NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

(With Report of Independent Auditors)

North State Telecommunications Corporation and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

Contents

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Report of Independent Auditors

Board of Directors
North State Telecommunications Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of North State Telecommunications Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, 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 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; 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 2016 and 2015. The investment in Alltel Communications was $9,354,814 and $8,666,779 as of December 31, 2016 and 2015, respectively, and the equity in earnings was $7,544,425 and $7,968,915, 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend upon the auditors' judgment, including the assessment of the risks of material misstatement to the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Board of Directors
North State Telecommunications and Subsidiaries

Auditors' Responsibility (continued)
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of North State Telecommunications Corporation and Subsidiaries as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Bauknight Pietras & Stormer, PA

June 13, 2017

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
December 31, 2016 and 2015

	December 31,			
		2016		2015
Assets				
Current assets:				
Cash and cash equivalents	$	8,482,117	$	2,222,286
Accounts receivable (less allowance for doubtful accounts, $477,000 in 2016 and $493,350 in 2015)		15,001,452		11,172,578
Materials and supplies		2,171,079		1,834,525
Prepayments		2,429,331		1,422,343
Income taxes recoverable		26,335		4,361,585
Total current assets		28,110,314		21,013,317
Property, plant and equipment		512,707,582		500,094,316
Less, accumulated depreciation		(363,024,470)		(346,840,571)
Net property, plant, and equipment		149,683,112		153,253,745
Other assets:				
Other investments		1,383,410		--
Investment securities		586,456		642,883
Investment in unconsolidated entity		9,354,814		8,666,779
Intangibles, net of amortization		15,196,245		16,616,519
Goodwill		31,844,755		31,794,755
Other noncurrent assets		894,516		929,686
Total other assets		59,260,196		58,650,622
Total assets	$	237,053,622	$	232,917,684

See accompanying notes to consolidated financial statements.

	2016	2015
Liabilities and stockholders' equity		
Current liabilities:		
Revolving credit note	$ --	$ 4,500,000
Current maturities of bank note	1,250,000	2,750,000
Current maturities of capital lease obligations	156,622	145,251
Accounts payable and payroll withholdings	4,780,388	5,200,379
Advanced billings and customer deposits	4,610,773	3,502,830
Income taxes payable	717,214	--
Accrued expenses	7,776,852	6,544,433
Accrued taxes	294,030	267,790
Total current liabilities	19,585,879	22,910,683
Other liabilities:		
Bank note, net of current liabilities	48,381,638	38,430,797
Capital lease obligations, net of current maturities	5,793,741	5,950,363
Deferred income taxes	24,149,103	23,832,660
Accrued pension benefits	44,832,221	42,183,675
Accrued post retirement benefits	716,073	601,753
Other liabilities and deferred credits	1,334,499	1,382,579
Total other liabilities	125,207,275	112,381,827
Total liabilities	144,793,154	135,292,510
Stockholders' equity:		
Capital stock:		
Cumulative preferred stock. Authorized 100,000 shares, par value $100 per share:		
4% Series, issued and outstanding 4,941 and 4,946 shares in 2016 and 2015, respectively	494,100	494,600
5% Series, issued and outstanding 13,790 and 13,940 shares in 2016 and 2015, respectively	1,379,000	1,394,000
Common stock, stated value $5 per share, no par value:		
Class A (voting). Authorized 3,500,000 shares, issued and outstanding 1,395,353 and 1,398,014 shares in 2016 and 2015, respectively	6,976,765	6,990,070
Class B (nonvoting). Authorized 2,500,000 shares, issued and outstanding 872,951 and 876,026 shares in 2016 and 2015, respectively	4,364,755	4,380,130
Paid-in capital	65,218	58,658
Retained earnings	113,950,232	117,296,892
Accumulated other comprehensive loss, net of income taxes of $19,312,034 and $18,716,844 in 2016 and 2015, respectively	(34,969,602)	(32,989,176)
Total stockholders' equity	92,260,468	97,625,174
Total liabilities and stockholders' equity	$ 237,053,622	$ 232,917,684

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Net Income
Years ended December 31, 2016 and 2015

		2016		2015
Operating revenues:				
Internet and communications:				
Strategic internet and data	$	28,358,191	$	25,415,999
Strategic entertainment		10,979,600		9,180,673
Legacy voice		33,267,747		34,828,483
Legacy long distance		2,629,475		2,918,079
Legacy advertising and search		2,641,112		2,710,741
Total internet and communications		77,876,125		75,053,975
Information technology ("IT") services and hardware:				
Strategic telecom and IT equipment		19,150,963		9,677,541
Strategic colocation		11,613,594		11,693,680
Strategic managed and professional services		9,642,147		6,144,881
Strategic unified communications as a service		1,922,021		1,808,455
Total IT services and hardware		42,328,725		29,324,557
Total operating revenues		120,204,850		104,378,532
Less: uncollectible revenue		952,854		879,303
Net operating revenues		119,251,996		103,499,229
Cost of sales and service:				
General support		7,046,907		6,374,409
Central office		8,599,878		8,722,534
Communication termination		30,845,292		20,043,590
Cable and wire facilities		3,382,999		3,522,492
Network operations		9,631,943		8,275,992
Total cost of sales and service		59,507,019		46,939,017
Gross margin		59,744,977		56,560,212
Depreciation and amortization expense		20,099,658		19,539,088
Selling, general and administrative expense:				
Customer operations		18,940,712		18,252,477
Corporate operations		12,437,322		10,026,721
Taxes, other than income taxes		1,396,662		1,465,508
Total selling, general and administrative expense		32,774,696		29,744,706
Net operating income		6,870,623		7,276,418
Nonoperating income (expense):				
Interest income		33,508		82,282
Interest expense, net of capitalized interest		(1,649,461)		(1,231,724)
Equity in earnings of unconsolidated entities		7,544,425		7,968,915
Net gain on sale of investment securities		--		560,325
Other income (loss), net		42,345		(1,896)
Net nonoperating income		5,970,817		7,377,902
Income before income taxes		12,841,440		14,654,320
Income taxes		4,017,693		4,850,915
Net income		8,823,747		9,803,405
Preferred stock dividends		89,114		90,059
Net income available to common stockholders	$	8,734,633	$	9,713,346
Total earnings per average common share	$	3.85	$	4.27
Weighted average common shares outstanding		2,271,160		2,275,816
Dividends per common share	$	5.20	$	5.20

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
Years ended December 31, 2016 and 2015

		2016		2015
Net income	$	8,823,747	$	9,803,405
Other comprehensive loss, net of income taxes:				
Unrealized holding gains (losses) arising during the period, net of tax expense in 2016 of $493,273 and tax benefit in 2015 of ($24,312)		853,935		(38,649)
Reclassification adjustment for realized gains included in net income, net of tax expense in 2015 of $214,268		--		(346,057)
Retirement plans adjustment, net of tax benefit of ($1,088,463) and ($3,869,662) in 2016 and 2015, respectively		(2,834,361)		(7,395,115)
Other comprehensive loss, net of income taxes		(1,980,426)		(7,779,821)
Comprehensive income	$	6,843,321	$	2,023,584

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2016 and 2015

	Preferred Stock	Common Stock	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2015	$ 1,915,200	$ 11,395,825	$ 53,936	$ 119,745,974	$ (25,209,355)	$ 107,901,580
Acquisition of stock	(26,600)	(25,625)	4,722	--	--	(47,503)
Net income	--	--	--	9,803,406	--	9,803,405
Preferred stock dividends	--	--	--	(90,059)	--	(90,059)
Common stock dividends	--	--	--	(11,835,472)	--	(11,835,472)
Acquisition of common stock in excess of stated value	--	--	--	(326,956)	--	(326,956)
Current retirement plans adjustment, net of tax benefit	--	--	--	--	(7,395,115)	(7,395,115)
Reclassification adjustment for realized gains, net of tax expense	--	--	--	--	(346,057)	(346,057)
Unrealized loss on marketable securities, net of tax expense	--	--	--	--	(38,649)	(38,649)
Balance, December 31, 2015	1,888,600	11,370,200	58,658	117,296,892	(32,989,176)	97,625,174
Acquisition of stock	(15,500)	(28,680)	6,560	--	--	(37,620)
Net income	--	--	--	8,823,747	--	8,823,747
Preferred stock dividends	--	--	--	(89,114)	--	(89,114)
Common stock dividends	--	--	--	(11,809,337)	--	(11,809,337)
Acquisition of common stock in excess of stated value	--	--	--	(271,956)	--	(271,956)
Current retirement plans adjustment, net of tax benefit	--	--	--	--	(2,834,361)	(2,834,361)
Unrealized gain on swap agreement, net of tax expense	--	--	--	--	853,935	853,935
Balance, December 31, 2016	$ 1,873,100	$ 11,341,520	$ 65,218	$ 113,950,232	$ (34,969,602)	$ 92,260,468

See accompanying notes to consolidated financial statements.

NORTH STATE TELECOMMUNICATIONS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended December 31, 2016 and 2015

		2016		2015
Cash flows from operating activities:				
Net income	$	8,823,747	$	9,803,405
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		20,099,658		19,539,088
Change in the allowance for doubtful accounts		(16,350)		--
Gain on sale of investment securities		--		(479,224)
Loss (gain) on sale, disposal, and abandonment of other assets		(917)		197,576
Equity in earnings of unconsolidated entities		(7,544,425)		(7,968,915)
Deferred income taxes		911,633		2,074,124
Accrued pension and postretirement benefits		2,462,445		1,421,996
Changes in operating assets and liabilities:				
Accounts receivable		(3,812,524)		1,775,019
Materials and supplies		(336,555)		(169,008)
Other assets		4,132,365		(54,377)
Accounts payable and payroll withholdings		687,952		(2,611,478)
Accrued expenses		1,975,874		(465,778)
Other liabilities		(3,712,800)		(2,879,203)
Net cash provided by operating activities		23,670,103		20,183,225
Cash flows from investing activities:				
Additions to property, plant, and equipment		(15,776,868)		(22,254,296)
Proceeds from sale of wireless assets-escrow, net		--		2,350,000
Proceeds from sale of investment securities		--		7,352,855
Purchases of investment securities		(1,000)		--
Investment in the assets of Stalwart, LLC, net of assumed liabilities		(50,000)		(9,688,634)
Distributions from equity investments		70,020		164,382
Distributions from unconsolidated entities		6,856,390		7,669,860
Net cash used in investing activities		(8,901,458)		(14,405,833)
Cash flows from financing activities:				
Proceeds from term loan		50,000,000		--
Principal payments on term loan		(41,250,000)		(5,500,000)
Proceeds from (repayments of) revolving credit note		(4,500,000)		4,500,000
Principal payments on capital leases		(145,251)		(117,903)
Loan origination fees		(405,536)		(6,272)
Acquisition of preferred stock		(8,940)		(21,878)
Acquisition of common stock		(300,636)		(352,581)
Cash dividends paid		(11,898,451)		(11,925,531)
Net cash used in financing activities		(8,508,814)		(13,424,165)
Net change in cash and cash equivalents		6,259,831		(7,646,773)
Cash and cash equivalents at beginning of year		2,222,286		9,869,059
Cash and cash equivalents at end of year	$	8,482,117	$	2,222,286
Supplemental cash flow information:				
Cash paid for (refunds of) income taxes	$	(1,945,112)	$	4,285,120
Cash paid for interest	$	1,533,165	$	1,205,099
Supplemental schedule of non-cash investing and financing activities:				
Property, plant, and equipment funded by capital lease obligations	$	--	$	6,213,517

See accompanying notes to consolidated financial statements.

(1) Significant Accounting Policies

(a) Nature of Operations

North State Telecommunications Corporation and Subsidiaries (the "Company"), located in High Point, North Carolina, operates in the telecommunications, data center and information technologies services industries. The Company, through its subsidiaries, provides local telephone, long distance, internet access, and video services 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 subsidiaries, DataChambers, LLC and Stalwart Systems, LLC, provides data center and information technology services 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.

(d) Changes in Accounting Principle

In 2016, the Company entered into an interest rate swap agreement with its lender. Management adopted Financial Accounting Standards Board ("FASB") Accounting Standard Update No. 2014-03, "*Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps - Simplified Hedge Accounting Approach*" to account for the interest rate swap. The Company applies hedging accounting to the pay-fixed interest rate swap. As a result, the Company measured the swap agreement at settlement value and did not record any market adjustment affecting its net income at inception of the swap agreement. As of December 31, 2016, the Company recognized an unrealized gain of approximately $1,383,000 due to the market adjustments.

(1) Significant Accounting Policies (continued)

(d) Changes in Accounting Principle (continued)

In April 2015, the FASB issued Accounting Standards Update No. 2015-03 "*Interest – Imputation of Interest.*" The standard requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from that debt liability, consistent with the presentation of debt discounts. Prior to the issuance of the standard, debt issuance costs were required to be presented as deferred charge assets, separate from the related debt liability. The amendment does not change the recognition and measurement requirements for debt issuance costs.

The Company adopted the amendment as of December 31, 2016, and applied the provisions retrospectively. The adoption of the standard resulted in the reclassification of approximately $368,000 and $69,000 of unamortized debt issuance costs from assets to liabilities within its balance sheets as of December 31, 2016 and 2015, respectively. Other than this reclassification, the adoption of the amendment did not have any impact on the Company's financial statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, "*Balance Sheet Classification of Deferred Taxes.*" This update requires an entity to classify deferred tax liabilities and assets as noncurrent within a classified balance sheet. The amendment does not change the recognition and measurement requirements for deferred taxes. The Company adopted the amendment as of December 31, 2016, and applied its provisions retrospectively. The adoption of the standard resulted in the reclassification of $655,000 and $459,000 of deferred tax assets from current to non-current deferred tax liabilities within its balance sheets as of December 31, 2016 and 2015, respectively. Other than this reclassification, the adoption of the amendment did not have any impact on the Company's financial statements.

(e) Fair Value of Financial Instruments

U.S. generally accepted accounting principles ("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 priority to Level 3 measurements.

At December 31, 2016 and 2015, the fair value of the Company's cash and cash equivalents, accounts receivable, 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 market values.

(1) Significant Accounting Policies (continued)

(f) Materials and Supplies

Materials and supplies are recorded at the lower of average cost or market.

(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, 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 equipments	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 such impairment losses were recorded in 2016 or 2015.

(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. The Company has determined that no legal, regulatory, contractual, competitive, economic or other factors currently exist that limit the useful life of its trade name.

(1) Significant Accounting Policies (continued)

(i) Intangible Assets and Goodwill (continued)

Therefore, 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 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. No impairments were recorded during the years ending December 31, 2016 or 2015.

(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 $100,000, 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.

(1) Significant Accounting Policies (continued)

(k) Asset Retirement Obligations (continued)

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, 2016 and 2015, 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 2013.

(m) Revenue Recognition

Toll access and local service revenues are recognized when earned regardless of the period in which they are billed. The Company participates in telephone revenue pools with other telephone companies for certain interstate and intrastate revenue. Such pools are funded by toll revenue and/or access charges within state jurisdictions and by access charges in the interstate market. Revenue earned through the various pooling processes is initially recorded based on estimates and trued up each following month.

The Company periodically makes claims for recovery of certain amounts related to access charges on certain minutes of use terminated by the Company on behalf of other carriers. Management believes those claims that have not been accepted by other carriers have merit and there will be a resolution in the future regarding these claims. However, management is unable to estimate the recovery and is not reasonably assured of collection. As a result of this uncertainty and immateriality, the Company has not recorded revenue for these items. Upon assurance of collectability, the Company will recognize revenue in the period that assurance or collection occurs.

Installation fees are deferred and the related costs are capitalized and amortized over the estimated life of the customer.

(1) Significant Accounting Policies (continued)

(m) Revenue Recognition (continued)

Sales of communications products represent a separate earnings process and are recognized when products are delivered to and accepted by customers. Fees assessed to communications customers to activate service are allocated to the delivered item (equipment) and recognized as product sales to the extent that the aggregate proceeds received from the customer for the equipment and activation fee do not exceed the fair value of the equipment. Any activation fee not allocated to the equipment is deferred upon activation and recognized as service revenue on a straight-line basis over the expected life of the customer relationship.

Certain of the Company's access revenues are based on tariffed access charges prescribed by the FCC and the North Carolina Utilities Commission, which include switched access and special access services. The FCC undertook comprehensive reform of intercarrier compensation in 2012. These reforms included mandatory rate reductions in the access charges the Company assesses to inter-exchange carriers. As a result, beginning in July 2012, the Company derives revenue from a combination of charges to inter-exchange carriers and end user customers, along with Universal Service Fund support from a newly established access recovery mechanism. The total amount of this revenue is fixed by an FCC formula and is to decline by 5 percent annually. In order to allow companies to recover a portion of the lost access revenues incurred due to the intercarrier compensation reforms, the FCC allowed companies to bill a monthly Access Recovery Charge to end user customers as well as receive support from the Universal Service Administrative Company, an independent, not-for-profit corporation designated by the FCC.

The FCC adopted an Order in March 2016 making significant revisions to its current Universal Service Fund mechanisms. The Order requires rate-of-return Independent Local Exchange Carriers to adopt either a voluntary Alternative Connect America Cost Model ("A-CAM") or accept modifications to the existing Interstate Common Line Support and High Cost Loop Support cost-based methods ("Legacy"). However, based on additional stipulations in the order, North State was only eligible for the Legacy method. The FCC is in the process of providing clarification on the application of some of the new rules issued in the order. At this time, management is not able to determine the financial impact that these changes will have on the Company's revenue.

Data center revenues are derived from monthly recurring, help desk, storage and other non-recurring revenue and are recognized as revenue in the month the service is provided. The monthly recurring revenue is billed in advance at the end of each month for the subsequent month. Help desk, storage and other non-recurring data center revenues are billed monthly in arrears.

Information technology services revenues consist of service revenues and product revenues. Service revenues are recognized according to the percentage of completion method. Product revenue is recognized when the product has been shipped.

(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.

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.

(1) Significant Accounting Policies (continued)

(q) Advertising

All costs associated with advertising and promoting products and services are expensed in the year incurred. Advertising and promotion expenses were approximately $2.0 million and $2.2 million for the years ended December 31, 2016 and 2015, respectively.

(r) Reclassifications

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

(s) New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 *"Revenue from Contracts with Customers"* (ASU 2014-09). The standard will require entities to utilize a 5-step process when recognizing revenues on customer contracts. ASU 2014-09 will become effective for periods beginning after December 15, 2018, with early adoption allowed under certain circumstances. The Company has not yet determined whether this standard will materially affect its consolidated financial statements.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01 "*Financial Instruments*," which addressed enhanced accounting for and reporting of financial instruments. The amendment addresses 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. The amendments are effective for fiscal years beginning after December 15, 2018 for non-public entities, with early application permitted for fiscal years beginning after December 15, 2017.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 "*Leases,*" 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. The amendments are effective for fiscal years beginning after December 15, 2019 for non-public entities, with early adoption allowed. The Company has not elected to early adopt this standard.

(2) Business Combinations

On July 31, 2015, the Company acquired substantially all of the net assets and assumed certain liabilities of Stalwart Systems Group, LLC (Stalwart), a Charlotte, North Carolina based information technology (IT) company. Stalwart provides a wide range of IT products and services, including equipment sales, managed infrastructure, security, and professional IT services, to business customers in North and South Carolina. The Company purchased Stalwart to broaden and enhance its strategic reach into the IT space. The results of operations for Stalwart, from the date of acquisition to the end of the year, are included in the Company's consolidated statements of income.

The acquisition cost was $9,688,634 which has been allocated to the assets acquired and the liabilities assumed based on their respective fair values in accordance with GAAP. Current assets consist principally of $5,273,845 of accounts receivable, which were collected prior to December 31, 2015. Goodwill and other intangibles recorded in connection with the acquisition totaled approximately $6,419,000. Intangible assets acquired consist of Stalwart's customer lists, which are amortized over their expected useful lives. Goodwill consists of Stalwart's assembled workforce and a management team with a proven track record of success. The Company paid $50,000 to a member of the management team during 2016 based on the operating results delivered to date, which is recorded as goodwill in the accompanying 2016 balance sheet.

The estimated fair values of assets acquired and liabilities assumed at the acquisition date are as follows:

Current assets	$	5,273,845
Property, plant, and equipment		74,110
Goodwill		4,562,098
Customer lists		1,857,000
Total assets acquired		11,767,053
Accounts payable and accrued expenses		(521,665)
Advanced billings		(956,754)
Earnout		(600,000)
Net assets acquired	$	9,688,634

The unaudited condensed pro forma consolidated statement of income for 2015 is as follows:

		2015
Net operating revenues	$	115,320,795
Net operating income		7,975,636
Net income		10,604,540
Net income per common share		4.66

(2) Business Combinations (continued)

This pro forma statement has been prepared for comparative purposes only and is not intended to be indicative of what the Company's results would have been had the acquisition occurred at the beginning of the period presented or the results which may occur in the future.

(3) Property, Plant, and Equipment

Property, plant, and equipment consist of the following:

	Cost		Accumulated Depreciation	
	2016	**2015**	**2016**	**2015**
REGULATED				
Land	$ 1,806,434	$ 1,806,434	$ --	$ --
Buildings	15,641,137	15,577,794	9,645,837	9,174,958
Central office equipment	189,062,421	187,831,733	170,261,476	166,144,904
Leasehold improvements	532,177	513,522	111,484	36,717
Outside plant facilities	204,356,086	201,767,321	134,977,626	132,240,634
Furniture and fixtures	1,273,001	1,249,420	760,306	728,768
Software and computer equipment	12,193,686	11,767,272	7,787,551	6,759,469
Vehicles	2,894,842	3,008,334	1,958,535	1,831,679
Tools and work equipment	1,051,278	1,135,835	832,334	856,005
Total regulated in service	428,811,062	424,657,665	326,335,149	317,773,134
Construction in progress	501,518	1,360,036	--	--
Total regulated	429,312,580	426,017,701	326,335,149	317,773,134
NONREGULATED				
Land and land improvements	$ 405,926	$ 405,926	$ 32,907	$ 23,503
Buildings	7,080,331	6,852,646	1,061,524	777,569
Capital lease on building	6,213,517	6,213,517	414,234	207,117
Leasehold improvements	4,155,965	4,038,501	1,024,568	792,577
Plant and equipment	47,970,600	40,494,853	24,711,456	20,833,691
Software and computer equipment	17,127,042	16,039,675	9,444,632	6,432,980
Total nonregulated in service	82,953,381	74,045,118	36,689,321	29,067,437
Construction in progress	441,621	31,497	--	--
Total nonregulated	83,395,002	74,076,615	36,689,321	29,067,437
Total	$ 512,707,582	$ 500,094,316	$ 363,024,470	$ 346,840,571

Depreciation expense relating to regulated plant and equipment was $11,039,338 and $10,941,754 in 2016 and 2015, respectively. Composite rates applied to the depreciable telephone plant accounts resulted in depreciation expense that was equivalent to 2.6% of the average balance of telephone plant and equipment in service during both 2016 and 2015. Depreciation expense relating to nonregulated plant and equipment was $7,640,046 and $7,249,253, in 2016 and 2015, respectively.

(4) Investments

(a) Investment Securities

All of the Companies' marketable securities are reported at estimated fair value based on quoted market prices of identical securities in active markets (Level 1). Unrealized gains and losses net of income taxes are reported as a separate component of stockholders' equity. Realized gains and losses on disposal are calculated on the net proceeds of sales less the amortized costs of securities sold on a specific identification basis, and are included in investment income. The amortization of premiums and discounts arising at acquisition, and interest income, are also included in investment income.

The amortized cost and estimated fair value of marketable securities available for sale at December 31 are as follows:

	2016			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Equity securities	$ 550,254	$ 36,202	$ --	$ 586,456

	2015			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Equity securities	$ 606,681	$ 36,202	$ --	$ 642,883

(4) Investments (continued)

(a) Investment Securities (continued)

The Company maintained a nonqualified trust, referred to as a Rabbi Trust, to fund benefit payments under its Supplemental Executive Retirement Plan ("SERP") throughout most of 2015. Rabbi Trust assets are subject to creditor claims under certain conditions and are not the property of employees. Therefore, they are accounted for as corporate assets and are included in other assets as investment securities. In December 2015, the Rabbi Trust was dissolved and the assets were sold and became part of working capital. Future SERP benefits will be paid from normal operations.

(b) Investments in Unconsolidated Entities

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

	Ownership Percentage	2016	2015
Equity Method:			
Alltel Communications of North Carolina Limited Partnership	5.81%	$ 9,354,814	$ 8,666,779

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

	2016	2015
Alltel Communications of North Carolina Limited Partnership	$ 7,544,425	$ 7,968,915

(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):

	2016	2015
Current assets	$ 70,936	$ 68,077
Noncurrent assets	280,573	263,907
Current liabilities	40,714	37,812
Noncurrent liabilities	16,194	11,479
Partners' equity	294,601	282,693

For the years ended December 31:

	2016	2015
Total revenues and sales	$ 583,769	$ 602,098
Net income	129,908	133,203

In 2016 and 2015, the Company received $6,856,390 and $7,669,860, respectively, as distributions from Alltel Communications.

(5) Intangible Assets

The Company's intangible assets consisted of the following:

	2016	2015
Intangible assets not subject to amortization		
Trade name	$ 550,000	$ 550,000
Intangible assets subject to amortization		
Customer lists	21,304,000	21,304,000
Less accumulated amortization	(6,657,755)	(5,237,481)
Intangible assets subject to amortization, net	14,646,245	16,066,519
Intangible assets, net	$ 15,196,245	$ 16,616,519

(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, maturing in March 2021. At December 31, 2016 and 2015, $50 million and $45.750 million were outstanding under credit agreements, respectively.

The schedule of maturities of long-term debt for the years subsequent to December 31, 2016, is as follows:

2017	$ 1,250,000
2018	2,500,000
2019	3,750,000
2020	5,000,000
2021	37,500,000
	50,000,000
Less, unamortized debt issuance cost	(368,362)
	$ 49,631,638

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 calculated based on LIBOR (approximately 0.77% at December 31, 2016) plus 1.25%, 1.50% or 1.75% depending on the Company's consolidated leverage ratio as defined in the credit agreement. The Company is required to pay a quarterly commitment fee on the unused portion of the revolving credit facility of 0.175%, 0.200% or 0.225% depending on the Company's consolidated leverage ratio as defined in the credit agreement. The $25 million revolving facility was unused at December 31, 2016.

The Company refinanced it's unsecured credit agreement in 2016. This transaction has been accounted for as a non-cash financing transaction in the accompanying statements of cash flows.

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, 2016.

The value of the loans approximates fair value.

(7) Derivative Contracts

During 2016, the Company entered into an interest rate swap on $50,000,000 (notional amount) to hedge the effects of fluctuations in interest rates. The fixed rate related to the interest swap is 1.026% and the maturity date is July 15, 2021. The current rate for this swap structure was approximately 2.00% and the fair value of this interest rate swap approximated $1,383,000 at December 31, 2016, which is recorded as an other investment in the accompanying 2016 balance sheet.

(8) Capital Lease Obligation

In 2013, DataChambers, LLC 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.

(8) 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, 2016:

Year ending December 31:	
2017	$ 599,700
2018	599,700
2019	599,700
2020	599,700
2021	599,700
Thereafter	7,996,000
Total	10,994,500
Less interest	(5,044,137)
Present value of minimum lease payments	$ 5,950,363

At December 31, 2016, the present value of minimum lease payments due within one year is $156,622. Total lease payments related to this capital lease totaled $599,700 and $389,257 in 2016 and 2015, respectively.

(9) Income Taxes

Income tax expense consisted of the following:

	2016	2015
Current income tax expense	$ 3,492,622	$ 2,766,792
Deferred income tax expense	525,071	2,084,123
Total	$ 4,017,693	$ 4,850,915

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:

	2016	2015
Statutory federal income tax rate	34%	34%
Federal income tax at statutory rate	$ 4,366,090	$ 4,982,469
Increase (decrease) resulting from:		
State income tax, net of federal income tax benefit	(370,573)	(137,389)
Other, net	22,176	5,835
Income tax expense	$ 4,017,693	$ 4,850,915

(9) Income Taxes (continued)

Net deferred income tax liabilities consist of the following components:

	2016	2015
Net deferred income tax assets:		
Accrued pension costs	$ 16,082,281	$ 15,265,131
Postretirement benefits other than pension	347,994	1,181,037
Accrued sick and vacation pay	831,293	232,573
Other	1,054,228	532,251
Subtotal	18,315,796	17,210,992
Net deferred income tax liabilities:		
Investments	(3,809,822)	(3,129,255)
Property and equipment (accelerated depreciation)	(38,655,077)	(37,914,397)
Subtotal	(42,464,899)	(41,043,652)
Total deferred tax liability	$ (24,149,103)	$ (23,832,660)

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, 2016.

(10) Employee Benefits

(a) Employee Pension Plan

The Company has a noncontributory defined benefit pension plan covering substantially all of its 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 Projected Unit Credit actuarial funding method and comply with the funding requirements of ERISA. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

(10) Employee Benefits (continued)

(a) Employee Pension Plan (continued)

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:

	2016	2015
Actuarial present value of benefit obligation-accumulated benefit obligation	$ 134,677,263	$ 130,733,918
Projected benefit obligation for services rendered to date	$ (134,677,263)	$ (130,733,918)
Plan assets at fair value	89,483,925	88,163,268
Funded status (underfunded)	$ (45,193,338)	$ (42,570,650)
Unrecognized net gain from past experience different from that assumed	55,295,944	51,544,653
Unrecognized prior service cost	(34,414)	--
Unrecognized loss included in other comprehensive income (loss)	(55,295,944)	(51,544,653)
Total accrued pension benefits	(45,227,752)	(42,570,650)
Current portion included in accrued expenses	2,500,000	2,500,000
Accrued pension benefits	$ (42,727,752)	$ (40,070,650)
Company contributions	$ 2,500,000	$ 2,500,000
Benefits paid	$ 10,466,351	$ 7,836,216

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.

(10) Employee Benefits (continued)

(a) Employee Pension Plan (continued)

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

	2016	2015
Service costs, benefits earned during the period	$ --	$ --
Interest cost on projected benefit obligation	5,734,191	5,313,846
Expected gain on plan assets	(5,690,068)	(5,808,209)
Net amortization and deferral	2,337,352	1,856,910
Curtailment income	--	--
Net periodic pension cost	$ 2,381,475	$ 1,362,547

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 4.00% in 2016 and 4.50% in 2015, 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 2016 and 2015. The assumed long-term rate of return on pension plan assets was 6.0% in 2016 and 2015.

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.

(10) 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, 2016	Quoted Markets Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 1,355	$ 1,355	$ --	$ --
Liability hedging portfolio	32,936,983	32,963,983	--	--
Growth portfolio	50,639,739	50,639,739	--	--
Company stock	5,905,848	--	5,905,848	--
Total investments	$ 89,483,925	$ 83,605,077	$ 5,905,848	$ --

	December 31, 2015	Quoted Markets Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 1,655	$ 1,655	$ --	$ --
Liability hedging portfolio	34,543,762	34,543,762	--	--
Growth portfolio	49,753,283	49,753,283	--	--
Company stock	3,864,568	--	3,864,568	--
Total investments	$ 88,163,268	$ 84,298,700	$ 3,864,568	$ --

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 2016 and 2015.

(10) Employee Benefits (continued)

(a) Employee Pension Plan (continued)

No plan assets are expected to be returned to the Company during 2017.

The Company expects to contribute approximately $2,500,000 to its pension plan in 2017. Expected benefit payments to be paid by the plan for the next ten years ended December 31 are as follows:

2017	$ 8,507,800
2018	8,603,700
2019	8,656,700
2020	8,711,400
2021	8,728,300
2022-2026	42,994,000

The estimated net (gain)/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 $2,845,949 and $0, respectively.

(10) Employee Benefits (continued)

(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:

	2016	2015
Actuarial present value of benefit obligation-accumulated benefit obligation	$ 2,294,620	$ 2,303,175
Projected benefit obligation for services rendered to date	$ (2,294,620)	$ (2,303,175)
Plan assets at fair value	--	--
Funded status (underfunded)	(2,294,620)	(2,303,175)
Unrecognized net gain from past experience different from that assumed	300,088	197,878
Unrecognized prior service cost	--	--
Unrecognized loss included in other comprehensive income (loss)	(300,088)	(197,878)
Total accrued SERP pension benefits	(2,294,620)	(2,303,175)
Current portion included in accrued expenses	190,151	190,150
Accrued SERP pension benefits	$ (2,104,469)	$ (2,113,025)
Company contributions	$ 190,151	$ 190,150
Benefits paid	$ 190,151	$ 190,150

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

	2016	2015
Service costs, benefits earned during the period	$ --	$ --
Interest cost on projected benefit obligation	98,646	95,195
Net amortization and deferral	--	--
Net periodic pension cost	$ 98,646	$ 95,195

(10) Employee Benefits (continued)

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

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 4.0% in 2016 and 4.5% in 2015, 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 2016 and 2015. See Note (4) (a) for a discussion of the funding of these benefits.

The Company expects to contribute approximately $197,200 to its SERP in 2017. Expected benefit payments to be paid by the plan for the next ten years ended December 31 are as follows:

2017	$ 197,200
2018	201,000
2019	205,300
2020	209,900
2021	213,900
2022-2026	637,800

The estimated net gain and prior service cost that will be amortized from accumulated other comprehensive income into net periodic SERP cost over the next fiscal year are $15,666 and $0, respectively.

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

(10) Employee Benefits (continued)

(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.

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:

	2016	2015
Accumulated postretirement benefit obligation	$ (903,037)	$ (901,753)
Fair value of plan assets	--	--
Funded status (underfunded)	(903,037)	(901,753)
Unrecognized net actuarial (gain) loss	69,013	(10,309)
Unrecognized prior service gain	(13,036)	--
Unrecognized (gain) loss included in other comprehensive income	(69,013)	10,309
Total accrued postretirement benefits	(916,073)	(901,753)
Current portion included in accrued expenses	200,000	300,000
Accrued postretirement benefits	$ (716,073)	$ (601,753)

(10) Employee Benefits (continued)

(c) Postretirement Benefits (continued)

The accumulated postretirement benefit obligation was computed using an assumed discount rate of 4.00% in 2016 and 4.50% in 2015.

Net periodic postretirement benefit cost included the following expense components:

	2016	2015
Service costs, benefits attributed to service during the period	$ 17,717	$ 22,727
Interest cost (benefit)	39,977	50,628
Net amortizations and deferrals	--	--
Net periodic postretirement cost	$ 57,694	$ 73,355
Gain (loss) due to settlement and curtailment	$ (10,573)	$ 3,651

The Company expects to contribute approximately $300,000 to its postretirement plan in 2017.

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

2016	$ 11,400
2017	15,400
2018	19,200
2019	22,900
2020	26,500
2021-2025	184,600

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

(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 $1,151,000 and $1,050,000 in 2016 and 2015, respectively.

(11) Capital Stock

Under the terms of a stock purchase agreement dated June 30, 1963, the Company reacquired and canceled 150 shares of 5% preferred stock at $101 per share during 2015. Preferred stock was reduced by the par value of $15,000 and paid-in capital was reduced by the $150 excess of par value. This agreement provides for the acquisition of 7,500 shares of 5% preferred stock at the annual rate of 150 shares until fully redeemed. There are no shares remaining to be redeemed at December 31, 2016.

The Company acquired and retired an additional 155 shares of preferred stock at a cost of $8,940 in 2016 and 116 shares of preferred stock at a cost of $6,728 in 2015.

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 5,736 shares of common stock at a cost of $300,636 in 2016 and 5,125 shares of common stock at a cost of $352,581 in 2015.

(12) 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.

(13) 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, 2016 are:

Year ending December 31:	
2017	$ 1,246,568
2018	1,359,695
2019	1,356,391
2020	1,350,391
2021	1,341,841
Thereafter	1,327,841
Total minimum lease payments	$ 7,982,727

The Company's gross rental expense related to these operating leases totaled $1,083,816 and $924,126 in 2016 and 2015, respectively.

(14) 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, 2016 are as follows:

Year ending December 31:	
2017	$ 10,501,661
2018	6,653,102
2019	4,152,086
2020	2,006,283
2021	145,755
Thereafter	4,791
Total minimum lease payments	$ 23,463,678

(15) Subsequent Events

The Company evaluated events and transactions after December 31, 2016 through June 13, 2017, 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 other than the following:

The Company merged Stalwart Systems, LLC and DataChambers, LLC to form North State Technology Solutions, LLC.