NORTHSTATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

Years Ended December 31, 2018 and 2017
(With Independent Auditors' Report)

NorthState

North State Telecommunications Corporation and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2018 and 2017

Contents

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Directors and Stockholders
North State Telecommunications Corporation and Subsidiaries
High Point, North Carolina

We have audited the accompanying consolidated financial statements of North State Telecommunications Corporation and Subsidiaries (collectively, the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of net 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 Consolidated 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Alltel Communications of North Carolina Limited Partnership ("Alltel Communications"), a 5.81% owned equity method investee in 2018 and 2017. The investment in Alltel Communications was $10,239,100 and $9,777,792 as of December 31, 2018 and 2017, respectively, and the equity in earnings was $7,753,486 and $6,494,950, respectively, for the years then ended. The financial statements of Alltel Communications were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Alltel Communications, is based solely on the reports of the other auditors. 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 auditors' 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 in 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.

DIXON HUGHES GOODMAN LLP

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of North State Telecommunications Corporation and Subsidiaries as of December 31, 2018 and 2017, 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.

Change in Accounting Principles

As discussed in Note 1 to the consolidated financial statements, the Company adopted new accounting guidance related to revenue recognition, presentation of retirement benefits, presentation of certain cash receipts and payments, and recognition and measurement of financial instruments in 2018. Our opinion is not modified with respect to these matters.

Dixon Hughes Goodman LLP

High Point, North Carolina
June 13, 2019

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

	2018	As Adjusted 2017
Assets		
Current Assets:		
Cash and cash equivalents	$ 4,543,565	$ 5,931,910
Accounts receivable (less allowance for doubtful accounts, $473,370 in 2018 and $425,000 in 2017)	19,054,716	16,395,257
Materials and supplies	1,548,802	1,786,828
Prepayments	2,521,481	2,642,369
Income taxes recoverable	1,119,739	3,216,282
Other current assets	2,337,253	2,431,923
Total current assets	31,125,556	32,404,569
Property, plant, and equipment	544,655,063	534,160,508
Less, accumulated depreciation	(393,495,866)	(379,071,908)
Property, plant, and equipment, net	151,159,197	155,088,600
Other assets:		
Investment securities	630,341	600,391
Investment in unconsolidated entity	10,239,100	9,777,792
Derivative contract	1,475,482	1,510,270
Intangibles, net of amortization	11,805,697	13,225,971
Goodwill	31,244,755	31,244,755
Other noncurrent assets	3,141,447	3,268,692
Total other assets	58,536,822	59,627,871
Total assets	$ 240,821,575	$ 247,121,040

See accompanying notes to consolidated financial statements.

Certain amounts have been reclassified to conform to the current period presentation.

	2018	As Adjusted 2017
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of bank note	$ 3,750,000	$ 2,500,000
Current maturities of capital lease obligations	182,015	168,842
Accounts payable and payroll withholdings	8,730,205	8,839,620
Advance billings and customer deposits	4,705,606	3,811,188
Accrued expenses	8,798,019	7,879,206
Accrued taxes	257,272	341,224
Total current liabilities	26,423,117	23,540,080
Other liabilities:		
Revolving credit note	7,500,000	9,000,000
Bank note, net	42,293,852	45,962,745
Capital lease obligations, net of current maturities	5,442,885	5,624,900
Deferred income taxes	21,363,490	20,300,180
Accrued pension benefits	37,261,473	37,543,624
Accrued postretirement benefits	707,447	852,977
Other liabilities and deferred credits	1,403,171	1,971,448
Total other liabilities	115,972,318	121,255,874
Total liabilities	142,395,435	144,795,954
Commitments and Contingencies (Notes 11,12)		
Stockholders' equity:		
Capital stock:		
Cumulative preferred stock. Authorized 100,000 shares, par value $100 per share:		
4% Series, issued and outstanding 4,911 and 4,916 shares in 2018 and 2017, respectively	491,100	491,600
5% Series, issued and outstanding 13,621 and 13,651 shares in 2018 and 2017, respectively	1,362,100	1,365,100
Common stock, stated value $5 per share, no par value:		
Class A (voting). Authorized 3,500,000 shares, issued and outstanding 1,395,214 shares in 2018 and 2017	6,976,070	6,976,070
Class B (non-voting). Authorized 2,500,000 shares, issued and outstanding 868,318 and 869,469 shares in 2018 and 2017, respectively	4,341,590	4,347,345
Paid-in capital	73,876	72,356
Retained earnings	122,375,411	126,253,127
Accumulated other comprehensive loss	(37,194,007)	(37,180,512)
Total stockholders' equity	98,426,140	102,325,086
Total liabilities and stockholders' equity	$ 240,821,575	$ 247,121,040

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Net Income

Years ended December 31, 2018 and 2017

	2018	As Adjusted 2017
Operating revenues:		
Internet and communications:		
Internet and data	$ 30,398,260	$ 30,170,920
Entertainment	14,627,725	12,783,322
Legacy voice	35,583,782	34,194,190
Advertising and search	2,716,463	2,712,558
Other communications	108,170	144,450
Total internet and communications	83,434,400	80,005,440
IT services and hardware:		
Managed services	19,578,372	20,477,645
Professional services	5,314,130	3,689,674
Telecom and IT equipment	24,039,174	19,363,567
Total IT services and hardware	48,931,676	43,530,886
Total operating revenues	132,366,076	123,536,326
Less: uncollectible revenue	(1,035,838)	(493,294)
Net operating revenue	131,330,238	123,043,032
Cost of sales and service:		
Internet and communications	36,343,092	32,927,914
IT services and hardware:		
Managed services	9,786,911	9,317,376
Professional services	3,831,797	3,557,617
Telecom and IT equipment	20,506,945	17,385,138
Total cost of sales and service	70,468,745	63,188,045
Gross margin	60,861,493	59,854,987
Depreciation and amortization expense	19,357,225	21,020,732
Selling, general, and administrative expense:		
Sales and customer service	19,654,314	18,510,377
General and administrative	15,529,457	13,561,863
Restructuring charges	-	1,888,857
Total selling, general, and administrative	35,183,771	33,961,097
Net operating income	6,320,497	4,873,158
Nonoperating income (expense):		
Interest income	4,562	55,678
Interest expense, net of capitalized interest	(2,051,463)	(1,907,732)
Equity in earnings of unconsolidated entities	7,753,486	6,494,950
Net periodic pension cost	(2,357,319)	(2,549,910)
Other income, net	250,376	54,778
Net nonoperating income	3,599,642	2,147,764
Income before income taxes	9,920,139	7,020,922
Income tax expense (benefit)	1,884,594	(14,804,149)
Net income	8,035,545	21,825,071
Preferred stock dividends	87,749	87,994
Net income available to common stockholders	$ 7,947,796	$ 21,737,077
Total earnings per average common share	$ 3.51	$ 9.59
Weighted average common shares outstanding	2,263,866	2,265,655
Dividends per common share	$ 5.20	$ 5.20

See accompanying notes to consolidated financial statements.

Certain amounts have been reclassified to conform to the current period presentation.

NORTH STATE TELECOMMUNICATIONS CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years ended December 31, 2018 and 2017

	2018	As Adjusted 2017
Net income	$ 8,035,545	$ 21,825,071
Other comprehensive income (loss), net of tax:		
Unrealized holding gain (loss) arising during the period, inclusive of net tax benefit of $2,353 and $143,799 in 2018 and 2017, respectively	(32,435)	270,659
Retirement plans adjustment, net of tax benefit of $244,672 in 2018 and net of tax expense of $8,361,529 in 2017	18,940	(2,481,569)
Other comprehensive loss	(13,495)	(2,210,910)
Comprehensive income	$ 8,022,050	$ 19,614,161

See accompanying notes to consolidated financial statements.
Certain amounts have been reclassified to conform to the current period presentation.

NORTH STATE TELECOMMUNICATIONS CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2018 and 2017

	Preferred Stock	Common Stock	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss: Retirement Plans	Accumulated Other Comprehensive Loss: Marketable Securities / Other	Accumulated Other Comprehensive Loss: Total	Total Stockholders' Equity
Balance, January 1, 2017, As Adjusted	$ 1,873,100	$ 11,341,520	$ 65,218	$ 116,518,861	$ (35,855,261)	$ 885,659	$ (34,969,602)	$ 94,829,097
Acquisition of stock	(16,400)	(18,105)	7,138					(27,367)
Net income				21,825,071				21,825,071
Preferred stock dividends				(87,994)				(87,994)
Common stock dividends				(11,782,791)				(11,782,791)
Acquisition of common stock in excess of stated value				(220,020)				(220,020)
Retirement plans adjustment, net of tax					(2,481,569)		(2,481,569)	(2,481,569)
Unrealized gain (loss) on swap agreement, net of tax						270,659	270,659	270,659
Balance, December 31, 2017, As Adjusted	$ 1,856,700	$ 11,323,415	$ 72,356	$ 126,253,127	$ (38,336,830)	$ 1,156,318	$ (37,180,512)	$ 102,325,086
Balance, January 1, 2018	$ 1,856,700	$ 11,323,415	$ 72,356	$ 126,253,127	$ (38,336,830)	$ 1,156,318	$ (37,180,512)	$ 102,325,086
Acquisition of stock	(3,500)	(5,755)	1,520					(7,735)
Net income				8,035,545				8,035,545
Preferred stock dividends				(87,749)				(87,749)
Common stock dividends				(11,772,492)				(11,772,492)
Acquisition of common stock in excess of stated value				(53,020)				(53,020)
Retirement plans adjustment, net of tax					18,940		18,940	18,940
Unrealized gain (loss) on swap agreement, net of tax						(32,435)	(32,435)	(32,435)
Balance, December 31, 2018	$ 1,853,200	$ 11,317,660	$ 73,876	$ 122,375,411	$ (38,317,890)	$ 1,123,883	$ (37,194,007)	$ 98,426,140

See accompanying notes to consolidated financial statements.

Certain amounts have been reclassified to conform to the current period presentation.

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NORTH STATE TELECOMMUNICATIONS CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	As Adjusted 2017
Cash flows from operating activities:		
Net income	$ 8,035,545	$ 21,825,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,357,225	21,020,732
Amortization of debt issuance costs	81,107	81,107
Change in the allowance for doubtful accounts	48,370	(52,000)
Loss (gain) on sale, disposal, and abandonment of other assets	(335,077)	390,575
Cash distributions from unconsolidated entities less than current earnings	(491,258)	(422,977)
Deferred income taxes	1,313,875	(13,599,798)
Accrued pension and postretirement benefits	2,219,136	2,417,033
Writedown of intangible, included in restructuring charges	-	550,000
Changes in operating assets and liabilities:		
Accounts receivable	(2,707,832)	(1,336,898)
Materials and supplies	238,025	384,252
Other assets	2,904,554	(2,953,808)
Accounts payable and payroll withholdings	792,453	3,252,197
Accrued expenses	834,864	(582,876)
Other liabilities	(3,561,048)	(3,706,171)
Net cash provided by operating activities	28,729,939	27,266,439
Cash flow from investing activities:		
Additions to property, plant, and equipment	(16,309,236)	(25,054,663)
Cost of removal of telephone plant, net of salvage	(81,494)	(223,258)
Proceeds from sale of building	2,369,700	-
Purchases of investment securities	-	(13,934)
Net cash used in investing activities	(14,021,030)	(25,291,855)
Cash flows from financing activities:		
Principal payments on term loan	(2,500,000)	(1,250,000)
Net borrowing (repayments) on line of credit	(1,500,000)	9,000,000
Principal payments on capital leases	(168,842)	(156,622)
Acquisition of preferred stock	(1,980)	(9,262)
Acquisition of common stock	(66,191)	(238,126)
Cash dividends paid	(11,860,241)	(11,870,785)
Net cash used in financing activities	(16,097,254)	(4,524,795)
Net change in cash and cash equivalents	(1,388,345)	(2,550,211)
Cash and cash equivalents at beginning of period	5,931,910	8,482,121
Cash and cash equivalents at end of period	$ 4,543,565	$ 5,931,910
Supplemental disclosure of cash flow information:		
Cash paid for (refunds of) income taxes	$ (1,517,000)	$ 2,791,849
Cash paid for interest	$ 1,980,530	$ 1,821,586
Distributions from unconsolidated entities	$ 7,262,228	$ 6,071,973

See accompanying notes to consolidated financial statements.

Certain amounts have been reclassified to conform to the current period presentation.

(1) Significant Accounting Policies

(a) Nature of Operations

North State Telecommunications Corporation and Subsidiaries ("Company"), a public business entity, located in High Point, North Carolina, operates in the telecommunications, data center and information technology services industries. The Company, through its subsidiaries, provides local telephone, long distance, broadband, and video service in four counties located in north central North Carolina. The Company's local services are subject to regulation by the State of North Carolina Utilities Commission ("Commission") and the Federal Communications Commission ("FCC"). The Company, through its subsidiary North State Technology Solutions, LLC, ("NSTS") provides secure information technology and datacenter solutions, including colocation, hybrid cloud, managed IT and security solutions throughout the southeastern United States.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of North State Telecommunications Corporation and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in unconsolidated entities in which the Company has either a partnership interest or the ability to exercise significant influence, but not control, over the affiliates' operating and financial policies are accounted for using the equity method. Income and losses are allocated to the Company in accordance with the Company's respective ownership percentage. Certain other investments are stated at cost.

(c) Cash and Cash Equivalents

The Company considers all cash and money market accounts which are not subject to withdrawal restrictions and all highly liquid debt instruments and certificates of deposit with a maturity date of less than three months to be cash and cash equivalents.

The Company maintains certain of its cash and cash equivalent balances in various accounts at federally insured commercial banks. These accounts are insured by the Federal Deposit Insurance Corporation for up to $250,000. At times, such amounts may be in excess of federally insured limits.

(1) Significant Accounting Policies (continued)

(d) Interest Rate Swap Agreement

In 2016, the Company entered into an interest rate swap agreement with its lender to manage its exposure to interest rate risk. This derivative is reported at fair value within investment securities on the balance sheet and the changes in fair value are recorded in other comprehensive income (see Note 4).

(e) Fair Value of Financial Instruments

Fair value, as defined under U.S generally accepted accounting principles ("GAAP"), is an exit price representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

GAAP established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The hierarchy gives the highest priority to Level 1 measurements and the lowest to Level 3 measurements.

At December 31, 2018 and 2017, the fair value of the Company's cash and cash equivalents, accounts receivable, prepayments, derivative contracts, investment securities, advance billings and customer deposits, as well as all other accrued liabilities, approximated amounts recorded in the accompanying consolidated financial statements. The Company maintains investments in certain closely held companies and since there is no open market for trading these securities, it is not practicable to estimate their respective fair values.

(f) Materials and Supplies

Materials and supplies are recorded at net realizable value.

(1) Significant Accounting Policies (continued)

(g) Property, Plant, and Equipment

Property, plant, and equipment is stated at original cost and includes certain indirect costs consisting of payroll taxes, pension and other fringe benefits.

For regulated plant and equipment, group depreciation is used, whereby the original cost of depreciable property retired is removed from telephone plant accounts and charged to accumulated depreciation, which is credited with the salvage value less removal cost. Under this method, no gain or loss is recorded on ordinary retirements of depreciable property. For nonregulated plant and equipment, the original cost and accumulated depreciation are removed from the accounts and any gain or loss is included in results of operations.

Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings	40 years
Leasehold improvements	Life of lease
Telephone cable and equipment	4 to 43 years
Furniture and office equipment	5 to 20 years
Vehicle and work equipment	5 to 15 years

(h) Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, purchased intangibles subject to amortization, and goodwill, 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 the 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 loss is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairment losses for property, plant and equipment were recorded in 2018 or 2017.

(1) Significant Accounting Policies (continued)

(i) Intangible Assets and Goodwill

Intangible assets subject to amortization include the Company's acquired customer lists, which are amortized over an estimated useful life of 15 years.

The Company's indefinite-lived intangible assets consist primarily of its trade name associated with DataChambers, LLC. When it is determined that no legal, regulatory, contractual, competitive, economic or other factors exist that limit the useful life of its trade name, the Company does not amortize this asset based on the determination that it has an indefinite life. Indefinite-lived intangible assets are tested annually for impairment by comparing the fair value of the assets to their carrying amount.

The Company's goodwill resulted from the December 2011 acquisition of the net assets and assumption of certain liabilities of DataChambers, LLC and the July 2015 acquisition of the net assets and assumption of certain liabilities of Stalwart Systems Group, LLC. Goodwill represents the excess of the cost over the fair value of the net assets of the acquired businesses. Goodwill is not amortized for financial statement purposes but is amortized for income tax purposes.

Impairment of indefinite-lived assets, including goodwill, is tested by first assessing qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of each asset is less than its carrying amount. A qualitative analysis is performed by assessing certain trends and factors, including projected market outlook and growth rates, forecasted and actual sales and operating profit margins, discount rates, industry data, and other relevant factors. If, after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of each asset is greater than its carrying amount, then no additional testing is performed.

In 2017, the Company fully impaired the carrying amount of the DataChambers trade name of $550,000. This impairment loss was charged to restructuring charges on the 2017 consolidated statement of net income (see Note 2). In addition, goodwill related to the Stalwart Systems, LLC acquisition was reduced by $600,000 for the expected non-achievement of an earn-out.

(1) Significant Accounting Policies (continued)

(j) Self-Insurance Liability

The Company maintains a self-insured health benefits plan, which provides medical benefits to employees electing coverage under the plan. The Company estimates a reserve for incurred-but-not-reported medical claims based on historical experience and other assumptions. Stop-loss insurance coverage is maintained for individual medical claims exceeding $110,000, with no limit on aggregate claims.

(k) Asset Retirement Obligations

GAAP requires that a liability be recognized for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. The FCC has notified regulated carriers that they should not adopt these particular provisions of GAAP unless specifically required by the FCC in the future. As a result of the FCC ruling, the Company records a regulatory liability for cost of removal for its regulated operations when necessary.

Certain of the Company's nonregulated operating agreements and leases contain provisions requiring it to restore facilities or remove equipment in the event that the operating or lease agreement is not renewed. The Company expects to continually renew its operating and lease agreements. Accordingly, the possibility is remote that the Company would be required to incur significant restoration or removal costs related to these agreements in the foreseeable future. The Company would record an estimated liability in the unlikely event an agreement containing such a provision were no longer expected to be renewed. The obligations related to the removal provisions contained in the agreements or any disposal obligations related to its operating assets are not estimable or are not material to the Company's consolidated financial condition or results of operations.

(l) Income Taxes

Income taxes are accounted for using the liability method. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Transactions for which tax deductibility or the timing of tax deductibility is uncertain are analyzed by management based on their technical merits. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income taxes. At December 31, 2018 and 2017, the Company had no amounts accrued for the payment of interest and penalties. The Company is no longer subject to federal, state and local income tax examinations by tax authorities for years before 2015.

(1) Significant Accounting Policies (continued)

(m) Revenue Recognition

Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09 ("ASU 2014-09", "ASC 606", or the "new standard"), Revenue from Contracts with Customers, using the full retrospective method. The comparative period for 2018, 2017, is recast and reported in accordance with the new standard.

The adoption of the new standard did not result in a material impact to our systems, processes, internal controls or recognition of revenue. The largest impact of the adoption of the new standard is related to the treatment of contract acquisition and fulfillment costs, which were previously expensed as incurred; however, under the new standard, these costs are now deferred and amortized over the expected customer life. The adoption also resulted in additional disclosures around the nature and timing of the Company's performance obligations, deferred revenue contract liabilities and deferred contract cost assets, as well as practical expedients used by the Company in applying the new five-step revenue model.

The following table provides the effect of adoption of the new standard on the Company's consolidated statement of net income for the year ended December 31, 2017 and consolidated balance sheets at January 1, 2017 and December 31, 2017.

(1) Significant Accounting Policies (continued)

(m) Revenue Recognition (continued)

Consolidated financial statement line items	Historical Accounting Method	Effect of New Accounting Method	As Adjusted
At January 1, 2017			
Retained Earnings	$ 113,950,232	$ 2,568,629	$ 116,518,861
Total Stockholders' Equity	92,260,468	2,568,629	94,829,097
At December 31, 2017			
Internet & Data Revenue	30,201,389	(30,469)	30,170,920
Total Internet & Communications Revenue	80,035,909	(30,469)	80,005,440
Managed Services Revenue	20,515,353	(37,708)	20,477,645
Total IT Services & Hardware	43,568,594	(37,708)	43,530,886
Total Operating Revenues	123,604,503	(68,177)	123,536,326
Net Operating Revenue	123,111,209	(68,177)	123,043,032
Internet & Communications COGS	32,683,397	244,517	32,927,914
Managed Services COGS	9,288,986	28,390	9,317,376
Total COGS	62,915,138	272,907	63,188,045
Gross Margin	60,196,071	(341,084)	59,854,987
Sales and Customer Service	18,458,930	51,447	18,510,377
Total SG&A	33,909,650	51,447	33,961,097
Net Operating Income	5,265,689	(392,531)	4,873,158
Income before Income Taxes	7,413,453	(392,531)	7,020,922
Income Taxes	(14,165,631)	(638,518)	(14,804,149)
Net Income	21,579,084	245,987	21,825,071
EPS	9.49	0.10	9.59
Other non-current assets	$ 690,934	$ 2,577,758	$ 3,268,692
Total other assets	57,050,113	2,577,758	59,627,871
Total Assets	242,111,357	5,009,683	247,121,040
Deferred income taxes	19,437,418	862,762	20,300,180
Other deferred credits	653,517	1,317,931	1,971,448
Total Other Liabilities	119,075,181	2,180,693	121,255,874
Retained Earnings	101,859,427	2,568,628	104,428,055
Current Earnings	21,579,085	245,987	21,825,072
Total Stockholders' Equity	99,510,470	2,814,616	102,325,086
Total Liabilities and Stockholders' Equity	242,111,357	5,009,683	247,121,040

Certain amounts have been reclassified to conform to the current period presentation.

(1) Significant Accounting Policies (continued)

(m) Revenue Recognition (continued)

General Nature of Contracts with Customers

Our revenue contracts with customers may include a promise or promises to deliver goods such as equipment and/or services such as broadband, entertainment, voice services, managed services or professional services. Promised goods and services are considered distinct as the customer can benefit from the goods or services either on their own or together with other resources that are readily available to the customer and the Company's promise to transfer a good or service to the customer is separately identifiable from other promises in the contract. The Company accounts for goods and services as separate performance obligations. Each service is considered a single performance obligation as it is providing a series of distinct services that are substantially the same and have the same pattern of transfer.

The transaction price is determined at contract inception and reflects the amount of consideration to which is expected to be entitled in exchange for transferring a good or service to the customer. This amount is generally equal to the market price of the goods and/or services promised in the contract and may include promotional discounts. The transaction price excludes amounts collected on behalf of third parties such as sales taxes and regulatory fees. Conversely, nonrefundable up-front fees, such as service activation and set-up fees, are included in the transaction price. In determining the transaction price, the Company considers its enforceable rights and obligations within the contract.

The transaction price is allocated to each performance obligation based on the standalone selling price of the good or service, net of the related discount, as applicable.

Revenue is recognized when or as performance obligations are satisfied by transferring control of the good or service to the customer as described below.

Internet and Communications

Internet and communications revenues, with the exception of usage-based revenues, are generally billed in advance and recognized in subsequent periods when or as services are transferred to the customer.

We offer bundled service packages that consists of high-speed Internet, entertainment and voice services including local and long distance calling, voicemail and calling features. Each service is considered distinct and therefore accounted for as a separate performance obligation. Service revenue is recognized over time, consistent with the transfer of service, as the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs.

(1) Significant Accounting Policies (continued)

(m) Revenue Recognition (continued)

Usage-based services, such as per-minute long-distance service and access charges billed to other telephone carriers for originating and terminating long-distance calls in our network, are billed in arrears. The Company recognizes revenue from these services when or as services are transferred to the customer.

Revenue related to nonrefundable upfront fees, such as service activation and set-up fees are deferred and amortized over the expected customer life as discussed below.

Legacy voice revenue includes certain government subsidies, which are designed to promote widely available, quality telecommunication services in our franchise territory. These revenues are calculated by the administering government agency based on information provided. There is a reasonable possibility that out-of-period subsidy adjustments may be recorded in the future, but they are expected to be immaterial to our results of operations, financial position and cash flows. In 2019, the Company was notified by the FCC that a portion of these subsidies, $7,380,270 and $5,341,128, in 2018 and 2017, respectively, will be reduced to near zero, ratably, over the next ten years. At this time, management is not able to determine the precise timing and ultimate financial impact these changes will have on the Company's revenue.

IT Services and Hardware

IT services includes both managed and professional service revenues that are recognized over time as the service is provided to the customer. Equipment and third-party maintenance agreement sales are recognized when legal control and ownership has passed to the customer.

Contract Assets and Liabilities

Contract assets, included in other current and noncurrent assets on the consolidated balance sheets, are costs that are incremental to the acquisition of a contract. Incremental costs are those that result directly from obtaining a contract or costs that would not have been incurred if the contract had not been obtained, which primarily relate to sales commissions and one-time installation costs. These costs are deferred and amortized over the expected customer life.

(1) Significant Accounting Policies (continued)

(m) Revenue Recognition (continued)

	2018	2017
Balance at beginning of period	$ 5,009,683	$ 5,334,037
Contract additions	1,937,351	1,375,985
Amortization	(2,394,033)	(1,700,339)
Balance at end of period	$ 4,553,001	$ 5,009,683

Contract liabilities, included in other liabilities and deferred credits on the consolidated balance sheets, are deferred revenues related to advanced payments for services and nonrefundable, upfront service activation and set-up fees, which under the new standard are generally deferred and amortized over the expected customer life as the option to renew without paying an upfront fee provides the customer with a material right.

	2018	2017
Balance at beginning of period	$ (1,317,932)	$ (1,249,755)
Contract additions	(284,004)	(194,471)
Revenue recognized	437,316	126,294
Balance at end of period	$ (1,164,619)	$ (1,317,932)

Performance Obligations and Disaggregation of Revenue

The new standard requires that the Company disclose the aggregate amount of the transaction price that is allocated to remaining performance obligations that are unsatisfied as of December 31, 2018. The guidance provides certain practical expedients that limit this requirement. The service revenue contracts of the Company meet the following practical expedients provided by the new standard:

1. The performance obligation is part of a contract that has an original expected duration of one year or less.

2. Revenue is recognized from the satisfaction of the performance obligations in the amount billable to the customer in accordance with ASC 606-10-55-18.

The new standard requires that revenues be disaggregated. The consolidated statements of net income for the years ended December 31, 2017 and 2018 disaggregate revenues by type of good and service.

(1) Significant Accounting Policies (continued)

(n) Earnings Per Average Common Share

Basic earnings per common share (EPS) is computed by dividing the net income available to common stockholders by the weighted average shares of outstanding common stock.

(o) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Concentration of Credit Risks

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of investment securities and accounts receivable.

The Company invests in various types of investment instruments, which are discussed in Note 4. Investment securities, in general, are exposed to various risks, including interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values in investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying balance sheets.

The Company's pension plans hold debt and equity securities for investment purposes. The value of these plan assets is dependent on the financial condition of those entities issuing the debt and equity securities. A significant decline in the fair value of plan assets could result in additional contributions to the plans by the Company in order to meet funding requirements under the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

Accounts receivable balances are primarily from the Company's telecommunications, data center, and information technology customers. The Company routinely assesses the financial strength of its customers and, generally, does not obtain collateral. Credit risk is managed by disconnecting services to customers who are delinquent. Approximately 34% and 39% of the Company's accounts receivable at December 31, 2018 and 2017, were from one customer, respectively.

(1) Significant Accounting Policies (continued)

(p) Concentration of Credit Risks (continued)

The allowance for doubtful accounts reflects the Company's estimate of probable losses related to its accounts receivable. In establishing the allowance for doubtful accounts, the Company considers a number of factors, including historical collection experience, aging of the accounts receivable balances, current economic conditions, and a specific customer's ability to meet its financial obligations to the Company.

(q) Advertising

All costs associated with advertising and promoting products and services are expensed in the year incurred. Advertising and promotion expenses were approximately $2,421,095 and $3,354,404 for the years ended December 31, 2018 and 2017, respectively.

(r) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

(s) Recently Adopted Accounting Pronouncements

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *"Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities"* ("ASU 2016-01"). The amendments in this update address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The main provisions include: eliminating the requirement of classifying equity securities into different categories, measuring equity investments at fair value with unrealized gains and losses recognized in net income, simplifying the impairment assessment of equity investments without readily determinable fair values, and eliminating certain disclosures related to fair value. ASU 2016-01 is effective for periods beginning after December 15, 2017 for public business entities. The adoption of this standard did not have a material affect the Company's consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *"Leases"* (Topic 842*)* ("ASU 2016-02"), which addresses enhanced accounting for and reporting of leases for lessees and lessors. The main provisions include lessees recognizing the assets and liabilities arising from leases on the balance sheet. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for periods beginning after December 15, 2018 for public business entities, with early adoption allowed under certain circumstances. The Company has determined that in 2019 the assets and liabilities relating to the adoption of this standard will increase by approximately $12.9 million.

(1) Significant Accounting Policies (continued)

(s) Recently Adopted Accounting Pronouncements (continued)

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, "*Statement of Cash Flow – Classification of Certain Cash Receipts and Cash Payments"* (Topic 230) ("ASU 2016-15"). The amendment provides guidance on the classification of cash receipts and payments in the statement of cash flows with the intent of reducing diversity in practice. ASU 2016-15 is effective for periods beginning after December 15, 2017 for public business entities. The Company adopted this standard effective January 1, 2018. The adoption of this standard did not have a material effect on the Company's Consolidated Statement of Cash Flows.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07, "*Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs*" (Topic 715) ("ASU 2017-07'). The amendment provides guidance on income statement presentation of the components of net periodic benefit cost for sponsored defined benefit pension and other postretirement plans. The amendment requires net benefit costs be disaggregated from other benefits cost and be presented elsewhere in the income statement, outside of income from operations. ASU 2017-07 is effective for periods beginning after December 15, 2017 for public business entities. The Company adopted the standard effective January 1, 2018. As a result, $2,357,319 and $2,549,910 for 2018 and 2017, respectively, of net benefit cost is presented below operating income as "Net periodic pension cost" in the consolidated statements of net income.

Presentation of net periodic benefit cost: During 2018, the Company adopted the provisions of ASU 2017-07, which requires that a Company report the service cost component in the same line item or items as other compensation costs arising from services rendered by employees during the period. The standard also requires the other components of net benefit costs be presented in the income statement separately from service cost component and outside a subtotal of income from operations. The consolidated statement of income for the fiscal year ended December 31, 2017 has been adjusted to reflect retrospective application of the new accounting guidance as follows:

(1) Significant Accounting Policies (continued)

(s) Recently Adopted Accounting Pronouncements (continued)

	As Previously Reported	Retrospective Adjustment	As Adjusted
Cost of sales and services:			
Internet and communications	$ 33,805,967	(878,053)	$ 32,927,914
Selling, general and administrative:			
Sales and customer service	19,312,610	(802,233)	18,510,377
General and administrative	14,431,487	(869,624)	13,561,863
Nonoperating income (expense):			
Net periodic pension cost	-	2,549,910	2,549,910

As detailed in note 9, the adjustment is comprised of the other components of net benefit costs of the following plans:

Noncontributory defined benefit pension plan	$ 2,409,200
Nonqualified defined benefit plan	104,079
Postretirement life insurance plan	36,631

(2) Restructuring Charges

In May of 2017, the Company created a new integrated IT services business unit, North State Technology Solutions, LLC ("NSTS"), by integrating two previous Company subsidiaries DataChambers, LLC and Stalwart Systems, LLC. As a result, the Company recorded restructuring charges of $1,888,857 primarily related to severance, legal expense and the write-off of a tradename.

(3) Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	Cost		Accumulated Depreciation	
	2018	2017	2018	2017
REGULATED				
Land	$ 1,542,769	$ 1,806,434	$ -	$ -
Land improvements	531,609	428,927	46,547	12,047
Buildings	13,553,274	16,946,313	7,248,484	9,078,464
Central office equipment	193,840,856	190,269,542	178,168,556	174,216,142
Leasehold improvements	886,608	902,746	327,036	212,748
Outside plant facilities	210,295,088	208,070,137	142,131,874	138,481,813
Furniture and fixtures	1,465,030	1,936,508	344,090	805,735
Software and computer equipment	13,277,486	12,813,668	9,929,728	8,889,209
Vehicles	3,197,833	3,595,395	1,586,147	1,814,541
Tools and work equipment	1,181,303	1,181,303	948,665	896,010
Total regulated in service	439,771,856	437,950,973	340,731,126	334,406,708
Construction in progress	-	1,029,869	-	-
Total regulated	439,771,856	438,980,842	340,731,126	334,406,708
NONREGULATED				
Land and land improvements	405,926	405,926	51,715	42,311
Buildings	6,856,175	6,856,175	1,594,260	1,321,185
Capital lease on building	6,213,517	6,213,517	1,259,963	621,352
Leasehold improvements	4,072,663	4,072,663	1,517,244	1,200,046
Plant and equipment	67,859,886	58,717,331	32,808,561	28,355,860
Software and computer equipment	19,475,040	18,847,087	15,532,997	13,124,446
Total nonregulated in service	104,883,207	95,112,699	52,764,740	44,665,200
Construction in progress	-	66,967	-	-
Total nonregulated	104,883,207	95,179,666	52,764,740	44,665,200
Total	$ 544,655,063	$ 534,160,508	$ 393,495,866	$ 379,071,908

(3) Property, Plant, and Equipment (continued)

Depreciation and expense relating to regulated plant and equipment was $9,829,978 and $11,488,385 in 2018 and 2017, respectively. Composite rates applied to the depreciable telephone plant accounts resulted in depreciation expense that was equivalent to 2.2% and 2.6% of the average balance of telephone plant and equipment in service during 2018 and 2017. Depreciation expense relating to nonregulated plant and equipment was $8,106,973 and $8,112,073 in 2018 and 2017, respectively.

(4) Investments

(a) Investment Securities

The Company has investments in several cooperatives related to the telecommunications industry. The investments represent patronage capital in the cooperatives. These are Level 3 investments in which little or no market data exists. These investments are recorded at cost, which approximates fair market value.

The estimated fair value of these securities at December 31 are $630,341 and $600,391 for 2018 and 2017, respectively.

(b) Investments in Unconsolidated Entities

Long-term investments in unconsolidated companies consist of the following:

	Ownership Percentage	2018	2017
Equity Method:			
Alltel Communications of NC Limited Partnership	5.81%	$ 10,239,100	$ 9,777,792

Earnings from investments accounted for under the equity method were as follows:

	2018	2017
Alltel Communications of NC Limited Partnership	$ 7,753,486	$ 6,494,950

(4) Investments (continued)

(b) Investments in Unconsolidated Entities (continued)

Summarized financial information for Alltel Communications of North Carolina Limited Partnership (Alltel Communications) is as follows at December 31 (in thousands):

	2018	2017
Current Assets	$ 95,515	$ 70,907
Noncurrent Assets	294,449	288,253
Current Liabilities	37,369	37,019
Noncurrent Liabilities	17,856	16,086
Partners' Equity	334,739	306,055

For the years ended December 31:

	2018	2017
Total Revenues and Sales	$ 587,832	$ 579,264
Net Income	134,330	115,954

In 2018 and 2017, the Company received $7,262,228 and $6,071,973, respectively, as distributions from Alltel Communications.

(c) Derivative Contract

During 2016, the Company entered into an interest rate swap on $50 million (notional amount) to hedge the effects of fluctuations in LIBOR related to its term credit facility. Under the contract, the Company pays the counterparty a fixed rate of 1.026% and receives from the counterparty the LIBOR rate related to the term credit facility. The contract matures in July 2021. The fair value of this interest rate swap, recorded in the accompanying balance sheet, approximated $1,475,000 and $1,510,000 at December 31, 2018 and 2017, respectively.

(5) Intangible Assets

The Company's intangible assets consisted of the following:

	2018	2017
Customer Lists	$ 21,304,000	$ 21,304,000
Less accumulated amortization	(9,498,303)	(8,078,029)
Intangibles, net of amortization	$ 11,805,697	$ 13,225,971

Amortization expense for intangible assets was $1,420,274 for both years ended December 31, 2018 and 2017. The estimated amortization expense for the next five years and thereafter is as follows:

Year ending December 31:		
2019	$	1,420,274
2020		1,420,274
2021		1,420,274
2022		1,420,274
2023		1,420,274
Thereafter		4,704,327
Total	$	11,805,697

(6) Long-Term Debt

The Company has a $75 million unsecured credit agreement with a group of lenders, consisting of a $50 million term facility and a $25 million revolving facility, both maturing in July 2021. At December 31, 2018 and 2017, the outstanding balances on the term facility ("Bank note") were $46.25 million and $48.75 million, respectively.

The schedule of maturities of long-term debt for the years subsequent to December 31, 2018, is as follows:

2019	$	3,750,000
2020		5,000,000
2021		37,500,000
		46,250,000
Less, unamortized debt issuance costs		(206,148)
	$	46,043,852

The term facility requires quarterly principal payments of $625,000 from September 2017 through June 2019 and $1,250,000 thereafter, with a lump sum payment of principal at maturity. Interest on the term facility is based on LIBOR plus either 1.25%, 1.50% or 1.75% depending on the Company's consolidated leverage ratio as defined in the credit agreement. Interest rates on the term facility ranged from 3.32% to 4.27% in fiscal year 2018 and 2.27% to 3.10% in fiscal year 2017. Note 4 (c) describes a derivative contract the Company entered into to hedge the effects of fluctuations in interest rates related to the term facility.

At December 31, 2018 and 2017, $7.5 million and $9 million were outstanding on the revolving facility, respectively. The Company is required to pay a quarterly commitment fee on the unused portion of the revolving facility ranging from 0.175%, 0.200% or 0.225% depending on the Company's consolidated leverage ratio as defined in the credit agreement. Interest on the revolving facility is based on LIBOR plus either 1.25%, 1.50% or 1.75% depending on the Company's consolidated leverage ratio as defined in the credit agreement. The interest rate on the revolving facility ranged from 3.30% to 4.27% in fiscal year 2018 and 3.30% in fiscal year 2017.

(6) Long-Term Debt (continued)

Loan costs are capitalized upon the issuance of long-term debt and amortized over the life of the related debt. Amortization of deferred loan costs is included in interest expense. Amortization of deferred loan costs amounted to $81,107 for the years ended December 31, 2018 and 2017.

Debt issuance costs related to a recognized debt liability are presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

The credit agreement contains certain debt covenants and restrictions on cash payments. The Company was in compliance with its debt covenants as of December 31, 2018.

The value of the loans approximates fair value.

(7) Capital Lease Obligation

In 2013, DataChambers, LLC (now NSTS) entered into a build-to-suit arrangement for approximately 50,000 square feet of building space in Kannapolis, North Carolina, to be used for a new data center. The building was completed in April 2015 and the lease was classified as a capital lease. The interest rate related to the lease obligation is 7.5% and the maturity date is April 1, 2035.

	2018	2017
Capital lease on building	$ 6,213,517	$ 6,213,517
Less accumulated depreciation	(1,259,963)	(621,352)
Capital lease, net of depreciation	$ 4,953,554	$ 5,592,165

(7) Capital Lease Obligation (continued)

The following is a schedule of future minimum lease payments and the present value of the minimum lease payments as of December 31, 2018:

2019	$	599,700
2020		599,700
2021		599,700
2022		599,700
2023		599,700
Thereafter		6,796,600
Total		9,795,100
Less Interest		(4,170,200)
Present Value of minimun lease payments	$	5,624,900

At December 31, 2018, the present value of minimum lease principal payments due within one year is $182,015. Total lease payments related to this capital lease totaled $599,700 for 2018 and 2017.

(8) Income Taxes

Income tax expense consisted of the following:

	2018	2017
Current income tax (benefit) expense	$ 570,719	$ (1,204,351)
Deferred income tax (benefit) expense	1,313,875	(13,599,798)
Total	$ 1,884,594	$ (14,804,149)

On December 22, 2017, the law referred to as the Tax Cuts and Jobs Act ("Tax Act") was enacted. The Tax Act reduces the corporate federal rate from 34% to 21% and also provides for numerous other changes generally effective beginning after January 1, 2018. Accounting standards require that the effects of a change in tax law and rates be accounted for in the period of enactment. As a result of the Tax Act, the Company adjusted its deferred tax liabilities based upon the enacted rate.

Components of the difference between income tax expense computed at the applicable federal income tax statutory rate and the total income tax expense included in the statements of income are as follows:

(8) Income Taxes (continued)

	2018	2017
Statutory federal income tax rate	21%	34%
Federal income tax at statutory rate	$ 2,083,229	$ 2,520,429
Increase (decrease) resulting from:		
State income tax, net of federal income tax benefit	199,452	138,617
Change in tax rate related to deferred tax liabilities	(458,630)	(16,920,248)
Other, net	60,543	(542,947)
Income tax expense	$ 1,884,594	$ (14,804,149)

Net deferred income tax liabilities consist of the following components:

	2018	2017
Net deferred income tax assets:		
Accrued pension costs	$ 8,874,054	$ 8,655,400
Postretirement benefits other than pension	245,586	253,237
Supplemental Executive Retirement Plan (SERP)	464,697	509,204
Other	659,195	678,677
Subtotal	10,243,532	10,096,518
Net deferred income tax liabilities:		
Investments	(2,186,149)	(2,256,975)
Property and equipment (principally accelerated depreciation)	(29,060,464)	(27,276,961)
Other	(360,409)	(862,762)
Subtotal	(31,607,022)	(30,396,698)
Total	$ (21,363,490)	$ (20,300,180)

(8) Income Taxes (continued)

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the deferred income tax assets at December 31, 2018.

(9) Employee Benefits

(a) Employee Pension Plan

The Company has a noncontributory defined benefit pension plan covering eligible employees. Benefits are based on years of service and the employee's final average monthly compensation during the five highest compensated years employed. Contributions to the plan are based upon the Unit Credit actuarial funding method and comply with the funding requirements of ERISA. Contributions are intended to provide for benefits attributed to service to date.

The measurement date used to determine pension benefits for the pension plan is December 31. The following table sets forth the funded status of the Company's pension plan and amounts recognized in the Company's consolidated financial statements:

(9) Employee Benefits (continued)

(a) Employee Pension Plan (continued)

	2018	2017
Accumulated benefit obligation at end of year	$ (121,587,937)	$ (133,415,550)
Projected benefit obligation at end of year	$ (121,587,937)	$ (133,415,550)
Plan assets at fair value at end of year	82,686,675	94,330,640
Funded status (underfunded)	$ (38,901,262)	$ (39,084,910)
Amounts recognized in the consolidated balance sheet:		
Current liability	$ 3,458,050	$ 3,592,678
Non-current liability	35,443,212	35,492,232
Net amount recognized	$ 38,901,262	$ 39,084,910
Unrecognized (loss) included in other comprehensive income	$ (49,766,563)	$ (49,291,319)
Company contributions	$ 2,875,114	$ 2,513,001
Benefits paid	$ 8,563,533	$ 8,408,824

Effective April 4, 2012, the pension plan was amended to exclude employees hired or rehired after April 4, 2012 from participation in the plan. This eliminates the addition of new plan participants after May 1, 2013 and will slow the future growth of plan liabilities as the number of participating employees declines.

Effective December 31, 2013, the pension plan was amended to cease benefit accruals under the plan. A participant's Normal Retirement benefit cannot exceed his frozen Accrued Benefit on this date.

(9) Employee Benefits (continued)

(a) Employee Pension Plan (continued)

Net periodic pension cost for the Company's pension plan included the following expense (income) components:

	2018	2017
Service cost, benefits earned during the period	$ -	$ -
Interest cost	4,541,477	5,165,758
Expected gain on plan assets	(5,436,690)	(5,510,512)
Net amortizations and deferrals	3,111,435	2,753,954
Curtailment income		-
Net periodic pension cost	$ 2,216,222	$ 2,409,200

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 4.12% in 2018 and 3.5% in 2017, respectively. The rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation is not applicable in 2018 and 2017. The assumed long-term rate of return on pension plan assets was 6.0% in 2018 and 2017.

The expected rate of return on employee pension plan assets is determined by those assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

The Company's pension plan asset target guidelines dictate a liability driven investment model. With this model, the mix of assets is determined by the plan's liabilities and the main goal is to meet the liabilities as they occur during the life of the plan. As such, the assets have been divided into two major components (1) Liability Hedging Portfolio (LHP) and (2) Growth Portfolio (GP). Assets in the LHP are fixed income holdings whose goal is to match the characteristics and timing of the plan's liabilities. Assets in the GP are all assets not dedicated to the LHP and can consist of both fixed income and equity components. The investment strategy of the GP component is to focus upon total return with an acceptable level of risk. Periodically, as the funded ratio of the plan increases, assets in the GP will be shifted to the LHP along a measured glide path that is designed to reduce risk and meet pension obligations as they become due.

(9) Employee Benefits (continued)

(a) Employee Pension Plan (continued)

The following tables present fair value measurement information for the Company's employee pension plan assets:

	December 31, 2018	Quoted Markets Proces (Level 1)	Significant Other Observable Inputs (Level 2)
Cash and Cash Equivalents	$ 849	$ 849	$ -
Liability Hedging Portfolio	33,428,133	33,428,133	-
Growth Portfolio	44,002,518	44,002,518	-
Company Stock	5,255,175	-	5,255,175
Total Investments	$ 82,686,675	$ 77,431,500	$ 5,255,175

	December 31, 2017	Quoted Markets Proces (Level 1)	Significant Other Observable Inputs (Level 2)
Cash and Cash Equivalents	$ 1,735	$ 1,735	$ -
Liability Hedging Portfolio	35,610,770	35,610,770	-
Growth Portfolio	53,025,527	53,025,527	-
Company Stock	5,692,608	-	5,692,608
Total Investments	$ 94,330,640	$ 88,638,032	$ 5,692,608

The plan's liability hedging portfolio and growth portfolio are presented at fair value based on quoted market prices of identical securities in active markets. The fair value of Company stock was determined using end of year stock prices during 2018 and 2017.

No plan assets are expected to be returned to the Company during 2019.

(9) Employee Benefits (continued)

(a) Employee Pension Plan (continued)

The Company expects to contribute approximately $3,458,050 to its pension plan in 2019. Expected benefit payments to be paid by the plan for the next ten years ended December 31 are as follows:

2019	$ 8,632,000
2020	8,658,000
2021	8,640,000
2022	8,612,000
2023	8,568,000
2024-2028	40,177,000

The estimated net loss and prior service cost that will be amortized from accumulated other comprehensive income into net periodic pension cost over the next fiscal year are $2,539,256 and $0, respectively.

Net periodic pension cost consists of $2,216,222 and $2,409,200 and is included in nonoperating income on the accompanying consolidated statements of net income in fiscal years 2018 and 2017, respectively.

(b) Supplemental Executive Retirement Plan (SERP)

The Company's SERP is a nonqualified defined benefit plan which covers those employees of the Company whose compensation has been limited by government regulations.

The measurement date used to determine pension benefits for the SERP is December 31. The following table sets forth the status of the Company's SERP and amounts recognized in the Company's financial statements:

Net periodic pension cost for the Company's SERP included the following expense components:

	2018	2017
Service cost, benefits earned during the period	$ -	$ -
Interest cost on projected benefit obligation	74,723	87,985
Net amortizations and deferrals	7,189	16,094
Net periodic pension cost	$ 81,912	$ 104,079

(9) Employee Benefits (continued)

(b) Supplemental Executive Retirement Plan (SERP) (continued)

	2018	2017
Accumulated benefit obligation at end of year	$ (1,997,961)	$ (2,241,542)
Projected benefit obligation at end of year	$ (1,997,961)	$ (2,241,542)
Plan assets at fair value at end of year	-	-
Funded status (underfunded)	$ (1,997,961)	$ (2,241,542)
Amounts recognized in the consolidated balance sheet:		
Current liability	$ 179,700	$ 190,151
Non-current liability	1,818,261	2,051,391
Net amount recognized	$ 1,997,961	$ 2,241,542
Unrecognized (loss) included in other comprehensive income	$ (187,035)	$ (322,377)
Company contributions	$ 190,151	$ 190,151
Benefits paid	$ 190,151	$ 190,151

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 4.12% in 2018 and 3.5% in 2017, respectively. The rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation is not applicable in 2018 and 2017.

The Company expects to contribute approximately $179,700 to its SERP in 2019. Expected benefit payments to be paid by the plan for the next ten years ended December 31 are as follows:

2019	$ 200,600
2020	206,300
2021	211,400
2022	124,100
2023	126,200
2024-2028	621,300

(9) Employee Benefits (continued)

(b) Supplemental Executive Retirement Plan (SERP) (continued)

The estimated net loss and prior service cost that will be amortized from accumulated other comprehensive income into net periodic SERP cost over the next fiscal year are $0 and $0, respectively.

Effective December 31, 2013, the SERP plan was amended to cease benefit accruals for participants under this plan.

Net periodic pension cost consists of $81,912 and $104,079 and is included in nonoperating income on the accompanying consolidated statements of net income in fiscal years 2018 and 2017, respectively.

(c) Postretirement Benefits

The Company provides life insurance benefits to eligible retired employees. The postretirement plan, which is noncontributory, provides life insurance coverage of 50% or 100%, depending on hire date, of the last full year's salary prior to retirement. The cost of providing postretirement benefits is accrued during the employees' active service period. The Company funds these benefits as they become payable by the Company.

The postretirement life insurance plan was amended in 2006 to eliminate the postretirement life insurance benefits for the class of employees whose age and years of service do not total 65 or that have less than 20 years of service, effective January 1, 2007. This same class of employees will receive, while an active employee, life insurance coverage equal to twice their annual base pay.

(9) Employee Benefits (continued)

(c) Postretirement Benefits (continued)

The measurement date used to determine postretirement benefits for the postretirement plan is December 31. The following table sets forth the components of the accrued postretirement life insurance obligation:

	2018	2017
Accumulated benefit obligation at end of year	$ (1,007,447)	$ (1,052,977)
Plan assets at fair value at end of year	-	-
Funded status (underfunded)	$ (1,007,447)	$ (1,052,977)
Amounts recognized in the consolidated balance sheet:		
Current liability	$ 300,000	$ 200,000
Non-current liability	707,447	852,977
Net amount recognized	$ 1,007,447	$ 1,052,977
Unrecognized (loss) included in other comprehensive income	$ (57,219)	$ (171,389)

The accumulated postretirement benefit obligation was computed using an assumed discount rate of 4.12% in 2018 and 3.5% in 2017.

Net periodic postretirement benefit cost included the following expense components:

	2018	2017
Service cost, benefits attributed to service during the period	$ 13,441	$ 13,844
Interest cost	36,861	36,631
Net amortizations and deferrals	22,325	-
Net periodic postretirement cost	$ 72,627	$ 50,475
Gain (loss) due to settlement and curtailment	$ -	$ -

(9) Employee Benefits (continued)

(c) Postretirement Benefits (continued)

The Company expects to contribute approximately $300,000 to its postretirement plan in 2019.

Expected benefit payments to be paid by the plan for the next ten years ended December 31 are as follows:

2019	$ 20,200
2020	24,000
2021	27,700
2022	31,500
2023	35,100
2024-2028	226,200

The estimated net loss and prior service cost that will be amortized from accumulated other comprehensive income into net periodic postretirement cost over the next fiscal year are $0 and $0, respectively.

Net periodic pension cost consists of $59,185 and $36,631 and is included in nonoperating income on the accompanying consolidated statements of net income in fiscal years 2018 and 2017, respectively.

(d) 401(k) Plan

The Company has a 401(k) salary savings plan under which employees may contribute a portion of their salary on a tax-deferred basis. The Company matches a portion of the employee's contribution. Matching contributions were approximately $1,261,000 and $1,141,000 in 2018 and 2017, respectively.

(10) Capital Stock

The Company acquired and retired 35 shares of preferred stock at a cost of $1,980 in 2018 and 164 shares of preferred stock at a cost of $9,262 in 2017.

The holders of cumulative preferred stock are entitled to the stated value of cumulative dividends before payment of any dividends on common stock. In addition, in preference to the common stock, cumulative preferred shareholders are entitled to the $100 redemption price per share, plus any cumulative and unpaid dividends, should there be a distribution of assets upon the sale, dissolution, or liquidation of the Company.

The Company acquired and retired 1,151 shares of common stock at a cost of $66,191 in 2018 and 3,621 shares of common stock at a cost of $238,126 in 2017.

(11) Contingencies

The Company, in the normal course of business, is party to a number of claims and/or lawsuits. The Company's management does not expect the results of these outstanding claims or lawsuits to have a material adverse effect on the financial position or results of operations of the Company.

(12) Operating Lease Commitments

The Company had non-cancellable operating leases for its data centers and certain office space. Future minimum lease payments under these operating leases as of December 31, 2018 are:

Future minimum lease payments		
Year ending December 31:		
2019	$	1,775,167
2020		1,752,179
2021		1,603,260
2022		506,823
2023		462,570
Thereafter		1,516,953
Total minimum lease payments	$	7,616,952

The Company's gross rental expense related to these operating leases totaled and $1,546,399 and $1,150,511 in 2018 and 2017, respectively.

(13) Service Agreements

The Company leases data center facilities to customers, under cancelable and non-cancelable service agreements. The terms of the service agreements generally range from 12 to 60 months.

Future payments receivable under non-cancelable service agreements as of December 31, 2018 are as follows:

Year ending December 31:		
2019	$	8,543,430
2020		7,795,103
2021		2,218,064
2022		970,794
2023		292,933
Total	$	19,820,324

(14) Subsequent Events

The Company evaluated events and transactions after December 31, 2018 through June 15, 2019, the date the financial statements were available to be issued for significant subsequent events and determined that there were no events to report during the period.

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