



HoodCanal
COMMUNICATIONS

Cable TV - Voice - Broadband - Computer Repair

Received
Records Management

07/31/18 13:46

State Of WASH.
UTIL. AND TRANSP.
COMMISSION

July 31, 2018

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

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

CLAIM OF CONFIDENTIALITY

Dear Mr. Johnson:

Pursuant to WAC 480-123-100 and WAC 480-123-110, Hood Canal Telephone Co., Inc. ("Company") hereby petitions the Washington Utilities and Transportation Commission to receive support from the State Universal Communications Services Program for the Program year 2019.

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

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

Sincerely,

Richard Buechel
President

Enclosures

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

IN RE

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

DOCKET NO.

PETITION FOR SUPPORT

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

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 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No.
2 105 of the Company's Tariff WN U-2.
- 3 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate
4 instability or service interruption or cessation in the absence of support from the Program is
5 attached hereto as Exhibit 3.
- 6 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached hereto as
7 Exhibit 4, are copies of the Company's balance sheet as of December 31, 2017 and
8 December 31, 2016, and copies of the Company's statements of income and retained
9 earnings or margin for the years ended December 31, 2017 and December 31, 2016. In
10 addition, certain service information requested by the Commission is included in Exhibit 4.
- 11 6. WAC 480-123-110(1)(e)(ii): A copy of the parent company's consolidated annual financial
12 statements for the years ended December 31, 2017 and December 31, 2016, are attached
13 hereto as Exhibit 5.
- 14 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of
15 return on a total Washington unseparated regulated operations basis for each of the two prior
16 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4
17 hereto.
- 18 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on
19 equity on a total company (regulated and non-regulated) Washington basis for each of the
20 two prior years, calculated in the manner prescribed by the Commission, is provided in
21 Exhibit 5 hereto.
22
23
24
25
26

- 1 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's assets and revenues
2 from the balance sheets, statements of income and retained earnings or margin in the same
3 format and detail as is required to complete USDA-RUS Operating Report for the prior two
4 years is presented on Exhibit 6 attached hereto.
- 5 10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company officer
6 with personal knowledge and responsibility certifying that no corporate operations expense
7 to existing mechanisms required by the Federal Communications Commission applied to the
8 Company for the two prior years is attached hereto as Exhibit 7.
- 9 11. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains additional supporting information
10 requested by the Commission.
- 11 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company
12 officer with personal knowledge and responsibility certifying that the Company complies
13 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to
14 incumbent local exchange companies is attached hereto as Exhibit 8.
- 15 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or
16 on its behalf with the Federal Communications Commission for the calendar year preceding
17 the current year has already been filed with the Commission. See the Company's filing in
18 Docket No. UT-180004 filed on or about July 16, 2018.
- 19 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by
20 the Company as of December 31, 2017, was 573, all of which were within the geographic
21 area for which the Company is seeking support. The number of residential local exchange
22
23
24
25
26

1 access lines served by the Company as of December 31, 2016, was 587, all of which were
2 within the geographic area for which the Company is seeking support. The number of
3 business local exchange access lines served by the Company as of December 31, 2017, was
4 209, all of which were within the geographic area for which the Company is seeking
5 support. The number of business local exchange access lines served by the Company as of
6 December 31, 2016, was 211, all of which were within the geographic area for which the
7 Company is seeking support. The monthly recurring rate charged by the Company for
8 residential local exchange access service on December 31, 2017 and 2016, was \$18.00. The
9 rate charged by the Company for single line business local exchange access service on
10 December 31, 2017 and 2016, was \$19.50. (The Company has other business local
11 exchange service rates, but the Company understands that WAC 480-123-110(1)(g) is
12 requesting the single line business local exchange access service rate.)
13

14
15 15. WAC 480-123-110(1)(h): The requested statement is attached hereto as Exhibit 9.

16 16. The 2011 Rate of Return Carrier Base Period Revenue amount on line 4 of the CAF ICC
17 Data Collection Report for the period of July 1, 2018 to June 30, 2019 is \$419,381 and has
18 not changed from prior filings for Hood Canal Telephone Co., Inc.

19 17. All exhibits attached hereto are incorporated in this Petition as though fully set forth.
20
21
22
23
24
25
26

1 Respectfully submitted this 31st day of July, 2018.

2
3 HOOD CANAL TELEPHONE CO., INC.

4
5 CERTIFICATION

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

11 Dated at Union, Washington this 31st day of July, 2018.

12 By: Richard Buechel

13 Title: Richard Buechel, President
14
15
16
17
18
19
20
21
22
23
24
25
26

EXHIBIT 1

CORPORATE ORGANIZATION CHART

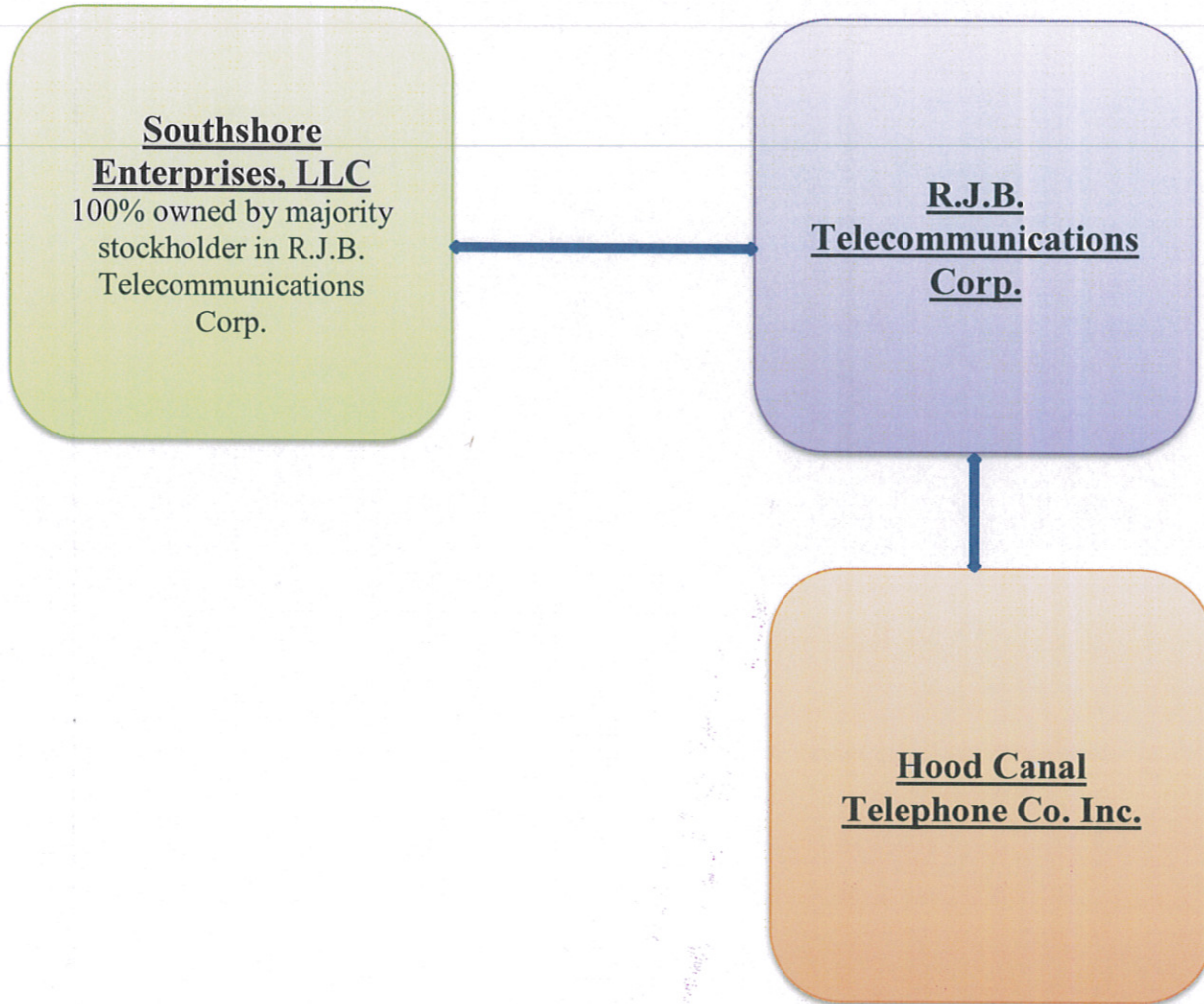


EXHIBIT 2

AFFILIATED TRANSACTIONS

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

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

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

EXHIBIT 3

DEMONSTRATION OF RISK OF RATE INSTABILITY OR SERVICE INTERRUPTION OR CESSATION

There are two sets of forces at work that lead to a risk of rate instability or service interruption or cessation. One is the growing competition. The second is the financial environment.

The Company has been working over the past several years to address growing competition. The Company has taken steps to increase the availability and capacity of broadband services offered by the Company. This has resulted in the Company making additional investments in regulated plant of approximately \$3,065,000 during the period January 1, 2011 through December 31, 2017. As a result, the Company has a sizable debt obligation to cover the investment that has been made.

Even with this investment, the Company is seeing increased competition. More customers are choosing either wireless or wireline as their service of choice instead of using wireless services as a complement to wireline service. In Hood Canal's case, the Company has lost 214 access lines since 2011. This represents a 21 percent reduction in lines.

The Federal Communications Commission's ("FCC") requirement that the Company increase its rates to remain eligible for full federal USF support was a contributing factor to the access line loss. Since 2012, the Company has increased its local exchange service rates in order to be in compliance with the national urban rate floor prescribed by the FCC. However, those increases have been insufficient to fully replace the revenues that have been lost due to the reduction in access lines. In addition, those rate increases have tended to stimulate a rise in disconnection of service by customers. While the FCC has placed this upward movement in local rates on hold for the time being, the effect of rate increases has not been reversed.

As the Commission knows, a loss of customers equates to a loss of revenue without a corresponding reduction in expenses. Many of the expenses the Company has are fixed and do not vary with a reduction in access lines. The loss of revenue due to loss of access lines is just one of the negative financial factors for the Company.

It is clear that the Company is operating in an environment of financial uncertainty. Some of the financial uncertainty that the Company faces stems from the USF/ICC Transformation Order issued by the FCC.¹ The USF/ICC Transformation Order has built in an automatic decline in the

¹ *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform - Mobility Fun*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-

Company's intrastate and interstate access revenues. The intercarrier compensation portion of the Transformation Order introduces a concept of a base line year for calculating terminating access and reciprocal compensation revenues and provides support from the Connect America Fund ("CAF") based on the base line year. However, the base line year revenues (from which the level of CAF support is derived) are reduced iteratively by five percent each year. The CAF support reduction began in July 2012. Projecting through the year ending June 30, 2019, including reductions that will occur July 1, 2018, the Company has seen a reduction in support from the base line revenue of approximately \$126,512.

This example carries over to the Company's overall financial situation. The overall financial condition of the Company is detailed in Exhibits 4, 5 and 6 of the Petition. This information demonstrates that there is reason for concern. For example, when adjusted to eliminate the support from the state Universal Communications Services Program that the Company received or accrued in 2017, the Company's total regulated revenue decreased by 23 percent from 2011 through 2017. The Company has looked for ways to lower expenses. However, much of the Company's operating expenses are fixed obligations, such as debt-related payments. Annual debt payments of principle and interest are approximately \$340,000.

Then, as the Commission is aware, the Company's receipt of revenue from the traditional Washington intrastate universal service access rate element and related pooling fund were terminated effective July 1, 2014. Since then, the loss of revenues derived from the traditional universal service access rate element has been off-set by revenues received by the Company as a result of its participation in the Program. Using 2012 as a base line, the Company is facing a loss of traditional universal service fund revenues of approximately \$39,400 per year if its participation in the Program is not renewed.

In addition, forecasted future changes are not going to help. For example, the Company anticipates a decrease of approximately \$100,000 to its federal high cost support in 2018 due to budget constraints imposed by the FCC. Continued use of the budget control mechanism, pro rata adjustment factor and transition to lower rate of return are actions which are expected to lower federal high cost loop support for the Company.

The Company is also subject to the new operating expense limitation for both high cost loop and the Connect America Fund Broadband Loop Support ("CAF-BLS").² The operating expense limitation for CAF-BLS began in 2017. Since high-cost loop uses historical data to be paid out two years later, the operation expense limitation, as it affects the Company, for high-cost loop starts in 2018 based on 2016 data. This limitation will cause further reductions to federal support funding to the Company.

208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011)(*USF/ICC Transformation Order*).

² CAF-BLS is a new mechanism used by the FCC. In part, CAF-BLS replaces the interstate common loop support, which is no longer available.

Furthermore, the Company was audited by Universal Service Administrative Co. ("USAC"). The auditor objected to an allocation method used by the Company and found a category of expense was not properly documented. The Company did not agree with the audit findings. However, the Company's appeal was denied. As a result, \$127,389 of high-cost loop support will be recovered by USAC in 2018, decreasing total support for 2018 substantially.

The combination of factors described above creates a situation in which the Company may be faced with a choice of increasing rates further or reducing service in order to be able to match expenses to revenues. Neither choice presents a viable path for providing continued high quality service to customers. The dilemma presented by these choices reflects the risk of rate instability or service interruption or cessation. Support from the state Universal Communications Services Program will help ameliorate this risk.

State USF Petition Filing Requirement - WAC 480-123-110(e)
 Prior and Current Year Broadband and Gross Capital Expenditures
 Exhibit 4.1

CONFIDENTIAL PER 480-07-160
 Exhibit 4.1

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

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

PETITION OF HOOD CANAL TELEPHONE CO., INC.
 TO RECEIVE SUPPORT FROM STATE UNIVERSAL
 COMMUNICATIONS SERVICES PROGRAM -
 EXHIBIT 4.1 ATTACHMENT

STATE USF FILING
FINANCIAL TEMPLATE
"S CORP" COMPANIES

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

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

ASSETS	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	963,384		963,384	25. Accounts Payable	459,163		459,163
2. Cash-RUS Construction Fund			0	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments			0
a. Telecom, Accounts Receivable			0	28. Customer Deposits	68,804		68,804
b. Other Accounts Receivable	160,618		160,618	29. Current Mat. L/T Debt	286,100		286,100
c. Notes Receivable			0	30. Current Mat. L/T Debt-Rur. Dev.	0		0
4. Non-Affiliates:				31. Current Mat. - Capital Leases	0		0
a. Telecom, Accounts Receivable	424,666		424,666	32. Income Taxes Accrued	96,317		96,317
b. Other Accounts Receivable			0	33. Other Taxes Accrued	570,137		570,137
c. Notes Receivable	10,000		10,000	34. Other Current Liabilities	1,480,521		1,480,521
5. Interest and Dividends Receivable			0	LONG-TERM DEBT		0	
6. Material-Regulated	173,669		173,669	36. Funded Debt-RUS Notes	917,387		917,387
7. Material-Nonregulated	173,264		173,264	37. Funded Debt-RTB Notes	0		0
8. Prepayments	67,966		67,966	38. Funded Debt-FFB Notes	0		0
9. Other Current Assets			0	39. Funded Debt-Other	0		0
10. Total Current Assets (1 Thru 9)	1,973,567	0	1,973,567	40. Funded Debt-Rural Develop. Loan	263,695		263,695
				41. Premium (Discount) on L/T Debt	0		0
NONCURRENT ASSETS				42. Reacquired Debt	0		0
11. Investment in Affiliated Companies				43. Obligations Under Capital Lease	0		0
a. Rural Development			0	44. Adv. From Affiliated Companies	0		0
b. Nonrural Development			0	45. Other Long-Term Debt	0		0
12. Other Investments				46. Total Long-Term Debt (36 thru 45)	1,181,082	0	1,181,082
a. Rural Development			0	OTHER LIAB. & DEF. CREDITS			
b. Nonrural Development	143,780		143,780	47. Other Long-Term Liabilities	0		0
13. Nonregulated Investments (B1)	4,566,988	166,261	4,733,249	48. Deferred Income Taxes	0	(22,014)	0
14. Other Noncurrent Assets	368,792		368,792	49. Other Deferred Credits (D)	185,269		185,269
15. Deferred Charges			0	50. Other Jurisdictional Differences	0		0
16. Jurisdictional Differences			0	51. Total Other Liab. & Def. Credits (47 thru 50)	185,269	(22,014)	163,255
17. Total noncurrent Assets (11 thru 16)	5,079,560	166,261	5,245,821	EQUITY			
				52. Cap. Stock Outstanding & Subscribed	50,000		50,000
PLANT, PROPERTY AND EQUIPMENT				53. Additional Paid-in-Capital	0		0
18. Telecom Plant-in-Service	7,542,150	(548,822)	6,993,328	54. Treasury Stock	0		0
19. Property Held for Future Use			0	55. Membership and cap. Certificates	0		0
20. Plant Under Construction	303,033	(163,715)	139,318	56. Other Capital	515,689		515,689
21. Plant Adj., Nonop Plant & Goodwill			0	57. Patronage Capital Credits	0		0
22. Accumulated Depreciation (CR.)	(6,545,321)	546,276	(5,999,045)	58. Retained Earnings or Margins (B2)	4,940,428	22,014	4,962,442
23. Net Plant (18 thru 21 less 22)	1,299,862	(166,261)	1,133,601	59. Total Equity (52 thru 58)	5,506,117	22,014	5,528,131
24. TOTAL ASSETS (10+17+23)	8,352,989	0	8,352,989	60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	8,352,989	0	8,352,989

Footnotes:

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

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

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

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

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

ASSETS	Balance End of Year 2017 (A)	Part 64 Adj to NonReg 2017 (B)	Adj. Balance End of Year 2017 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2017 (A)	Part 64 Adj to NonReg 2017 (B)	Adj. Balance End of Year 2017 (C)
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	1,625,224		1,625,224	25. Accounts Payable	348,950		348,950
2. Cash-RUS Construction Fund			0	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments			
a. Telecom, Accounts Receivable			0	28. Customer Deposits	72,944		72,944
b. Other Accounts Receivable	83,615		83,615	29. Current Mat. L/T Debt	269,000		269,000
c. Notes Receivable			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	576,058		576,058	32. Income Taxes Accrued	0		0
b. Other Accounts Receivable			0	33. Other Taxes Accrued	110,683		110,683
c. Notes Receivable	10,200		10,200	34. Other Current Liabilities	701,520		701,520
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	1,503,097	0	1,503,097
6. Material-Regulated	202,001		202,001	LONG-TERM DEBT			
7. Material-Nonregulated	170,082		170,082	36. Funded Debt-RUS Notes	809,956		809,956
8. Prepayments	107,415		107,415	37. Funded Debt-RTB Notes	0		0
9. Other Current Assets			0	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	2,774,595	0	2,774,595	39. Funded Debt-Other	0		0
				40. Funded Debt-Rural Develop. Loan	85,508		85,508
				41. Premium (Discount) on L/T Debt	0		0
NONCURRENT ASSETS				42. Recquired Debt	0		0
11. Investment in Affiliated Companies			0	43. Obligations Under Capital Lease	0		0
a. Rural Development			0	44. Adv. From Affiliated Companies	0		0
b. Nonrural Development			0	45. Other Long-Term Debt	0		0
12. Other Investments			0	46. Total Long-Term Debt (36 thru 45)	85,508	0	85,508
a. Rural Development			0	OTHER LIAB. & DEF. CREDITS			
b. Nonrural Development	151,462		151,462	47. Other Long-Term Liabilities	0		0
13. Nonregulated Investments (B1)	4,422,304	104,825	4,527,129	48. Deferred Income Taxes	139,182	(19,421)	119,761
14. Other Noncurrent Assets	358,568		358,568	49. Other Deferred Credits (D)	0		0
15. Deferred Charges			0	50. Other Jurisdictional Differences	0		0
16. Jurisdictional Differences			0	51. Total Other Liab. & Def. Credits (47 thru 50)	139,182	(19,421)	119,761
17. Total noncurrent Assets (11 thru 16)	4,932,334	104,825	5,037,159	EQUITY			
				52. Cap. Stock Outstanding & Subscribed	50,000		50,000
PLANT, PROPERTY AND EQUIPMENT				53. Additional Paid-in-Capital	0		0
18. Telecom Plant-In-Service	7,652,604	(795,549)	6,857,055	54. Treasury Stock	0		0
19. Property Held for Future Use			0	55. Membership and cap. Certificates	0		0
20. Plant Under Construction	148,856	(64,881)	83,975	56. Other Capital	515,689		515,689
21. Plant Adj., Nonop Plant & Goodwill			0	57. Patronage Capital Credits	0		0
22. Accumulated Depreciation (CR.)	(6,571,835)	755,605	(5,816,230)	58. Retained Earnings or Margins (B2)	5,833,122	19,421	5,852,543
23. Net Plant (18 thru 21 less 22)	1,229,625	(104,825)	1,124,800	59. Total Equity (52 thru 58)	6,398,811	19,421	6,418,232
24. TOTAL ASSETS (10+17+23)	8,936,554	0	8,936,554	60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	8,936,554	0	8,936,554

Footnotes:

(A) - As reported on RUS Form 479

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

(C) - Adjusted Balance after Part 64

Footnotes:

(B1) - Part 64 offset to nonreg investment

(B2) - Part 64 offset to retained earnings

(D) - Excludes deferred taxes

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

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

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

ASSETS	Adjusted Prior Year Balance 2016	Adjusted Current Year Balance 2017	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2016	Adjusted Current Year Balance 2017
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	963,384	1,625,224	25. Accounts Payable	459,163	348,950
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	68,804	72,944
b. Other Accounts Receivable	160,618	83,615	29. Current Mat. L/T Debt	286,100	269,000
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	424,666	576,058	32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	0	0	33. Other Taxes Accrued	96,317	110,683
c. Notes Receivable	10,000	10,200	34. Other Current Liabilities	570,137	701,520
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	1,480,521	1,503,097
6. Material-Regulated	173,669	202,001	LONG-TERM DEBT		
7. Material-Nonregulated	173,264	170,082	36. Funded Debt-RUS Notes	917,387	809,956
8. Prepayments	67,966	107,415	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)	1,973,567	2,774,595	39. Funded Debt-Other	0	0
			40. Funded Debt-Rural Develop. Loan	263,695	85,508
NONCURRENT ASSETS			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 (36-45)	1,181,082	895,464
b. Nonrural Development	143,780	151,462	OTHER LIAB. & DEF. CREDITS		
13. Nonregulated Investments	4,733,249	4,527,129	47. Other Long-Term Liabilities	0	0
14. Other Noncurrent Assets	368,792	358,568	48. Deferred Income Taxes	0	0
15. Deferred Charges	0	0	49. Other Deferred Credits	163,255	119,761
16. Jurisdictional Differences	0	0	50. Other Jurisdictional Differences	0	0
17. Total noncurrent Assets (11 thru 16)	5,245,821	5,037,159	51. Total Other Liab. & Def. Credits (47 thru 50)	163,255	119,761
PLANT, PROPERTY AND EQUIPMENT			EQUITY		
18. Telecom Plant-in-Service	6,993,328	6,857,055	52. Cap. Stock Outstanding & Subscribed	50,000	50,000
19. Property Held for Future Use	0	0	53. Additional Paid-in-Capital	0	0
20. Plant Under Construction	139,318	83,975	54. Treasury Stock	0	0
21. Plant Adj., Nonop Plant & Goodwill	0	0	55. Membership and cap. Certificates	0	0
22. Accumulated Depreciation (CR.)	(5,999,045)	(5,816,230)	56. Other Capital	515,689	515,689
23. Net Plant (18 thru 21 less 22)	1,133,601	1,124,800	57. Patronage Capital Credits	0	0
			58. Retained Earnings or Margins	4,962,442	5,852,543
			59. Total Equity (51 thru 57)	5,528,131	6,418,232
24. TOTAL ASSETS (10+17+23)	8,352,989	8,936,554	60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	8,352,989	8,936,554

Footnote:
Adjusted Balances represents balances
after Part 64 adjustments

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

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

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

Line #	Description	B/S Line #	Adj. Balance End of Year 2016	Adj. Balance End of Year 2017	Average Adj End of Year Balance
Average Rate Base:					
1	Total Regulated Adjusted Telecom Plant-In-Service	18	6,993,328	6,857,055	6,925,192
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(5,999,045)	(5,816,230)	(5,907,638)
4	Total Regulated Materials & Supplies	6	173,669	202,001	187,835
5	Deferred Income Taxes (CR)*		(157,075)	(209,661)	(183,368)
6	Total Regulated Rate Base		1,010,877	1,033,165	1,022,021

Footnotes:

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

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

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

Line #	Description	Prior Year End of Yr. Balance - 2016	Current Year End of Yr. Balance - 2017	Difference	% Change
Access Lines:					
1	Residential	587	573	(14)	-2.4%
2	Business	211	209	(2)	-0.9%
3	Total	798	782	(16)	-2.0%

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

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

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

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

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

Footnotes:

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

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

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

Line #	Description	Current Year 2017 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2017 (C)
1	Local Network Services Revenues	203,329		203,329
2	Network Access Services Revenues	1,377,959		1,377,959
3	Long Distance Network Services Revenues	233,978	(210,310)	23,668
4	Carrier Billing and Collection Revenues			0
5	Miscellaneous Revenues	18,920		18,920
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(27,319)		(27,319)
7	Net Operating Revenues (1 thru 6)	1,806,867	(210,310)	1,596,557
8	Plant Specific Operations Expense	1,466,016	(398,710)	1,067,306
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	217,726	(16,918)	200,808
10	Depreciation Expense	233,795	(33,150)	200,645
11	Amortization Expense	6,560	(6,560)	0
12	Customer Operations Expense	653,950	(257,059)	396,891
13	Corporate Operations	819,358	(236,544)	582,814
14	Total Operations Expenses (8 thru 13)	3,397,405	(948,941)	2,448,464
15	Operating Income or Margins (7 less 14)	(1,590,538)	738,631	(851,907)
16	Other Operating Income and Expenses ()			0
17	State and Local Taxes	126,501	(11,343)	115,158
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)		0	0
19	Other Taxes			0
20	Total Operating Taxes (17+18+19)	126,501	(11,343)	115,158
21	Net Operating Income or Margins (15+16-20)	(1,717,039)	749,974	(967,065)
22	Interest on Funded Debt	42,674	(37,599)	5,075
23	Interest Expense - Capital Leases			0
24	Other Interest Expense	3,441		3,441
25	Allowance for Funds Used During Construction (Record as a Credit)			0
26	Total Fixed Charges (22+23+24+25)	46,115	(37,599)	8,516
27	Nonoperating Net Income	118,189		118,189
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	2,537,659	(787,573)	1,750,086
31	Total Net Income or Margins (21+27+28+29+30-26)	892,694	0	892,694
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	4,940,428		4,940,428
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 End-of-Period ((31+33+34)-(35+36+37+38))(A2)	5,833,122	0	5,833,122
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	0
44	Annual Debt Service Payments	345,392		345,392
45	Cash Ratio ((14+20-10-11)/7)	1.8173	4.3772	1.4800
46	Operating Accrual Ratio ((14+20+26)/7)	1.9758	4.7448	1.6111
47	TIER ((31+26)/26)	20.3580	1.0000	105.8255
48	DSCR ((31+26+10+11)/44)	3.4140	#DIV/0!	3.1902

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9, Income Statement Summary Schedule Footnote
- (A2) Column A, Line 39 must equal Column A, Line 58 of Page 3, Balance Sheet
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Column B, automatic offset to Nonregulated Net Income (No Impact to retained earnings)

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

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

Line #	Description	Adjusted Prior Year 2016	Adjusted Current Year 2017
1	Local Network Services Revenues	204,036	203,329
2	Network Access Services Revenues	1,694,559	1,377,959
3	Long Distance Network Services Revenues	34,381	23,668
4	Carrier Billing and Collection Revenues	0	0
5	Miscellaneous Revenues	20,529	18,920
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	887	(27,319)
7	Net Operating Revenues (1 thru 6)	1,954,392	1,596,557
8	Plant Specific Operations Expense	1,153,552	1,067,306
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	234,267	200,808
10	Depreciation Expense	301,799	200,645
11	Amortization Expense	0	0
12	Customer Operations Expense	444,212	396,891
13	Corporate Operations	742,841	582,814
14	Total Operations Expenses (8 thru 13)	2,876,671	2,448,464
15	Operating Income or Margins (7 less 14)	(922,279)	(851,907)
16	Other Operating Income and Expenses ()	0	0
17	State and Local Taxes	114,278	115,158
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	0	0
19	Other Taxes	0	0
20	Total Operating Taxes (17+18+19)	114,278	115,158
21	Net Operating Income or Margins (15+16-20)	(1,036,557)	(967,065)
22	Interest on Funded Debt	6,597	5,075
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	3,823	3,441
25	Allowance for Funds Used During Construction (Record as a Credit)	0	0
26	Total Fixed Charges (22+23+24+25)	10,420	8,516
27	Nonoperating Net Income	3,069	118,189
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	1,351,341	1,750,086
31	Total Net Income or Margins (21+27+28+29+30-26)	307,433	892,694
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	4,632,995	4,940,428
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))	4,940,428	5,833,122
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	350,823	345,392
45	Cash Ratio ((14+20-10-11)/7)	1.3760	1.4800
46	Operating Accrual Ratio ((14+20+26)/7)	1.5357	1.6111
47	TIER ((31+26)/26)	30.5041	105.8255
48	DSCR ((31+26+10+11)/44)	1.77	3.1902

Footnote	2016	2017
(A1) S Corporation Effective Tax Rate (2 decimal places):	18.03%	17.88%

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

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

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

Line #	Description	Part 32 Account	Prior Year 2016	Current Year 2017
1	End User Revenue (SIC, ARC, etc.)	5081	105,694	108,019
2	Switched Access (excluding USF):	5082	62,751	51,762
2a	Intrastate		449,911	707,465
2b	Interstate (includes CAF)			
3	Special Access:	5083		
3a	Intrastate		1,386	1,223
3b	Interstate		114,244	97,860
4	Federal USF (ICLS/HCL/SN)	Varies	834,819	269,224
5	Federal USF (ACAM or BLS)	Varies		421,755
6	State USF	Varies	125,754	142,406
7	Other*	Varies		
8	Total (must equal line 2 of Income Stmt.)		1,694,559	1,377,959
9	Line 2 of Income Stmt.		1,694,559	1,377,959
10	Difference		0	0

Footnote:

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

PETITION OF HOOD CANAL TELEPHONE CO., INC.
 TO RECEIVE SUPPORT FROM STATE UNIVERSAL
 COMMUNICATIONS SERVICES PROGRAM -
 EXHIBIT 4-10

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

Company Name: (Below)

HOOD CANAL TELEPHONE CO., INC.

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

PETITION OF HOOD CANAL TELEPHONE CO., INC.
 TO RECEIVE SUPPORT FROM STATE UNIVERSAL
 COMMUNICATIONS SERVICES PROGRAM -
 EXHIBIT 4-11

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

Company Name:
HOOD CANAL TELEPHONE CO., INC.

Line #	Source(A)	Net Operating Income Inputted FIT Calculation	2017	
1	Page 9, Line 21 (CY)	Adjusted Net Operating Income	(967,065)	
2		Out-of-Period or Pro Forma Adjustments (Net of FIT)*		
3	Page 9, Line 26 (CY)	Total Fixed Charges	8,516	(A)
4	Sum	Adj. Taxable Operating Income (Line 1 + Line 2 - Line 3)	(975,581)	
5		Inputted S Corp. Tax Rate(B)	17.88%	
6	Calculated	inputted FIT (Line 4* Line 5)	(174,434)	
7	Sum	Adj. Net Operating Income after FIT (Lines 1 + 2 - 6)	(792,631)	(B)
NonOperating Income Inputted FIT Calculation				
8	Page 9, Line 27 (CY)	Nonoperating net income	118,189	
9	Page 9, Line 30 (CY)	Nonregulated net income	1,750,086	
10	Sum	Sub-Total (Line 27+Line 30)	1,868,275	
11		Inputted S Corp. Tax Rate(B)	17.88%	
12	Calculated	FIT (Line 10 * Line 11)	334,048	
13	Sum	Nonop/Nonreg income after FIT (Line 10 - Line 12)	1,534,227	(C)
14	Sum	Adjusted Net Income w/inputted FIT	741,596	(B)+(C)**
Sanity Check:				
15	Page 9, Line 31 (CY)	Line 31 as reported	892,694	
16		Out-of-Period or Pro Forma Adjustments*	-	
17		Total	892,694	
18		Inverse of effective tax rate (100%-Line 10 percent)	82.12%	
19	Calculated	Adjusted Net Income (Line 17*Line 18)	733,080	(D)**
Regulated Rate of Return				
20	Page 5, Total (PY)	Regulated rate base Year End 2016	1,010,877	
21	Page 5, Total (CY)	Regulated rate base Year End 2017	1,033,165	
22	Sum	Total	2,044,042	
23	Calculated	Simple Avg.	1,022,021	(E)
24	Line 7 (above)	Adj Operating Income after inputted FIT	(792,631)	
27	Calculated	Regulated rate of return	-77.6%	(B)/(E)

Footnotes:

- * In addition to out-of-period or pro forma adjustments, if the company had any disallowed corporate operations expense, please record net of FIT on Line 2. (Line 16 will auto populate)
- ** The difference between Line 14 (B+C) and Line 19 (D) should be Total Fixed Charges (Line 3)
Fixed charges are deductible for calculating FIT, but is not included in net operating income used to calculate the ROR. Net operating income mirrors Line 21 of the Income statement

Confidential per WAC 480-07-160

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

Reviewed Consolidated Financial Statements

December 31, 2017 and 2016

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

Reviewed Consolidated Financial Statements

December 31, 2017 and 2016

INDEPENDENT ACCOUNTANT'S REVIEW REPORT 1

REVIEWED CONSOLIDATED FINANCIAL STATEMENTS

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



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

Independent Accountant's Review Report

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

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

Management's Responsibility for the Financial Statements

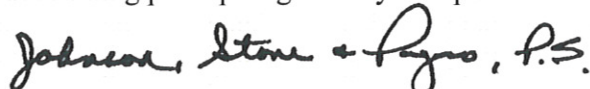
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation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

Accountant's Responsibility

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

Accountant's Conclusion

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



JOHNSON, STONE & PAGANO, P.S.

February 1, 2018

REVIEWED CONSOLIDATED FINANCIAL STATEMENTS

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

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash		
Accounts receivable, less allowance for doubtful accounts		
Materials and supplies		
Prepaid expenses		
Due from affiliated company		
Current portion of notes receivable		
Total Current Assets		
INVESTMENTS AND OTHER ASSETS		
Notes receivable from stockholder		
Notes receivable, less portion classified as a current asset		
Investments		
Cash surrender value of life insurance		
Goodwill, net of amortization (2017 - [REDACTED] 2016 - [REDACTED])		
Total Investments and Other Assets		
PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment		
Less accumulated depreciation		
Construction in progress		
Total Property, Plant and Equipment		
TOTAL ASSETS		

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

REDACTED

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

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

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2017 and 2016

2017

2016

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable
Deferred revenue
Customers' deposits
Accrued profit sharing
Taxes, other than income taxes
Dividends payable
Other current liabilities
Current portion of long-term debt

Total Current Liabilities

LONG-TERM DEBT, less portion classified as a
current liability

OTHER LIABILITIES

Deferred compensation payable
Deferred gain on sale of properties

Total Other Liabilities

Total Liabilities

STOCKHOLDERS' EQUITY

Common stock, no par value
Authorized [REDACTED] shares
Issued and outstanding [REDACTED] shares
Retained earnings

Total Stockholders' Equity

**TOTAL LIABILITIES AND STOCKHOLDERS'
EQUITY**



PETITION OF HOOD CANAL TELEPHONE CO., INC. TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -
EXHIBIT 5, PAGE - 6

REDACTED

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

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

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2017 and 2016

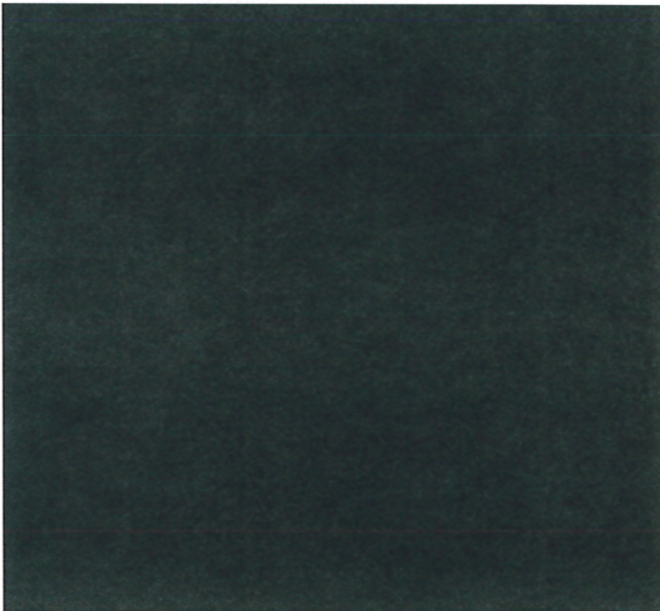
	<u>2017</u>	<u>2016</u>
REVENUES		
Telephone services		
Cable television and CLEC services		
Internet and other operating revenues		
Total Operating Revenues		
EXPENSES		
Telephone operations		
Depreciation		
Amortization of goodwill		
General and administrative		
Cable television and CLEC operations		
Other operating expenses		
Taxes, other than income taxes		
Total Expenses		
Operating Income		
OTHER INCOME (EXPENSE)		
Interest and dividend income		
Interest expense		
Gain on sale of properties		
Miscellaneous income (expense)		
Total Other Expense		
NET INCOME		

Confidential per WAC 480-07-160

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2017 and 2016

	<u>Common Stock</u>		<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	
Balance at December 31, 2015				
Net income for the year				
Dividends on common stock				
Cash				
Declared				
Balance at December 31, 2016				
Net income for the year				
Dividends on common stock				
Cash				
Declared				
Balance at December 31, 2017				

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

REDACTED

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income		
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation		
Amortization of goodwill		
Cash surrender value of life insurance		
Gain on sale of properties		
Deferred compensation		
Noncash transfer of plant under construction to operating expense		
Net change in operating assets and liabilities		
Net Cash Provided by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment		
Salvage on retired plant and equipment		
Advances from (to) affiliated company		
Payments on notes receivable		
Net Cash Used by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt		
Dividends paid		
Net Cash Used by Financing Activities		
NET INCREASE IN CASH		
Cash at Beginning of Year		
CASH AT END OF YEAR		

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

REDACTED

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Accounts receivable		
Materials and supplies		
Prepaid expenses		
Increase (decrease) in liabilities		
Accounts payable		
Deferred revenue		
Customers' deposits		
Accrued profit sharing		
Taxes, other than income taxes		
Other current liabilities		
NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest		
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING TRANSACTIONS		
Noncash transfer of plant under construction to affiliated company		

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

CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

NOTE 1 - ORGANIZATION AND OPERATIONS

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Regulation

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

Cash

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

Materials and Supplies

Materials and supplies inventories are stated at average cost.

Goodwill

Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired. Hood Canal Telephone Co., Inc. amortizes goodwill over ten years on the straight-line basis and only evaluates goodwill for impairment at the entity level when a triggering event occurs. Amortization of goodwill for the years ended December 31, 2017 and 2016 is [REDACTED] each year.

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

CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

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

Plant and Equipment Retirements

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

Accounting for Long-Lived Assets

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

Revenue Recognition, Major Customers and Services

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

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

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

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

CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition, Major Customers and Services (Continued)

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

The FCC 11-161 modified and replaced the existing universal service system and intercarrier compensation systems with universal service reform and intercarrier compensation reform. A Connect America Fund ("CAF") has been established to replace all existing high-cost support mechanisms and sets broadband service requirements. Alongside the broadband service rules, reforms to establish a framework to limit reimbursements for excessive capital and operating expenses were implemented as of July 1, 2012 and phase outs of certain support payments occurred. Intercarrier compensation reform adopts a uniform bill-and-keep framework as the ultimate end state for all telecommunications traffic exchanged with Hood Canal Telephone Co., Inc. Intercarrier compensation rates are capped and the disparity between intrastate and interstate terminating end office rates are being brought to parity in two steps as outlined in FCC 11-161. The state's public utilities commissions will be overseeing the modifications to rates in intrastate tariffs. Limits on carriers' total eligible recovery will reflect existing downward trends on intercarrier compensation revenues with declining switching costs and minutes of use.

In July 2015, the FCC froze the National Average Cost per Loop ("NACPL") that serves as the threshold for support calculations of the High Cost Loop Support ("HCLS") revenues in order to satisfy the annual funding cap established in 2015. The actual NACPL compared to the frozen NACPL is just one factor that impacts Hood Canal Telephone Co., Inc.'s HCLS revenues negatively. In 2016, due to continued efforts to meet the overall HCLS funding cap, a pro rata adjustment factor was established. This pro rata adjustment factor is multiplied by Hood Canal Telephone Co., Inc.'s initial HCLS funding amount, causing a reduction in revenues of approximately \$54,000 and \$51,000 for 2017 and 2016, respectively.

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

CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition, Major Customers and Services (Continued)

In September 2016, the FCC implemented a budget control mechanism for rate-of-return telecommunication carriers designed to ensure that federal support disbursements remain within the specified budget of \$2 billion. This budget control mechanism further reduces HCLS and Connect America Fund Broadband Loop Support ("CAF BLS") funding for Hood Canal Telephone Co., Inc. by approximately \$68,000 in 2017 and \$11,000 in 2016. Included in the budget control mechanism were an operating expense limitation calculation and a capital expenditure allowance calculation. Hood Canal Telephone Co., Inc. was not impacted by the capital expenditure allowance calculation. Hood Canal Telephone Co., Inc. was impacted by the new operating expense limitation causing further reduction of support of approximately \$53,000 starting January 1, 2017.

As part of FCC 16-33 Universal Service Reform order, rate-of-return telecommunication carriers have been given an option of remaining on a legacy support mechanism that includes broadband data only service funding or electing a model based support funding mechanism with an emphasis on broadband obligation deployment to begin implementation February 1, 2017. Hood Canal Telephone Co., Inc. will remain with the legacy support option.

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

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

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

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

CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition, Major Customers and Services (Continued)

The WUTC implemented a state universal communications service program ("State USF Program") and also replaced the cumulative reduction in support Hood Canal Telephone Co., Inc. received from the federal CAF. The State USF Program began in January 2015 and subsequent annual disbursements from the state USF Program comprised of the Traditional USF and the disbursement of the cumulative CAF deficit support are scheduled to occur in January of the following State USF Program years, assuming Hood Canal Telephone Co., Inc. continues to be eligible under the program. The State USF Program year runs from July 1 to June 30. Hood Canal Telephone Co., Inc. received \$150,518 from the State USF Program for the period July 1, 2017 to June 30, 2018, and recorded deferred revenue of \$75,259 for the unearned portion. Hood Canal Telephone Co., Inc. received \$134,293 from the State USF Program for the period July 1, 2016 to June 30, 2017 and recorded deferred revenue of \$67,147 for the unearned portion. The State USF Program is scheduled to last for five program years.

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

Federal Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions used in preparing the accompanying financial statements.

Subsequent Events

The management of the Company and its subsidiary evaluated for subsequent events and transactions for potential recognition and disclosure through February 1, 2018, the date of completion of the accountant's review procedures. All identified material events or transactions have been recorded or disclosed.

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

CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Company and its subsidiary maintain cash balances at financial institutions insured by the Federal Deposit Insurance Corporation up to \$250,000. The Company and its subsidiary periodically maintain cash in excess of federally insured limits. At December 31, 2017, Hood Canal Telephone Co., Inc.'s cash balances exceeded the insured amounts by [REDACTED].

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

NOTE 4 - ACCOUNTS RECEIVABLE

The accounts receivable balance at December 31 consists of:

	<u>2017</u>	<u>2016</u>
Due from customers and agents	[REDACTED]	
Due from exchange carriers and exchange carrier associations		
Other accounts receivable		
Allowance for doubtful accounts (deduction)		

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

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

CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

NOTE 5 - NOTES RECEIVABLE

The notes receivable balances consist of the following:

	Current Annual Installments of Principal	<u>Amount</u>	
		<u>2017</u>	<u>2016</u>
Notes receivable from affiliated company owned by majority stockholder in monthly installments of [REDACTED] including interest at [REDACTED], due December 2019. Secured by real property.			
Note receivable from affiliated company owned by majority stockholder, no monthly installments required, interest accrues at [REDACTED]. Paid in full during 2017.			
Less principal installments of notes receivable due within one year			
Total Notes Receivable			

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

At December 31, 2017, maturities of notes receivable are as follows:

2018	[REDACTED]
2019	[REDACTED]
Total	[REDACTED]

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

CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

NOTE 6 - INVESTMENTS

Investments consist of marketable securities as follows:

	<u>2017</u>	<u>2016</u>
Hood Canal Telephone Co., Inc. Columbia Banking System, Inc. common stock NewStreets, Inc. convertible preferred stock		
R.J.B. Telecommunications Corp. Commencement Bank common stock		
Total Investments		

Marketable securities are carried at cost; the difference between fair market value and cost at December 31, 2017 and 2016 is not considered material.

NOTE 7 - GOODWILL

Hood Canal Telephone Co., Inc. amortizes goodwill on a straight-line basis over a 10 year useful life and only evaluates goodwill for impairment at the entity level when a triggering event occurs. During the year ended December 31, 2017 and 2016, no triggering events occurred requiring impairment testing and thus, no impairment loss was recorded.

Goodwill presented in the consolidated balance sheets as of December 31, 2017 and 2016, consists of the following:

	<u>2017</u>	<u>2016</u>
Goodwill		
Less accumulated amortization		
Goodwill, net of amortization		

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

CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

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

	Useful Lives (Years)	Amount	
		2017	2016
R.J.B. Telecommunications Corp. Support assets		[REDACTED]	
Hood Canal Telephone Co., Inc. Telecommunications Property, Plant and Equipment			
Support assets			
Central office assets			
Cable and wire facilities			
Intangibles			
Cable Television Property, Plant and Equipment			
Support assets			
Head end equipment			
Subscriber equipment			
Cable and wire facilities			
Franchises			
Nonregulated Property, Plant and Equipment			
Total Property, Plant and Equipment			

Depreciation Expense

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

	2017	2016
Telecommunications plant		
Cable television plant		
Nonregulated plant		
Total Depreciation Expense		

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

CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

NOTE 9 - LONG-TERM DEBT (Continued)

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

NOTE 10 - DEFERRED COMPENSATION

Hood Canal Telephone Co., Inc. has a deferred compensation agreement (the "Agreement") with its President. Under the terms of the Agreement, the President is to be paid a percentage of pre-retirement base pay over his remaining life and the life of his beneficiary. Beginning in October 2011, the President began receiving payments of [REDACTED] per month under the terms of the Agreement. The remaining estimated amount to be paid to the President over his and the beneficiary's remaining life at a discount of [REDACTED]% was [REDACTED] and [REDACTED] at December 31, 2017 and 2016, respectively.

NOTE 11 - PENSION PLANS

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

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

Total contributions to all plans by Hood Canal Telephone Co., Inc. and the Company for the years ended December 31, 2017 and 2016 were [REDACTED] and [REDACTED], respectively.

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

CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

NOTE 12 - SALE - LEASEBACK TRANSACTIONS

On December 15, 2009, the Company and Hood Canal Telephone Co., Inc. sold certain real properties for [REDACTED] to Southshore Enterprises, LLC ("SSE"), a limited liability company owned by the President and majority stockholder of R.J.B. Telecommunications Corp. Under the agreement, the Company and Hood Canal Telephone Co., Inc. are leasing back the properties, which consist of office buildings, service facilities and the headend site, from the purchaser over a period of 10 years. The Company and Hood Canal Telephone Co., Inc. are accounting for the leaseback transactions as operating leases. The gain of [REDACTED] realized in these transactions has been deferred and is being amortized into income over the term of the leases. The amount amortized into income for the years ending December 31, 2017 and 2016 was [REDACTED], respectively. At December 31, 2017 and 2016, the remaining deferred gain of [REDACTED] and [REDACTED], respectively, is shown as "Deferred gain on sale of properties" on the Company's consolidated balance sheets.

The leases require the Company and Hood Canal Telephone Co., Inc. to pay customary insurance, maintenance and taxes. The Company has the option to renew the leases with SSE at the end of the initial 10 year period of the leases. For the years ending December 31, 2017 and 2016, the Company and Hood Canal Telephone Co., Inc. incurred [REDACTED] and [REDACTED], respectively, of rent expense related to these leases. Future minimum lease payments required under the leases are as follows:

2018
2019



NOTE 13 - RELATED PARTY TRANSACTIONS

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

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

CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

NOTE 13 - RELATED PARTY TRANSACTIONS (Continued)

Total rental expense under these leases for the years ended December 31, 2017 and 2016 totaled [REDACTED] and [REDACTED], respectively. Future minimum rental payments under these leases are as follows:

2018
2019
2020
2021
2022
Thereafter

[REDACTED]

During the years ended December 31, 2017 and 2016, Hood Canal Telephone Co., Inc. had the following related party amounts due and transactions as follows:

Southshore
Enterprises, LLC

Balance December 31, 2015
Advances
Repayments

Balance December 31, 2016
Advances
Repayments

Balance December 31, 2017

[REDACTED]

NOTE 14 - COMMITMENTS AND CONTINGENCIES

As noted in Note 1, the FCC established a pro rata expense adjustment factor that is calculated against the actual HCLS distribution to all of the independent telephone companies that receive HCLS funding in order to meet the overall HCLS funding cap. The 2018 estimated pro rata expense adjustment factor is currently approximately 81% and this will cause a significant reduction of approximately \$59,000 to Hood Canal Telephone Co., Inc.'s 2018 HCLS revenues.

In addition, the budget control mechanism as discussed in Note 1 has been calculated for the first half of 2018 and Hood Canal Telephone Co., Inc.'s federal funding will be further reduced by approximately \$41,000.

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

CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

The enactment of the Tax Cuts and Jobs Act reduces corporate tax rates to 21% in 2018. Hood Canal Telephone Co., Inc. is a qualified Subchapter S Subsidiary and the taxable earnings and losses of the Company flow through to the stockholders of the Company. Hood Canal Telephone Co., Inc. computes deferred income taxes using the stockholders' average tax rate for the purposes of the cost separations study. However, there is a concern that any adjustment between the stockholders' average tax rate and deferred federal income taxes calculated at the corporate rate of 21% will cause Hood Canal Telephone Co., Inc. to be over the 10% rate of return to be eligible for the State USF Program funding. It is uncertain at this time how the Washington Utilities and Transportation Commission will take into account this tax adjustment for State USF Program purposes.

During 2017, Hood Canal Telephone Co., Inc. was audited by Universal Service Administrative Co. ("USAC"). As a result of that audit, [REDACTED] of High Cost Program support will be recovered by USAC in the January 2018 High Cost support payment. The Company has accrued this amount at December 31, 2017, which is included in other current liabilities on the consolidated balance sheet.

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

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

<p>USDA-RUS</p> <p>OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS</p>	<p><i>This data will be used by RUS to review your financial situation. Your response is required by 7 U.S.C. 901 et seq. and, subject to federal laws and regulations regarding confidential information, will be treated as confidential.</i></p> <p>BORROWER NAME</p> <p style="text-align: center;">Hood Canal Telephone Co., Inc.</p> <p style="text-align: center;">(Prepared with Audited Data)</p>
---	--

<p><i>INSTRUCTIONS-Submit report to RUS within 30 days after close of the period. For detailed instructions, see RUS Bulletin 1744-2. Report in whole dollars only.</i></p>	<p>PERIOD ENDING December, 2017</p>	<p>BORROWER DESIGNATION WA0541</p>
---	---	--

CERTIFICATION

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

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

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

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

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

DATE

PART A. BALANCE SHEET

ASSETS	BALANCE PRIOR YEAR	BALANCE END OF PERIOD	LIABILITIES AND STOCKHOLDERS' EQUITY	BALANCE PRIOR YEAR	BALANCE END OF PERIOD
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	963,384	1,625,224	25. Accounts Payable	459,163	348,950
2. Cash-RUS Construction Fund			26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments		
a. Telecom, Accounts Receivable			28. Customer Deposits	68,804	72,944
b. Other Accounts Receivable	160,618	83,615	29. Current Mat. L/T Debt	286,100	269,000
c. Notes Receivable			30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable	424,666	576,058	32. Income Taxes Accrued		
b. Other Accounts Receivable			33. Other Taxes Accrued	96,317	110,683
c. Notes Receivable	10,000	10,200	34. Other Current Liabilities	570,137	701,520
5. Interest and Dividends Receivable			35. Total Current Liabilities (25 thru 34)	1,480,521	1,503,097
6. Material-Regulated	173,669	202,001	LONG-TERM DEBT		
7. Material-Nonregulated	173,264	170,082	36. Funded Debt-RUS Notes	917,387	809,956
8. Prepayments	67,966	107,415	37. Funded Debt-RTB Notes		
9. Other Current Assets			38. Funded Debt-FFB Notes		
10. Total Current Assets (1 Thru 9)	1,973,567	2,774,595	39. Funded Debt-Other		
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan	263,695	85,508
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt		
a. Rural Development			42. Reacquired Debt		
b. Nonrural Development			43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies		
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development	143,780	151,462	46. Total Long-Term Debt (36 thru 45)	1,181,082	895,464
13. Nonregulated Investments	4,566,988	4,422,304	OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets	368,792	358,568	47. Other Long-Term Liabilities		
15. Deferred Charges			48. Other Deferred Credits	185,269	139,182
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
17. Total Noncurrent Assets (11 thru 16)	5,079,560	4,932,334	50. Total Other Liabilities and Deferred Credits (47 thru 49)	185,269	139,182
PLANT, PROPERTY, AND EQUIPMENT			EQUITY		
18. Telecom, Plant-in-Service	7,542,150	7,652,604	51. Cap. Stock Outstand. & Subscribed	50,000	50,000
19. Property Held for Future Use			52. Additional Paid-in-Capital		
20. Plant Under Construction	303,033	148,856	53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill			54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation	6,545,321	6,571,835	55. Other Capital	515,689	515,689
23. Net Plant (18 thru 21 less 22)	1,299,862	1,229,625	56. Patronage Capital Credits		
24. TOTAL ASSETS (10+17+23)			57. Retained Earnings or Margins	4,940,428	5,833,122
	8,352,989	8,936,554	58. Total Equity (51 thru 57)	5,506,117	6,398,811
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	8,352,989	8,936,554

Total Equity = 71.60% % of Total Assets

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	BORROWER DESIGNATION WA0541
INSTRUCTIONS- See RUS Bulletin 1744-2	PERIOD ENDING December, 2017

PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS

ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	204,036	203,329
2. Network Access Services Revenues	1,694,559	1,377,959
3. Long Distance Network Services Revenues	232,418	233,978
4. Carrier Billing and Collection Revenues		
5. Miscellaneous Revenues	20,529	18,920
6. Uncollectible Revenues	(887)	27,319
7. Net Operating Revenues (1 thru 5 less 6)	2,152,429	1,806,867
8. Plant Specific Operations Expense	1,463,142	1,466,016
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	210,145	217,726
10. Depreciation Expense	392,209	233,795
11. Amortization Expense	6,560	6,560
12. Customer Operations Expense	680,631	653,950
13. Corporate Operations Expense	873,014	819,358
14. Total Operating Expenses (8 thru 13)	3,625,701	3,397,405
15. Operating Income or Margins (7 less 14)	(1,473,272)	(1,590,538)
16. Other Operating Income and Expenses		
17. State and Local Taxes	123,302	126,501
18. Federal Income Taxes		
19. Other Taxes		
20. Total Operating Taxes (17+18+19)	123,302	126,501
21. Net Operating Income or Margins (15+16-20)	(1,596,574)	(1,717,039)
22. Interest on Funded Debt	54,441	42,674
23. Interest Expense - Capital Leases		
24. Other Interest Expense	3,823	3,441
25. Allowance for Funds Used During Construction		
26. Total Fixed Charges (22+23+24-25)	58,264	46,115
27. Nonoperating Net Income	3,069	118,189
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	1,959,202	2,537,659
31. Total Net Income or Margins (21+27+28+29+30-26)	307,433	892,694
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	4,632,995	4,940,428
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)		
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date		
38. Transfers to Patronage Capital		
39. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]	4,940,428	5,833,122
40. Patronage Capital Beginning-of-Year		
41. Transfers to Patronage Capital		
42. Patronage Capital Credits Retired		
43. Patronage Capital End-of-Year (40+41-42)	0	0
44. Annual Debt Service Payments	350,823	345,392
45. Cash Ratio [(14+20-10-11) / 7]	1.5565	1.8173
46. Operating Accrual Ratio [(14+20+26) / 7]	1.7688	1.9758
47. TIER [(31+26) / 26]	6.2766	20.3580
48. DSCR [(31+26+10+11) / 44]	2.1791	3.4140

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

I, Richard Buechel, an officer of Hood Canal Telephone Co., Inc. with personal knowledge and responsibility, under penalty of perjury, hereby certify that no amount of corporate operations expense was required by 47 C.F.R. § 54.1308(a)(4)(ii) to be excluded by Hood Canal Telephone Co., Inc. ("Company") from corporate operations expense that, for 2016, was input in both the high cost loop support and interstate common line support cost studies of the Company for the Company's study area(s) in the State of Washington, or that, for 2017, was input in both the high cost loop support and broadband loop support (in part, replacing interstate common line support) cost studies of the Company for the Company's study area(s) in the State of Washington

Dated this 31st day of July, 2018



Richard Buechel, President

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

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

Dated at Union, Washington this 31st day of July, 2018.




Richard Buechel, President

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

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

Dated at Union, Washington this 31st day of July, 2018.


Richard Buechel, President