

2021 ANNUAL REPORT



HARDY
TELECOMMUNICATIONS

Hardy OneNet Fiber-to-the-Home
High-Speed Internet/High-Definition Television/Phone

October 1, 2021 4:00 P.M.

Annual Meeting of Members

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OUR MISSION

Hardy Telecommunications is a customer-owned provider of communications and information services, committed to innovation, and dedicated to enhancing the quality of life in the communities we serve.

OUR VISION

We will be the progressive communications provider of choice, partnering with our communities, offering the most advanced technology at the best value possible, and driven by exceptional customer service.

Annual Meeting Agenda

Invocation

President Greg Zirk

Call Meeting to Order

Establish Quorum

Introduction of Directors and Guests

Approval of Agenda

Reading of Notice of Meeting mailed

September 7, 2021, or Resolution
to Dispense with Reading of Notice

Reading of 2020 Annual Meeting

Minutes or Resolution to Dispense
with Reading of Minutes

Approval of 2020 Annual Meeting

Minutes

Corporate Attorney Jack Walters

Recognition of Election of Directors

General Manager Scott Sherman

Audit Report Summary —

Don Whetzel, Senior Accountant

Manager's Report

President Greg Zirk

Old and Unfinished Business

New Business

Adjournment



The Manager's Report

Looking forward as well as back, I wonder how much the last 18 months have affected how things will be in the future. COVID-19 has changed a lot of how we do things – some good and some bad, depending on your perspective. If another round of COVID-19 “craziness” is about to come around, just how much more will things change? We can’t know the answer to that, but I do know COVID-19 has changed a lot in our world, including some things we all take for granted. First and foremost, broadband Internet service is now

considered to be an essential service just like electricity, sewer, and water. COVID-19 brought that front and center.

Throughout this COVID-19 pandemic, your cooperative was there with you when you needed it most, despite some very difficult times. We are proud of that and as a member/owner of our cooperative, you should be too. We even increased our broadband package speeds during this time to help with students doing virtual schooling, parents working from home, and families enjoying streaming

entertainment and gaming. I'm so thankful that we were able to build our OneNet fiber-to-the-home project, started more than 10 years ago, because without it, I'm not sure what we would have done to meet your Internet needs during the recent COVID-19 challenges.

Speaking of meeting your Internet needs, I have some exciting news, albeit with a caveat. Internet bandwidth usage just keeps increasing, and we see that continuing regardless of what the COVID-19 pandemic still has in store. We are committed to meeting your needs, so we are planning to again increase the broadband speeds in our standard OneNet packages. You will not be charged extra for these speed increases.

Now for the caveat... Due to equipment shortages, something plaguing all industries right now but especially the telecommunications/electronics field for processor chips, we can't say exactly when we can make these changes. It all hinges on our ability to procure new, updated wi-fi routers to replace older routers in some homes. Some of our older routers just can't handle the faster speeds, and we want all OneNet customers to be able to take advantage of the new speeds. Supplies of critical electronics are extremely hard to get right now. Many vendors are rationing them to their customers and cannot fill orders. We plan to do the increases as soon as we secure the equipment needed for you to experience them, but it appears that could take months.

Again, you will not be charged extra for the speed increases. Other costs, like TV programming (more on that later), might rise by the time we can obtain the equipment to roll out the faster speeds, but we do not plan a price increase for implementing these new speeds.

Specifically, our 30/15 Mbps package will go to 50/25 Mbps; our 50/25 Mbps package will go to 100/50 Mbps; and our 100/50 Mbps package will go to 150/75 Mbps. Stay tuned, because we'll certainly get the word out once we're able to institute these increases.

We all will need more bandwidth in the future whether or not we know it now. COVID-19 certainly precipitated much of the current jump in bandwidth usage, but the pattern will persist regardless. One example is video conferencing rather than meeting in person. Not only does it reduce exposure risks, but it also can be much less expensive and more convenient by allowing people to spend more time at home. And they're using that time to watch more TV, particularly streaming. With many traditional activities and sports shut down due to COVID-19 over the past 18 months, the popularity of streaming entertainment has skyrocketed. You only have to look at all of the new streaming services launched in the past year to see that. Streaming, especially in a family setting with multiple programs being watched at the same time, requires more bandwidth. Add students doing virtual school and parents

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the manager's report

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working from home, and the bandwidth demand increases exponentially.

We recognize that, and we want our broadband to keep up with your needs. That's why we're already working on future additional speed increases. We want our speeds to be measured in gigabits, not just megabits. Even if you don't follow bits and bytes and understand that difference, trust me when I say that Hardy Telecommunications is committed to providing you the network speed you need before you realize you need it. Much work remains and money to be invested before we can make that leap, but it is on the horizon and we are actively working to get there.

One negative effect of the emphasis on streaming is the continued cost increases and lesser content available with traditional TV. The prices we are charged by broadcasters for their content continue to soar with no end in sight. For broadcast content, the companies are all about money – money in sports, money in streaming, and money in Hollywood. Your cooperative continues to lose money on what we charge for TV channels vs. what we pay to provide those channels. Most of the money we collect goes right back out the door to the programmers and those related to the business of providing TV entertainment.

Even if you don't watch sports, you help pay for those crazy player salaries if you watch any traditional TV at all. Even if you don't stream shows on Netflix or Hulu or Peacock, you pay for those companies' business models to emphasize streaming and profits. The big money is not just for actors and actresses on the silver screen, but also the companies that control those entertainment studios, and those companies have identified streaming over traditional TV as the focus of their business.

Advertising plays a tremendous role. Many TV stations used to be free because ad dollars paid for them to operate. Since there are now so many more places to advertise – social media, TV, streaming, etc. – those same ad dollars get spread across various entertainment platforms. That has put the squeeze on traditional TV and the cost to provide it to you, driving up prices. Simply put, content companies have decided that streaming is the future for their success, and they are milking traditional TV providers for money to finance streaming projects. On top of that, they are starting to take some of their best shows and make them available only on streaming services.

If you follow the WVU Mountaineers in sports, then you've heard of ESPN+. Expect more and more WVU games to be moved to ESPN+ and not available

to traditional TV viewers. The broadcast companies want you to subscribe to their streaming services, and they will do whatever they can to entice you and finally to force you to do it. Otherwise you won't be able to watch the programs that you traditionally received on regular TV.

We plan to continue to offer TV service, but the price will keep going up – we have no control over the outrageous cost increases that are forced on providers like us. So my advice is to familiarize yourself with streaming services. Our cooperative's focus is on providing a quality, reliable high-speed broadband connection to your home, because eventually all content will be delivered via Internet. Streaming services will continue to grow and eventually will be the only place to see the content – TV programs, movies, even live sports – that you want.

Your cooperative will help you with that transition. We believe our company is well positioned to meet the growing needs and reliance on the Internet in our daily lives. Whether that is video conferencing, online education, or streaming your favorite TV show, we will be ready for the future.

Despite these challenges, we remain focused on our financial performance. We are pleased to report that 2020 was another year of good margins, and the cooperative was able to allocate some of those margins to eligible ILEC (our

incumbent territory) and CLEC (our competitive territory) members in the form of patronage.

The rest of those margins went to the continuation of the OneNet project. As a non-profit cooperative, we strive not for huge profits, but rather for just enough money to cover our bills, operate the business, and pay our debt for projects like OneNet, with enough resources left to make enhancements to our network and services. The upcoming broadband speed increases are a great example of where the money goes, with the new equipment and work required to implement them. We also are still striving to make OneNet service available to those few remaining Hardy County citizens that we have not reached. Additionally, we continue to work with Hampshire County to assist some of their citizens with better Internet. Hampshire County has stepped up with both personnel and funds to assist in their projects. In the end, it is all about serving your neighbor because having good Internet has become essential in our communities.

That's why we are all here, to serve you, our members and customers, and I sincerely thank you for your support.



D. Scott Sherman
General Manager/CEO



2020 Meeting Minutes

The Annual Meeting of Hardy Telecommunications, Inc., was held virtually via Zoom on Thursday, November 5, 2020. President Greg Zirk called the meeting to order at 4:00 p.m.

Prior to the meeting, the Board of Directors appointed a Credentials and Election Committee that consisted of the following members: Jessica Baker, Charles Combs, Andy Cumberland, David Maher, Kent Shipe, and Lana Wilkins. In due time the said committee reported that there was a quorum with 56 members present in person and 1 present by proxy, for a total of 57. (A total of 50 members present in person was required in order to have a quorum.)

Whereupon, pursuant to the notice duly given by the Board of Directors to each member of

the cooperative, the meeting was declared to be open for business. President Zirk asked for any proposed additions or deletions to the agenda. It was moved, seconded, and passed that the proposed agenda be approved as presented.

It was moved, seconded, and passed to dispense with the reading of the notice of the meeting.

It was moved, seconded, and passed to dispense with the reading of the minutes of the 2019 Annual Meeting, as a copy of the minutes was published previously for open-access public viewing on the company website.

It was moved, seconded, and passed that the minutes of the 2019 Annual Membership Meeting be approved as per copy furnished.

President Greg Zirk introduced the Board of Directors.

Attorney Jack Walters gave a report of the Nominations Committee Meeting and presented the following information regarding the election of Directors: The Nominations Committee nominated for SOUTH FORK SERVING AREA #1 – Ward Malcolm, and for LOST RIVER SERVING AREA #3 – Victoria Dyer. Dorman Godlove had filed a petition to run as director for the LOST RIVER SERVING AREA #3. Attorney Walters explained that Directors would serve for a three-year term, with one to be elected from each position. The members of the Nominations Committee were Dennis Hill, Patricia Krauskopf, and Holly Landes.

Election was held by mail-in voting via secret ballot. The Credentials and Elections Committee had met prior to the Annual Meeting to count and tally ballots. Attorney Walters announced the results of the election.

Ward Malcolm was duly elected by acclamation for the South Fork Serving area #1.

Victoria Dyer was duly elected by secret ballot for the Lost River Serving Area #3.

Senior Accountant Don Whetzel gave the presentation on the Financial Statement.

General Manager/CEO Scott Sherman gave the Manager's Report: The COVID-19 pandemic had created numerous unique challenges for the company. He noted how

Hardy's OneNet fiber-to-the-home network had proven its worth with the increased need for broadband as more people worked from home and children were schooled virtually. He said that Hardy Tel and Hardy County Schools had partnered to establish several wi-fi Internet access points around the county for students. He thanked members for utilizing electronic payment methods and remote troubleshooting, and employees for continuing to serve and meet customer needs under trying circumstances. He also noted that Hardy employees had been collecting specific geographic information about locations where it offers broadband service. This information is required for recipients of ACAM-II federal funding.

Mr. Zirk thanked everyone for attending the virtual Annual Meeting. He expressed his appreciation to the Board of Directors and employees for their support and dedication to the cooperative. Mr. Zirk also gave a special thank-you to Loring Barr, who retired in 2020 after 42 years of service on the Board.

There being no items of unfinished business from the previous year and no further business to come before the meeting, the meeting was adjourned at 4:35 p.m.

2020 Financial Statements

CONSOLIDATED BALANCE SHEET

December 31, 2020

ASSETS

Current assets:	
Cash and temporary investments	\$ 3,926,449
Accounts receivable (net)	732,968
Materials and supplies	308,970
Investment in equity securities	6,441,359
Prepayments and deferred charges	<u>861,092</u>
	<u>12,270,838</u>
Noncurrent assets:	
Other investments	194,897
Investments in debt and equity securities	365,991
Intangible assets	<u>24,250</u>
	<u>585,138</u>
Property and equipment:	
Plant in service	53,105,336
Plant under construction	<u>432,127</u>
	<u>53,537,463</u>
Less, accumulated depreciation	<u>33,490,415</u>
	<u>20,047,048</u>
	<u>\$ 32,903,024</u>

LIABILITIES AND CAPITALIZATION

Current liabilities:	
Accounts payable	\$ 561,289
Line of credit	589,285
Current maturities on long-term debt	891,518
Income tax payable	97,894
Accrued liabilities	<u>144,817</u>
	<u>2,284,803</u>
Noncurrent liabilities:	
Long-term debt, less current maturities	7,393,620
Deferred grant revenue	599,777
Deferred income taxes	<u>217,768</u>
	<u>8,211,165</u>
	<u>10,495,968</u>
Capitalization:	
Accumulated other comprehensive income	20,501
Patronage capital	<u>22,386,555</u>
	<u>22,407,056</u>
	<u>\$ 32,903,024</u>

Hardy Telecommunications, Inc. and Subsidiary

CONSOLIDATED STATEMENT OF REVENUES AND EXPENSES

Operating revenues:

Basic local network service	\$	2,237,474
Network access and long distance revenue		5,875,070
Other sales and service		5,751,259
Other		264,895
Less, uncollectible revenues		<u>(30,000)</u>
		<u>14,098,698</u>

Operating expenses:

Plant specific operations		2,896,325
Plant nonspecific operations		3,799,993
Depreciation and amortization		2,061,361
Customer operations		794,753
Corporate operations		<u>1,525,245</u>
		<u>11,077,677</u>

Operating income 3,021,021

Nonoperating income (expense):

Investment earnings		392,375
Realized gain on sale of investment		1,087,763
Unrealized gains on equity securities		667,257
Interest on long-term debt		<u>(342,726)</u>
		<u>1,804,669</u>

Margins before income taxes 4,825,690

Federal and state income taxes 553,005

Net margins for the year \$ 4,272,685

CONSOLIDATED STATEMENT OF PATRONAGE CAPITAL

2020:

Balance - December 31, 2019	\$	18,541,095
Net margins for the year		4,272,685
Retirements		<u>(427,225)</u>
Balance - December 31, 2020		<u>22,386,555</u>

RUS, Lifeline, Tel-Assistance

As a USDA Rural Utilities Service loan/grant recipient, we are required to inform you of the Non-Discrimination Statement below:

Hardy Telecommunications is an equal opportunity provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form, found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at:

U.S. Department of Agriculture
Director, Office of Adjudication
1400 Independence Avenue, S.W.,
Washington, D.C. 20250-9410

By fax:
(202) 690-7442

Or email at:
program.intake@usda.gov.

Hardy Telecommunications participates in the federal Lifeline Assistance and the West Virginia Tel-Assistance programs which are available to qualifying low-income subscribers to help them maintain communications services.

To be eligible, a subscriber must either have an income that is at or below 135% of the Federal Low Income Program or participate in one of the following assistance programs: Medicaid; Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamps; Supplemental Security Income (SSI); Federal Public Housing Assistance (Section 8); Low-Income Home Energy Assistance Program; Temporary Assistance to Needy Families; or the National School Lunch Programs' Free Lunch program.

Certification forms may be obtained from the West Virginia Department of Health and Human Resources. Those claiming to qualify based on income must present acceptable documentation of the household income. The program is limited to one benefit per household.

HARDY
TELECOMMUNICATIONS
OFFICE LOCATIONS

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Lost River, WV 26810
Phone: 304-897-9911

121 South Main St.
Moorefield, WV 26836
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345 East Main St., Suite A
Wardensville, WV 26851
Phone: 304-897-2355

199 Capon School St.
Capon Bridge, WV 26711
Phone: 304-897-9911

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