REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

HORIZON TELCOM, INC. AND SUBSIDIARIES

December 31, 2017 and 2016

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MOSSADAMS

Report of Independent Auditors

To the Board of Directors
Horizon Telcom, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Horizon Telcom, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Horizon Telcom, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Overland Park, Kansas
March 22, 2018

Horizon Telcom, Inc. and Subsidiaries
Consolidated Balance Sheets

ASSETS

	December 31, 2017	December 31, 2016
CURRENT ASSETS		
Cash and cash equivalents	$ 7,707,847	$ 6,998,466
Accounts receivable - subscriber, less allowance for doubtful accounts of approximately $179,000 as of December 31, 2017 and $167,000 as of December 31, 2016	2,005,382	1,632,958
Accounts receivable - interexchange carriers, federal support, less allowance for doubtful accounts of approximately $97,000 as of December 31, 2017 and $112,000 as of December 31, 2016	783,040	627,642
Accounts receivable - other	945,241	1,682,264
Income tax receivable	6,708	17,300
Inventories	2,248,789	2,606,209
Prepaid expenses and other current assets	1,219,384	781,072
Total current assets	14,916,391	14,345,911
OTHER ASSETS		
Other investments	1,742,449	1,561,740
Prepaid indefeasible right of use	1,555,023	1,660,960
Other noncurrent assets	6,297,472	6,980,768
Total other assets	9,594,944	10,203,468
PROPERTY, PLANT, AND EQUIPMENT		
Regulated telecommunications plant in service	163,389,747	163,265,601
Nonregulated telecommunications plant in service	183,149,865	181,641,368
Regulated telecommunications plant under construction	580,292	348,211
Nonregulated telecommunications plant under construction	4,982,711	940,731
	352,102,615	346,195,911
Less accumulated depreciation	(188,024,473)	(176,396,402)
Net property, plant, and equipment	164,078,142	169,799,509
Total assets	$ 188,589,477	$ 194,348,888

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2017	December 31, 2016
CURRENT LIABILITIES		
Current portion, long-term debt	$ 5,000,000	$ 4,500,000
Accounts payable	189,206	642,681
Other accrued liabilities	6,905,262	7,356,625
Postretirement benefit obligation	98,067	98,179
Pension benefit obligation	519,636	771,553
Deferred revenue	5,825,412	5,779,063
Total current liabilities	18,537,583	19,148,101
LONG-TERM DEBT	64,181,194	69,451,936
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes, net	6,437,201	7,888,529
Postretirement benefit obligation	503,263	499,471
Pension benefit obligation	6,387,059	8,738,018
Deferred revenue - BTOP grant	44,607,023	47,604,625
Deferred revenue - Southern Ohio Health Care Network	4,804,835	6,657,318
Deferred revenue - other	5,014,010	5,424,246
Total other liabilities and deferred credits	67,753,391	76,812,207
STOCKHOLDERS' EQUITY		
Common stock - Class A, no par value. Authorized 200,000 shares; issued 99,726 shares and outstanding 87,099 shares at December 31, 2017 and December 31, 2016, stated at $4.25 per share	423,836	423,836
Common stock - Class B, no par value. Authorized 500,000 shares; issued 299,796 shares and outstanding 234,127 at December 31, 2017 and December 31, 2016, stated at $4.25 per share	1,274,133	1,274,133
Treasury stock, 12,627 Class A shares, stated at cost	(1,721,337)	(1,721,337)
Treasury stock, 65,669 Class B shares, stated at cost	(9,941,758)	(9,941,758)
Accumulated other comprehensive loss, net of income tax benefit	(8,320,434)	(8,697,772)
Additional paid-in capital	73,255,511	73,190,873
Retained deficit	(16,852,642)	(25,591,331)
Total stockholders' equity	38,117,309	28,936,644
Total liabilities and stockholders' equity	$ 188,589,477	$ 194,348,888

See accompanying notes.

Horizon Telcom, Inc. and Subsidiaries
Consolidated Statements of Income

	Years Ended December 31, 2017	2016
OPERATING REVENUE		
Wireline	$ 17,824,962	$ 19,029,758
Internet	4,774,819	4,302,387
Video	4,441,851	4,377,520
Fiber transport	28,953,030	27,396,545
Other nonregulated	2,581,260	2,685,634
Uncollectibles	(443,657)	(413,636)
Total net operating revenues	58,132,265	57,378,208
OPERATING EXPENSE		
Plant specific operations	5,485,484	5,267,817
Plant nonspecific operations	1,916,076	2,220,407
Depreciation	5,972,499	5,953,718
Customer operations	1,726,921	1,667,094
Corporate operations	4,510,944	4,051,780
Other operating taxes	199,900	204,125
Nonregulated		
Fiber transport	15,206,257	13,670,663
Video	3,795,474	3,722,111
Other	1,051,774	1,246,774
Depreciation	9,558,962	9,631,762
Total operating expense	49,424,291	47,636,251
Operating income	8,707,974	9,741,957
NONOPERATING INCOME (EXPENSE)		
Interest income	36,330	3,867
Allowance for funds used during construction	95,485	54,218
Dividend income	722,834	1,783,343
Interest expense	(4,262,377)	(4,389,321)
Other nonoperating expense	(78,640)	(23,285)
Loss on sale of fixed assets	(7,482)	-
Loss on abandoned construction	-	(125,014)
Total nonoperating expense	(3,493,850)	(2,696,192)
Income before income taxes	5,214,124	7,045,765
INCOME TAX BENEFIT (EXPENSE)	2,112,826	(2,500,844)
Net income	$ 7,326,950	$ 4,544,921

See accompanying notes.

	Years Ended December 31, 2017	Years Ended December 31, 2016
Net income	$ 7,326,950	$ 4,544,921
Other comprehensive income		
Reclassification for stranded tax effects from adoption of ASU 2018-02	(1,411,739)	-
Gain on pension obligation net of income tax expense of $1,017,627 and $311,023	1,884,903	576,094
(Loss) gain on other postretirement benefit obligation net of income tax expense (benefit) of ($51,735) and $19,319	(95,826)	35,783
Other comprehensive income	377,338	611,877
Comprehensive income	$ 7,704,288	$ 5,156,798

Horizon Telcom, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity

	Class A Common Stock	Class B Common Stock	Treasury Stock	Accumulated Other Comprehensive Loss	Additional Paid-In Capital	Retained Deficit	Total Stockholders' Equity
STOCKHOLDERS' EQUITY, December 31, 2015	$ 423,836	$ 1,274,133	$ (11,663,095)	$ (9,309,649)	$ 73,133,160	$ (30,136,252)	$ 23,722,133
Stock option compensation expense	-	-	-	-	57,713	-	57,713
Net income	-	-	-	-	-	4,544,921	4,544,921
Change in pension obligation, net of income tax expense of $311,023	-	-	-	576,094	-	-	576,094
Change in additional minimum other postretirement benefit liability, net of tax expense of $19,319	-	-	-	35,783	-	-	35,783
STOCKHOLDERS' EQUITY, December 31, 2016	423,836	1,274,133	(11,663,095)	(8,697,772)	73,190,873	(25,591,331)	28,936,644
Stock option compensation expense	-	-	-	-	64,638	-	64,638
Net income	-	-	-	-	-	7,326,950	7,326,950
Reclassification for stranded tax effects from adoption of ASU 2018-02	-	-	-	(1,411,739)	-	1,411,739	-
Change in pension obligation, net of income tax expense of $1,017,627	-	-	-	1,884,903	-	-	1,884,903
Change in additional minimum other postretirement benefit liability, net of tax benefit of ($51,735)	-	-	-	(95,826)	-	-	(95,826)
STOCKHOLDERS' EQUITY, December 31, 2017	$ 423,836	$ 1,274,133	$ (11,663,095)	$ (8,320,434)	$ 73,255,511	$ (16,852,642)	$ 38,117,309

See accompanying notes.

	Years Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,326,950	$ 4,544,921
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	15,531,461	15,585,480
Deferred income tax	(2,417,220)	2,437,355
Deferred compensation related to stock option plan	64,638	57,713
Amortization of deferred loan costs	252,174	268,986
Provision for bad debt expense	443,657	413,636
Allowance for funds used during construction	(95,485)	(54,218)
Loss on sale of fixed asset	7,482	-
Loss on abandoned construction	-	125,014
Changes in operating assets and liabilities		
Accounts receivable	(234,459)	(2,357,898)
Income taxes receivable	10,592	24,700
Inventories	357,420	(779,485)
Prepaid expenses and other current assets	(438,312)	(102,085)
Accounts payable	(453,472)	364,525
Accrued liabilities	(228,246)	(2,768,456)
Accrued pension costs	299,654	(210,262)
Postretirement benefit obligation	(143,881)	(187,768)
Change in other assets and liabilities, net	(5,047,053)	(6,475,571)
Net cash from operating activities	15,235,900	10,886,587
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures, net	(10,576,031)	(7,565,110)
Proceeds on sale of assets, net of cost of removal	1,072,429	8,366
Net cash from investing activities	(9,503,602)	(7,556,744)

See accompanying notes.

Horizon Telcom, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	$ (4,125,000)	$ (3,000,000)
Debt issuance costs	(897,917)	-
Net cash from financing activities	(5,022,917)	(3,000,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	709,381	329,843
CASH AND CASH EQUIVALENTS, at beginning of year	6,998,466	6,668,623
CASH AND CASH EQUIVALENTS, at end of year	$ 7,707,847	$ 6,998,466
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Income taxes	$ 173,859	$ 24,668
Interest, net of amounts capitalized	$ 4,234,379	$ 4,075,150
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTMENT AND FINANCING ACTIVITIES		
Defined benefit plan adjustments, net of income tax expense of $965,892 and $330,342	$ 377,338	$ 611,877
Make-ready accrual adjustments	176,776	36,388

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

Business Organization and Principles of Consolidation

The accompanying consolidated financial statements reflect the operations of Horizon Telcom, Inc. and its subsidiaries, collectively referred to as the Company. Horizon Telcom, Inc., a parent holding company, is comprised of The Chillicothe Telephone Company (Chillicothe Telephone), a local voice, video and data service provider and a regional fiber optic transport provider; Horizon Technology, Inc. (Horizon Technology); and Horizon Services, Inc. (Horizon Services). Both Horizon Technology and Horizon Services are inactive subsidiaries at December 31, 2017 and 2016, respectively. All material intercompany transactions and balances have been eliminated in consolidation.

Chillicothe Telephone provides services traditionally provided as an Incumbent Local Exchange Carrier (ILEC). These services include switched wireline voice communications, video and Internet access provided to commercial, residential and small business customers in and around Ross County, Ohio. In addition, Chillicothe Telephone provides fiber optic-based carrier services over its extensive regional network and the networks of vendor carriers. These services include carrier Ethernet, Internet access, voice over IP (VOIP), and leased dark fiber to wireless service providers, carriers, health care providers, educational institutions, government agencies, and enterprises in Ohio and surrounding states.

Accounting for Regulation

Chillicothe Telephone is subject to rate regulation and follows the accounting and reporting requirements set forth by the Regulated Operations Topic of the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC). This guidance provides that rate-regulated public utilities account for revenues and expenses in addition to reporting assets and liabilities consistent with the economic effect of the way in which regulators establish rates.

Accounting for Video Services

Chillicothe Telephone provides video programming and follows the accounting and reporting requirements set forth by the Entertainment-Cable Television Topic of the FASB ASC to account for capitalization of installation costs and recognition of hook-up revenue.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. Significant estimates include depreciation expense, revenue recognition from deferred revenue arrangements, deferred income taxes, defined benefit obligations, and make ready fees.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash on hand, money market accounts, U.S. treasury bills, corporate bonds, and investments in commercial paper with original maturities of three months or less.

Note 1 – Summary of Significant Accounting Policies (continued)

Valuation of Accounts Receivable
Accounts receivable are stated at the amount management expects to collect on outstanding balances. The Company reviews the collectability of accounts receivable based upon an analysis of outstanding receivables, historical collection information, and existing economic conditions. Receivables from customers are due 30 days after issuance of the subscriber bills.

Estimates are used in determining the allowance for doubtful accounts receivable, which is based on a percentage of the accounts receivable by aging category for subscribers and by specific identification for other receivables. The percentage is derived by considering the historical collections and write-off experience, current aging of the accounts receivable, and credit quality trends. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Concentration of Credit Risk
The Company maintains cash and cash equivalents in an account with a financial institution in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). Management does not believe there is significant credit risk associated with deposits in excess of federally-insured amounts.

Other financial instruments that potentially subject the Company to concentrations of credit risk primarily consist of accounts receivable from subscribers. Management believes the risk is limited due to the number of customers comprising the Company’s customer base.

Inventories
Inventories consist of materials and supplies for both regulated and nonregulated construction activities and are stated at the lower of weighted-average cost or net realizable value. Inventories also consist of the cost (determined by first-in, first-out method) of equipment to be used in the installation of services or items held for resale, as well as costs related to direct sales orders in process. Management reviews and records adjustments to net realizable value using a reserve against inventory.

Property, Plant, and Equipment
Property, plant, and equipment, including improvements that extend useful lives, are stated at cost, while maintenance and repairs are charged to operations as incurred. Plant under construction includes expenditures for the purchase of capital equipment, construction, and items, such as direct payroll and related benefits and interest capitalized during construction. The Company capitalizes interest as required by the *Interest topic* of the FASB ASC.

Property, plant, and equipment are depreciated using straight-line methods over their estimated useful lives. In accordance with composite group depreciation methodology, when a portion of the Company’s depreciable property, plant, and equipment is retired in the ordinary course of business, the original cost, including salvage and cost of removal, is charged to accumulated depreciation with no gain or loss recognized.

Note 1 – Summary of Significant Accounting Policies (continued)

Depreciation of the Company's nonregulated plant is provided by the straight-line method over the estimated useful lives of the assets. Upon retirement, sale, or other disposition of nonregulated property, plant and equipment, the cost and related accumulated depreciation are removed from the related accounts and the resulting gains or losses are included in operations.

Debt Issuance Costs

Effective March 22, 2017, the Company amended its debt agreement with CoBank through an amended and restated credit agreement (Note 6). As part of the agreement, The Company incurred net deferred financing fees of $897,917 and the maturity date was extended to March 22, 2022. The Company adjusted the monthly amortization based on the additional cost and extended maturity date. Amortization of debt issuance costs included in interest expense was approximately $229,536 and $238,801, respectively, during the years ended December 31, 2017 and 2016.

In addition, as part of the refinancing effective January 2, 2014, the Company issued stock warrants to CoBank (Note 6). The valuation of the warrants of $350,150 was considered to be additional debt issuance costs, which is being amortized using the effective interest method over the term of the underlying debt obligation. However, due to the amended and restated credit agreement effective July 31, 2015, the Company adjusted the monthly amortization based on the extended maturity date to January 4, 2018. Amortization of stock warrants included in interest expense was approximately $30,182 for the year ended December 31, 2016. Furthermore, due to the amended and restated credit agreement effective March 22, 2017, the Company elected, based on the immateriality of the remaining unamortized balance and the extended maturity date, to accelerate amortization of the remaining costs. During 2017, all debt issuance costs relating to the stock warrants were fully amortized, and approximately $30,185 was recognized in interest expense for the year ended December 31, 2017.

Other Noncurrent Assets

Other noncurrent assets are primarily comprised of costs associated with contemplated construction projects and property held for future use. The costs associated with contemplated construction projects are transferred back into plant under construction when and if the Company determines that the construction projects will move forward. Costs associated with abandoned projects are recorded as nonoperating expense. Abandoned construction projects expensed were $0 and $125,014 during the years ended December 31, 2017 and 2016, respectively.

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell, and depreciation ceases. At December 31, 2017 and 2016, the Company did not have impaired assets.

Note 1 – Summary of Significant Accounting Policies (continued)

Comprehensive Income
Comprehensive income is defined as the change in equity of a business during a period as a result of net income and other gains and losses affecting equity that, under accounting principles generally accepted in the United States of America, are excluded from net income. Accumulated other comprehensive loss includes adjustments to reflect the effect of the Company's defined benefit pension and postretirement plans.

Revenue Recognition
Monthly service fees derived from local wireline, Internet access, and video services are billed in advance but recognized in the month that service is provided.

Usage sensitive revenues, such as access (revenues earned from originating/terminating long-distance calls) and long-distance calls are generally billed as per-minute charges and are billed in arrears. Estimated unbilled amounts are accrued at the end of each month.

The Company previously participated in the carrier common line revenue pool administered by the National Exchange Carrier Association (NECA). The Company exited the carrier common line revenue pool in 2017. The NECA pools are subject to a 24-month pool earnings adjustment period. There was an insignificant revenue impact for 2017 and 2016 for adjustments related to prior year differences between recorded estimates and actual revenues from the Company's previous participation in the NECA pools. Management does not anticipate significant adjustments related to prior year differences between recorded estimates and actual revenues from the 24-month pool adjustment period.

Other revenues include security monitoring, equipment systems sales and directory advertising revenues. Security monitoring revenues are monthly service fees and other charges billed to customers of Chillicothe Telephone's security monitoring services. Equipment systems sales revenues consist of sales made by Chillicothe Telephone to various business or residential customers for equipment used on the local network.

Fiber transport revenues are derived from carrier Ethernet, Internet access, VOIP and leased dark fiber and are billed in advance, but recognized in the month that service is provided. Fiber transport revenues also include dark fiber Indefeasible Rights of Use (IRU) purchases and non-recurring installation charges. These charges are generally billed in advance and recognized in the month the service is provided.

Chillicothe Telephone recognizes revenue on a completed contract basis for the installation of telecommunication and other related equipment. These revenues are reported as other nonregulated revenue on the accompanying consolidated statements of operations and maintenance revenue is recognized over the life of the contract and recorded as other nonregulated revenue on the being consolidated statements of operations. Revenue on equipment sales are recognized at the time of sale.

Note 1 – Summary of Significant Accounting Policies (continued)

Recognition periods for deferred revenues vary. Rural Utilities Service (RUS) and Broadband Technology Opportunities Program (BTOP) deferred revenues are related to the construction of network assets and are recognized on a straight-line basis over the various useful lives of the associated network assets (Note 11). Revenues derived from the Southern Ohio Health Care Network (SOHCN) are recognized on a straight-line basis over a ten-year period consistent with the SOHCN participants' connection agreements (Note 5). Other deferred revenues are short-term in nature and are recognized on a straight-line basis over the term of the contract or agreement.

The Company receives Universal Service Funds (USF) to provide assistance with the cost of providing telecommunications service to high cost areas. USF settlements primarily consists of funds received from the Alternative Connect America Fund (ACAM) and Connect America Fund (CAF). ACAM settlements are fixed for a 10-year period beginning January 2017 and are based on funding to build broadband connectivity to pre-determined eligible locations with certain build-out milestone requirements beginning in 2021. Support from the CAF is based on historical frozen amounts related to 2011 investment and expenses associated with the switching function and certain 2011 intrastate access revenues, which together make up the CAF base. The CAF base will be reduced by 5 percent each year in the determination of CAF support.

For periods prior to 2017, USF included funds received for high cost loop support (HCLS) and interstate common line support (ICLS) based on the Company's relative level of operating expenses and plant investment.

Regulation
The Company's services are subject to rate regulation as follows:

- Local telephone and intrastate access revenues are regulated by the Public Utilities Commission of Ohio (PUCO). The FCC also has assumed preemptive authority to regulate intrastate telecommunications services, including terminating intrastate access rates.
- Interstate access revenues are regulated by the FCC.
- Universal Service support revenues are administered by Universal Service Administrative Company (USAC), based on rules established by the FCC.

Nonregulated expenses and nonregulated plant are directly attributable fiber transport, Internet, video, business telecommunications systems, and other miscellaneous revenues.

All other operating expenses and telecommunications plant are related primarily to wireline revenues. However, some of these costs jointly relate to regulated and nonregulated services. For interstate access rate development, rate case, and other regulatory purposes, the portion of these common costs related to nonregulated activities are removed in accordance with Part 64 of the FCC rules in order to ensure regulated revenues are based on costs of providing regulated services.

The FCC released an Order and Further Notice of Proposed Rulemaking (FNPRM) in 2016 that reforms the High Cost Program supporting rate-of-return carriers. The FCC has also created a mechanism to ensure the $2 billion budget for Universal Service Support is not exceeded.

Note 1 – Summary of Significant Accounting Policies (continued)

The FNPRM also created two paths to a Connect America Fund for rate of return carriers. The legacy mechanism reforms the existing HCLS and ICLS mechanisms to support stand-alone broadband. The model based option (ACAM) is voluntary and is a fixed amount of support for ten years. The model based support mechanism includes build-out milestones that must be met beginning in 2021. In the event that the Company does not meet the milestones a portion of the support received will be paid back to the Universal Service Fund. The Company elected to receive support under the model based option beginning in January 2017.

Concentration of Revenue
The Company receives a significant portion of its annual revenues from fiber transport to wireless telecommunications providers and USF. For the years ended December 31, 2017 and 2016, fiber transport revenues from wireless customers represented approximately 50 percent and 48 percent of total revenue, respectively. For the years ended December 31, 2017 and 2016, USF revenues represented approximately 14 percent and 15 percent of total revenue, respectively. For the years ended December 31, 2017 and 2016, revenues from T-Mobile represented approximately 16 percent and 15 percent of total revenue, respectively.

Advertising Costs
Costs related to advertising and other promotional expenditures are expensed as incurred. Advertising costs totaled approximately $107,000 and $162,000, respectively, for the years ended December 31, 2017 and 2016.

Stock-Based Compensation
The Company follows the provisions of the *Compensation—Stock Compensation topic* of FASB ASC to measure the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock option. Under this method, the fair value of each option grant is estimated on the date of the grant using the Black-Scholes-Merton option-pricing model to determine the compensation cost associated with the grant. The compensation cost associated with the stock options is recognized over the vesting period of the stock options.

Income Taxes
Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In assessing the Company's ability to realize deferred tax assets, management considers whether it is more-likely-than-not that some or all of the assets will not be realized. Management considers, among other things, the scheduled reversal of deferred tax assets and liabilities and estimates of future taxable income in making this assessment, as well as the outcome of any uncertainties. The Company has provided no valuation allowance as of December 31, 2017 and 2016.

Note 1 – Summary of Significant Accounting Policies (continued)

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act. The Company has elected to early adopt ASU 2018-02. This resulted in net adjustments of a $1,411,739 increase and a $1,411,739 decrease to retained earnings and other comprehensive income, respectively, on the December 31, 2017 balance sheet.

The Company records uncertain tax positions if the likelihood the position will be sustained upon examination is less than 50 percent. As of December 31, 2017 and 2016, the Company had no accrued amounts related to uncertain tax positions. Interest and penalties, if any, are recorded as interest expense and other expense, respectively.

Union Representation
At December 31, 2017 and 2016, Chillicothe Telephone had approximately 38 percent and 37 percent of its work force represented by a union, respectively. The current union contract was enacted on November 16, 2017 and expires on November 15, 2020.

Taxes Imposed by Governmental Authorities
The Company is subject to taxes assessed by various governmental authorities on many different types of revenue transactions with its customers. These specific taxes are charged to and collected from the Company's customers and subsequently remitted to the appropriate taxing authority. The taxes are accounted for on a net basis and excluded from revenues.

Subsequent Events
Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued. The Company has evaluated subsequent events through March 22, 2018, which is the date the financial statements are available to be issued. See Note 13 for further information.

Fair Value Measurement
Fair value represents the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The Company follows a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following are the three levels of inputs that may be used to measure fair value:

Note 1 – Summary of Significant Accounting Policies (continued)

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value measurement guidance is applicable to the Company in the following areas:

- financial instruments
- benefit plan assets (Level 1 and 2)
- stock-based compensation (Level 2)

The estimates of fair value require the application of broad assumptions and estimates. Accordingly, any actual exchange of such financial instruments could occur at values significantly different from the amounts disclosed. As cash and cash equivalents, current receivables, current payables and certain other short-term financial instruments are all short term in nature, their carrying amounts approximate fair value. The fair value of benefit plan assets is based on Level 1 and 2 inputs in Note 8. Other investments are not intended for resale and are not readily marketable; thus, a reasonable estimate of fair value is not practical. The fair value of long-term debt is estimated based on current rates offered to the Company for debt with similar terms and maturities. Therefore, the carrying value of the Company's debt approximates fair value. The terms of the Company's long-term debt obligations are stated in Note 6.

Note 2 – Other Investments

Other investments consist primarily of investments in lending institutions and nonmarketable stock of telephone industry corporations. Other investments are carried at cost, as the investments do not have any readily determinable fair values, and consist of the following at December 31:

	2017	2016
CoBank Stock	$ 1,655,313	$ 1,474,606
Other	87,136	87,134
Total	$ 1,742,449	$ 1,561,740

CoBank, from which the Company has loans, is a cooperative owned and controlled by its customers. Each customer borrowing from the bank shares in the bank's net income through payment of patronage refunds. Approximately 65 to 75 percent of patronage refunds are received in cash, with the balance in CoBank stock. Income from the investment in CoBank is recorded as other nonoperating income in the consolidated statements of operations. Patronage stock is redeemable at its face value for cash after the related debt is paid off. The Company recorded a receivable for patronage refunds to be received of $542,125 and $1,337,507 at December 31, 2017 and 2016, respectively.

Note 3 – Property, Plant, and Equipment

Property, plant, and equipment consisted of the following as of December 31:

	Depreciable Life	Plant Account	Accumulated Depreciation	2017 Net Balance	2016 Net Balance
Regulated plant					
General support assets	5-39 years	$ 20,976,409	$ (16,880,185)	$ 4,096,224	$ 5,705,192
Central office assets	5-13 years	48,497,283	(42,369,190)	6,128,093	5,820,612
Cable and wire facilities assets	13-54 years	93,916,055	(73,787,317)	20,128,738	22,382,097
Plant under construction	n/a	580,292	-	580,292	348,211
		163,970,039	(133,036,692)	30,933,347	34,256,112
Nonregulated plant					
General support assets	5-39 years	8,997,580	(4,126,129)	4,871,451	5,383,856
Cable television equipment	3-12 years	21,057,333	(18,138,386)	2,918,947	3,450,989
Internet equipment	3-5 years	406,267	(406,267)	-	-
Fiber transport equipment	13-54 years	152,688,685	(32,316,999)	120,371,686	125,767,821
Plant under construction	n/a	4,982,711	-	4,982,711	940,731
		188,132,576	(54,987,781)	133,144,795	135,543,397
		$ 352,102,615	$ (188,024,473)	$ 164,078,142	$ 169,799,509

Capitalized interest was $95,485 and $54,218, respectively, during the years ended December 31, 2017 and 2016.

Note 4 – Other Accrued Liabilities

Other accrued liabilities consisted of the following as of December 31:

	2017	2016
Accrued interest	$ 22,664	$ 342,325
Accrued make ready costs	2,790,080	2,940,881
Accrued vacation and payroll	468,112	473,162
Pole contacts	732,808	524,420
All other accrued liabilities	2,891,598	3,075,837
Total other accrued liabilities	$ 6,905,262	$ 7,356,625

Note 5 – Significant Contract and Deferred Revenue

During 2013, the Company entered into an indefeasible right of use (IRU) agreement with Verizon to provide access to approximately 223 route miles of optical fibers in various portions of the Company's network. The total contract is for $3,500,000 and has an initial contract term of five years, subject to future extensions of up to a total of 20 years. The Company received a prepayment of $1,750,000 during the year upon execution of the IRU route order. The Company received the remaining contract amount following the acceptance date of the IRU route order in December 2014. The Company is recognizing revenue ratably over the 20-year term of the agreement.

During 2012, the Company entered into an IRU agreement with Windstream KDL, Inc., a Kentucky corporation, to provide Windstream approximately 250 route miles of dark fiber and associated property. The revenue from the IRU, including network maintenance, is recognized on a straight-line basis over the term of the agreement. The term of the agreement is 20 years.

During 2010, the Company entered into a contract with SOHCN to construct and manage a fiber-optic network. SOHCN had previously been awarded a $15,765,417 subsidy from the FCC's Rural Healthcare Pilot Program (administered by USAC) to develop a network to connect rural health care providers in 13 southern Ohio counties and partnered with the Company to build the network. The total amount of the contract was $18,547,549, with USAC contributing $15,765,417 and SOHCN contributing the balance of $2,782,132. The term of the contract is 20 years, and the maximum term of network services to be provided to SOHCN participants is ten years. The Company completed the network in 2014 and has received the entire contract payment. The Company is recognizing revenue ratably over the 10-year maximum term of the network services agreement with the SOHCN participants.

The Company has also granted to SOHCN an IRU for certain dark fiber strands within the Company's network, should the Company fail to comply with certain terms of the contract. Events that constitute noncompliance include the early termination of the contract, failure to meet specified service and regulatory requirements, a bankruptcy petition filed by or against the Company, breach of law or regulation, and sale of all or substantially all of the network to an entity that fails to meet all of the requirements of Section 13.2.B Healthcare Regulatory Requirements. SOHCN is prohibited from using the dark fiber and associated equipment for any commercial or noncommercial activity prior to any event or events that result in the activation of the IRU. The term of the IRU is 20 years.

With the exception of the dark fiber IRU rights granted to SOHCN, the Company retains full title, rights, and interest in the network and is responsible for its management and maintenance.

Note 5 – Significant Contract and Deferred Revenue (continued)

Deferred revenues associated with significant contracts and government grants (Note 11) consists of the following at December 31:

	2017	2016
Current		
SOHCN	$ 1,852,483	1,852,483
BTOP grant	2,995,940	2,996,829
RUS grant	20,376	20,376
Other	956,613	909,375
Current deferred revenue	5,825,412	5,779,063
Noncurrent		
SOHCN	4,804,835	6,657,318
BTOP grant	44,607,023	47,604,625
RUS grant	319,549	339,925
Other	4,694,461	5,084,321
Noncurrent deferred revenue	54,425,868	59,686,189
Total deferred revenue	$ 60,251,280	$ 65,465,252

Note 6 – Long-Term Debt

Long-term debt consists of the following at December 31:

	Interest rate at December 31, 2017	2017	2016
Senior secured notes	5.82%	$ 70,095,923	$ 74,220,922
Less unamortized debt issuance costs		914,729	268,986
Less current maturities		5,000,000	4,500,000
Total long-term debt		$ 64,181,194	$ 69,451,936

Note 6 – Long-Term Debt (continued)

Effective March 22, 2017, the Company entered into Fourth Amended and Restated Credit Agreement with CoBank. The restated agreement provides for a term note that amends and restates all outstanding principal and accrued interest in the aggregate of $73,095,923 and grants a revolving term loan facility in an aggregate principal amount of $4,300,000. The maturity date of the agreement is the earlier of an event of default as outlined in the agreement or March 22, 2022. Interest is payable at the one-month LIBOR Index Rate, plus the applicable margin of 4.25 percent. The loan is subject to certain financial and nonfinancial covenants.

Maturities of long-term debt obligations for the years following December 31, 2017, are as follows:

2018	$	5,000,000
2019		6,000,000
2020		7,000,000
2021		7,000,000
2022		45,095,923
Less unamortized debt issuance costs		(914,729)
	$	69,181,194

Note 7 – Income Taxes

The "Tax Reform Act" was enacted December 22, 2017. The law includes significant changes to the U.S. corporate system, including a Federal corporate rate reduction from 35% to 21%. As a result of when the Act was signed into law, the Company's deferred tax assets and liabilities were required to be remeasured using the lower 21% federal rate as of December 31, 2017. This resulted in a one-time favorable charge to tax expense of approximately $4.1 million.

The Company's income tax expense consists of the following for the years ended December 31:

	Current	Deferred	Total income tax Expense (Benefit)
2017			
Federal	$ 95,740	$ 1,699,556	$ 1,795,296
State and local	208,654	-	208,654
Change in effective rate due to Tax Reform Act	-	(4,116,776)	(4,116,776)
Total	$ 304,394	$ (2,417,220)	$ (2,112,826)
2016			
Federal	$ 41,700	$ 2,437,355	$ 2,479,055
State and local	21,789	-	21,789
Total	$ 63,489	$ 2,437,355	$ 2,500,844

Note 7 – Income Taxes (continued)

The effective tax rate for 2017 and 2016 differs from the statutory federal income tax rate primarily due to nondeductible items, state income taxes and return to accrual adjustments related to prior year accruals.

Deferred income taxes result from temporary differences between the financial reporting and tax basis amounts of existing assets and liabilities. The source of these differences and tax effect of each are as follows at December 31:

	2017	2016
Deferred income tax assets		
Uncollectible accounts	$ 60,177	$ 97,496
Accrued vacation	64,117	118,622
Pensions and other retirement benefits	1,739,993	3,710,918
Deferred revenue	13,050,817	22,817,937
Net operating loss carryforwards	2,435,955	5,973,292
Inventory reserve	9,907	6,078
Other	320,401	246,801
Total deferred income tax assets	17,681,367	32,971,144
Deferred income tax liabilities		
Property and equipment	(24,118,568)	(40,859,673)
Total deferred income tax liabilities	(24,118,568)	(40,859,673)
Total deferred income taxes, net	$ (6,437,201)	$ (7,888,529)

The Company has a federal net operating loss carryforward of approximately $11.2 million, which will expire between 2033 and 2035. The Company has minimum alternative tax credit carryforward of approximately $322,000.

Note 8 – Pension Plans and Other Retirement Benefits

The Company has three trusteed pension plans covering certain salaried and hourly employees. The Company's funding policy is to be in compliance with the Employee Retirement Income Security Act guidelines. The plan's assets consist primarily of investments in common stocks, bonds, notes, and cash equivalents. The Company applies the accounting and measurement practices prescribed by the *Compensation—Retirement Benefits* topic of the FASB ASC.

In 2006, the Company amended both the union and salaried employees' defined benefit plans by freezing the plans effective December 31, 2006. By freezing the plans, vested employees will cease to accrue pension benefits based on future years of service after December 31, 2006.

Note 8 – Pension Plans and Other Retirement Benefits (continued)

In addition, the Company provides coverage of postretirement medical and life insurance benefits to eligible retirees whose status at retirement from active employment qualifies for postretirement benefits. Coverage of postretirement benefits is also provided to totally and permanently disabled active employees whose status at disablement qualifies for postretirement benefits as a retiree from active employment. Certain eligible retirees are required to contribute toward the cost of coverage under the postretirement health care plan. No contribution is required for coverage under the postretirement life insurance benefits plan. During 2012, the Company elected to amend its postretirement plan by eliminating life insurance coverage for all current retirees. The effective date of the amendment was June 1, 2012.

Effective January 1, 2014, the Company elected to amend its postretirement plan by discontinuing medical, dental, and prescription coverage for plan participants that are older than 65. In lieu of this coverage, retirees who are older than 65 who had previously been entitled to receive this coverage will receive a stipend of $100 per month for single retirees or $200 per month for married retirees upon providing proof of coverage.

In December 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Act) became law in the United States. The Act introduces a prescription drug benefit under Medicare, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit. In accordance with the *Defined Benefit Plans—Other Postretirement* topic of the FASB ASC, the Company concluded that its benefits are actuarially equivalent under the Act and has included the effect of the Act in its measurement of its benefit obligation recognized as of and for the years ended December 31, 2017 and 2016.

In accordance with the *Compensation—Retirement Benefits* topic of the FASB ASC, the Company has elected to amortize the accumulated postretirement benefit obligations existing at the date of adoption (the transition obligation) over a 20-year period. The unrecognized prior service cost is also being amortized over a 20-year period.

The measurement date for the pension plans and the postretirement benefit plan is December 31.

Note 8 – Pension Plans and Other Retirement Benefits (continued)

The funded status of the plans are as follows at December 31:

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
	(In thousands)			
Change in benefit obligation				
Benefit obligation, beginning of year	$ 32,009	$ 32,516	$ 597	$ 841
Interest cost	1,333	1,436	20	31
Actuarial (gain) loss	(52)	255	82	(150)
Benefits paid	(2,197)	(2,198)	(98)	(124)
Benefit obligation, end of year	31,093	32,009	601	598
Change in plan assets				
Fair value of plan assets, beginning of year	22,500	21,909	-	-
Actual return on plan assets	3,163	1,440	-	-
Employer contributions	721	1,348	98	124
Benefits paid	(2,197)	(2,198)	(98)	(124)
Fair value of plan assets, end of year	24,187	22,499	-	-
Funded status	$ (6,906)	$ (9,510)	$ (601)	$ (598)

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
	Percent		Percent	
Weighted average assumption to calculate benefit obligation at December 31				
Discount rate				
Salaried employees' plan	4.02	4.28	4.06	3.64
Union employees' plan	4.02	4.29	4.06	3.64
Supplemental plan	4.06	3.82	4.06	3.64
Expected return on plan assets	6.50	6.47	-	-

The expected long-term rate of return was developed by considering the target asset allocation, long-term historical market returns, and long-term projected market return.

The assumed medical benefit cost trend rate used in measuring the accumulated postretirement benefit obligation was 8.0 percent and 8.5 percent in 2017 and 2016, declining gradually to 5 percent for both years. An increase of 1 percent to the premium inflation rate would increase the net periodic benefit cost by approximately $1,000 and the benefit obligation by $19,000.

Note 8 – Pension Plans and Other Retirement Benefits (continued)

The following table summarizes benefit amounts recognized in other comprehensive income and the expected future amortization of the components to net periodic pension cost:

	Pension Benefits 2017	Pension Benefits 2016	Other Postretirement Benefits 2017	Other Postretirement Benefits 2016
	(In thousands)			
The amounts that have not been recognized as components of net periodic benefit costs				
Prior service cost	$ -	$	$ (6,333)	$ (6,977)
Net actuarial loss	12,671	15,574	4,300	4,797
Deferred taxes	(2,761)	(5,460)	443	764
Totals	$ 9,910	$ 10,114	$ (1,590)	$ (1,416)
The amounts expected to be recognized as components of periodic benefit cost over next fiscal year				
Prior service cost	$ -	$	$ (645)	$ (645)
Net actuarial loss	947	1,110	552	579
Totals	$ 947	$ 1,110	$ (93)	$ (66)

The components of net periodic benefit cost include:

	Pension Benefits 2017	Pension Benefits 2016	Other Postretirement Benefits 2017	Other Postretirement Benefits 2016
	(In thousands)			
Interest cost	$ 1,333	$ 1,436	$ 20	$ 31
Expected return on plan assets	(1,423)	(1,465)	-	-
Amortization of prior service cost	-	-	(644)	(644)
Recognized net actuarial loss	1,110	1,167	579	550
Net periodic benefit cost	$ 1,020	$ 1,138	$ (45)	$ (63)

Assets of the pension plans were invested as follows:

	Target % Allocation	Salaried Benefits Plan Assets at December 31 2017	Salaried Benefits Plan Assets at December 31 2016	Hourly Benefits Plan Assets at December 31 2017	Hourly Benefits Plan Assets at December 31 2016
		Percent		Percent	
Asset category					
Equity securities	50-70	85	63	76	63
Fixed securities and other	30-50	15	37	24	37
Total		100	100	100	100

Note 8 – Pension Plans and Other Retirement Benefits (continued)

The fair values of plan assets by asset category are as follows:

	Fair Value Hierarchy Level	Salaried Pension Benefits at December 31		Hourly Pension Benefits at December 31	
		2017	2016	2017	2016
Asset category					
Equity securities					
Telecommunications and utilities	1	$ 789,415	$ 553,016	$ 420,198	$ 424,728
Pharmaceuticals and medical	1	739,453	855,559	302,302	371,267
Banking and insurance	1	1,174,027	993,313	507,447	493,281
Petroleum and chemicals	1	545,421	598,965	241,364	294,478
Computers and technology	1	1,778,824	1,225,294	538,740	423,256
Food and beverage	1	418,106	153,923	226,676	76,655
Machinery services, and other	1	1,726,631	1,443,961	868,957	771,515
Equity funds	1	7,156,625	3,809,799	2,553,714	1,678,569
Fixed securities and other					
Cash and cash equivalents	1	401,418	542,873	269,975	293,508
Corporate debt securities	2	2,008,481	5,115,656	1,470,700	2,324,909
US Government debt securities	2	4,800	5,388	4,800	5,388
Preferred stock and other	2	27,794	31,086	10,966	13,210
Total		$ 16,770,995	$ 15,328,833	$ 7,415,839	$ 7,170,764

The Company's investment policies and strategies, as established by the Retirement Plan Committee, are to invest assets per the target allocations stated above. The assets will be reallocated periodically to meet the above target allocations. The investment policy will be reviewed periodically, under the advisement of a certified investment advisor, to determine if the policy should be changed. Postretirement medical and life benefits are paid on a pay-as-you-go basis; therefore, no assets are held by the plan to fund these benefit obligations.

The table below shows the expected contributions and the benefits expected to be paid for the pension plan and postretirement benefit plan. The expected benefits are based on the same assumptions used to measure the Company's benefit obligation at December 31.

	Salary Pension	Hourly Pension	Other Benefits
Expected employer contributions			
December 31, 2018	$ 1,255,008	$ 915,969	$ 98,067
Estimated future benefit payments reflecting expected future service for the years ending December 31			
2018	1,245,593	446,229	98,067
2019	1,252,927	459,465	90,489
2020	1,268,652	471,857	82,687
2021	1,284,603	487,603	71,960
2022	1,312,389	510,683	45,765
Thereafter	6,542,487	2,821,946	132,514

Note 8 – Pension Plans and Other Retirement Benefits (continued)

The Company has a defined contribution plan covering all eligible employees of the Company. The plan provides for eligible participants to defer up to 60 percent of annual compensation, as defined under the plan, as contributions to the plan. For 2017 and 2016, the Company matched 100 percent of each participant's salary deferral up to a maximum of 3 percent of a participant's compensation and matched an additional 2 percent on 50 percent of the participant's compensation. In addition, the Company contributed for each eligible participant an amount equal to 2 percent of a participant's compensation, for a maximum Company match of 6 percent. The Company's contributions to this plan were approximately $472,128 and $468,457, respectively, for 2017 and 2016 and are included in the applicable benefits expense in the consolidated statements of operations.

Note 9 – Commitments and Contingencies

Leases

The Company leases certain equipment, vehicles, and co-location sites for varying periods under lease agreements. The operating lease expense was approximately $268,574 and $521,807, respectively, for 2017 and 2016.

The table below is a summary of the future minimum lease payments under operating leases with terms of more than one year at December 31, 2017:

2018	$ 228,689
2019	199,601
2020	74,126
Total minimum lease payments	$ 502,416

Make Ready Fees

During the recent buildout of its fiber-optic broadband network, the Company entered into agreements with various utility companies to attach its fiber-optic cable facilities to poles owned by these utility companies. Certain make-ready processes must be completed at the expense of the Company for the facilities attached to poles in the network. The Company has accrued for make-ready fees of $2,790,080 and $2,940,881 as of December 31, 2017 and 2016, respectively.

Due to time requirements during the build-out, make ready processes were not completed at the time of the initial build in various locations. Make ready processes are expected to be on-going for the foreseeable future. The Company has estimated its obligation to the various utility companies for make-ready fees to be approximately $8 million to $10 million as of December 31, 2017.

Legal Matters

The Company is party to legal claims arising in the normal course of business. Although the ultimate outcome of the claims cannot be ascertained at this time, it is the opinion of management that none of these matters, when resolved, will have a material adverse impact on the Company's results of operations or financial condition.

Note 10 – Stock Option Plans

In August 2012, the Company's Board of Directors granted restricted stock awards with respect to Class B common stock to four executive officers of the Company, totaling 9,240 shares. The restricted stock awards vest ratably over a five-year period, subject to the Company meeting certain return on equity targets. The fair value of the restricted stock awards is the market price of the underlying common stock on the date of the grant.

In May 2014, the Board of Directors and the stockholders approved the 2014 Stock Incentive Plan, which authorized the grant of incentives for up to an aggregate of 40,000 shares of Class B common stock. Effective August 20, 2014, the Company's Board of Directors granted shares options with respect to Class B common stock to executives and directors, totaling 34,320 shares, with 11,500 shares being granted to directors and 22,820 shares being granted to executives. The maximum term of such share options is ten years, and the share options vest over five years from the date of the grant in quarterly increments of 5 percent. The exercise price of the share options granted is $16 per share. Using the Black-Scholes-Merton option-pricing model, management has determined that the options issued in 2014 have a calculated fair value at the grant date of $6.05 per share. The vested options as of December 31, 2017 have a weighted average remaining contractual life term of 2.9 years. These option grants replaced all outstanding option grants issued in prior years and the restricted stock awards issued in August 2012 for all but one option holder. The remaining option, granted in the 2011 Stock Option Agreement approved in August 2011, consists of 600 shares at an exercise price of $70, granted to a director.

The Company uses historical data to estimate share option exercise and employee departure behavior used in the Black-Scholes-Merton option-pricing model. The expected term of share options granted represents the period of time that share options granted are expected to be outstanding. The risk-free rate for periods within the contractual term of the share option is based on the U.S. Treasury yield curve in effect at the time of grant.

As the Company's stock is not actively traded, it is not practicable for the Company to estimate expected volatility of its share price; therefore, the Company calculated the expected volatility assumption by averaging the historical volatility of certain public companies from the landline telecommunications sector that have operations comparable to the Company.

A summary of the assumptions for the August 2014 option grants are as follows:

	August 2014 Grant
Expected volatility	142%
Weighted-average volatility	142%
Expected dividends	-
Expected term (in years)	10
Risk free rate	6.00%

Note 10 – Stock Option Plans (continued)

In March 2015, the Board of Directors authorized the grant of incentives for up to an aggregate of 4,000 shares of Class B common stock to three key employees in accordance with provisions of the 2014 Stock Incentive Plan approved in May 2014. The maximum term of such share options is ten years, and the shares vest in five-quarter increments at a rate of 20%. The exercise price of the share options granted vary after each succeeding five-quarter increment, including successive prices of $19.21, $60.00, $90.00, and $120.00. Using the Black-Scholes-Merton option-pricing model, management has determined that the incentive options granted in 2015 have a calculated fair value at the grant date of $19.21 per share. The vested options as of December 31, 2017 have a weighted average remaining contractual life term of 3.5 years.

A summary of the assumptions for the March 2015 option grants are as follows:

	March 2015 Grant
Expected volatility	202%
Weighted-average volatility	202%
Expected dividends	-
Expected term (in years)	10
Risk free rate	0.11%

In June 2015, the Board of Directors authorized the grant of non-qualified stock options with respect Class B common stock to various members of the Company's Board of Directors, Board observers, and officers of the Company, totaling 21,950 shares. The Board of Directors approved an amendment to the 2014 Stock Incentive Plan approved in May 2014 to reserve an additional 37,500 shares for the grant of future awards other than initial stock offerings. The maximum term of such share options is ten years, and the share options vest quarterly over a five-year period. The exercise of the share options granted is $12.00 per share. Using the Black-Scholes-Merton option-pricing model, management has determined that the share options issued have a calculated fair value at the grant date of $8.00 per share. The vested options as of December 31, 2017 have a weighted average remaining contractual life term of 1.8 years.

A summary of the assumptions for the June 2015 option grants are as follows:

	June 2015 Grant
Expected volatility	206%
Weighted-average volatility	206%
Expected dividends	-
Expected term (in years)	10
Risk free rate	0.08%

Note 10 – Stock Option Plans (continued)

A summary of the share option activity for the years ended December 31, 2017 and 2016 follows:

	May 2015 Grant		March 2015 Grant		August 2014 Grant	
	Class B options	Weighted average exercise price	Class B options	Weighted average exercise price	Class B options	Weighted average exercise price
December 31, 2014	-	$ -	-	$ -	33,570	$ 16.00
Granted	21,950	$ 12.00	4,000	$ 72.30	-	$ -
Exercised	-	-	-	-	-	-
Forfeited	-	12.00	(1,500)	-	(1,190)	16.00
December 31, 2015	21,950	$ -	2,500	$ 72.30	32,380	$ 16.00
Granted	-	$ -	-	$ -		$ -
Exercised	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
December 31, 2016	21,950	$ 12.00	2,500	$ 72.30	32,380	$ 16.00
Granted	-	$ -	-	$ -		$ -
Exercised	-	-	-	-	-	-
Forfeited	-	-	-	-	(300)	16.00
December 31, 2017	21,950	$ 12.00	2,500	$ 72.30	32,080	$ 16.00
Exercisable at December 31, 2017	10,975	$ 12.00	1,375	$ 90.00	21,010	$ 16.00

The accompanying consolidated financial statements reflect a noncash compensation charge related to the share options of $64,638 and $57,713, respectively, for the years ended December 31, 2017 and 2016. As of December 31, 2017, the Company had $132,324 of unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted average period of 2.1 years.

Note 11 – Government Grants

RUS Grant

On November 2, 2007, the Company secured a community-oriented connectivity broadband grant by the United States Department of Agriculture, RUS, to assist in financing the construction of a fiber-optic broadband network and community center in Darbyville, Ohio. The broadband network is intended to provide fiber-to-the-home services, such as high-speed Internet and digital television services to Darbyville residents and make free-of-charge Internet access available at the community center. The maximum grant amount is $603,200. During 2009, the Company received $508,030 in grant funding, which was recorded as deferred revenue to be amortized over the life of the constructed assets. During 2011 and 2010, the Company applied for and received grant funding of $19,993 and $66,409, respectively, which was used to offset operating costs of the community center. As of December 31, 2011, the maximum grant funding limit was met.

Note 11 – Government Grants (continued)

BTOP grant

On August 1, 2010, the Company was awarded a $66,474,246 BTOP grant administered by the National Telecommunications and Information Administration (NTIA) to construct a fiber-optic broadband network throughout 34 counties in east central and southeastern Ohio. The network, which will be owned and maintained by the Company, is intended to provide advanced broadband services to anchor institutions, such as health care facilities, educational institutions, (including colleges and K-12 schools), government agencies, and other businesses in historically underserved areas. The network will also provide backhaul to commercial providers for "last mile" services. BTOP grant represents 70 percent of the total cost of the project, which was expected to be $94,963,209, with the Company matching the remaining 30 percent, or $28,488,963. Construction commenced during the first quarter of 2011. The NTIA retains a federal interest in the network to protect against any unauthorized use or sale of the network assets.

During 2011, the Company applied for and received approximately $800,000 of funding for administrative costs and approximately $19,776,000 for construction costs. During 2012, the Company applied for and received approximately $948,000 of funding for administrative costs and approximately $36,188,000 for construction costs. During 2013, the Company applied for and received approximately $353,000 in funding for administrative costs and approximately $7,039,000 for construction costs. The grant receipts are reflected in the Company's consolidated balance sheets in deferred revenues and the consolidated statements of income in fiber transport revenues.

As part of this total, the Company received $2,100,000 during 2013 from the Ohio State University on behalf of OARnet, who is a sub recipient of the BTOP grant for an amendment to an existing dark-fiber IRU to increase the number of fibers and for an extension of the term of the routes from 10 years to 20 years. The grant receipts are reflected in the Company's consolidated balance sheets, as nothing was to be recorded in the consolidated statements of operations until work orders were transferred into service.

During 2014, the Company did not receive any funding, as it had applied for and received maximum funding under the award. The Company has completed construction of the fiber-optic broadband network as of December 31, 2014. The Company completed final stages of the close-out process for the grant with the NTIA in 2015.

Note 12 – Operating Revenue

Wireline revenues consist of the following for the years ended December 31:

	2017	2016
Wireline		
Customer	$ 6,577,970	$ 7,283,111
Intercarrier		
Interstate	2,390,806	2,719,981
Intrastate	437,674	594,397
Universal Service Support - federal	8,418,512	8,432,269
Total wireline revenues	$ 17,824,962	$ 19,029,758

Wireline revenues are classified above as follows:

- Customer revenues include end-user charges, such as the subscriber line charge, Federal Universal Service Charge (FUSC), and ARC.
- Universal Service Support includes ACAM, CAF, ICLS (prior to 2017) and HCLS (prior to 2017).
- All access charge revenue, except as described above, is classified as intercarrier revenue.

Other nonregulated revenues consist of the following for the years ended December 31:

	2017	2016
Other nonregulated		
Directory	$ 1,334,536	$ 1,421,943
Maintenance & installations	519,125	519,460
Business system sales	337,396	392,797
Rents	102,436	74,559
Other	287,767	276,875
Total other nonregulated revenues	$ 2,581,260	$ 2,685,634

Note 13 – Subsequent Events

Merger with Novacap TMT

On January 25, 2018, the Company entered into a Merger Agreement (the “Merger Agreement”) with a portfolio company of NovaCap TMT V, L.P. and certain of its affiliates (“NovaCap”). Pursuant to the Merger Agreement, each outstanding share of the Company’s Common Stock (excluding treasury stock and any dissenting shares) and outstanding securities convertible into Common Stock shall be converted into the right to receive a per-share cash consideration, and shall be automatically cancelled and retired. Upon successful completion of the transaction (the “Merger”) set forth in the Merger Agreement, the Company shall continue as the surviving corporation. The Merger is expected to close in the second quarter of 2018.

Note 13 – Subsequent Events (continued)

The Merger Agreement and the Merger have been approved by the Boards of Directors of each of the Company and NovaCap, and on March 13, 2018, the stockholders of the Company approved the Merger. The closing of the Merger is subject to customary closing conditions, including (but not limited to) obtaining customary regulatory approvals.

The Merger Agreement may be terminated by either party under certain circumstances, including (but not limited to) the failure to satisfy the closing conditions set forth in the Merger Agreement. In an event of a termination of the Merger Agreement by the Company under certain circumstances, provided the closing conditions in favor of NovaCap have been satisfied, NovaCap will be required to pay the Company a termination fee of $10,679,382.

Report of Independent Auditors on Supplementary Information

Board of Directors
Horizon Telcom, Inc.

We have audited the consolidated financial statements of Horizon Telcom, Inc. and its subsidiaries as of and for the year ended December 31, 2017, and our report thereon dated March 22, 2018, which contained an unmodified opinion on those consolidated financial statements appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet detail, consolidating statement of income detail, consolidating statement of cash flows detail, and business unit operating income detail are presented for purposes of additional analysis rather than to present financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Moss Adams LLP

Overland Park, Kansas
March 22, 2018

HORIZON TELCOM, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET DETAIL
December 31, 2017

	Chillicothe Telephone	Horizon Technology	Horizon Services	Horizon Telcom	Eliminations	Consolidated
CURRENT ASSETS						
Cash and cash equivalents	$ 7,707,847	$ -	$ -	$ -	$ -	$ 7,707,847
Accounts receivable - subscriber, less allowance for doubtful accounts of approximately $179,000 as of December 31, 2017 and $167,000 as of December 31, 2016	2,005,382	-	-	-	-	2,005,382
Accounts receivable - interexchange carriers, federal support, less allowance for doubtful accounts of approximately $97,000 as of December 31, 2017 and $112,000 as of December 31, 2016	783,040	-	-	-	-	783,040
Accounts receivable - other	403,119	-	-	542,122	-	945,241
Income tax receivable	-	-	-	6,708	-	6,708
Inventories	2,248,789	-	-	-	-	2,248,789
Prepaid expenses and other current assets	1,219,384	-	-	-	-	1,219,384
Total current assets	14,367,561	-	-	548,830	-	14,916,391
OTHER ASSETS						
Accounts receivable - affiliates	23,383,670	409,685	39,443	-	(23,832,798)	-
Other investments	18,500	-	-	1,723,949	-	1,742,449
Prepaid indefeasible right of use	1,555,023	-	-	-	-	1,555,023
Other noncurrent assets	6,297,472	-	-	-	-	6,297,472
Investment in subsidiaries	-	-	-	120,560,384	(120,560,384)	-
Total other assets	31,254,665	409,685	39,443	122,284,333	(144,393,182)	9,594,944
PROPERTY, PLANT, AND EQUIPMENT						
Regulated telecommunications plant in service	163,389,747	-	-	-	-	163,389,747
Nonregulated telecommunications plant in service	183,149,865	-	-	-	-	183,149,865
Regulated plant under construction	580,292	-	-	-	-	580,292
Nonregulated plant under construction	4,982,711	-	-	-	-	4,982,711
	352,102,615	-	-	-	-	352,102,615
Less accumulated depreciation	(188,024,473)	-	-	-	-	(188,024,473)
Net property, plant, and equipment	164,078,142	-	-	-	-	164,078,142
Total assets	$ 209,700,368	$ 409,685	$ 39,443	$ 122,833,163	$ (144,393,182)	$ 188,589,477

HORIZON TELCOM, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET DETAIL
December 31, 2017

	Chillicothe Telephone	Horizon Technology	Horizon Services	Horizon Telcom	Eliminations	Consolidated
CURRENT LIABILITIES						
Current portion, long-term debt	$ -	$ -	$ -	$ 5,000,000	$ -	$ 5,000,000
Accounts payable	189,311	(105)	-	-	-	189,206
Other accrued liabilities	6,882,399	196	-	22,667	-	6,905,262
Postretirement benefit obligation	98,067	-	-	-	-	98,067
Pension benefit obligation	519,636	-	-	-	-	519,636
Deferred revenue	5,825,412	-	-	-	-	5,825,412
Total current liabilities	13,514,825	91	-	5,022,667	-	18,537,583
LONG-TERM DEBT	-	-	-	64,181,194	-	64,181,194
OTHER LIABILITIES AND DEFERRED CREDITS						
Deferred income taxes, net	8,589,785	-	-	(2,152,584)	-	6,437,201
Accounts payable - affiliates	6,128,075	1,203	38,943	17,664,577	(23,832,798)	-
Postretirement benefit obligation	503,263	-	-	-	-	503,263
Pension benefit obligation	6,387,059	-	-	-	-	6,387,059
Deferred revenue - BTOP grant	44,607,023	-	-	-	-	44,607,023
Deferred revenue - Southern Ohio Health Care Network	4,804,835	-	-	-	-	4,804,835
Deferred revenue - other	5,014,010	-	-	-	-	5,014,010
Total other liabilities and deferred credits	76,034,050	1,203	38,943	15,511,993	(23,832,798)	67,753,391
STOCKHOLDERS' EQUITY						
Common stock - Class A, no par value. Authorized 200,000 shares; issued 99,726 shares and outstanding 87,099 shares at December 31, 2016 and December 31, 2015, stated at $4.25 per share	423,836	-	-	423,836	(423,836)	423,836
Common stock - Class B, no par value. Authorized 500,000 shares; issued 299,796 shares and outstanding 234,127 at December 31, 2016 and December 31, 2015, stated at $4.25 per share	1,271,506	500	500	1,274,133	(1,272,506)	1,274,133
Treasury stock, 12,627 Class A shares, stated at cost	-	-	-	(1,721,337)	-	(1,721,337)
Treasury stock, 65,669 Class B shares, stated at cost	-	-	-	(9,941,758)	-	(9,941,758)
Accumulated other comprehensive loss, net of income tax benefit	(8,320,434)	-	-	(4,310,145)	4,310,145	(8,320,434)
Additional paid-in capital	74,353,492	9,015,481	-	132,058,328	(142,171,790)	73,255,511
Retained earnings (deficit)	52,423,093	(8,607,590)	-	(79,665,748)	18,997,603	(16,852,642)
				-		
Total stockholders' equity	120,151,493	408,391	500	38,117,309	(120,560,384)	38,117,309
Total liabilities and stockholders' equity	$ 209,700,368	$ 409,685	$ 39,443	$ 122,833,163	$ (144,393,182)	$ 188,589,477

HORIZON TELCOM, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME DETAIL
December 31, 2017

	Chillicothe Telephone	Horizon Technology	Horizon Services	Horizon Telcom	Eliminations	Consolidated
OPERATING REVENUES						
Wireline	$ 17,989,768	$ -	$ -	$ -	$ (164,806)	$ 17,824,962
Internet	4,774,819	-	-	-	-	4,774,819
Video	4,441,851	-	-	-	-	4,441,851
Fiber transport	28,953,030	-	-	-	-	28,953,030
Other nonregulated	2,581,260	-	-	-	-	2,581,260
Uncollectibles	(443,657)	-	-	-	-	(443,657)
Total net operating revenues	58,297,071	-	-	-	(164,806)	58,132,265
OPERATING EXPENSES						
Plant specific operations	5,485,484	-	-	-	-	5,485,484
Plant nonspecific operations	1,916,076	-	-	-	-	1,916,076
Depreciation	5,972,499	-	-	-	-	5,972,499
Customer operations	1,726,921	-	-	-	-	1,726,921
Corporate operations	4,576,857	-	-	74,782	(140,695)	4,510,944
Other operating taxes	199,900	-	-	-	-	199,900
Nonregulated						
Fiber transport	15,206,257	-	-	-	-	15,206,257
Video	3,795,474	-	-	-	-	3,795,474
Other	1,075,885	-	-	-	(24,111)	1,051,774
Depreciation	9,558,962	-	-	-	-	9,558,962
Total operating expenses	49,514,315	-	-	74,782	(164,806)	49,424,291
Operating income	8,782,756	-	-	(74,782)	-	8,707,974
NONOPERATING INCOME (EXPENSE)						
Interest income	36,330	-	-	-	-	36,330
Allowance for funds used during construction	-	-	-	95,485	-	95,485
Dividend income	-	-	-	722,834	-	722,834
Interest expense	-	-	-	(4,262,377)	-	(4,262,377)
Other nonoperating expense	(78,640)	-	-	-	-	(78,640)
Loss on sale of fixed assets	(7,482)					(7,482)
Subsidiary income	-	-	-	10,916,202	(10,916,202)	-
Total nonoperating expense	(49,792)	-	-	7,472,144	(10,916,202)	(3,493,850)
Income before income taxes	8,732,964	-	-	7,397,362	(10,916,202)	5,214,124
INCOME TAX (EXPENSE) BENEFIT	2,183,238	-	-	(70,412)	-	2,112,826
Net income	$ 10,916,202	$ -	$ -	$ 7,326,950	$ (10,916,202)	$ 7,326,950

HORIZON TELCOM, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOW DETAIL
December 31, 2017

	Chillicothe Telephone	Horizon Technology	Horizon Services	Horizon Telcom	Eliminations	Consolidated
Cash flows from operating activities:						
Net income	$ 10,916,202	$ -	$ -	$ 7,326,950	$ (10,916,202)	$ 7,326,950
Adjustments to reconcile net income to net cash from operating activities:						
Depreciation and amortization	15,531,461	-		-	-	15,531,461
Deferred income tax expense (benefit)	(4,668,733)	-	-	2,251,513	-	(2,417,220)
Deferred compensation related to stock option plan	-	-	-	64,638	-	64,638
Amortization of deferred loan costs	-	-	-	252,174	-	252,174
Provision for bad debt expense	443,657	-	-	-	-	443,657
Allowance for funds used during construction	-	-	-	(95,485)	-	(95,485)
Loss on sale of fixed assets	7,482					7,482
Change in assets and liabilities:						
Accounts receivable	(1,029,841)	-	-	795,382	-	(234,459)
Income taxes receivable	-	-	-	10,592	-	10,592
Inventories	357,420	-	-	-	-	357,420
Prepaid expenses and other current assets	(438,312)	-	-	-	-	(438,312)
Accounts payable	(453,472)	-	-	-	-	(453,472)
Accrued liabilities	91,423	-	-	(319,669)	-	(228,246)
Accrued pension costs	299,654	-	-	-	-	299,654
Postretirement benefit obligation	(143,881)	-	-	-	-	(143,881)
Change in intercompany receivables and payables	(5,738,239)	-	-	5,738,239	-	-
Change in other assets and liabilities, net	(4,866,353)	-	-	(180,700)	-	(5,047,053)
Net cash from operating activities	10,308,468	-	-	15,843,634	(10,916,202)	15,235,900
Cash flows from investing activities:						
Capital expenditures, net	(10,671,516)	-	-	95,485		(10,576,031)
Proceeds on sale of assets, net of cost of removal	1,072,429	-	-	-		1,072,429
Investment in consolidating subsidiaries	-	-	-	(10,916,202)	10,916,202	-
Net cash from investing activities	(9,599,087)	-	-	(10,820,717)	10,916,202	(9,503,602)
Cash flows from financing activities:						
Payments on long-term debt	-	-	-	(4,125,000)	-	(4,125,000)
Debt issuance costs	-	-	-	(897,917)	-	(897,917)
Net cash from financing activities	-	-	-	(5,022,917)	-	(5,022,917)
Net change in cash and cash equivalents	709,381	-	-	-	-	709,381
Cash and cash equivalents, beginning of year	6,998,466	-	-	-	-	6,998,466
Cash and cash equivalents, end of year	$ 7,707,847	$ -	$ -	$ -	$ -	$ 7,707,847

HORIZON TELCOM, INC. AND SUBSIDIARIES
BUSINESS UNIT OPERATING INCOME DETAIL
December 31, 2017

	2017			2016		
	ILEC	Fiber	Consolidated	ILEC	Fiber	Consolidated
OPERATING REVENUES						
End User Voice	$ 8,399,905	$ -	$ 8,399,905	$ 9,058,120	$ -	$ 9,058,120
End User Video	4,399,815	-	4,399,815	4,341,504	-	4,341,504
End User Internet	4,816,854	-	4,816,854	4,338,402	-	4,338,402
End user discounts	(1,823,365)	-	(1,823,365)	(1,775,007)	-	(1,775,007)
End User total	15,793,209	-	15,793,209	15,963,019	-	15,963,019
Universal Service Support	8,418,512	-	8,418,512	8,432,269	-	8,432,269
Intercarrier revenue	2,829,914	-	2,829,914	3,314,377	-	3,314,377
Other revenues	2,581,257	-	2,581,257	2,685,634	-	2,685,634
Total ILEC before uncollectibles	29,622,892	-	29,622,892	30,395,299	-	30,395,299
Fiber Transport						
Fiber to Cell Tower	-	13,854,572	13,854,572	-	12,765,743	12,765,743
Fiber to Cell Tower - Installation Charges	-	152,800	152,800	-	1,002,064	1,002,064
Enterprise	-	8,471,034	8,471,034	-	7,111,254	7,111,254
Enterprise - Installation Charges	-	772,049	772,049	-	471,465	471,465
Indefeasible Right to Use (IRU) - Recurring Lease and Maintenance	-	461,742	461,742	-	445,303	445,303
Amortization of grant and IRU revenue	-	5,240,833	5,240,833	-	5,600,716	5,600,716
Total fiber transport before uncollectibles	-	28,953,030	28,953,030	-	27,396,545	27,396,545
LESS: Uncollectibles	(419,656)	(24,001)	(443,657)	(403,626)	(10,010)	(413,636)
Total operating revenue	29,203,236	28,929,029	58,132,265	29,991,673	27,386,535	57,378,208
OPERATING EXPENSES						
Payroll expense	7,022,598	2,470,073	9,492,671	6,368,172	2,738,848	9,107,020
Benefits expense	3,059,266	620,906	3,680,172	3,142,326	728,269	3,870,595
Direct non-labor expenses	9,215,242	12,408,119	21,623,361	9,592,784	10,392,563	19,985,347
Capitalized all other (clearings)	(610,530)	(292,844)	(903,374)	(773,164)	(189,016)	(962,180)
Special termination benefits	-	-	-	49,989	-	49,989
Shared Services and direct costs	(837,156)	837,156	-	(957,066)	957,066	-
Total operating expense before depreciation	17,849,420	16,043,410	33,892,830	17,423,041	14,627,730	32,050,771
Operating income before depreciation	11,353,816	12,885,619	24,239,435	12,568,632	12,758,805	25,327,437
Depreciation expense	7,136,559	8,394,902	15,531,461	7,096,976	8,488,504	15,585,480
Operating income	$ 4,217,257	$ 4,490,717	$ 8,707,974	$ 5,471,656	$ 4,270,301	$ 9,741,957