

MID-HUDSON CABLEVISION, INC.
AND HOME ENTERTAINMENT COMPANY

(wholly owned subsidiaries of Mid-Hudson Cablevision Holdings, Inc.)

COMBINING FINANCIAL STATEMENTS
(and Report of Independent Auditors)

December 31, 2017
(with memorandum totals for December 31, 2016)

MID-HUDSON CABLEVISION, INC. AND HOME ENTERTAINMENT COMPANY
(wholly owned subsidiaries of Mid-Hudson Cablevision Holdings, Inc.)
FINANCIAL STATEMENTS
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December 31, 2017
(with memorandum totals for the year ended December 31, 2016)

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INDEPENDENT AUDITORS' REPORT

To the Stockholder of Mid-Hudson Cablevision, Inc. and
Home Entertainment Company

Report on the Financial Statements

We have audited the accompanying combining financial statements of Mid-Hudson Cablevision, Inc. (a C-Corporation) and Home Entertainment Company (a C-Corporation) (collectively, the "Company"), wholly owned subsidiaries of Mid-Hudson Cablevision Holdings, Inc., which comprise the combining balance sheet as of December 31, 2017, and the related combining statements of operations, stockholders' (deficit) equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combining 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 combining financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combining financial statements based on our audit. We conducted our audit 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 combining financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the combining 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 Company'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 combining financial statements.

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

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Basis for Qualified Opinion

The Company has not applied the provisions of FASB ASC 810-10 "Variable Interest Entities." Accounting principles general accepted in the United States of America require variable interest entities to be consolidated. Accordingly, certain related entities were not consolidated in these combining financial statements in 2017.

Qualified Opinion

In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph, the combining financial statements referred to above present fairly, in all material respects, the financial position of Mid-Hudson Cablevision, Inc. and Home Entertainment Company, as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report of Summarized Comparative Information

We have previously audited the Mid-Hudson Cablevision, Inc.'s and Home Entertainment Company's December 31, 2016 combining financial statements, and we expressed a qualified opinion (for not applying Financial Accounting Standards Board (FASB) Account Standards Codification (ASC) 810-10) on those audited financial statements in our report dated April 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited combining financial statements from which it has been derived.

Pattison, Koskey, Howe & Bucci, CPAs, P.C.

Valatie, New York
March 30, 2018

MID-HUDSON CABLEVISION, INC. AND HOME ENTERTAINMENT COMPANY
(wholly owned subsidiaries of Mid-Hudson Cablevision Holdings, Inc.)
COMBINING BALANCE SHEET
December 31, 2017

	Mid-Hudson Cablevision, Inc.	Home Entertainment Company	Eliminations	2017 Combined	2016 Combined (memorandum only)
Assets					
Current assets:					
Cash and equivalents	\$ 5,478,469	\$ 104,451	\$ -	\$ 5,582,920	\$ 5,820,863
Accounts receivable, net of allowance of \$98,257	2,013,619	359,664	-	2,373,283	2,259,938
Prepaid expenses and other	638,864	1,484	-	640,348	375,765
Due from Mid-Hudson Cablevision, Inc.	-	975,548	(975,548)	-	-
Deferred taxes	28,075	-	-	28,075	37,930
Income tax receivable	-	-	-	-	150,093
Total Current Assets	<u>8,159,027</u>	<u>1,441,147</u>	<u>(975,548)</u>	<u>8,624,626</u>	<u>8,644,589</u>
Cash surrender value of life insurance	533,661	-	-	533,661	-
Property and equipment, net of accumulated depreciation	23,833,118	45,637	-	23,878,755	25,487,343
Intangible assets, net of accumulated amortization	<u>-</u>	<u>5,630</u>	<u>-</u>	<u>5,630</u>	<u>7,297</u>
Total Assets	<u>\$ 32,525,806</u>	<u>\$ 1,492,414</u>	<u>\$ (975,548)</u>	<u>\$ 33,042,672</u>	<u>\$ 34,139,229</u>

See accompanying notes and independent auditors' report.

MID-HUDSON CABLEVISION, INC. AND HOME ENTERTAINMENT COMPANY
(wholly owned subsidiaries of Mid-Hudson Cablevision, Holdings, Inc.)
COMBINING BALANCE SHEET (CONTINUED)
December 31, 2017

	Mid-Hudson Cablevision, Inc.	Home Entertainment Company	Eliminations	2017 Combined	2016 Combined (memorandum only)
Liabilities and Stockholders' (Deficit) Equity					
Current liabilities:					
Accounts payable	\$ 1,933,513	\$ -	\$ -	\$ 1,933,513	\$ 2,030,522
Accrued liabilities	1,615,145	200,899	-	1,816,044	319,603
Income tax payable	415,780	-	-	415,780	-
Customer advances and deposits	698,819	139,717	-	838,536	823,579
Deferred revenue	1,776,959	283,135	-	2,060,094	2,048,918
Due to Home Entertainment	975,548	-	(975,548)	-	-
Long term bank debt, current portion	6,051,935	-	-	6,051,935	6,129,915
Total Current Liabilities	<u>13,467,699</u>	<u>623,751</u>	<u>(975,548)</u>	<u>13,115,902</u>	<u>11,352,537</u>
Long term bank debt, net of current portion	14,520,105	-	-	14,520,105	18,038,391
Dividends payable	500,000	-	-	500,000	500,000
Deferred taxes	2,803,932	-	-	2,803,932	4,588,806
Notes payable to partners/shareholders	3,590,814	-	-	3,590,814	4,284,607
Interest payable	607,327	-	-	607,327	460,259
Note payable - Catskill Mountain Construction	2,838,698	-	-	2,838,698	2,838,698
Total Liabilities	<u>38,328,575</u>	<u>623,751</u>	<u>(975,548)</u>	<u>37,976,778</u>	<u>42,063,298</u>

See accompanying notes and independent auditors' report.

MID-HUDSON CABLEVISION, INC. AND HOME ENTERTAINMENT COMPANY
(wholly owned subsidiaries of Mid-Hudson Cablevision, Holdings, Inc.)
COMBINING BALANCE SHEET (CONTINUED)
December 31, 2017

	Mid-Hudson Cablevision, Inc.	Home Entertainment Company	Eliminations	2017 Combined	2016 Combined (memorandum only)
Stockholders' (Deficit) Equity:					
Common stock	3,808,349	5,000	-	3,813,349	2,529,935
Paid-in capital	25,000	1,751,572	-	1,776,572	31,575
Retained earnings (accumulated deficit)	(9,236,118)	(605,909)	-	(9,842,027)	(9,803,579)
Due from stockholder	(400,000)	-	-	(400,000)	(400,000)
Treasury stock (19 shares at cost)	-	(282,000)	-	(282,000)	(282,000)
Total Stockholders' (Deficit) Equity	<u>(5,802,769)</u>	<u>868,663</u>	<u>-</u>	<u>(4,934,106)</u>	<u>(7,924,069)</u>
 Total Liabilities and Stockholders' (Deficit) Equity	 <u>\$ 32,525,806</u>	 <u>\$ 1,492,414</u>	 <u>\$ (975,548)</u>	 <u>\$ 33,042,672</u>	 <u>\$ 34,139,229</u>

See accompanying notes and independent auditors' report.

MID-HUDSON CABLEVISION, INC. AND HOME ENTERTAINMENT COMPANY
(wholly owned subsidiaries of Mid-Hudson Cablevision Holdings, Inc.)
COMBINING STATEMENT OF OPERATIONS
Year ended December 31, 2017

	Mid-Hudson Cablevision, Inc.	Home Entertainment Company	Eliminations	2017 Combined	2016 Combined (memorandum only)
Net sales	\$ 31,109,635	\$ 4,660,291	\$ (390,000)	\$ 35,379,926	\$ 33,612,565
Cost of sales	15,590,212	2,508,397	(390,000)	17,708,609	18,066,897
Gross Profit	15,519,423	2,151,894	-	17,671,317	15,545,668
Selling, general and administrative	4,856,596	1,845,299	-	6,701,895	5,717,371
Operating Profit, before ESOP Contribution	10,662,827	306,595	-	10,969,422	9,828,297
ESOP contribution	1,031,867	-	-	1,031,867	-
Operating Profit	9,630,960	306,595	-	9,937,555	9,828,297
Depreciation	(5,922,125)	(35,690)	-	(5,957,815)	(5,565,380)
Amortization	-	(1,667)	-	(1,667)	(1,667)
Interest income	576	-	-	576	1,965
Equity in earnings of unconsolidated subsidiary	-	914,339	(914,339)	-	-
Interest expense - bank debt	(806,585)	-	-	(806,585)	(741,321)
Interest expense - other	(458,733)	-	-	(458,733)	(528,264)
Interest expense- Dividends	(79,462)	-	-	(79,462)	(71,311)
Other income (expense)	208,856	(50,000)	-	158,856	-
Other expense-MHP	(239,647)	-	-	(239,647)	(246,462)
Profit Before Income and Franchise Taxes	2,333,840	1,133,577	(914,339)	2,553,078	2,675,857
Income and franchise tax benefit (expense)	436,885	-	-	436,885	(863,104)
Net income	\$ 2,770,725	\$ 1,133,577	\$ (914,339)	\$ 2,989,963	\$ 1,812,753

See accompanying notes and independent auditors' report.

MID-HUDSON CABLEVISION, INC. AND HOME ENTERTAINMENT COMPANY
 COMBINED STATEMENT OF STOCKHOLDERS' (DEFICIT) EQUITY
 (wholly owned subsidiaries of Mid-Hudson Cablevision Holdings, Inc.)
 For the year ended December 31, 2017

	Common Stock					Retained earnings (accumulated deficit)	Due from Stockholder	Treasury Stock		
	Home Entertainment Stock	Class A Stock	Class B Stock	Cost	Paid-in Capital			Stock	Cost	Total
Balance, December 31, 2015	500	181	1,629	\$ 2,529,935	\$ 31,575	\$ (6,616,332)	\$ (400,000)	19	\$ (282,000)	\$ (4,736,822)
Dividends	-	-	-	-	-	(5,000,000)	-	-	-	(5,000,000)
Net Income	-	-	-	-	-	1,812,753	-	-	-	1,812,753
Balance, December 31, 2016	500	181	1,629	2,529,935	31,575	(9,803,579)	(400,000)	19	(282,000)	(7,924,069)
Contribution of Stock to Mid Hudson Cablevision Holdings, Inc. (Note 1)	-	-	-	1,283,414	1,744,997	(3,028,411)	-	-	-	-
Net Income	-	-	-	-	-	2,989,963	-	-	-	2,989,963
Balance, December 31, 2017	<u>500</u>	<u>181</u>	<u>1,629</u>	<u>\$ 3,813,349</u>	<u>\$ 1,776,572</u>	<u>\$ (9,842,027)</u>	<u>\$ (400,000)</u>	<u>19</u>	<u>\$ (282,000)</u>	<u>\$ (4,934,106)</u>

See accompanying notes and independent auditors' report.

MID-HUDSON CABLEVISION, INC. AND HOME ENTERTAINMENT COMPANY
(wholly owned subsidiaries of Mid-Hudson Cablevision Holdings, Inc.)
COMBINING STATEMENT OF CASH FLOWS
Year ended December 31, 2017

	Mid-Hudson Cablevision, Inc.	Home Entertainment Company	Eliminations	2017 Combined	2016 Combined (memorandum only)
Cash Flows from Operating Activities:					
Net income	\$ 2,770,725	\$ 1,133,577	\$ (914,339)	\$ 2,989,963	\$ 1,812,753
Adjustments to reconcile net income to cash flows					
from operating activities					
Depreciation and amortization of debt issuance costs	5,946,929	37,357	-	5,984,286	5,591,851
Bad debt provision	682,953	27,526	-	710,479	356,466
Deferred taxes	(1,775,019)	-	-	(1,775,019)	(137,890)
Equity in the earnings of unconsolidated subsidiary	-	(914,339)	914,339	-	-
(Increase) decrease in assets					
Accounts receivable	(358,620)	(140,204)	-	(498,824)	(375,542)
Prepaid expenses and other	(932,872)	343,289	-	(589,583)	439,635
Income tax receivable	150,093	-	-	150,093	247,803
Cash surrender value of life insurance	(422,665)	-	-	(422,665)	-
Increase (decrease) in liabilities					
Accounts payable	(97,009)	-	-	(97,009)	51,060
Accrued liabilities	1,390,447	105,994	-	1,496,441	14,422
Income tax payable	415,780	-	-	415,780	-
Customer advances and deposits	(15,999)	30,956	-	14,957	36,611
Deferred revenue	8,990	2,186	-	11,176	104,241
Accrued interest - partner/shareholder loans	(693,793)	-	-	(693,793)	186,997
Accrued interest - dividend	79,462	-	-	79,462	71,311
Accrued interest - CMC note payable	67,606	-	-	67,606	(241,573)
Net cash flows provided by operating activities	<u>7,217,008</u>	<u>626,342</u>	<u>-</u>	<u>7,843,350</u>	<u>8,158,145</u>

See accompanying notes and independent auditors' report.

MID-HUDSON CABLEVISION, INC. AND HOME ENTERTAINMENT COMPANY
(wholly owned subsidiaries of Mid-Hudson Cablevision Holdings, Inc.)
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year ended December 31, 2017

	Mid-Hudson Cablevision, Inc.	Home Entertainment Company	Eliminations	2017 Combined	2016 Combined (memorandum only)
Cash Flows from Investing Activities:					
Cash surrender value of life insurance	(110,996)	-	-	(110,996)	-
Acquisition of property and equipment	(4,349,228)	-	-	(4,349,228)	(6,648,481)
Debt issuance costs	-	-	-	-	(28,717)
Increase in due from Home Entertainment Co.	656,163	(656,163)	-	-	-
Net cash flows used for investing activities	<u>(3,804,061)</u>	<u>(656,163)</u>	<u>-</u>	<u>(4,460,224)</u>	<u>(6,677,198)</u>
Cash Flows from financing activities:					
Proceeds from long term bank debt	1,312,328	-	-	1,312,328	8,689,088
Payments on long term bank debt	(4,933,397)	-	-	(4,933,397)	(5,023,045)
Payments on CMC note	-	-	-	-	(319,080)
Dividends/distributions paid	-	-	-	-	(5,000,000)
Net cash flows used for financing activities	<u>(3,621,069)</u>	<u>-</u>	<u>-</u>	<u>(3,621,069)</u>	<u>(1,653,037)</u>
Net decrease in cash and equivalents	(208,122)	(29,821)	-	(237,943)	(172,090)
Cash and equivalents, beginning of year	5,686,591	134,272	-	5,820,863	5,992,953
Cash and equivalents, end of year	<u>\$ 5,478,469</u>	<u>\$ 104,451</u>	<u>\$ -</u>	<u>\$ 5,582,920</u>	<u>\$ 5,820,863</u>
Supplemental disclosures:					
Interest paid	\$ 1,891,505	\$ -	\$ -	\$ 1,891,505	\$ 1,289,533
Taxes paid	<u>\$ 772,202</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 772,202</u>	<u>\$ 753,191</u>

See accompanying notes and independent auditors' report.

MID-HUDSON CABLEVISION, INC. AND HOME ENTERTAINMENT COMPANY
NOTES TO FINANCIAL STATEMENTS
(wholly owned subsidiaries of Mid-Hudson Cablevision Holdings, Inc.)
December 31, 2017
(with memorandum totals for the year ended December 31, 2016)

1. Nature of Activities:

Organization and Operations:

Mid-Hudson Cablevision, Inc. (Mid-Hudson) operates a cable television system in Albany, Columbia, and Greene Counties, New York and provides a full suite of cable TV services, high speed internet and voice over internet protocol (V.O.I.P.).

Home Entertainment Company and the division Catskill Mountain Cablevision (Home Entertainment) operate a cable television system that serves areas in Greene and Albany Counties, New York.

On December 27, 2017, the owners of Mid-Hudson and Home Entertainment established a new entity called Mid-Hudson Cablevision Holdings, Inc. (MHC Holdings) (a C Corporation). On this date, all of the stock of Mid-Hudson, previously owned by Mid-Hudson Partners and Home Entertainment, was contributed to MHC Holdings. All the shares of Home Entertainment were also contributed to MHC Holdings. As of December 27, 2017, both Mid-Hudson and Home Entertainment are wholly owned subsidiaries of the Holding Company. In preparation for the reorganization, Home Entertainment Company revoked its S-Corporation Election. As of December 4, 2017, Home Entertainment is a C. Corporation.

Home Entertainment's shares in Mid-Hudson were assigned to MHC Holdings and Home Entertainment reflected its equity method investment of (\$1,736,572) as Paid-In Capital on December 27, 2017.

In addition, effective January 1, 2017, MHC Holdings established an Employee Stock Owner Plan (ESOP). Both Mid-Hudson and Home Entertainment are participants of the ESOP plan. As part of the reorganization, Home Entertainment Company revoked its S-Corporation Election. As of December 4, 2017, Home Entertainment is a C Corporation.

Combination Policy:

The accompanying combining financial statements include the accounts of Mid-Hudson Cablevision, Inc. and Home Entertainment Company (collectively, the "Company"). Intercompany accounts and transactions have been eliminated from the combining financial statements.

Mid-Hudson and Home Entertainment are combined primarily due to common ownership, significant shared activities and common bank financing. The readers of these financial statements use the combined results to assess financial performance.

These combining financial statements exclude the financial position, results of operations and cash flows of Catskill Mountain Construction, LLC (CMC) and Mid-Hudson Data Corp. (MHD). CMC and MHD are affiliates discussed below that under the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810-10 would be consolidated with the Company. The readers of these financial statements view CMC and MHD as stand-alone entities and, so not to distort the financial statements of the Company, have not been consolidated.

MID-HUDSON CABLEVISION, INC. AND HOME ENTERTAINMENT COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
(wholly owned subsidiaries of Mid-Hudson Cablevision Holdings, Inc.)
December 31, 2017
(with memorandum totals for the year ended December 31, 2016)

1. Nature of Activities (Continued):

Affiliates:

Mid-Hudson Partners (MHP) owned 67% of Mid-Hudson through December 27, 2017. The partners in MHP were the same shareholders as Home Entertainment, prior to the reorganization. As of December 27, 2017, MHP is wholly owned by MHC Holdings.

Mid-Hudson manages cash flow for Home Entertainment and charges Home Entertainment certain fees for shared services provided. Any outstanding loan balance between Mid-Hudson and Home Entertainment is consolidated annually into a related party note and is eliminated in combination.

A partner/shareholder of MHP and Home Entertainment was paid a consulting fee of \$57,000 in 2017. During the year ended December 31, 2017, Mid-Hudson paid \$239,647 in miscellaneous expenses on MHP's behalf.

CMC provides Mid-Hudson construction and maintenance services. Mid-Hudson charges an annual management fee for administrative services. CMC is a wholly owned subsidiary of MHC Holdings. Amounts charged to CMC are offset against amounts owed to CMC and settled net, on a current basis. During 2017, the Company incurred \$1,141,257 in costs payable to CMC that were included in property and equipment. Included in prepaid expenses and other assets were amounts due from CMC totaling \$285,153 and amounts due to CMC totaling \$306,262 at December 31, 2017 recognized through the normal course of business.

MHD provides Mid-Hudson voice services that are earned on a subscriber basis for specific technology owned by MHD that Mid-Hudson uses. Payments are made on a monthly basis by Mid-Hudson to MHD for these services. MHD is a wholly owned subsidiary of MHC Holdings. Included in prepaid expenses and other assets were amounts due from MHD totaling \$398,441 offset by \$19,800 due to MHD at December 31, 2017 recognized through the normal course of business.

2. Summary of Significant Accounting Principles:

Basis of Accounting:

The Company's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the period in which they are earned. Expenses are recognized in the period in which they are incurred.

Prior Year Amounts:

The amounts shown for December 31, 2016 in the accompanying statements present summarized totals only and are included to provide a basis for comparison with December 31, 2017. Accordingly, the December 31, 2016 amounts are not intended to present all information necessary for a fair presentation in accordance with accounting principles generally accepted in the United States of America.

MID-HUDSON CABLEVISION, INC. AND HOME ENTERTAINMENT COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
(wholly owned subsidiaries of Mid-Hudson Cablevision Holdings, Inc.)
December 31, 2017
(with memorandum totals for the year ended December 31, 2016)

2. Summary of Significant Accounting Principles (Continued):

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

Cash and equivalents include cash on hand, demand deposits and short term cash investments which are highly liquid and have original maturities of three months or less.

Revenue Recognition:

The Corporations recognize cable television, data and voice service revenues when services are delivered. Customer deposits are deferred when collected and recorded as revenue when services are delivered. Deferred revenue represents outstanding billings for services in advance of the earnings process.

Accounts Receivable:

The Company carries its accounts receivable at cost less an allowance for doubtful accounts. Credit is extended to customers and collateral is generally not required. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Accounts are written off as uncollectible at the time management determines that collections are unlikely. Generally, customers' balances that remain uncollected and overdue 60 days cause customers' services to be shut off and balances are written off after an additional 7 days.

Advertising Barter Transactions:

The Company engages with several vendors to provide advertising to the Company. The Company barter for advertising and provides vendors commercial time on their cable programming. The fair value of such services has not been determined and no revenue or expense has been recorded in the accompanying financial statements.

MID-HUDSON CABLEVISION, INC. AND HOME ENTERTAINMENT COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
(wholly owned subsidiaries of Mid-Hudson Cablevision Holdings, Inc.)
December 31, 2017
(with memorandum totals for the year ended December 31, 2016)

2. Summary of Significant Accounting Principles (Continued):

Income Taxes:

Mid-Hudson Cablevision, Inc.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, their respective tax bases, and tax operating loss and credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are subject to valuation allowances if, based on all available evidence, management determines that it is more likely than not that some portion or all of the deferred tax assets and liabilities will not be realized.

Effective December 27, 2017, Mid-Hudson will now be included in the consolidated tax return of MHC Holdings.

Home Entertainment Company

Effective March 1, 1987, Home Entertainment and its shareholders elected to have the Corporation treated, for federal tax purposes, as a “small business corporation” under Section 1362(a) of the Internal Revenue Code. This election eliminates federal income taxes at the corporate level as long as the Corporation meets certain technical criteria as defined in the Internal Revenue Code. Items of income and deductions flow directly to the Corporation’s shareholders for federal tax purposes. Additionally, the Corporation is treated as a small business corporation for New York and Connecticut purposes and is subject to each state’s minimum tax.

Effective December 4, 2017, Home Entertainment revoked its S Corporation election and will now be included in the consolidated tax return of Mid Hudson Holdings. Home Entertainment applies the same asset and liability method as Mid-Hudson, described above.

The Company has evaluated any uncertain tax positions and related income tax contingencies and determined uncertain positions, if any, are not material to the financial statements, according to FASB ASC 740-10. Penalties and interest assessed by income taxing authorities are included in operating expenses, if incurred. The Company is no longer subject to examination by federal and state taxing authorities for years prior to fiscal year ended December 31, 2014.

MID-HUDSON CABLEVISION, INC. AND HOME ENTERTAINMENT COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
(wholly owned subsidiaries of Mid-Hudson Cablevision Holdings, Inc.)
December 31, 2017
(with memorandum totals for the year ended December 31, 2016)

2. Summary of Significant Accounting Principles (Continued):

Property and Equipment:

Property and equipment are stated at cost. Depreciation is calculated using the straight line method over the estimated useful lives of the related assets as follows:

Buildings and improvements	40	years
Head end and distribution	12	years
Supporting plant	7-10	years
Converters and equipment	5-7	years
Furniture and vehicles	5-7	years
Cable components	N/A	

The cost of the cable system includes related material and labor costs. The Company allocates labor to internally constructed plant. Cable components are capitalized upon purchase and depreciation begins when the components are placed in the field as either “converters and equipment” or “headend and distribution”.

Expenditures for maintenance, repairs and minor betterments are expensed as incurred. When assets are disposed of, their cost and accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Advertising:

The Company expenses advertising costs as incurred. Advertising expense for 2017 was \$306,629.

Presentation of Sales Taxes:

The State of New York imposes sales tax of 8% on the Company's sales to nonexempt customers. The Company collects sales taxes from customers and remits the amounts to New York State. The Company's accounting policy is to exclude the tax collected and remitted to the State from revenues and expenses with the exception of excise taxes paid on purchases.

Fair Value Measurements:

FASB ASC 820-10 “Fair Value Measurements” defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. FASB ASC 820-10 does not require any new fair value measurements but applies to other GAAP accounting pronouncements that use fair value as a relevant measurement attribute.

Subsequent Events:

Subsequent events have been evaluated through March 30, 2018 which is the date the combining financial statements were available to be issued. There were no material subsequent events that required adjustment or disclosure.

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3. Investment in Affiliate:

Home Entertainment owned 33% of the stock of Mid-Hudson, until December 27, 2017, which represented the second largest percentage of voting shares in Mid-Hudson, but was not considered to control Mid-Hudson. Accordingly, this investment was accounted for under the equity method until the date of reorganization on December 27, 2017.

4. Property and Equipment:

Property and Equipment consist of the following at December 31, 2017:

	Mid-Hudson Cablevision, Inc.	Home Entertainment Company
Land and buildings	\$ 1,538,513	\$ -
Leasehold improvements	-	20,866
Head end, distribution and converters (cable system)	64,125,364	351,522
Cable components	1,109,161	-
Equipment and vehicles	5,645,702	639,916
Furniture and fixtures and other	421,894	35,481
Total property and equipment	72,840,634	1,047,785
Accumulated depreciation	(49,007,516)	(1,002,148)
Property and equipment, net	<u>\$ 23,833,118</u>	<u>\$ 45,637</u>

Depreciation expense for the year ended December 31, 2017 is as follows:

Mid-Hudson Cablevision, Inc.	\$ 5,922,125
Home Entertainment Company	35,690
	<u>\$ 5,957,815</u>

5. Profit Sharing Plan and ESOP:

Employees of Home Entertainment and Mid-Hudson are eligible to participate in a single savings and profit-sharing plan of Mid-Hudson. Effective July 1, 1987, Mid-Hudson adopted a savings and profit sharing plan (Plan) covering substantially all employees. Employees at July 1, 1987 were eligible to become participants of the Plan and, thereafter, new employees become eligible after completing one-half year of service. The employer contributes 50% of employees' contributions up to 6% of employees' gross wages. Additionally, Mid-Hudson may elect to make a profit sharing contribution. Profit sharing contributions are allocated among participants based on years of service and compensation levels. Expense recorded under the savings and profit sharing plans for the year ended December 31, 2017 was \$78,370.

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5. Profit Sharing Plan and ESOP (Continued):

The Company also participates in MHC Holdings Employee Stock Ownership Plan (ESOP) effective January 1, 2017. \$1,031,867 was expensed as contributions to the ESOP for the year ended December 31, 2017. The entire expense was accrued for at December 31, 2017 and is included as a component of accrued expenses in the accompanying Combining Balance Sheet. The Company incurred \$226,526 in expenses on behalf of MHC Holdings during the year ended December 31, 2017 included as a component of selling, general and administrative expenses in the accompanying Combined Statement of Operations.

As of December 31, 2017, approval for the creation of the ESOP plan with the Public Service Commission is still in progress. Approval by the Public Service Commission is expected in April 2018. Once this approval takes place, MHC Holdings has an arrangement with the bank to borrow up to \$38 million dollars to fund the future activity of the plan and pay off existing debt. The Company is a guarantor of this loan.

The Plan has a profit sharing component and an employee stock ownership component. Participants are eligible employees defined as at least 21 years of age and have completed one year of service for the employer. Contributions are calculated based on hours of service and are subject to vesting.

6. Revolving Line of Credit:

The Company has a revolving line of credit through the credit facility with TD Bank in the amount of \$750,000. The line of credit automatically renews annually in July and the interest rate is variable at Prime (4.5% at December 31, 2017) with a floor of 3%. The line is collateralized by all tangible and intangible assets of the Company. The line is subject to the financial covenants listed in Note 14. There was no amount drawn on the line at December 31, 2017.

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7. Long-Term Debt:

Long-term debt is summarized as follows as of December 31, 2017:

	<u>Current Maturity</u>	<u>Long-term Debt</u>
<u>Mid-Hudson Cablevision, Inc.</u>		
<p>TD Bank, on May 31, 2016 MHC consolidated two existing notes with TD Bank. At the time of the consolidation, the outstanding balances were \$13,664,583 and \$4,250,000. Upon consolidating the loans, the Bank granted MHC the option to draw up to an additional \$10,000,000 by January 2017 of which \$4,000,000 was to be used for additional working capital and \$6,000,000 was to be used for capital improvements. Commencing on June 30, 2016 and the last day of every calendar quarter thereafter until December 31, 2016, MHC shall make principal payments in the amount of \$1,226,000. Thereafter, the unpaid balance of the loan as of January 31, 2017 shall be paid in twenty quarterly installments of \$1,211,900 payable on March 31, June 30, September 30, and December 31 each year through 2021. The maturity date of this note is December 31, 2021. Interest on the portion of the outstanding principal amount shall be payable on the last day of each month at a rate of 1 month LIBOR plus 2.50%, subject to a 3% floor. The applicable interest rate as of December 31, 2017 was 3.84978%.</p>		
	<u>\$ 6,051,935</u>	<u>\$ 14,520,105</u>

Long-term debt is expected to mature as follows:

<u>December 31,</u>	
2018	\$ 6,051,935
2019	4,840,036
2020	4,840,036
2021	4,840,033
	<u>\$ 20,572,040</u>

The TD Bank term loans are collateralized by all tangible and intangible assets of the Company including assignment of leases and franchise agreements and pledge of all equity interest of the Company and are subject to the financial covenants listed in Note 14.

The balances shown above for the maturity of long-term debt are netted with the \$30,259 balance of deferred closing costs on the combining balance sheet in order to implement the Accounting Standards Update 2015-03, "Simplifying the Presentation of Debt Issuance Costs."

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8. Notes Payable to Partners/Shareholders:

Mid-Hudson has uncollateralized demand notes payable to partners/shareholders of MHP and Home Entertainment. These notes bear interest at 8% per year and are subordinate to the bank debt. Notes payable to partners/shareholders amounted to \$3,590,814 at December 31, 2017. Accrued interest recorded on these notes amounted to \$1,401,442 at December 31, 2017. Interest expense of \$291,127 was incurred during the year ended December 31, 2017. During the year ended December 31, 2017, Mid-Hudson made payments of \$984,920 on these notes, all of which was applied to accrued interest.

9. Interest Payable:

Interest payable totaled \$607,327 at December 31, 2017. Interest payable was comprised of \$539,720 of interest accruing on the Company's dividend payable of \$500,000 at a rate of 8% per annum and \$67,607 of interest accrued on the Company's note payable to CMC. Interest expense of \$79,462 was incurred during the year ended December 31, 2017 on the dividend payable. The interest rate on the CMC note is fixed at 6% and interest expense for the year ended December 31, 2017 was \$167,606.

10. Concentrations of Credit Risk:

At December 31, 2017, Mid-Hudson had deposit amounts that exceeded the FDIC insured limit by \$4,827,592. Mid-Hudson has not experienced any losses with respect to its cash balances. Based upon assessment of the financial condition of these institutions, management believes that the risk of loss on any unsecured balances is minimal.

Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base and their dispersion across different industries and geographic areas. Management feels its customer approval processes, and its monthly review of accounts adequately provides for any material credit risks.

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11. Common Stock:

Mid-Hudson's common stock consists of 250,000 shares of no par value stock, with 181 shares issued and outstanding.

On November 30, 1998 Mid-Hudson amended its Certificate of Incorporation to authorize two classes of common stock, one with voting rights (Class A, 200 shares authorized), and one without voting rights (Class B, 1,800 shares authorized).

Mid-Hudson issued to the holders of its shares of common stock one (1) share of Class A common stock and nine (9) shares of Class B common stock for each outstanding share of common stock.

At December 31, 2017 the common stock of Mid-Hudson Cablevision consisted of the following:

Class	Number of	Cost
A Common Stock	181	\$ 380,835
B Common Stock	1,629	3,427,514
	<u>1,810</u>	<u>\$ 3,808,349</u>

Home Entertainment's common stock consists of 5,000 shares of \$10 par value stock authorized, with 500 shares issued and 481 outstanding. Nineteen shares are held in treasury stock at cost.

Retained Earnings:

For reference purposes, the Company has included a roll-forward of retained earnings from December 31, 2012 to December 31, 2017.

Balance at December 31, 2012	\$ 416,255
2013 Net Loss	(138,899)
2013 Dividends	<u>(5,000,000)</u>
Balance at December 31, 2013	(4,722,644)
2014 Net Income	1,881,549
2014 Dividends	<u>-</u>
Balance at December 31, 2014	(2,841,095)
2015 Net Income	1,224,763
2015 Dividends	<u>(5,000,000)</u>
Balance at December 31, 2015	(6,616,332)
2016 Net Income	1,812,753
2016 Dividends	<u>(5,000,000)</u>
Balance at December 31, 2016	(9,803,579)
2017 Net Income	2,989,963
Assignment of Mid-Hudson Stock to MHC Holdings	<u>(3,028,411)</u>
Balance at December 31, 2017	<u>\$ (9,842,027)</u>

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12. Operating Leases:

Mid-Hudson

On January 1, 2007, Mid-Hudson Cablevision, Inc. executed a property lease with Peckham Materials Corporation. The lease will run through December 31, 2026, with rent at \$18,000 per year through 2011, with an increase to \$20,700 commencing in 2012 and annual increase of 4% per year thereafter. The Company has a revenue sharing component for revenues generated from the property lease with Peckham Materials Corporation which is charged as a component of rent expense. Rent expense was \$23,086 in 2017.

Warehouse space was leased from Pineview in 2017 at annual rent of \$13,800. The lease was renewed in 2016 for a two year term commencing on January 1, 2017 and to end on December 31, 2018 at annual rent of \$15,300.

The Company pays rent for the usage of telephone poles throughout their cable service area. The rent expense on these agreements amounted to \$273,076 for the year ended December 31, 2017.

Two vehicle lease agreements were entered into with Stearns Bank in 2015. One lease was dated May 2015 calling for 60 monthly payments of \$1,320 and the other lease was dated October 2015 calling for 60 monthly payments of \$1,182. Three lease agreements were entered into with Chase Financial in 2016. The three leases were dated March 2016 and call for 24 monthly payments in aggregate of \$1,612. Rent expense was \$49,370 in 2017.

Mid-Hudson maintains tower rental agreements and derives income according to these lease agreements. Income received in 2017 was \$193,680.

Mid-Hudson rents office space from a partner/shareholder of MHP and Home Entertainment located in Hudson, NY. Rent expense was \$96,000 in 2017.

Mid-Hudson rents warehouse space from a partner/shareholder of MHP and Home Entertainment located in Catskill, NY. Rent expense was \$27,000 in 2017.

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13. Income Taxes:

Mid-Hudson Cablevision, Inc.

The components of income tax expense for the year ended December 31, 2017 are as follows:

Current:	
Federal	\$ 1,096,075
State	242,059
	<u>1,338,134</u>
Deferred:	
Federal	(1,629,980)
State	(145,039)
	<u>(1,775,019)</u>
Total income and franchise tax benefit	<u>\$ (436,885)</u>

Mid-Hudson had deferred tax assets and liabilities as follows as of December 31, 2017:

<u>Deferred tax assets (liabilities):</u>	
Depreciation	\$ (3,918,932)
Dividend interest	140,327
Shareholder interest	673,643
Accrued interest-CMC	315,514
Bad debt provision	28,075
Other	(14,484)
Net deferred tax liabilities	<u>\$ (2,775,857)</u>

Changes during the year ended December 31, 2017 in deferred tax assets and liabilities were as follows:

	Increase (Decrease) in Deferred Tax Asset	(Increase) Decrease in Deferred Tax Liability
Depreciation	\$ -	\$ 2,281,330
Interest on Dividends	(39,174)	-
Shareholder interest	(313,885)	-
Accrued interest – CMC	(107,242)	-
Deferred compensation	-	-
Bad debt provision	(12,643)	-
Other	(33,367)	-
	<u>\$ (506,311)</u>	<u>\$ 2,281,330</u>

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13. Income Taxes (Continued):

The Federal tax rate change effective January 1, 2018 from 34% to 21% comprises \$1,290,602 of the \$1,775,019 deferred tax benefit during the year ended December 31, 2017.

14. Commitments and Contingencies/ Off Balance Sheet Risk:

Commitments:

As part of the financing agreement with TD Bank, the Company is required to meet financial covenants including: senior leverage ratio, minimum liquidity, debt service and a minimum number of basic cable subscribers.

MHC Holdings has an arrangement with the bank to borrow \$2 million dollars to fund a broadband construction project and will have a \$750,000 line of credit available. The Company is a guarantor on this the loan and line of credit.

Contingency:

As of December 31, 2017, the continuation of MHC Holding's ESOP is contingent on Public Service Commission approval. If this approval is not obtained in a timely manner, the ESOP would be terminated resulting in a recovery of the accrued contribution of Mid-Hudson as of December 31, 2017. Management believes the likelihood for the approval not to occur is remote.