



**HoodCanal**  
COMMUNICATIONS

Cable TV - Voice - Broadband - Computer Repair

July 26, 2017

Mr. Steven King, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
1300 South Evergreen Park Drive SW  
Olympia, WA 98504-7250

Re: Petition to Receive Support from the State Universal Communications Services Program  
Pursuant to WAC 480-123-100 and 480-123-110

CLAIM OF CONFIDENTIALITY

Dear Mr. King:

Pursuant to WAC 480-123-100 and WAC 480-123-110, Hood Canal Telephone Co., Inc. (“Company”) hereby petitions the Washington Utilities and Transportation Commission to receive support from the State Universal Communications Services Program for the Program year 2018.

The petition for support and exhibits that are specified in WAC 480-123-100 and WAC 480-123-110 accompany this letter and, together with this letter, are being filed electronically. The electronic filing includes .pdf format files for this letter, the petition and the exhibits. Exhibit 4 and 4.1 has been provided in Excel format per Commission Staff request.

Please note that portions of the information in the Petition and accompany exhibits are being filed on a confidential basis pursuant to WAC 480-07-160, in that certain of the information contained therein constitutes valuable and confidential commercial information, including financial information. In addition to the Company, its parent company, RJB Telecommunications Corp., might be directly affected by disclosure of the confidential information. Both confidential (unredacted) and redacted versions of the petition and its exhibits accompany this letter.

Sincerely,

Richard Buechel  
President

Enclosures

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**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

IN RE

PETITION OF HOOD CANAL  
TELEPHONE CO., INC. TO RECEIVE  
SUPPORT FROM THE STATE  
UNIVERSAL COMMUNICATIONS  
SERVICES PROGRAM

DOCKET NO.

PETITION FOR SUPPORT

COMES NOW Hood Canal Telephone Co., Inc. (the "Company") and, pursuant to Chapter 480-123 of the Washington Administrative Code ("WAC") including, but not limited to, WAC 480-123-110, hereby petitions the Washington Utilities and Transportation Commission (the "Commission") to receive support from the State Universal Communications Services Program established in RCW 80.36.650 (the "Program") for the Program year 2018.

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

1. WAC 480-123-100(1)(a): The Company is a local exchange company as defined in WAC 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       5. WAC 480-123-100(1)(e): The Company has been designated by the Commission as an  
11       eligible telecommunications carrier for purposes of receiving federal universal services  
12       support pursuant to 47 C.F.R. Part 54 Subpart D - Universal Service Support for High Cost  
13       Areas with respect to the service area for which the Company is seeking Program support.

## 17                   **II.       Demonstration of Eligibility under WAC 480-123-110**

- 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: Hood Canal Telephone Co., Inc.
- 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.

- 1 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No.  
2 105 of the Company's Tariff WN U-2.
- 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, 2016 and  
8 December 31, 2015, and copies of the Company's statements of income and retained  
9 earnings or margin for the years ended December 31, 2016 and December 31, 2015. In  
10 addition, certain service information requested by the Commission is included in Exhibit 4.  
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- 12 6. WAC 480-123-110(1)(e)(ii): A copy of the parent company's consolidated annual financial  
13 statements for the years ended December 31, 2016 and December 31, 2015, are attached  
14 hereto as Exhibit 5.
- 15 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of  
16 return on a total Washington unseparated regulated operations basis for each of the two prior  
17 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4  
18 hereto.
- 19 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on  
20 equity on a total company (regulated and non-regulated) Washington basis for each of the  
21 two prior years, calculated in the manner prescribed by the Commission, is provided in  
22 Exhibit 5 hereto.  
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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 two  
9 prior years 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-170011 filed on or about July 3, 2017.
- 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, 2016, was 587, 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, 2015, was 613, 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, 2016, was  
5 211, 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, 2015, was 224, all of which were within the geographic area for which the  
8 Company is seeking support. The monthly recurring rate charged by the Company for  
9 residential local exchange access service on December 31, 2016, was \$18.00. The monthly  
10 recurring rate charged by the Company for residential local exchange access service on  
11 December 31, 2015, was \$16.00. The rate charged by the Company for single line business  
12 local exchange access service on December 31, 2016 and 2015, was \$19.50. (The Company  
13 has other business local exchange service rates, but the Company understands that WAC  
14 480-123-110(1)(g) is requesting the single line business local exchange access service rate.)

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

16. The 2011 Rate of Return Carrier Base Period Revenue amount on line 4 of the CAF ICC  
17 Data Collection Report for the period of July 1, 2017 to June 30, 2018 is \$419,381 and has  
18 not changed from prior filings for Hood Canal Telephone Co., Inc.  
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1 17. All exhibits attached hereto are incorporated in this Petition as though fully set forth.

2 Respectfully submitted this 26th day of July, 2017.

3  
4 HOOD CANAL TELEPHONE CO., INC.

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6 CERTIFICATION

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

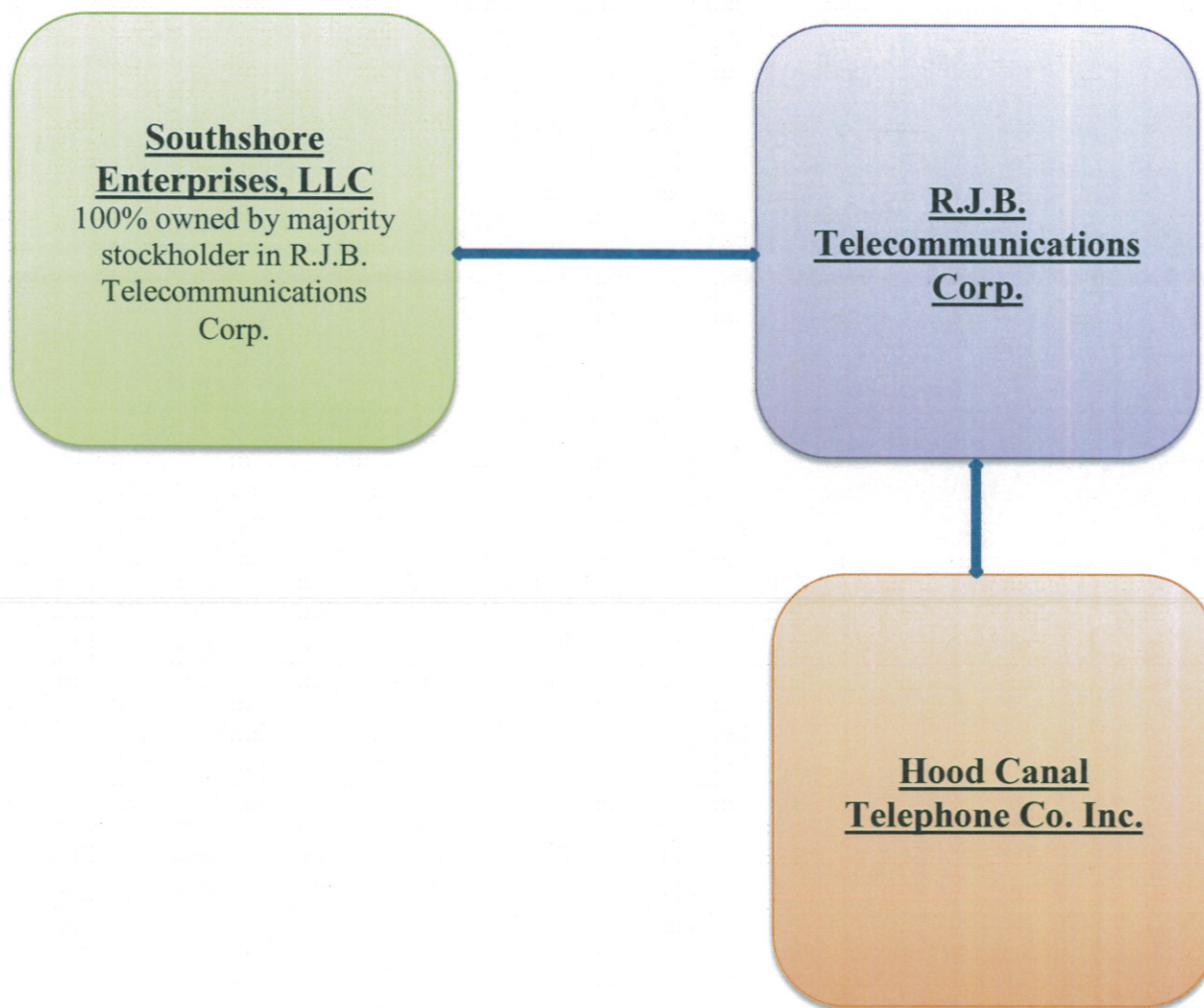
12 Dated at Union, Washington this 26<sup>th</sup> day of July, 2017.

13 By: Richard Buechel

14 Title: Richard Buechel, President

# EXHIBIT 1

## CORPORATE ORGANIZATION CHART





## **EXHIBIT 2**

### **AFFILIATED TRANSACTIONS**

The Company has affiliated transactions with its parent holding company R.J.B. Telecommunications Corp. These transactions consist of advances between the two entities. The Company records these transactions to the proper affiliated payable or receivable account.

The Company has transactions with Southshore Enterprises, LLC which is 100% owned by a majority stockholder of R.J.B. Telecommunications, Corp. These transactions consist of rents on certain real properties and equipment. The Company records these rents to the appropriate plant specific expense account and proper payable account.

Certain shareholders holding five percent or more of the stock, directly or indirectly, of the Company are also employees of the Company and receive from the Company employment compensation together with employment-associated benefits in accordance with benefit plans that are in place.

### EXHIBIT 3

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

The operating environment in which the Company finds itself has created a climate of great financial uncertainty. 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 advanced services offered by the Company, including broadband. This has resulted in the Company making additional investments in regulated plant of approximately \$2,749,739 during the period January 1, 2011 through December 31, 2016. As a result, the Company has a substantial debt obligation to cover the investment that has been made.

The overall financial condition of the Company is detailed on other Exhibits to this Petition. 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 2016, the Company's total regulated revenue decreased by 3.4 percent from 2011 through 2016. The Company has looked for ways to lower expenses. However, much of the Company's operating expenses are fixed obligations, such as debt-related payments.

At the same time, the Company is seeing increased competition. For example, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. Since 2011, the Company has lost 198 access lines. A loss of customers equates to a loss of revenue without a corresponding reduction in expenses or corresponding increase in rates. This trend of access line loss is exacerbated by the Federal Communications Commission's requirement that the Company increase its rates to remain eligible for full federal USF support. 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 Federal Communications Commission.

As an example of why state 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 off-set 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 \$39,400 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 Federal Communications Commission.<sup>1</sup> The

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<sup>1</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-

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, 2018, including reductions that will occur July 1, 2017, the Company has seen a reduction in support from the base line revenue of approximately \$111,097.

These factors, among others, have led to the strained financial condition of the Company as reflected in the financial reports that are part of the Petition.

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.

STATE USE FILING  
FINANCIAL TEMPLATE  
"S CORP" COMPANIES

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

Company Name: (Below)  
HOOD CANAL TELEPHONE CO, INC.

ASSETS	Balance End of Year 2015 (A)	Part 64 Adj to NonReg 2015 (B)	Adj. Balance End of Year 2015 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2015 (A)	Part 64 Adj to NonReg 2015 (B)	Adj. Balance End of Year 2015 (C)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
1. Cash and Equivalents	834,550		834,550	25. Accounts Payable	315,681		315,681
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	69,265		69,265
b. Other Accounts Receivable	92,007		92,007	29. Current Mat. L/T Debt	275,300		275,300
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	352,376		352,376	32. Income Taxes Accrued			0
b. Other Accounts Receivable			0	33. Other Taxes Accrued	92,725		92,725
c. Notes Receivable	9,800		9,800	34. Other Current Liabilities	544,396		544,396
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	1,297,367	0	1,297,367
6. Material-Regulated	199,209		199,209	<b>LONG-TERM DEBT</b>			
7. Material-Nonregulated	199,487		199,487	36. Funded Debt-RUS Notes	1,054,853		1,054,853
8. Prepayments	114,288		114,288	37. Funded Debt-RTB Notes			0
9. Other Current Assets			0	38. Funded Debt-FFB Notes			0
10. Total Current Assets (1 Thru 9)	1,801,717	0	1,801,717	39. Funded Debt-Other			0
<b>NONCURRENT ASSETS</b>				40. Funded Debt-Rural Develop. Loan	433,411		433,411
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			0
a. Rural Development			0	45. Other Long-Term Debt			0
b. Nonrural Development	135,232		135,232	46. Total Long-Term Debt (36 thru 45)	1,488,264	0	1,488,264
13. Nonregulated Investments (B1)	4,371,870	497,045	4,868,915	<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
14. Other Noncurrent Assets	378,790		378,790	47. Other Long-Term Liabilities			0
15. Deferred Charges			0	48. Deferred Income Taxes			0
16. Jurisdictional Differences			0	49. Other Deferred Credits (D)	230,940	(24,481)	206,459
17. Total noncurrent Assets (11 thru 16)	4,885,892	497,045	5,382,937	50. Other Jurisdictional Differences			0
<b>PLANT, PROPERTY AND EQUIPMENT</b>				51. Total Other Liab. & Def. Credits (47 thru 50)	230,940	(24,481)	206,459
18. Telecom Plant-In-Service	7,577,200	(859,305)	6,717,895	<b>EQUITY</b>			
19. Property Held for Future Use			0	52. Cap. Stock Outstanding & Subscribed	50,000		50,000
20. Plant Under Construction	322,515	(310,451)	12,064	53. Additional Paid-in-Capital			0
21. Plant Adj., Nonop Plant & Goodwill			0	54. Treasury Stock			0
22. Accumulated Depreciation (CR.)	(6,372,069)	672,711	(5,699,358)	55. Membership and cap. Certificates			0
23. Net Plant (18 thru 21 less 22)	1,527,646	(497,045)	1,030,601	56. Other Capital	515,689		515,689
<b>24. TOTAL ASSETS (10+17+23)</b>	<b>8,215,255</b>	<b>0</b>	<b>8,215,255</b>	57. Patronage Capital Credits			0
				58. Retained Earnings or Margins (B2)	4,632,995	24,481	4,657,476
				59. Total Equity (51 thru 58)	5,198,684	24,481	5,223,165
				<b>60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>8,215,255</b>	<b>0</b>	<b>8,215,255</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

PETITION OF HOOD CANAL TELEPHONE CO., INC.  
TO RECEIVE SUPPORT FROM STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 4-2

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

Company Name: (Below)  
HOOD CANAL TELEPHONE CO, INC.

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	963,384		963,384	25. Accounts Payable	459,163		459,163
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	68,804		68,804
b. Other Accounts Receivable	160,618		160,618	29. Current Mat. L/T Debt	286,100		286,100
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	424,666		424,666	32. Income Taxes Accrued			0
b. Other Accounts Receivable			0	33. Other Taxes Accrued	96,317		96,317
c. Notes Receivable	10,000		10,000	34. Other Current Liabilities	570,137		570,137
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	1,480,521	0	1,480,521
6. Material-Regulated	173,669		173,669	<b>LONG-TERM DEBT</b>			
7. Material-Nonregulated	173,264		173,264	36. Funded Debt-RUS Notes	917,387		917,387
8. Prepayments	67,966		67,966	37. Funded Debt-RTB Notes			0
9. Other Current Assets			0	38. Funded Debt-FFB Notes			0
10. Total Current Assets (1 Thru 9)	1,973,567	0	1,973,567	39. Funded Debt-Other			0
<b>NONCURRENT ASSETS</b>				40. Funded Debt-Rural Develop. Loan	263,695		263,695
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			0
a. Rural Development			0	45. Other Long-Term Debt			0
b. Nonrural Development	143,780		143,780	46. Total Long-Term Debt (36 thru 45)	1,181,082	0	1,181,082
13. Nonregulated Investments (B1)	4,566,988	166,261	4,733,249	<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
14. Other Noncurrent Assets	368,792		368,792	47. Other Long-Term Liabilities			0
15. Deferred Charges			0	48. Deferred Income Taxes			0
16. Jurisdictional Differences			0	49. Other Deferred Credits (D)	185,269	(22,014)	163,255
17. Total noncurrent Assets (11 thru 16)	5,079,560	166,261	5,245,821	50. Other Jurisdictional Differences			0
<b>PLANT, PROPERTY AND EQUIPMENT</b>				51. Total Other Liab. & Def. Credits (47 thru 50)	185,269	(22,014)	163,255
18. Telecom Plant-In-Service	7,542,150	(548,822)	6,993,328	<b>EQUITY</b>			
19. Property Held for Future Use			0	52. Cap. Stock Outstanding & Subscribed	50,000		50,000
20. Plant Under Construction	303,033	(163,715)	139,318	53. Additional Paid-in-Capital			0
21. Plant Adj., Nonop Plant & Goodwill			0	54. Treasury Stock			0
22. Accumulated Depreciation (CR.)	(6,545,321)	546,276	(5,999,045)	55. Membership and cap. Certificates			0
23. Net Plant (18 thru 21 less 22)	1,299,862	(166,261)	1,133,601	56. Other Capital	515,689		515,689
<b>24. TOTAL ASSETS (10+17+23)</b>	<b>8,352,989</b>	<b>0</b>	<b>8,352,989</b>	57. Patronage Capital Credits			0
				58. Retained Earnings or Margins (B2)	4,940,428	22,014	4,962,442
				59. Total Equity (52 thru 58)	5,506,117	22,014	5,528,131
				<b>60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>8,352,989</b>	<b>0</b>	<b>8,352,989</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

PETITION OF HOOD CANAL TELEPHONE CO., INC.  
TO RECEIVE SUPPORT FROM STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 4-3

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

Company Name: (Below)  
HOOD CANAL TELEPHONE CO, INC.

ASSETS	Adjusted Prior Year Balance 2015	Adjusted Current Year Balance 2016	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2015	Adjusted Current Year Balance 2016
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
1. Cash and Equivalents	834,550	963,384	25. Accounts Payable	315,681	459,163
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	69,265	68,804
b. Other Accounts Receivable	92,007	160,618	29. Current Mat. L/T Debt	275,300	286,100
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	352,376	424,666	32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	0	0	33. Other Taxes Accrued	92,725	96,317
c. Notes Receivable	9,800	10,000	34. Other Current Liabilities	544,396	570,137
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	1,297,367	1,480,521
6. Material-Regulated	199,209	173,669	<b>LONG-TERM DEBT</b>		
7. Material-Nonregulated	199,487	173,264	36. Funded Debt-RUS Notes	1,054,853	917,387
8. Prepayments	114,288	67,966	37. Funded Debt-RTB Notes	0	0
9. Other Current Assets	0	0	38. Funded Debt-FFB Notes	0	0
10. Total Current Assets (1 Thru 9)	1,801,717	1,973,567	39. Funded Debt-Other	0	0
<b>NONCURRENT ASSETS</b>			40. Funded Debt-Rural Develop. Loan	433,411	263,695
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	0	0
a. Rural Development	0	0	45. Other Long-Term Debt	0	0
b. Nonrural Development	135,232	143,780	46. Total Long-Term Debt (36-45)	1,488,264	1,181,082
13. Nonregulated Investments	4,868,915	4,733,249	<b>OTHER LIAB. &amp; DEF. CREDITS</b>		
14. Other Noncurrent Assets	378,790	368,792	47. Other Long-Term Liabilities	0	0
15. Deferred Charges	0	0	48. Deferred Income Taxes	0	0
16. Jurisdictional Differences	0	0	49. Other Deferred Credits	206,459	163,255
17. Total noncurrent Assets (11 thru 16)	5,382,937	5,245,821	50. Other Jurisdictional Differences	0	0
<b>PLANT, PROPERTY AND EQUIPMENT</b>			51. Total Other Liab. & Def. Credits (47 thru 50)	206,459	163,255
18. Telecom Plant-in-Service	6,717,895	6,993,328	<b>EQUITY</b>		
19. Property Held for Future Use	0	0	52. Cap. Stock Outstanding & Subscribed	50,000	50,000
20. Plant Under Construction	12,064	139,318	53. Additional Paid-in-Capital	0	0
21. Plant Adj., Nonop Plant & Goodwill	0	0	54. Treasury Stock	0	0
22. Accumulated Depreciation (CR.)	(5,699,358)	(5,999,045)	55. Membership and cap. Certificates	0	0
23. Net Plant (18 thru 21 less 22)	1,030,601	1,133,601	56. Other Capital	515,689	515,689
<b>24. TOTAL ASSETS (10+17+23)</b>	<b>8,215,255</b>	<b>8,352,989</b>	57. Patronage Capital Credits	0	0
			58. Retained Earnings or Margins	4,657,476	4,962,442
			59. Total Equity (51 thru 57)	5,223,165	5,528,131
			<b>60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>8,215,255</b>	<b>8,352,989</b>

Footnote:  
Adjusted Balances represents balances  
after Part 64 adjustments

PETITION OF HOOD CANAL TELEPHONE CO., INC.  
TO RECEIVE SUPPORT FROM STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 4-4

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

Company Name: (Below)

HOOD CANAL TELEPHONE CO, INC.

Line #	Description	B/S Line #	Adj. Balance End of Year 2015	Adj. Balance End of Year 2016	Average Adj End of Year Balance
<b>Average Rate Base:</b>					
1	Total Regulated Adjusted Telecom Plant-in-service	18	6,717,895	6,993,328	6,855,612
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(5,699,358)	(5,999,045)	(5,849,202)
4	Total Regulated Materials & Supplies	6	199,209	173,669	186,439
5	Deferred Income Taxes (CR)		(155,354)	(157,075)	(156,215)
6	<b>Total Regulated Rate Base</b>		<b>1,062,392</b>	<b>1,010,877</b>	<b>1,036,635</b>

Footnotes:

1. Adjusted balance includes Part 64 adjustments
2. Normal balance of deferred income taxes and accumulated depreciation is a credit.
3. For "S Corp" companies, manual input required for Deferred Income Taxes, Line 5.



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

Company Name: (Below)

HOOD CANAL TELEPHONE CO, INC.

Line #	Description	Prior Year End of Yr. Balance - 2015	Current Year End of Yr. Balance - 2016	Difference	% Change
	<b>Access Lines:</b>				
1	Residential	613	587	(26)	-4.2%
2	Business	224	211	(13)	-5.8%
3	Total	837	798	(39)	-4.7%

Note: If 2015 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)  
 HOOD CANAL TELEPHONE CO, INC.

Line #	Description	Prior Year 2015 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2015 (C)
1	Local Network Services Revenues	197,205		197,205
2	Network Access Services Revenues	1,609,461		1,609,461
3	Long Distance Network Services Revenues	204,176	(171,676)	32,500
4	Carrier Billing and Collection Revenues			0
5	Miscellaneous Revenues	20,582		20,582
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	1,536		1,536
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>2,032,960</b>	<b>(171,676)</b>	<b>1,861,284</b>
8	Plant Specific Operations Expense	1,236,062	(297,911)	938,151
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	141,765	35,738	177,503
10	Depreciation Expense	265,637	(79,801)	185,836
11	Amortization Expense	6,560	(6,560)	0
12	Customer Operations Expense	647,884	(226,030)	421,854
13	Corporate Operations	855,139	(115,053)	740,086
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>3,153,047</b>	<b>(689,617)</b>	<b>2,463,430</b>
15	Operating Income or Margins (7 less 14)	(1,120,087)	517,941	(602,146)
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes	169,689	(11,751)	157,938
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)		0	0
19	Other Taxes			0
20	<b>Total Operating Taxes (17+18+19)</b>	<b>169,689</b>	<b>(11,751)</b>	<b>157,938</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>(1,289,776)</b>	<b>529,692</b>	<b>(760,084)</b>
22	Interest on Funded Debt	65,565	(58,276)	7,289
23	Interest Expense - Capital Leases			0
24	Other Interest Expense	6,744		6,744
25	Allowance for Funds Used During Construction (CR)			0
26	<b>Total Fixed Charges (22+23+24-25)</b>	<b>72,309</b>	<b>(58,276)</b>	<b>14,033</b>
27	Nonoperating Net Income	10,563		10,563
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	2,078,439	(587,968)	1,490,471
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>726,917</b>	<b>0</b>	<b>726,917</b>
32	Total Taxes Based on Income			
33	Retained Earnings or Margins Beginning-of-Year	4,330,373		4,330,373
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)	424,295		424,295
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	<b>Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38))(A2)</b>	<b>4,632,995</b>	<b>0</b>	<b>4,632,995</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	350,781		350,781
45	Cash Ratio ((14+20-10-11)/7)	1.5005	3.5824	1.3085
46	Operating Accrual Ratio ((14+20+26)/7)	1.6700	4.4249	1.4159
47	TIER ((31+26)/26)	11.0529	1.0000	52.8005
48	DSCR ((31+26+10+11)/44)	3.0544	#DIV/0!	2.6421

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9 Inc. Stmt 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)

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

Company Name: (Below)  
HOOD CANAL TELEPHONE CO, INC.

Line #	Description	Current Year 2016 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2016 (C)
1	Local Network Services Revenues	204,036		204,036
2	Network Access Services Revenues	1,694,559		1,694,559
3	Long Distance Network Services Revenues	232,418	(198,037)	34,381
4	Carrier Billing and Collection Revenues			0
5	Miscellaneous Revenues	20,529		20,529
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	887		887
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>2,152,429</b>	<b>(198,037)</b>	<b>1,954,392</b>
8	Plant Specific Operations Expense	1,463,142	(309,590)	1,153,552
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	210,145	24,122	234,267
10	Depreciation Expense	392,209	(90,410)	301,799
11	Amortization Expense	6,560	(6,560)	0
12	Customer Operations Expense	680,631	(236,419)	444,212
13	Corporate Operations	873,014	(130,173)	742,841
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>3,625,701</b>	<b>(749,030)</b>	<b>2,876,671</b>
15	Operating Income or Margins (7 less 14)	(1,473,272)	550,993	(922,279)
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes	123,302	(9,024)	114,278
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)		0	0
19	Other Taxes			0
20	<b>Total Operating Taxes (17+18+19)</b>	<b>123,302</b>	<b>(9,024)</b>	<b>114,278</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>(1,596,574)</b>	<b>560,017</b>	<b>(1,036,557)</b>
22	Interest on Funded Debt	54,441	(47,844)	6,597
23	Interest Expense - Capital Leases			0
24	Other Interest Expense	3,823		3,823
25	Allowance for Funds Used During Construction (CR)			0
26	<b>Total Fixed Charges (22+23+24-25)</b>	<b>58,264</b>	<b>(47,844)</b>	<b>10,420</b>
27	Nonoperating Net Income	3,069		3,069
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	1,959,202	(607,861)	1,351,341
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>307,433</b>	<b>0</b>	<b>307,433</b>
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	4,632,995		4,632,995
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)			0
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	<b>Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38))(A2)</b>	<b>4,940,428</b>	<b>0</b>	<b>4,940,428</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	350,823		350,823
45	Cash Ratio ((14+20-10-11)/7)	1.5565	3.3382	1.3760
46	Operating Accrual Ratio ((14+20+26)/7)	1.7688	4.0694	1.5357
47	TIER ((31+26)/26)	6.2766	1.0000	30.5041
48	DSCR ((31+26+10+11)/44)	2.1791	#DIV/0!	1.7663

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9, Inc. Stmt 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)

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

Company Name: (Below)  
 HOOD CANAL TELEPHONE CO, INC.

Line #	Description	Adjusted Prior Year 2015	Adjusted Current Year 2016
1	Local Network Services Revenues	197,205	204,036
2	Network Access Services Revenues	1,609,461	1,694,559
3	Long Distance Network Services Revenues	32,500	34,381
4	Carrier Billing and Collection Revenues	0	0
5	Miscellaneous Revenues	20,582	20,529
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	1,536	887
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>1,861,284</b>	<b>1,954,392</b>
8	Plant Specific Operations Expense	938,151	1,153,552
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	177,503	234,267
10	Depreciation Expense	185,836	301,799
11	Amortization Expense	0	0
12	Customer Operations Expense	421,854	444,212
13	Corporate Operations	740,086	742,841
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>2,463,430</b>	<b>2,876,671</b>
15	Operating Income or Margins (7 less 14)	(602,146)	(922,279)
16	Other Operating Income and Expenses ( )	0	0
17	State and Local Taxes	157,938	114,278
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	0	0
19	Other Taxes	0	0
20	<b>Total Operating Taxes (17+18+19)</b>	<b>157,938</b>	<b>114,278</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>(760,084)</b>	<b>(1,036,557)</b>
22	Interest on Funded Debt	7,289	6,597
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	6,744	3,823
25	Allowance for Funds Used During Construction	0	0
26	<b>Total Fixed Charges (22+23+24-25)</b>	<b>14,033</b>	<b>10,420</b>
27	Nonoperating Net Income	10,563	3,069
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	1,490,471	1,351,341
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>726,917</b>	<b>307,433</b>
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	4,330,373	4,632,995
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	424,295	0
36	Dividends Declared (Preferred)	0	0
37	Other Debits Year-to-Date	0	0
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>4,632,995</b>	<b>4,940,428</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	350,781	350,823
45	Cash Ratio ((14+20-10-11)/7)	1.3085	1.3760
46	Operating Accrual Ratio ((14+20+26)/7)	1.4159	1.5357
47	TIER ((31+26)/26)	52.8005	30.5041
48	DSCR ((31+26+10+11)/44)	2.64	1.7663

Footnote	2015	2016
(A1) S Corporation Effective Tax Rate (2 decimal places):	28.22%	18.03%

Note:  
 Adjusted Income Statement reflects Part 64 Adjustments (Regulated to Nonregulated).

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

Company Name: (Below)  
HOOD CANAL TELEPHONE CO, INC.

Line #	Description	Part 32 Account	Prior Year 2015	Current Year 2016
1	End User Revenue (SLC, ARC, etc.)	5081	101,921	105,694
2	Switched Access (excluding USF):	5082		
2a	Intrastate		65,232	62,751
2b	Interstate (Includes CAF)		349,046	449,911
3	Special Access:	5083		
3a	Intrastate		120	1,386
3b	Interstate		189,794	114,244
4	Federal USF (ICLS/HCL/SN)	Varies	795,123	834,819
5	State USF		108,225	125,754
6	Other*			
7	Total (must equal line 2 of Income Stmt.)		1,609,461	1,694,559
8	Line 2 of Income Stmt.		1,609,461	1,694,559
9	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)

HOOD CANAL TELEPHONE CO, INC.

Description of Out-of-Period - 2016 (As Recorded) OR Pro Forma (PF) Adjustments for Current Year or Reversing from Prior Year	Year	OOP or PDF?	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:  
HOOD CANAL TELEPHONE CO, INC.

Line #	Source(A)	Net Operating Income Inputted FIT Calculation	2016	
1	Page 9, Line 21 (CY)	Adjusted Net Operating Income	(1,036,557)	
2		Out-of-Period or Pro Forma Adjustments		
3	Page 9, Line 26 (CY)	Total Fixed Charges	10,420	(A)
4	Sum	Adj. Taxable Operating Income (Line 1 + Line 2 - Line 3)	(1,046,977)	
5		Inputted S Corp. Tax Rate(B)	18.03%	
6	Calculated	inputted FIT (Line 4 * Line 5)	(188,770)	
7	Sum	Adj. Net Operating income after FIT (Line 4 - Line 6)	(858,207)	(B)
<b>NonOperating Income Inputted FIT Calculation</b>				
Line #	Source(A)	NonOperating Income Inputted FIT Calculation		
8	Page 9, Line 27 (CY)	Nonoperating net income	3,069	
9	Page 9, Line 30 (CY)	Nonregulated net income	1,351,341	
10	Sum	Sub-Total (Line 27+Line 30)	1,354,410	
11		Inputted S Corp. Tax Rate(B)	18.03%	
12	Calculated	FIT (Line 10 * Line 11)	244,200	
13	Sum	Nonop/Nonreg income after FIT (Line 10 - Line 12)	1,110,210	(C)
14	Sum	<b>Adjusted Net Income w/inputted FIT</b>	<b>252,003</b>	(B)+(C)
<b>Sanity Check:</b>				
Line #	Source(A)	Sanity Check:		
15	Page 9, Line 31 (CY)	Line 31 as reported	307,433	
16		Out-of-Period or Pro Forma Adjustments	-	
17		Total	307,433	
18		Inverse of effective tax rate (100%-Line 10 percent)	81.97%	
19	Calculated	Adjusted Net Income (Line 17*Line 18) = Line 14	<b>252,003</b>	(D)
<b>Regulated Rate of Return</b>				
Line #	Source(A)	Regulated Rate of Return		
20	Page 5, Total (PY)	Regulated rate base Year End 2015	1,062,392	
21	Page 5, Total (CY)	Regulated rate base Year End 2016	1,010,877	
22	Sum	Total	2,073,269	
23	Calculated	Simple Avg.	1,036,635	(E)
24	Line 7 (above)	Adj Operating Income after inputted FIT	(858,207)	
27	Calculated	Regulated rate of return	-82.8%	(B)/(E)

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

CONFIDENTIAL PER 480-07-160  
 Exhibit 4.1

Exhibit 4.1

Company Name: (Below)  
 HOOD CANAL TELEPHONE CO., INC.

Description	Prior Year End of Yr. Balance - 2015	Current Year End of Yr. Balance - 2016	Difference	% Change
<b>Broadband Connections:</b>				
Residential				
Business				
Total				
<b>Gross Regulated and Nonregulated Capital Expenditures:</b>				
Total Annual Amount				
<b>Broadband Connections by Type:</b>				
DSL/FTTH				
Cable Modem				
Total				



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

Reviewed Consolidated Financial Statements

December 31, 2016 and 2015

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

Reviewed Consolidated Financial Statements

December 31, 2016 and 2015

**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
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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, 2016 and 2015 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***

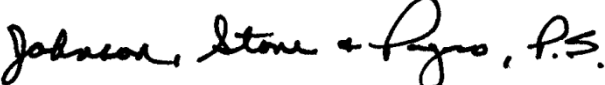
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation 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.

February 2, 2017

REVIEWED CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED BALANCE SHEETS

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<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 (2016 - [REDACTED] 2015 - [REDACTED])		
<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.

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

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<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  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 5, PAGE - 6

**REDACTED**

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

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

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<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 expense		
<b>Total Other 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

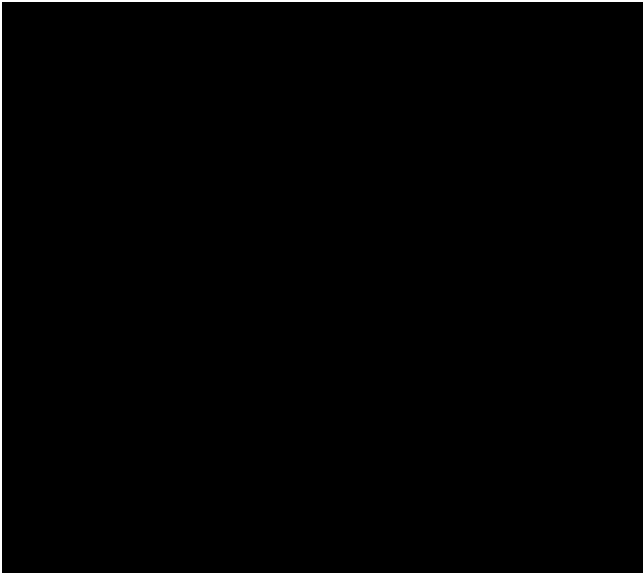
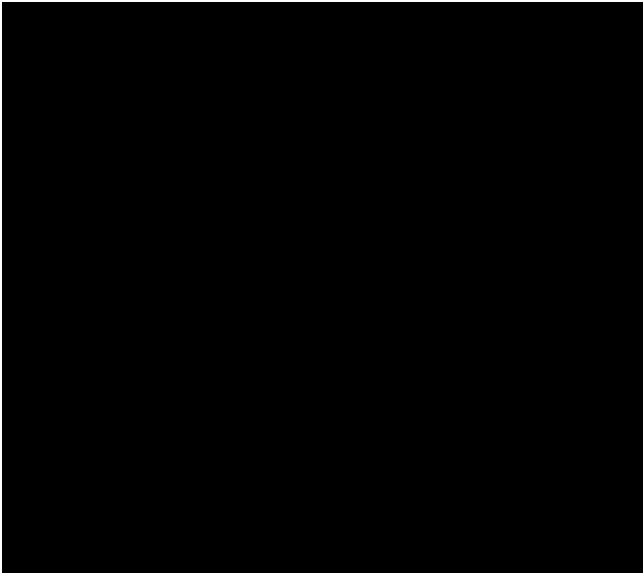
**REDACTED**

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

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2016 and 2015

	<u>Common Stock</u>		<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	
<b>Balance at December 31, 2014</b>				
Net income for the year				
Dividends on common stock Cash				
<b>Balance at December 31, 2015</b>				
Net income for the year				
Dividends on common stock Cash Declared				
<b>Balance at December 31, 2016</b>				



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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<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		
Grants collected		
Advances to affiliated company		
Advances on notes receivable		
Payments on notes receivable		
<b>Net Cash Used by Investing Activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt		
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  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 5, PAGE - 9

**REDACTED**

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</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		
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING TRANSACTIONS</b>		
Noncash transfer of plant under construction to affiliated company		

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, 2016 and 2015

**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.

***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, 2016 and 2015 is [REDACTED] each year.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

**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, 2016 and 2015, 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, digital subscriber lines, 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, 2016 and 2015

**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 have 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 \$51,000 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. This budget control mechanism further reduces HCLS, Safety Net Additive Support and Interstate Common Line Support, now renamed Connect America

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

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

Fund Broadband Loop Support, funding for Hood Canal Telephone Co., Inc. by approximately \$11,000 in 2016. Included in the budget control mechanism were an operating expense limitation calculation and a capital expenditure allowance calculation. Hood Canal Telephone Co., Inc. was not impacted by the capital expenditure allowance calculation. Hood Canal Telephone Co., Inc. will be impacted by the new operating expense limitation causing further reduction of support starting January 1, 2017.

As part of FCC 16-33 Universal Service Reform 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 January 1, 2017. Hood Canal Telephone Co., Inc. will remain 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 2016, the rate of return was reduced to 11%.

Hood Canal Telephone Co., Inc. continues to review the reforms and modifications to the support that the 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.

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 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 \$134,293 from the State USF Program for

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

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

the period July 1, 2016 to June 30, 2017 and recorded deferred revenue of \$67,147 for the unearned portion. In 2015 Hood Canal Telephone Co., Inc. received \$117,214 from the State USF Program for the period July 1, 2015 to June 30, 2016, and recorded deferred revenue of \$58,607 for the unearned portion. The State USF Program is scheduled to last for five program years.

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. The Company's federal income tax returns for the tax years ended previous to December 31, 2013 are closed to examination.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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 February 2, 2017, the date of completion of the accountant's review procedures. All identified material events or transactions have been recorded or disclosed.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2016 and 2015

**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 [REDACTED]. The Company and its subsidiary periodically maintain cash in excess of federally insured limits. At December 31, 2016, 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>2016</u>	<u>2015</u>
Due from customers and agents	[REDACTED]	
Due from exchange carriers and exchange carrier associations		
Other accounts receivable		
Allowance for doubtful accounts (deduction)		

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.



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

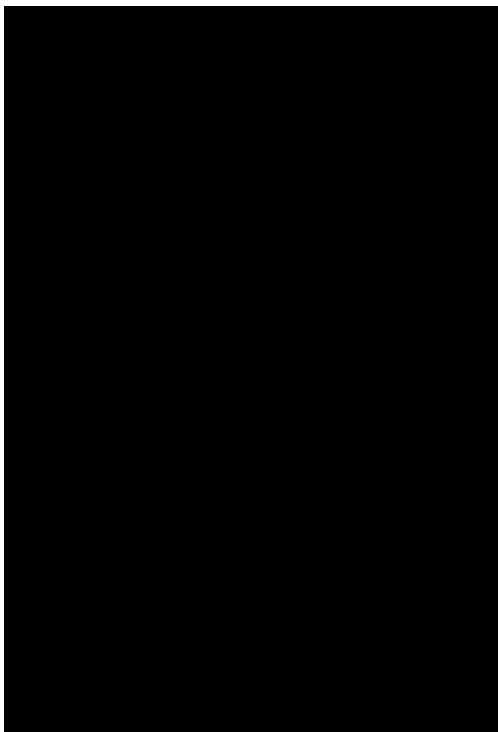
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE 5 - NOTES RECEIVABLE**

The notes receivable balances consist of the following:

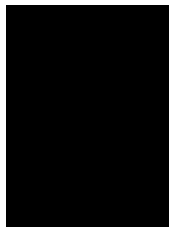
	Current Annual Installments of Principal	<u>Amount</u>	
		<u>2016</u>	<u>2015</u>
Note receivable from an individual in monthly installments of [REDACTED] including interest at [REDACTED], due February 2033, secured by real property. Paid in full during 2016.			
Notes receivable from affiliated company owned by majority stockholder in monthly installments of [REDACTED] including interest at [REDACTED], due December 2019. Secured by real property.			
Note receivable from affiliated company owned by majority stockholder, no monthly installments required, interest accrues at [REDACTED] with principal and interest due in full August 2018.			
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]

At December 31, 2016, maturities of notes receivable for the next five years and thereafter are as follows:

2017  
2018  
2019  
  
Total



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

December 31, 2016 and 2015

**NOTE 6 - INVESTMENTS**

Investments consist of marketable securities as follows:

	<u>2016</u>	<u>2015</u>
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		

Marketable securities are carried at cost; the difference between fair market value and cost at December 31, 2016 and 2015 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, 2016 and 2015, no triggering events occurred requiring impairment testing and thus, no impairment loss was recorded.

Goodwill presented in the balance sheet as of December 31, 2016 and 2015, consists of the following:

	<u>2016</u>	<u>2015</u>
Goodwill		
Less accumulated amortization		
Goodwill, net of amortization		

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

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

	Useful Lives (Years)	Amount	
		2016	2015
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			

***Depreciation Expense***

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

	2016	2015
Telecommunications plant		
Cable television plant		
Nonregulated plant		
Total Depreciation Expense		



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

December 31, 2016 and 2015

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

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 also maintain a certain times interest earned ratio.

In September 2010, Hood Canal Telephone Co., Inc. was awarded a grant in the amount of [REDACTED] and a loan in the amount of [REDACTED] from the Rural Utilities Service Broadband Initiative Program. The grant and loan funds were used by Hood Canal Telephone Co., Inc. to provide broadband services to new customers outside their current regulated service territory. For the year ended December 31, 2015, Hood Canal Telephone Co., Inc. drew down [REDACTED] in grant funds and [REDACTED] in loan funds. At December 31, 2016 and 2015, Hood Canal Telephone Co., Inc. has no funds available for future approved plant construction expenditures.

**NOTE 10 - DEFERRED COMPENSATION**

Hood Canal Telephone Co., Inc. has a deferred compensation agreement ("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, 2016 and 2015, 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.

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, 2016 and 2015 were [REDACTED] and [REDACTED], respectively.

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

December 31, 2016 and 2015

**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, 2016 and 2015 was [REDACTED], respectively. At December 31, 2016 and 2015, 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, 2016 and 2015, 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:

2017  
2018  
2019



**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 Southshore Enterprises, LLC. The warehouse leases are for ten year terms that expired in January 2017 and provide that Hood Canal Telephone Co., Inc. pay for insurance, maintenance and taxes. In January 2017, the leases were renewed for ten years. 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.

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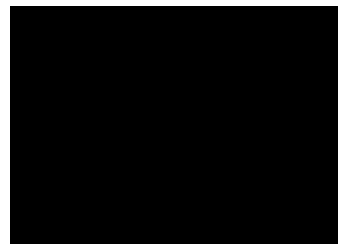
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE 13 - RELATED PARTY TRANSACTIONS (Continued)**

Total rental expense under these leases for the years ended December 31, 2016 and 2015 totaled [REDACTED] and [REDACTED], respectively. Future minimum rental payments under these leases are as follows:

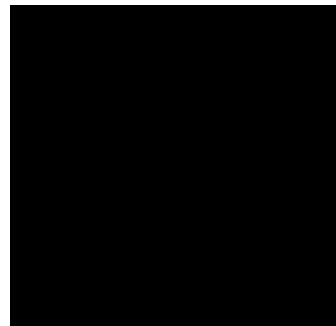
2017  
2018  
2019  
2020  
2021



During the years ended December 31, 2016 and 2015, Hood Canal Telephone Co., Inc. had the following related party amounts due and transactions as follows:

Southshore  
Enterprises, LLC

Balance December 31, 2014  
Advances  
Repayments  
  
Balance December 31, 2015  
Advances  
Repayments  
  
Balance December 31, 2016



**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 2017 estimated pro rata expense adjustment factor is currently approximately 82% and this will cause a significant reduction of approximately \$63,000 to Hood Canal Telephone Co., Inc.'s 2017 HCLS revenues.

In addition, the budget control mechanism as discussed in Note 1 has been calculated for the first half of 2017 and Hood Canal Telephone Co., Inc.'s federal funding will be further reduced by approximately \$27,000.

<b>USDA-RUS</b>  <b>OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS</b>		<i>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.</i> BORROWER NAME Hood Canal Telephone Co., Inc. (Prepared with Audited Data)	
<i>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.</i>		PERIOD ENDING December, 2016	BORROWER DESIGNATION WA0541
<b>CERTIFICATION</b> <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> <b>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.</b> <b>DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1788 OF 7CFR CHAPTER XVII</b> <i>(Check one of the following)</i>			
<input checked="" type="checkbox"/> All of the obligations under the RUS loan documents have been fulfilled in all material respects.		<input type="checkbox"/> 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	
RICHARD BUECHEL		3/24/2017 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	834,550	963,384	25. Accounts Payable	315,681	459,163
2. Cash-RUS Construction Fund	0		26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments		
a. Telecom, Accounts Receivable			28. Customer Deposits	69,265	68,804
b. Other Accounts Receivable	92,007	160,618	29. Current Mat. L/T Debt	275,300	286,100
c. Notes Receivable			30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable	352,376	424,666	32. Income Taxes Accrued		
b. Other Accounts Receivable			33. Other Taxes Accrued	92,725	96,317
c. Notes Receivable	9,800	10,000	34. Other Current Liabilities	544,396	570,137
5. Interest and Dividends Receivable			<b>35. Total Current Liabilities (25 thru 34)</b>	<b>1,297,367</b>	<b>1,480,521</b>
6. Material-Regulated	199,209	173,669	<b>LONG-TERM DEBT</b>		
7. Material-Nonregulated	199,487	173,264	36. Funded Debt-RUS Notes	1,054,853	917,387
8. Prepayments	114,288	67,966	37. Funded Debt-RTB Notes		
9. Other Current Assets			38. Funded Debt-FFB Notes		
<b>10. Total Current Assets (1 Thru 9)</b>	<b>1,801,717</b>	<b>1,973,567</b>	39. Funded Debt-Other		
<b>NONCURRENT ASSETS</b>			40. Funded Debt-Rural Develop. Loan	433,411	263,695
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	135,232	143,780	<b>46. Total Long-Term Debt (36 thru 45)</b>	<b>1,488,264</b>	<b>1,181,082</b>
13. Nonregulated Investments	4,371,870	4,566,988	<b>OTHER LIAB. &amp; DEF. CREDITS</b>		
14. Other Noncurrent Assets	378,790	368,792	47. Other Long-Term Liabilities		
15. Deferred Charges			48. Other Deferred Credits	230,940	185,269
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
<b>17. Total Noncurrent Assets (11 thru 16)</b>	<b>4,885,892</b>	<b>5,079,560</b>	50. Total Other Liabilities and Deferred Credits (47 thru 49)	230,940	185,269
<b>PLANT, PROPERTY, AND EQUIPMENT</b>			<b>EQUITY</b>		
18. Telecom, Plant-in-Service	7,577,200	7,542,150	51. Cap. Stock Outstand. & Subscribed	50,000	50,000
19. Property Held for Future Use			52. Additional Paid-in-Capital		
20. Plant Under Construction	322,515	303,033	53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill			54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation	6,372,069	6,545,321	55. Other Capital	515,689	515,689
<b>23. Net Plant (18 thru 21 less 22)</b>	<b>1,527,646</b>	<b>1,299,862</b>	56. Patronage Capital Credits		
<b>24. TOTAL ASSETS (10+17+23)</b>	<b>8,215,255</b>	<b>8,352,989</b>	57. Retained Earnings or Margins	4,632,995	4,940,428
			<b>58. Total Equity (51 thru 57)</b>	<b>5,198,684</b>	<b>5,506,117</b>
			<b>59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)</b>	<b>8,215,255</b>	<b>8,352,989</b>



USDA-RUS  <b>OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS</b>	BORROWER DESIGNATION  WA0541
<i>INSTRUCTIONS- See RUS Bulletin 1744-2</i>	PERIOD ENDING  December, 2016

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

ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	197,205	204,036
2. Network Access Services Revenues	1,609,461	1,694,559
3. Long Distance Network Services Revenues	204,176	232,418
4. Carrier Billing and Collection Revenues	0	
5. Miscellaneous Revenues	20,582	20,529
6. Uncollectible Revenues	(1,536)	(887)
<b>7. Net Operating Revenues (1 thru 5 less 6)</b>	<b>2,032,960</b>	<b>2,152,429</b>
8. Plant Specific Operations Expense	1,236,062	1,463,142
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	141,765	210,145
10. Depreciation Expense	265,637	392,209
11. Amortization Expense	6,560	6,560
12. Customer Operations Expense	647,884	680,631
13. Corporate Operations Expense	855,139	873,014
<b>14. Total Operating Expenses (8 thru 13)</b>	<b>3,153,047</b>	<b>3,625,701</b>
15. Operating Income or Margins (7 less 14)	(1,120,087)	(1,473,272)
16. Other Operating Income and Expenses		
17. State and Local Taxes	169,689	123,302
18. Federal Income Taxes		
19. Other Taxes		
<b>20. Total Operating Taxes (17+18+19)</b>	<b>169,689</b>	<b>123,302</b>
21. Net Operating Income or Margins (15+16-20)	(1,289,776)	(1,596,574)
22. Interest on Funded Debt	65,565	54,441
23. Interest Expense - Capital Leases		
24. Other Interest Expense	6,744	3,823
25. Allowance for Funds Used During Construction		
<b>26. Total Fixed Charges (22+23+24-25)</b>	<b>72,309</b>	<b>58,264</b>
27. Nonoperating Net Income	10,563	3,069
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	2,078,439	1,959,202
<b>31. Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>726,917</b>	<b>307,433</b>
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	4,330,373	4,632,995
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)	424,295	
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>4,632,995</b>	<b>4,940,428</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	350,781	350,823
45. Cash Ratio [(14+20-10-11) / 7]	1.5005	1.5565
46. Operating Accrual Ratio [(14+20+26) / 7]	1.6700	1.7688
47. TIER [(31+26) / 26]	11.0529	6.2766
48. DSCR [(31+26+10+11) / 44]	3.0544	2.1791

**EXHIBIT 7**

**CORPORATE OPERATIONS EXPENSE ADJUSTMENT CERTIFICATE**

I, Richard Buechel, an officer of Hood Canal Telephone Co., Inc. with personal knowledge and responsibility, under penalty of perjury, hereby certify that no corporate operations adjustment(s) to existing high-cost loop and/or interstate common line support mechanisms, as required by the Federal Communications Commission, applied to the Company in 2016 and 2015.

Dated this 26<sup>th</sup> day of July, 2017



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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 26<sup>th</sup> day of July, 2017.



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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 2018.

Dated at Union, Washington this 26<sup>th</sup> day of July, 2017.



Richard Buechel, President