregulated income (loss)	(24,989)	0	0	1,602,732	1,577,743
Income from subsidiaries	(193,488)	0	0	193,488	0
Income from investment	49,656	0	0	0	49,656
Gain on sale of fixed asset	0	3,500	0	0	3,500
Loss on obsolete inventory	<u>(706,485)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(706,485)</u>
TOTAL OTHER INCOME (LOSS)	\$ (809,690)	\$ 12,694	\$ 0	\$ 1,796,220	\$ 999,224

CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (CONT'D)

HIGHLAND TELEPHONE COOPERATIVE, INC. AND SUBSIDIARY

Year ended December 31, 2009

	Highland Telephone Cooperative, Inc.	Highland Communications Corporation	Highland Media Corporation	Eliminations	Total
Fixed charges:					
Interest on long-term debt	\$ 451,232	\$ 0	\$ 0	\$ 0	\$ 451,232
Interest charged to construction - credit	(67,132)	0	0	0	(67,132)
Interest on customer deposits	642	0	0	0	642
TOTAL FIXED CHARGES	\$ 384,742	\$ 0	\$ 0	\$ 0	\$ 384,742
INCOME (LOSS) BEFORE TAXES ON INCOME	\$ (1,085,614)	\$ 1,324,308	\$ (842,388)	\$ (7,421,910)	\$ (410,206)
Taxes on income	6,325	508,044	0	0	514,369
NET INCOME (LOSS)	\$ (1,091,939)	\$ 816,264	\$ (842,388)	\$ (7,421,910)	\$ (924,575)
Other comprehensive income (loss):					
Unrealized loss on investment securities available for sale	\$ (9,725)	0	0	0	(9,725)
Postretirement benefits other than pension:					
Prior service costs	5,667	0	0	0	5,667
Unrecognized loss	101,026	0	0	0	101,026
COMPREHENSIVE INCOME (LOSS)	\$ (994,971)	\$ 816,264	\$ (842,388)	\$ (7,421,910)	\$ (827,607)

EXHIBIT "L"
2009 ANNUAL REPORT TO
PUBLIC SERVICE COMMISSION
(FORM T)

REVISED 8/23/05

ANNUAL REPORT

OF

Exact Legal Name of Reporting Utility

HIGHLAND TELEPHONE COOPERATIVE, INC.

(Address of utility)

7840 MORGAN COUNTY HWY
P. O. BOX 119
SUNBRIGHT, TENNESSEE 37872

TO THE
PUBLIC SERVICE COMMISSION
OF THE
COMMONWEALTH OF KENTUCKY

FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2009

KENTUCKY PUBLIC SERVICE COMMISSION
REPORT OF GROSS OPERATING REVENUES DERIVED FROM INTRA-KENTUCKY
BUSINESS FOR THE YEAR ENDING DECEMBER 31, 20 09

LOCAL EXCHANGE CARRIERS and COMPETITIVE LOCAL EXCHANGE CARRIERS

Name of Utility Reporting Highland Telephone Cooperative, Inc.

FEIN # (Federal Employer Identification Number)

6 2 - 0 5 4 9 5 4 1

Address of Utility 7840 Morgan County Hwy. P. O. Box 119

City Sunbright State Tennessee Zip Code 37872

Telephone Number of Utility 423-628-2121

Fax Number of Utility (if applicable) 423-628-2409

Officer/Contact Person Patricee Brown Account Manager
(Name) (Title)

ASSESSABLE REVENUES OF TELEPHONE UTILITY.....\$ 1,586,953.56
(to agree with assessable revenues figure on the back of this page)

OATH

State of Tennessee)
) ss.
County of Morgan)

Sam Strunk being duly sworn, states that he/she
(Officer)

is President of the Highland Telephone Cooperative, Inc.
(Official Title) (Utility Reporting)

that the above report of gross revenues is in exact accordance with

Highland Telephone Coop., Inc., and that such books accurately show the gross
(Utility Reporting)

revenues of: Highland Telephone Coop., Inc., derived from Intra-Kentucky
(Utility Reporting)

business for the calendar year ending December 31, 20 09

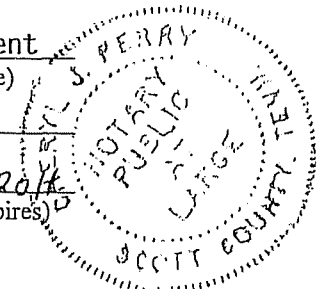
Sam L Strunk President
(Officer) (Title)

This the 30 day of MARCH, 20 10

Cheryl G Perry
(Notary Public)

Scott
(County)

7-20-2010
(Commission Expires)



NOTE: ANY DIFFERENCE BETWEEN THE AMOUNT OF THE GROSS REVENUES SHOWN IN ANY ANNUAL REPORT FILED AND THE AMOUNT APPEARING ON THIS STATEMENT MUST BE RECONCILED ON THE REVERSE OF THIS REPORT

KENTUCKY PUBLIC SERVICE COMMISSION
REPORT OF GROSS OPERATING REVENUES DERIVED FROM INTRA-KENTUCKY
BUSINESS FOR THE YEAR ENDING DECEMBER 31, 2009

LOCAL EXCHANGE CARRIERS and COMPETITIVE LOCAL EXCHANGE CARRIERS
TELECOMMUNICATIONS UTILITIES RECONCILIATION FORM

Total Operating Revenues (Schedule VI, page 1 of 5)	\$ 4,310,632.92
Additions:	
Intrastate Uncollectibles (Account 5300)	\$ 3,456.30
Total Additions	\$ 4,307,176.62
Deductions:	
Non-Regulated Revenue (Account 5280)	\$
Interstate Billing/Collection Revenues (Acct 5200)	\$ 563,788.33
End User Revenue (Account 5081)	\$ 573,742.43
Interstate Switched Access Revenue (Acct 5082)	\$ 1,319,375.94
Interstate Special Access Revenue (Acct 5083)	\$ 263,316.36
Any Miscellaneous Interstate Revenues (Explain Below)	\$
Total Deductions	\$ 2,720,223.06
RECONCILED ASSESSABLE REVENUES	\$ 1,586,953.56

Explanations/Comments:

Do Not Write Below This Line

KENTUCKY PUBLIC SERVICE COMMISSION
 REPORT OF GROSS OPERATING REVENUES DERIVED FROM INTRA-KENTUCKY
 BUSINESS FOR THE YEAR ENDING DECEMBER 31, 2009

LOCAL EXCHANGE CARRIERS and COMPETITIVE LOCAL EXCHANGE CARRIERS

NAMES OF COUNTIES IN WHICH YOU FURNISH TELEPHONE SERVICE:

(If additional space is required, please add an additional sheet.)

McCreary County

OFFICER OR OTHER PERSON TO WHOM CORRESPONDENCE SHOULD BE ADDRESSED
 CONCERNING THIS REPORT:

Name Patricee Brown Title Account Manager
 Address 7840 Morgan County Hwy City Sunbright
 State Tennessee Zip Code 37872 Phone 423-628-2121

This information is to be kept current by prompt notification to the Commission of any changes until the report for the succeeding year has been submitted.

ACCESS LINES IN SERVICE:

State or Territory	Single Line (Business)	Multi-Line (Business)	Public Access Lines	Residential Access Lines	Total Access Lines
Kentucky	816	228	0	5,362	6,406

IDENTIFY QUANTITY OF CIRCUITS PROVIDED FOR EACH OF THE FOLLOWING TRANSMISSION CAPACITIES:

Special Access Lines	Fractional T-1	DS-1 / T-1	DS-3 / T-3	> DS-3 / T-3
	N/A	58	2	N/A

Commonwealth of Kentucky
Public Service Commission

INFORMATION FORM FOR TELEPHONE UTILITIES OPERATING
PURSUANT TO KRS 278.541 through 278.544

Complete Name
of Telephone Utility: Highland Telephone Cooperative, Inc.

Physical Address
of Principal Office: 7840 Morgan County Hwy. P. O. Box 119
Sunbright, Tennessee 37872

Name and Title of
Person Responsible for
Answering Consumer
Complaints: Rhonda Davis Customer Service Manager

Telephone Number of
Person Responsible for
Answering Consumer
Complaints: 423-628-2121

In accordance with KRS 278.542 (2), which requires telephone utilities operating pursuant to 2006 KRS 278.541 through KRS 278.544 to file with the Commission certain information, I, Patricee Brown, on behalf of Highland Telephone Coop. Inc. do hereby certify that the foregoing information is true and correct to the best of my knowledge, as of this day of March, 2009.

UTILITY: Highland Telephone Cooperative, Inc.

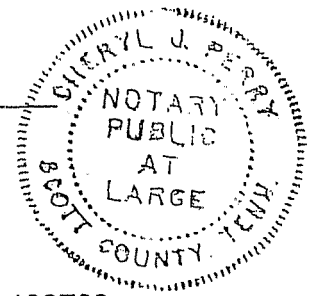
BY: Patricee Brown

STATE OF Tennessee
COUNTY OF Morgan

The foregoing was signed, sworn to and acknowledged before me, the NOTARY PUBLIC, on this the 30 day of MARCH, 2010.

Cheryl G. Perry
NOTARY PUBLIC

My Commission Expires: 7-20-2011



11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Title Page

	Name of Respondent	Addr Line 1	Addr Line 2	City	State	Zip
Annual Report of						
Respondent	Highland Telephone Cooperative, Inc.	7840 Morgan County Hwy.	P.O. Box 119	Sunbright	TN	37872

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

General Info - Basic Service

Average Bill

For Kentucky Operations Only please furnish

Average Residential Basic Service Monthly Bill

Not including Taxes/NonRegulated Services

\$19.36

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

General Information - Counties

McCreary

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

General Information - Contact Person

name	Address	city	state	Phone
------	---------	------	-------	-------

Officer or other Person to whom correspondence should be addressed concerning this report

Name, title, address and telephone number with area code of the person to be contacted concerning this report

Patriece	Brown	P. O. Box 119	Sunbright	TN	4236282121
----------	-------	---------------	-----------	----	------------

This information is to be kept current by prompt notification to the Commission of any changes until the report for the succeeding year has been submitted.

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

General Info - Principal Payment and Interest Information

	Amount	Yes/No
Amount of Principal Payment During Calendar Year	\$1,775,518.90	
Is Principal Current?		Y
Is Interest Current?		Y
Has all long-term debt been approved by the Public Service Commission?		Y

General Info - Services Performed by Independent CPA

	Yes/No	NCR
--	--------	-----

Are your financial statements examined by a Certified Public Accountant?

Enter Y for Yes or N for No Y

If yes, which service is performed?

Enter an X on each appropriate line

Audit X

Compilation

Review

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Board of Directors and General Officers - Sched. I (Ref Page: 1)

Name	Address	Title	Department	Term Expires	Served Since
Sam Strunk	Pineknott, KY	President		2011	2006
Joan Haynes	Petros, TN	Vice-President		2011	1981
Clara Terry	Oneida, TN	Secretary-Treasurer		2010	2001
John W. Tate	Robbins, TN	Director		2011	1987
James E. Terry	Oneida, TN	Director		2012	1991
Jerry Williams	Warburg, TN	Director		2010	1974
Mickey Bingham	Oakdale, TN	Director		2012	1979
Jan Byrd	Huntsville, TN	Director		2011	1979
Shelva Jo Jones	Marshes Siding, KY	Director		2012	1988
Loma Denney	Revelo, KY	Director		2010	1996
David Freytag	Sunbright, TN	Director		2012	2009

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Stockholders Sched II (Ref Page: 1)

	Name	Address	Shares
N/A			0

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Stockholders Sched II - (cont) (Ref Page: 1)

Class of Stock	Num of Holders	Date compiled	Purpose compiled
Enter Total number of stockholders for each class			
with the date and purpose of the compilation			
N/A	0		

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Balance Sheet Accounts - Sched III Page 1 (Ref Page: 1)

	Amount (C)
Current Assets	
Cash and Equivalents (1120)	\$10,588,222.70
Receivables (1170)	\$1,049,692.44
Allowance for Doubtful Accounts (1171)	(\$148,785.87)
Inventories (1220)	\$1,588,267.29
Prepayments (1280)	\$406,830.93
Other Current Assets (1350)	\$1,275,636.15
Non-Regulated Investments (1406)	\$2,754,106.40
Other Noncurrent Assets (1410)	\$8,454,687.50
Deferred Maintenance and Retirements (1438)	
Other Jurisdictional Assets - Net (1500)	
Total Current Assets	\$25,968,657.54

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Balance Sheet Accounts - Sched III Page 2-4 (Ref Page: 2)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Telephone Plant					
Telephone Plant in Service (2001)	\$97,177,031.52	\$2,137,815.49	(\$291,489.05)	\$0.00	\$99,023,357.96
Property Held for Future Telephone Use (2002)					
Tele. Plant Under Construct - Short Term (2003)	\$1,204,681.96	\$359,709.93	\$0.00	\$0.00	\$1,564,391.89
Tele. Plant Under Construct - Long Term (2004)					
Telephone Plant Adjustment (2005)					
Nonoperating Plant (2006)					
Goodwill (2007)					
Total Telephone Plant	\$98,381,713.48	\$2,497,525.42	(\$291,489.05)	\$0.00	\$100,587,749.85
Land and Support Assets					
Land (2111)	\$259,586.36	\$0.00	\$0.00	\$0.00	\$259,586.36
Motor Vehicles (2112)	\$2,318,028.04	\$190,474.95	(\$18,079.00)	\$0.00	\$2,490,423.99
Aircraft (2113)					
Tools and Other Work Equipment (2114)	\$585,156.26	\$0.00	\$0.00	\$0.00	\$585,156.26
Buildings (2121)	\$3,689,234.87	\$0.00	\$0.00	\$0.00	\$3,689,234.87
Furniture (2122)	\$26,173.34	\$0.00	\$0.00	\$0.00	\$26,173.34
Office Equipment (2123)	\$172,392.64	\$0.00	\$0.00	\$0.00	\$172,392.64
General Purpose Computers (2124)	\$1,887,269.01	\$145,514.64	\$0.00	\$0.00	\$2,032,783.65
Total Land and Support Assets	\$8,937,840.52	\$335,989.59	(\$18,079.00)	\$0.00	\$9,255,751.11
Central Office - Switching					
Non-Digital Switching (2211)					

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Balance Sheet Accounts - Sched III Page 2-4 (Ref Page: 2)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Digital Electronic Switching (2212)	\$24,757,795.65	\$552,345.31	\$0.00	\$0.00	\$25,310,140.96
Total Central Office - Switching	\$24,757,795.65	\$552,345.31	\$0.00	\$0.00	\$25,310,140.96
Total Operator Systems (2220)					
Central Office - Transmission					
Radio Systems (2231)	\$222,056.50	\$0.00	\$0.00	\$0.00	\$222,056.50
Circuit Equipment (2232)	\$4,535,080.07	\$138,009.16	(\$74,262.77)	\$0.00	\$4,598,826.46
Total Central Office Transmission	\$4,757,136.57	\$138,009.16	(\$74,262.77)	\$0.00	\$4,820,882.96
Information Origination Termination					
Station Apparatus (2311)					
Customer Premise Wire (2321)					
Large PBX (2341)					
Public Telephone Terminal Equipment (2351)	\$14,192.41	\$0.00	\$0.00	\$0.00	\$14,192.41
Other Terminal Equipment (2362)	\$0.00				
Total Information Origin Termination	\$14,192.41	\$0.00	\$0.00	\$0.00	\$14,192.41
Cable and Wire Facilities Assets					
Poles (2411)	\$10,019,731.17	\$25,920.23	(\$37,162.65)	\$0.00	\$10,008,488.75
Aerial Cable (2421)	\$39,264,609.43	\$995,986.21	(\$161,984.63)	\$0.00	\$40,098,611.01
Underground Cable (2422)	\$751,318.72	\$4,861.82	\$0.00	\$0.00	\$756,180.54
Buried Cable (2423)	\$8,218,354.19	\$83,786.81	\$0.00	\$0.00	\$8,302,141.00
Submarine and Deep Sea Cable (2424)					
Intrabuilding Network Cable (2426)					

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Balance Sheet Accounts - Sched III Page 2-4 (Ref Page: 2)

	Reg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Aerial Wire (2431)					
Conduit Systems (2441)	\$453,631.04	\$916.36	\$0.00	\$0.00	\$454,547.40
Total Cable and Wire Facilities Assets	\$58,707,644.55	\$1,111,471.43	(\$199,147.28)	\$0.00	\$59,619,968.70
Amortizable Assets					
Amortizable Tangible Assets (2680)					
Capital Leases (2681)					
Leasonhold Improvements (2682)					
Total Amortizable Assets					
Intangibles (2690)	\$2,421.82	\$0.00	\$0.00	\$0.00	\$2,421.82
Total Tele. Plant in Service 2001	\$97,177,031.52	\$2,137,815.49	(\$291,489.05)	\$0.00	\$99,023,357.96

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Balance Sheet Accounts - Sched III Page 5a (Ref Page: 4)

	Amount
Depreciation and Amortization	
Accumulated Depreciation (3100)	\$67,413,709.61
Accumulated Depreciations - Held for Future Telecom. Use (3200)	
Accumulated Depreciation - Nonoperating (3300)	
Accumulated Amortization - Capitalized Leases (3410)	\$2,421.82
Total Depreciation and Amortization	\$67,416,131.43
Net Telephone Plant	\$33,171,618.42
Total Assets	\$59,140,275.96

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Balance Sheet Accounts - Sched III Pages 5-6 (Ref Page: 5)

	Amount
Current Liabilities	
Current Accounts and Notes Payable (4000)	\$3,316,747.61
Customer's Deposits (4040)	\$1,699.05
Income Taxes - Accrued (4070)	(\$2,356.40)
Other Taxes - Accrued (4080)	\$527,448.35
Net Current Deferred Operating Income Taxes (4100)	
Net Current Deferred Nonoperating Income Taxes (4110)	
Other Current Liabilities (4130)	\$2,341,325.04
Total Current Liabilities	\$6,184,863.65
Long Term Debt and Funded Debt (4200)	\$6,252,538.51
Other Liabilities and Deferred Credits	
Other Long Term Liabilities and Deferred Credits (4300)	\$3,995,334.52
Unamortized Operating Investment Tax Credits - Net (4320)	
Unamortized Nonoperating Investment Tax Credits - Net (4330)	
Net Noncurrent Deferred Operating Income Taxes (4340)	
Net Deferred Tax Liability Adjustments (4341)	
Net Noncurrent Deferred Nonoperating Income Taxes (4350)	
Deferred Tax Regulatory Liability (4361)	
Other Jurisdictional Liabilities/Deferred Credits - Net (4370)	
Total Other Liabilities and Deferred Credits	\$3,995,334.52
Capital Stock (4510)	
Additional Paid-In Capital (4520)	
Treasury Stock (4530)	
Other Capital (4540)	\$262,442.05
Retained Earnings (4550)	\$42,445,097.23
Total Stockholders' Equity	\$42,707,539.28
Total Liabilities and Stockholder's Equity	\$59,140,275.96

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009
 Balance Sheet Accts - Retained Earnings Sched III pg 5 (Ref Page: 6)

	Amount
Retained Earnings (Beg of Yr)	\$42,181,744.51
Net Income	(\$1,091,939.59)
Dividends Declared	
Capital Credit Rotations	
Miscellaneous Debits*	\$0.00
Miscellaneous Credits*	\$1,355,292.31
Retained Earnings (End of Year)	\$42,445,097.23
* Explain any individual item over \$10,000	

Note:

Miscellaneous Credits:

The Accounting Method for the accrual of post retirement benefits was affected by the pronouncement FAS158. The application of FAS158 resulted in an adjustment to post retirement benefits and a corresponding comprehensive loss of \$96,968.16.

Difference in net income reported last year 1,258,324.15.

Our original report was filed using preliminary numbers. An adjusting entry was made in the 13th month to recalculate switch office and aerial cable depreciation.

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Investments in Affiliated Companies - Sched IV Company names (Ref Page: 1)

Company Name	
Associate the name of each company to be entered on Sched. IV with the appropriate column (a - j)	
Column b	Highland Communications
Column c	Tennessee Independent Telephone Group
Column d	Highland Media Corporation
Column e	
Column f	
Column g	
Column h	
Column i	
Column j	

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Investments in Affiliated Companies Sched IV (Ref Page: 1)

	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
All Company Names must be affiliated with a Column on the previous schedule									
Other NonCurrent Assets (1410)									
Equity method									
Beginning Balance	\$2,981,695.00	\$845,274.00	\$4,677,866.72	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Investments	(\$600,000.00)	\$0.00	\$537,139.75	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Earnings	\$816,264.00	\$105,213.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
(Losses)	\$0.00	\$0.00	\$908,764.97	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Subtotal (1410)	\$3,197,959.00	\$950,487.00	\$4,306,241.50	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cash and Equivalents (1120)									
Beginning Balance									
Gross Dr.									
Gross (Cr)									
Subtotal (1120)									
Receivables (1170)									
Beginning Balance									
Gross Dr.									
Gross (Cr)									
Subtotal (1170)									
Total Affiliated Companies	\$3,197,959.00	\$950,487.00	\$4,306,241.50	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Investments in NonAffiliated Companies - Sched V Company names (Ref Page: 1)

Company Name	
--------------	--

Associate the name of each company to be entered on Sched. IV with the appropriate column (a - j)

Column b	N/A
----------	-----

Column c	
----------	--

Column d	
----------	--

Column e	
----------	--

Column f	
----------	--

Column g	
----------	--

Column h	
----------	--

Column i	
----------	--

Column j	
----------	--

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Investments in Non Affiliated Companies Sched IV (Ref Page: 1)

	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
All Company									
Names must be affiliated with a Column on the previous schedule									
Other NonCurrent Assets (1410)									
Equity method									
Beginning Balance	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Investments									
Earnings									
(Losses)									
Subtotal (1410)									
Cash and Equivalents (1120)									
Beginning Balance									
Gross Dr.									
Gross (Cr)									
Subtotal (1120)									
Receivables (1170)									
Beginning Balance									
Gross Dr.									
Gross (Cr)									
Subtotal (1170)									
Total Affiliated Companies									

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Income Statement Accounts - Sched VI pg 1 (Ref Page: 1)

	Amount (c)
Local Network Service	
Basic Area Revenue (5001)	\$5,420,205.91
Private Line Revenue (5040)	\$25,946.04
Other Basic Area Revenue (5060)	\$428,025.80
Total Local Network Service Revenues	\$5,874,177.75
Network Access Service Revenues	
End User Revenue (5081)	\$2,294,052.11
Switched Access Revenue (5182)	\$5,275,393.61
Special Access Revenue (5083)	\$1,052,844.32
Total Network Access Revenue	\$8,622,290.04
Long Distance Message Revenue (5100)	\$33,445.85
Miscellaneous Revenue (5200)	\$2,254,251.61
Directory Revenue (5230)	\$437,652.49
Non-Regulated Operating Revenue (5280)	
Uncollectible Revenue (5300)	(\$13,819.68)
TOTAL OPERATING REVENUE	\$17,235,637.42

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009
 Income Statement - Operating Exp - Plant Specific - Sched VI pg 2 (Ref Page: 2)

	Total (c)
Plant Specific Operation Expense	
Motor Vehicle Expense (6112)	\$8,788.05
Aircraft Expense (6113)	
Tools and Other Work Equipment Expense (6114)	(\$81.04)
Total Network Support Expenses	\$8,707.01
Land and Building Expense (6121)	\$674,208.24
Furniture and Artworks Expense (6122)	
Office Equipment Expense (6123)	\$279,911.24
General Purpose Computers Expense (6124)	\$231,135.43
Total Support Expense	\$1,185,254.91
Non-Digital Switching Expense (6211)	
Digital Electronic Expense (6212)	\$1,349,679.77
Total Central Off. Switch. Exp.	\$1,349,679.77
Operator System Expense (6220)	
Radio System Expense (6231)	\$3,162.21
Circuit Equipment Expense (6232)	\$457,398.10
Total Central Off. Trans. Exp.	\$460,560.31
Station Apparatus Expense (6311)	
Large PBX Expense (6341)	
Public Tele Terminal Equipment (6351)	
Other Terminal Equipment Expense (6362)	
Total Info. Org. Term. Equip	
Poles Expense (6411)	\$841,584.90
Aerial Cable Expense (6421)	\$1,457,402.34
Underground Cable Expense (6422)	\$14,241.95
Buried Cable Expense (6423)	\$49,353.04
Submarine and Deep Sea Cable (6424)	

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009
Income Statement - Operating Exp - Plant Specific - Sched VI pg 2 (Ref Page: 2)

	Total (C)
Intrabuilding Network Cable Expense (6426)	
Aerial Wire Expense (6431)	
Conduit Systems Expense (6441)	
Total Cable and Wire Expense	\$2,362,582.23
Total Plant Spc. Expense	\$5,366,784.23

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Income Statement - Operating Exp - Plant NonSpecific - Sched VI pg 3 (Ref Page: 3)

	Total (c)
Plant NonSpecific Operating Expense	
Plant held for future Telephone use (6511)	\$158,891.19
Provisioning Expense (6512)	\$75,000.56
Total other PPE Expense	\$233,891.75
Power Expense (6531)	\$200.21
Network Administration Expense (6532)	
Testing Expense (6533)	\$86,471.61
Plant Operations Administration Expense (6534)	\$313,278.09
Engineering Expense (6535)	\$561,762.08
Total Network Ops Expense	\$961,711.99
Access Expense (6540)	\$297,659.12
Depreciation Expense - Telecomm Plant in Service (6561)	\$4,919,735.85
Depreciation Expense - Property Held for Future Telecom Use (6562)	
Amortization - Tangible (6563)	
Amortization - Intangible (6564)	
Amortization - Other	
Total Depreciation and Amortization Epx	\$4,919,735.85
Total Plant NonSpecific Expense	\$6,412,998.71
Customer Operations Expense	
Product Management and Sales (6611)	\$4,899.45
Product Advertising (6613)	\$107,813.79
Total Marketing Expense	\$112,713.24
Call Completion Services (6621)	
Number Services (6622)	\$221,546.93
Customer Services (6623)	\$1,669,335.15
Total Services Expense	\$1,890,882.08
General and Administrative (6720)	\$3,019,841.38

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Income Statement - Operating Exp - Plant NonSpecific - Sched VI pg 3 (Ref Page: 3)

	Total (c)
Provision for Uncollectible Notes Receivable (6790)	
Total Corp. Oper. Expense	\$3,019,841.98
Net Operating Revenue	\$432,417.78

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Income Statement - Operating Exp - Sched VI pg 4 (Ref Page: 7)

	Amount
Other Operating Income and Expense (7100)	
Operating Taxes	
Operating Investment Tax Credits Net (7210)	
Operating Federal Income Taxes (7220)	\$3,741.20
Operating State and Local Income Taxes (7230)	\$2,585.00
Operating Other Taxes (7240)	\$323,599.49
Provision for Deferred Operating Income Tax - Net (7250)	
Total Operating Taxes	\$329,925.69
Nonoperating Income and Expense (7300)	(\$713,501.25)
Nonoperating Taxes (7400)	
Interest and Related Items (7500)	\$451,873.33
Extraordinary Items (7600)	
Jurisdictional Differences and NonRegulated Income	
Income Effect of Jurisdictional Differences - Net (7910)	
Nonregulated Net Income (7990)	(\$29,057.10)
Net Income	(\$1,091,939.59)

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Total Number of Employees - Sched VI (Ref Page: 4)

Total	
Total Number of Employees at End of Year	73
Number of Full-Time Employees	73
Number of Part-Time Employees	

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Total Compensation - Sched VI (Ref Page: 4)

	Amount
Total Compensation for the Year	\$6,024,390.78

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Access Lines in Service by Technology Sched VII (Ref Page: 1)

State (a)	Switches (b)	ISDN (c)	Digital (d)	Analog (e)	DSL (f)	PBX (g)	Genrex (h)	Other (i)
Tennessee	8	0	15,837	0	0	0	0	0
Kentucky	2	0	6,406	0	0	0	0	0
TOTAL	10	0	22,243	0	0	0	0	0

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Access Lines in Service by Customer Sched VIII (Ref Page: 1)

State (a)	Single (b)	Multi (c)	Public (d)	Residential (e)	Mobile (f)	Non-Switched (g)	Total (h)
Tennessee	2,413	827	7	12,545	45	0	15,837
Kentucky	816	228	0	5,362	0	0	6,406
TOTAL	3,229	1,055	7	17,907	45	0	22,243

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Telephone Calls Sched IX (Ref Page: 1)

State (a)	Local (b)	Toll (c)	Inter Num (d)	Inter Min (e)	Intra Num (f)	Intra Min (g)	Total Num (h)	Total Min (i)
Tennessee	44,211,386	5,051,534	9,323,746	30,052,383	1,955,034	6,065,655	11,278,780	36,118,038
Kentucky	18,185,787	3,202,680	5,558,667	19,551,918	550,964	2,085,033	6,109,631	21,636,951
TOTAL	62,397,173	8,254,214	14,882,413	49,604,301	2,505,998	8,150,688	17,388,411	57,754,989

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

CheckList

Item	Value 1	Value 2	Agree	Explain
Balance Sheet Sched III : Line Retained Earnings equals Sched Balance Sheet Accts - Retained Earnings pg 5 Line Retained Earnings (end of year)	42445097.23	42445097.23	OK	
Balance Sheet Sched III: Total Assets on pg 5 equals Total Liabilities and Stockholders Equity on pg 5	59140275.96	59140275.96	OK	

OATH

State of Tennessee)
County of Scott) ss:

Patricee Brown (Name of Officer) makes oath and says

that he/she is Account Manager (Official title of officer) of

Highland Telephone Cooperative, Inc. (Exact legal title or name of respondent)

that it is her/her duty to have supervision over the books of account of the respondent and to control the manner in which such books are kept; that he/she knows that such books have, during the period covered by the foregoing report, been kept in good faith in accordance with the accounting and other orders of the Public Service Commission of Kentucky, effective during the said period; that he/she has carefully examined the said report and to have the best of his/her knowledge and belief the entries contained in the said report have, so far as they relate to matters of account, been accurately taken from the said books of account and are in exact accordance therewith; that he/she believes that all other statements of fact contained in the said report are true; and that the said report is a correct and complete statement of the business and affairs of the above-named respondent during the period of time from and including

January 1, , 20 09 , to and including December 31, , 20 09

Patricee Brown
(Signature of Officer)

subscribed and sworn to before me, a Notary Public , in and for
the State and County named in the above this 30 day of MARCH

My Commission expires 7-20-2011

Cheryl G Perry
(Signature of officer authorized to administer oath)

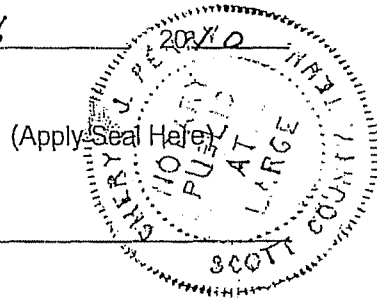


EXHIBIT "M"
SUPPLEMENT TO ANNUAL REPORT TO
PUBLIC SERVICE COMMISSION
FOR KENTUCKY OPERATIONS ONLY

Revised 8/02/04

SUPPLEMENT TO
ANNUAL REPORT

KENTUCKY OPERATIONS ONLY

OF

HIGHLAND TELEPHONE COOPERATIVE, INC
Exact Legal Name of Reporting Utility

7840 MORGAN COUNTY HWY.

P. O. BOX 119

SUNBRIGHT, TN 37872

(Address of Utility)

TO THE
PUBLIC SERVICE COMMISSION
OF THE
COMMONWEALTH OF KENTUCKY

FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2009

Commonwealth of Kentucky
Public Service Commission

INFORMATION FORM FOR TELEPHONE UTILITIES OPERATING
PURSUANT TO KRS 278.541 through 278.544

Complete Name
of Telephone Utility: Highland Telephone Cooperative, Inc.
Physical Address
of Principal Office: 7840 Morgan County Hwy. P. O. Box 119
Sunbright, Tennessee 37872
Name and Title of
Person Responsible for
Answering Consumer
Complaints: Rhonda Davis Customer Service Manager
Telephone Number of
Person Responsible for
Answering Consumer
Complaints: 423-628-2121

In accordance with KRS 278.542 (2), which requires telephone utilities operating pursuant to 2006 KRS 278.541 through KRS 278.544 to file with the Commission certain information, I, Patricee Brown, on behalf of Highland Telephone Coop. Inc. do hereby certify that the foregoing information is true and correct to the best of my knowledge, as of this ____ day of March, 2009.

UTILITY: Highland Telephone Cooperative, Inc.

BY:

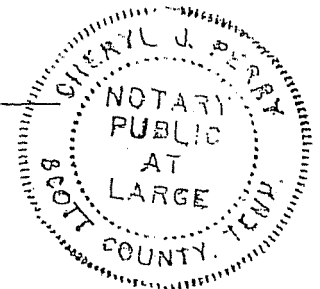
Patricee Brown

STATE OF Tennessee
COUNTY OF Morgan

The foregoing was signed, sworn to and acknowledged before me, the NOTARY PUBLIC, on this the 30 day of MARCH, 2010.

Cheryl G. Perry
NOTARY PUBLIC

My Commission Expires: 7-20-2011



102706

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Title Page - Kentucky Operations Only

	Name of Respondent	Addr Line 1	Addr Line 2	City	State	ZIP
Annual Report of						
Respondent	Highland Telephone Cooperative, Inc.	7840 Morgan County Hwy	P. O. Box 119	Sunbright	TN	37872

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

General Info - Basic Service - Kentucky Operations Only

Average Bill

For Kentucky Operations Only please furnish

Average Residential Basic Service Monthly Bill

Not including Taxes/NonRegulated Services

\$19.36

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

General Information - Counties - Kentucky Operations Only

McCreary

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

General Information - Contact Person - Kentucky Operations Only

name	Address	city	state	Phone
<p>Officer or other Person to whom correspondence should be addressed concerning this report</p>				
<p>Name, title, address and telephone number with area code of the person to be contacted concerning this report</p>				
	<p>Patricee Brown</p>	<p>7840 Morgan County Hwy. P. O. Box 119</p>	<p>Sunbright</p>	<p>TN 4236282121</p>
<p>This information is to be kept current by prompt notification to the Commission of any changes until the report for the succeeding year has been submitted.</p>				

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

General Info - Principal Payment and Interest Information - Kentucky Operations Only

	Amount	Yes/No
Amount of Principal Payment During Calendar Year	\$511,349.44	
Is Principal Current?		Y
is Interest Current?		Y
Has all long-term debt been approved by the Public Service Commission?		Y

General Info - Services Performed by Independent CPA - Kentucky Operations Only

Yes/No

ACR

Are your financial statements examined by a Certified Public Accountant?

Enter Y for Yes or N for No

Y

If yes, which service is performed?

Enter an X on each appropriate line

Audit

X

Compilation

Review

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009
 Balance Sheet Accounts - Sched III Page 1 - Kentucky Operations Only (Ref Page: 1)

	Amount (c)
Current Assets	
Cash and Equivalents (1120)	\$2,906,513.36
Receivables (1170)	\$288,140.57
Allowance for Doubtful Accounts (1171)	(\$40,841.72)
Inventories (1220)	\$12,238.08
Prepayments (1280)	\$111,675.09
Other Current Assets (1350)	\$350,162.12
Non-Regulated Investments (1406)	\$756,002.21
Other Noncurrent Assets (1410)	\$2,320,811.75
Deferred Maintenance and Retirements (1438)	
Other Jurisdictional Assets - Net (1500)	
Total Current Assets	\$6,704,701.46

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Balance Sheet Accounts - Sched III Page 2-4 - Kentucky Operations Only (Ref Page: 2)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Telephone Plant					
Telephone Plant in Service (2001)	\$20,901,727.51	\$262,341.44	(\$124,559.24)	(\$60,404.00)	\$20,979,105.71
Property Held for Future Telephone Use (2002)					
Tele. Plant Under Construct. - Short Term (2003)	\$8,670.31	\$96,968.42	\$0.00	\$0.00	\$105,638.73
Tele. Plant Under Construct. - Long Term (2004)					
Telephone Plant Adjustment (2005)					
Nonoperating Plant (2006)					
Goodwill (2007)					
Total Telephone Plant	\$20,910,397.82	\$359,309.86	(\$124,559.24)	(\$60,404.00)	\$21,084,744.44
Support Assets					
Land (2111)	\$100,790.90	\$0.00	\$0.00	\$0.00	\$100,790.90
Motor Vehicles (2112)	\$365,826.35	\$8,169.00	\$0.00	(\$60,404.00)	\$313,591.35
Aircraft (2113)					
Tools and Other Work Equipment (2114)	\$110,623.15	\$0.00	\$0.00	\$0.00	\$110,623.15
Buildings (2121)	\$573,100.97	\$0.00	\$0.00	\$0.00	\$573,100.97
Furniture (2122)					
Office Equipment (2123)	\$26,838.83	\$0.00	\$0.00	\$0.00	\$26,838.83
General Purpose Computers (2124)	\$85,761.14	\$0.00	\$0.00	\$0.00	\$85,761.14
Total Support Assets	\$1,262,941.34	\$8,169.00	\$0.00	(\$60,404.00)	\$1,210,706.34
Central Office - Switching					
Non Digital Switching (2211)					

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Balance Sheet Accounts - Sched III Page 2-4 - Kentucky Operations Only (Ref Page: 2)

	Begin Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Digital Electronic Switching (2212)	\$4,452,376.18	\$84,938.90	\$0.00	\$0.00	\$4,537,315.08
Total Central Office - Switching	\$4,452,376.18	\$84,938.90	\$0.00	\$0.00	\$4,537,315.08
Total Operator Systems (2220)					
Central Office - Transmission					
Radio Systems (2231)	\$3,041.02	\$0.00	\$0.00	\$0.00	\$3,041.02
Circuit Equipment (2232)	\$1,292,234.49	\$38,436.46	(\$13,268.14)	\$0.00	\$1,317,402.81
Total Central Office Transmission	\$1,295,275.51	\$38,436.46	(\$13,268.14)	\$0.00	\$1,320,443.83
Information Origination Termination					
Station Apparatus (2311)					
Customer Premise Wire (2321)					
Large PBX (2341)					
Public Telephone Terminal Equipment (2351)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other Terminal Equipment (2362)					
Total Information Origin Termination	\$0.00				
Cable and Wire Facilities Assets					
Poles (2411)	\$2,889,388.01	\$3,378.37	(\$11,065.84)	\$0.00	\$2,881,700.54
Aerial Cable (2421)	\$10,696,269.35	\$119,595.43	(\$100,225.26)	\$0.00	\$10,715,639.52
Underground Cable (2422)	\$64,007.79	\$3,275.49	\$0.00	\$0.00	\$67,283.28
Buried Cable (2423)	\$241,469.33	\$4,547.79	\$0.00	\$0.00	\$246,017.12
Submarine and Deep Sea Cable (2424)					
Intrabuilding Network Cable (2426)					

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Balance Sheet Accounts - Sched III Page 2-4 - Kentucky Operations Only (Ref Page: 2)

	Beg Bal (c)	Additions (d)	Retirements (e)	Transfer (f)	End Bal (g)
Aerial Wire (2431)					
Conduit Systems (2441)					
Total Cable and Wire Facilities Assets	\$13,891,134.48	\$130,797.08	(\$111,291.10)	\$0.00	\$13,910,640.46
Amortizable Assets					
Amortizable Tangible Assets (2680)					
Capital Leases (2681)					
Leasonhold Improvements (2682)					
Total Amortizable Assets					
Intangibles (2690)					
Total Tele. Plant in Service 2001	\$20,901,727.51	\$262,341.44	(\$124,559.24)	(\$60,404.00)	\$20,979,105.71

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Balance Sheet Accounts - Sched III Page 5a - Kentucky Operations Only (Ref Page: 5)

	Amount
Depreciation and Amortization	
Accumulated Depreciation (3100)	\$15,369,162.00
Accumulated Depreciations - Plant Held for Future Tele. Use (3200)	
Accumulated Depreciation - Nonoperating (3300)	
Accumulated Amortization - Capitalized Leases (3410)	
Accumulated Amortization - Leasehold Improvements (3420)	
Accumulated Amortization - Intangible (3500)	
Accumulated Amortization - Other (3600)	\$499.39
Total Depreciation and Amortization	\$15,369,661.39
Net Telephone Plant	\$5,715,083.05
Total Assets	\$12,419,784.51

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009
 Balance Sheet Accounts - Sched III Page 5-6 Kentucky Operations Only (Ref Page: 5)

	Amount
Current Liabilities	
Current Accounts and Notes Payable (4000)	\$502,818.94
Customer's Deposits (4040)	\$257.58
Income Taxes - Accrued (4070)	(\$357.23)
Other Taxes - Accrued (4080)	\$79,961.16
Net Current Deferred Operating Income Taxes (4100)	
Net Current Deferred Nonoperating Income Taxes (4110)	
Other Current Liabilities (4130)	\$354,944.88
Total Current Liabilities	\$937,625.33
Long Term Debt and Funded Debt (4200)	\$947,884.84
Other Liabilities and Deferred Credits	
Other Long Term Liabilities and Deferred Credits (4300)	\$605,692.71
Unamortized Operating Investment Tax Credits - Net (4320)	
Unamortized Nonoperating Investment Tax Credits - Net (4330)	
Net Noncurrent Deferred Operating Income Taxes (4340)	
Net Deferred Tax Liability Adjustments (4341)	
Deferred Tax Regulatory Liability (4361)	
Other Jurisdictional Liabilities/Deferred Credits - Net (4370)	
Total Other Liabilities and Deferred Credits	\$605,692.71
Capital Stock (4510)	
Additional Paid-In Capital (4520)	
Treasury Stock (4530)	
Other Capital (4540)	\$39,786.22
Retained Earnings (4550)	\$9,888,795.41
Total Stockholders' Equity	\$9,928,581.63
Total Liabilities and Stockholder's Equity	\$12,419,784.51

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Balance Sheet Accts - Retained Earnings Sched III - Kentucky Operations Only (Ref Page: 6)

	Amount
Retained Earnings (Beg of Yr)	\$9,827,825.13
Net Income	(\$273,002.77)
Dividends Declared	
Capital Credit Rotations	
Miscellaneous Debits*	
Miscellaneous Credits*	\$333,973.05
Retained Earnings (End of Year)	\$9,888,795.41
* Explain any individual item over \$10,000	

Note:

Miscellaneous Credit:

The Accounting Method for the accrual of post retirement benefits was affected by the pronouncement FAS158. The application of FAS158 resulted in an adjustment to post retirement benefits and a corresponding comprehensive loss of 23,895.55.

Difference in net income reported last year 310,077.50.

Our original report was filed using preliminary numbers. An adjusting entry was made in the 13th month to recalculated switch office and aerial cable depreciation.

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Income Statement Accounts - Sched VI pg 1 - Kentucky Operations Only (Ref Page: 1)

	Amount (C)
Local Network Service	
Basic Area Revenue (5001)	\$1,355,593.50
Private Line Revenue (5040)	\$6,489.10
Other Basic Area Revenue (5060)	\$107,049.26
Total Local Network Service Revenues	\$1,469,131.86
Network Access Service Revenues	
End User Revenue (5081)	\$573,742.43
Switched Access Revenue (5182)	\$1,319,375.94
Special Access Revenue (5083)	\$263,316.36
Total Network Access Revenue	\$2,156,434.73
Long Distance Message Revenue (5100)	\$8,364.81
Miscellaneous Revenue (5200)	\$563,788.33
Directory Revenue (5230)	\$109,456.89
Non-Regulated Operating Revenue (5280)	
Uncollectible Revenue (5300)	(\$3,456.30)
TOTAL OPERATING REVENUE	\$4,310,632.92

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Income Statement - Operating Exp - Plant Specific - Sched VI pg 2 Kentucky Operations Only (Ref Page: 2)

	Total (C)
Plant Specific Operation Expense	
Motor Vehicle Expense (6112)	\$2,197.89
Aircraft Expense (6113)	
Tools and Other Work Equipment Expense (6114)	(\$20.27)
Total Network Support Expenses	\$2,177.62
Land and Building Expense (6121)	\$168,619.48
Furniture and Artworks Expense (6122)	
Office Equipment Expense (6123)	\$70,005.80
General Purpose Computers Expense (6124)	\$57,806.97
Total Support Expense	\$296,432.25
Non-Digital Switching Expense (6211)	
Digital Electronic Expense (6212)	\$337,554.91
Total Central Off. Switch. Exp	\$337,554.91
Operator System Expense (6220)	
Radio System Expense (6231)	\$790.87
Circuit Equipment Expense (6232)	\$114,395.26
Total Central Off. Trans. Exp.	\$115,186.13
Station Apparatus Expense (6311)	
Large PBX Expense (6341)	
Public Tele. Terminal Equipment (6351)	
Other Terminal Equipment Expense (6362)	
Total Info. Org. Term. Equip	\$0.00
Poles Expense (6411)	\$210,480.38
Aerial Cable Expense (6421)	\$364,496.33
Underground Cable Expense (6422)	\$3,561.92
Buried Cable Expense (6423)	\$12,343.20
Submarine and Deep Sea Cable (6424)	

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Income Statement - Operating Exp - Plant Specific - Sched VI pg 2 Kentucky Operations Only (Ref Page: 2)

	Total (c)
Intrabuilding Network Cable Expense (6426)	
Aerial Wire Expense (6431)	\$0.00
Conduit Systems Expense (6441)	
Total Cable and Wire Expense	\$590,881.83
Total Plant Spc. Expense	\$1,342,232.74

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Income Statement - Operating Exp - Plant NonSpecific - Sched VI pg 3 Kentucky Operations Only (Ref Page: 3)

	Total (c)
Plant NonSpecific Operating Expense	
Plant held for future Telephone use (6511)	\$39,738.69
Provisioning Expense (6512)	\$18,757.64
Total other PPE Expense	\$58,496.33
Power Expense (6531)	\$50.07
Network Administration Expense (6532)	
Testing Expense (6533)	\$21,626.55
Plant Operations Administration Expense (6534)	\$78,350.85
Engineering Expense (6535)	\$140,496.70
Total Network Ops Expense	\$240,524.17
Access Expense (6540)	\$74,444.55
Depreciation Expense - Telecomm Plant in Service (6561)	\$1,230,425.94
Depreciation Expense - Property Held for Future Telecom Use (6562)	
Amortization - Tangible (6563)	
Amortization - Intangible (6564)	
Amortization - Other	
Total Depreciation and Amortization Epx	\$1,230,425.94
Total Plant NonSpecific Expense	\$1,603,890.99
Customer Operations Expense	
Product Management and Sales (6611)	\$1,225.35
Product Advertising (6613)	\$26,964.23
Total Marketing Expense	\$28,189.58
Call Completion Services (6621)	
Number Services (6622)	\$55,408.89
Customer Services (6623)	\$417,500.72
Total Services Expense	\$472,909.61
General and Administrative (6720)	\$755,262.31

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Income Statement - Operating Exp - Plant NonSpecific - Sched VI pg 3 Kentucky Operations Only (Ref Page: 3)

	Total (c)
Provision for Uncollectible Notes Receivable (6790)	
Total Corp. Oper. Expense	\$755,262.31
Net Operating Revenue	\$108,147.69

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Income Statement - Operating Exp - Sched VI pg 4 - Kentucky Operations Only (Ref Page: 7)

	Amount
Other Operating Income and Expense (7100)	
Operating Taxes	
Operating Investment Tax Credits Net (7210)	
Operating Federal Income Taxes (7220)	\$935.67
Operating State and Local Income Taxes (7230)	\$646.51
Operating Other Taxes (7240)	\$80,932.24
Provision for Deferred Operating Income Tax - Net (7250)	
Total Operating Taxes	\$82,514.42
Nonoperating Income and Expense (7300)	(\$178,355.34)
Nonoperating Taxes (7400)	
Interest and Related Items (7500)	\$113,013.52
Extraordinary Items (7600)	
Jurisdictional Differences and NonRegulated Income	
Income Effect of Jurisdictional Differences - Net (7910)	
Nonregulated Net Income (7990)	(\$7,267.18)
Net Income	(\$273,002.77)

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Total Number of Employees - Sched VI - Kentucky Operations Only (Ref Page: 4)

	Total
Total Number of Employees at End of Year	12
Number of Full-Time Employees	12
Number of Part-Time Employees	

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009
Total Compensation - Sched VI - Kentucky Operations Only (Ref Page: 4)

	Amount
Total Compensation for the Year	\$1,091,476.83

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Access Lines in Service by Technology Sched VII - Kentucky Operations Only (Ref Page: 1)

	State (a)	Switches (b)	ISDN (c)	Digital (d)	Analog (e)	DS1 (f)	PBX (g)	Genrex (h)	Other (i)
Kentucky		2	0	6,406	0	0	0	0	0
TOTAL		2	0	6,406	0	0	0	0	0

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Access Lines in Service by Customer Sched VIII - Kentucky Operations Only (Ref Page: 1)

	State (a)	B:Single (b)	B:Multi (c)	Public (d)	Residential (e)	Mobile (f)	Non-Switched (g)	Total (h)
Kentucky		816	228	0	5,362	0	0	6,406
TOTAL		816	228	0	5,362	0	0	6,406

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

Telephone Calls Sched IX - Kentucky Operations Only (Ref Page: 1)

State (a)	Local (b)	Toll (c)	Inter Num (d)	Inter Min (e)	Intra Num (f)	Intra Min (g)	Total Num (h)	Total Min (i)
Kentucky	18,185,787	3,202,680	5,558,667	19,551,918	550,964	2,085,033	6,109,631	21,636,951
TOTAL	18,185,787	3,202,680	5,558,667	19,551,918	550,964	2,085,033	6,109,631	21,636,951

11900 Highland Telephone Cooperative, Inc. 01/01/2009 - 12/31/2009

CheckList

Item	Value 1	Value 2	Agree	Explain
Balance Sheet Sched III Pages 4-5: Line Retained Earnings equals Sched Balance Sheet Accts - Retained Earnings pg 5 Line Retained Earnings (end of year)	9888795.41	9888795.41	OK	
Balance Sheet Sched III: Total Assets on pg 5 equals Total Liabilities and Stockholders Equity on pg 5	12419784.51	12419784.51	OK	

OATH

State of Tennessee)
County of Scott) ss:

Patricee Brown makes oath and says
(Name of Officer)

that he/she is Account Manager of
(Official title of officer)

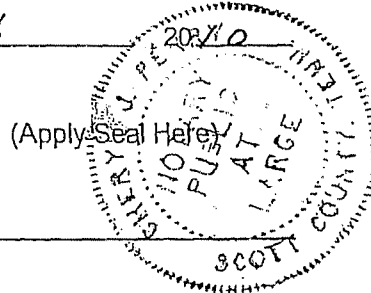
Highland Telephone Cooperative, Inc.
(Exact legal title or name of respondent)

that it is her/her duty to have supervision over the books of account of the respondent and to control the manner in which such books are kept; that he/she knows that such books have, during the period covered by the foregoing report, been kept in good faith in accordance with the accounting and other orders of the Public Service Commission of Kentucky, effective during the said period; that he/she has carefully examined the said report and to have the best of his/her knowledge and belief the entries contained in the said report have, so far as they relate to matters of account, been accurately taken from the said books of account and are in exact accordance therewith; that he/she believes that all other statements of fact contained in the said report are true; and that the said report is a correct and complete statement of the business and affairs of the above-named respondent during the period of time from and including

January 1, , 20 09 , to and including December 31, , 20 09

Patricee Brown
(Signature of Officer)

subscribed and sworn to before me, a Notary Public , in and for
the State and County named in the above this 30 day of MARCH



My Commission expires 7-20-2011
Cheryl J. Perry
(Signature of officer authorized to administer oath)

EXHIBIT "N"
DEPRECIATION MASTER FILE LIST

PLANT ACCOUNT NO. & DESCRIPTION	DEPRECIATION ACCOUNT NO. & DESCRIPTION	ACCUMULATED DEPRECIATION ACCOUNT NO. & DESCRIPTION	DEPRECIATION RATE
2112- MOTOR VEHICLES	6112-6000000 MOTOR VEH DEPR EXP	3100-2112 ACCUM. DEPREC.-MOTOR VEHICLES	12.1000
2114- TOOLS AND OTHER WORK EQUIPMENT	6561- DEPRECIATION EXPENSE	3100-2114 ACCUM DEPREC OTHER WORK EQUIP	6.5000
2121- BUILDINGS	6561- DEPRECIATION EXPENSE	3100-2121 ACCUM. DEPREC.-BUILDINGS	2.7000
2122- FURNITURE	6561-1000000 DEPR SUBJECT TO ALLOCATION	3100-2122 ACCUM. DEPREC.-FURNITURE	8.7000
2123-1 OFFICE SUPPORT EQUIPMENT	6561-1000000 DEPR SUBJECT TO ALLOCATION	3100-21231 ACCUM. DEPREC.-OFFICE SUPPORT	6.6000
2123-2 COMPANY COMM EQUIP	6561-1000000 DEPR SUBJECT TO ALLOCATION	3100-21232 ACCUM. DEPREC.-COMPANY COMM EQ	14.3000
2124- GENERAL PURPOSE COMPUTERS	6561-1000000 DEPR SUBJECT TO ALLOCATION	3100-2124 ACCUM. DEPREC-GEN PURPOSE COMP	15.8000
2124-3 Computer Peripherals	6561-1000000 DEPR SUBJECT TO ALLOCATION	3100-21243 ACCUM DEP COMPUTER PERIPHERALS	15.8000
2211- ANALOG ELECTRONIC SWITCHING	6561- DEPRECIATION EXPENSE	3100-2211 ACCUM. DEPREC.-ANALOG SWITCHIN	8.8000
2212- DIGITAL ELECTRONIC SWITCHING	6561- DEPRECIATION EXPENSE	3100-2212 ACCUM. DEPREC-DIGITAL SWITCHIN	10.0000
2215-1 ELECTROMECH SWITCH-STEP BY STE	6561- DEPRECIATION EXPENSE	3100-22151 ACCUM. DEPREC-ELECTRO(STEP BY	15.0000
2231-21 OTHER RADIO FACILITIES-MICROWA	6561- DEPRECIATION EXPENSE	3100-223121 ACCUM DEPREC-MICROWAVE EQUIP	8.9000
2231-22 OTHER RADIO FAC-MAINTENANCE RA	6561- DEPRECIATION EXPENSE	3100-223122 ACCUM DEPREC-MAINTENANCE RADIO	8.9000
2231-23 OTHER RADIO FAC-MOBILE AND PAG	6561- DEPRECIATION EXPENSE	3100-223123 ACCUM DEPREC-MOBILE AND PAGERS	8.9000
2232-1 CIRC EQUIP-TRUNK CARRIER-DIGIT	6561- DEPRECIATION EXPENSE	3100-22321 ACCUM DEPREC-TRUNK CARRIER DI	11.6000
2232-2 CIRC EQUIP-TRUNK CARRIER-ANALO	6561- DEPRECIATION EXPENSE	3100-22322 ACCUM DEPREC-TRUNK CAR ANALOG	9.6000
2232-3 SUB CARRIER-DIGITAL	6561- DEPRECIATION EXPENSE	3100-22323 ACCUMULATED DEP-SUB CAR DIGITA	11.6000
2232-6 OTHER CIRCUIT EQUIPMENT	6561- DEPRECIATION EXPENSE	3100-22326 ACCUM. DEPREC-OTHER CIRCUIT EQ	9.6000
2233-	6561-	3100-2233	9.6000

PLANT ACCOUNT NO. & DESCRIPTION	DEPRECIATION ACCOUNT NO. & DESCRIPTION	ACCUMULATED DEPRECIATION ACCOUNT NO. & DESCRIPTION	DEPRECIATION RATE
2351- PUBLIC TELEPHONE TERMINAL EQUI	6561- DEPRECIATION EXPENSE	3100-2351 ACCUM DEPREC-PUBLIC TELE TERM	7.7000
2411- POLES	6561- DEPRECIATION EXPENSE	3100-2411 ACCUM DEPREC-POLES	5.6000
2421- AERIAL CABLE	6561- DEPRECIATION EXPENSE	3100-2421 ACCUM DEPREC-AERIAL CABLE	6.1000
2421-1 NONMETALIC FIBER OPTIC CABLE	6561- DEPRECIATION EXPENSE	3100-24211 ACCUM DEPREC-NONMET FIBER OPTI	4.9000
2421-5 NIDS/Modulators/Power Equip	6561- DEPRECIATION EXPENSE	3100-24215 ACCUM DEPREC-NIDS/MOD/POWER EQ	6.1000
2422- UNDERGROUND CABLE	6561- DEPRECIATION EXPENSE	3100-2422 ACCUM DEPREC-UNDERGROUND CABLE	4.7000
2423- BURIED CABLE	6561- DEPRECIATION EXPENSE	3100-2423 ACCUM DEPREC-BURIED CABLE	5.2000
2431- AERIAL WIRE	6561- DEPRECIATION EXPENSE	3100-2431 ACCUM DEPREC-AERIAL WIRE	8.4000
2441- CONDUIT SYSTEMS	6561- DEPRECIATION EXPENSE	3100-2441 ACCUM DEPREC-CONDUIT SYSTEMS	1.8000
2690-1 INTANGIBLES-ORGANIZATION	6561- DEPRECIATION EXPENSE	3500-1 ACCUM AMORT-ORGANIZATION	2.0000
2690-2 INTANGIBLES-FRANCHISES	6561- DEPRECIATION EXPENSE	3500-2 ACCUM AMORT-FRANCHISES	2.0000

EXHIBIT "O"
HIGHLAND'S ANNUAL REPORT FOR 2008

HIGHLAND TELEPHONE COOPERATIVE, INC.

SUNBRIGHT, TENNESSEE

ANNUAL MEETING OF MEMBERS

NOVEMBER 1, 2008

Call To Order President, Mr. Sam Strunk
Prayer Director, Mr. Joe Alvin Sexton
Report of Number of Members Present Secretary, Mrs. Clara Terry
Reading of Notice of Meeting Secretary, Mrs. Clara Terry
Reading of Minutes of Previous Meeting Secretary, Mrs. Clara Terry
President's Report President, Mr. Sam Strunk
Treasurer's Report Secretary, Mrs. Clara Terry
Manager's Report Manager, Mr. F. L. Terry
Discussion of Election of Directors Attorney, Mr. Ernie Petroff
Unfinished Business President, Mr. Sam Strunk
New Business President, Mr. Sam Strunk
Adjournment President, Mr. Sam Strunk

NOTICE OF ANNUAL MEETING OF MEMBERS AND ANNUAL ELECTION

The Annual Meeting of the members of Highland Telephone Cooperative, Inc., will be held at the Scott High School in Huntsville, Tennessee, beginning at 10:00 A.M. local time on November 1, 2008. Upon request at least 2 weeks before, a sign language interpreter will be provided for persons with hearing impairments.

At the Annual Election of Highland Telephone Cooperative, Inc., to be held November 8, 2008, four (4) directors are to be elected. Listed below are the names and exchanges of the candidates for these positions.

Exchange	By Nomination	By Petition	Length of Term
354	Sam Strunk	None	3 Years
663	Jan Byrd	None	3 Years
627	John Tate	None	3 Years
324	JoAn Haynes	None	3 Years

HIGHLAND TELEPHONE COOPERATIVE, INC.
Sunbright, Tennessee

Clara Terry, Secretary

HIGHLAND TELEPHONE COOPERATIVE, INC.
Annual Meeting of the Membership
November 3, 2007

The annual membership meeting of Highland Telephone Cooperative, Inc. was held on November 3, 2007, at 10 a.m. at the Scott County High School, in Huntsville, Tennessee.

The meeting was called to order by the President, James Terry, who presided. Clara Terry served as secretary throughout the meeting.

The meeting was opened with prayer by Joe Alvin Sexton.

The President then introduced the Secretary, Clara Terry, who reported that there were sixteen (16) members present, and a list of the members is affixed hereto as a part of the minutes of this meeting. Mrs. Terry read the notice of the meeting and the minutes of the previous meeting of the membership. A quorum for this meeting was not present.

The President, James Terry, gave his report, and Clara Terry gave the Treasurer's report to the membership. The Manager gave his report. Legal counsel reported on the upcoming election of directors and a scheduled meeting of election judges. The President then asked for any unfinished business, and there was none. The President then asked for new business, and there was none.

There being no further business to come before the annual membership meeting, the meeting was accordingly adjourned at 10:30 a.m.

Secretary

Attest:

President

TREASURER'S REPORT

Highland Telephone Cooperative, Inc. latest financial statement as of the annual meeting was August 31, 2008. The treasurer's report is as follows: Cash and Cash Equivalents, \$10,126,477.60; Net Receivables, \$1,856,455.31; Materials and Supplies, \$2,566,526.62; Accruals and Prepayments, \$708,451.12; Total Current Assets, \$15,257,910.65; Noncurrent Assets, \$6,581,602.88; Total Telephone Plant, \$40,090,180.44; Total Assets, \$61,929,693.97; Current Liabilities, \$6,072,561.80; Membership and Patronage Capital, \$44,335,956.29; Long Term-Debt, \$11,521,175.88; Total Capitalization \$55,857,132.17; Total Liabilities and Capitalization \$61,929,693.97

BALANCE SHEET AS OF AUGUST, 2008

Assets	
Current assets	
Cash and cash equivalents	\$10,126,477.60
Net receivables	1,856,455.31
Materials and supplies	2,566,526.62
Accruals and prepayments	708,451.12
	<hr/>
Total current assets	15,257,910.65
	<hr/>
Noncurrent assets	6,581,602.88
	<hr/>
Telephone plant	
Telephone plant in service	89,024,975.24
Less accumulated depreciation and amortization	(61,851,964.78)
	<hr/>
Construction work in progress	27,173,010.46
	12,917,169.98
	<hr/>
Total telephone plant	40,090,180.44
	<hr/>
Total Assets	\$61,929,693.97
	<hr/> <hr/>
Liabilities and Capitalization	
Current liabilities	\$ 6,072,561.80
Capitalization	
Memberships and patronage capital	44,335,956.29
Long-term debt	11,521,175.88
	<hr/>
Total Capitalization	55,857,132.17
	<hr/>
Total Liabilities and Capitalization	\$61,929,693.97
	<hr/> <hr/>

MANAGER'S REPORT

Highland Telephone Cooperative, Inc. provides telephone service to more than 23,601 subscribers in Morgan, Scott, Anderson, and Campbell counties of Tennessee, and in McCreary County, Kentucky. Highland's goal is to provide its members with the best service, latest technology, and lowest cost possible. Highland continues upgrading its outside plant and aerial cable with fiber optic cable. Highland now has all offices working out of the DMS-100 switch in Oneida to provide all our customers even more features and services. In 1996, Highland's board of directors formed a new company called Highland Communications Corporation. The new Telecommunication Act of 1996 passed by Congress permitted Highland to pursue for profit opportunities in a competitive telephone environment for the benefit of its members. In 2008, HCC now provides 69 percent of the Cooperative's long distance service. HCC also has upgraded the internet services and 10,251 members have toll free access to internet. The company currently has 5,304 customers on the broadband offering. In 2005, Highland Telephone formed another subsidiary called Highland Media Corporation. This subsidiary was formed to provide video and broadband services to its customers. Currently the first phase of a fiber to the home project is complete and Highland is providing video to 225 customers on B route in Scott County. In conclusion, Highland has completed several projects and started several others this year in order to keep pace with the ever-changing telephone industry. Highland has and continues to have as its main goal to serve its customers the best it can every day.

EXHIBIT "P"
HIGHLAND'S ANNUAL REPORT FOR 2009

HIGHLAND TELEPHONE COOPERATIVE, INC.
SUNBRIGHT, TENNESSEE
ANNUAL MEETING OF MEMBERS
NOVEMBER 7, 2009

Call To Order	President, Mr. Sam Strunk
Prayer	Director, Mr. Joe Alvin Sexton
Report of Number of Members Present	Secretary, Mrs. Clara Terry
Reading of Notice of Meeting	Secretary, Mrs. Clara Terry
Reading of Minutes of Previous Meeting	Secretary, Mrs. Clara Terry
President's Report	President, Mr. Sam Strunk
Treasurer's Report	Secretary, Mrs. Clara Terry
Manager's Report	Manager, Mr. F. L. Terry
Discussion of Election of Directors	Attorney, Mr. Ernie Petroff
Unfinished Business	President, Mr. Sam Strunk
New Business	President, Mr. Sam Strunk
Adjournment	President, Mr. Sam Strunk

NOTICE OF ANNUAL MEETING OF MEMBERS AND ANNUAL ELECTION

The Annual Meeting of the members of Highland Telephone Cooperative, Inc., will be held at the Scott High School in Huntsville, Tennessee, beginning at 10:00 A.M. local time on November 7, 2009. Upon request at least 2 weeks before, a sign language interpreter will be provided for persons with hearing impairments.

At the Annual Election of Highland Telephone Cooperative, Inc., to be held November 14, 2009, four (4) directors are to be elected. Listed below are the names and exchanges of the candidates for these positions.

Exchange	By Nomination	By Petition	Length of Term
369	Mickey Bingham	Charles V. Brown	3 Years
965-628	Joe Alvin Sexton	David Freytag	3 Years
286-569	James E. Terry	None	3 Years
376	Shelva Jo Jones	Deborah Gibson	3 Years

HIGHLAND TELEPHONE COOPERATIVE, INC.
Sunbright, Tennessee

Clara Terry, Secretary

COPY

HIGHLAND TELEPHONE COOPERATIVE, INC.
Annual Meeting of the Membership
November 1, 2008

The annual membership meeting of Highland Telephone Cooperative, Inc. was held on November 1, 2008, at 10:00 a.m. at the Scott County High School, in Huntsville, Tennessee.

The meeting was called to order by the President, Sam S. Strunk, who presided. Clara Terry served as secretary throughout the meeting.

The meeting was opened with prayer by Joe Alvin Sexton.

The President then introduced the Secretary, Clara Terry, who reported that there were fourteen (14) members present, and a list of the members is affixed hereto as a part of the minutes of this meeting. Mrs. Terry read the notice of the meeting and the minutes of the previous meeting of the membership. A quorum for this meeting was not present.

Clara Terry gave the Treasurer's report to the membership. The Manager gave his report, and legal counsel reported on the upcoming election of directors. The President then asked for any unfinished business, and there was none. The President then asked for new business, and legal counsel reviewed with the members present a letter sent by the Manager to Channel 5 in Scott County concerning estate capital credits.

There being no further business to come before the annual membership meeting, the meeting was accordingly adjourned at 10:30 a.m.

Secretary

Attest:

President

TREASURER'S REPORT

Highland Telephone Cooperative, Inc. latest financial statement as of the annual meeting was August 31, 2009. The treasurer's report is as follows: Cash and Cash Equivalents, \$10,341,239.16; Net Receivables, \$1,964,067.33; Materials and Supplies, \$2,603,986.99; Accruals and Prepayments, \$453,005.46; Total Current Assets, \$15,362,298.94; Noncurrent Assets, \$10,840,142.53; Total Telephone Plant, \$32,658,352.04; Total Assets, \$58,860,793.51; Current Liabilities, \$5,706,629.04; Membership and Patronage Capital, \$42,244,215.25; Long Term-Debt, \$10,909,949.22; Total Capitalization \$53,154,164.47; Total Liabilities and Capitalization \$58,860,793.51

BALANCE SHEET AS OF AUGUST, 2009

Assets	
Current assets	
Cash and cash equivalents	\$10,341,239.16
Net receivables	1,964,067.33
Materials and supplies	2,603,986.99
Accruals and prepayments	453,005.46
	<hr/>
Total current assets	15,362,298.94
	<hr/>
Noncurrent assets	10,840,142.53
	<hr/>
Telephone plant	
Telephone plant in service	98,270,153.25
Less accumulated depreciation and amortization	(67,396,210.27)
	<hr/>
Construction work in progress	1,784,409.06
	<hr/>
Total telephone plant	32,658,352.04
	<hr/>
Total Assets	<u><u>\$58,860,793.51</u></u>
Liabilities and Capitalization	
Current liabilities	\$ 5,706,629.04
Capitalization	
Memberships and patronage capital	42,244,215.25
Long-term debt	10,909,949.22
	<hr/>
Total Capitalization	53,154,164.47
	<hr/>
Total Liabilities and Capitalization	<u><u>\$58,860,793.51</u></u>

MANAGER'S REPORT

Highland Telephone Cooperative, Inc. provides telephone service to more than 22,495 subscribers in Morgan, Scott, Anderson, and Campbell counties of Tennessee, and in McCreary County, Kentucky. Highland's goal is to provide its members with the best service, latest technology, and lowest cost possible. Highland continues upgrading its outside plant and aerial cable with fiber optic cable. Highland now has all offices working out of the DMS-100 switch in Oneida to provide all our customers even more features and services. In 1996, Highland's board of directors formed a new company called Highland Communications Corporation. The new Telecommunication Act of 1996 passed by Congress permitted Highland to pursue for profit opportunities in a competitive telephone environment for the benefit of its members. In 2009, HCC now provides 70 percent of the Cooperative's long distance service. HCC also has upgraded the internet services and 10,651 members have toll free access to internet. The company currently has 6,429 customers on the broadband offering. In 2005, Highland Telephone formed another subsidiary called Highland Media Corporation. This subsidiary was formed to provide video and broadband services to its customers. Currently the first phase of a fiber to the home project is complete and Highland is providing video to 397 customers in Scott and Morgan County. In conclusion, Highland has completed several projects and started several others this year in order to keep pace with the ever-changing telephone industry. Highland has and continues to have as its main goal to serve its customers the best it can every day.

EXHIBIT "Q"
HIGHLAND'S MANAGERIAL REPORTS

Highland Telephone Cooperative
 Balance Sheet
 January 2009

Current Assets	
Cash and Cash Equivalents	
General Use	\$ 8,948,453.96
Health Insurance Funds	54,523.89
Constructions Funds	-
Certificate of Deposits	600,000.00
Securities Held to Maturity	-
Total Cash and Cash Equivalents	<u>9,602,977.85</u>
Receivables	
Customers (net of allowance)	968,473.88
Toll	1,090,119.02
Interest and Dividends	34,787.50
Other	109,992.84
Net Receivables	<u>2,203,373.24</u>
Materials and Supplies	
Regulated Materials and Supplies	2,328,204.65
Non-Regulated Materials and Supplies	272,390.24
Total Materials and Supplies	<u>2,600,594.89</u>
Accruals and Prepayments	
Prepayments	467,582.86
Other Current Assets	(3,501.03)
Total Accruals and Prepayments	<u>464,081.83</u>
Total Current Assets	<u>14,871,027.81</u>
Non-Current Assets	
Investment in Affiliated Companies	8,586,484.25
Other Investments	0.28
Utility Deposits and Membership	2,573.00
Non-Regulated Investments	2,487,755.23
Total Non-Current Assets	<u>11,076,812.76</u>
Telephone Plant	
Telephone Plant in Service	97,232,101.32
Less Accumulated Depreciation	<u>64,359,342.68</u>
	32,872,758.64
Construction Work in Progress	1,264,675.93
Total Telephone Plant	<u>34,137,434.57</u>
Total Assets	<u>\$ 60,085,275.14</u>

Highland Telephone Cooperative
 Balance Sheet
 January 2009

Liabilities and Capitalization

Current Liabilities

Current Installment on Long-Term Debt	\$ 1,773,058.44
Trade Accounts Payable	1,051,522.04
Advanced Billing and Prepayments	711,625.54
Customer Deposits	4,049.05
Other Taxes Accrued	133,386.35
Other Accounts Payable	64,914.47
Pole Line Rental Accrued	513,368.68
Accrued Interest on Loans	-
Allocated Reserves Payable	127,533.72
Accrued Payroll	178,839.36
Employees Compensated Absences	1,294,050.41

Total Current Liabilities 5,852,348.06

Capitalization

Member and Patronage Capital	
Members Capital Certificates Issued	2,714.00
Memberships Issued	262,043.05
Memberships Subscribed but Unissued	3,360.00
Patronage Capital	42,177,149.72
Current Year Profit	29,563.16

Total Member and Patronage Capital 42,474,829.93

Long-Term Debt

Mortgage Notes Payable	7,888,030.93
Accrued Post Retirement Benefits	3,870,066.22

Total Long-Term Debt 11,758,097.15

Total Capitalization 54,232,927.08

Total Liabilities \$ 60,085,275.14

Highland Telephone Cooperative Inc
Income Statement
January 2009

Basic Local Network Services	\$ 524,988.94
Network Access Services	763,691.14
Long Distance Network Services	4,663.04
Carrier Billing and Collection Revenue	105,593.41
Directory Advertising And Sales	36,057.50
Rent	5,990.78
Other Regulated	-
Miscellaneous	44,677.04
	<u>1,485,661.85</u>
Less Uncollectible Operating Revenue	(17,798.37)
Total Operating Revenue	<u>1,503,460.22</u>
Plant Specific Operations	476,225.22
Plant Non-Specific Operations	96,129.83
Depreciation and Amortization	510,927.77
Customer Operations	123,271.39
Corporate Operations	288,094.51
Operating Taxes	43,126.20
	<u>1,537,774.92</u>
Total Operating Expenses	<u>1,537,774.92</u>
Operating Income (Expense)	<u>(34,314.70)</u>
Interest and Dividend Income	(7,059.86)
Gain on Investments	81,648.53
Miscellaneous	-
Non-Regulated Property Expense-Net	27,365.07
Loss on Abandoned Equipment	-
Interest Expense	(38,075.88)
	<u>63,877.86</u>
Other Income (Expenses)	<u>63,877.86</u>
Income Before Income Taxes and Extraordinary Item	29,563.16
	-
Net Income	<u><u>\$ 29,563.16</u></u>

Highland Telephone Cooperative
Balance Sheet
February 2009

Current Assets	
Cash and Cash Equivalents	
General Use	\$ 8,876,406.07
Health Insurance Funds	54,523.89
Constructions Funds	-
Certificate of Deposits	600,000.00
Securities Held to Maturity	-
Total Cash and Cash Equivalents	<u>9,530,929.96</u>
Receivables	
Customers (net of allowance)	1,034,209.82
Toll	1,035,503.98
Interest and Dividends	34,890.68
Other	72,855.90
Net Receivables	<u>2,177,460.38</u>
Materials and Supplies	
Regulated Materials and Supplies	2,304,628.07
Non-Regulated Materials and Supplies	265,053.62
Total Materials and Supplies	<u>2,569,681.69</u>
Accruals and Prepayments	
Prepayments	446,117.01
Other Current Assets	(3,501.03)
Total Accruals and Prepayments	<u>442,615.98</u>
Total Current Assets	<u>14,720,688.01</u>
Non-Current Assets	
Investment in Affiliated Companies	8,541,221.53
Other Investments	0.28
Utility Deposits and Membership	2,573.00
Non-Regulated Investments	2,495,068.64
Total Non-Current Assets	<u>11,038,863.45</u>
Telephone Plant	
Telephone Plant in Service	97,384,895.50
Less Accumulated Depreciation	<u>64,792,981.96</u>
	32,591,913.54
Construction Work in Progress	1,357,166.91
Total Telephone Plant	<u>33,949,080.45</u>
Total Assets	<u>\$ 59,708,631.91</u>

Highland Telephone Cooperative
 Balance Sheet
 February 2009

Liabilities and Capitalization

Current Liabilities

Current Installment on Long-Term Debt	\$ 1,773,058.44
Trade Accounts Payable	1,060,379.69
Advanced Billing and Prepayments	711,383.67
Customer Deposits	3,999.05
Other Taxes Accrued	168,355.65
Other Accounts Payable	71,441.53
Pole Line Rental Accrued	107,626.76
Accrued Interest on Loans	12,540.09
Allocated Reserves Payable	126,743.99
Accrued Payroll	181,073.61
Employees Compensated Absences	1,317,181.81

Total Current Liabilities 5,533,784.29

Capitalization

Member and Patronage Capital	
Members Capital Certificates Issued	2,714.00
Memberships Issued	261,783.05
Memberships Subscribed but Unissued	3,330.00
Patronage Capital	42,174,481.56
Current Year Profit	58,037.66

Total Member and Patronage Capital 42,500,346.27

Long-Term Debt

Mortgage Notes Payable	7,784,435.13
Accrued Post Retirement Benefits	3,890,066.22

Total Long-Term Debt 11,674,501.35

Total Capitalization 54,174,847.62

Total Liabilities \$ 59,708,631.91

Highland Telephone Cooperative Inc
Income Statement
February 2009

Basic Local Network Services	\$ 550,312.97
Network Access Services	716,855.53
Long Distance Network Services	5,461.15
Carrier Billing and Collection Revenue	119,398.31
Directory Advertising And Sales	35,771.50
Rent	6,120.06
Other Regulated	-
Miscellaneous	39,113.30
	<u>1,473,032.82</u>
Less Uncollectible Operating Revenue	(4,158.89)
	<u>1,477,191.71</u>
Plant Specific Operations	385,374.05
Plant Non-Specific Operations	103,093.31
Depreciation and Amortization	405,566.07
Customer Operations	222,277.96
Corporate Operations	248,560.67
Operating Taxes	42,704.20
	<u>1,407,576.26</u>
Total Operating Expenses	
	<u>69,615.45</u>
Operating Income (Expense)	
Interest and Dividend Income	23,240.24
Gain on Investments	(45,262.72)
Miscellaneous	-
Non-Regulated Property Expense-Net	12,803.74
Loss on Abandoned Equipment	-
Interest Expense	(31,922.21)
	<u>(41,140.95)</u>
Other Income (Expenses)	
Income Before Income Taxes and Extraordinary Item	28,474.50
	-
Net Income	<u><u>\$ 28,474.50</u></u>

Highland Telephone Cooperative
 Balance Sheet
 March 2009

Current Assets	
Cash and Cash Equivalents	
General Use	\$ 9,598,496.31
Health Insurance Funds	54,703.89
Constructions Funds	-
Certificate of Deposits	600,000.00
Securities Held to Maturity	-
Total Cash and Cash Equivalents	<u>10,253,200.20</u>
Receivables	
Customers (net of allowance)	924,084.09
Toll	931,221.72
Interest and Dividends	37,040.00
Other	72,471.01
Net Receivables	<u>1,964,816.82</u>
Materials and Supplies	
Regulated Materials and Supplies	2,269,617.05
Non-Regulated Materials and Supplies	272,678.55
Total Materials and Supplies	<u>2,542,295.60</u>
Accruals and Prepayments	
Prepayments	393,961.69
Other Current Assets	(3,521.03)
Total Accruals and Prepayments	<u>390,440.66</u>
Total Current Assets	<u>15,150,753.28</u>
Non-Current Assets	
Investment in Affiliated Companies	8,497,675.49
Other Investments	0.28
Utility Deposits and Membership	2,573.00
Non-Regulated Investments	2,508,576.97
Total Non-Current Assets	<u>11,008,825.74</u>
Telephone Plant	
Telephone Plant in Service	97,584,233.92
Less Accumulated Depreciation	<u>65,222,209.17</u>
	32,362,024.75
Construction Work in Progress	1,361,460.51
Total Telephone Plant	<u>33,723,485.26</u>
Total Assets	<u>\$ 59,883,064.28</u>

Highland Telephone Cooperative
Balance Sheet
March 2009

Liabilities and Capitalization

Current Liabilities

Current Installment on Long-Term Debt	\$ 1,773,058.44
Trade Accounts Payable	1,195,505.73
Advanced Billing and Prepayments	710,515.08
Customer Deposits	3,699.05
Other Taxes Accrued	213,618.53
Other Accounts Payable	78,364.49
Pole Line Rental Accrued	159,019.60
Accrued Interest on Loans	26,423.74
Allocated Reserves Payable	126,588.81
Accrued Payroll	215,678.88
Employees Compensated Absences	1,276,698.91

Total Current Liabilities 5,779,171.26

Capitalization

Member and Patronage Capital	
Members Capital Certificates Issued	2,714.00
Memberships Issued	262,713.05
Memberships Subscribed but Unissued	2,410.00
Patronage Capital	42,174,481.56
Current Year Profit	68,454.95

Total Member and Patronage Capital 42,510,773.56

Long-Term Debt

Mortgage Notes Payable	7,683,053.24
Accrued Post Retirement Benefits	3,910,066.22

Total Long-Term Debt 11,593,119.46

Total Capitalization 54,103,893.02

Total Liabilities \$ 59,883,064.28

Highland Telephone Cooperative Inc
Income Statement
March 2009

Basic Local Network Services	\$ 529,137.16
Network Access Services	720,631.85
Long Distance Network Services	2,571.41
Carrier Billing and Collection Revenue	104,920.28
Directory Advertising And Sales	35,558.50
Rent	6,055.42
Other Regulated	-
Miscellaneous	41,544.99
	<u>1,440,419.61</u>
Less Uncollectible Operating Revenue	(519.99)
	<u>1,440,939.60</u>
Plant Specific Operations	419,187.67
Plant Non-Specific Operations	108,373.75
Depreciation and Amortization	406,001.74
Customer Operations	144,016.14
Corporate Operations	238,681.22
Operating Taxes	42,868.20
	<u>1,359,128.72</u>
Total Operating Expenses	
	<u>1,359,128.72</u>
Operating Income (Expense)	<u>81,810.88</u>
Interest and Dividend Income	7,376.11
Gain on Investments	(42,190.04)
Miscellaneous	-
Non-Regulated Property Expense-Net	(1,049.52)
Loss on Abandoned Equipment	-
Interest Expense	(35,530.14)
	<u>(71,393.59)</u>
Other Income (Expense)	
	<u>(71,393.59)</u>
Income Before Income Taxes and Extraordinary Items	10,417.29
	-
Net Income	<u><u>\$ 10,417.29</u></u>

Highland Telephone Cooperative, Inc.
 Balance Sheet
 April 2009

Current Assets	
Cash and Cash Equivalents	
General Use	\$ 9,199,610.78
Health Insurance Funds	69,202.34
Constructions Funds	-
Certificate of Deposits	600,000.00
Securities Held to Maturity	-
Total Cash and Cash Equivalents	<u>9,868,813.12</u>
Receivables	
Customers (net of allowance)	966,891.60
Toll	902,493.02
Interest and Dividends	31,798.38
Other	70,766.09
Net Receivables	<u>1,971,949.09</u>
Materials and Supplies	
Regulated Materials and Supplies	2,269,475.38
Non-Regulated Materials and Supplies	272,989.65
Total Materials and Supplies	<u>2,542,465.03</u>
Accruals and Prepayments	
Prepayments	333,638.67
Other Current Assets	(3,491.03)
Total Accruals and Prepayments	<u>330,147.64</u>
Total Current Assets	<u>14,713,374.88</u>
Non-Current Assets	
Investment in Affiliated Companies	8,298,085.41
Other Investments	-
Utility Deposits and Membership	2,573.00
Non-Regulated Investments	2,511,573.51
Total Non-Current Assets	<u>10,812,231.92</u>
Telephone Plant	
Telephone Plant in Service	97,715,504.30
Less Accumulated Depreciation	<u>65,653,771.84</u>
	32,061,732.46
Construction Work in Progress	1,331,236.43
Total Telephone Plant	<u>33,392,968.89</u>
Total Assets	<u>\$ 58,918,575.69</u>

Highland Telephone Cooperative, Inc.
 Balance Sheet
 April 2009

Liabilities and Capitalization	
Current Liabilities	
Current Installment on Long-Term Debt	\$ 1,773,058.44
Trade Accounts Payable	469,324.95
Advanced Billing and Prepayments	710,450.08
Customer Deposits	3,449.05
Other Taxes Accrued	261,831.18
Other Accounts Payable	84,689.86
Pole Line Rental Accrued	210,412.44
Accrued Interest on Loans	53.73
Allocated Reserves Payable	126,517.14
Accrued Payroll	251,389.43
Employees Compensated Absences	1,274,744.17
Total Current Liabilities	<u>5,165,920.47</u>
Capitalization	
Member and Patronage Capital	
Members Capital Certificates Issued	2,714.00
Memberships Issued	262,073.05
Memberships Subscribed but Unissued	2,370.00
Patronage Capital	42,174,970.55
Current Year Profit	(66,052.49)
Total Member and Patronage Capital	<u>42,376,075.11</u>
Long-Term Debt	
Mortgage Notes Payable	7,446,513.89
Accrued Post Retirement Benefits	3,930,066.22
Total Long-Term Debt	<u>11,376,580.11</u>
Total Capitalization	<u>53,752,655.22</u>
Total Liabilities	<u>\$ 58,918,575.69</u>

Highland Telephone Cooperative, Inc.
Income Statement
April 2009

Basic Local Network Services	\$ 527,969.65
Network Access Services	711,638.92
Long Distance Network Services	2,252.24
Carrier Billing and Collection Revenue	85,511.75
Directory Advertising And Sales	33,332.00
Rent	6,055.42
Other Regulated	-
Miscellaneous	34,062.11
	<u>1,400,822.09</u>
Less Uncollectible Operating Revenue	(177.05)
	<u>1,400,999.14</u>
Plant Specific Operations	450,403.56
Plant Non-Specific Operations	74,186.57
Depreciation and Amortization	407,584.36
Customer Operations	210,435.12
Corporate Operations	259,098.48
Operating Taxes	42,447.20
	<u>1,444,155.29</u>
Total Operating Expenses	
	<u>(43,156.15)</u>
Operating Income (Expense)	
Interest and Dividend Income	4,820.17
Gain on Investments	(48,234.36)
Miscellaneous	-
Non-Regulated Property Expense-Net	(14,215.71)
Loss on Abandoned Equipment	-
Interest Expense	(33,721.39)
	<u>(91,351.29)</u>
Other Income (Expense)	
Income Before Income Taxes and Extraordinary Items	(134,507.44)
	-
Net Income	<u><u>\$ (134,507.44)</u></u>

Highland Telephone Cooperative, Inc.
 Balance Sheet
 May 2009

Current Assets	
Cash and Cash Equivalents	
General Use	\$ 9,581,093.58
Health Insurance Funds	54,732.68
Constructions Funds	-
Certificate of Deposits	600,000.00
Securities Held to Maturity	-
Total Cash and Cash Equivalents	<u>10,235,826.26</u>
Receivables	
Customers (net of allowance)	992,999.26
Toll	875,594.39
Interest and Dividends	33,798.38
Other	107,314.42
Net Receivables	<u>2,009,706.45</u>
Materials and Supplies	
Regulated Materials and Supplies	2,234,498.47
Non-Regulated Materials and Supplies	353,400.58
Total Materials and Supplies	<u>2,587,899.05</u>
Accruals and Prepayments	
Prepayments	273,430.91
Other Current Assets	(3,481.03)
Total Accruals and Prepayments	<u>269,949.88</u>
Total Current Assets	<u>15,103,381.64</u>
Non-Current Assets	
Investment in Affiliated Companies	8,257,717.68
Other Investments	-
Utility Deposits and Membership	2,573.00
Non-Regulated Investments	2,504,419.71
Total Non-Current Assets	<u>10,764,710.39</u>
Telephone Plant	
Telephone Plant in Service	97,795,651.30
Less Accumulated Depreciation	<u>66,091,449.78</u>
	31,704,201.52
Construction Work in Progress	1,373,835.71
Total Telephone Plant	<u>33,078,037.23</u>
Total Assets	<u>\$ 58,946,129.26</u>

Highland Telephone Cooperative, Inc.
Balance Sheet
May 2009

Liabilities and Capitalization

Current Liabilities

Current Installment on Long-Term Debt	\$ 1,773,058.44
Trade Accounts Payable	423,068.08
Advanced Billing and Prepayments	710,644.13
Customer Deposits	2,849.05
Other Taxes Accrued	303,901.54
Other Accounts Payable	84,853.57
Pole Line Rental Accrued	261,805.28
Accrued Interest on Loans	13,315.55
Allocated Reserves Payable	91,545.48
Accrued Payroll	264,844.23
Employees Compensated Absences	1,277,855.72

Total Current Liabilities

5,207,741.07

Capitalization

Member and Patronage Capital	
Members Capital Certificates Issued	2,714.00
Memberships Issued	261,303.05
Memberships Subscribed but Unissued	2,530.00
Patronage Capital	42,174,970.55
Current Year Profit	2,567.30

Total Member and Patronage Capital

42,444,084.90

Long-Term Debt

Mortgage Notes Payable	7,344,237.07
Accrued Post Retirement Benefits	3,950,066.22

Total Long-Term Debt

11,294,303.29

Total Capitalization

53,738,388.19

Total Liabilities

\$ 58,946,129.26

Highland Telephone Cooperative, Inc.
Income Statement
May 2009

Basic Local Network Services	\$ 519,889.93
Network Access Services	691,503.09
Long Distance Network Services	820.36
Carrier Billing and Collection Revenue	94,740.05
Directory Advertising And Sales	31,100.00
Rent	6,055.42
Other Regulated	-
Miscellaneous	39,374.93
	<u>1,383,483.78</u>
Less Uncollectible Operating Revenue	(410.76)
	<u>1,383,894.54</u>
Total Operating Revenue	<u>1,383,894.54</u>
Plant Specific Operations	394,691.79
Plant Non-Specific Operations	140,386.39
Depreciation and Amortization	413,983.64
Customer Operations	162,331.12
Corporate Operations	310,784.36
Operating Taxes	(169,038.17)
	<u>1,253,139.13</u>
Total Operating Expenses	<u>1,253,139.13</u>
Operating Income (Expense)	<u>130,755.41</u>
Interest and Dividend Income	7,558.41
Gain on Investments	(40,367.73)
Miscellaneous	-
Non-Regulated Property Expense-Net	4,342.23
Loss on Abandoned Equipment	-
Interest Expense	(33,668.53)
	<u>(62,135.62)</u>
Other Income (Expense)	<u>(62,135.62)</u>
Income Before Income Taxes and Extraordinary Items	68,619.79
	-
Net Income	<u>\$ 68,619.79</u>

Highland Telephone Cooperative, Inc.
Balance Sheet
June 2009

Current Assets	
Cash and Cash Equivalents	
General Use	\$ 9,819,204.58
Health Insurance Funds	106,143.14
Constructions Funds	-
Certificate of Deposits	600,000.00
Securities Held to Maturity	-
Total Cash and Cash Equivalents	<u>10,525,347.72</u>
Receivables	
Customers (net of allowance)	989,150.96
Toll	887,322.46
Interest and Dividends	22,660.75
Other	105,242.84
Net Receivables	<u>2,004,377.01</u>
Materials and Supplies	
Regulated Materials and Supplies	2,413,254.73
Non-Regulated Materials and Supplies	293,123.97
Total Materials and Supplies	<u>2,706,378.70</u>
Accruals and Prepayments	
Prepayments	221,096.13
Other Current Assets	(3,311.03)
Total Accruals and Prepayments	<u>217,785.10</u>
Total Current Assets	<u>15,453,888.53</u>
Non-Current Assets	
Investment in Affiliated Companies	8,278,832.14
Other Investments	
Utility Deposits and Membership	2,573.28
Non-Regulated Investments	2,532,379.41
Total Non-Current Assets	<u>10,813,784.83</u>
Telephone Plant	
Telephone Plant in Service	97,897,638.57
Less Accumulated Depreciation	<u>66,527,676.20</u>
	31,369,962.37
Construction Work in Progress	1,681,994.25
Total Telephone Plant	<u>33,051,956.62</u>
Total Assets	<u>\$ 59,319,629.98</u>

Highland Telephone Cooperative, Inc.
Balance Sheet
June 2009

Liabilities and Capitalization

Current Liabilities

Current Installment on Long-Term Debt	\$ 1,773,058.44
Trade Accounts Payable	812,366.17
Advanced Billing and Prepayments	710,505.26
Customer Deposits	2,544.05
Other Taxes Accrued	350,988.98
Other Accounts Payable	49,179.88
Pole Line Rental Accrued	313,198.12
Accrued Interest on Loans	26,201.56
Allocated Reserves Payable	91,487.53
Accrued Payroll	348,061.55
Employees Compensated Absences	1,260,124.55

Total Current Liabilities

5,737,716.09

Capitalization

Member and Patronage Capital	
Members Capital Certificates Issued	2,709.00
Memberships Issued	260,513.05
Memberships Subscribed but Unissued	3,020.00
Patronage Capital	42,173,878.85
Current Year Profit	(68,965.93)

Total Member and Patronage Capital

42,371,154.97

Long-Term Debt

Mortgage Notes Payable	7,240,692.70
Accrued Post Retirement Benefits	3,970,066.22

Total Long-Term Debt

11,210,758.92

Total Capitalization

53,581,913.89

Total Liabilities

\$ 59,319,629.98

Highland Telephone Cooperative, Inc.
Income Statement
June 2009

Basic Local Network Services	\$ 505,118.25
Network Access Services	625,852.20
Long Distance Network Services	1,056.69
Carrier Billing and Collection Revenue	103,451.02
Directory Advertising And Sales	56,847.87
Rent	6,055.42
Other Regulated	-
Miscellaneous	47,776.73
	<u>1,346,158.18</u>
Less Uncollectible Operating Revenue	1,212.00
	<u>1,344,946.18</u>
Plant Specific Operations	462,952.09
Plant Non-Specific Operations	110,115.13
Depreciation and Amortization	411,912.42
Customer Operations	159,939.82
Corporate Operations	217,776.15
Operating Taxes	44,590.40
	<u>1,407,286.01</u>
Total Operating Expenses	<u>1,407,286.01</u>
Operating Income (Expense)	<u>(62,339.83)</u>
Interest and Dividend Income	5,610.19
Gain on Investments	21,114.74
Miscellaneous	-
Non-Regulated Property Expense-Net	(4,413.99)
Loss on Abandoned Equipment	-
Interest Expense	(31,504.34)
	<u>(9,193.40)</u>
Other Income (Expense)	<u>(9,193.40)</u>
Income Before Income Taxes and Extraordinary Items	(71,533.23)
	-
Net Income	<u><u>\$ (71,533.23)</u></u>

Highland Telephone Cooperative, Inc.
 Balance Sheet
 July 2009

Current Assets	
Cash and Cash Equivalents	
General Use	\$ 9,653,841.44
Health Insurance Funds	113,654.24
Constructions Funds	-
Certificate of Deposits	600,000.00
Securities Held to Maturity	-
Total Cash and Cash Equivalents	<u>10,367,495.68</u>
Receivables	
Customers (net of allowance)	938,498.22
Toll	939,232.99
Interest and Dividends	9,112.91
Other	80,805.35
Net Receivables	<u>1,967,649.47</u>
Materials and Supplies	
Regulated Materials and Supplies	2,315,763.38
Non-Regulated Materials and Supplies	313,243.79
Total Materials and Supplies	<u>2,629,007.17</u>
Accruals and Prepayments	
Prepayments	168,484.25
Other Current Assets	(3,321.03)
Total Accruals and Prepayments	<u>165,163.22</u>
Total Current Assets	<u>15,129,315.54</u>
Non-Current Assets	
Investment in Affiliated Companies	8,123,832.14
Other Investments	-
Utility Deposits and Membership	2,573.28
Non-Regulated Investments	2,553,705.29
Total Non-Current Assets	<u>10,680,110.71</u>
Telephone Plant	
Telephone Plant in Service	98,095,577.72
Less Accumulated Depreciation	<u>66,966,553.76</u>
	31,129,023.96
Construction Work in Progress	1,624,452.02
Total Telephone Plant	<u>32,753,475.98</u>
Total Assets	<u><u>\$ 58,562,902.23</u></u>

Highland Telephone Cooperative, Inc.
 Balance Sheet
 July 2009

Liabilities and Capitalization

Current Liabilities

Current Installment on Long-Term Debt	\$ 1,773,058.44
Trade Accounts Payable	572,507.98
Advanced Billing and Prepayments	711,011.03
Customer Deposits	2,749.05
Other Taxes Accrued	392,435.89
Other Accounts Payable	60,769.01
Pole Line Rental Accrued	364,590.96
Accrued Interest on Loans	-
Allocated Reserves Payable	91,455.33
Accrued Payroll	180,059.87
Employees Compensated Absences	1,256,608.83

Total Current Liabilities	<u>5,405,246.39</u>
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Capitalization

Member and Patronage Capital	
Members Capital Certificates Issued	2,709.00
Memberships Issued	259,423.05
Memberships Subscribed but Unissued	3,530.00
Patronage Capital	42,172,721.30
Current Year Profit	(274,237.42)

Total Member and Patronage Capital	<u>42,164,145.93</u>
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Long-Term Debt

Mortgage Notes Payable	7,003,443.69
Accrued Post Retirement Benefits	3,990,066.22

Total Long-Term Debt	<u>10,993,509.91</u>
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Total Capitalization	<u>53,157,655.84</u>
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Total Liabilities	<u>\$ 58,562,902.23</u>
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Highland Telephone Cooperative, Inc.
Income Statement
July 2009

Basic Local Network Services	\$ 521,227.97
Network Access Services	646,937.33
Long Distance Network Services	1,797.87
Carrier Billing and Collection Revenue	258,770.71
Directory Advertising And Sales	30,736.50
Rent	6,055.42
Other Regulated	550.00
Miscellaneous	28,472.41
	<u>1,494,548.21</u>
Less Uncollectible Operating Revenue	789.35
	<u>1,493,758.86</u>
Plant Specific Operations	565,153.30
Plant Non-Specific Operations	123,519.67
Depreciation and Amortization	418,931.92
Customer Operations	159,629.43
Corporate Operations	284,866.11
Operating Taxes	41,530.62
	<u>1,593,631.05</u>
Total Operating Expenses	<u>1,593,631.05</u>
Operating Income (Expense)	<u>(99,872.19)</u>
Interest and Dividend Income	3,445.24
Gain on Investments	(3,644.00)
Miscellaneous	-
Non-Regulated Property Expense-Net	(73,180.48)
Loss on Abandoned Equipment	-
Interest Expense	(32,020.06)
	<u>(105,399.30)</u>
Other Income (Expense)	<u>(105,399.30)</u>
Income Before Income Taxes and Extraordinary Items	(205,271.49)
	-
Net Income	<u><u>\$ (205,271.49)</u></u>

Highland Telephone Cooperative, Inc.
 Balance Sheet
 Aug 2009

Current Assets	
Cash and Cash Equivalents	
General Use	\$ 9,631,062.25
Health Insurance Funds	110,176.91
Constructions Funds	-
Certificate of Deposits	600,000.00
Securities Held to Maturity	-
Total Cash and Cash Equivalents	<u>10,341,239.16</u>
Receivables	
Customers (net of allowance)	983,125.71
Toll	882,518.76
Interest and Dividends	10,617.14
Other	87,805.72
Net Receivables	<u>1,964,067.33</u>
Materials and Supplies	
Regulated Materials and Supplies	2,303,265.14
Non-Regulated Materials and Supplies	300,721.85
Total Materials and Supplies	<u>2,603,986.99</u>
Accruals and Prepayments	
Prepayments	456,296.49
Other Current Assets	(3,291.03)
Total Accruals and Prepayments	<u>453,005.46</u>
Total Current Assets	<u>15,362,298.94</u>
Non-Current Assets	
Investment in Affiliated Companies	8,252,057.83
Other Investments	-
Utility Deposits and Membership	2,573.00
Non-Regulated Investments	2,585,511.70
Total Non-Current Assets	<u>10,840,142.53</u>
Telephone Plant	
Telephone Plant in Service	98,270,153.25
Less Accumulated Depreciation	<u>67,396,210.27</u>
	30,873,942.98
Construction Work in Progress	1,784,409.06
Total Telephone Plant	<u>32,658,352.04</u>
Total Assets	<u>\$ 58,860,793.51</u>

Highland Telephone Cooperative, Inc.
Balance Sheet
August 2009

Liabilities and Capitalization

Current Liabilities

Current Installment on Long-Term Debt	\$ 1,773,058.44
Trade Accounts Payable	763,600.13
Advanced Billing and Prepayments	710,665.26
Customer Deposits	2,349.05
Other Taxes Accrued	436,753.43
Other Accounts Payable	61,833.87
Pole Line Rental Accrued	413,497.80
Accrued Interest on Loans	12,760.12
Allocated Reserves Payable	91,358.35
Accrued Payroll	179,927.99
Employees Compensated Absences	1,260,824.60

Total Current Liabilities

5,706,629.04

Capitalization

Member and Patronage Capital	
Members Capital Certificates Issued	2,709.00
Memberships Issued	260,043.05
Memberships Subscribed but Unissued	2,320.00
Patronage Capital	42,173,631.18
Current Year Profit	(194,487.98)

Total Member and Patronage Capital

42,244,215.25

Long-Term Debt

Mortgage Notes Payable	6,899,883.00
Accrued Post Retirement Benefits	4,010,066.22

Total Long-Term Debt

10,909,949.22

Total Capitalization

53,154,164.47

Total Liabilities

\$ 58,860,793.51

Highland Telephone Cooperative, Inc.
Income Statement
Aug 2009

Basic Local Network Services	\$ 474,855.04
Network Access Services	719,559.56
Long Distance Network Services	3,012.50
Carrier Billing and Collection Revenue	164,021.55
Directory Advertising And Sales	30,532.00
Rent	6,055.42
Other Regulated	(489.73)
Miscellaneous	40,373.32
	<u>1,437,919.66</u>
Less Uncollectible Operating Revenue	(3,272.09)
	<u>1,441,191.75</u>
Plant Specific Operations	414,183.30
Plant Non-Specific Operations	112,108.28
Depreciation and Amortization	431,244.64
Customer Operations	161,511.48
Corporate Operations	192,095.66
Operating Taxes	42,375.99
	<u>1,353,519.35</u>
Total Operating Expenses	
	<u>1,353,519.35</u>
Operating Income (Expense)	<u>87,672.40</u>
Interest and Dividend Income	5,638.62
Gain on Investments	28,225.41
Miscellaneous	-
Non-Regulated Property Expense-Net	(11,177.78)
Loss on Abandoned Equipment	-
Interest Expense	(30,609.21)
	<u>(7,922.96)</u>
Other Income (Expense)	
	<u>(7,922.96)</u>
Income Before Income Taxes and Extraordinary Items	79,749.44
	-
Net Income	<u><u>\$ 79,749.44</u></u>

Highland Telephone Cooperative, Inc.
 Balance Sheet
 September 2009

Current Assets	
Cash and Cash Equivalents	
General Use	\$ 9,939,458.62
Health Insurance Funds	127,741.90
Constructions Funds	-
Certificate of Deposits	600,000.00
Securities Held to Maturity	-
Total Cash and Cash Equivalents	<u>10,667,200.52</u>
Receivables	
Customers (net of allowance)	1,001,577.31
Toll	726,361.05
Interest and Dividends	12,534.83
Other	322,187.99
Net Receivables	<u>2,062,661.18</u>
Materials and Supplies	
Regulated Materials and Supplies	2,274,781.47
Non-Regulated Materials and Supplies	201,871.85
Total Materials and Supplies	<u>2,476,653.32</u>
Accruals and Prepayments	
Prepayments	536,976.23
Other Current Assets	(3,391.03)
Total Accruals and Prepayments	<u>533,585.20</u>
Total Current Assets	<u>15,740,100.22</u>
Non-Current Assets	
Investment in Affiliated Companies	8,709,170.70
Other Investments	-
Utility Deposits and Membership	2,573.00
Non-Regulated Investments	2,573,175.16
Total Non-Current Assets	<u>11,284,918.86</u>
Telephone Plant	
Telephone Plant in Service	98,407,127.67
Less Accumulated Depreciation	<u>67,745,088.81</u>
	30,662,038.86
Construction Work in Progress	1,261,365.57
Total Telephone Plant	<u>31,923,404.43</u>
Total Assets	<u><u>\$ 58,948,423.51</u></u>

Highland Telephone Cooperative, Inc.
Balance Sheet
September 2009

Liabilities and Capitalization

Current Liabilities

Current Installment on Long-Term Debt	\$ 1,773,058.44
Trade Accounts Payable	779,433.01
Advanced Billing and Prepayments	711,165.26
Customer Deposits	1,949.05
Other Taxes Accrued	481,202.66
Other Accounts Payable	68,330.43
Pole Line Rental Accrued	464,474.64
Accrued Interest on Loans	25,080.78
Allocated Reserves Payable	91,326.16
Accrued Payroll	238,674.57
Employees Compensated Absences	1,273,477.00

Total Current Liabilities 5,908,172.00

Capitalization

Member and Patronage Capital	
Members Capital Certificates Issued	2,709.00
Memberships Issued	259,493.05
Memberships Subscribed but Unissued	2,540.00
Patronage Capital	42,173,823.95
Current Year Profit	(223,443.72)

Total Member and Patronage Capital 42,215,122.28

Long-Term Debt

Mortgage Notes Payable	6,795,063.01
Accrued Post Retirement Benefits	4,030,066.22

Total Long-Term Debt 10,825,129.23

Total Capitalization 53,040,251.51

Total Liabilities \$ 58,948,423.51

Highland Telephone Cooperative, Inc.
Income Statement
September 2009

Basic Local Network Services	\$ 521,252.18
Network Access Services	670,053.96
Long Distance Network Services	4,816.55
Carrier Billing and Collection Revenue	136,589.43
Directory Advertising And Sales	47,657.85
Rent	6,055.42
Other Regulated	-
Miscellaneous	40,014.73
	<u>1,426,440.12</u>
Less Uncollectible Operating Revenue	591.55
	<u>1,425,848.57</u>
Plant Specific Operations	456,145.71
Plant Non-Specific Operations	117,116.65
Depreciation and Amortization	417,977.58
Customer Operations	158,371.96
Corporate Operations	220,945.89
Operating Taxes	42,402.20
	<u>1,412,959.99</u>
Total Operating Expenses	
	<u>1,412,959.99</u>
Operating Income (Expense)	<u>12,888.58</u>
Interest and Dividend Income	5,494.77
Gain on Investments	(81,014.68)
Miscellaneous	-
Non-Regulated Property Expense-Net	63,032.18
Loss on Abandoned Equipment	-
Interest Expense	(29,356.59)
	<u>(41,844.32)</u>
Other Income (Expense)	
	<u>(41,844.32)</u>
Income Before Income Taxes and Extraordinary Items	(28,955.74)
	-
Net Income	<u><u>\$ (28,955.74)</u></u>

Highland Telephone Cooperative, Inc.
 Balance Sheet
 October 2009

Current Assets	
Cash and Cash Equivalents	
General Use	\$ 10,102,766.05
Health Insurance Funds	128,458.48
Constructions Funds	-
Certificate of Deposits	600,000.00
Securities Held to Maturity	-
Total Cash and Cash Equivalents	<u>10,831,224.53</u>
Receivables	
Customers (net of allowance)	998,862.74
Toll	674,088.81
Interest and Dividends	14,272.53
Other	351,531.18
Net Receivables	<u>2,038,755.26</u>
Materials and Supplies	
Regulated Materials and Supplies	2,311,662.70
Non-Regulated Materials and Supplies	202,407.08
Total Materials and Supplies	<u>2,514,069.78</u>
Accruals and Prepayments	
Prepayments	493,229.09
Other Current Assets	(3,381.03)
Total Accruals and Prepayments	<u>489,848.06</u>
Total Current Assets	<u>15,873,897.63</u>
Non-Current Assets	
Investment in Affiliated Companies	8,616,445.25
Other Investments	-
Utility Deposits and Membership	2,573.00
Non-Regulated Investments	2,564,273.34
Total Non-Current Assets	<u>11,183,291.59</u>
Telephone Plant	
Telephone Plant in Service	98,347,205.41
Less Accumulated Depreciation	<u>67,962,547.18</u>
	30,384,658.23
Construction Work in Progress	1,445,004.85
Total Telephone Plant	<u>31,829,663.08</u>
Total Assets	<u>\$ 58,886,852.30</u>

Highland Telephone Cooperative, Inc.
 Balance Sheet
 October 2009

Liabilities and Capitalization

Current Liabilities

Current Installment on Long-Term Debt	\$ 1,773,058.44
Trade Accounts Payable	856,399.48
Advanced Billing and Prepayments	711,305.26
Customer Deposits	2,149.05
Other Taxes Accrued	519,145.46
Other Accounts Payable	74,360.12
Pole Line Rental Accrued	515,867.48
Accrued Interest on Loans	-
Allocated Reserves Payable	91,127.12
Accrued Payroll	279,787.08
Employees Compensated Absences	1,279,906.13

Total Current Liabilities 6,103,105.62

Capitalization

Member and Patronage Capital	
Members Capital Certificates Issued	2,679.00
Memberships Issued	258,573.05
Memberships Subscribed but Unissued	2,640.00
Patronage Capital	42,174,536.48
Current Year Profit	(259,585.32)

Total Member and Patronage Capital 42,178,843.21

Long-Term Debt

Mortgage Notes Payable	6,554,837.25
Accrued Post Retirement Benefits	4,050,066.22

Total Long-Term Debt 10,604,903.47

Total Capitalization 52,783,746.68

Total Liabilities \$ 58,886,852.30

Highland Telephone Cooperative, Inc.
Income Statement
October 2009

Basic Local Network Services	\$ 516,082.68
Network Access Services	682,376.38
Long Distance Network Services	2,526.43
Carrier Billing and Collection Revenue	142,541.33
Directory Advertising And Sales	32,168.60
Rent	6,055.42
Other Regulated	-
Miscellaneous	39,427.85
	<u>1,421,178.69</u>
Less Uncollectible Operating Revenue	3,318.15
	<u>1,417,860.54</u>
Plant Specific Operations	510,073.07
Plant Non-Specific Operations	110,323.36
Depreciation and Amortization	416,763.80
Customer Operations	150,522.79
Corporate Operations	252,586.52
Operating Taxes	42,171.20
	<u>1,482,440.74</u>
Total Operating Expenses	
	<u>1,482,440.74</u>
Operating Income (Expense)	<u>(64,580.20)</u>
Interest and Dividend Income	5,161.24
Gain on Investments	57,274.55
Miscellaneous	-
Non-Regulated Property Expense-Net	(3,061.06)
Loss on Abandoned Equipment	-
Interest Expense	(30,936.13)
	<u>28,438.60</u>
Other Income (Expense)	
	<u>28,438.60</u>
Income Before Income Taxes and Extraordinary Items	(36,141.60)
	-
Net Income	<u><u>\$ (36,141.60)</u></u>

Highland Telephone Cooperative, Inc.
 Balance Sheet
 November 2009

Current Assets	
Cash and Cash Equivalents	
General Use	\$ 9,732,491.19
Health Insurance Funds	148,174.20
Constructions Funds	-
Certificate of Deposits	600,000.00
Securities Held to Maturity	-
Total Cash and Cash Equivalents	<u>10,480,665.39</u>
Receivables	
Customers (net of allowance)	1,040,301.58
Toll	972,045.37
Interest and Dividends	12,845.92
Other	463,446.29
Net Receivables	<u>2,488,639.16</u>
Materials and Supplies	
Regulated Materials and Supplies	2,263,365.82
Non-Regulated Materials and Supplies	266,606.52
Total Materials and Supplies	<u>2,529,972.34</u>
Accruals and Prepayments	
Prepayments	430,932.62
Other Current Assets	(3,461.03)
Total Accruals and Prepayments	<u>427,471.59</u>
Total Current Assets	<u>15,926,748.48</u>
Non-Current Assets	
Investment in Affiliated Companies	8,681,598.46
Other Investments	-
Utility Deposits and Membership	2,573.00
Non-Regulated Investments	2,570,231.41
Total Non-Current Assets	<u>11,254,402.87</u>
Telephone Plant	
Telephone Plant in Service	98,463,241.38
Less Accumulated Depreciation	<u>68,409,036.20</u>
	30,054,205.18
Construction Work in Progress	1,626,375.56
Total Telephone Plant	<u>31,680,580.74</u>
Total Assets	<u>\$ 58,861,732.09</u>

Highland Telephone Cooperative, Inc.
 Balance Sheet
 November 2009

Liabilities and Capitalization

Current Liabilities

Current Installment on Long-Term Debt	\$ 1,773,058.44
Trade Accounts Payable	739,415.74
Advanced Billing and Prepayments	711,365.26
Customer Deposits	2,449.05
Other Taxes Accrued	526,531.43
Other Accounts Payable	80,820.68
Pole Line Rental Accrued	567,260.32
Accrued Interest on Loans	11,776.80
Allocated Reserves Payable	91,127.12
Accrued Payroll	285,292.10
Employees Compensated Absences	1,295,791.53

Total Current Liabilities 6,084,888.47

Capitalization

Member and Patronage Capital	
Members Capital Certificates Issued	2,669.00
Memberships Issued	257,713.05
Memberships Subscribed but Unissued	2,490.00
Patronage Capital	42,173,997.21
Current Year Profit	(179,277.25)

Total Member and Patronage Capital 42,257,592.01

Long-Term Debt

Mortgage Notes Payable	6,449,185.39
Accrued Post Retirement Benefits	4,070,066.22

Total Long-Term Debt 10,519,251.61

Total Capitalization 52,776,843.62

Total Liabilities \$ 58,861,732.09

Highland Telephone Cooperative, Inc.
Income Statement
November 2009

Basic Local Network Services	\$ 510,154.17
Network Access Services	661,351.19
Long Distance Network Services	656.65
Carrier Billing and Collection Revenue	178,696.67
Directory Advertising And Sales	33,081.75
Rent	6,055.42
Other Regulated	58.95
Miscellaneous	45,763.10
	<u>1,435,817.90</u>
Less Uncollectible Operating Revenue	157.64
	<u>1,435,660.26</u>
Plant Specific Operations	415,523.69
Plant Non-Specific Operations	114,121.63
Depreciation and Amortization	435,482.15
Customer Operations	167,839.56
Corporate Operations	225,331.49
Operating Taxes	42,397.20
	<u>1,400,695.72</u>
Total Operating Expenses	
	<u>1,400,695.72</u>
Operating Income (Expense)	<u>34,964.54</u>
Interest and Dividend Income	4,515.24
Gain on Investments	65,153.21
Miscellaneous	-
Non-Regulated Property Expense-Net	3,766.95
Loss on Abandoned Equipment	-
Interest Expense	(28,091.87)
	<u>45,343.53</u>
Other Income (Expense)	
	<u>45,343.53</u>
Income Before Income Taxes and Extraordinary Items	80,308.07
	-
	<u>\$ 80,308.07</u>
Net Income	<u><u>\$ 80,308.07</u></u>

Highland Telephone Cooperative, Inc.
 Balance Sheet
 December 2009

Current Assets	
Cash and Cash Equivalents	
General Use	\$ 9,911,192.02
Health Insurance Funds	77,030.68
Constructions Funds	-
Certificate of Deposits	600,000.00
Securities Held to Maturity	-
Total Cash and Cash Equivalents	<u>10,588,222.70</u>
Receivables	
Customers (net of allowance)	988,260.12
Toll	682,445.67
Interest and Dividends	3,280.78
Other	502,565.81
Net Receivables	<u>2,176,552.38</u>
Materials and Supplies	
Regulated Materials and Supplies	1,588,267.29
Non-Regulated Materials and Supplies	177,853.15
Total Materials and Supplies	<u>1,766,120.44</u>
Accruals and Prepayments	
Prepayments	410,292.30
Other Current Assets	(3,471.03)
Total Accruals and Prepayments	<u>406,821.27</u>
Total Current Assets	<u>14,937,716.79</u>
Non-Current Assets	
Investment in Affiliated Companies	8,454,687.78
Other Investments	-
Utility Deposits and Membership	2,573.00
Non-Regulated Investments	2,573,679.97
Total Non-Current Assets	<u>11,030,940.75</u>
Telephone Plant	
Telephone Plant in Service	99,023,357.94
Less Accumulated Depreciation	<u>67,416,131.41</u>
	31,607,226.53
Construction Work in Progress	1,564,391.89
Total Telephone Plant	<u>33,171,618.42</u>
Total Assets	<u>\$ 59,140,275.96</u>

Highland Telephone Cooperative, Inc.
 Balance Sheet
 December 2009

Liabilities and Capitalization

Current Liabilities

Current Installment on Long-Term Debt	\$ 1,864,294.85
Trade Accounts Payable	727,848.74
Advanced Billing and Prepayments	730,463.11
Customer Deposits	1,699.05
Other Taxes Accrued	519,232.86
Other Accounts Payable	182,740.78
Pole Line Rental Accrued	646,310.28
Accrued Interest on Loans	23,946.18
Allocated Reserves Payable	91,118.82
Accrued Payroll	156,824.53
Employees Compensated Absences	1,240,384.45

Total Current Liabilities 6,184,863.65

Capitalization

Member and Patronage Capital	
Members Capital Certificates Issued	2,669.00
Memberships Issued	257,063.05
Memberships Subscribed but Unissued	2,710.00
Patronage Capital	43,537,036.82
Current Year Profit	(1,091,939.59)

Total Member and Patronage Capital 42,707,539.28

Long-Term Debt

Mortgage Notes Payable	6,252,538.51
Accrued Post Retirement Benefits	3,995,334.52

Total Long-Term Debt 10,247,873.03

Total Capitalization 52,955,412.31

Total Liabilities \$ 59,140,275.96

Highland Telephone Cooperative, Inc.
Income Statement
December 2009

Basic Local Network Services	\$ 495,357.07
Network Access Services	689,670.63
Long Distance Network Services	3,810.96
Carrier Billing and Collection Revenue	151,540.04
Directory Advertising And Sales	42,942.42
Rent	8,776.44
Other Regulated	-
Miscellaneous	84,237.27
	<u>1,476,334.83</u>
Less Uncollectible Operating Revenue	6,448.78
Total Operating Revenue	<u>1,469,886.05</u>
Plant Specific Operations	575,761.97
Plant Non-Specific Operations	124,897.10
Depreciation and Amortization	243,359.76
Customer Operations	183,448.55
Corporate Operations	281,020.32
Operating Taxes	68,609.24
Total Operating Expenses	<u>1,477,096.94</u>
Operating Income (Expense)	<u>(7,210.89)</u>
Interest and Dividend Income	(826.85)
Gain on Investments	(132,466.24)
Miscellaneous	(706,485.30)
Non-Regulated Property Expense-Net	(33,268.73)
Loss on Abandoned Equipment	-
Interest Expense	(28,663.13)
Other Income (Expense)	<u>(901,710.25)</u>
Income Before Income Taxes and Extraordinary Items	(908,921.14)
Income Taxes	(3,741.20)
Net Income	<u><u>\$ (912,662.34)</u></u>

Highland Telephone Cooperative, Inc.
Comparative Income Statement
January through December 2009

	January	February	March	April	May	June	July	August	September	October	November	December	YTD Total
Basic Local Network Services	\$ 524,988.94	\$ 550,312.97	\$ 529,137.16	\$ 527,969.65	\$ 519,899.93	\$ 505,118.25	\$ 521,227.97	\$ 474,855.04	\$ 521,252.18	\$ 516,082.68	\$ 510,154.17	\$ 495,357.07	\$ 6,196,346.01
Network Access Services	763,691.14	716,855.53	720,631.85	711,638.92	691,503.09	625,852.20	646,937.33	719,559.56	670,053.96	682,376.38	661,351.19	689,670.63	8,300,121.78
Long Distance Network Services	4,663.04	5,461.15	2,571.41	2,252.24	820.36	1,056.69	1,797.87	3,012.50	4,816.55	2,526.43	656.65	3,810.96	33,445.85
Carrier Billing and Collection Revenue	105,593.41	119,398.31	104,920.28	85,511.75	94,740.05	103,451.02	258,770.71	164,021.55	136,589.43	142,541.33	178,696.67	151,540.04	1,645,774.55
Directory Advertising And Sales	36,057.50	35,771.50	35,558.50	33,332.00	31,100.00	56,847.87	30,736.50	30,532.00	47,657.85	32,168.60	33,081.75	42,942.42	445,786.49
Rent	5,990.78	6,120.06	6,055.42	6,055.42	6,055.42	6,055.42	6,055.42	6,055.42	6,055.42	6,055.42	6,055.42	8,776.44	75,386.06
Other Regulated	-	-	-	-	-	-	550.00	(489.73)	-	-	-	58.95	119.22
Miscellaneous	44,677.04	39,113.30	41,544.99	34,062.11	39,374.93	47,776.73	28,472.41	40,373.32	40,014.73	39,427.85	45,763.10	84,237.27	524,837.78
	<u>1,485,661.85</u>	<u>1,473,032.82</u>	<u>1,440,419.61</u>	<u>1,400,822.09</u>	<u>1,383,483.78</u>	<u>1,346,158.18</u>	<u>1,494,548.21</u>	<u>1,437,919.66</u>	<u>1,426,440.12</u>	<u>1,421,178.69</u>	<u>1,435,817.90</u>	<u>1,476,334.83</u>	<u>17,221,817.74</u>
Less Uncollectible Operating Revenue	(17,798.37)	(4,158.89)	(519.99)	(177.05)	(410.76)	1,212.00	789.35	(3,272.09)	591.55	3,318.15	157.64	6,448.78	(13,819.68)
Total Operating Revenue	<u>1,503,460.22</u>	<u>1,477,191.71</u>	<u>1,440,939.60</u>	<u>1,400,999.14</u>	<u>1,383,894.54</u>	<u>1,344,946.18</u>	<u>1,493,758.86</u>	<u>1,441,191.75</u>	<u>1,425,848.57</u>	<u>1,417,860.54</u>	<u>1,435,660.26</u>	<u>1,469,886.05</u>	<u>17,235,637.42</u>
Plant Specific Operations	476,225.22	385,374.05	419,187.67	450,403.56	394,691.79	462,952.09	565,153.30	414,183.30	456,145.71	510,073.07	415,523.69	575,761.97	5,525,675.42
Plant Non-Specific Operations	96,129.83	103,093.31	108,373.75	74,186.57	140,386.39	110,115.13	123,519.67	112,108.28	117,116.65	110,323.36	114,121.63	124,897.10	1,334,371.67
Depreciation and Amortization	510,927.77	405,566.07	406,001.74	407,584.36	413,983.64	411,912.42	418,931.92	431,244.64	417,977.58	416,763.80	435,482.15	243,359.76	4,919,735.85
Customer Operations	123,271.39	222,277.96	144,016.14	210,435.12	162,331.12	159,939.82	159,629.43	161,511.48	158,371.96	150,522.79	167,839.56	183,448.55	2,003,595.32
Corporate Operations	288,094.51	248,560.67	238,681.22	259,098.48	310,784.36	217,776.15	284,866.11	192,095.66	220,945.89	252,586.52	225,331.49	281,020.32	3,019,841.38
Operating Taxes	43,126.20	42,704.20	42,868.20	42,447.20	(169,038.17)	44,590.40	41,530.62	42,375.99	42,402.20	42,171.20	42,397.20	68,609.24	326,184.48
Total Operating Expenses	<u>1,537,774.92</u>	<u>1,407,576.26</u>	<u>1,359,128.72</u>	<u>1,444,155.29</u>	<u>1,253,139.13</u>	<u>1,407,286.01</u>	<u>1,593,631.05</u>	<u>1,353,519.35</u>	<u>1,412,959.99</u>	<u>1,482,440.74</u>	<u>1,400,695.72</u>	<u>1,477,096.94</u>	<u>17,129,404.12</u>
Operating Income (Expense)	<u>(34,314.70)</u>	<u>69,615.45</u>	<u>81,810.88</u>	<u>(43,156.15)</u>	<u>130,755.41</u>	<u>(62,339.83)</u>	<u>(99,872.19)</u>	<u>87,672.40</u>	<u>12,888.58</u>	<u>(64,580.20)</u>	<u>34,964.54</u>	<u>(7,210.89)</u>	<u>106,233.30</u>
Interest and Dividend Income	(7,059.86)	23,240.24	7,376.11	4,820.17	7,558.41	5,610.19	3,445.24	5,638.62	5,494.77	5,161.24	4,515.24	(826.85)	64,973.52
Gain on Investments	81,648.53	(45,262.72)	(42,190.04)	(48,234.36)	(40,367.73)	21,114.74	(3,644.00)	28,225.41	(81,014.68)	57,274.55	65,153.21	(132,466.24)	(139,763.33)
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	(706,485.30)
Non-Regulated Property Expense-Net	27,365.07	12,803.74	(1,049.52)	(14,215.71)	4,342.23	(4,413.99)	(73,180.48)	(11,177.78)	63,032.18	(3,061.06)	3,766.95	(33,268.73)	(29,057.10)
Loss on Abandoned Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Expense	(38,075.88)	(31,922.21)	(35,530.14)	(33,721.39)	(33,668.53)	(31,504.34)	(32,020.06)	(30,609.21)	(29,356.59)	(30,936.13)	(28,091.87)	(28,663.13)	(384,099.48)
Other Income (Expense)	<u>63,877.86</u>	<u>(41,140.95)</u>	<u>(71,393.59)</u>	<u>(91,351.29)</u>	<u>(62,135.62)</u>	<u>(9,193.40)</u>	<u>(105,399.30)</u>	<u>(7,922.96)</u>	<u>(41,844.32)</u>	<u>28,438.60</u>	<u>45,343.53</u>	<u>(901,710.25)</u>	<u>(1,194,431.69)</u>
Income Before Income Taxes and Extraordinary Items	<u>29,563.16</u>	<u>28,474.50</u>	<u>10,417.29</u>	<u>(134,507.44)</u>	<u>68,619.79</u>	<u>(71,533.23)</u>	<u>(205,271.49)</u>	<u>79,749.44</u>	<u>(28,955.74)</u>	<u>(36,141.60)</u>	<u>80,308.07</u>	<u>(908,921.14)</u>	<u>(1,088,198.39)</u>
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	(3,741.20)	(3,741.20)
Net Income	<u>\$ 29,563.16</u>	<u>\$ 28,474.50</u>	<u>\$ 10,417.29</u>	<u>\$ (134,507.44)</u>	<u>\$ 68,619.79</u>	<u>\$ (71,533.23)</u>	<u>\$ (205,271.49)</u>	<u>\$ 79,749.44</u>	<u>\$ (28,955.74)</u>	<u>\$ (36,141.60)</u>	<u>\$ 80,308.07</u>	<u>\$ (912,662.34)</u>	<u>\$ (1,091,939.59)</u>