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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 UNIVERSAL  
SERVICE COMMUNICATIONS  
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 Universal Service Communications Program (the "Program") for the Program year 2015.

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

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

- 16 1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications  
17 services and is seeking Program support is as follows: Hood Canal Telephone Co., Inc.
- 18 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between  
19 the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.  
20 A detailed description of any transactions between the Company and the affiliates named in  
21 Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.
- 22 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No.  
23 105 of the Company's Tariff WN U-2.

- 1 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate  
2 instability or service interruption or cessation in the absence of support from the Program is  
3 attached as Exhibit 3.
- 4 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,  
5 are copies of the Company's balance sheet as of December 31, 2013, and December 31,  
6 2012, and copies of the Company's statements of income and retained earnings or margin for  
7 the years ended December 31, 2013, and December 31, 2012.
- 8 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial  
9 statements for the years ended December 31, 2013, and December 31, 2012, reviewed by a  
10 certified public accountant, are attached as Exhibit 5.
- 11 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of  
12 return on a total Washington unseparated regulated operations basis for each of the two prior  
13 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
- 14 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on  
15 equity on a total company (regulated and non-regulated) Washington basis for each of the  
16 two prior years, calculated in the manner prescribed by the Commission, is provided in  
17 Exhibit 4.
- 18 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the  
19 statements of income and retained earnings or margin section of RUS Form 479 for the prior  
20 two years is attached as Exhibit 6.
- 21 10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company with  
22 personal knowledge and responsibility certifying that no corporate operations adjustment to  
23 existing high-cost loop and interstate common line support mechanisms required by the  
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1 Federal Communications Commission applied to the Company for the two prior years is  
2 attached hereto as Exhibit 7.

3 11. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains additional supporting information  
4 requested by the Commission.

5 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company  
6 officer with personal knowledge and responsibility certifying that the Company complies  
7 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to  
8 incumbent local exchange companies is attached as Exhibit 8.

9 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or  
10 on its behalf with the Federal Communications Commission for the calendar year preceding  
11 the current year has already been filed with the Commission. See the Company's filing in  
12 Docket No. UT-143013 filed on or about July 1, 2014.

13 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by  
14 the Company as of December 31, 2013, was 710. The number of residential local exchange  
15 access lines served by the Company as of December 31, 2012, was 743. The number of  
16 business local exchange access lines served by the Company as of December 31, 2013, was  
17 201. The number of business local exchange access lines served by the Company as of  
18 December 31, 2012, was 202. The monthly recurring rate charged by the Company for  
19 residential local exchange access service on December 31, 2013, was \$14.00. The monthly  
20 recurring rate charged by the Company for residential local exchange access service on  
21 December 31, 2012, was \$13.75. The rate charged by the Company for single line business  
22 local exchange access service on December 31, 2013, was \$19.50. The rate charged by the  
23 Company for single line business local exchange access service on December 31, 2012, was  
24 \$19.50. (The Company has other business local exchange service rates, but the Company  
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understands that WAC 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 as Exhibit 9.

16. All exhibits attached hereto are incorporated into this Petition as though fully set forth.

Respectfully submitted this 31st day of July, 2014.

HOOD CANAL TELEPHONE CO., INC.

By Richard Buechel  
Richard Buechel, General Manager

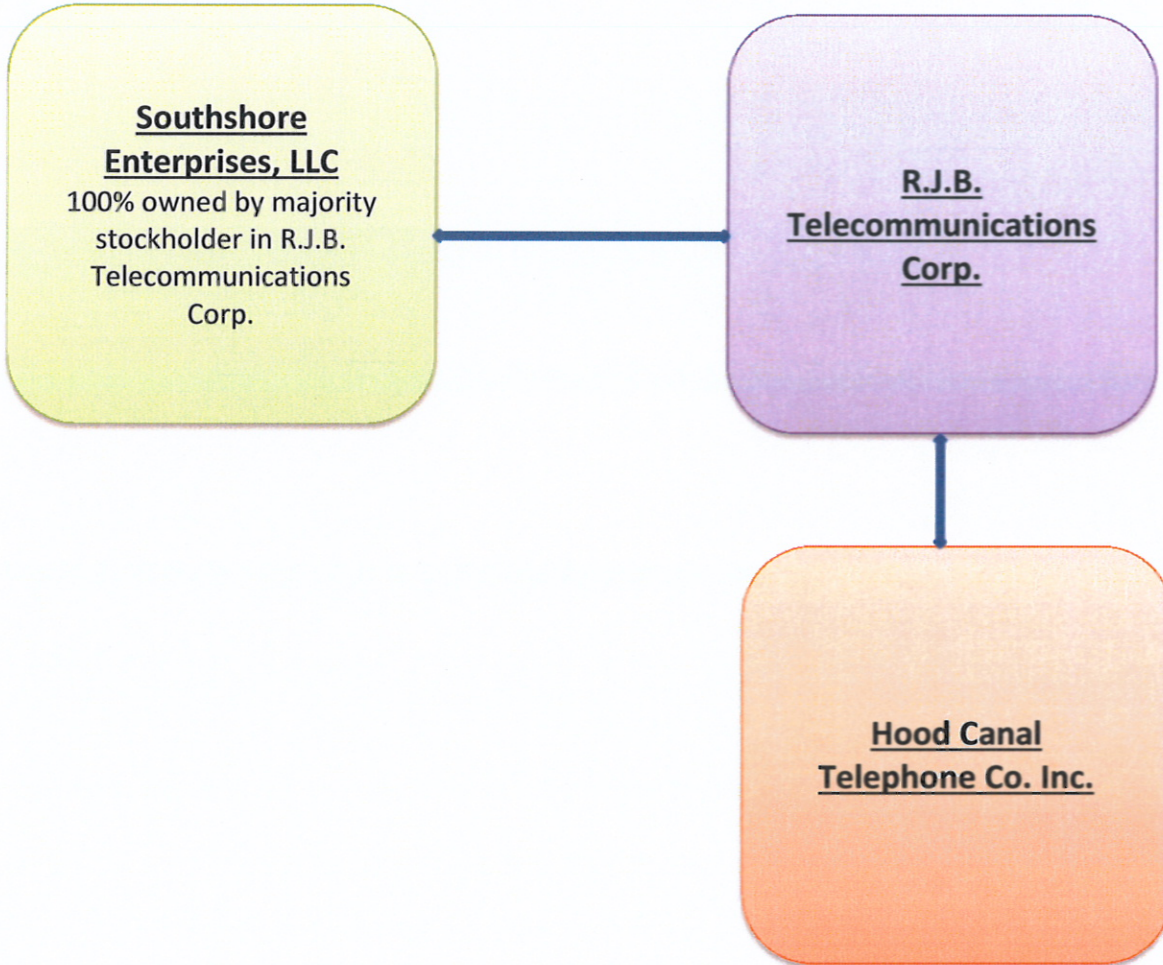
CERTIFICATION

I, Richard Buechel, an officer of the Company that is responsible for the Company's business and financial operations, hereby certify under penalty of perjury that the information and representations set forth in the Petition, above, are accurate and the Company has not knowingly withheld any information required to be provided to the Commission pursuant to the rules governing the Program.

Richard Buechel  
Richard Buechel, General Manager

# 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's 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 is one of great financial uncertainty. In large part, this financial uncertainty stems from the Transformation Order issued by the Federal Communications Commission.<sup>1</sup> The 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 revenues and provides support from the Connect America Fund ("CAF") based on the base line year. However, the base line year revenues (i.e. CAF support) are reduced by five percent each year. The Company had been exploring ways of addressing access bypass to increase access revenues. However, any increase in access revenues under the Transformation Order would simply be a reduction in CAF support and no new net revenues would be produced. The CAF support reduction began July 2012. Projecting through the calendar year 2015, including additional reductions that will occur July 1, 2015, the Company has seen a reduction in support from the base line revenue amount of approximately \$ 59,800.

In addition, by order of this Commission, the traditional universal service access rate element and related pooling fund have been terminated effective July 1, 2014. Using 2012 as a base line, which is the latest year with final pool numbers, the Company is facing a loss of traditional universal service fund revenues of approximately \$ 39,400 per year.

In addition, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. Further, in moving to the federal urban rate floor, the Company has seen an accelerated pace of customers giving up their land line telephone service subscribership. A loss of customers easily equates to a loss of revenue without a corresponding reduction in expenses.

In addition, during the year ended December 31, 2013, the Company has seen its Federal high cost loop support slightly increase from \$265,860 in 2012 to \$ 288,000 in 2013. The Company had made additional investment to provide service to customers in recent years. This investment has led to an increase in federal USF support in 2013 for the Company. It is important to understand that the increase in federal USF is in an amount which is insufficient to recover the full cost of the improvements given the recent "reforms" made to the federal

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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 Fund*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011)(*USF/ICC Transformation Order*).



universal service program. This means that there will be an additional shortfall to the Company as it tries to recover costs of the investment, which could translate to increased rates for customers. As a result, support from the state universal communications program is appropriate to ensure that rate instability does not occur because of investment that is required to continue to provide quality service to customers and a change in federal support means a shortfall in recovery of the investment.

These factors have led to the risky 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 service communications program, the Company may be faced with a choice of increasing rates further, which may drive more customers away, or cutting service in order to be able to match expenses to revenues. Neither choice presents a viable path for providing good 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.

2014 State USF Petition Filing Requirement -WAC 480-123-110(e)  
Prior Year Balance Sheet

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

| ASSETS                                   | Balance<br>End of Year<br>2012 (A) | Part 64<br>Adj to NonReg<br>2012 (B) | Adj. Balance<br>End of Year<br>2012 | LIABILITIES AND STOCKHOLDERS' EQUITY                  | Balance<br>Prior Year<br>2012 (A) | Part 64<br>Adj to NonReg<br>2012 (B) | Adj. Balance<br>End of Year<br>2012 |
|--|------------------------------------|--------------------------------------|-------------------------------------|---|-----------------------------------|--------------------------------------|-------------------------------------|
| <b>CURRENT ASSETS</b>                    |                                    |                                      |                                     | <b>CURRENT LIABILITIES</b>                            |                                   |                                      |                                     |
| 1. Cash and Equivalents                  | 237,367                            |                                      | 237,367                             | 25. Accounts Payable                                  | 621,509                           |                                      | 621,509                             |
| 2. Cash-RUS Construction Fund            | 1,000                              |                                      | 1,000                               | 26. Notes Payable                                     | 0                                 |                                      | 0                                   |
| 3. Affiliates:                           |                                    |                                      |                                     | 27. Advance Billings and Payments                     | 0                                 |                                      | 0                                   |
| a. Telecom, Accounts Receivable          | 0                                  |                                      | 0                                   | 28. Customer Deposits                                 | 59,993                            |                                      | 59,993                              |
| b. Other Accounts Receivable             | 56,194                             |                                      | 56,194                              | 29. Current Mat. L/T Debt                             | 437,000                           |                                      | 437,000                             |
| 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          | 324,004                            |                                      | 324,004                             | 32. Income Taxes Accrued                              | 0                                 |                                      | 0                                   |
| b. Other Accounts Receivable             | 222,423                            |                                      | 222,423                             | 33. Other Taxes Accrued                               | 68,904                            |                                      | 68,904                              |
| c. Notes Receivable                      | 7,000                              |                                      | 7,000                               | 34. Other Current Liabilities                         | 728,531                           |                                      | 728,531                             |
| 5. Interest and Dividends Receivable     | 0                                  |                                      | 0                                   | 35. Total Current Liabilities (25 thru 34)            | 1,915,937                         |                                      | 1,915,937                           |
| 6. Material-Regulated                    | 38,648                             |                                      | 38,648                              | <b>LONG-TERM DEBT</b>                                 |                                   |                                      |                                     |
| 7. Material-Nonregulated                 | 416,668                            |                                      | 416,668                             | 36. Funded Debt-RUS Notes                             | 701,104                           |                                      | 701,104                             |
| 8. Prepayments                           | 40,610                             |                                      | 40,610                              | 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)      | 1,343,914                          |                                      | 1,343,914                           | 39. Funded Debt-Other                                 | 897,954                           |                                      | 897,954                             |
| <b>NONCURRENT ASSETS</b>                 |                                    |                                      |                                     | 40. Funded Debt-Rural Develop. Loan                   | 0                                 |                                      | 0                                   |
| 11. Investment in Affiliated Companies   |                                    |                                      |                                     | 41. Premium (Discount) on L/T Debt                    | 0                                 |                                      | 0                                   |
| a. Rural Development                     | 0                                  |                                      | 0                                   | 42. Recquired Debt                                    | 0                                 |                                      | 0                                   |
| b. Nonrural Development                  | 0                                  |                                      | 0                                   | 43. Obligations Under Capital Lease                   | 0                                 |                                      | 0                                   |
| 12. Other Investments                    |                                    |                                      |                                     | 44. Adv. From Affiliated Companies                    | 17,200                            |                                      | 17,200                              |
| a. Rural Development                     | 0                                  |                                      | 0                                   | 45. Other Long-Term Debt                              | 0                                 |                                      | 0                                   |
| b. Nonrural Development                  | 111,205                            |                                      | 111,205                             | 46. Total Long-Term Debt (36 thru 45)                 | 1,616,258                         |                                      | 1,616,258                           |
| 13. Nonregulated Investments (B1)        | 4,060,037                          | (147,614)                            | 3,912,423                           | <b>OTHER LIAB. &amp; DEF. CREDITS</b>                 |                                   |                                      |                                     |
| 14. Other Noncurrent Assets              | 501,728                            |                                      | 501,728                             | 47. Other Long-Term Liabilities                       | 0                                 |                                      | 0                                   |
| 15. Deferred Charges                     | 0                                  |                                      | 0                                   | 48. Other Deferred Credits (C)                        | 365,650                           | (31,183)                             | 334,467                             |
| 16. Jurisdictional Differences           | 0                                  |                                      | 0                                   | 49. Other Jurisdictional Differences                  | 0                                 |                                      | 0                                   |
| 17. Total noncurrent Assets (11 thru 16) | 4,672,970                          | (147,614)                            | 4,525,356                           | 50. Total Other Liab. & Def. Credits (47 thru 49)     | 365,650                           | (31,183)                             | 334,467                             |
| <b>PLANT, PROPERTY AND EQUIPMENT</b>     |                                    |                                      |                                     | <b>EQUITY</b>   |                                   |                                      |                                     |
| 18. Telecom Plant-In-Service             | 6,289,273                          | (303,835)                            | 5,985,438                           | 51. Cap. Stock Outstanding & Subscribed               | 50,000                            |                                      | 50,000                              |
| 19. Property Held for Future Use         | 0                                  |                                      | 0                                   | 52. Additional Paid-in-Capital                        | 0                                 |                                      | 0                                   |
| 20. Plant Under Construction             | 1,473,006                          |                                      | 1,473,006                           | 53. Treasury Stock                                    | 0                                 |                                      | 0                                   |
| 21. Plant Adj., Nonop Plant & Goodwill   | 0                                  |                                      | 0                                   | 54. Membership and cap. Certificates                  | 0                                 |                                      | 0                                   |
| 22. Accumulated Depreciation (CR.)       | (5,620,730)                        | 451,449                              | (5,169,281)                         | 55. Other Capital                                     | 515,689                           |                                      | 515,689                             |
| 23. Net Plant (18 thru 21 less 22)       | 2,141,549                          | 147,614                              | 2,289,163                           | 56. Patronage Capital Credits                         | 3,694,899                         | 31,183                               | 3,726,082                           |
| <b>TOTAL ASSETS (10+17+23)</b>           | <b>8,158,433</b>                   | <b>0</b>                             | <b>8,158,433</b>                    | 57. Retained Earnings or Margins (B2)                 | 4,260,588                         | 31,183                               | 4,291,771                           |
|  |                                    |                                      |                                     | 58. Total Equity (51 thru 57)                         | 8,158,433                         | 0                                    | 8,158,433                           |
|  |                                    |                                      |                                     | <b>59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)</b> |                                   |                                      |                                     |

(A) - As reported on Form 481

(B) - Part 64 adjustments to rate base from regulated to nonregulated.

(B1) - Part 64 offset to nonreg investment

(B2) - Part 64 offset to retained earnings

(C) - Part 64 Adj. for line 48 is only for deferred taxes.

PETITION OF HOOD CANAL TELEPHONE CO., INC.  
TO RECEIVE SUPPORT FROM THE UNIVERSAL  
SERVICE COMMUNICATIONS PROGRAM -  
EXHIBIT 4-1

2014 State USF Petition Filing Requirement - WAC 480-123-110(e)  
Current Year Balance Sheet

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

| ASSETS                                   | Balance<br>End of Year<br>2013 (A) | Part 64<br>Adj to NonReg<br>2013 (B) | Adj. Balance<br>End of Year<br>2013 | LIABILITIES AND STOCKHOLDERS' EQUITY                  | Balance<br>Prior Year<br>2013 (A) | Part 64<br>Adj to NonReg<br>2013 (B) | Adj. Balance<br>End of Year<br>2013 |
|--|------------------------------------|--------------------------------------|-------------------------------------|---|-----------------------------------|--------------------------------------|-------------------------------------|
| <b>CURRENT ASSETS</b>                    |                                    |                                      |                                     | <b>CURRENT LIABILITIES</b>                            |                                   |                                      |                                     |
| 1. Cash and Equivalents                  | 394,690                            |                                      | 394,690                             | 25. Accounts Payable                                  | 239,053                           |                                      | 239,053                             |
| 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                                 | 64,656                            |                                      | 64,656                              |
| b. Other Accounts Receivable             | 221,512                            |                                      | 221,512                             | 29. Current Mat. L/T Debt                             | 274,000                           |                                      | 274,000                             |
| 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          | 465,780                            |                                      | 465,780                             | 32. Income Taxes Accrued                              | 0                                 |                                      | 0                                   |
| b. Other Accounts Receivable             | 223,010                            |                                      | 223,010                             | 33. Other Taxes Accrued                               | 95,164                            |                                      | 95,164                              |
| c. Notes Receivable                      | 9,400                              |                                      | 9,400                               | 34. Other Current Liabilities                         | 447,847                           |                                      | 447,847                             |
| 5. Interest and Dividends Receivable     | 0                                  |                                      | 0                                   | 35. Total Current Liabilities (25 thru 34)            | 1,120,720                         |                                      | 1,120,720                           |
| 6. Material-Regulated                    | 38,793                             |                                      | 38,793                              | <b>LONG-TERM DEBT</b>                                 |                                   |                                      |                                     |
| 7. Material-Nonregulated                 | 659,595                            |                                      | 659,595                             | 36. Funded Debt-RUS Notes                             | 1,078,018                         |                                      | 1,078,018                           |
| 8. Prepayments                           | 89,264                             |                                      | 89,264                              | 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)      | 2,102,044                          |                                      | 2,102,044                           | 39. Funded Debt-Other                                 | 0                                 |                                      | 0                                   |
|  |                                    |                                      |                                     | 40. Funded Debt-Rural Develop. Loan                   | 750,310                           |                                      | 750,310                             |
| <b>NONCURRENT ASSETS</b>                 |                                    |                                      |                                     | 41. Premium (Discount) on L/T Debt                    | 0                                 |                                      | 0                                   |
| 11. Investment in Affiliated Companies   | 0                                  |                                      | 0                                   | 42. Reacquired Debt                                   | 0                                 |                                      | 0                                   |
| a. Rural Development                     | 0                                  |                                      | 0                                   | 43. Obligations Under Capital Lease                   | 0                                 |                                      | 0                                   |
| b. Nonrural Development                  | 0                                  |                                      | 0                                   | 44. Adv. From Affiliated Companies                    | 0                                 |                                      | 0                                   |
| 12. Other investments                    | 0                                  |                                      | 0                                   | 45. Other Long-Term Debt                              | 0                                 |                                      | 0                                   |
| a. Rural Development                     | 0                                  |                                      | 0                                   | 46. Total Long-Term Debt (36 thru 45)                 | 1,828,328                         |                                      | 1,828,328                           |
| b. Nonrural Development                  | 118,909                            |                                      | 118,909                             | <b>OTHER LIAB. &amp; DEF. CREDITS</b>                 |                                   |                                      |                                     |
| 13. Nonregulated Investments (B1)        | 4,215,544                          | (68,753)                             | 4,146,791                           | 47. Other Long-Term Liabilities                       | 0                                 | (29,060)                             | 0                                   |
| 14. Other Noncurrent Assets              | 398,294                            |                                      | 398,294                             | 48. Other Deferred Credits (C)                        | 321,111                           |                                      | 292,051                             |
| 15. Deferred Charges                     | 0                                  |                                      | 0                                   | 49. Other Jurisdictional Differences                  | 0                                 |                                      | 0                                   |
| 16. Jurisdictional Differences           | 0                                  |                                      | 0                                   | 50. Total Other Liab. & Def. Credits (47 thru 49)     | 321,111                           | (29,060)                             | 292,051                             |
| 17. Total noncurrent Assets (11 thru 16) | 4,732,747                          | (68,753)                             | 4,663,994                           | <b>EQUITY</b>   |                                   |                                      |                                     |
|  |                                    |                                      |                                     | 51. Cap. Stock Outstanding & Subscribed               | 50,000                            |                                      | 50,000                              |
| <b>PLANT, PROPERTY AND EQUIPMENT</b>     |                                    |                                      |                                     | 52. Additional Paid-in-Capital                        | 0                                 |                                      | 0                                   |
| 18. Telecom Plant-in-Service             | 6,574,455                          | (398,194)                            | 6,176,261                           | 53. Treasury Stock                                    | 0                                 |                                      | 0                                   |
| 19. Property Held for Future Use         | 0                                  |                                      | 0                                   | 54. Membership and cap. Certificates                  | 0                                 |                                      | 0                                   |
| 20. Plant Under Construction             | 338,527                            |                                      | 338,527                             | 55. Other Capital                                     | 515,689                           |                                      | 515,689                             |
| 21. Plant Adj./Nonop Plant & Goodwill    | 0                                  |                                      | 0                                   | 56. Patronage Capital Credits                         | 0                                 |                                      | 0                                   |
| 22. Accumulated Depreciation (CR.)       | (5,907,189)                        | 466,947                              | (5,440,242)                         | 57. Retained Earnings or Margins (B2)                 | 4,004,736                         | 29,060                               | 4,033,796                           |
| 23. Net Plant (18 thru 21 less 22)       | 1,005,793                          | 68,753                               | 1,074,546                           | 58. Total Equity (51 thru 57)                         | 4,570,425                         | 29,060                               | 4,599,485                           |
| <b>TOTAL ASSETS (10+17+23)</b>           | <b>7,840,584</b>                   | <b>0</b>                             | <b>7,840,584</b>                    | <b>59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)</b> | <b>7,840,584</b>                  | <b>0</b>                             | <b>7,840,584</b>                    |

(A) - As reported on Form 481

(B) - Part 64 adjustments to rate base from regulated to nonregulated.

(B1) - Part 64 offset to nonreg investment

(B2) - Part 64 offset to retained earnings

(C) - Part 64 Adj. for line 48 is only for deferred taxes.

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

2014 State USF Petition Filing Requirement - WAC 480-123-110(e)  
Adjusted Prior and Current Year Balance Sheet

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

| ASSETS                                   | Adjusted<br>Prior Year<br>Balance 2012 | Adjusted<br>Current Year<br>Balance 2013 | LIABILITIES AND STOCKHOLDERS' EQUITY                  | Adjusted<br>Prior Year<br>Balance 2012 | Adjusted<br>Prior Year<br>Balance 2013 |
|--|--|--|---|--|--|
| <b>CURRENT ASSETS</b>                    |  |  | <b>CURRENT LIABILITIES</b>                            |  |  |
| 1. Cash and Equivalents                  | 237,367                                | 394,690                                  | 25. Accounts Payable                                  | 621,509                                | 239,053                                |
| 2. Cash-RUS Construction Fund            | 1,000                                  | 0  | 26. Notes Payable                                     | 0                                      | 0                                      |
| 3. Affiliates:                           |  |  | 27. Advance Billings and Payments                     | 0                                      | 0                                      |
| a. Telecom, Accounts Receivable          | 0                                      | 0  | 28. Customer Deposits                                 | 59,993                                 | 64,656                                 |
| b. Other Accounts Receivable             | 56,194                                 | 221,512                                  | 29. Current Mat. L/T Debt                             | 437,000                                | 274,000                                |
| 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          | 324,004                                | 465,780                                  | 32. Income Taxes Accrued                              | 0                                      | 0                                      |
| b. Other Accounts Receivable             | 222,423                                | 223,010                                  | 33. Other Taxes Accrued                               | 68,904                                 | 95,164                                 |
| c. Notes Receivable                      | 7,000                                  | 9,400                                    | 34. Other Current Liabilities                         | 728,531                                | 447,847                                |
| 5. Interest and Dividends Receivable     | 0                                      | 0  | 35. Total Current Liabilities (25 - 34)               | 1,915,937                              | 1,120,720                              |
| 6. Material-Regulated                    | 38,648                                 | 38,793                                   | <b>LONG-TERM DEBT</b>                                 |  |  |
| 7. Material-Nonregulated                 | 416,668                                | 659,595                                  | 36. Funded Debt-RUS Notes                             | 701,104                                | 1,078,018                              |
| 8. Prepayments                           | 40,610                                 | 89,264                                   | 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)      | 1,343,914                              | 2,102,044                                | 39. Funded Debt-Other                                 | 0                                      | 0                                      |
| <b>NONCURRENT ASSETS</b>                 |  |  | 40. Funded Debt-Rural Develop. Loan                   | 897,954                                | 750,310                                |
| 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                    | 17,200                                 | 0                                      |
| a. Rural Development                     | 0                                      | 0  | 45. Other Long-Term Debt                              | 0                                      | 0                                      |
| b. Nonrural Development                  | 111,205                                | 118,909                                  | 46. Total Long-Term Debt (36-45)                      | 1,616,258                              | 1,828,328                              |
| 13. Nonregulated Investments             | 3,912,423                              | 4,146,791                                | <b>OTHER LIAB. &amp; DEF. CREDITS</b>                 |  |  |
| 14. Other Noncurrent Assets              | 501,728                                | 398,294                                  | 47. Other Long-Term Liabilities                       | 0                                      | 0                                      |
| 15. Deferred Charges                     | 0                                      | 0  | 48. Other Deferred Credits (B)                        | 334,467                                | 292,051                                |
| 16. Jurisdictional Differences           | 0                                      | 0  | 49. Other Jurisdictional Differences                  | 0                                      | 0                                      |
| 17. Total noncurrent Assets (11 thru 16) | 4,525,356                              | 4,663,994                                | 50. Total Other Liab. & Def. Credits (47 thru 49)     | 334,467                                | 292,051                                |
| <b>PLANT, PROPERTY AND EQUIPMENT</b>     |  |  | <b>EQUITY</b>   |  |  |
| 18. Telecom Plant-in-Service             | 5,985,438                              | 6,176,261                                | 51. Cap. Stock Outstanding & Subscribed               | 50,000                                 | 50,000                                 |
| 19. Property Held for Future Use         | 0                                      | 0  | 52. Additional Paid-in-Capital                        | 0                                      | 0                                      |
| 20. Plant Under Construction             | 1,473,006                              | 338,527                                  | 53. Treasury Stock                                    | 0                                      | 0                                      |
| 21. Plant Adj., Nonop Plant & Goodwill   | 0                                      | 0  | 54. Membership and cap. Certificates                  | 0                                      | 0                                      |
| 22. Accumulated Depreciation (CR.)       | (5,169,281)                            | (5,440,242)                              | 55. Other Capital                                     | 515,689                                | 515,689                                |
| 23. Net Plant (18 thru 21 less 22)       | 2,289,163                              | 1,074,546                                | 56. Patronage Capital Credits                         | 0                                      | 0                                      |
| <b>TOTAL ASSETS (10+17+23)</b>           | <b>8,158,433</b>                       | <b>7,840,584</b>                         | 57. Retained Earnings or Margins                      | 3,726,082                              | 4,033,796                              |
|  |  |  | 58. Total Equity (51 thru 57)                         | 4,291,771                              | 4,599,485                              |
|  |  |  | <b>59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)</b> | <b>8,158,433</b>                       | <b>7,840,584</b>                       |

Note:

Adjusted Balances represents balances after current year Part 64 adjustments (B) - Provide Deferred Taxes on separate rate base schedule

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

2014 State USF Petition Filing Requirement - WAC 480-123-110(e)  
 Prior and Current Year Rate Base

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

| Line # | Adj. Balance End of Year 2012 | Adj. Balance End of Year 2013 | Average Adj End of Year Balance |
|--------|-------------------------------|-------------------------------|---------------------------------|
| 18     | 5,985,438                     | 6,176,261                     | 6,080,850                       |
| 19     | 0                             | 0                             | 0                               |
| 22     | (5,169,281)                   | (5,440,242)                   | (5,304,762)                     |
| 6      | 38,648                        | 38,793                        | 38,721                          |
|        | (95,256)                      | (101,735)                     | (98,496)                        |
|        | 759,549                       | 673,077                       | 716,313                         |

Average Rate Base:

Total Regulated Adjusted Telecom Plant-in-service  
 Total Property Held for Future Use  
 Total Regulated Adjusted Accumulated Depreciation (CR)  
 Total Regulated Materials & Supplies  
 Deferred Income Taxes (CR)  
 Total Regulated Rate Base

Note:

1. Normal balance of deferred income taxes and accumulated depreciation is a credit.
2. Adjusted balance includes current year Part 64 adjustments

2014 State USF Petition Filing Requirement - WAC 480-123-110(e)  
 Statistics - Prior and Current Year

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

| Description                  | Prior Year<br>End of Yr.<br>Balance - 2012 | Current Year<br>End of Yr<br>Balance - 2013 | Difference  | %<br>Change |
|------------------------------|--|---|-------------|-------------|
| <b>Access Lines:</b>         |  |   |             |             |
| Residential                  | 743  | 710   | (33)        | -4.4%       |
| Business                     | 202  | 201   | (1)         | -0.5%       |
| Total                        | 945  | 911   | (34)        | -3.6%       |
|                              |  |   |             |             |
| <b>Broadband Connections</b> |  |   |             |             |
|                              | End of Yr.<br>Balance - 2012               | End of Year<br>Balance -2013                | Difference  | %<br>Change |
|                              | 716  | 942   | 226         | 31.6%       |
|                              |  |   |             |             |
| <b>Total Annual Amount:</b>  |  |   |             |             |
| Gross Capital Expenditures   | Prior Yr.<br>2012                          | Current Yr.<br>2013                         | Difference  | %<br>Change |
|                              | 2,466,794                                  | 697,463                                     | (1,769,331) | -71.7%      |
|                              |  |   |             |             |

PETITION OF HOOD CANAL TELEPHONE CO., INC.  
 TO RECEIVE SUPPORT FROM THE UNIVERSAL  
 SERVICE COMMUNICATIONS PROGRAM -  
 EXHIBIT 4-5

2014 State USF Petition Filing Requirement - WAC 480-123-110(e)  
 Prior year Adjusted Income Statement

FCC Form 481

Part B Statement of Income and Retained Earnings Statement

Company Name: (Below)

HOOD CANAL TELEPHONE CO., INC.

| Line # | Item   | Prior Year<br>2012<br>(A) | Part 64<br>Adj. to NonReg<br>(B) | Prior Year<br>Adjusted<br>2012 |
|--------|--|---------------------------|----------------------------------|--------------------------------|
| 1      | Local Network Services Revenues  | 192,431                   |                                  | 192,431                        |
| 2      | Network Access Services Revenues                                       | 1,368,393                 |                                  | 1,368,393                      |
| 3      | Long Distance Network Services Revenues                                | 143,298                   | (103,404)                        | 39,894                         |
| 4      | Carrier Billing and Collection Revenues                                | 3,097                     | 0                                | 3,097                          |
| 5      | Miscellaneous Revenues   | 18,566                    | 0                                | 18,566                         |
| 6      | Uncollectible Revenues (Normal Balance is debit or in brackets)        | 2,840                     | 0                                | 2,840                          |
| 7      | <b>Net Operating Revenues (1 thru 6)</b>                               | <b>1,728,625</b>          | <b>(103,404)</b>                 | <b>1,625,221</b>               |
| 8      | Plant Specific Operations Expense                                      | 1,064,516                 | (255,576)                        | 808,940                        |
| 9      | Plant Nonspecific Operations Expense (excluding Depreciation & Amort.) | 145,682                   | (12,521)                         | 133,161                        |
| 10     | Depreciation Expense   | 268,495                   | 1,437                            | 269,932                        |
| 11     | Amortization Expense   | 0                         | 0                                | 0                              |
| 12     | Customer Operations Expense  | 537,023                   | (176,013)                        | 361,010                        |
| 13     | Corporate Operations   | 597,007                   | (59,437)                         | 537,570                        |
| 13a    | Less: Corporate Operations Adjustment (FCC 36.621) report in ( )       | 0                         | 0                                | 0                              |
| 13b    | Adjusted Corporate Operations Expense (Line 13 minus Line 13a)         | 597,007                   | (59,437)                         | 537,570                        |
| 14     | <b>Total Operations Expenses (8 thru 12 +13b)</b>                      | <b>2,612,723</b>          | <b>(502,110)</b>                 | <b>2,110,613</b>               |
| 15     | Operating Income or Margins (7 less 14)                                | (884,098)                 | 398,706                          | (485,392)                      |
| 16     | Other Operating Income and Expenses ( )                                | 0                         |                                  | 0                              |
| 17     | State and Local Taxes  | 85,572                    | (4,612)                          | 80,960                         |
| 18     | Federal Income Taxes (A1)  | 0                         | 0                                | 0                              |
| 19     | Other Taxes  | 0                         | 0                                | 0                              |
| 20     | Total Operating Taxes (17+18+19)                                       | 85,572                    | (4,612)                          | 80,960                         |
| 21     | Net Operating Income or Margins (15+16-20)                             | (969,670)                 | 403,318                          | (566,352)                      |
| 22     | Interest on Funded Debt  | 70,899                    |                                  | 70,899                         |
| 23     | Interest Expense - Capital Leases                                      | 0                         |                                  | 0                              |
| 24     | Other Interest Expense   | 21,139                    |                                  | 21,139                         |
| 25     | Allowance for Funds Used During Construction (CR)                      | 0                         |                                  | 0                              |
| 26     | Total Fixed Charges (22+23+24-25)                                      | 92,038                    | 0                                | 92,038                         |
| 27     | Nonoperating Net Income  | 30,395                    |                                  | 30,395                         |
| 28     | Extraordinary Items  | 0                         |                                  | 0                              |
| 29     | Jurisdictional Differences   | 0                         |                                  | 0                              |
| 30     | Nonregulated Net Income (B1)   | 1,436,578                 | (403,318)                        | 1,033,260                      |
| 31     | Total Net Income or Margins (21+27+28+29+30-26)                        | 405,265                   | 0                                | 405,265                        |
| 32     | Total Taxes Based on Income  | 0                         |                                  | 0                              |
| 33     | Retained Earning or Margins Beginning-of-Year                          | 3,289,634                 |                                  | 3,289,634                      |
| 34     | Miscellaneous Credits Year-to-Date                                     | 0                         |                                  | 0                              |
| 35     | Dividends Declared (Common)  | 0                         |                                  | 0                              |
| 36     | Dividends Declared (Preferred)   | 0                         |                                  | 0                              |
| 37     | Other Debits Year-to-Date  | 0                         |                                  | 0                              |
| 38     | Transfers to Patronage Capital   | 0                         |                                  | 0                              |
| 39     | Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))  | 3,694,899                 | 0                                | 3,694,899                      |
| 40     | Patronage Capital Beginning-of-Year                                    | 0                         |                                  | 0                              |
| 41     | Transfers to Patronage Capital   | 0                         |                                  | 0                              |
| 42     | Patronage Capital Credits Retired                                      | 0                         |                                  | 0                              |
| 43     | Patronage Capital End-of-Year (40+41-42)                               | 0                         | 0                                | 0                              |
| 44     | Annual Debt Service Payments   | 340,297                   |                                  | 340,297                        |
| 45     | Cash Ratio ((14+20-10-11)/7)   | 1.4056                    | 4.9143                           | 1.1824                         |
| 46     | Operating Accrual Ratio ((14+20+26)/7)                                 | 1.6142                    | 4.9004                           | 1.4051                         |
| 47     | TIER ((31+26)/26)  | 5.4032                    | #DIV/0!                          | 5.4032                         |
| 48     | DSCR ((31+26+10+11)/44)  | 2.2504                    | #DIV/0!                          | 2.2546                         |

Notes:

- (A) As reported on Form 481
- (A1) S Corporations provide effective tax rate on Income Statement Summary Schedule footnote, Page 8
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Part 64 offset to nonregulated income (No Impact to retained earnings)

PETITION OF HOOD CANAL TELEPHONE CO., INC.  
 TO RECEIVE SUPPORT FROM THE UNIVERSAL  
 SERVICE COMMUNICATIONS PROGRAM -  
 EXHIBIT 4-6

2014 State USF Petition Filing Requirement - WAC 480-123-110(e)  
Current Year Adjusted Income Statement

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

| Line # | Item   | Prior Year<br>2013<br>(A) | Part 64<br>Adj. to NonReg<br>(B) | Prior Year<br>Adjusted<br>2013 |
|--------|--|---------------------------|----------------------------------|--------------------------------|
| 1      | Local Network Services Revenues  | 186,459                   |                                  | 186,459                        |
| 2      | Network Access Services Revenues                                       | 1,469,572                 |                                  | 1,469,572                      |
| 3      | Long Distance Network Services Revenues                                | 169,989                   | (125,131)                        | 44,858                         |
| 4      | Carrier Billing and Collection Revenues                                | 1,743                     | 0                                | 1,743                          |
| 5      | Miscellaneous Revenues   | 21,041                    | 0                                | 21,041                         |
| 6      | Uncollectible Revenues (Normal Balance is debit or in brackets)        | 1,393                     | 0                                | 1,393                          |
| 7      | <b>Net Operating Revenues (1 thru 6)</b>                               | <b>1,850,197</b>          | <b>(125,131)</b>                 | <b>1,725,066</b>               |
| 8      | Plant Specific Operations Expense                                      | 1,179,803                 | (253,915)                        | 925,888                        |
| 9      | Plant Nonspecific Operations Expense (excluding Depreciation & Amort.) | 147,341                   | 24,300                           | 171,641                        |
| 10     | Depreciation Expense   | 207,362                   | (19,127)                         | 188,235                        |
| 11     | Amortization Expense   | 0                         | 0                                | 0                              |
| 12     | Customer Operations Expense  | 623,299                   | (203,149)                        | 420,150                        |
| 13     | Corporate Operations   | 791,647                   | (126,315)                        | 665,332                        |
| 13a    | Less: Corporate Operations Adjustment (FCC 36.621) report in ( )       | 0                         | 0                                | 0                              |
| 13b    | Adjusted Corporate Operations Expense (Line 13 minus Line 13a)         | 791,647                   | (126,315)                        | 665,332                        |
| 14     | <b>Total Operations Expenses (8 thru 12 +13b)</b>                      | <b>2,949,452</b>          | <b>(578,206)</b>                 | <b>2,371,246</b>               |
| 15     | Operating Income or Margins (7 less 14)                                | (1,099,255)               | 453,075                          | (646,180)                      |
| 16     | Other Operating Income and Expenses ( )                                | 0                         |                                  | 0                              |
| 17     | State and Local Taxes  | 102,338                   | (6,582)                          | 95,756                         |
| 18     | Federal Income Taxes (A1)  | 0                         | 0                                | 0                              |
| 19     | Other Taxes  | 0                         | 0                                | 0                              |
| 20     | Total Operating Taxes (17+18+19)                                       | 102,338                   | (6,582)                          | 95,756                         |
| 21     | Net Operating Income or Margins (15+16-20)                             | (1,201,593)               | 459,657                          | (741,936)                      |
| 22     | Interest on Funded Debt  | 69,836                    |                                  | 69,836                         |
| 23     | Interest Expense - Capital Leases                                      | 0                         |                                  | 0                              |
| 24     | Other Interest Expense   | 23,126                    |                                  | 23,126                         |
| 25     | Allowance for Funds Used During Construction (CR)                      | 0                         |                                  | 0                              |
| 26     | Total Fixed Charges (22+23+24-25)                                      | 92,962                    | 0                                | 92,962                         |
| 27     | Nonoperating Net Income  | 14,765                    |                                  | 14,765                         |
| 28     | Extraordinary Items  | 0                         |                                  | 0                              |
| 29     | Jurisdictional Differences   | 0                         |                                  | 0                              |
| 30     | Nonregulated Net Income (B1)   | 1,589,627                 | (459,657)                        | 1,129,970                      |
| 31     | Total Net Income or Margins (21+27+28+29+30-26)                        | 309,837                   | 0                                | 309,837                        |
| 32     | Total Taxes Based on Income  | 0                         |                                  | 0                              |
| 33     | Retained Earning or Margins Beginning-of-Year                          | 3,694,899                 |                                  | 3,694,899                      |
| 34     | Miscellaneous Credits Year-to-Date                                     | 0                         |                                  | 0                              |
| 35     | Dividends Declared (Common)  | 0                         |                                  | 0                              |
| 36     | Dividends Declared (Preferred)   | 0                         |                                  | 0                              |
| 37     | Other Debits Year-to-Date  | 0                         |                                  | 0                              |
| 38     | Transfers to Patronage Capital   | 0                         |                                  | 0                              |
| 39     | Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))  | 4,004,736                 | 0                                | 4,004,736                      |
| 40     | Patronage Capital Beginning-of-Year                                    | 0                         |                                  | 0                              |
| 41     | Transfers to Patronage Capital   | 0                         |                                  | 0                              |
| 42     | Patronage Capital Credits Retired                                      | 0                         |                                  | 0                              |
| 43     | Patronage Capital End-of-Year (40+41-42)                               | 0                         | 0                                | 0                              |
| 44     | Annual Debt Service Payments   | 355,110                   |                                  | 355,110                        |
| 45     | Cash Ratio ((14+20-10-11)/7)   | 1.5374                    | 4.5206                           | 1.3210                         |
| 46     | Operating Accrual Ratio ((14+20+26)/7)                                 | 1.6997                    | 4.6734                           | 1.4840                         |
| 47     | TIER ((31+26)/26)  | 4.3329                    | #DIV/0!                          | 4.3329                         |
| 48     | DSCR ((31+26+10+11)/44)  | 1.7182                    | #DIV/0!                          | 1.6644                         |

Notes:

- (A) As reported on Form 481
- (A1) S Corporations provide effective tax rate on Income Statement Summary Schedule footnote, Page 8
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Part 64 offset to nonregulated income (No Impact to retained earnings)

PETITION OF HOOD CANAL TELEPHONE CO., INC.  
TO RECEIVE SUPPORT FROM THE UNIVERSAL  
SERVICE COMMUNICATIONS PROGRAM -  
EXHIBIT 4-7



2014 State USF Petition Filing Requirement - WAC 480-123-110(e)  
 Prior and Current Year Income Statement

Company Name:  
 HOOD CANAL TELEPHONE CO., INC.

| Line # | Item   | Adjusted<br>Prior Year<br>2012 | Adjusted<br>Current Year<br>2013 |
|--------|--|--------------------------------|----------------------------------|
| 1      | Local Network Services Revenues  | 192,431                        | 186,459                          |
| 2      | Network Access Services Revenues                                       | 1,368,393                      | 1,469,572                        |
| 3      | Long Distance Network Services Revenues                                | 39,894                         | 44,858                           |
| 4      | Carrier Billing and Collection Revenues                                | 3,097                          | 1,743                            |
| 5      | Miscellaneous Revenues   | 18,566                         | 21,041                           |
| 6      | Uncollectible Revenues (Normal Balance is debit or in brackets)        | 2,840                          | 1,393                            |
| 7      | <b>Net Operating Revenues (1 thru 6)</b>                               | <b>1,625,221</b>               | <b>1,725,066</b>                 |
| 8      | Plant Specific Operations Expense                                      | 808,940                        | 925,888                          |
| 9      | Plant Nonspecific Operations Expense (excluding Depreciation & Amort.) | 133,161                        | 171,641                          |
| 10     | Depreciation Expense   | 269,932                        | 188,235                          |
| 11     | Amortization Expense   | 0                              | 0                                |
| 12     | Customer Operations Expense  | 361,010                        | 420,150                          |
| 13     | Corporate Operations   | 537,570                        | 665,332                          |
| 13a    | Less: Corporate Operations Adjustment (FCC 36.621) report in ( )       | 0                              | 0                                |
| 13b    | Adjusted Corporate Operations Expense (Line 13 minus Line 13a)         | 537,570                        | 665,332                          |
| 14     | <b>Total Operations Expenses (8 thru 12 +13b)</b>                      | <b>2,110,613</b>               | <b>2,371,246</b>                 |
| 15     | Operating Income or Margins (7 less 14)                                | (485,392)                      | (646,180)                        |
| 16     | Other Operating Income and Expenses ( )                                | 0                              | 0                                |
| 17     | State and Local Taxes  | 80,960                         | 95,756                           |
| 18     | Federal Income Taxes   | 0                              | 0                                |
| 19     | Other Taxes  | 0                              | 0                                |
| 20     | Total Operating Taxes (17+18+19)                                       | 80,960                         | 95,756                           |
| 21     | Net Operating Income or Margins (15+16-20)                             | (566,352)                      | (741,936)                        |
| 22     | Interest on Funded Debt  | 70,899                         | 69,836                           |
| 23     | Interest Expense - Capital Leases                                      | 0                              | 0                                |
| 24     | Other Interest Expense   | 21,139                         | 23,126                           |
| 25     | Allowance for Funds Used During Construction                           | 0                              | 0                                |
| 26     | Total Fixed Charges (22+23+24-25)                                      | 92,038                         | 92,962                           |
| 27     | Nonoperating Net Income  | 30,395                         | 14,765                           |
| 28     | Extraordinary Items  | 0                              | 0                                |
| 29     | Jurisdictional Differences   | 0                              | 0                                |
| 30     | Nonregulated Net Income  | 1,033,260                      | 1,129,970                        |
| 31     | Total Net Income or Margins (21+27+28+29+30-26)                        | 405,265                        | 309,837                          |
| 32     | Total Taxes Based on Income  | 0                              | 0                                |
| 33     | Retained Earning or Margins Beginning-of-Year                          | 3,289,634                      | 3,694,899                        |
| 34     | Miscellaneous Credits Year-to-Date                                     | 0                              | 0                                |
| 35     | Dividends Declared (Common)  | 0                              | 0                                |
| 36     | Dividends Declared (Preferred)   | 0                              | 0                                |
| 37     | Other Debits Year-to-Date  | 0                              | 0                                |
| 38     | Transfers to Patronage Capital   | 0                              | 0                                |
| 39     | Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))  | 3,694,899                      | 4,004,736                        |
| 40     | Patronage Capital Beginning-of-Year                                    | 0                              | 0                                |
| 41     | Transfers to Patronage Capital   | 0                              | 0                                |
| 42     | Patronage Capital Credits Retired                                      | 0                              | 0                                |
| 43     | Patronage Capital End-of-Year (40+41-42)                               | 0                              | 0                                |
| 44     | Annual Debt Service Payments   | 340,297                        | 355,110                          |
| 45     | Cash Ratio ((14+20-10-11)/7)   | 1.1824                         | 1.3210                           |
| 46     | Operating Accrual Ratio ((14+20+26)/7)                                 | 1.4051                         | 1.4840                           |
| 47     | TIER ((31+26)/26)  | 5.4032                         | 4.3329                           |
| 48     | DSCR ((31+26+10+11)/44)  | 2.25                           | 1.6644                           |

Footnote (A1)  
 S Corporation Effective Tax Rate (2 decimal places):

|  | 2012   | 2013   |
|--|--------|--------|
|  | 19.40% | 18.40% |

PETITION OF HOOD CANAL TELEPHONE CO., INC.  
 TO RECEIVE SUPPORT FROM THE UNIVERSAL  
 SERVICE COMMUNICATIONS PROGRAM -  
 EXHIBIT 4-8

2014 State USF Petition Filing requirement - WAC 480-123-110 (e)  
 Network Access Services Revenue  
 Prior and Current Year

Company Name: (Below)

HOOD CANAL TELEPHONE CO., INC.

| Description                               | Part 32 Account | 2012      | 2013      |
|---|-----------------|-----------|-----------|
| End User Revenue (SLC, ARC, etc.)         | 5081            | 94,618    | 92,835    |
| Switched Access (excluding USF):          | 5082            |           |           |
| Intrastate                                |                 | 216,946   | 111,717   |
| Interstate                                |                 | 153,147   | 151,738   |
| Special Access:                           | 5083            |           |           |
| Intrastate                                |                 | 796       | 810       |
| Interstate                                |                 | 160,567   | 249,029   |
| Federal USF (ICLS/CAF/HCL/SN)             | Varies          | 742,319   | 863,443   |
| Total (must equal line 2 of Income Stmt.) |                 | 1,368,393 | 1,469,572 |
| Line 2 of Income Stmt.                    |                 | 1,368,393 | 1,469,572 |
| Difference                                |                 | 0         | 0         |

PETITION OF HOOD CANAL TELEPHONE CO., INC.  
 TO RECEIVE SUPPORT FROM THE UNIVERSAL  
 SERVICE COMMUNICATIONS PROGRAM -  
 EXHIBIT 4-9

2014 STATE USF PETITION FILING REQUIREMENT - WAC 480-12-110(e)  
BROADBAND CONNECTION BY TYPE

HOOD CANAL TELEPHONE CO., INC.

| Description                  | Prior Year<br>End of Yr.<br>Balance - 2012 | Current Year<br>End of Yr.<br>Balance - 2013 | Difference | %<br>Change |
|------------------------------|--|--|------------|-------------|
| <b>Broadband Connections</b> |  |  |            |             |
| DSL                          |  |  |            |             |
| Cable Modems                 |  |  |            |             |
| Totals                       |  |  |            |             |

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

Reviewed Consolidated Financial Statements

December 31, 2013 and 2012

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

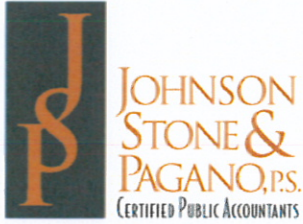
Reviewed Consolidated Financial Statements

December 31, 2013 and 2012

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

**REVIEWED CONSOLIDATED FINANCIAL STATEMENTS**

|  |      |
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| Consolidated Balance Sheets .....                    | 2-3  |
| Consolidated Statements of Income.....               | 4    |
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| 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

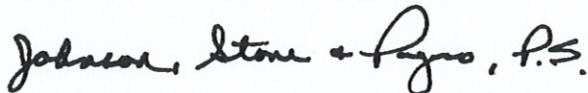
Board of Directors  
R.J.B. Telecommunications Corp.  
Union, Washington

We have reviewed the accompanying consolidated balance sheets of R.J.B. Telecommunications Corp. and Subsidiary (an S corporation) (the "Company") as of December 31, 2013 and 2012 and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. 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 is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements.

Our responsibility is to conduct the reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the consolidated financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 7, 2014

REVIEWED CONSOLIDATED FINANCIAL STATEMENTS

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

**CONSOLIDATED BALANCE SHEETS**

December 31, 2013 and 2012

|  | <u>2013</u> | <u>2012</u> |
|--|-------------|-------------|
| <b><u>ASSETS</u></b>   |             |             |
| <b>CURRENT ASSETS</b>  |             |             |
| Cash   |             |             |
| Cash - construction fund                                     |             |             |
| Accounts receivable, less allowance for doubtful accounts    |             |             |
| Grant receivable   |             |             |
| Interest receivable  |             |             |
| 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                       |             |             |
| Intangible assets, net                                       |             |             |
| Unamortized debt issuance expense                            |             |             |
| <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>  |             |             |

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, 2013 and 2012

|  | <u>2013</u> | <u>2012</u> |
|--|-------------|-------------|
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>                     |             |             |
| <b>CURRENT LIABILITIES</b>   |             |             |
| Accounts payable   |             |             |
| Due to officer   |             |             |
| Due to exchange carriers and exchange carrier associations             |             |             |
| 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>                      |             |             |

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

**CONSOLIDATED STATEMENTS OF INCOME**

Years Ended December 31, 2013 and 2012

|                                       | <u>2013</u> | <u>2012</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 and amortization         |             |             |
| 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            |             |             |
| Loss on disposal of asset             |             |             |
| Miscellaneous expense                 |             |             |
| <b>Total Other Expense</b>            |             |             |
| <b>NET INCOME</b>                     |             |             |

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, 2013 and 2012

|                                     | <u>Common Stock</u> |               | <u>Retained</u> | <u>Total</u> |
|-------------------------------------|---------------------|---------------|-----------------|--------------|
|                                     | <u>Shares</u>       | <u>Amount</u> | <u>Earnings</u> |              |
| <b>Balance at December 31, 2011</b> |                     |               |                 |              |
| Net income for the year             |                     |               |                 |              |
| Dividends on common stock           |                     |               |                 |              |
| Cash                                |                     |               |                 |              |
| Declared                            |                     |               |                 |              |
| <b>Balance at December 31, 2012</b> |                     |               |                 |              |
| Net income for the year             |                     |               |                 |              |
| Dividends on common stock           |                     |               |                 |              |
| Cash                                |                     |               |                 |              |
| <b>Balance at December 31, 2013</b> |                     |               |                 |              |

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2013 and 2012

|  | 2013 | 2012 |
|--|------|------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                      |      |      |
| Net income   |      |      |
| Adjustments to reconcile net income to net cash provided by operating activities |      |      |
| Depreciation   |      |      |
| Amortization   |      |      |
| Cash surrender value of life insurance   |      |      |
| Gain on sale of properties   |      |      |
| Loss on disposal of asset  |      |      |
| 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>                                      |      |      |
| Decrease in cash - construction fund   |      |      |
| Additions to property, plant and equipment                                       |      |      |
| Salvage on retired plant and equipment   |      |      |
| Grant receivable collected   |      |      |
| Advances from (to) affiliated company  |      |      |
| Payments on notes receivable   |      |      |
| <b>Net Cash Used by Investing Activities</b>                                     |      |      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                      |      |      |
| Proceeds from officer  |      |      |
| Payments to officer  |      |      |
| Proceeds from long-term debt   |      |      |
| Payments on long-term debt   |      |      |
| Dividends paid   |      |      |
| <b>Net Cash Provided (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>   |      |      |

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

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

Years Ended December 31, 2013 and 2012

|  | <u>2013</u> | <u>2012</u> |
|--|-------------|-------------|
| <b>COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES</b>            |             |             |
| (Increase) decrease in assets  |             |             |
| Accounts receivable  |             |             |
| Interest receivable  |             |             |
| Materials and supplies   |             |             |
| Prepaid expenses   |             |             |
| Increase (decrease) in liabilities   |             |             |
| Accounts payable   |             |             |
| Due to exchange carriers and exchange carrier associations                     |             |             |
| 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 OPERATING TRANSACTIONS</b>               |             |             |
| Noncash transfer of construction in progress to materials and supplies         |             |             |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS</b> |             |             |
| Noncash transfer of property, plant and equipment to grant receivable          |             |             |

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, 2013 and 2012

**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 modify the manner in which the Company 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.

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, 2013 and 2012

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

***Intangible Assets***

Goodwill and other intangibles consist of goodwill and other acquisition-related intangible assets which are stated at fair value as of the date acquired in a business acquisition. The Company performs an annual impairment test to determine whether the carrying value of goodwill and intangible assets exceeds their fair value. The Company does not believe that there is an impairment of the balance of goodwill and intangible assets in December 31, 2013 and 2012.

***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 be reviewed 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, 2013 and 2012, 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 the Company 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 the Company'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 the Company during the year in which they become determinable.

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, 2013 and 2012

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

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

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 the Company'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 the Company to interstate interexchange carriers and pooled with like-revenues from all NECA member companies. The pooled access charge revenues received by the Company 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 the Company during the year in which they occur.

The FCC 11-161, modifies and replaces 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 the Company. 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.

The Company continues to review the reforms and modifications to the support that the Company receives, and understands that those reforms and modifications could have an adverse effect on the Company's telephone service revenues and cash flow. Revenue impacts are subject to change based on the outcome of numerous petitions and legal challenges, as well as future data collections and further clarification from the FCC.

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, 2013 and 2012

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

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

Revenues for intrastate telephone access services are received through tariffed access charges filed by the Company and the Washington Exchange Carrier Association ("WECA") and approved by the WUTC. The access charges are billed by the Company to intrastate interexchange carriers. The carrier common line and state universal service fund revenues are pooled with all WECA member companies and are redistributed to the Company based upon the Company's proportionate share of cost to provide those services plus a return on investment as compared with the other WECA member companies. The traffic sensitive revenues are considered bill and keep based on tariffed rates.

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

***Federal Income Taxes***

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, 2010 are closed to examination.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles 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. Significant accounting estimates include the recoverability of long-term assets, estimate of useful lives of property, plant and equipment, future maturities of long-term debt, deferred compensation liability and the recognition of certain network access telephone service revenues.

***Reclassifications***

Certain reclassifications have been made to the previously reported 2012 financial statements in order to make them comparable with the 2013 financial statements.

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, 2013 and 2012

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

***Subsequent Events***

The management of the Company evaluated for subsequent events and transactions for potential recognition and disclosure through February 7, 2014, the date of completion of the accountant's review procedures. All identified material events or transactions have been recorded or disclosed.

**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 periodically maintains cash in excess of federally insured limits. At December 31, 2013, the Company's cash balances exceeded the insurance amounts by \$[REDACTED].

The Company'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>2013</u> | <u>2012</u> |
|--|-------------|-------------|
| Due from customers and agents                                |             |             |
| Due from exchange carriers and exchange carrier associations |             |             |
| Other accounts receivable                                    |             |             |
| Allowance for doubtful accounts (deduction)                  |             |             |

The Company 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. The Company 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.

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, 2013 and 2012

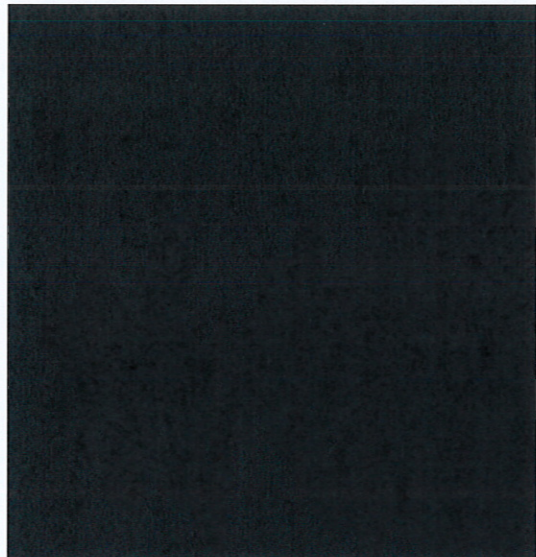
**NOTE 5 - GRANT RECEIVABLE**

The Company was awarded a grant from the Rural Utilities Service Broadband Initiative Program (see Note 9). The grant funds are advanced on a reimbursement basis. The Company has recorded a grant receivable in the amounts of \$[REDACTED] and \$[REDACTED] at December 21, 2013 and 2012, respectively, for approved reimbursable expenditures for capital additions.

**NOTE 6 - NOTES RECEIVABLE**

The notes receivable balances consist of the following:

|   | Current<br>Annual<br>Installments<br>of Principal | <u>Amount</u> |             |
|---|---|---------------|-------------|
|   |   | <u>2013</u>   | <u>2012</u> |
| 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. Effective in December 2012, the notes were revised; monthly installments were reduced to \$[REDACTED] with interest at [REDACTED]%.<br><br>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]%.  
  
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, 2013 and 2012

**NOTE 6 - NOTES RECEIVABLE (Continued)**

At December 31, 2013, maturities of notes receivable for the next five years and thereafter are as follows:

|            |  |
|------------|--|
| 2014       |  |
| 2015       |  |
| 2016       |  |
| 2017       |  |
| 2018       |  |
| Thereafter |  |
| Total      |  |

**NOTE 7 - INVESTMENTS**

Investments consist of marketable securities as follows:

|  | <u>2013</u> | <u>2012</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, 2013 and 2012 is not considered material.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

**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<br>(Years) | Amount |      |
|--|-------------------------|--------|------|
|  |                         | 2013   | 2012 |
| R.J.B. Telecommunications Corp.        |                         |        |      |
| Support assets                         |                         |        |      |
| Hood Canal Telephone Co., Inc.         |                         |        |      |
| Telecommunications Plant and Equipment |                         |        |      |
| Support assets                         |                         |        |      |
| Central office assets                  |                         |        |      |
| Cable and wire facilities              |                         |        |      |
| Intangibles                            |                         |        |      |
| Cable Television Plant and Equipment   |                         |        |      |
| Support assets                         |                         |        |      |
| Head end equipment                     |                         |        |      |
| Subscriber equipment                   |                         |        |      |
| Cable and wire facilities              |                         |        |      |
| Franchises                             |                         |        |      |
| Nonregulated Plant and Equipment       |                         |        |      |
| Total Property, Plant and Equipment    |                         |        |      |

***Depreciation Expense***

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

|                            | 2013 | 2012 |
|----------------------------|------|------|
| Telecommunications plant   |      |      |
| Cable television plant     |      |      |
| Nonregulated plant         |      |      |
| Total Depreciation Expense |      |      |

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, 2013 and 2012

**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 certain times interest earned ratio.

Hood Canal Telephone Co., Inc. had guaranteed a note payable for equipment entered into by Southshore Enterprises, LLC, an affiliated company. The balance was \$[REDACTED] at December 31, 2012 and was paid in full at December 31, 2013.

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, 2013 and 2012, 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, 2013, Hood Canal Telephone Co., Inc. has available for future approved plant construction expenditures of \$[REDACTED] in grant funds and \$[REDACTED] in loan funds.

**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 preretirement 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, 2013 and 2012, 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 money purchase pension plans.

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, 2013 and 2012

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

The 401(k) salary deferral matching contributions as well as contributions to the profit sharing plan are discretionary and are determined by the Board of Directors. The money purchase pension plan has a mandatory contribution rate of █%. 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, 2013 and 2012 were \$█ and \$█, respectively.

**NOTE 12 - SALE - LEASEBACK TRANSACTIONS**

On December 15, 2009, the Company sold certain real properties for \$█ to Southshore Enterprises, LLC ("SSE"), a limited liability company owned by the President of the Company and majority stockholder of R.J.B. Telecommunications Corp. Under the agreement, the Company is 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 is accounting for the leaseback transactions as operating leases. The gain of \$█ 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, 2013 and 2012 is \$█. At December 31, 2013 and 2012, the remaining deferred gain of \$█ and \$█, respectively, is shown as "Deferred gain on sale of properties" on the Company's consolidated balance sheets.

The leases require the Company to pay customary insurance, maintenance and taxes. SSE has the option to renew the leases with the Company at the end of the initial █ year period of the leases. For the years ending December 31, 2013 and 2012, the Company incurred \$█ and \$█, respectively, of rent expense related to these leases. Future minimum lease payments required under the leases are as follows:

2014  
2015  
2016  
2017  
2018



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**

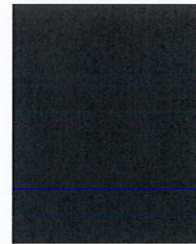
December 31, 2013 and 2012

**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, the Company leases warehouse facilities and equipment from Southshore Enterprises, LLC. The warehouse leases are for ten year terms and provide that the Company pay for insurance, maintenance and taxes; the equipment leases range from four to five years. The master lease for the equipment provides that the Company pay for insurance, maintenance and repairs and taxes related to the equipment.

Total rental expense under these leases for the years ended December 31, 2013 and 2012 totaled \$ [REDACTED] and \$ [REDACTED], respectively. Future minimum rental payments under these leases are as follows:

2014  
2015  
2016  
2017  
2018



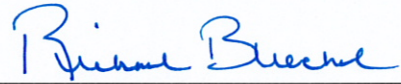
| USDA-RUS  |            | BORROWER DESIGNATION                  |  |
|---|------------|---------------------------------------|--|
| OPERATING REPORT FOR<br>TELECOMMUNICATIONS BORROWERS                            |            | WA0541 Hood Canal Telephone Co., Inc. |  |
|   |            | PERIOD ENDING                         |  |
| INSTRUCTIONS- See RUS Bulletin 1744-2   |            | December, 2013                        |  |
| PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS                   |            |                                       |  |
| ITEM  | PRIOR YEAR | THIS YEAR                             |  |
| 1. Local Network Services Revenues  | 192,431    | 186,459                               |  |
| 2. Network Access Services Revenues   | 1,511,691  | 1,639,561                             |  |
| 3. Long Distance Network Services Revenues                                      | 0          |                                       |  |
| 4. Carrier Billing and Collection Revenues                                      | 3,097      | 1,743                                 |  |
| 5. Miscellaneous Revenues   | 18,566     | 21,041                                |  |
| 6. Uncollectible Revenues   | (2,840)    | (1,393)                               |  |
| 7. Net Operating Revenues (1 thru 5 less 6)                                     | 1,728,625  | 1,850,197                             |  |
| 8. Plant Specific Operations Expense  | 1,064,516  | 1,179,803                             |  |
| 9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization) | 145,682    | 147,341                               |  |
| 10. Depreciation Expense  | 268,495    | 207,362                               |  |
| 11. Amortization Expense  | 0          |                                       |  |
| 12. Customer Operations Expense   | 537,023    | 623,299                               |  |
| 13. Corporate Operations Expense  | 597,007    | 791,647                               |  |
| 14. Total Operating Expenses (8 thru 13)  | 2,612,723  | 2,949,452                             |  |
| 15. Operating Income or Margins (7 less 14)                                     | (884,098)  | (1,099,255)                           |  |
| 16. Other Operating Income and Expenses   | 0          |                                       |  |
| 17. State and Local Taxes   | 85,572     | 102,338                               |  |
| 18. Federal Income Taxes  |            |                                       |  |
| 19. Other Taxes   |            |                                       |  |
| 20. Total Operating Taxes (17+18+19)  | 85,572     | 102,338                               |  |
| 21. Net Operating Income or Margins (15+16-20)                                  | (969,670)  | (1,201,593)                           |  |
| 22. Interest on Funded Debt   | 70,899     | 69,836                                |  |
| 23. Interest Expense - Capital Leases   |            |                                       |  |
| 24. Other Interest Expense  | 21,139     | 23,126                                |  |
| 25. Allowance for Funds Used During Construction                                |            |                                       |  |
| 26. Total Fixed Charges (22+23+24-25)   | 92,038     | 92,962                                |  |
| 27. Nonoperating Net Income   | 30,395     | 14,765                                |  |
| 28. Extraordinary Items   | 0          |                                       |  |
| 29. Jurisdictional Differences  | 0          |                                       |  |
| 30. Nonregulated Net Income   | 1,436,578  | 1,589,627                             |  |
| 31. Total Net Income or Margins (21+27+28+29+30-26)                             | 405,265    | 309,837                               |  |
| 32. Total Taxes Based on Income   | 0          |                                       |  |
| 33. Retained Earnings or Margins Beginning-of-Year                              | 3,289,634  | 3,694,899                             |  |
| 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. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]     | 3,694,899  | 4,004,736                             |  |
| 40. Patronage Capital Beginning-of-Year   | 0          |                                       |  |
| 41. Transfers to Patronage Capital  | 0          |                                       |  |
| 42. Patronage Capital Credits Retired   | 0          |                                       |  |
| 43. Patronage Capital End-of-Year (40+41-42)                                    | 0          | 0                                     |  |
| 44. Annual Debt Service Payments  | 340,297    | 355,110                               |  |
| 45. Cash Ratio [(14+20-10-11) / 7]  | 1.4056     | 1.5374                                |  |
| 46. Operating Accrual Ratio [(14+20+26) / 7]                                    | 1.6142     | 1.6997                                |  |
| 47. TIER [(31+26) / 26]   | 5.4032     | 4.3329                                |  |
| 48. DSCR [(31+26+10+11) / 44]   | 2.2504     | 1.7182                                |  |

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 to existing high-cost loop and interstate common line support mechanisms, as required by the Federal Communications Commission, applied to the Company for 2013 and 2012.

Dated this 31st day of July, 2014.



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Richard Buechel, President

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

I, Richard Buechel, an officer of Hood Canal Telephone Co., Inc. 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 this 31<sup>st</sup> day of July, 2014.

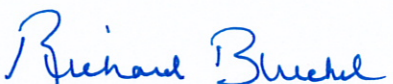
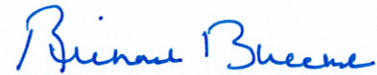
  
Richard Buechel, General Manager

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Richard Buechel, an officer of 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 2015.

Dated this 31<sup>st</sup> day of July, 2014.



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Richard Buechel, General Manager