

Confidential per WAC 480-07-160

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

Reviewed Consolidated Financial Statements

December 31, 2015 and 2014

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

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT 1

REVIEWED CONSOLIDATED FINANCIAL STATEMENTS

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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, 2015 and 2014 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 3, 2016

PETITION OF HOOD CANAL TELEPHONE CO., INC. TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -
EXHIBIT 5, PAGE - 3

REVIEWED CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED BALANCE SHEETS

December 31, 2015 and 2014

	2015	2014
<u>ASSETS</u>		
CURRENT ASSETS		
Cash		
Accounts receivable, less allowance for doubtful accounts		
Materials and supplies		
Prepaid expenses		
Due from affiliated company		
Current portion of notes receivable		
Total Current Assets		
INVESTMENTS AND OTHER ASSETS		
Notes receivable from stockholder		
Notes receivable, less portion classified as a current asset		
Investments		
Cash surrender value of life insurance		
Goodwill, net of amortization (2015 - [REDACTED] 2014 - [REDACTED])		
Total Investments and Other Assets		
PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment		
Less accumulated depreciation		
Construction in progress		
Total Property, Plant and Equipment		
TOTAL ASSETS		

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

REDACTED

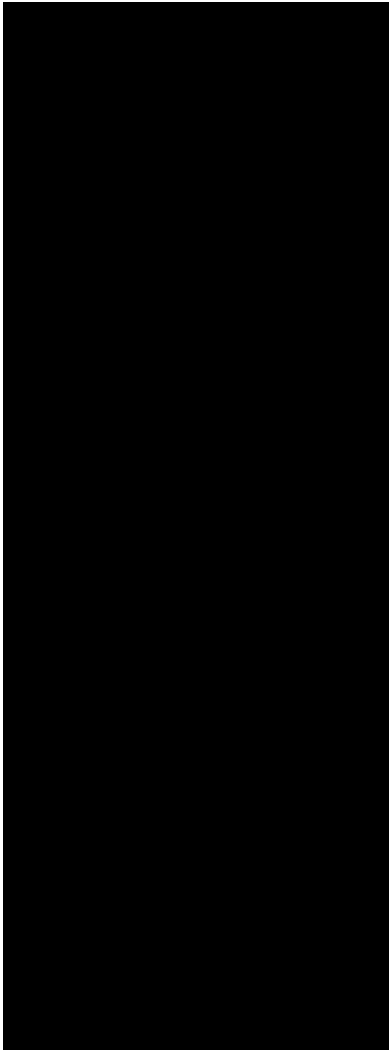
See independent accountant's review report and accompanying notes to consolidated financial statements.

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

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable		
Deferred revenue		
Customers' deposits		
Accrued profit sharing		
Taxes, other than income taxes		
Other current liabilities		
Current portion of long-term debt		
Total Current Liabilities		
LONG-TERM DEBT , less portion classified as a current liability		
OTHER LIABILITIES		
Deferred compensation payable		
Deferred gain on sale of properties		
Total Other Liabilities		
Total Liabilities		
STOCKHOLDERS' EQUITY		
Common stock, no par value		
Authorized - [REDACTED] shares		
Issued and outstanding - [REDACTED] shares		
Retained earnings		
Total Stockholders' Equity		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		



PETITION OF HOOD CANAL TELEPHONE CO., INC. TO
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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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
REVENUES		
Telephone services		
Cable television and CLEC services		
Internet and other operating revenues		
Total Operating Revenues		
EXPENSES		
Telephone operations		
Depreciation		
Amortization of goodwill		
General and administrative		
Cable television and CLEC operations		
Other operating expenses		
Taxes, other than income taxes		
Total Expenses		
Operating Income		
OTHER INCOME (EXPENSE)		
Interest and dividend income		
Interest expense		
Gain on sale of properties		
Miscellaneous expense		
Total Other Expense		
NET INCOME		

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

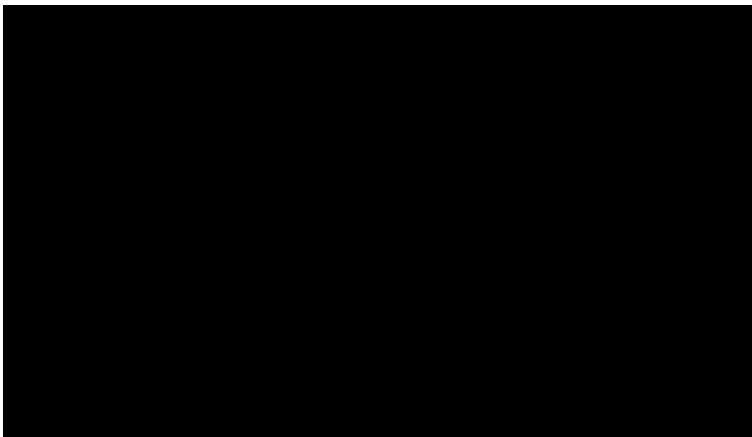
REDACTED

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, 2015 and 2014

	<u>Common Stock</u>		<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	
Balance at December 31, 2013				
Net income for the year				
Balance at December 31, 2014				
Net income for the year				
Dividends on common stock				
Cash				
Balance at December 31, 2015				

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

REDACTED

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income		
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation		
Amortization of goodwill		
Amortization of debt issuance expense		
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		
Net Cash Provided by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment		
Salvage on retired plant and equipment		
Grants collected		
Advances from (to) affiliated company		
Advances on notes receivable		
Payments on notes receivable		
Net Cash Used by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to officer		
Proceeds from long-term debt		
Payments on long-term debt		
Dividends paid		
Net Cash Used by Financing Activities		
NET INCREASE (DECREASE) IN CASH		
Cash at Beginning of Year		
CASH AT END OF YEAR		

PETITION OF HOOD CANAL TELEPHONE CO., INC. TO RECEIVE SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS SERVICES PROGRAM - EXHIBIT 5, PAGE - 9

REDACTED

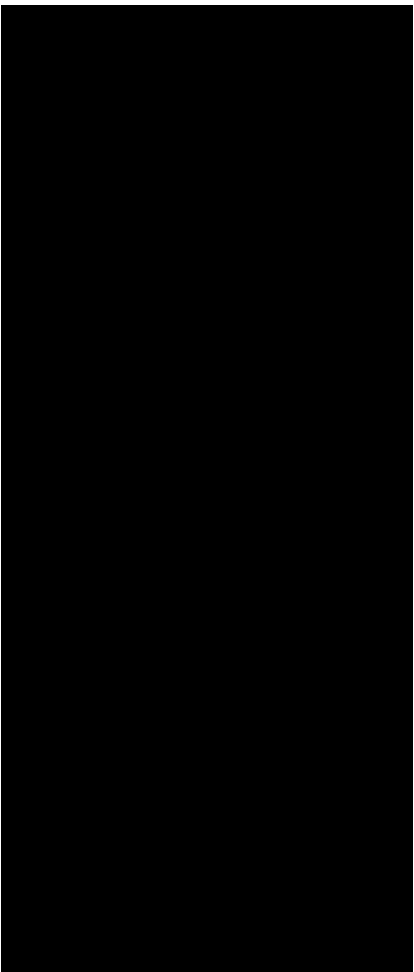
See independent accountant's review report and accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Accounts receivable		
Interest 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		
NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest		
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING TRANSACTIONS		
Noncash transfer of construction in progress from materials and supplies		
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING TRANSACTIONS		
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, 2015 and 2014

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"), reformed the universal service and intercarrier compensation systems. These reforms 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

Regulated and nonregulated materials and supplies inventories are stated at average cost.

Unamortized Debt Issuance Expense

Costs incurred to obtain financing for plant and equipment additions are capitalized and amortized over the respective loan period.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired. Beginning in 2014, Hood Canal Telephone Co., Inc. adopted the accounting alternative offered to nonpublic entities for the subsequent measurement of goodwill. In accordance with this alternative, 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, 2015 and 2014 is [REDACTED] each year.

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, 2015 and 2014, 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition, Major Customers and Services (Continued)

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.

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 and intercarrier compensation systems with universal service reform and intercarrier compensation reform. A Connect America Fund 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.

More recent universal service reform became effective 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. The actual NACPL compared to the frozen NACPL is just one factor that impacts Hood Canal Telephone Co., Inc.'s HCLS revenues in 2015. This recent reform caused no significant impact on Hood Canal Telephone Co., Inc.'s revenues for 2015.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition, Major Customers and Services (Continued)

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. Before July 1, 2014, the switched access charges associated with carrier common line and state universal service fund were pooled with all Washington Exchange Carrier Association ("WECA") member companies and Hood Canal Telephone Co., Inc. received a distribution of net revenues based upon Hood Canal Telephone Co., Inc.'s proportionate share of WUTC approved revenue objectives of all participating WECA member companies.

Effective July 1, 2014, the WUTC implemented a state universal communications service program ("State USF Program") that temporarily replaced the terminated universal service support pool ("Traditional USF") administered by WECA and also replaced the cumulative reduction in support Hood Canal Telephone Co., Inc. received from the federal Connect America Fund ("CAF"). The State USF Program began in January 2015 which resulted in a cash flow issue for some of the companies that met the WUTC criteria to be eligible for such support. The WUTC granted a one-time partial distribution in 2014 of the State USF Program equal to the amount Hood Canal Telephone Co., Inc. received from the Traditional USF for 2012 in the amount of [REDACTED]. The remainder of the annual distribution, which was comprised of the cumulative reduction in CAF support of [REDACTED], was disbursed in January 2015. Subsequent annual disbursements 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, therefore, Hood Canal Telephone Co., Inc. accrued [REDACTED] in 2014 as a receivable due from the State USF Program for the period July 1, 2014 to June 30, 2015, and deferred revenue of [REDACTED] in 2014 for the unearned portion. In 2015 Hood Canal Telephone Co., Inc. received [REDACTED] from the State USF Program for the period July 1, 2015 to June 30, 2016, and recorded deferred revenue of [REDACTED] for the unearned portion. The State USF Program is scheduled to last for five program years.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition, Major Customers and Services (Continued)

As of July 31, 2014, WECA terminated the pooling of originating carrier common line ("CCL") minutes of use and Hood Canal Telephone Co., Inc. opted to keep its existing originating CCL rate, which was allowed by the WUTC to become effective as a matter of law.

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, 2012 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 3, 2016, 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, 2015 and 2014

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Company and its subsidiary maintain cash balances at a financial institution 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, 2015, 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>2015</u>	<u>2014</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, 2015 and 2014

NOTE 5 - NOTES RECEIVABLE

The notes receivable balances consist of the following:

	Current Annual Installments of Principal	Amount	
		2015	2014
Note receivable from an individual in monthly installments of [REDACTED] including interest at [REDACTED] due February 2033, secured by real property.			
Notes receivable from affiliated company in monthly installments of [REDACTED] including interest at [REDACTED] due December 2019. Secured by real property.			
Note receivable from affiliated company, 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, 2015, maturities of notes receivable for the next five years and thereafter are as follows:

2016	
2017	
2018	
2019	
2020	
Thereafter	
Total	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 6 - INVESTMENTS

Investments consist of marketable securities as follows:

	<u>2015</u>	<u>2014</u>
Hood Canal Telephone Co., Inc.:		
Columbia Banking System, Inc. common stock		
NewStreets, Inc. convertible preferred stock		
R.J.B. Telecommunications Corp.:		
Thurston First Bank common stock		
 Total Investments		

Marketable securities are carried at cost; the difference between fair market value and cost at December 31, 2015 and 2014 is not considered material.

NOTE 7 - GOODWILL ACCOUNTING ALTERNATIVE

During the year ended December 31, 2014, Hood Canal Telephone Co., Inc. adopted the accounting alternative for the subsequent measurement of goodwill provided in FASB ASC 350-20. Under this accounting alternative, Hood Canal Telephone Co., Inc. began amortizing 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, 2015 and 2014, no triggering events occurred requiring impairment testing and thus, no impairment loss was recorded.

Goodwill presented in the balance sheet as of December 31, 2015 and 2014, consists of the following:

	<u>2015</u>	<u>2014</u>
Goodwill		
Less accumulated amortization		
Goodwill, net of amortization		

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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:

	<u>Useful Lives</u> <u>(Years)</u>	<u>Amount</u>	
		<u>2015</u>	<u>2014</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			

Depreciation Expense

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

	<u>2015</u>	<u>2014</u>
Telecommunications plant		
Cable television plant		
Nonregulated plant		
Total Depreciation Expense		

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

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 will be used by Hood Canal Telephone Co., Inc. to provide broadband services to new customers outside their current regulated service territory. For the years ended December 31, 2015 and 2014, Hood Canal Telephone Co., Inc. drew down [REDACTED] and [REDACTED] in grant funds, respectively and [REDACTED] and [REDACTED] in loan funds, respectively. At December 31, 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, 2015 and 2014, 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, 2015 and 2014 were [REDACTED] and [REDACTED], respectively.

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

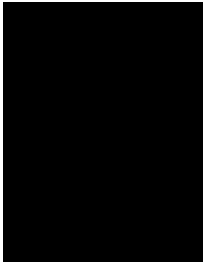
December 31, 2015 and 2014

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 in proportion to rent charged over the term of the leases. The amount amortized into income for the years ending December 31, 2015 and 2014 was [REDACTED], respectively. At December 31, 2015 and 2014, 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, 2015 and 2014, 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:

2016
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 expire in January 2017 and provide that Hood Canal Telephone Co., Inc. pay for insurance, maintenance and taxes; the equipment leases range from four to five 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.

During 2014, Hood Canal Telephone Co., Inc. purchased certain equipment from SSE, at the equipment's estimated market value, for [REDACTED].

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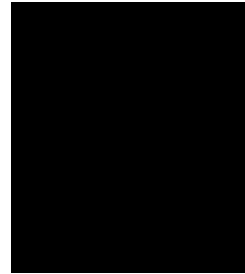
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 13 - RELATED PARTY TRANSACTIONS (Continued)

Total rental expense under these leases for the years ended December 31, 2015 and 2014 totaled [REDACTED] and [REDACTED], respectively. Future minimum rental payments under these leases are as follows:

2016
2017
2018
2019
2020



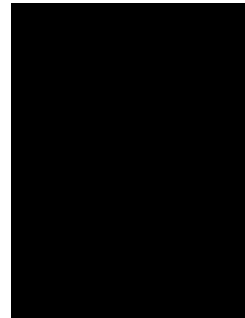
During the years ended December 31, 2015 and 2014, Hood Canal Telephone Co., Inc. had the following related party amounts due and transactions as follows:

Southshore
Enterprises, LLC

Balance December 31, 2013
Advances
Repayments

Balance December 31, 2014
Advances
Repayments

Balance December 31, 2015



NOTE 14 - COMMITMENTS AND CONTINGENCIES

The FCC continues to pursue universal service reform as stated in Note 2 under Revenue Recognition, Major Customers and Services. The FCC is proposing to migrate legacy Universal Service Fund ("USF") funding to a model based support called Alternative Connect America Cost Model ("A-CAM"). Preliminary calculations indicate a significant negative impact on revenues if the A-CAM model was adopted by Hood Canal Telephone Co., Inc. The A-CAM model would be a voluntary election for all independent rate-of-return telephone companies once it is effective. However, the FCC will continue to develop some form of a new funding mechanism to transition all rate-of-return carriers away from the current legacy support mechanism of companies that do not elect the A-CAM model based support plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

As noted in Note 2, the FCC froze the NACPL to satisfy the annual HCLS funding cap for 2015. In 2016, in order for the HCLS funding to meet the overall cap an estimated pro rata expense adjustment factor has been established to calculate the actual HCLS distribution to all of the independent telephone companies that receive HCLS funding. This will cause a reduction of approximately [REDACTED] to Hood Canal Telephone Co., Inc.'s calculated HCLS revenues beginning in 2016.