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6 **BEFORE THE WASHINGTON**  
7 **UTILITIES AND TRANSPORTATION COMMISSION**

8 IN RE

9  
10 PETITION OF PIONEER TELEPHONE  
11 COMPANY TO RECEIVE SUPPORT  
12 FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES  
PROGRAM

DOCKET NO.  
PETITION FOR SUPPORT

13  
14 COMES NOW Pioneer Telephone Company (the "Company") and, pursuant to Chapter  
15 480-123 of the Washington Administrative Code ("WAC") including, but not limited to, WAC 480-  
16 123-110, hereby petitions the Washington Utilities and Transportation Commission (the  
17 "Commission") to receive support from the State Universal Communications Services Program  
18 established in RCW 80.36.650 (the "Program") for the Program year 2019.

19  
20 **I. Demonstration of Eligibility under WAC 480-123-100**

- 21  
22 1. WAC 480-123-100(1)(a): The Company is a local exchange company as defined in WAC  
23 480-120-021 that serves less than forty thousand access lines within the state.

- 1 2. WAC 480-123-100(1)(b): The Company is an incumbent local exchange carrier as defined  
2 in 47 U.S.C. Sec. 251(h).
- 3 3. WAC 480-123-100(1)(c): The Company offers basic residential and business exchange  
4 telecommunications services as set forth in WAC 480-120-021 and RCW 80.36.630.
- 5 4. WAC 480-123-100(1)(d): The Company's rates for residential local exchange service, plus  
6 mandatory extended area service charges, are no lower than the local urban rate floor  
7 established by the Commission as the benchmark rate based on the Federal Communications  
8 Commission's national local urban rate floor pursuant to 47 C.F.R. Sec. 54.318 in effect on  
9 the date of this Petition.
- 10 11 5. WAC 480-123-100(1)(e): The Company has been designated by the Commission as an  
12 eligible telecommunications carrier for purposes of receiving federal universal services  
13 support pursuant to 47 C.F.R. Part 54 Subpart D - Universal Service Support for High Cost  
14 Areas with respect to the service area for which the Company is seeking Program support.  
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## 16 **II. Demonstration of Eligibility under WAC 480-123-110**

- 17 18 1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications  
19 services and is seeking Program support is as follows: Pioneer Telephone Company.
- 20 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between  
21 the Company and all affiliates as defined in RCW 80.16.010, is attached hereto as Exhibit 1.  
22 A detailed description of any transactions between the Company and the affiliates named in  
23 Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.  
24

- 1 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No.  
2 2.2 in Section IV of the Company's Tariff WN U-3.
- 3 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate  
4 instability or service interruption or cessation in the absence of support from the Program is  
5 attached hereto as Exhibit 3.
- 6 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached hereto as  
7 Exhibit 4, are copies of the Company's balance sheet as of December 31, 2017, and  
8 December 31, 2016, and copies of the Company's statements of income and retained  
9 earnings or margin for the years ended December 31, 2017 and December 31, 2016. In  
10 addition, certain service information requested by the Commission is included in Exhibit 4.
- 11 6. WAC 480-123-110(1)(e)(ii): A copy of the parent Company's consolidated annual financial  
12 statements for the years ended December 31, 2017 and December 31, 2016, are attached as  
13 hereto Exhibit 5.
- 14 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of  
15 return on a total Washington unseparated regulated operations basis for each of the two prior  
16 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4  
17 attached hereto.
- 18 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on  
19 equity on a total company (regulated and non-regulated) Washington basis for each of the  
20 two prior years, calculated in the manner prescribed by the Commission, is provided in  
21 Exhibit 5.  
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- 1 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's assets and revenues  
2 from the balance sheets, statements of income and retained earnings or margin in the same  
3 format and detail as is required to complete USDA-RUS Operating Report for the prior two  
4 years is presented on Exhibit 6 attached hereto.
- 5 10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company officer  
6 with personal knowledge and responsibility certifying that no corporate operations  
7 adjustment to existing high-cost loop and interstate common line support mechanisms  
8 required by the Federal Communications Commission applied to the Company for the prior  
9 year is attached hereto as Exhibit 7.
- 10 11. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains additional supporting information  
11 requested by the Commission.
- 12 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company  
13 officer with personal knowledge and responsibility certifying that the Company complies  
14 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to  
15 incumbent local exchange companies is attached hereto as Exhibit 8.
- 16 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or  
17 on its behalf with the Federal Communications Commission for the calendar year preceding  
18 the current year has already been filed with the Commission. See the Company's filing in  
19 Docket No. UT-180004 filed on or about July 16, 2018.
- 20 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by  
21 the Company as of December 31, 2017, was 472, all of which were within the geographic  
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1 area for which the Company is seeking support. The number of residential local exchange  
2 access lines served by the Company as of December 31, 2016, was 478, all of which were  
3 within the geographic area for which the Company is seeking support. The number of  
4 business local exchange access lines served by the Company as of December 31, 2017, was  
5 166, all of which were within the geographic area for which the Company is seeking  
6 support. The number of business local exchange access lines served by the Company as of  
7 December 31, 2016, was 169, all of which were within the geographic area for which the  
8 Company is seeking support.

9  
10 The monthly recurring rate charged by the Company for residential local exchange access  
11 service on December 31, 2017 and 2016, was \$18.00. The rate charged by the Company for  
12 single line business local exchange access service on December 31, 2017 and 2016, was  
13 \$18.00. (The Company has other business local exchange service rates, but the Company  
14 understands that WAC 480-123-110(1)(g) is requesting the single line business local  
15 exchange access service rate.)  
16

17 15. WAC 480-123-110(1)(h): The specified statement is attached hereto as Exhibit 9.

18 16. The 2011 Rate of Return Carrier Base Period Revenue amount on line 4 of the CAF ICC  
19 Data Collection Report for the period of July 1, 2018 to June 30, 2019 is \$454,357 and has  
20 not changed from prior filings for Pioneer Telephone Company.

21 17. All exhibits attached hereto are incorporated in this Petition as though fully set forth.  
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1 Respectfully submitted this 30<sup>th</sup> day of July, 2018.

2 PIONEER TELEPHONE COMPANY

3  
4 CERTIFICATION

5 I, Durand Cox, an officer of Pioneer Telephone Company (the "Company") that is  
6 responsible for the Company's business and financial operations, hereby certify under penalty of  
7 perjury that the information and representations set forth in the Petition, above, are accurate and the  
8 Company has not knowingly withheld any information required to be provided to the Commission  
9 pursuant to the rules governing the Program.

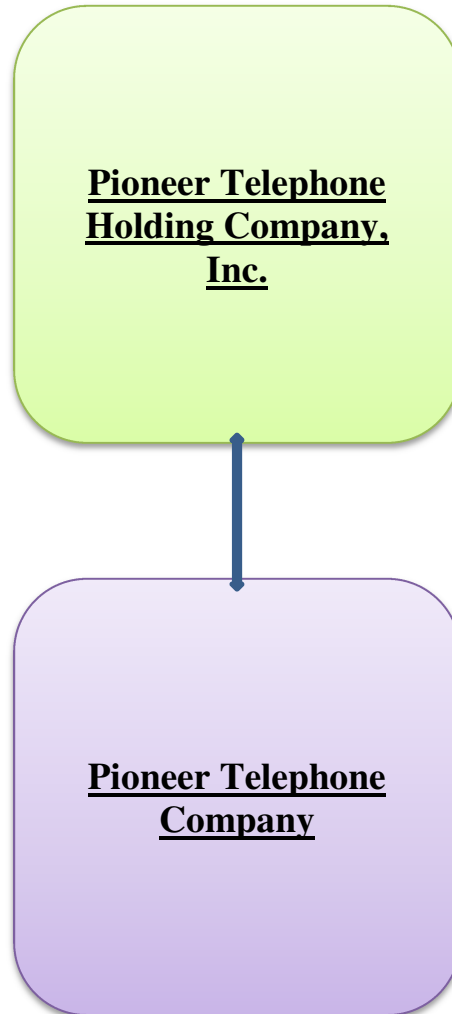
10 Dated at LaCrosse, Washington this 30<sup>th</sup> day of July, 2018.

11 By:  \_\_\_\_\_

12 Title: Durand Cox, President

# EXHIBIT 1

## CORPORATE ORGANIZATION CHART



## **EXHIBIT 2**

### **AFFILIATED TRANSACTIONS**

Pioneer Telephone Company ("Company") has affiliated transactions with its parent holding company Pioneer Telephone Holding Company, Inc. During 2017, these transactions consisted of the following:

- The Company provides wholesale DSL service to the parent and charges the parent for such services at rates set forth in the applicable tariff of the National Exchange Carrier Association, Inc. ("NECA").
- The Company provides the parent with special access service, for which the parent is charged by the Company at applicable NECA tariff rates.
- The Company provides customer service support on behalf of the parent with respect to services furnished by the parent to end user customers. The Company is reimbursed by the parent for such services, based on time devoted to such service, to which fully loaded labor rates are applied.
- The Company provides billing and collection services to the parent with respect to retail internet access service furnished by the parent to the Company's end user customers. The cost of these services is identified through the Company's FCC Part 64 procedures as a reduction of operating expenses.
- The Company purchases from the parent web hosting service, email delivery and internet access at rates equivalent to the rates the parent charges to its similarly situated retail customers.
- The parent pays federal income taxes due with respect to income earned by the Company, and is reimbursed by the Company for the Company's allocated share of such taxes.



### **EXHIBIT 3**

#### **DEMONSTRATION OF RISK OF RATE INSTABILITY OR SERVICE INTERRUPTION OR CESSATION**

The Company has been taking significant steps to address the issues of rate instability and the possibility of service interruption or cessation. Those efforts continue and are supported by the state Universal Communications Service Program.

There are two primary risks facing the Company. One is financial uncertainty. The second is growing competition. These risks are related to one another.

The Company has been working over the past several years to address growing competition. The Company has taken steps to increase the availability and attributes of broadband services offered by the Company. To do this, the Company has made additional investments in regulated plant of approximately \$2,825,000 during the period January 1, 2011 through December 31, 2017.

One of the reasons the Company made this investment is that the Company has seen some migration of customers to wireless or other service as the customer's sole method of telecommunications. Since 2011, the Company has lost 70 access lines. That may not sound like a lot, but it is over 10 percent of the Company's access lines. Obviously, a loss of customers equates to a loss of revenue without a corresponding reduction in expenses.

This trend of access line loss was made worse by actions of the Federal Communications Commission (FCC) which required that the Company increase its rates to remain eligible for full federal USF support. Thus, the FCC interjected more rate instability. Since 2012, the Company has increased its local exchange service rates in order to be in compliance with the national urban rate floor prescribed by the FCC. Those rate increases have tended to stimulate a surge in disconnection of service by customers. The process of increasing rates was placed on moratorium by the FCC. However, the moratorium, while welcome, only provides a respite for the time being. The threat of future rate increases still remains.

Even without competition, financial uncertainty remains. The overall financial condition of the Company is detailed on other Exhibits to this Petition. See Exhibit 4, 5 and 6.<sup>1</sup> What this information demonstrates is that, when adjusted to eliminate the support from the state Universal Communications Services Program that the Company received or accrued in 2017, the

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<sup>1</sup> There is additional consideration in revising the Company's financial reports. On December 19, 2017, the Tax Cuts and Jobs Act was enacted moving the corporate tax rate from 34% to 21% as of January 1, 2018. Under GAAP, the Company recognized the change in tax rates and recorded excess deferred federal income taxes directly to expense for approximately \$241,500. When calculating Return on Equity from the consolidated audited financial statements, an adjustment for this excess deferred federal income taxes should be considered. The reason is threefold. First the adjustment is a one-time event. Second, it is a non-cash item which overstates the Company's actual return in 2018. Third FCC/NECA required normalization of deferred federal income taxes to the 2017 cost studies so the rate of return calculation has already accounted for this adjustment.

Company's total regulated revenue decreased by 4.8 percent from 2011 through 2017. The Company has looked for ways to lower expenses. However, much of the Company's operating expenses are fixed obligations.

As an example of why state Universal Communications Service Program support is needed, the Company's receipt of revenue from the traditional Washington intrastate universal service access rate element and related pooling fund were terminated effective July 1, 2014. Since then, the loss of revenues derived from the traditional universal service access rate element has been offset by revenues received by the Company as a result of its participation in the Program. Using 2012 as a base-line, the Company is facing a loss of traditional universal service fund revenues of approximately \$15,580 per year if its participation in the Program is not renewed.

As another example, some of the financial uncertainty that the Company faces stems from the USF/ICC Transformation Order issued by the FCC.<sup>2</sup> The USF/ICC Transformation Order has built in an automatic decline in the Company's intrastate and interstate access revenues. The intercarrier compensation portion of the Transformation Order introduces a concept of a base-line year for calculating terminating access and reciprocal compensation revenues and provides support from the Connect America Fund ("CAF") based on the base line year. However, the base-line year revenues (from which the level of CAF support is derived) are reduced iteratively by five percent each year. The CAF support reduction began in July 2012. Projecting through the year ending June 30, 2019, including reductions that will occur July 1, 2018, the Company has seen a reduction in support from the base-line revenue of approximately \$137,063.

In an effort to address the uncertainty of federal support, the Company elected model support from the FCC known as the Alternative Connect America Cost Model (ACAM). This program started in 2017 and under the program, the Company's federal supported will be fixed and will be funded for ten years through 2026. However, the support comes with strings. The Company is constructing fiber-to-the-home throughout its study area to comply with their ACAM buildout obligations to provide high quality broadband to 884 locations by the end of 2026. Plant additions of approximately \$1.1 million for 2017 were related to the fiber-to-the-home project. Projected plant additions for 2018 for the fiber-to-the-home is approximately \$1.5 million. Total costs for the fiber-to-the-home project is estimated to be approximately \$9 million.

ACAM replaces high-cost loop and interstate common line support. ACAM increased support revenues by approximately \$300,000 from 2016 to 2017. However, the ACAM support is designated to the Company's buildout obligations noted above. To meet the buildout obligations,

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<sup>2</sup> *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform - Mobility Fun*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011)(*USF/ICC Transformation Order*).

the Company will be required to provide funds above and beyond what it will receive in ACAM support. It is a guess where this will put the Company at the end of the day. ACAM is a tradeoff that offers some stability but requires greater investment.

The combination of factors noted above creates a situation in which, without support from the state Universal Communications Services Program, the Company may be faced with a choice of increasing rates further or reducing service in order to be able to match expenses to revenues. Neither choice presents a viable path for providing continued high quality service to customers. The dilemma presented by these choices reflects the risk of rate instability or service interruption or cessation to which the Company is subject. The Company's goal is that through the use of ACAM funds and state Universal Communications Service Program funds, the Company will be able to provide a viable rural broadband services network. That effort is a work in progress and has not been achieved as yet.

STATE USF FILING  
FINANCIAL TEMPLATE  
NON-"S CORP" COMPANIES

State USF Petition Filing Requirement -WAC 480-123-110 (1)(e)  
Prior Year Balance Sheet

Company Name: (Below)  
PIONEER TELEPHONE COMPANY

ASSETS	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
1. Cash and Equivalents	1,683,133		1,683,133	25. Accounts Payable	19,696		19,696
2. Cash-RUS Construction Fund			0	26. Notes Payable			0
3. Affiliates:				27. Advance Billings and Payments			0
a. Telecom, Accounts Receivable			0	28. Customer Deposits	1,069		1,069
b. Other Accounts Receivable			0	29. Current Mat. L/T Debt			0
c. Notes Receivable			0	30. Current Mat. L/T Debt Rur. Dev.			0
4. Non-Affiliates:				31. Current Mat. - Capital Leases			0
a. Telecom, Accounts Receivable	27,684		27,684	32. Income Taxes Accrued	33,893		33,893
b. Other Accounts Receivable			0	33. Other Taxes Accrued	52,896		52,896
c. Notes Receivable			0	34. Other Current Liabilities	118,384		118,384
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	225,938	0	225,938
6. Material-Regulated	53,983		53,983	<b>LONG-TERM DEBT</b>			
7. Material-Nonregulated	3,140		3,140	36. Funded Debt-RUS Notes			0
8. Prepayments	31,098		31,098	37. Funded Debt-RTB Notes			0
9. Other Current Assets	453,334		453,334	38. Funded Debt-FFB Notes			0
10. Total Current Assets (1 Thru 9)	2,252,372	0	2,252,372	39. Funded Debt-Other			0
<b>NONCURRENT ASSETS</b>				40. Funded Debt-Rural Develop. Loan			0
11. Investment in Affiliated Companies				41. Premium (Discount) on L/T Debt			0
a. Rural Development	0		0	42. Reacquired Debt			0
b. Nonrural Development	0		0	43. Obligations Under Capital Lease			0
12. Other Investments				44. Adv. From Affiliated Companies	95,631		95,631
a. Rural Development	0		0	45. Other Long-Term Debt			0
b. Nonrural Development	0		0	46. Total Long-Term Debt (36 thru 45)	95,631	0	95,631
13. Nonregulated Investments (B1)	35,277	4,128	39,405	<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
14. Other Noncurrent Assets			0	47. Other Long-Term Liabilities			0
15. Deferred Charges			0	48. Deferred Income Taxes	516,812	(10,502)	506,310
16. Jurisdictional Differences			0	49. Other Deferred Credits (D)			0
17. Total noncurrent Assets (11 thru 16)	35,277	4,128	39,405	50. Other Jurisdictional Differences			0
<b>PLANT, PROPERTY AND EQUIPMENT</b>				51. Total Other Liab. & Def. Credits (47 thru 50)	516,812	(10,502)	506,310
18. Telecom Plant-In-Service	12,627,103	(36,282)	12,590,821	<b>EQUITY</b>			
19. Property Held for Future Use			0	52. Cap. Stock Outstanding & Subscribed	56,052		56,052
20. Plant Under Construction	66,466		66,466	53. Additional Paid-in-Capital			0
21. Plant Adj., Nonop Plant & Goodwill			0	54. Treasury Stock			0
22. Accumulated Depreciation (CR.)	(8,946,546)	32,154	(8,914,392)	55. Membership and Capital Certificates			0
23. Net Plant (18 thru 21 less 22)	3,747,023	(4,128)	3,742,895	56. Other Capital			0
<b>24. TOTAL ASSETS (10+17+23)</b>	<b>6,034,672</b>	<b>0</b>	<b>6,034,672</b>	57. Patronage Capital Credits			0
				58. Retained Earnings or Margins (B2)	5,140,239	10,502	5,150,741
				59. Total Equity (52 thru 58)	5,196,291	10,502	5,206,793
				<b>60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>6,034,672</b>	<b>0</b>	<b>6,034,672</b>

Footnotes:

- (A) - As reported on RUS Form 479
- (B) - Part 64 adjustments from regulated to nonregulated.
- (C) - Adjusted Balance after Part 64

Footnotes:

- (B1) - Part 64 offset to nonreg investment
- (B2) - Part 64 offset to retained earnings
- (D) - Excludes deferred taxes

State USF Petition Filing Requirement -WAC 480-123-110(1)(e)  
Current Year Balance Sheet

Company Name: (Below)  
PIONEER TELEPHONE COMPANY

ASSETS	Balance End of Year 2017 (A)	Part 64 Adj to NonReg 2017 (B)	Adj. Balance End of Year 2017 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2017 (A)	Part 64 Adj to NonReg 2017 (B)	Adj. Balance End of Year 2017 (C)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
1. Cash and Equivalents	1,367,357		1,367,357	25. Accounts Payable	41,844		41,844
2. Cash-RUS Construction Fund			0	26. Notes Payable			0
3. Affiliates:				27. Advance Billings and Payments			0
a. Telecom, Accounts Receivable			0	28. Customer Deposits	300		300
b. Other Accounts Receivable			0	29. Current Mat. L/T Debt			0
c. Notes Receivable			0	30. Current Mat. L/T Debt Rur. Dev.			0
4. Non-Affiliates:				31. Current Mat. - Capital Leases			0
a. Telecom, Accounts Receivable	24,869		24,869	32. Income Taxes Accrued	2,785		2,785
b. Other Accounts Receivable			0	33. Other Taxes Accrued	64,556		64,556
c. Notes Receivable			0	34. Other Current Liabilities	161,618		161,618
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	271,103	0	271,103
6. Material-Regulated	208,722		208,722	<b>LONG-TERM DEBT</b>			
7. Material-Nonregulated			0	36. Funded Debt-RUS Notes			0
8. Prepayments	12,186		12,186	37. Funded Debt-RTB Notes			0
9. Other Current Assets	510,068		510,068	38. Funded Debt-FFB Notes			0
10. Total Current Assets (1 Thru 9)	2,123,202	0	2,123,202	39. Funded Debt-Other			0
<b>NONCURRENT ASSETS</b>				40. Funded Debt-Rural Develop. Loan			0
11. Investment in Affiliated Companies				41. Premium (Discount) on L/T Debt			0
a. Rural Development			0	42. Reacquired Debt			0
b. Nonrural Development			0	43. Obligations Under Capital Lease			0
12. Other Investments				44. Adv. From Affiliated Companies	130,055		130,055
a. Rural Development			0	45. Other Long-Term Debt			0
b. Nonrural Development			0	46. Total Long-Term Debt (36 thru 45)	130,055	0	130,055
13. Nonregulated Investments (B1)	35,277	5,134	40,411	<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
14. Other Noncurrent Assets			0	47. Other Long-Term Liabilities	390,049	217,778	607,827
15. Deferred Charges			0	48. Deferred Income Taxes			0
16. Jurisdictional Differences			0	49. Other Deferred Credits (D)			0
17. Total noncurrent Assets (11 thru 16)	35,277	5,134	40,411	50. Other Jurisdictional Differences			0
<b>PLANT, PROPERTY AND EQUIPMENT</b>				51. Total Other Liab. & Def. Credits (47 thru 50)	390,049	217,778	607,827
18. Telecom Plant-In-Service	13,709,528	(42,139)	13,667,389	<b>EQUITY</b>			
19. Property Held for Future Use			0	52. Cap. Stock Outstanding & Subscribed	56,052		56,052
20. Plant Under Construction	5,218		5,218	53. Additional Paid-in-Capital			0
21. Plant Adj., Nonop Plant & Goodwill			0	54. Treasury Stock			0
22. Accumulated Depreciation (CR.)	(9,410,284)	37,005	(9,373,279)	55. Membership and Capital Certificates			0
23. Net Plant (18 thru 21 less 22)	4,304,462	(5,134)	4,299,328	56. Other Capital			0
<b>24. TOTAL ASSETS (10+17+23)</b>	<b>6,462,941</b>	<b>0</b>	<b>6,462,941</b>	57. Patronage Capital Credits			0
				58. Retained Earnings or Margins (B2)	5,615,682	(217,778)	5,397,904
				59. Total Equity (52 thru 58)	5,671,734	(217,778)	5,453,956
				<b>60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>6,462,941</b>	<b>0</b>	<b>6,462,941</b>

Footnotes:

- (A) - As reported on RUS Form 479
- (B) - Part 64 adjustments from regulated to nonregulated.
- (C) - Adjusted Balance after Part 64

Footnotes:

- (B1) - Part 64 offset to nonreg investment
  - (B2) - Part 64 offset to retained earnings
  - (D) - Excludes deferred taxes
- Line 48, column A Deferred FIT does not include excess Deferred FIT because for GAAP purposes it was directly expensed. Line 48, column B includes the excess Deferred FIT expense added back to Deferred FIT for cost study purposes required by NECA/FCC for normalization.

State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)  
 Prior and Current Year Balance Sheet

Company Name: (Below)  
PIONEER TELEPHONE COMPANY

ASSETS	Adjusted Prior Year Balance 2016	Adjusted Current Year Balance 2017	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2016	Adjusted Current Year Balance 2017
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
1. Cash and Equivalents	1,683,133	1,367,357	25. Accounts Payable	19,696	41,844
2. Cash-RUS Construction Fund	0	0	26. Notes Payable	0	0
3. Affiliates:			27. Advance Billings and Payments	0	0
a. Telecom, Accounts Receivable	0	0	28. Customer Deposits	1,069	300
b. Other Accounts Receivable	0	0	29. Current Mat. L/T Debt	0	0
c. Notes Receivable	0	0	30. Current Mat. L/T Debt Rur. Dev.	0	0
4. Non-Affiliates:			31. Current Mat. - Capital Leases	0	0
a. Telecom, Accounts Receivable	27,684	24,869	32. Income Taxes Accrued	33,893	2,785
b. Other Accounts Receivable	0	0	33. Other Taxes Accrued	52,896	64,556
c. Notes Receivable	0	0	34. Other Current Liabilities	118,384	161,618
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	225,938	271,103
6. Material-Regulated	53,983	208,722	<b>LONG-TERM DEBT</b>		
7. Material-Nonregulated	3,140	0	36. Funded Debt-RUS Notes	0	0
8. Prepayments	31,098	12,186	37. Funded Debt-RTB Notes	0	0
9. Other Current Assets	453,334	510,068	38. Funded Debt-FFB Notes	0	0
10. Total Current Assets (1 Thru 9)	2,252,372	2,123,202	39. Funded Debt-Other	0	0
<b>NONCURRENT ASSETS</b>			40. Funded Debt-Rural Develop. Loan	0	0
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt	0	0
a. Rural Development	0	0	42. Reacquired Debt	0	0
b. Nonrural Development	0	0	43. Obligations Under Capital Lease	0	0
12. Other Investments			44. Adv. From Affiliated Companies	95,631	130,055
a. Rural Development	0	0	45. Other Long-Term Debt	0	0
b. Nonrural Development	0	0	46. Total Long-Term Debt (36-45)	95,631	130,055
13. Nonregulated Investments	39,405	40,411	<b>OTHER LIAB. &amp; DEF. CREDITS</b>		
14. Other Noncurrent Assets	0	0	47. Other Long-Term Liabilities	0	0
15. Deferred Charges	0	0	48. Deferred Income Taxes	506,310	607,827
16. Jurisdictional Differences	0	0	49. Other Deferred Credits	0	0
17. Total noncurrent Assets (11 thru 16)	39,405	40,411	50. Other Jurisdictional Differences	0	0
<b>PLANT, PROPERTY AND EQUIPMENT</b>			51. Total Other Liab. & Def. Credits (47 thru 50)	506,310	607,827
18. Telecom Plant-in-Service	12,590,821	13,667,389	<b>EQUITY</b>		
19. Property Held for Future Use	0	0	52. Cap. Stock Outstanding & Subscribed	56,052	56,052
20. Plant Under Construction	66,466	5,218	53. Additional Paid-in-Capital	0	0
21. Plant Adj., Nonop Plant & Goodwill	0	0	54. Treasury Stock	0	0
22. Accumulated Depreciation (CR.)	(8,914,392)	(9,373,279)	55. Membership and Capital Certificates	0	0
23. Net Plant (18 thru 21 less 22)	3,742,895	4,299,328	56. Other Capital	0	0
<b>24. TOTAL ASSETS (10+17+23)</b>	<b>6,034,672</b>	<b>6,462,941</b>	57. Patronage Capital Credits	0	0
			58. Retained Earnings or Margins	5,150,741	5,397,904
			59. Total Equity (52 thru 58)	5,206,793	5,453,956
			<b>59. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>6,034,672</b>	<b>6,462,941</b>

Footnote:  
 Adjusted Balances represents balances  
 after Part 64 adjustments.

State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)  
 Prior and Current Year Rate Base

Company Name: (Below)  
 PIONEER TELEPHONE COMPANY

Line #	Description	B/S Line #	Adj. Balance End of Year 2016	Adj. Balance End of Year 2017	Average Adj End of Year Balance
<b>Average Rate Base:</b>					
1	Total Regulated Adjusted Telecom Plant-In-Service	18	12,590,821	13,667,389	13,129,105
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(8,914,392)	(9,373,279)	(9,143,836)
4	Total Regulated Materials & Supplies	6	53,983	208,722	131,353
5	Deferred Income Taxes (CR) * - Manually input		(506,310)	(607,827)	(557,069)
6	<b>Total Regulated Rate Base</b>		<b>3,224,102</b>	<b>3,895,005</b>	<b>3,559,554</b>

Footnotes:

1. Normal balance of deferred operating income taxes and accumulated depreciation is a credit.
- \* 2. Deferred Income Taxes (Line 5) may not equal the Balance Sheet Deferred Income Taxes (Line 48) if the later includes non-operating.
3. Adjusted balance includes Part 64 adjustments



**State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)**  
**Prior and Current Year Access Lines**

Company Name: (Below)

PIONEER TELEPHONE COMPANY

Line #	Description	Prior Year End of Yr. Balance - 2016	Current Year End of Yr. Balance - 2017	Difference	% Change
	<b>Access Lines:</b>				
1	Residential	478	472	(6)	-1.3%
2	Business	169	166	(3)	-1.8%
3	Total	647	638	(9)	-1.4%

Note: If 2016 does not equal last year's petition and template, explain.

State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)  
 Prior Year Income Statement

Company Name: (Below)  
 PIONEER TELEPHONE COMPANY

Line #	Description	Prior Year 2016 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2016 (C)
1	Local Network Services Revenues	151,205		151,205
2	Network Access Services Revenues	1,305,023		1,305,023
3	Long Distance Network Services Revenues	41,522		41,522
4	Carrier Billing and Collection Revenues	1,800		1,800
5	Miscellaneous Revenues	10,415		10,415
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(492)		(492)
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>1,509,473</b>	<b>0</b>	<b>1,509,473</b>
8	Plant Specific Operations Expense	349,684	(17,312)	332,372
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	60,084	(940)	59,144
10	Depreciation Expense	531,909	(1,228)	530,681
11	Amortization Expense			0
12	Customer Operations Expense	120,818	(4,189)	116,629
13	Corporate Operations	351,650	(15,814)	335,836
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>1,414,145</b>	<b>(39,483)</b>	<b>1,374,662</b>
15	Operating Income or Margins (7 less 14)	95,328	39,483	134,811
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes	48,884	(221)	48,663
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	15,892	(1,996)	13,896
19	Other Taxes			0
20	<b>Total Operating Taxes (17+18+19)</b>	<b>64,776</b>	<b>(2,217)</b>	<b>62,559</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>30,552</b>	<b>41,700</b>	<b>72,252</b>
22	Interest on Funded Debt			0
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (Record as a Credit)			0
26	<b>Total Fixed Charges (22+23+24+25)</b>	<b>0</b>	<b>0</b>	<b>0</b>
27	Nonoperating Net Income	10,014		10,014
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	20,099	(41,700)	(21,601)
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>60,665</b>	<b>0</b>	<b>60,665</b>
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	5,312,178		5,312,178
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)	248,000		248,000
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date	(15,396)		(15,396)
38	Transfers to Patronage Capital			0
39	<b>Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38))(A2)</b>	<b>5,140,239</b>	<b>0</b>	<b>5,140,239</b>
40	Patronage Capital Beginning-of-Year			0
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	<b>Patronage Capital End-of-Year (40+41-42)</b>	<b>0</b>	<b>0</b>	<b>0</b>
44	Annual Debt Service Payments			0
45	Cash Ratio ((14+20-10-11)/7)	0.6274	#DIV/0!	0.6006
46	Operating Accrual Ratio ((14+20+26)/7)	0.9798	#DIV/0!	0.9521
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!	#DIV/0!

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9, Income Statement Summary Schedule Footnote
- (A2) Column A, Line 39 must equal Column A, Line 58 of Page 2, Balance Sheet
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Column B, automatic offset to Nonregulated Net Income (No impact to Retained Earnings)
- (C) Adjusted balance after Part 64 adjustments

State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)  
 Current Year Income Statement

Company Name: (Below)  
 PIONEER TELEPHONE COMPANY

Line #	Description	Current Year 2017 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2017 (C)
1	Local Network Services Revenues	151,899		151,899
2	Network Access Services Revenues	1,514,706		1,514,706
3	Long Distance Network Services Revenues	36,105		36,105
4	Carrier Billing and Collection Revenues	1,800		1,800
5	Miscellaneous Revenues	11,472		11,472
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	91		91
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>1,716,073</b>	<b>0</b>	<b>1,716,073</b>
8	Plant Specific Operations Expense	315,194	(37,156)	278,038
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	43,184	12,945	56,129
10	Depreciation Expense	530,118	(1,669)	528,449
11	Amortization Expense			0
12	Customer Operations Expense	136,232	(6,147)	130,085
13	Corporate Operations	367,005	(20,941)	346,064
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>1,391,733</b>	<b>(52,968)</b>	<b>1,338,765</b>
15	Operating Income or Margins (7 less 14)	324,340	52,968	377,308
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes	48,182	(990)	47,192
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	(139,051)	233,612	94,561
19	Other Taxes			0
20	<b>Total Operating Taxes (17+18+19)</b>	<b>(90,869)</b>	<b>232,622</b>	<b>141,753</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>415,209</b>	<b>(179,654)</b>	<b>235,555</b>
22	Interest on Funded Debt			0
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (Record as a Credit)			0
26	<b>Total Fixed Charges (22+23+24+25)</b>	<b>0</b>	<b>0</b>	<b>0</b>
27	Nonoperating Net Income	15,702		15,702
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	12,640	179,654	192,294
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>443,551</b>	<b>0</b>	<b>443,551</b>
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	5,140,239		5,140,239
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)			0
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date	(31,892)		(31,892)
38	Transfers to Patronage Capital			0
39	<b>Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38))(A2)</b>	<b>5,615,682</b>	<b>0</b>	<b>5,615,682</b>
40	Patronage Capital Beginning-of-Year			0
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	<b>Patronage Capital End-of-Year (40+41-42)</b>	<b>0</b>	<b>0</b>	<b>0</b>
44	Annual Debt Service Payments			0
45	Cash Ratio ((14+20-10-11)/7)	0.4491	#DIV/0!	0.5548
46	Operating Accrual Ratio ((14+20+26)/7)	0.7580	#DIV/0!	0.8627
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!	#DIV/0!

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9, Income Statement Summary Schedule Footnote
- (A2) Column A, Line 39 must equal Column A, Line 58 of Page 3, Balance Sheet
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Column B, automatic offset to Nonregulated Net Income (No Impact to Retained Earnings)
- (C) Adjusted balance after Part 64 adjustments  
 Ln 18, column B includes Excess Deferred FIT expense removed

State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)  
 Prior and Current Year Income Statement

Company Name:  
 PIONEER TELEPHONE COMPANY

Line #	Description	Adjusted Prior Year 2016	Adjusted Current Year 2017
1	Local Network Services Revenues	151,205	151,899
2	Network Access Services Revenues	1,305,023	1,514,706
3	Long Distance Network Services Revenues	41,522	36,105
4	Carrier Billing and Collection Revenues	1,800	1,800
5	Miscellaneous Revenues	10,415	11,472
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(492)	91
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>1,509,473</b>	<b>1,716,073</b>
8	Plant Specific Operations Expense	332,372	278,038
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	59,144	56,129
10	Depreciation Expense	530,681	528,449
11	Amortization Expense	0	0
12	Customer Operations Expense	116,629	130,085
13	Corporate Operations	335,836	346,064
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>1,374,662</b>	<b>1,338,765</b>
15	Operating Income or Margins (7 less 14)	134,811	377,308
16	Other Operating Income and Expenses ( )	0	0
17	State and Local Taxes	48,663	47,192
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	13,896	94,561
19	Other Taxes	0	0
20	<b>Total Operating Taxes (17+18+19)</b>	<b>62,559</b>	<b>141,753</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>72,252</b>	<b>235,555</b>
22	Interest on Funded Debt	0	0
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	0	0
25	Allowance for Funds Used During Construction (Record as a Credit)	0	0
26	<b>Total Fixed Charges (22+23+24+25)</b>	<b>0</b>	<b>0</b>
27	Nonoperating Net Income	10,014	15,702
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	(21,601)	192,294
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>60,665</b>	<b>443,551</b>
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	5,312,178	5,140,239
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	248,000	0
36	Dividends Declared (Preferred)	0	0
37	Other Debits Year-to-Date	(15,396)	(31,892)
38	Transfers to Patronage Capital	0	0
39	<b>Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))</b>	<b>5,140,239</b>	<b>5,615,682</b>
40	Patronage Capital Beginning-of-Year	0	0
41	Transfers to Patronage Capital	0	0
42	Patronage Capital Credits Retired	0	0
43	<b>Patronage Capital End-of-Year (40+41-42)</b>	<b>0</b>	<b>0</b>
44	Annual Debt Service Payments	0	0
45	Cash Ratio ((14+20-10-11)/7)	0.6006	0.5548
46	Operating Accrual Ratio ((14+20+26)/7)	0.9521	0.8627
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!

Footnote  
 (A1) S Corporation Effective Tax Rate (2 decimal places):  
 Note:  
 Adjusted Income Statement reflects Part 64 Adjustments (Regulated to Nonregulated).

2016                      2017

**State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)**  
**Prior and Current Year Access Revenue Detail**

Company Name: (Below)  
PIONEER TELEPHONE COMPANY

Line #	Description	Part 32 Account	Prior Year 2016	Current Year 2017
1	End User Revenue (SLC, ARC, etc.)	5081	80,655	79,315
2	Switched Access (excluding USF):	5082		
2a	Intrastate		69,872	52,257
2b	Interstate (includes CAF)		196,688	179,217
3	Special Access:	5083		
3a	Intrastate		5,390	13,641
3b	Interstate		344,708	201,059
4	Federal USF (except CAF and ACAM/BLS)	Varies	282,096	332
5	Federal USF (ACAM or BLS)	Varies	266,431	861,730
6	State USF	Varies	59,183	127,155
7	Other*			
8	Total (must equal line 2 of Income Stmt.)		1,305,023	1,514,706
9	Line 2 of Income Stmt.		1,305,023	1,514,706
10	Difference		0	0

Footnote:

\* - if > than 5% of Access revenue total, provide description below.

**State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)**  
**Out-of-Period and Pro Forma Adjustments**

Company Name: (Below)  
 PIONEER TELEPHONE COMPANY

Description of Out-of-Period (OOP) - 2017 (As Recorded) <b>OR</b> Pro Forma (PF) Adjustment for Current Year Petition or Reversing from Prior Year	Year	OOP or PF?	Part 32 Account	
			Debit	Credit
Adjustment #1:				
Adjustment #2:				
Adjustment #3:				
Adjustment #4				
Adjustment #5				

State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)  
 Rate of Return and Consolidated Return on Equity

Company Name: (Below)  
PIONEER TELEPHONE COMPANY

Line #	Description	Company 2017 (A)	Staff 2017 (B)
1	Rate Base (Jan. 1)	3,224,102	3,224,102
2	Rate Base (Dec 31)	3,895,005	3,895,005
3	<b>Average Rate Base</b>	<u>3,559,554</u>	<u>3,559,554</u>
4	Net Operating Income	235,555	235,555
5	Out-of-Period Adjustments Net of FIT		
6	<b>Adjusted Net Operating Income</b>	<u>235,555</u>	<u>235,555</u>
7	<b>Earned Regulated Rate of Return</b>	<u>6.62%</u>	<u>6.62%</u>

Footnotes:

- (A) Column A to be completed by Company,
- (B) Column B should equal Column A, but may include any Staff Adjustments

**State USF Petition Filing Requirement - WAC 480-123-110(e)**  
**Prior and Current Year Broadband and Gross Capital Expenditures**

**CONFIDENTIAL PER WAC 480-07-160**

**Exhibit 4.1 - Statistics**

Company Name: (Below)  
 PIONEER TELEPHONE COMPANY

Description	Prior Year End of Yr. Balance - 2016	Current Year End of Yr. Balance - 2017	Difference	% Change
<b>Broadband Connections:</b> Residential Business Total				
<b>Gross Regulated Capital Expenditures**:</b> Total Annual Amount				



Confidential per WAC 480-07-160

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

Reviewed Consolidated Financial Statements

December 31, 2017 and 2016

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

Reviewed Consolidated Financial Statements

December 31, 2017 and 2016

**INDEPENDENT ACCOUNTANT'S REVIEW REPORT .....1**

**REVIEWED CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated Balance Sheets .....	2-3
Consolidated Statements of Income.....	4
Consolidated Statements of Comprehensive Income.....	5
Consolidated Statements of Stockholders' Equity .....	6
Consolidated Statements of Cash Flows .....	7-8
Notes to Consolidated Financial Statements.....	9-18



1501 Regents Blvd., Suite 100  
Fircrest, WA 98466-6060

## Independent Accountant's Review Report

Board of Directors  
Pioneer Telephone Holding Company, Inc. and Subsidiary  
LaCrosse, Washington

We have reviewed the accompanying consolidated financial statements of Pioneer Telephone Holding Company, Inc. and Subsidiary (a corporation) (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

### ***Management's Responsibility for the Consolidated Financial Statements***

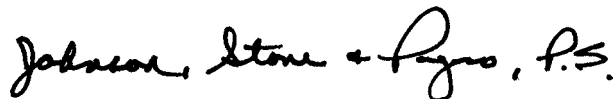
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation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

### ***Accountant's Responsibility***

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### ***Accountant's Conclusion***

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.



**JOHNSON, STONE & PAGANO, P.S.**

January 26, 2018

REVIEWED CONSOLIDATED FINANCIAL STATEMENTS

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**

December 31, 2017 and 2016

	2017	2016
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents		
Short-term investments		
Accounts receivable		
Materials and supplies - at average cost		
Prepaid expenses		
<b>Total Current Assets</b>		
<b>INVESTMENTS AND OTHER ASSETS</b>		
Rural Telephone Finance Co-operative capital certificates		
Investment in land and building - less accumulated depreciation of [REDACTED]		
<b>Total Investments and Other Assets</b>		
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land		
Depreciable plant and equipment		
Allowances for depreciation (deduction)		
Plant under construction		
<b>Total Property, Plant and Equipment</b>		
<b>TOTAL ASSETS</b>		

PETITION OF PIONEER TELEPHONE COMPANY TO  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 5, PAGE - 5

**REDACTED**

See independent accountant's review report and accompanying notes to consolidated financial statements.

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2017 and 2016

	2017	2016
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable		
Taxes, other than income taxes		
Other current liabilities		
Deferred revenue		
<b>Total Current Liabilities</b>		
<b>DEFERRED FEDERAL INCOME TAXES</b>		
<b>Total Liabilities</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, no par value;		
Authorized - [REDACTED] shares		
Issued and outstanding - [REDACTED] shares		
Retained earnings		
Accumulated other comprehensive income		
<b>Total Stockholders' Equity</b>		
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		

PETITION OF PIONEER TELEPHONE COMPANY TO  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 5, PAGE - 6

See independent accountant's review report and accompanying notes to consolidated financial statements.

**REDACTED**

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME**

Years Ended December 31, 2017 and 2016

	2017	2016
<b>REVENUES</b>		
Telecommunications service revenues		
Other operating revenues		
<b>Total Revenues</b>		
<b>EXPENSES</b>		
Operating expenses		
General and administrative		
Depreciation and amortization		
Other operating expenses		
Taxes, other than income taxes		
<b>Total Expenses</b>		
<b>Operating Income</b>		
<b>OTHER INCOME (EXPENSE)</b>		
Interest and dividend income		
Gain (loss) on sale of investments		
Miscellaneous expense		
<b>Total Other Income</b>		
<b>Income before Income Taxes</b>		
<b>INCOME TAXES</b>		
Deferred		
<b>NET INCOME</b>		




PETITION OF PIONEER TELEPHONE COMPANY TO  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 5, PAGE - 7

See independent accountant's review report and accompanying notes to consolidated financial statements. **REDACTED**

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>NET INCOME</b>		
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Unrealized gains on investments, net of deferred income taxes (2017 -  2016 - 		
<b>COMPREHENSIVE INCOME</b>		

PETITION OF PIONEER TELEPHONE COMPANY TO  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 5, PAGE - 8

See independent accountant's review report and accompanying notes to consolidated financial statements. **REDACTED**



**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

Years Ended December 31, 2017 and 2016

	<u>Common Stock</u>		<u>Retained</u>	<u>Accumulated</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Other</u>	<u>Total</u>
				<u>Comprehensive</u>	
				<u>Income (Loss)</u>	
<b>BALANCE AT DECEMBER 31, 2015</b>					
Dividends paid					
Net income for the year					
Other comprehensive income					
<b>BALANCE AT DECEMBER 31, 2016</b>					
Dividends paid					
Net income for the year					
Other comprehensive income					
<b>BALANCE AT DECEMBER 31, 2017</b>					

PETITION OF PIONEER TELEPHONE COMPANY TO  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 5, PAGE - 9

See independent accountant's review report and accompanying notes to consolidated financial statements. **REDACTED**

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income		
Adjustments to reconcile net income to net cash provided by operating activities		
(Gain) loss on sale of investments		
Depreciation of plant and equipment		
Deferred federal income taxes		
Net change in operating assets and liabilities		
<b>Net Cash Provided by Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of short-term investments		
Proceeds from sale of short-term investments		
Salvage from disposal of telecommunications plant		
Additions to property, plant and equipment		
<b>Net Cash Used by Investing Activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid		
<b>Net Cash Used by Financing Activities</b>		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
<b>Cash and Cash Equivalents at Beginning of Year</b>		
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		

PETITION OF PIONEER TELEPHONE COMPANY TO RECEIVE SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS SERVICES PROGRAM – EXHIBIT 5, PAGE - 10

See independent accountant's review report and accompanying notes to consolidated financial statements. **REDACTED**

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

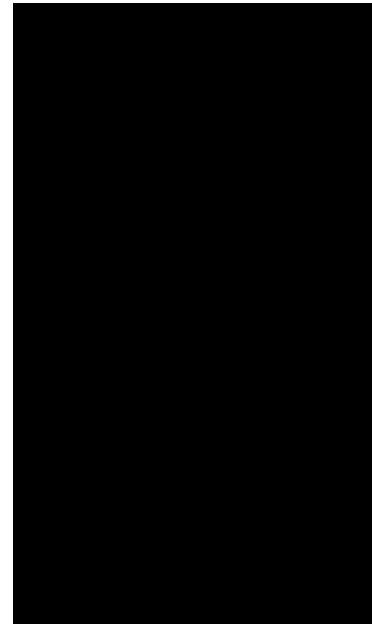
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

**COMPONENTS OF NET CHANGE IN OPERATING  
ASSETS AND LIABILITIES**

(Increase) decrease in assets  
    Accounts receivable  
    Materials and supplies  
    Prepaid expenses  
Increase (decrease) in liabilities  
    Accounts payable  
    Taxes, other than income taxes  
    Other current liabilities  
    Deferred revenue

**NET CHANGE IN OPERATING ASSETS  
AND LIABILITIES**



PETITION OF PIONEER TELEPHONE COMPANY TO  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM –  
EXHIBIT 5, PAGE - 11

See independent accountant's review report and accompanying notes to consolidated financial statements.

**REDACTED**

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES**

The accounting and reporting policies of the Pioneer Telephone Holding Company, Inc. and Subsidiary (the "Company") conform with accounting principles generally accepted in the United States of America and practices within the telecommunications industry. The policies that materially affect financial position, results of operations and cash flows are summarized as follows:

***Organization***

Several years ago, the stockholders reorganized their interest in Pioneer Telephone Company ("Pioneer") by exchanging their stock in Pioneer for stock in Pioneer Telephone Holding Company, Inc., making Pioneer a wholly-owned subsidiary of the Company. The method used in accounting for the business combination was the pooling of interests method.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Pioneer Telephone Company. All material intercompany accounts and transactions have been eliminated in consolidation.

***Operations***

The Company is engaged in providing telecommunications local exchange, network access, long distance, other telecommunications services, broadband access services and internet access services to customers in Adams and Whitman Counties in eastern Washington.

Pioneer is a small rate-of-return carrier. The Federal Communications Commission ("FCC") Report and Order and Further Notice of Proposed Rulemaking ("FCC 11-161") and Report and Order, Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking, ("FCC 16-33") have reformed the universal service and intercarrier compensation systems. These reforms have modified the manner in which Pioneer recovers its telecommunications revenue requirements.

***Regulation***

Pioneer is subject to the accounting and rate regulation policies of the Washington Utilities and Transportation Commission ("WUTC") and adheres to the FCC Uniform System of Accounts for Class B telephone companies as prescribed by the FCC under Part 32.

***Cash and Cash Equivalents***

For purposes of the statements of cash flows, the Company considers cash to be cash on hand, in checking accounts, money market accounts and time certificates of deposit with maturities of less than one year.

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (Continued)**

***Short-term Investments***

Short-term investments consist of investments in equities, mutual funds, bond mutual funds and bonds. The Company classifies the investments as "available for sale," and the investments are stated at fair value. Realized gains and losses are calculated using the average cost method and are included in income; unrealized gains and losses are reported in other comprehensive income on the statements of comprehensive income.

***Fair Value Measurements***

The Company measures fair value of its assets, liabilities and related disclosures in accordance with a hierarchy based on defined inputs. The hierarchy prioritizes the inputs underlying fair value measurements and requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs essentially distinguish the relative reliability of inputs to fair value measurements. Level 1 inputs are more reliable and objective than Level 2 inputs which are in turn more reliable and objective than Level 3 inputs. In arriving at a fair value measure, the Company is required to determine the level in the fair value hierarchy within which a fair value measurement ultimately falls and provide disclosure of such determinations.

***Accounts Receivable***

The Company extends credit to its business and residential customers based upon a written credit policy. Service interruption is the primary vehicle for controlling losses. Accounts receivable are recorded when subscriber bills, carrier access bills and exchange carrier associations' settlement statements are rendered. Certain exchange carrier associations' settlements are subject to out-of-period adjustments and are recorded during the year in which they become determinable. Accounts receivable are written off when they are determined to be uncollectible. The Company believes no allowance for doubtful accounts is necessary at December 31, 2017 and 2016 as balances over 90 days overdue represent █% of the total balance.

***Accounting for Long-lived Assets***

The Company periodically reviews its long-lived assets such as property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. At December 31, 2017 and 2016, management has determined that there were no material impairment charges to be recorded as of those dates.

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2017 and 2016

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (Continued)**

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost and are depreciated on a straight-line basis for accounting purposes. Lives used for calculating depreciation on telecommunications plant are in accordance with the rules of the WUTC and are based on the estimated economic useful lives of the assets. Likewise, lives used for calculating depreciation on all other property and equipment are based on the estimated economic useful lives of the assets.

***Telecommunications Plant Retirements***

When an asset is retired or otherwise disposed of, the cost of the asset is removed from the asset account and charged to the related allowance for depreciation. Similarly, the cost of removal and salvage proceeds are charged or credited to the allowance for depreciation. Consequently, no gain or loss upon disposition is recognized.

***Revenue Recognition, Major Customers and Services***

Services provided by the Company include primarily local network, network access services, long distance access services, digital subscriber lines and broadband access services included in telecommunications service revenues. In the normal course of Pioneer's business, certain network access revenues are subject to out-of-period adjustments. Such adjustments are normal occurrences and are recorded by Pioneer during the year in which they become determinable.

Network access service revenues, which represent a major portion of Pioneer's operating revenues, are derived from the provision of exchange access services to interexchange carriers or to an end user of telecommunication services beyond Pioneer's local network.

Revenues for certain interstate access services are currently received through tariffed access charges filed by the National Exchange Carrier Association ("NECA") with the FCC on behalf of the NECA member companies. These access charges are billed by Pioneer to interstate interexchange carriers and pooled with like-revenues from all NECA member companies. The pooled access charge revenues received by Pioneer are based upon the actual cost of providing interstate access services, plus a return on the investment dedicated to providing these services. Pooled access charge revenues are estimated at December 31 each year and are subject to adjustment. Such adjustments are normal occurrences and are recorded by Pioneer during the year in which they occur.

The FCC 11-161 modified and replaced the existing universal system and intercarrier compensation systems with universal service reform and intercarrier compensation reform. A Connect America Fund ("CAF") has been established to replace all existing high-cost support mechanisms and set broadband service requirements. Alongside the broadband service rules,

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (Continued)**

***Revenue Recognition, Major Customers and Services (Continued)***

reforms to establish a framework to limit reimbursements for excessive capital and operating expenses were implemented as of July 1, 2012 and phase outs of certain support payments occurred. Intercarrier compensation reform adopts a uniform bill-and-keep framework as the ultimate end state for all telecommunications traffic exchanged with Pioneer. Intercarrier compensation rates are capped and the disparity between intrastate and interstate terminating end office rates are being brought to parity in two steps as outlined in FCC 11-161. The state's public utilities commissions will be overseeing the modifications to rates in intrastate tariffs. Limits on carriers' total eligible recovery will reflect existing downward trends on intercarrier compensation revenues with declining switching costs and minutes of use.

In July 2015, the FCC froze the National Average Cost per Loop ("NACPL") that serves as the threshold for support calculations of the High Cost Loop Support ("HCLS") revenues in order to satisfy the annual funding cap established in 2015. The actual NACPL compared to the frozen NACPL is just one factor that impacts Pioneer's HCLS revenues negatively. In 2016, due to continued efforts to meet the overall HCLS funding cap, a pro rata adjustment factor was established. This pro rata adjustment factor is multiplied by Pioneer's initial HCLS funding amount, causing a significant reduction in revenues of approximately \$42,000 for 2016.

In September 2016, the FCC implemented a budget control mechanism for rate-of-return telecommunication carriers designed to ensure that federal support disbursements remain within the specified budget of \$2 billion. This budget control mechanism further reduces HCLS and Connect American Fund Broadband Loop Support ("CAF BLS"), funding for Pioneer by approximately \$7,000 in 2016. Included in the budget control mechanism were an operating expense limitation calculation and a capital expenditure allowance calculation, none of which impacted Pioneer.

As part of FCC 16-33 Universal Service Reform ("USF") order, rate-of-return telecommunication carriers have been given an option of remaining on a legacy support mechanism that includes broadband data only service funding or electing a model based support funding mechanism with an emphasis on broadband obligation deployment to begin implementation February 1, 2017. Pioneer has elected the model based support mechanism called Alternative Connect America Model ("A-CAM") that will replace the HCLS and CAF BLS funding.

The established rate of return of 11.25% used for interstate pooled settlements and other interstate revenue requirements are to be transitioned over six years to 9.75% by July 2021 by a rate of return reduction of .25% each July per FCC order. As of July 2017 and 2016, the rate of return was reduced to 10.75% and 11%, respectively.

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (Continued)**

***Revenue Recognition, Major Customers and Services (Continued)***

Pioneer continues to review the reforms and modifications to the support that it receives and understands that those reforms and modifications could have an adverse effect on Pioneer's revenues and cash flow. Revenue impacts are subject to change based on future data submissions and further clarification from the FCC.

Revenues for intrastate access services are received through tariffed access charges filed by Pioneer at the WUTC. Once filed, the tariffed access charges become effective if specifically approved by the WUTC or allowed to become effective by operation of law. The intrastate switched access charges are billed by Pioneer to intrastate interexchange carriers. Intrastate special access charges are also billed to intrastate interexchange carriers that order such services and, in some cases, to retail customers that order special access services.

In July 2014, the WUTC implemented a state universal communications service program ("State USF Program") that temporarily replaced the terminated universal service support pool ("Traditional USF") and also replaced the cumulative reduction in support Pioneer received from the federal Connect America Fund. The State USF Program began January 2015, and annual disbursements from the State USF Program comprised of the Traditional USF and the disbursement of the cumulative CAF deficit support are scheduled to occur in January of the following State USF Program years, assuming Pioneer continues to be eligible under the program. The State USF Program year runs from July 1 to June 30. In 2017, Pioneer received \$135,944 from the state USF Program for the period July 1, 2017 to June 30, 2018, and recorded deferred revenue of \$67,972 for the unearned portion. In 2016, Pioneer received \$118,366 from the State USF Program for the period July 1, 2016 to June 30, 2017, and recorded deferred revenue of \$59,183 for the unearned portion. The State USF Program is scheduled to last for five program years.

For some of the services that the Company provides to its customers, the Company relies upon services and facilities supplied to it by other companies. Any material disruption of the services or facilities supplied to the Company by other companies could potentially have an adverse effect upon the Company's operating results.

***Federal Income Taxes***

The Company provides federal income taxes for the effects of transactions reported in the financial statements and consists of taxes currently due and deferred income taxes. The Company and its subsidiary file federal income taxes on a consolidated basis. The consolidated tax liability of the affiliated group is allocated based on each company's contribution to consolidated taxable income.



**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

**NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (Continued)**

*Federal Income Taxes (Continued)*

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

*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 may differ from those estimates and assumptions used in preparing the accompanying consolidated financial statements.

*Subsequent Events*

The management of the Company evaluated for subsequent events and transactions for potential recognition and disclosure through January 26, 2018, the date of completion of the accountant's review procedures. All identified material events or transactions have been recorded or disclosed.

**NOTE 2 - CONCENTRATION OF CREDIT RISK**

The Company maintains cash balances and certificates of deposit at six financial institutions in eastern Washington, insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. The Company periodically maintains cash balances in excess of the federally insured limits. At December 31, 2017, the Company's cash balances exceeded the federally insured limit by [REDACTED].

In addition, at December 31, 2017, the Company has deposits totaling [REDACTED] in money market funds with a broker-dealer. The funds are insured by the Securities Investor Protection Corporation up to \$500,000 for brokerage accounts with a limit of \$250,000 for claims of uninvested cash balances and additional brokerage insurance through the broker-dealer's underwriters as stated in the broker-dealer account agreement.

The Company's accounts receivable are subject to potential credit risk as they are concentrated in and around LaCrosse and Endicott, Washington and are unsecured.

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

**NOTE 3 - FAIR VALUE DISCLOSURES**

Fair value of assets measured on a recurring basis at December 31, 2017 and 2016 were as follows:

	Fair Value Measurements		
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Other Subjective Inputs (Level 3)
<u>Fair Value</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
<u>December 31, 2017</u>			
Fixed Income Investments			
Corporate bonds			
Equities			
Bond mutual funds			
Mutual funds			
Co-operative capital certificates			
<u>December 31, 2016</u>			
Fixed Income Investments			
Corporate bonds			
Equities			
Bond mutual funds			
Mutual funds			
Co-operative capital certificates			

Investments valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Investments valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Level 3 inputs are based on the Company's own assumptions on how knowledgeable parties would price assets or liabilities, and are developed using the best information available in the circumstances.

During 2017, the Company sold some of its investments resulting in a gain of [REDACTED] with proceeds received of [REDACTED].

During 2016, the Company sold some of its investments resulting in a loss of [REDACTED] with proceeds received of [REDACTED].

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

**NOTE 4 - DEPRECIABLE PLANT AND EQUIPMENT**

The following is a summary of asset classifications and estimated useful lives for depreciable plant and equipment:

	Useful Lives (Years)	2017	2016
Pioneer Telephone Holding Company, Inc. Internet access equipment			
Pioneer Telephone Company Support assets Central office assets Cable and wire facilities Nonregulated equipment			
Total			

***Depreciation Expense***

The provision for depreciation on depreciable plant and equipment in service for the years ended December 31, 2017 and 2016 was [REDACTED] and [REDACTED], respectively.

**NOTE 5 - INCOME TAXES**

The Company recognizes deferred federal income taxes for differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent future income tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. The differences relate to the following:

- Depreciable assets' lives and methods of calculating depreciation for financial and income tax reporting.
- Accounting for short-term investments at fair market value for financial reporting purposes and cost for income tax purposes.
- Carryforward of a net operating loss for income tax purposes.

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

**NOTE 5 - INCOME TAXES (Continued)**

The tax effects of temporary differences that give rise to significant portions of deferred tax (assets) liabilities consist of the following:

	<u>2017</u>	<u>2016</u>
Property, plant and equipment		
Short-term investments		
Net operating loss carryforward		

Components of consolidated federal income taxes are as follows:

	<u>2017</u>	<u>2016</u>
Deferred		

The Company has a consolidated net operating loss carryforward of approximately [REDACTED] from 2011 that is available for 20 years from the year of loss.

The Company has not established a valuation allowance at December 31, 2017 and 2016 for the deferred tax benefit that existed at that date related to the net operating loss carryforward. Management believes that the Company's future taxable income will be enough to absorb and to prevent a net operating loss carryforward from expiring unused.

On December 19, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted, which includes many significant changes to the then existing tax code. Among the changes included in the Act, corporate tax rates will be set at 21% for periods beginning January 1, 2018, which represents a significant decrease from the 34% current effective tax rate for the year ended December 31, 2017. Under accounting principles generally accepted in the United States of America, the Company is required to recognize changes in tax laws and rates on deferred tax assets and liabilities in the period in which the new legislation is enacted through current deferred tax expense from operations. As such, deferred tax assets and liabilities have been remeasured using the newly effective tax rate, which is the rate expected to be in effect when the deferred assets and liabilities are expected to reverse. Had deferred tax assets been measured using the effective tax rate of 34%, deferred tax assets would have decreased [REDACTED] and deferred tax liabilities would have increased [REDACTED]. As such, net deferred income tax expense of [REDACTED] has been reported in the accompanying consolidated statements of income. Due to the remeasurement of deferred tax assets and liabilities using the enacted rate of 21%, deferred tax assets decreased [REDACTED] and deferred tax liabilities decreased [REDACTED].

**PIONEER TELEPHONE HOLDING  
COMPANY, INC. AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

**NOTE 6 - LEASES**

Pioneer leases certain bandwidth and transport services from a local telecommunications provider with a one year term that started in January 2016, switching to a month-to-month basis at the end of one year. Lease payments are [REDACTED] and [REDACTED] per month in 2017 and 2016, respectively.

Pioneer leases certain telecommunications facilities and power from CenturyTel of Washington, Inc. on a month to month basis. Pioneer pays a monthly rate of [REDACTED] and applicable taxes.

**NOTE 7 - RETIREMENT PLAN**

Pioneer has a 401(k) profit sharing plan (the "Plan"). Eligibility for participation in the Plan begins after one year of service and attainment of age 21. The Plan allows for employee elective deferrals up to the maximum allowed by law. The Plan provides for discretionary matching contributions and discretionary profit sharing contributions as determined by Pioneer. Such contributions have a 6-year graded vesting schedule with any forfeitures used to reduce the Pioneer contributions to either the discretionary matching or profit sharing contributions. Pioneer's contributions were [REDACTED] of participation elective contributions with a maximum of [REDACTED] and [REDACTED] of eligible employee compensation in 2017 and 2016. Pioneer's discretionary contributions charged to expense were [REDACTED] and [REDACTED] in 2017 and 2016, respectively.

**NOTE 8 - CONTINGENCIES**

As noted in Note 5, the enactment of the Tax Cuts and Jobs Act reduces corporate tax rates to 21% in 2018. The Company has adjusted deferred federal income taxes using the income tax rate expected to be in effect in future years when the deferred tax liabilities are realized in the current year under accounting principles generally accepted in the United States of America. However, there is a concern that the deferred federal income tax adjustment will cause Pioneer to be over the 10% rate of return to be eligible for the State USF Program funding. It is uncertain at this time how the Washington Utilities and Transportation Commission will take into account this large tax adjustment for State USF Program purposes.

**EXHIBIT 6**

<p align="center"><b>OPERATING REPORT FOR TELECOMMUNICATIONS COMPANIES</b></p>			<p>COMPANY NAME</p> <p align="center">PIONEER TELEPHONE COMPANY</p>		
			<p>PERIOD ENDING</p> <p>December 31, 2017</p>		
<p><b>CERTIFICATION</b></p> <p><i>We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.</i></p>					
<p>_____ DATE _____</p>					
<p><b>PART A BALANCE SHEET</b></p>					
<p align="center"><b>ASSETS</b></p>		<p align="center"><b>BALANCE END OF PERIOD</b></p>	<p align="center"><b>LIABILITIES AND STOCKHOLDERS' EQUITY</b></p>		<p align="center"><b>BALANCE END OF PERIOD</b></p>
<p><b>CURRENT ASSETS</b></p>			<p><b>CURRENT LIABILITIES</b></p>		
1. Cash and Equivalents	1,683,133	1,367,357	25. Accounts Payable	19,696	41,844
2. Cash-RUS Construction Fund			26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments		
a. Telecom, Accounts Receivable			28. Customer Deposits	1,069	300
b. Other Accounts Receivable			29. Current Mat. L/T Debt		
c. Notes Receivable			30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat. - Capital Leases		
a. Telecom, Accounts Receivable	27,684	24,869	32. Income Taxes Accrued	33,893	2,785
b. Other Accounts Receivable	0	0	33. Other Taxes Accrued	52,896	64,556
c. Notes Receivable			34. Other Current Liabilities	118,384	161,618
5. Interest and Dividends Receivable			35. <b>Total Current Liabilities</b>	225,938	271,103
6. Material-Regulated	53,983	208,722	<b>LONG-TERM DEBT</b>		
7. Material-Nonregulated	3,140	0	36. Funded Debt-RUS Notes		
8. Prepayments	31,098	12,186	37. Funded Debt-RTB Notes		
9. Other Current Assets	453,334	510,068	38. Funded Debt-FFB Notes		
10. <b>Total Current Assets (1 Thru 9)</b>	2,252,372	2,123,202	39. Funded Debt-Other		
<b>NONCURRENT ASSETS</b>			40. Funded Debt-Rural Develop. Loan		
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt		
a. Rural Development			42. Reaquired Debt		
b. Nonrural Development			43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies	95,631	130,055
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development			46. <b>Total Long-Term Debt (36 thru 45)</b>	95,631	130,055
13. Nonregulated Investments	35,277	35,277	<b>OTHER LIAB. &amp; DEF. CREDITS</b>		
14. Other Noncurrent Assets			47. Other Long-Term Liabilities		
15. Deferred Charges			48. Other Deferred Credits	516,812	390,049
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
17. <b>Total Noncurrent Assets (11 thru 16)</b>	35,277	35,277	50. <b>Total Other Liabilities and Deferred Credits (47 thru 49)</b>	516,812	390,049
<b>PLANT, PROPERTY AND EQUIPMENT</b>			<b>EQUITY</b>		
18. Telecom, Plant-in-Service	12,627,103	13,709,528	51. Cap. Stock Outstand. & Subscribed	56,052	56,052
19. Property Held for Future Use			52. Additional Paid-in-Capital		
20. Plant Under Construction	66,466	5,218	53. Treasury Stock		
21. Plant Adj. Nonop, Plant & Goodwill			54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation	8,946,546	9,410,284	55. Other Capital		
23. Net Plant (18 thru 21 less 22)	3,747,023	4,304,462	56. Patronage Capital Credits		
24. <b>TOTAL ASSETS (10+17+23)</b>	6,034,672	6,462,941	57. Retained Earnings or Margins	5,140,239	5,615,682
			58. <b>Total Equity (51 thru 57)</b>	5,196,291	5,671,734
			59. <b>TOTAL LIABILITIES AND EQUITY (35+46+50+58)</b>	6,034,672	6,462,941

OPERATING REPORT FOR  
TELECOMMUNICATIONS  
COMPANIES

Company Name: PIONEER TELEPHONE COMPANY

PERIOD ENDING: December 31, 2017

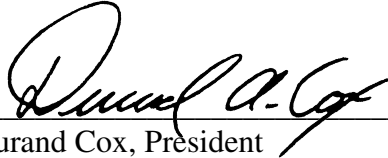
**PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS**

ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	151,205	151,899
2. Network Access Services Revenues	1,305,023	1,514,706
3. Long Distance Network Services Revenues	41,522	36,105
4. Carrier Billing and Collection Revenues	1,800	1,800
5. Miscellaneous Revenues	10,415	11,472
6. Uncollectible Revenues	492	(91)
<b>7. Net Operating Revenues (1 thru 5 less 6)</b>	<b>1,509,473</b>	<b>1,716,073</b>
8. Plant Specific Operations Expense	349,684	315,194
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	60,084	43,184
10. Depreciation Expense	531,909	530,118
11. Amortization Expense		
12. Customer Operations Expense	120,818	136,232
13. Corporate Operations Expense	351,650	367,005
<b>14. Total Operating Expenses (8 thru 13)</b>	<b>1,414,145</b>	<b>1,391,733</b>
15. Operating Income or Margins (7 less 14)	95,328	324,340
16. Other Operating Income and Expenses		
17. State and Local Taxes	48,884	48,182
18. Federal Income Taxes	15,892	(139,051)
19. Other Taxes		
<b>20. Total Operating Taxes (17+18+19)</b>	<b>64,776</b>	<b>(90,869)</b>
21. Net Operating Income or Margins (15+16-20)	30,552	415,209
22. Interest on Funded Debt		
23. Interest Expense - Capital Leases		
24. Other Interest Expense		
25. Allowance for Funds Used During Construction		
<b>26. Total Fixed Charges (22+23+24-25)</b>	<b>0</b>	<b>0</b>
27. Nonoperating Net Income	10,014	15,702
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	20,099	12,640
<b>31. Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>60,665</b>	<b>443,551</b>
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	5,312,178	5,140,239
34. Miscellaneous Credits Year-to-Date - Other Comprehensive Income		
35. Dividends Declared (Common)	(248,000)	
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date - Other Comprehensive Loss	15,396	31,892
38. Transfers to Patronage Capital		
<b>39. Retained Earnings or Margins End-of-Period [(31+33+31) - (35+35+37+38)]</b>	<b>5,140,239</b>	<b>5,615,682</b>

**Exhibit 7**  
**Report Corporate Operations Expense Adjustment**  
**As Required in WAC 480-123-110(1)(e)(vi)**

I, Durand Cox, an officer of Pioneer Telephone Company with personal knowledge and responsibility, under penalty of perjury, hereby certify that no amount of corporate operations expense was required by 47 C.F.R. § 54.1308(a)(4)(ii) to be excluded by Pioneer Telephone Company (“Company”) from corporate operations expense that, for 2016, was input in both the high cost loop support and interstate common line support cost studies of the Company for the Company’s study area(s) in the State of Washington.

Dated this 30<sup>th</sup> day of July, 2018

  
\_\_\_\_\_  
Durand Cox, President

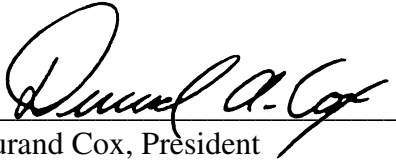


**EXHIBIT 8**

**FINANCIAL ACCOUNTING CERTIFICATE**

I, Durand Cox, an officer of Pioneer Telephone Company (the "Company") with personal knowledge and responsibility, based upon my discussions with the outside consultants retained by the Company to handle such matters, under penalty of perjury, state that the Company complies with state and federal accounting, cost allocation and cost adjustment rules pertaining to incumbent local exchange companies.

Dated at LaCrosse, Washington this 30th day of July, 2018.

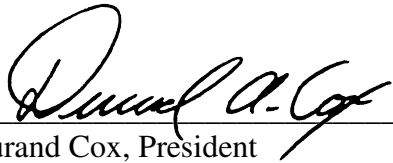
  
Durand Cox, President

**EXHIBIT 9**

**CONTINUED OPERATIONS CERTIFICATE**

I, Durand Cox, an officer of Pioneer Telephone Company (the "Company"), under penalty of perjury, hereby certify that if the Company receives Program support, the Company will continue to provide communications services pursuant to its tariffs on file with the Commission throughout its service territory in Washington for which the Company is seeking and receives Program support during the entirety of 2019.

Dated at LaCrosse, Washington this 30<sup>th</sup> day of July, 2018.

  
\_\_\_\_\_  
Durand Cox, President