Report of Independent Auditors
and Consolidated Financial Statements
with Supplementary information for

Horizon Telcom, Inc. and Subsidiaries

December 31, 2016 and 2015

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

HORIZON TELCOM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2016	December 31, 2015
CURRENT ASSETS		
Cash and cash equivalents	$ 6,998,466	$ 6,668,623
Accounts receivable - subscriber, less allowance for doubtful accounts of approximately $167,000 as of December 31, 2016 and $137,000 as of December 31, 2015	1,632,958	656,673
Accounts receivable - interexchange carriers, access charge pools, less allowance for doubtful accounts of approximately $112,000 as of December 31, 2016 and $56,000 as of December 31, 2015	627,642	894,259
Accounts receivable - other	1,682,264	447,670
Income tax receivable	17,300	42,000
Inventories	2,606,209	1,826,724
Prepaid expenses and other current assets	781,072	678,990
Total current assets	14,345,911	11,214,939
OTHER ASSETS		
Other investments	1,561,740	1,115,902
Prepaid indefeasible right of use	1,660,960	1,766,897
Other noncurrent assets	6,980,768	6,747,023
Total other assets	10,203,468	9,629,822
PROPERTY, PLANT, AND EQUIPMENT		
Regulated telecommunications plant in service	163,265,601	160,117,737
Nonregulated telecommunications plant in service	181,641,368	177,863,729
Regulated telecommunications plant under construction	348,211	667,282
Nonregulated telecommunications plant under construction	940,731	1,937,675
	346,195,911	340,586,423
Less accumulated depreciation	(176,396,402)	(163,042,587)
Net property, plant, and equipment	169,799,509	177,543,836
Total assets	$ 194,348,888	$ 198,388,597

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2016	December 31, 2015
CURRENT LIABILITIES		
Current portion, long-term debt	$ 4,500,000	$ 3,000,000
Accounts payable	642,681	278,152
Other accrued liabilities	7,356,625	8,227,002
Postretirement benefit obligation	98,179	124,000
Pension benefit obligation	771,553	1,784,000
Deferred revenue	5,779,063	7,713,527
Total current liabilities	19,148,101	21,126,681
LONG-TERM DEBT	69,451,936	73,682,950
OTHER LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes, net	7,888,529	5,120,832
Postretirement benefit obligation	499,471	716,520
Pension benefit obligation	8,738,018	8,822,950
Deferred revenue - BTOP grant	47,604,625	50,622,597
Deferred revenue - Southern Ohio Health Care Network	6,657,318	8,515,424
Deferred revenue - other	5,424,246	5,848,648
Other long-term liabilities	-	209,862
Total other liabilities and deferred credits	76,812,207	79,856,833
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
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	1,274,133	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	(8,697,772)	(9,309,649)
Additional paid-in capital	73,190,873	73,133,160
Retained deficit	(25,591,331)	(30,136,252)
Total stockholders' equity	28,936,644	23,722,133
Total liabilities and stockholders' equity	$ 194,348,888	$ 198,388,597

See accompanying notes.

HORIZON TELCOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2016	2015
OPERATING REVENUE		
Wireline	$ 19,029,758	$ 20,806,387
Internet	4,302,387	4,068,964
Video	4,377,520	4,445,277
Fiber transport	27,396,545	19,787,535
Other nonregulated	2,685,634	2,827,637
Uncollectibles	(413,636)	(287,483)
Total net operating revenues	57,378,208	51,648,317
OPERATING EXPENSE		
Plant specific operations	5,267,817	5,493,106
Plant nonspecific operations	2,220,407	1,996,440
Depreciation	5,953,718	6,507,443
Customer operations	1,667,094	1,661,660
Corporate operations	4,051,780	4,905,639
Other operating taxes	204,125	257,331
Nonregulated		
Fiber transport	13,670,663	9,259,771
Video	3,722,111	3,850,982
Other	1,246,774	1,747,114
Depreciation	9,631,762	8,990,405
Total operating expense	47,636,251	44,669,891
Operating income	9,741,957	6,978,426
NONOPERATING INCOME (EXPENSE)		
Interest income	3,867	3,113
Allowance for funds used during construction	54,218	57,240
Dividend income	1,783,343	-
Interest expense	(4,389,321)	(5,223,911)
Other nonoperating expense	(23,285)	(138,389)
Loss on abandoned construction	(125,014)	(20,269)
Total nonoperating expense	(2,696,192)	(5,322,216)
Income before income taxes	7,045,765	1,656,210
INCOME TAX EXPENSE	(2,500,844)	(134,878)
Net income	$ 4,544,921	$ 1,521,332

See accompanying notes.

HORIZON TELCOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2016	Years Ended December 31, 2015
Net income	$ 4,544,921	$ 1,521,332
Other comprehensive income		
Gain on pension obligation net of income tax expense of $311,023 and $547,093	576,094	1,013,355
Gain on other postretirement benefit obligation net of income tax expense of $19,319 and $12,828	35,783	23,760
Other comprehensive income	611,877	1,037,115
Comprehensive income	$ 5,156,798	$ 2,558,447

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, 2014	$ 423,836	$ 1,274,133	$ (11,663,095)	$ (10,346,764)	$ 73,074,315	$ (31,657,584)	$ 21,104,841
Stock option compensation expense	-	-	-	-	58,845	-	58,845
Net income	-	-	-	-	-	1,521,332	1,521,332
Change in pension obligation, net of income tax expense of $547,093	-	-	-	1,013,355	-	-	1,013,355
Change in additional minimum other postretirement benefit liability, net of tax expense of $12,828	-	-	-	23,760	-	-	23,760
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

See accompanying notes.

HORIZON TELCOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,544,921	$ 1,521,332
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	15,585,480	15,497,848
Deferred income tax	2,437,355	134,754
Deferred compensation related to stock option plan	57,713	58,845
Amortization of deferred loan costs	268,986	350,383
Provision for bad debt expense	413,636	287,483
Allowance for funds used during construction	(54,218)	(57,240)
Loss on abandoned construction	125,014	20,269
Changes in operating assets and liabilities		
Accounts receivable	(2,357,898)	196,336
Income taxes receivable	24,700	45,975
Inventories	(779,485)	170,362
Prepaid expenses and other current assets	(102,085)	(256,610)
Accounts payable	364,525	690,266
Accrued liabilities	(2,768,456)	1,281,523
Accrued pension costs	(210,262)	(939,131)
Postretirement benefit obligation	(187,768)	(127,258)
Change in other assets and liabilities, net	(6,475,571)	(7,879,563)
Net cash from operating activities	10,886,587	10,995,574
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures, net	(7,565,110)	(9,403,131)
Proceeds on sale of assets, net of cost of removal	8,366	(41,369)
Net cash used in investing activities	(7,556,744)	(9,444,500)

See accompanying notes.

	Years Ended December 31, 2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	$ (3,000,000)	$ -
Debt issuance costs	-	(479,796)
Net cash used in financing activities	(3,000,000)	(479,796)
NET CHANGE IN CASH AND CASH EQUIVALENTS	329,843	1,071,278
CASH AND CASH EQUIVALENTS, at beginning of year	6,668,623	5,597,345
CASH AND CASH EQUIVALENTS, at end of year	$ 6,998,466	$ 6,668,623
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for		
Income taxes	$ 24,668	$ 46,379
Interest, net of amounts capitalized	$ 4,344,136	$ 3,926,621
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTMENT AND FINANCING ACTIVITIES		
Defined benefit plan adjustments, net of income tax expense of $330,342 and $559,921	$ 611,877	$ 1,037,115
Inventories salvaged from plant under construction	-	688,597
Make-ready accrual adjustments	36,388	381,297
Accrued liabilities satisfied with new long-term debt	-	2,400,000

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, 2016 and 2015, 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, interstate access revenue settlements, 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 January 2, 2014, the Company refinanced its debt agreement with CoBank (Note 6). As part of the refinancing, deferred financing costs related to the prior debt agreement of approximately $528,000 were written off as a loss on debt extinguishment in the statement of operations. As part of the refinanced debt agreement, the Company incurred net deferred financing fees of $456,819. In 2014, these fees were amortized using the effective interest method over the term of the underlying obligation, which is two years. Effective July 31, 2015, 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 $479,796 and the maturity date was extended to January 4, 2018. 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 $238,801 and $236,000, respectively, during the years ended December 31, 2016 and 2015.

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 debt issuance costs included in interest expense was approximately $30,182 and $115,000 during the years ended December 31, 2016 and 2015.

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 $125,014 and $20,269, respectively, during the years ended December 31, 2016 and 2015.

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, 2016 and 2015, 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.

Interstate access revenues also include settlements based on the Company's participation in the carrier common line revenue pool administered by the National Exchange Carrier Association (NECA). Settlement revenues are determined by annually prepared separations and interstate access cost studies. The studies are prepared subsequent to year-end and, therefore, the related revenues are recorded on the books based on an estimate of NECA pool earnings and on other assumptions related to information utilized in the preparation of the Company's cost studies. The studies are subject to a 24-month pool earnings adjustment period and a review of the study by NECA. There was an insignificant revenue impact for 2016 and 2015 for adjustments related to prior-year differences between the recorded estimates and actual revenues. Management does not anticipate that 2016 and 2015 recorded revenues will require significant adjustment in future years.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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's wireline Universal Service support revenue is intended to compensate the Company for the high cost of providing rural telephone service. Universal Service support revenue includes funds received for high cost loop support (HCLS), interstate common line support (ICLS), Connect America Fund (CAF) and other miscellaneous programs. HCLS and ICLS are based on the Company's current relative level of operating expense and plant investment. 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.

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 through its regulation of rates and settlement procedures as administered by NECA.
- 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 settlement, Universal Service support, 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.

Note 1 – Summary of Significant Accounting Policies (continued)

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. The following changes have been implemented to modernize the program:

- Provides support for stand-alone broadband;
- Requires broadband deployment based on the number of locations lacking service and the cost of providing service;
- Requires allowances for capital investments and limits on operational expenses; and
- Phases out support for areas served by a qualifying competitor.

The FNPRM also created two paths to a Connect America Fund for rate of return carriers. The model based option is voluntary and is a fixed amount of support for ten years. The legacy mechanism reforms the existing ICLS mechanism to support stand-alone broadband and will now be known as the Connect America Fund Broadband Loop Support (CAF BLS). The Company has elected to receive support under the model based option in future years.

Concentration of revenue – The Company receives a significant portion of its annual revenues from fiber transport to wireless customers and USF. For the years ended December 31, 2016 and 2015, fiber transport revenues from wireless customers represented approximately 24 percent and 15 percent of total revenue, respectively. For the years ended December 31, 2016 and 2015, USF revenues represented approximately 15 percent and 17 percent of total revenue, respectively.

Advertising costs – Costs related to advertising and other promotional expenditures are expensed as incurred. Advertising costs totaled approximately $162,000 and $64,000, respectively, for the years ended December 31, 2016 and 2015.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

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, 2016 and 2015.

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, 2016 and 2015, 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, 2016 and 2015, Chillicothe Telephone had approximately 37 percent and 36 percent of its work force represented by a union, respectively. The current union contract was enacted on September 12, 2014 and expires on November 15, 2017.

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 though March 27, 2017, which is the date the financial statements are available to be issued.

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:

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.

Note 1 – Summary of Significant Accounting Policies (continued)

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. 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:

	2016	2015
CoBank Stock	$ 1,474,606	$ 1,028,768
Other	87,134	87,134
Total	$ 1,561,740	$ 1,115,902

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 $1,337,507 and $0 during the years ended December 31, 2016 and 2015.

Note 3 – Property, Plant, and Equipment

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

	Depreciable Life	Plant Account	Accumulated Depreciation	2016 Net Balance	2015 Net Balance
Regulated plant					
General support assets	5-39 years	$ 22,396,601	$ (16,691,409)	$ 5,705,192	$ 5,667,282
Central office assets	5-13 years	47,456,771	(41,636,159)	5,820,612	5,685,432
Cable and wire facilities assets	13-54 years	93,412,229	(71,030,132)	22,382,097	25,002,286
Plant under construction	n/a	348,211	-	348,211	667,282
		163,613,812	(129,357,700)	34,256,112	37,022,282
Nonregulated plant					
General support assets	5-39 years	8,986,048	(3,602,192)	5,383,856	5,940,360
Cable television equipment	3-12 years	20,912,918	(17,461,929)	3,450,989	3,609,170
Internet equipment	3-5 years	406,267	(406,267)	-	-
Fiber transport equipment	13-54 years	151,336,135	(25,568,314)	125,767,821	129,034,349
Plant under construction	n/a	940,731	-	940,731	1,937,675
		182,582,099	(47,038,702)	135,543,397	140,521,554
		$ 346,195,911	$ (176,396,402)	$ 169,799,509	$ 177,543,836

Capitalized interest was $54,218 and $57,240, respectively, during the years ended December 31, 2016 and 2015.

Note 4 – Other Accrued Liabilities

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

	2016	2015
Accrued interest	$ 342,325	$ 351,358
Accrued make ready costs	2,940,881	3,678,836
Accrued vacation and payroll	473,162	558,172
Pole contacts	524,420	929,619
All other accrued liabilities	3,075,837	2,709,017
Total other accrued liabilities	$ 7,356,625	$ 8,227,002

Note 5 – Significant Contract and Deferred Revenue

During 2013, the Company entered into an amended contract with Verizon Wireless (Verizon) to receive a total upfront payment of $5,549,310 ($4,624,425 was received during 2013) to provide backhaul services to Verizon in exchange for the issuance of billing credits in respect to future services rendered to existing cell sites. Revenue is recognized upon the issuance of billing credits each month and materially approximates a 36-month amortization of the prepayments. As of December 31, 2016, all of the deferred revenue related to Verizon Wireless has been fully amortized and included in earnings.

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:

	2016	2015
Current		
SOHCN	$ 1,852,483	$ 1,852,483
BTOP grant	2,996,829	3,331,606
RUS grant	20,376	20,376
Other	909,375	2,509,062
Current deferred revenue	5,779,063	7,713,527
Noncurrent		
SOHCN	6,657,318	8,515,424
BTOP grant	47,604,625	50,622,597
RUS grant	339,925	360,301
Other	5,084,321	5,488,347
Noncurrent deferred revenue	59,686,189	64,986,669
Total deferred revenue	$ 65,465,252	$ 72,700,196

Note 6 – Long-Term Debt

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

	Interest rate at December 31, 2016	2016	2015
Senior secured notes	5.52%	$ 74,220,922	$ 77,220,923
Less unamortized debt issuance costs		268,986	537,973
Less current maturities		4,500,000	3,000,000
Total long-term debt		$ 69,451,936	$ 73,682,950

Note 6 – Long-Term Debt (continued)

Effective July 31, 2015, the Company entered into Third 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 $77,220,923 and grants a revolving term loan facility in an aggregate principal amount of $1,300,000. The maturity date of the agreement is the earlier of an event of default as outlined in the agreement or January 4, 2018. Interest is payable at the one-month LIBOR Index Rate, plus the applicable margin of 5 percent, which totaled 5.52 percent at December 31, 2016. The agreement calls for mandatory principal payments of $3,000,000 in 2016 and $4,500,000 in 2017, with the remaining total principal balance due January 4, 2018. The loan is subject to certain financial and nonfinancial covenants. The Company had no borrowings against the revolving term loan commitment as of December 31, 2016.

Maturities of long-term debt obligations for the years following December 31, 2016, are as follows:

2017	$ 4,500,000
2018	69,720,922
Less unamortized debt issuance costs	(268,986)
	$ 73,951,936

In 2016, the Company retroactively adopted the requirements in FASB ASC 835-30 to present debt issuance costs as a reduction to the carrying amount of the debt rather than as an asset. Long-term debt as of December 31, 2015, was previously reported on the balance sheet as $74,220,923 with the associated $537,973 unamortized debt issuance costs included in deferred charges. Amortization of the debt issuance costs is reported as interest expense in the income statement.

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 agreement calls for mandatory principal payments of $4,125,000 in 2017, $5,000,000 in 2018, $6,000,000 in 2019, and $7,000,000 in 2020 and 2021, respectively. The loan is subject to certain financial and nonfinancial covenants.

Note 7 – Income Taxes

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

	Current	Deferred	Total income tax Expense (benefit)
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
2015			
Federal	$ -	$ 134,754	$ 134,754
State and local	124	-	124
Total	$ 124	$ 134,754	$ 134,878

The effective tax rate for 2016 and 2015 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:

	2016	2015
Deferred income tax assets		
Uncollectible accounts	$ 97,496	$ 67,854
Accrued vacation	118,622	119,863
Pensions and other retirement benefits	3,710,918	4,180,810
Deferred revenue	22,817,937	25,369,835
Net operating loss carryforwards	5,973,292	6,977,354
Inventory reserve	6,078	21,387
Other	246,801	199,102
Total deferred income tax assets	32,971,144	36,936,205
Deferred income tax liabilities		
Property and equipment	(40,859,673)	(42,057,037)
Total deferred income tax liabilities	(40,859,673)	(42,057,037)
Total deferred income taxes, net	$ (7,888,529)	$ (5,120,832)

The Company has a federal net operating loss carryforward of approximately $17,040,000, which will expire between 2031 and 2035. The Company has minimum tax credit carryforward of approximately $220,000.

Note 7 – Income Taxes (continued)

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (ASU 2015-17), which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The Company has elected to early adopt ASU 2015-17 and retrospectively apply to all periods presented. This resulted in net adjustments of a $260,993 decrease and a $260,993 increase to current deferred assets and noncurrent deferred tax liability, respectively, on the December 31, 2015 balance sheet.

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.

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, 2016 and 2015.

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

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.

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

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
	(In thousands)			
Change in benefit obligation				
Benefit obligation, beginning of year	$ 32,516	$ 35,607	$ 841	$ 1,004
Interest cost	1,436	1,447	31	33
Actuarial (gain) loss	255	(2,148)	(150)	(111)
Change in plan provisions	-	-	-	-
Benefits paid	(2,198)	(2,390)	(124)	(85)
Benefit obligation, end of year	32,009	32,516	598	841
Change in plan assets				
Fair value of plan assets, beginning of year	21,909	22,501	-	-
Actual return on plan assets	1,440	(181)	-	-
Employer contributions	1,348	1,979	124	85
Benefits paid	(2,198)	(2,390)	(124)	(85)
Fair value of plan assets, end of year	22,499	21,909	-	-
Funded status	$ (9,510)	$ (10,607)	$ (598)	$ (841)

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
	Percent		Percent	
Weighted average assumption to calculate benefit obligation at December 31				
Discount rate				
Salaried employees' plan	4.28	4.54	3.64	4.00
Union employees' plan	4.29	4.56	3.64	4.00
Supplemental plan	3.82	4.05	3.64	4.00
Expected return on plan assets	6.47	6.75	-	-

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.

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

The assumed medical benefit cost trend rate used in measuring the accumulated postretirement benefit obligation was 8.5 percent and 7.5 percent in 2016 and 2015, declining gradually to 5 percent for both years. A 1 percent increase to the premium inflation rate would increase the net periodic benefit cost by approximately $1,000, and the benefit obligation by $18,000.

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		Other Postretirement Benefits	
	2016	2015	2016	2015
	(In thousands)			
The amounts that have not been recognized as components of net periodic benefit costs				
Prior service cost	$ -	$ -	$ (6,977)	$ (7,622)
Net actuarial loss	15,574	16,461	4,797	5,497
Deferred taxes	(5,460)	(5,771)	764	745
Totals	$ 10,114	$ 10,690	$ (1,416)	$ (1,380)
The amounts expected to be recognized as components of periodic benefit cost over next fiscal year				
Prior service cost	$ -	$ -	$ (645)	$ (645)
Net actuarial loss	1,110	1,167	579	550
Totals	$ 1,110	$ 1,167	$ (66)	$ (95)

The components of net periodic benefit cost include:

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
	(In thousands)			
Interest cost	$ 1,436	$ 1,446	$ 31	$ 33
Expected return on plan assets	(1,465)	(1,635)	-	-
Amortization of prior service cost	-	-	(644)	(644)
Recognized net actuarial loss	1,167	1,229	550	569
Net periodic benefit cost	$ 1,138	$ 1,040	$ (63)	$ (42)

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

Assets of the pension plans were invested as follows:

	Target % Allocation	Salaried Benefits Plan Assets at December 31		Hourly Benefits Plan Assets at December 31	
	2016	2016	2015	2016	2015
		Percent		Percent	
Asset category					
Equity securities	50-70	63	60	63	62
Fixed securities and other	30-50	37	40	37	38
Total		100	100	100	100

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	
		2016	2015	2016	2015
Asset category					
Equity securities					
Telecommunications and utilities	1	$ 553,016	$ 176,727	$ 424,728	$ 52,085
Pharmaceuticals and medical	1	855,559	521,442	371,267	406,104
Banking and insurance	1	993,313	792,896	493,281	557,214
Petroleum and chemicals	1	598,965	412,290	294,478	310,653
Computers and technology	1	1,225,294	786,260	423,256	360,285
Food and beverage	1	153,923	306,120	76,655	137,144
Machinery services, and other	1	1,443,961	892,016	771,515	573,618
Equity funds	1	3,809,799	4,873,258	1,678,569	2,046,499
Fixed securities and other					
Cash and cash equivalents	1	542,873	645,921	293,508	279,681
Corporate debt securities	2	5,115,656	5,251,050	2,324,909	2,474,751
US Government debt securities	2	5,388	7,895	5,388	7,685
Preferred stock and other	2	31,086	26,410	13,210	11,042
Total		$ 15,328,833	$ 14,692,285	$ 7,170,764	$ 7,216,761

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.

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

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, 2017	$ 579,839	$ 453,158	$ 98,179
Estimated future benefit payments reflecting expected future service for the years ending December 31			
2017	1,249,000	497,000	98,000
2018	1,264,000	504,000	75,000
2019	1,277,000	520,000	66,000
2020	1,295,000	534,000	56,000
2021	1,313,000	557,000	33,000
Thereafter	6,729,000	3,094,000	137,000

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 2016 and 2015, 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 $468,457 and $475,625, respectively, for 2016 and 2015 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 $521,807 and $751,780, respectively, for 2016 and 2015.

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, 2016:

2017	$ 182,373
2018	117,311
2019	111,743
2020	8,252
Total minimum lease payments	$ 419,679

Note 9 – Commitments and Contingencies (continued)

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 $2,940,881 and $3,678,836 as of December 31, 2016 and 2015, 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 $11 million as of December 31, 2016.

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. These option grants replaced all outstanding option grants issued in prior years and the restricted stock awards issued in August 2012. 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, 2016 have a weighted average remaining contractual life term of 2.6 years.

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.

Note 10 – Stock Option Plans (continued)

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%

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, 2016 have a weighted average remaining contractual life term of 5.5 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, 2016 have a weighted average remaining contractual life term of 3.1 years.

Note 10 – Stock Option Plans (continued)

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%

A summary of the share option activity for the years ended December 31, 2016 and 2015 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
Exercisable at December 31, 2016	6,585	$ 12.00	875	$ 60.00	14,571	$ 16.00

The accompanying consolidated financial statements reflect a noncash compensation charge related to the share options of $57,713 and $58,845, respectively, for the years ended December 31, 2016 and 2015. As of December 31, 2016, the Company had $198,370 of unrecognized compensation expense related to stock options, which is expected to be recognized over a weighted average period of 3.1 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 subrecipient 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:

	2016	2015
Wireline		
Customer	$ 7,283,111	$ 8,068,729
Intercarrier		
Interstate	2,719,981	3,024,535
Intrastate	594,397	752,836
Universal Service Support - federal	8,432,269	8,960,287
Total wireline revenues	$ 19,029,758	$ 20,806,387

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 the HCLS, ICLS, and CAF.
- 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:

	2016	2015
Other nonregulated		
Directory	$ 1,421,943	$ 1,437,780
Maintenance & installations	519,460	657,299
Business system sales	392,797	460,141
Rents	74,559	68,222
Other	276,875	204,195
Total other nonregulated revenues	$ 2,685,634	$ 2,827,637

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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, 2016, and our report thereon dated March 27, 2017, 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 operations 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 27, 2017

HORIZON TELCOM, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET DETAIL

	Chillicothe Telephone	Horizon Technology	Horizon Services	Horizon Telcom	Eliminations	Consolidated
CURRENT ASSETS						
Cash and cash equivalents	$ 6,998,466	$ -	$ -	$ -	$ -	$ 6,998,466
Accounts receivable - subscriber, less allowance for doubtful accounts of approximately $167,000 as of December 31, 2016 and $137,000 as of December 31, 2015	1,632,958	-	-	-	-	1,632,958
Accounts receivable - interexchange carriers, access charge pools, less allowance for doubtful accounts of approximately $56,000 as of December 31, 2016 and $112,000 as of December 31, 2015	627,642	-	-	-	-	627,642
Accounts receivable - other	344,757	-	-	1,337,507	-	1,682,264
Income tax receivable	-	-	-	17,300	-	17,300
Inventories	2,606,209	-	-	-	-	2,606,209
Prepaid expenses and other current assets	781,072	-	-	-	-	781,072
Total current assets	12,991,104	-	-	1,354,807	-	14,345,911
OTHER ASSETS						
Accounts receivable - affiliates	15,289,254	409,685	39,443	1,247,283	(16,985,665)	-
Other investments	18,500	-	-	1,543,240	-	1,561,740
Prepaid indefeasible right of use	1,660,960	-	-	-	-	1,660,960
Other noncurrent assets	6,980,768	-	-	-	-	6,980,768
Investment in subsidiaries	-	-	-	107,855,099	(107,855,099)	-
Total other assets	23,949,482	409,685	39,443	110,645,622	(124,840,764)	10,203,468
PROPERTY, PLANT, AND EQUIPMENT						
Regulated telecommunications plant in service	163,265,601	-	-	-	-	163,265,601
Nonregulated telecommunications plant in service	181,641,368	-	-	-	-	181,641,368
Regulated plant under construction	348,211	-	-	-	-	348,211
Nonregulated plant under construction	940,731	-	-	-	-	940,731
	346,195,911	-	-	-	-	346,195,911
Less accumulated depreciation	(176,396,402)	-	-	-	-	(176,396,402)
Net property, plant, and equipment	169,799,509	-	-	-	-	169,799,509
Total assets	$ 206,740,095	$ 409,685	$ 39,443	$ 112,000,429	$ (124,840,764)	$ 194,348,888

HORIZON TELCOM, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET DETAIL
December 31, 2016

	Chillicothe Telephone	Horizon Technology	Horizon Services	Horizon Telcom	Eliminations	Consolidated
CURRENT LIABILITIES						
Current portion, long-term debt	$ -	$ -	$ -	$ 4,500,000	$ -	$ 4,500,000
Accounts payable	642,783	(102)	-	-	-	642,681
Other accrued liabilities	7,014,101	193	-	342,331	-	7,356,625
Postretirement benefit obligation	98,179	-	-	-	-	98,179
Pension benefit obligation	771,553	-	-	-	-	771,553
Deferred revenue	5,779,063	-	-	-	-	5,779,063
Total current liabilities	14,305,679	91	-	4,842,331	-	19,148,101
LONG-TERM DEBT	-	-	-	69,451,936	-	69,451,936
OTHER LIABILITIES AND DEFERRED CREDITS						
Deferred income taxes, net	12,292,626	-	-	(4,404,097)	-	7,888,529
Accounts payable - affiliates	3,771,898	1,209	38,943	13,173,615	(16,985,665)	-
Postretirement benefit obligation	499,471	-	-	-	-	499,471
Pension benefit obligation	8,738,018	-	-	-	-	8,738,018
Deferred revenue - BTOP grant	47,604,625	-	-	-	-	47,604,625
Deferred revenue - Southern Ohio Health Care Network	6,657,318	-	-	-	-	6,657,318
Deferred revenue - other	5,424,246	-	-	-	-	5,424,246
Other long-term liabilities	-	-	-	-	-	-
Total other liabilities and deferred credits	84,988,202	1,209	38,943	8,769,518	(16,985,665)	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, 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	(8,697,772)	-	-	(6,099,219)	6,099,219	(8,697,772)
Additional paid-in capital	74,353,492	9,015,483	-	131,993,687	(142,171,789)	73,190,873
Retained earnings (deficit)	40,095,152	(8,607,598)	-	(86,992,698)	29,913,813	(25,591,331)
				-		
Total stockholders' equity	107,446,214	408,385	500	28,936,644	(107,855,099)	28,936,644
Total liabilities and stockholders' equity	$ 206,740,095	$ 409,685	$ 39,443	$ 112,000,429	$ (124,840,764)	$ 194,348,888

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

	Chillicothe Telephone	Horizon Technology	Horizon Services	Horizon Telcom	Eliminations	Consolidated
OPERATING REVENUES						
Wireline	$ 19,201,098	$ -	$ -	$ -	$ (171,340)	$ 19,029,758
Internet	4,302,387	-	-	-	-	4,302,387
Video	4,377,520	-	-	-	-	4,377,520
Fiber transport	27,396,545	-	-	-	-	27,396,545
Other nonregulated	2,685,634	-	-	-	-	2,685,634
Uncollectibles	(413,636)	-	-	-	-	(413,636)
Total net operating revenues	57,549,548	-	-	-	(171,340)	57,378,208
OPERATING EXPENSES						
Plant specific operations	5,267,817	-	-	-	-	5,267,817
Plant nonspecific operations	2,220,407	-	-	-	-	2,220,407
Depreciation	5,953,718	-	-	-	-	5,953,718
Customer operations	1,667,094	-	-	-	-	1,667,094
Corporate operations	4,114,008	-	-	95,895	(158,123)	4,051,780
Other operating taxes	204,125	-	-	-	-	204,125
Nonregulated						
Fiber transport	13,670,663	-	-	-	-	13,670,663
Video	3,722,111	-	-	-	-	3,722,111
Other	1,259,991	-	-	-	(13,217)	1,246,774
Depreciation	9,631,762	-	-	-	-	9,631,762
Total operating expenses	47,711,696	-	-	95,895	(171,340)	47,636,251
Operating income	9,837,852	-	-	(95,895)	-	9,741,957
NONOPERATING INCOME (EXPENSE)						
Interest income	3,867	-	-	-	-	3,867
Allowance for funds used during construction	-	-	-	54,218	-	54,218
Dividend income	-	-	-	1,783,343	-	1,783,343
Interest expense	-	-	-	(4,389,321)	-	(4,389,321)
Other nonoperating expense	(23,285)	-	-	-	-	(23,285)
Loss on abandoned construction	(125,014)	-	-	-	-	(125,014)
Subsidiary income	-	-	-	6,301,506	(6,301,506)	-
Total nonoperating expense	(144,432)	-	-	3,749,746	(6,301,506)	(2,696,192)
Income before income taxes	9,693,420	-	-	3,653,851	(6,301,506)	7,045,765
INCOME TAX (EXPENSE) BENEFIT	(3,391,914)	-	-	891,070	-	(2,500,844)
Net income	$ 6,301,506	$ -	$ -	$ 4,544,921	$ (6,301,506)	$ 4,544,921

HORIZON TELCOM, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS DETAIL

	Chillicothe Telephone	Horizon Technology	Horizon Services	Horizon Telcom	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss)	$ 6,301,506	$ -	$ -	$ 4,544,921	$ (6,301,506)	$ 4,544,921
Adjustments to reconcile net income to net cash from operating activities:						
Depreciation and amortization	15,585,480	-		-	-	15,585,480
Deferred income tax expense (benefit)	2,135,287	-	-	302,068	-	2,437,355
Deferred compensation related to stock option plan	-	-	-	57,713	-	57,713
Amortization of deferred loan costs	-	-	-	268,986	-	268,986
Provision for bad debt expense	413,636	-	-	-	-	413,636
Allowance for funds used during construction	-	-	-	(54,218)	-	(54,218)
Loss on abandoned construction	125,014	-	-	-	-	125,014
Change in assets and liabilities:						
Accounts receivable	(1,020,391)	-	-	(1,337,507)	-	(2,357,898)
Income taxes receivable	-	-	-	24,700	-	24,700
Inventories	(779,485)	-	-	-	-	(779,485)
Prepaid expenses and other current assets	(102,085)	-	-	-	-	(102,085)
Accounts payable	364,525	-	-	-	-	364,525
Accrued liabilities	(2,759,423)	-	-	(9,033)	-	(2,768,456)
Accrued pension costs	(210,262)	-	-	-	-	(210,262)
Postretirement benefit obligation	(187,768)	-	-	-	-	(187,768)
Change in intercompany (receivables) payables	(5,895,494)	-	-	5,895,494	-	-
Change in other assets and liabilities, net	(6,029,735)	-	-	(445,836)	-	(6,475,571)
Net cash from operating activities	7,940,805	-	-	9,247,288	(6,301,506)	10,886,587
Cash flows from investing activities:						
Capital expenditures, net	(7,619,328)	-	-	54,218		(7,565,110)
Proceeds on sale of assets, net of cost of removal	8,366	-	-	-		8,366
Investment in consolidating subsidiaries	-	-	-	(6,301,506)	6,301,506	-
Net cash from investing activities	(7,610,962)	-	-	(6,247,288)	6,301,506	(7,556,744)
Cash flows from financing activities:						
Payments on long-term debt	-	-	-	(3,000,000)	-	(3,000,000)
Net cash from financing activities	-	-	-	(3,000,000)	-	(3,000,000)
Net change in cash and cash equivalents	329,843	-	-	-	-	329,843
Cash and cash equivalents, beginning of year	6,668,623	-	-	-	-	6,668,623
Cash and cash equivalents, end of year	$ 6,998,466	$ -	$ -	$ -	$ -	$ 6,998,466

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

	2016			2015		
	ILEC	Fiber	Consolidated	ILEC	Fiber	Consolidated
OPERATING REVENUES						
End User Voice	$ 9,058,120	$ -	$ 9,058,120	$ 9,802,771	$ -	$ 9,802,771
End User Video	4,341,504	-	4,341,504	4,445,277	-	4,445,277
End User Internet	4,338,402	-	4,338,402	4,068,964	-	4,068,964
End user discounts	(1,775,007)	-	(1,775,007)	(1,734,042)	-	(1,734,042)
End User total	15,963,019	-	15,963,019	16,582,970	-	16,582,970
Universal Service Support	8,432,269	-	8,432,269	8,960,287	-	8,960,287
Intercarrier revenue	3,314,377	-	3,314,377	3,777,371	-	3,777,371
Other revenues	2,685,634	-	2,685,634	2,827,637	-	2,827,637
Total ILEC before uncollectibles	30,395,299	-	30,395,299	32,148,265	-	32,148,265
Fiber Transport						
Fiber to Cell Tower	-	12,765,743	12,765,743	-	6,788,774	6,788,769
Fiber to Cell Tower - Installation Charges	-	1,002,064	1,002,064	-	863,428	863,428
Enterprise	-	7,111,254	7,111,254	-	5,816,744	5,816,744
Enterprise - Installation Charges	-	471,465	471,465	-	250,753	250,753
Indefeasible Right to Use (IRU) - Recurring Lease and Maintenance	-	445,303	445,303	-	469,057	469,057
Amortization of grant and IRU revenue	-	5,600,716	5,600,716	-	5,598,784	5,598,784
Total fiber transport before uncollectibles	-	27,396,545	27,396,545	-	19,787,540	19,787,535
LESS: Uncollectibles	(403,626)	(10,010)	(413,636)	(328,693)	41,210	(287,483)
Total operating revenue	29,991,673	27,386,535	57,378,208	31,819,572	19,828,750	51,648,317
OPERATING EXPENSES						
Payroll expense	6,368,172	2,738,848	9,107,020	6,389,652	2,623,616	9,013,268
Benefits expense	3,142,326	728,269	3,870,595	3,062,568	678,307	3,740,875
Direct non-labor expenses	9,592,784	10,392,563	19,985,347	11,003,166	6,234,492	17,237,658
Capitalized all other (clearings)	(773,164)	(189,016)	(962,180)	(741,294)	(220,720)	(962,014)
Special termination benefits	49,989	-	49,989	142,256	-	142,256
Shared Services and direct costs	(957,066)	957,066	-	(1,058,346)	1,058,346	-
Total operating expense before depreciation	17,423,041	14,627,730	32,050,771	18,798,002	10,374,041	29,172,043
Operating income before depreciation	12,568,632	12,758,805	25,327,437	13,021,570	9,454,709	22,476,274
Depreciation expense	7,096,976	8,488,504	15,585,480	7,700,524	7,797,324	15,497,848
Operating income	$ 5,471,656	$ 4,270,301	$ 9,741,957	$ 5,321,046	$ 1,657,385	$ 6,978,426