

Shaded Information is Designated as  
Confidential per WAC 480-07-160

**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

Reviewed Consolidated Financial Statements

December 31, 2018 and 2017

**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

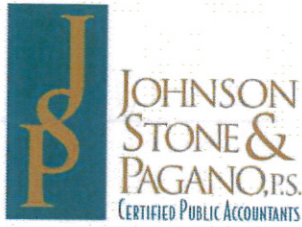
Reviewed Consolidated Financial Statements

December 31, 2018 and 2017

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

**REVIEWED CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated Balance Sheets .....	2-3
Consolidated Statements of Income .....	4
Consolidated Statements of Stockholders' Equity .....	5
Consolidated Statements of Cash Flows .....	6-7
Notes to Consolidated Financial Statements.....	8-21



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

## Independent Accountant's Review Report

Board of Directors  
R.J.B. Telecommunications Corp.  
Union, Washington

We have reviewed the accompanying consolidated financial statements of R.J.B. Telecommunications Corp. and Subsidiary (an S corporation) (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated 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 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 misstatements 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 30, 2019

**REVIEWED CONSOLIDATED FINANCIAL STATEMENTS**

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**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**

December 31, 2018 and 2017

	2018	2017
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash		
Accounts receivable, less allowance for doubtful accounts		
Materials and supplies		
Prepaid expenses		
Due from affiliated company		
Current portion of notes receivable		
<b>Total Current Assets</b>		
<b>INVESTMENTS AND OTHER ASSETS</b>		
Notes receivable from stockholder		
Notes receivable, less portion classified as a current asset		
Investments		
Cash surrender value of life insurance		
Goodwill, net of amortization		
<b>Total Investments and Other Assets</b>		
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Plant and equipment		
Less accumulated depreciation		
Construction in progress		
<b>Total Property, Plant and Equipment</b>		
<b>TOTAL ASSETS</b>		

PETITION OF HOOD CANAL TELEPHONE CO., INC. 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.

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**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2018 and 2017

	2018	2017
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable		
Deferred revenue		
Customers' deposits		
Accrued profit sharing		
Taxes, other than income taxes		
Dividends payable		
Other current liabilities		
Current portion of long-term debt		
<b>Total Current Liabilities</b>		
<b>LONG-TERM DEBT</b> , less portion classified as a current liability		
<b>OTHER LIABILITIES</b>		
Deferred compensation payable		
Deferred gain on sale of properties		
<b>Total Other Liabilities</b>		
<b>Total Liabilities</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, no par value		
Authorized - [REDACTED] shares		
Issued and outstanding - [REDACTED] shares		
Retained earnings		
<b>Total Stockholders' Equity</b>		
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		

PETITION OF HOOD CANAL TELEPHONE CO., INC. TO  
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EXHIBIT 5, PAGE - 6

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**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME**

Years Ended December 31, 2018 and 2017

	2018	2017
<b>REVENUES</b>		
Telephone services		
Cable television and CLEC services		
Internet and other operating revenues		
<b>Total Operating Revenues</b>		
<b>EXPENSES</b>		
Telephone operations		
Depreciation		
Amortization of goodwill		
General and administrative		
Cable television and CLEC operations		
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		
Interest expense		
Gain on sale of properties		
Miscellaneous income (expense)		
<b>Total Other Income (Expense)</b>		
<b>NET INCOME</b>		

PETITION OF HOOD CANAL TELEPHONE CO., INC. TO  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 5, PAGE - 7

**REDACTED**

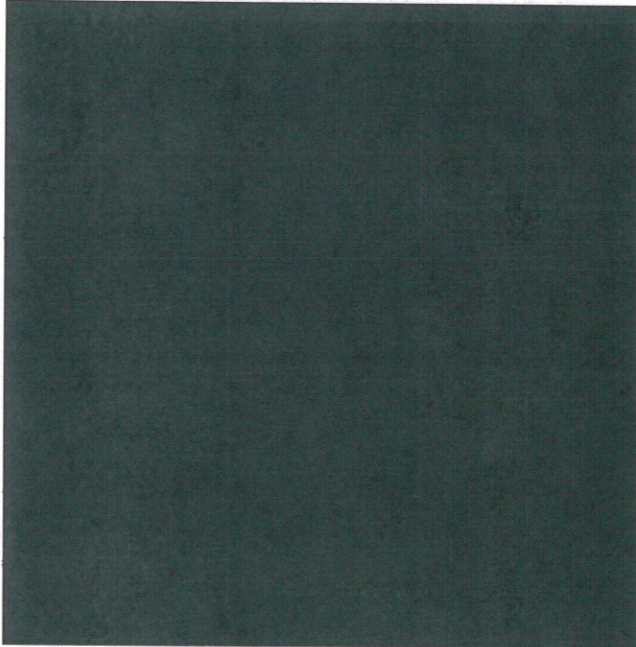
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**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

Years Ended December 31, 2018 and 2017

	<u>Common Stock</u>		<u>Retained</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Total</u>
<b>Balance at December 31, 2016</b>				
Net income for the year				
Dividends on common stock				
Cash				
Declared				
<b>Balance at December 31, 2017</b>				
Net income for the year				
Dividends on common stock				
Cash				
Declared				
<b>Balance at December 31, 2018</b>				

PETITION OF HOOD CANAL TELEPHONE CO., INC. TO  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 5, PAGE - 8

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**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2018 and 2017

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income		
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation		
Amortization of goodwill		
Cash surrender value of life insurance		
Gain on sale of properties		
Deferred compensation		
Noncash transfer of plant under construction to operating expense		
Net change in operating assets and liabilities		
<b>Net Cash Provided by Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment		
Salvage on retired plant and equipment		
Advances from (to) affiliated company		
Advance on notes receivable		
Payments on notes receivable		
<b>Net Cash Used by Investing Activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt		
Dividends paid		
<b>Net Cash Used by Financing Activities</b>		
<b>NET INCREASE (DECREASE) IN CASH</b>		
<b>Cash at Beginning of Year</b>		
<b>CASH AT END OF YEAR</b>		

PETITION OF HOOD CANAL TELEPHONE CO., INC. TO  
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EXHIBIT 5, PAGE -9

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**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES</b>		
(Increase) decrease in assets		
Accounts receivable		
Materials and supplies		
Prepaid expenses		
Increase (decrease) in liabilities		
Accounts payable		
Deferred revenue		
Customers' deposits		
Accrued profit sharing		
Taxes, other than income taxes		
Other current liabilities		
<b>NET CHANGE IN OPERATING ASSETS AND LIABILITIES</b>		
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest		

PETITION OF HOOD CANAL TELEPHONE CO., INC. TO  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 5, PAGE - 10

**REDACTED**

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

**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**NOTE 1 - ORGANIZATION AND OPERATIONS**

R.J.B. Telecommunications Corp. (the "Company") is the parent corporation of Hood Canal Telephone Co., Inc., a wholly-owned subsidiary, including Hood Canal Cablevision, its cable television division. Hood Canal Telephone Co., Inc. provides telecommunications, cable television, broadband service and long distance telecommunication services in and around Union, Washington.

Hood Canal Telephone Co., Inc. 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 Hood Canal Telephone Co., Inc. recovers its telecommunications revenue requirements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Principles of Consolidation***

The consolidated financial statements include the accounts of R.J.B. Telecommunications Corp. and its wholly-owned subsidiary, Hood Canal Telephone Co., Inc. All material intercompany balances and transactions have been eliminated in consolidation.

***Regulation***

Hood Canal Telephone Co., Inc. is subject to the accounting rules and rate regulation policies of the Washington Utilities and Transportation Commission ("WUTC") and adheres to the FCC Uniform System of Accounts for a Class B telephone company as prescribed by the FCC under Part 32.

***Cash***

For purposes of the statement of cash flows, the Company considers cash to be cash on hand, in checking and savings accounts and money market accounts.

***Materials and Supplies***

Materials and supplies inventories are stated at average cost or net realizable value.

***Goodwill***

Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired. Hood Canal Telephone Co., Inc. amortizes goodwill over ten years on the straight-line basis and only evaluates goodwill for impairment at the entity level when a triggering event occurs. Amortization of goodwill for the years ended December 31, 2018 and 2017 is [REDACTED].

**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

**NOTE 2 - 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 over the estimated useful lives of the assets. 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.

***Plant and Equipment Retirements***

When telecommunications and cable television assets are 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.

***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, 2018 and 2017, management has determined that there were no material impairment charges to be recorded as of those dates.

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

Services provided by Hood Canal Telephone Co., Inc. include local network, long distance network and network access services, broadband and internet access services and video services. In the normal course of Hood Canal Telephone Co., Inc.'s business, certain long distance network and network access service revenues are subject to out-of-period adjustments. Such adjustments are normal occurrences and are recorded by Hood Canal Telephone Co., Inc. during the year in which they become determinable.

Network access service revenues, which represent a major portion of the Hood Canal Telephone Co., Inc.'s telephone service operating revenues, are derived from the provision of exchange access services to interexchange carriers or to an end user of telecommunication services.

CLEC revenues represent competitive local exchange carrier telecommunication revenues provided to subscribers outside of Hood Canal Telephone Co., Inc.'s regulated service area, in nearby communities. Other operating revenues consist principally of internet service revenues and sales of business systems.

**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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 currently are billed by Hood Canal Telephone Co., Inc. to interstate interexchange carriers and pooled with like-revenues from all NECA member companies. The pooled access charge revenues received by Hood Canal Telephone Co., Inc. are currently 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 Hood Canal Telephone Co., Inc. during the year in which they occur.

The FCC 11-161 modified and replaced the existing universal service 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 sets broadband service requirements. Alongside the broadband service rules, 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 Hood Canal Telephone Co., Inc. 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 Hood Canal Telephone Co., Inc.'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 Hood Canal Telephone Co., Inc.'s initial HCLS funding amount, causing a reduction in revenues of approximately \$65,000 and \$59,000 for 2018 and 2017, respectively.

**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

In September 2016, the FCC implemented a budget control mechanism ("BCM") for rate-of-return telecommunication carriers designed to ensure that federal support disbursements remain within the specified budget of \$2 billion. The BCM further reduces HCLS and Connect America Fund Broadband Loop Support ("CAF BLS") funding for Hood Canal Telephone Co., Inc. by approximately \$68,000 in 2017 of which approximately \$45,000 was refunded in 2018.

Per the FCC Order 18-29, the BCM was refunded for the period of July 2017 to June 2018 and later per FCC Order 18-176 additional BCM amounts are to be refunded for the period of July to December 2018 and the BCM is to be eliminated for the period of January to June 2019. The BCM has been restructured and simplified by the FCC and will be reinstated in July 2019.

Other methods to limit the budget are the operating expense limitation and a capital investment allowance calculation. Hood Canal Telephone Co., Inc. was not impacted by the capital investment allowance calculation. Hood Canal Telephone Co., Inc. was impacted by the new operating expense limitation that caused further reduction of support of approximately \$259,000 and \$128,000 for 2018 and 2017, respectively.

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. Hood Canal Telephone Co., Inc. remains with the legacy support option.

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 2018 and 2017, the rate-of-return was reduced to 10.50% and 10.75%, respectively.

Hood Canal Telephone Co., Inc. continues to review the reforms and modifications to the support that Hood Canal Telephone Co., Inc. receives, and understands that those reforms and modifications could have an adverse effect on Hood Canal Telephone Co., Inc.'s telephone service revenues and cash flow. Revenue impacts are subject to change based on future data collections and further clarification from the FCC.

**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Revenues for intrastate access services are received through tariffed access charges filed by Hood Canal Telephone Co., Inc. 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 Hood Canal Telephone Co., Inc. 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.

The WUTC implemented a state universal communications service program ("State USF Program") and also replaced the cumulative reduction in support Hood Canal Telephone Co., Inc. received from the federal CAF. The State USF Program began in January 2015, and subsequent annual disbursements from the State USF Program comprised of the terminated universal service support pool ("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 Hood Canal Telephone Co., Inc. continues to be eligible under the program. The State USF Program year runs from July 1 to June 30. Hood Canal Telephone Co., Inc. received \$165,933 from the State USF Program for the period July 1, 2018 to June 30, 2019, and recorded deferred revenue of \$82,967 for the unearned portion. Hood Canal Telephone Co., Inc. received \$150,518 from the State USF Program for the period July 1, 2017 to June 30, 2018, and recorded deferred revenue of \$75,259 for the unearned portion. The State USF Program is scheduled to last for five program years and will expire June 30, 2019 unless extended by the state.

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

***Federal Income Taxes***

Effective January 1, 2000, the stockholders of the Company elected S corporation tax status. Effective January 1, 2002, the stockholders elected S corporation tax status for its wholly-owned subsidiary, Hood Canal Telephone Co., Inc. The Company has elected, on behalf of its wholly-owned subsidiary, Hood Canal Telephone Co., Inc., for the subsidiary to be treated as Qualified Subchapter S Subsidiary. As such, all activity of the wholly-owned subsidiary is included in the Company's annual federal income tax return. Taxable earnings and losses of the Company and its subsidiary are included in the personal or trust returns of stockholders and taxed at their applicable tax rates.

**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 may differ from those estimates and assumptions used in preparing the accompanying financial statements.

*Subsequent Events*

The management of the Company and its subsidiary evaluated for subsequent events and transactions for potential recognition and disclosure through January 30, 2019, the date of completion of the accountant's review procedures.

**NOTE 3 - CONCENTRATION OF CREDIT RISK**

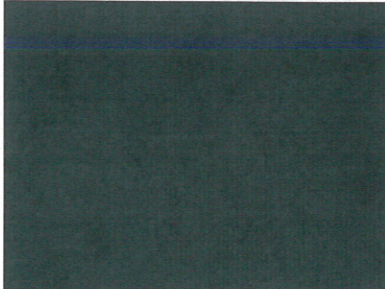
The Company and its subsidiary maintain cash balances at financial institutions insured by the Federal Deposit Insurance Corporation up to \$250,000. The Company and its subsidiary periodically maintain cash in excess of federally insured limits. At December 31, 2018, Hood Canal Telephone Co., Inc.'s cash balances exceeded the insured amounts by [REDACTED].

Hood Canal Telephone Co., Inc.'s accounts receivable are subject to potential credit risk as they are concentrated in and around Union, Washington and are unsecured.

**NOTE 4 - ACCOUNTS RECEIVABLE**

The accounts receivable balance at December 31 consists of:

	<u>2018</u>	<u>2017</u>
Due from customers and agents		
Due from exchange carriers and exchange carrier associations		
Other accounts receivable		
Allowance for doubtful accounts (deduction)		





**R.J.B. TELECOMMUNICATIONS CORP.  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**NOTE 4 - ACCOUNTS RECEIVABLE (Continued)**

Hood Canal Telephone Co., Inc. extends credit to its commercial 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 association settlements are rendered and do not bear interest. Certain exchange carrier associations' settlements are subject to out-of-period adjustments and are recorded during the year in which they become determinable. Hood Canal Telephone Co., Inc. has established an allowance for doubtful accounts to estimate for the amount of potential uncollectible accounts. The allowance is based upon factors surrounding the credit risk of specific customers, historical trends and other information. Receivable balances are reviewed on an aged basis and account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Approximately [REDACTED] of accounts receivable are ninety days or more overdue from the date invoices were first issued.

**NOTE 5 - NOTES RECEIVABLE**

The notes receivable balances consist of the following:

	Current Annual Installments of Principal	<u>Amount</u>	
		<u>2018</u>	<u>2017</u>
Notes receivable from affiliated company owned by majority stockholder, in monthly installments of [REDACTED], including interest at [REDACTED], due December 2019. Secured by real property. Subsequent to year-end, the note was extended to December 2024.			
Note receivable from an unrelated individual in monthly installments of [REDACTED], including interest at [REDACTED], with a balloon payment due May 2020.			
Less principal installments of notes receivable due within one year			
Total Notes Receivable			

Notes receivable from stockholder consist of promissory notes receivable payable on demand with interest at [REDACTED].

REDACTED

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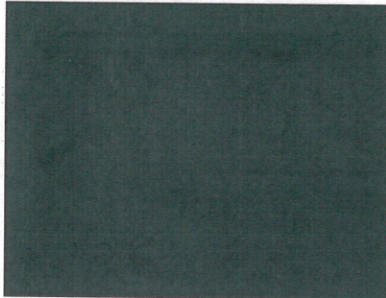
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**NOTE 5 - NOTES RECEIVABLE (Continued)**

At December 31, 2018, maturities of notes receivable are as follows:

2019  
2020  
2021  
2022  
2023  
2024  
  
Total



**NOTE 6 - INVESTMENTS**

Investments consist of marketable securities as follows:

Hood Canal Telephone Co., Inc.  
Columbia Banking System, Inc. common stock  
NewStreets, Inc. convertible preferred stock  
  
R.J.B. Telecommunications Corp.  
Commencement Bank common stock  
  
Total Investments

2018

2017



Marketable securities are carried at cost; the difference between fair market value and cost at December 31, 2018 and 2017 is not considered material.

**NOTE 7 - GOODWILL**

Hood Canal Telephone Co., Inc. amortizes goodwill on a straight-line basis over a 10 year useful life and only evaluates goodwill for impairment at the entity level when a triggering event occurs. During the year ended December 31, 2018 and 2017, no triggering events occurred requiring impairment testing and thus, no impairment loss was recorded.

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**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

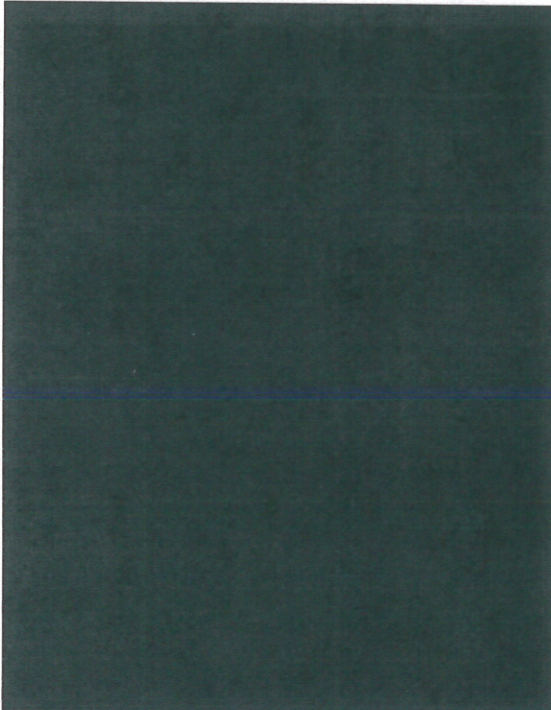
**NOTE 7 - GOODWILL (Continued)**

Goodwill presented in the consolidated balance sheets as of December 31, 2018 and 2017, consists of the following:

	<u>2018</u>	<u>2017</u>
Goodwill		
Less accumulated amortization		
Goodwill, net of amortization		

**NOTE 8 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are stated at cost. The following is a summary of asset classifications and estimated useful lives for major classifications of property, plant and equipment:

	<u>Useful Lives (Years)</u>	<u>Amount</u>	
		<u>2018</u>	<u>2017</u>
R.J.B. Telecommunications Corp. Support assets			
Hood Canal Telephone Co., Inc. Telecommunications property, plant and equipment			
Support assets			
Central office assets			
Cable and wire facilities			
Intangibles			
Cable television property, plant and equipment			
Support assets			
Head end equipment			
Subscriber equipment			
Cable and wire facilities			
Franchises			
Nonregulated property, plant and equipment			
Total Property, Plant and Equipment			

Shaded Information is Designated as  
Confidential per WAC 480-07-160

**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**NOTE 8 - PROPERTY, PLANT AND EQUIPMENT (Continued)**


***Depreciation Expense***

The provision for depreciation on property, plant and equipment in service is as follows:

	<u>2018</u>	<u>2017</u>
Telecommunications plant		
Cable television plant		
Nonregulated plant		
Total Depreciation Expense		

**NOTE 9 - LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>Current Annual Installments of Principal</u>	<u>Principal Amount</u>	
		<u>2018</u>	<u>2017</u>
Hood Canal Telephone Co., Inc. Rural Utilities Service ("RUS") first and supplemental mortgage notes			
- due June 2019			
- due June 2019			
- due June 2021			
- due September 2021			
- due September 2021			
- due September 2031			
- due September 2031			
- due September 2031			
- due September 2031			
- due September 2031			
- due September 2031			
- due September 2031			
- due September 2031			
- due September 2031			
- due September 2031			
- due September 2031			

Less principal payments of long-term debt  
due within one year

**Total Long-term Debt**

**REDACTED**

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**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**NOTE 9 - LONG-TERM DEBT (Continued)**

At December 31, 2018, maturities on long-term debt for the next five years and thereafter are as follows:

2019  
2020  
2021  
2022  
2023  
Thereafter



Substantially all of Hood Canal Telephone Co., Inc.'s plant now owned and hereafter acquired is subject to a first mortgage executed to the Rural Utilities Service. The terms of the mortgage agreements restrict distributions to stockholders, redemptions of capital stock and investments in affiliated companies. Allowable distributions, including outstanding amounts of guarantees of the debt of an affiliated company, are based on minimum net worth requirements defined in the agreements. In addition, Hood Canal Telephone Co., Inc. must maintain a certain times interest earned ratio.

**NOTE 10 - DEFERRED COMPENSATION**

Hood Canal Telephone Co., Inc. has a deferred compensation agreement (the "Agreement") with its President. Under the terms of the Agreement, the President is to be paid a percentage of pre-retirement base pay over his remaining life and the life of his beneficiary. Beginning in October 2011, the President began receiving payments of [REDACTED] per month under the terms of the Agreement. The remaining estimated amount to be paid to the President over his and the beneficiary's remaining life at a discount of [REDACTED] was [REDACTED] and [REDACTED] at December 31, 2018 and 2017, respectively.

**NOTE 11 - PENSION PLANS**

Hood Canal Telephone Co., Inc. maintains various pension plans that cover all eligible employees, including employees of R.J.B. Telecommunications Corp. The plans include a 401(k), profit sharing and a money purchase pension plan.

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**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

**NOTE 11 - PENSION PLANS (Continued)**

The 401(k) salary deferral matching contributions, as well as contributions to the profit sharing plan, are discretionary and are determined by the board of directors. The money purchase pension plan features a [REDACTED] contribution by the employer on behalf of eligible employees. Contributions, when made, are dependent upon net income, gross payroll and elective deferrals of eligible employees. All contributions to these plans are subject to the statutory limitations of the Internal Revenue Code.

Total contributions to all plans by Hood Canal Telephone Co., Inc. and the Company for the years ended December 31, 2018 and 2017 were [REDACTED] and [REDACTED], respectively.

**NOTE 12 - SALE-LEASEBACK TRANSACTIONS**

On December 15, 2009, the Company and Hood Canal Telephone Co., Inc. sold certain real properties for [REDACTED] to Southshore Enterprises, LLC ("SSE"), a limited liability company owned by the President and majority stockholder of R.J.B. Telecommunications Corp. Under the agreement, the Company and Hood Canal Telephone Co., Inc. are leasing back the properties, which consist of office buildings, service facilities and the headend site, from the purchaser over a period of 10 years. The Company and Hood Canal Telephone Co., Inc. are accounting for the leaseback transactions as operating leases. The gain of [REDACTED] realized in these transactions has been deferred and is being amortized into income over the term of the leases. The amount amortized into income for the years ending December 31, 2018 and 2017 was [REDACTED]. At December 31, 2018 and 2017, the remaining deferred gain of [REDACTED] and [REDACTED], respectively, is shown as deferred gain on sale of properties on the Company's consolidated balance sheets.

The leases require the Company and Hood Canal Telephone Co., Inc. to pay customary insurance, maintenance and taxes. The Company has the option to renew the leases with SSE at the end of the initial 10 year period of the leases. For the years ending December 31, 2018 and 2017, the Company and Hood Canal Telephone Co., Inc. incurred [REDACTED] and [REDACTED], respectively, of rent expense related to these leases. Future minimum lease payments required under the leases are as follows:

2019

[REDACTED]

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**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

**NOTE 13 - RELATED PARTY TRANSACTIONS**

In addition to the office buildings, service facilities and headend site leases resulting from the sale and leaseback transactions described in Note 12, Hood Canal Telephone Co., Inc. leases warehouse facilities and equipment from SSE. The warehouse leases are for 10 year terms that expire in January 2027 and provide that Hood Canal Telephone Co., Inc. pay for insurance, maintenance and taxes. The master lease for the equipment provides that Hood Canal Telephone Co., Inc. pay for insurance, maintenance and repairs and taxes related to the equipment and the leases range from four to five years.

Total rental expense under these leases for the years ended December 31, 2018 and 2017 totaled [REDACTED] and [REDACTED], respectively. Future minimum rental payments under these leases are as follows:

2019  
2020  
2021  
2022  
2023  
Thereafter

[REDACTED]

During the years ended December 31, 2018 and 2017, Hood Canal Telephone Co., Inc. had the following related party amounts due and transactions as follows:

Southshore  
Enterprises, LLC

Balance at December 31, 2016  
Advances  
Repayments

Balance at December 31, 2017  
Advances  
Repayments

Balance at December 31, 2018

[REDACTED]

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**R.J.B. TELECOMMUNICATIONS CORP.  
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

As noted in Note 1, the FCC established a pro rata expense adjustment factor that is calculated against the actual HCLS distribution to all of the independent telephone companies that receive HCLS funding in order to meet the overall HCLS funding cap. The 2019 estimated pro rata expense adjustment factor is currently approximately 78% and this will cause a significant reduction of approximately \$88,000 to Hood Canal Telephone Co., Inc.'s 2018 HCLS revenues.

During 2017, Hood Canal Telephone Co., Inc. was awarded a grant in the approximate amount of [REDACTED], with matching funds of [REDACTED] of the total grant under the Community-Oriented Connectivity Broadband Grant Program to provide broadband services to new customers outside its current regulated service territory. Hood Canal Telephone Co., Inc. started construction in the summer of 2018 and will continue in 2019. Capital expenditures under this program are reimbursed up to the total of the grant amount.



According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0572-0031. The time required to complete this information collection is estimated to average 4 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

USDA-RUS

This data will be used by RUS to review your financial situation. Your response is required by 7 U.S.C. 901 et seq. and, subject to federal laws and regulations regarding confidential information, will be treated as confidential.

**OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS**

BORROWER NAME

Hood Canal Telephone Co., Inc.

INSTRUCTIONS-Submit report to RUS within 30 days after close of the period. For detailed instructions, see RUS Bulletin 1744-2. Report in whole dollars only.

PERIOD ENDING  
December, 2018

BORROWER DESIGNATION  
WA0541

**CERTIFICATION**

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.

**ALL INSURANCE REQUIRED BY 7 CFR PART 1788, CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES.**

**DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1788 OF 7CFR CHAPTER XVII**  
(Check one of the following)

All of the obligations under the RUS loan documents have been fulfilled in all material respects.

There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in the Telecom Operating Report

DATE

**PART A. BALANCE SHEET**

ASSETS	BALANCE PRIOR YEAR	BALANCE END OF PERIOD	LIABILITIES AND STOCKHOLDERS' EQUITY	BALANCE PRIOR YEAR	BALANCE END OF PERIOD
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
1. Cash and Equivalents	1,625,224	1,502,837	25. Accounts Payable	348,950	420,471
2. Cash-RUS Construction Fund			26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments		
a. Telecom, Accounts Receivable			28. Customer Deposits	72,944	75,682
b. Other Accounts Receivable	83,615	121,363	29. Current Mat. L/T Debt	269,000	174,829
c. Notes Receivable			30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable	576,058	498,752	32. Income Taxes Accrued		
b. Other Accounts Receivable			33. Other Taxes Accrued	110,683	137,516
c. Notes Receivable	10,200	19,300	34. Other Current Liabilities	701,520	669,448
5. Interest and Dividends Receivable			35. Total Current Liabilities (25 thru 34)	1,503,097	1,477,946
6. Material-Regulated	202,001	262,116	<b>LONG-TERM DEBT</b>		
7. Material-Nonregulated	170,082	682,894	36. Funded Debt-RUS Notes	809,956	703,036
8. Prepayments	107,415	141,178	37. Funded Debt-RTB Notes		
9. Other Current Assets			38. Funded Debt-FFB Notes		
10. Total Current Assets (1 Thru 9)	2,774,595	3,228,440	39. Funded Debt-Other		
<b>NONCURRENT ASSETS</b>			40. Funded Debt-Rural Develop. Loan	85,508	
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt		
a. Rural Development			42. Reacquired Debt		
b. Nonrural Development			43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies		
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development	151,462	161,265	46. Total Long-Term Debt (36 thru 45)	895,464	703,036
13. Nonregulated Investments	4,422,304	4,095,996	<b>OTHER LIAB. &amp; DEF. CREDITS</b>		
14. Other Noncurrent Assets	358,568	558,887	47. Other Long-Term Liabilities		
15. Deferred Charges			48. Other Deferred Credits	139,182	92,657
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
17. Total Noncurrent Assets (11 thru 16)	4,932,334	4,816,148	50. Total Other Liabilities and Deferred Credits (47 thru 49)	139,182	92,657
<b>PLANT, PROPERTY, AND EQUIPMENT</b>			<b>EQUITY</b>		
18. Telecom, Plant-in-Service	7,652,604	9,443,150	51. Cap. Stock Outstand. & Subscribed	50,000	50,000
19. Property Held for Future Use			52. Additional Paid-in-Capital		
20. Plant Under Construction	148,856	351,082	53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill			54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation	6,571,835	7,792,262	55. Other Capital	515,689	515,689
23. Net Plant (18 thru 21 less 22)	1,229,625	2,001,970	56. Patronage Capital Credits		
24. TOTAL ASSETS (10+17+23)	8,936,554	10,046,558	57. Retained Earnings or Margins	5,833,122	7,207,230
			58. Total Equity (51 thru 57)	6,398,811	7,772,919
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	8,936,554	10,046,558

Total Equity = 77.37% of Total Assets

USDA-RUS  <b>OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS</b>	BORROWER DESIGNATION  WA0541
INSTRUCTIONS- See RUS Bulletin 1744-2	PERIOD ENDING  December, 2018

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

ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	203,329	198,608
2. Network Access Services Revenues	1,377,959	1,556,314
3. Long Distance Network Services Revenues	233,978	254,948
4. Carrier Billing and Collection Revenues		
5. Miscellaneous Revenues	18,920	18,460
6. Uncollectible Revenues	27,319	4,713
<b>7. Net Operating Revenues (1 thru 5 less 6)</b>	<b>1,806,867</b>	<b>2,023,617</b>
8. Plant Specific Operations Expense	1,466,016	1,605,519
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	217,726	240,398
10. Depreciation Expense	233,795	201,754
11. Amortization Expense	6,560	6,560
12. Customer Operations Expense	653,950	641,892
13. Corporate Operations Expense	819,358	803,666
<b>14. Total Operating Expenses (8 thru 13)</b>	<b>3,397,405</b>	<b>3,499,789</b>
15. Operating Income or Margins (7 less 14)	(1,590,538)	(1,476,172)
16. Other Operating Income and Expenses		
17. State and Local Taxes	126,501	103,137
18. Federal Income Taxes		
19. Other Taxes		
<b>20. Total Operating Taxes (17+18+19)</b>	<b>126,501</b>	<b>103,137</b>
21. Net Operating Income or Margins (15+16-20)	(1,717,039)	(1,579,309)
22. Interest on Funded Debt	42,674	31,753
23. Interest Expense - Capital Leases		
24. Other Interest Expense	3,441	2,308
25. Allowance for Funds Used During Construction		
<b>26. Total Fixed Charges (22+23+24-25)</b>	<b>46,115</b>	<b>34,061</b>
27. Nonoperating Net Income	118,189	18,139
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	2,537,659	2,969,339
<b>31. Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>892,694</b>	<b>1,374,108</b>
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	4,940,428	5,833,122
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)		
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date		
38. Transfers to Patronage Capital		
<b>39. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]</b>	<b>5,833,122</b>	<b>7,207,230</b>
40. Patronage Capital Beginning-of-Year		
41. Transfers to Patronage Capital		
42. Patronage Capital Credits Retired		
<b>43. Patronage Capital End-of-Year (40+41-42)</b>	<b>0</b>	<b>0</b>
44. Annual Debt Service Payments	345,392	318,352
45. Cash Ratio [(14+20-10-11) / 7]	1.8173	1.6775
46. Operating Accrual Ratio [(14+20+26) / 7]	1.9758	1.7973
47. TIER [(31+26) / 26]	20.3580	41.3426
48. DSCR [(31+26+10+11) / 44]	3.4140	5.0777

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

I, Richard Buechel, an officer of Hood Canal Telephone Co., Inc. 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 Hood Canal Telephone Co., Inc. ("Company") from corporate operations expense that, for 2017 and 2018, was input in both the high cost loop support and broadband loop support (in part, replacing 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, 2019



\_\_\_\_\_  
Richard Buechel, President

**EXHIBIT 8**

**FINANCIAL ACCOUNTING CERTIFICATE**

I, Richard Buechel, an officer of Hood Canal Telephone Co., Inc. (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 Union, Washington this 30<sup>th</sup> day of July, 2019.

  
Richard Buechel, President

**EXHIBIT 9**

**CONTINUED OPERATIONS CERTIFICATE**

I, Richard Buechel, an officer of Hood Canal Telephone Co., Inc. (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 2020.

Dated at Union, Washington this 30<sup>th</sup> day of July, 2019.



Richard Buechel, President