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UTIL. AND TRANSP.
COMMISSION

July 15, 2019

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, St John Telephone, Inc. ("Company") hereby petitions the Washington Utilities and Transportation Commission ("WUTC") to receive support from the State Universal Communications Services Program for the Program year 2020.

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 also been provided in Excel format per Commission Staff request.

Please note that portions of the information in the accompanying 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. Both confidential (unredacted) and redacted versions accompany this letter.

Sincerely,

Eric Trump
General Manager, Assistant Secretary

Enclosures

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

IN RE PETITION OF ST. JOHN TELEPHONE, INC. TO RECEIVE SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS SERVICES PROGRAM	DOCKET NO. PETITION FOR SUPPORT

COMES NOW St. John Telephone, 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 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.
2. WAC 480-123-100(1)(b): The Company is an incumbent local exchange carrier as defined in 47 U.S.C. Sec. 251(h).

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

II. Demonstration of Eligibility under WAC 480-123-110

1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications services and is seeking Program support is as follows: St. John Telephone, Inc.
2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.

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[1] On April 15, 2019, the FCC released a Report and Order (FCC 19-32) in its WC Docket No. 10-90, repealing 47 C.F.R. Sec. 54.318 and eliminating the national local urban rate floor, effective June 6, 2019. The Program was designed with a minimum rate floor component. In light of the FCC's Order (FCC 19-32), Commission Staff has provided guidance that, for purposes of the Program, the local urban rate floor benchmark be considered to have been set at each petitioning company's rates for local exchange service, plus mandatory extended area service charges, in effect as of December 31, 2018.

A detailed description of any transactions between the Company and the affiliates named in Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.

3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No. 14 of the Company's Tariff WN U-3.

4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate instability or service interruption or cessation in the absence of support from the Program is attached as Exhibit 3.

5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached hereto as Exhibit 4, are copies of the Company's balance sheet as of December 31, 2018, and December 31, 2017, and copies of the Company's statements of income and retained earnings or margin for the years ended December 31, 2018 and December 31, 2017. In addition, certain service information requested by the Commission is included in Exhibit 4.

6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial statements for the years ended December 31, 2018 and December 31, 2017, are attached hereto as Exhibit 5.

7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of return on a total Washington unseparated regulated operations basis for each of the two prior years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4 hereto.

8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on equity on a total company (regulated and non-regulated) Washington basis for each of the

two prior years, calculated in the manner prescribed by the Commission, is provided in Exhibit 5 hereto.

9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues and assets from the balance sheets, statements of income and retained earnings or margin in the same format and detail as is required to complete USDA-RUS Operating Report for the prior two years is presented on Exhibit 6 attached hereto.

10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company officer with personal knowledge and responsibility certifying that no corporate operations adjustment to existing mechanisms required by the Federal Communications Commission applied to the Company for the two prior years is attached hereto as Exhibit 7.

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

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

13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or on its behalf with the Federal Communications Commission for the calendar year preceding the current year has already been filed with the Commission. See the Company's filing in Docket No.UT-190005 filed on or about June 18, 2019.

14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by the Company as of December 31, 2018, was 335, all of which were within the geographic area for which the Company is seeking support. The number of residential local exchange access lines served by the Company as of December 31, 2017, was 357, all of which were within the geographic area for which the Company is seeking support. The number of business local exchange access lines served by the Company as of December 31, 2018, was 144, all of which were within the geographic area for which the Company is seeking support. The number of business local exchange access lines served by the Company as of December 31, 2017, was 144, all of which were within the geographic area for which the Company is seeking support. The monthly recurring rate charged by the Company for residential local exchange access service on December 31, 2018 and 2017, was $18.00. The rate charged by the Company for single line business local exchange access service on December 31, 2018 and 2017, was $18.00. (The Company has other business local exchange service rates, but the Company 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 hereto as Exhibit 9.
16. The 2011 Rate of Return Carrier Base Period Revenue amount on line 4 of the CAF ICC Data Collection Report for the period of July 1, 2019 to June 30, 2020 is $257,328 and has not changed from prior filings for St. John Telephone, Inc.
17. All exhibits attached hereto are incorporated in this Petition as though fully set forth.

Respectfully submitted this 15th day of July, 2019.

ST. JOHN TELEPHONE, INC.

CERTIFICATION

I, Eric Trump, an officer of St. John Telephone, Inc. (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.

Dated at St. John, Washington this 15^{th} day of July, 2019.

By: ______________________

Title: Eric Trump
General Manager, Assistant Secretary

EXHIBIT 1

CORPORATE ORGANIZATION CHART

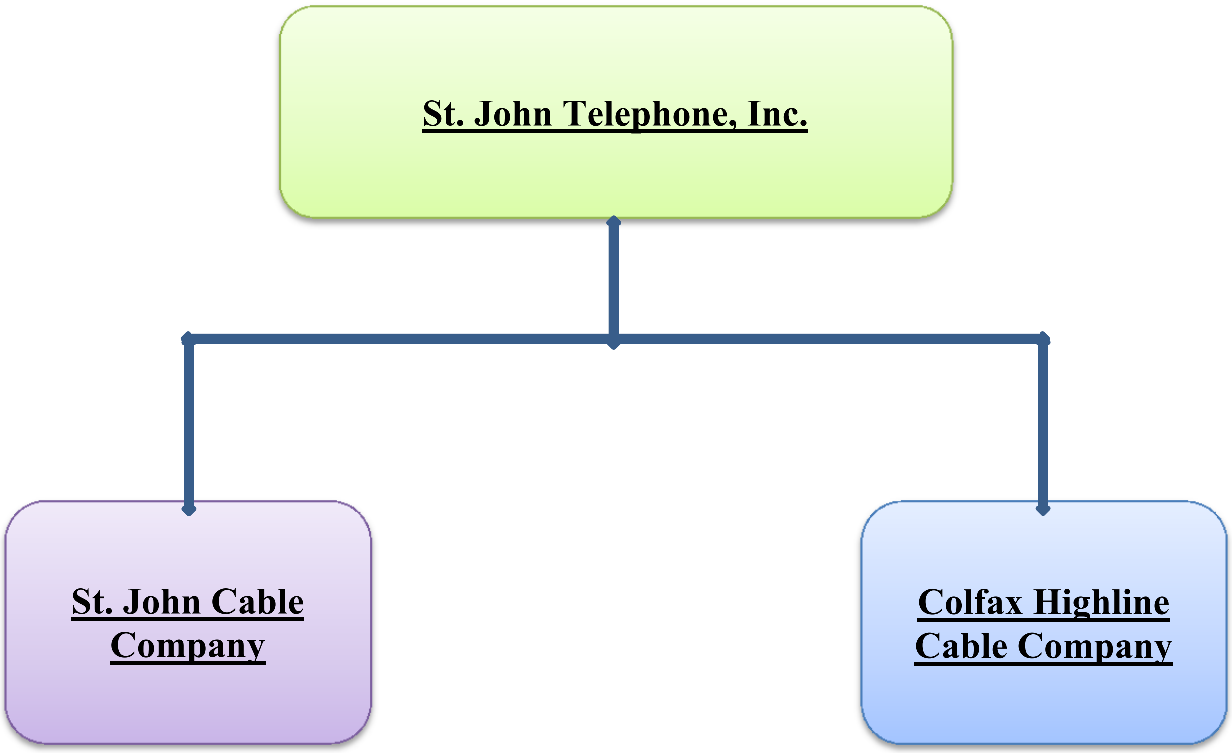

EXHIBIT 2

AFFILIATED TRANSACTIONS

The Company has affiliated transactions with its subsidiary companies St. John Cable Company and Colfax Highline Cable Company. The nature of these transactions for 2018 among these entities consists of loan advances and telecommunication services. The Company advances funds to the affiliates and provides wholesale interstate special access DSL services to St. John Cable Company, bills the Company's subscribers on behalf of St. John Cable Company for retail DSL services. All affiliates pay their share of federal income taxes to the Company. The Company records these transactions to the proper affiliated payable or receivable account.

EXHIBIT 3

DEMONSTRATION OF RISK OF RATE INSTABILITY OR SERVICE INTERRUPTION OR CESSATION

This demonstration will discuss two perspectives. The first is the financial condition of the Company. The second is the competitive environment.

Starting with a big picture perspective of financial condition, the overall financial condition of the Company is detailed on other Exhibits to this Petition, in particular, Exhibits 4, 5 and 6. What this information demonstrates is 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 2018 including Budget Control Mechanism July to December 2018 refund amount of approximately $72,000 received in 2019, the Company's total regulated revenue decreased by 19 percent from 2011 through 2018. 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. As shown on Exhibit 4, the company has debt payments of approximately $713,000 in 2018.

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 Federal Communications Commission (FCC).[1] The USF/ICC Transformation Order has built in an automatic decline in the Company's intrastate and interstate access revenues. The intercarrier compensation portion of the Transformation Order introduces a concept of a base line year for calculating terminating access and reciprocal compensation revenues and provides support from the Connect America Fund ("CAF") based on the base line year. However, the base line year revenues (from which the level of CAF support is derived) are reduced iteratively by five percent each year. The CAF support reduction began in July 2012. Projecting through the year ending June 30, 2020, including reductions that will occur July 1, 2019, the Company has seen a reduction in support from the base line revenue of approximately $86,611.

As another indicator of increasing financial uncertainty, during the eight-year period ended December 31, 2018, the Company has seen its total federal high cost support undergo a significant reduction, declining from $1,908,342 in 2011 to $1,248,507 in 2018. This nearly seven hundred thousand dollar decrease in federal support is a significant reduction.

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

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[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. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011)(*USF/ICC Transformation Order*).

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 $4,575 per year if its participation in the Program is not renewed.

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

At the same time as financing mechanisms have been reduced or removed, the Company is seeing an increase in competition. For example, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications.

This trend of access line loss has been exacerbated in past years by the FCC's requirement that the Company increase its rates to remain eligible for full federal universal service, high-cost fund support. Since 2012, the Company has increased its local exchange service rates in order to be in compliance with the national urban rate floor prescribed by the 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 permanent hold, the effect of past actions has not been reversed.

The Company has been working over the past several years to address growing competition. Foremost, the Company has taken steps to increase the availability and attributes of advanced services offered by the Company, primarily broadband. These steps require spending money. As a result, the Company has made additional investments in regulated plant of approximately $947,000 during the period January 1, 2011 through December 31, 2018. Before that, the Company installed a fiber-to-the-home network in its study area during the years of 2007 through 2009 at the approximate cost of $10,457,000. As a result of these efforts, the Company has a substantial outstanding debt obligation of approximately $4.1 million to cover the investment that has been made.

The Company plans to update and replace obsolete optical network terminal "ONT" equipment for approximately $120,000 in 2019 throughout its serving area to continue providing quality broadband services. The original purchase of ONTs from 2007 are no longer repairable by any known vendors and are sorely outdated.

The combination of factors noted above creates a situation in which, without support from the state Universal Communications Services Program, the Company may be faced with a choice of increasing rates further or reducing service in order to be able to match expenses to revenues. Neither choice presents a viable path for providing continued high quality service to customers. The dilemma presented by these choices reflects the risk of rate instability or service interruption or cessation to which the Company and its customers are subject.

STATE USF FILING

FINANCIAL TEMPLATE

NON-"S CORP" COMPANIES

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

Company Name: (Below)
ST. JOHN TELEPHONE, INC.

ASSETS	Balance End of Year 2017 (A)	Part 64 Adj to NonReg 2017 (B)	Adj. Balance End of Year 2017 (C)
CURRENT ASSETS			
1. Cash and Equivalents	2,921,676		2,921,676
2. Cash-RUS Construction Fund			0
3. Affiliates:			
a. Telecom, Accounts Receivable			0
b. Other Accounts Receivable			0
c. Notes Receivable			0
4. Non-Affiliates:			
a. Telecom, Accounts Receivable	6,483		6,483
b. Other Accounts Receivable	222,012		222,012
c. Notes Receivable			0
5. Interest and Dividends Receivable			0
6. Material-Regulated	18,418		18,418
7. Material-Nonregulated	1,062		1,062
8. Prepayments	55,656		55,656
9. Other Current Assets			0
10. Total Current Assets (1 Thru 9)	3,225,307	0	3,225,307
NONCURRENT ASSETS			
11. Investment in Affiliated Companies			
a. Rural Development	0		0
b. Nonrural Development	1,623,310		1,623,310
12. Other Investments			
a. Rural Development	0		0
b. Nonrural Development	311,223		311,223
13. Nonregulated Investments (B1)	57,654	952,707	1,010,361
14. Other Noncurrent Assets			0
15. Deferred Charges			0
16. Jurisdictional Differences			0
17. Total noncurrent Assets (11 thru 16)	1,992,187	952,707	2,944,894
PLANT, PROPERTY AND EQUIPMENT			
18. Telecom Plant-In-Service	13,311,773	(269,426)	13,042,347
19. Property Held for Future Use			0
20. Plant Under Construction	892,084	(892,084)	0
21. Plant Adj.,Nonop Plant & Goodwill			0
22. Accumulated Depreciation (CR.)	(6,569,664)	208,803	(6,360,861)
23. Net Plant (18 thru 21 less 22)	7,634,193	(952,707)	6,681,486
24. TOTAL ASSETS (10+17+23)	12,851,687	0	12,851,687

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

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 LIABILITIES			
25. Accounts Payable	28,654		28,654
26. Notes Payable			0
27. Advance Billings and Payments			0
28. Customer Deposits	100		100
29. Current Mat. L/T Debt	357,178		357,178
30. Current Mat. L/T Debt Rur. Dev.			0
31. Current Mat. - Capital Leases			0
32. Income Taxes Accrued			0
33. Other Taxes Accrued	11,939		11,939
34. Other Current Liabilities	51,673		51,673
35. Total Current Liabilities (25 thru 34)	449,544	0	449,544
LONG-TERM DEBT			
36. Funded Debt-RUS Notes	4,308,710		4,308,710
37. Funded Debt-RTB Notes			0
38. Funded Debt-FFB Notes			0
39. Funded Debt-Other			0
40. Funded Debt-Rural Develop. Loan			0
41. Premium (Discount) on L/T Debt			0
42. Reacquired Debt			0
43. Obligations Under Capital Lease			0
44. Adv. From Affiliated Companies			0
45. Other Long-Term Debt			0
46. Total Long-Term Debt (36 thru 45)	4,308,710	0	4,308,710
OTHER LIAB. & DEF. CREDITS			
47. Other Long-Term Liabilities			0
48. Deferred Income Taxes	807,266	477,638	1,284,904
49. Other Deferred Credits (D)			0
50. Other Jurisdictional Differences			0
51. Total Other Liab. & Def. Credits (47 thru 50)	807,266	477,638	1,284,904
EQUITY			
52. Cap. Stock Outstanding & Subscribed	37,140		37,140
53. Additional Paid-in-Capital			0
54. Treasury Stock			0
55. Membership and Capital Certificates			0
56. Other Capital			0
57. Patronage Capital Credits			0
58. Retained Earnings or Margins (B2)	7,248,727	(477,638)	6,771,089
59. Total Equity (52 thru 58)	7,285,867	(477,638)	6,808,229
60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	12,851,387	0	12,851,387

Footnotes:
(B1) - Part 64 offset to nonreg investment
(B2) - Part 64 offset to retained earnings
(D) - Excludes deferred taxes
Line 48, column A Deferred FIT does not include excess Deferred FIT because for GAAP purposes it was directly expensed. Line 48, column B includes the excess Deferred FIT expense added back to Deferred FIT for cost study purposes required by NECA/FCC for normalization.

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

Company Name: (Below)
ST. JOHN TELEPHONE, INC.

ASSETS	Balance End of Year 2018 (A)	Part 64 Adj to NonReg 2018 (B)	Adj. Balance End of Year 2018 (C)
CURRENT ASSETS			
1. Cash and Equivalents	1,920,833		1,920,833
2. Cash-RUS Construction Fund			0
3. Affiliates:			
a. Telecom, Accounts Receivable			0
b. Other Accounts Receivable			0
c. Notes Receivable			0
4. Non-Affiliates:			
a. Telecom, Accounts Receivable			0
b. Other Accounts Receivable	6,288		6,288
c. Notes Receivable	229,900		229,900
5. Interest and Dividends Receivable			0
6. Material-Regulated	13,819	112,000	125,819
7. Material-Nonregulated	312,615	(112,000)	200,615
8. Prepayments	122,853		122,853
9. Other Current Assets			0
10. Total Current Assets (1 Thru 9)	2,606,308	0	2,606,308
NONCURRENT ASSETS			
11. Investment in Affiliated Companies			
a. Rural Development			0
b. Nonrural Development	1,355,424		1,355,424
12. Other Investments			
a. Rural Development			0
b. Nonrural Development	57,654		57,654
13. Nonregulated Investments (B1)	1,175,799	1,404,281	2,580,080
14. Other Noncurrent Assets			0
15. Deferred Charges			0
16. Jurisdictional Differences			0
17. Total noncurrent Assets (11 thru 16)	2,588,877	1,404,281	3,993,158
PLANT, PROPERTY AND EQUIPMENT			
18. Telecom Plant-In-Service	13,193,789	(287,280)	12,906,509
19. Property Held for Future Use			0
20. Plant Under Construction	1,323,642	(1,319,319)	4,323
21. Plant Adj.,Nonop Plant & Goodwill			0
22. Accumulated Depreciation (CR.)	(6,886,988)	202,318	(6,684,670)
23. Net Plant (18 thru 21 less 22)	7,630,443	(1,404,281)	6,226,162
24. TOTAL ASSETS (10+17+23)	12,825,628	0	12,825,628

LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2018 (A)	Part 64 Adj to NonReg 2018 (B)	Adj. Balance End of Year 2018 (C)
CURRENT LIABILITIES			
25. Accounts Payable	99,582		99,582
26. Notes Payable			0
27. Advance Billings and Payments			0
28. Customer Deposits	100		100
29. Current Mat. L/T Debt	373,952		373,952
30. Current Mat. L/T Debt Rur. Dev.			0
31. Current Mat. - Capital Leases			0
32. Income Taxes Accrued			0
33. Other Taxes Accrued	10,123		10,123
34. Other Current Liabilities	56,999		56,999
35. Total Current Liabilities (25 thru 34)	540,756	0	540,756
LONG-TERM DEBT			
36. Funded Debt-RUS Notes	3,804,600		3,804,600
37. Funded Debt-RTB Notes			0
38. Funded Debt-FFB Notes			0
39. Funded Debt-Other			0
40. Funded Debt-Rural Develop. Loan			0
41. Premium (Discount) on L/T Debt			0
42. Reacquired Debt			0
43. Obligations Under Capital Lease			0
44. Adv. From Affiliated Companies	194,622		194,622
45. Other Long-Term Debt			0
46. Total Long-Term Debt (36 thru 45)	3,999,222	0	3,999,222
OTHER LIAB. & DEF. CREDITS			
47. Other Long-Term Liabilities			0
48. Deferred Income Taxes	832,071	458,060	1,290,131
49. Other Deferred Credits (D)			0
50. Other Jurisdictional Differences			0
51. Total Other Liab. & Def. Credits (47 thru 50)	832,071	458,060	1,290,131
EQUITY			
52. Cap. Stock Outstanding & Subscribed	37,180		37,180
53. Additional Paid-in-Capital			0
54. Treasury Stock			0
55. Membership and Capital Certificates			0
56. Other Capital			0
57. Patronage Capital Credits			0
58. Retained Earnings or Margins (B2)	7,416,399	(458,060)	6,958,339
59. Total Equity (52 thru 58)	7,453,579	(458,060)	6,995,519
60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	12,825,628	0	12,825,628

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

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

Company Name: (Below)
ST. JOHN TELEPHONE, INC.

ASSETS	Adjusted Prior Year Balance 2017	Adjusted Current Year Balance 2018		LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2017	Adjusted Current Year Balance 2018
CURRENT ASSETS				**CURRENT LIABILITIES**		
1. Cash and Equivalents	2,921,676	1,920,833		25. Accounts Payable	28,654	99,582
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	100	100
b. Other Accounts Receivable	0	0		29. Current Mat. L/T Debt	357,178	373,952
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	6,483	0		32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	222,012	6,288		33. Other Taxes Accrued	11,939	10,123
c. Notes Receivable	0	229,900		34. Other Current Liabilities	51,673	56,999
5. Interest and Dividends Receivable	0	0		35. Total Current Liabilities (25 - 34)	449,544	540,756
6. Material-Regulated	18,418	125,819		**LONG-TERM DEBT**		
7. Material-Nonregulated	1,062	200,615		36. Funded Debt-RUS Notes	4,308,710	3,804,600
8. Prepayments	55,656	122,853		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)	3,225,307	2,606,308		39. Funded Debt-Other	0	0
				40. Funded Debt-Rural Develop. Loan	0	0
				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	0		44. Adv. From Affiliated Companies	0	194,622
b. Nonrural Development	1,623,310	1,355,424		45. Other Long-Term Debt	0	0
12. Other Investments				46. Total Long-Term Debt (36-45)	4,308,710	3,999,222
a. Rural Development	0	0		**OTHER LIAB. & DEF. CREDITS**		
b. Nonrural Development	311,223	57,654		47. Other Long-Term Liabilities	0	0
13. Nonregulated Investments	1,010,361	2,580,080		48. Deferred Income Taxes	1,284,904	1,290,131
14. Other Noncurrent Assets	0	0		49. Other Deferred Credits	0	0
15. Deferred Charges	0	0		50. Other Jurisdictional Differences	0	0
16. Jurisdictional Differences	0	0		51. Total Other Liab. & Def. Credits (47 thru 50)	1,284,904	1,290,131
17. Total noncurrent Assets (11 thru 16)	2,944,894	3,993,158		**EQUITY**		
				52. Cap. Stock Outstanding & Subscribed	37,140	37,180
PLANT, PROPERTY AND EQUIPMENT				53. Additional Paid-in-Capital	0	0
18. Telecom Plant-in-Service	13,042,347	12,906,509		54. Treasury Stock	0	0
19. Property Held for Future Use	0	0		55. Membership and Capital Certificates	0	0
20. Plant Under Construction	0	4,323		56. Other Capital	0	0
21. Plant Adj.,Nonop Plant & Goodwill	0	0		57. Patronage Capital Credits	0	0
22. Accumulated Depreciation (CR.)	(6,360,861)	(6,684,670)		58. Retained Earnings or Margins	6,771,089	6,958,339
23. Net Plant (18 thru 21 less 22)	6,681,486	6,226,162		59. Total Equity (52 thru 58)	6,808,229	6,995,519
24. TOTAL ASSETS (10+17+23)	12,851,687	12,825,628		**59. TOTAL LIABILITIES AND EQUITY (35+46+51+59)**	12,851,387	12,825,628

Footnote:
Adjusted Balances represents balances
after Part 64 adjustments.

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

Company Name: (Below)
ST. JOHN TELEPHONE, INC.

Line #	Description	B/S Line #	Adj. Balance End of Year 2017	Adj. Balance End of Year 2018	Average Adj End of Year Balance
	Average Rate Base:				
1	Total Regulated Adjusted Telecom Plant-In-Service	18	13,042,347	12,906,509	12,974,428
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(6,360,861)	(6,684,670)	(6,522,766)
4	Total Regulated Materials & Supplies	6	18,418	125,819	72,119
5	Deferred Income Taxes (CR) * - Manually input		(1,284,904)	(1,290,131)	(1,287,518)
6	**Total Regulated Rate Base**		5,415,000	5,057,527	5,236,264

Footnotes:
1. Normal balance of deferred operating income taxes and accumulated depreciation is a credit.
* 2. Deferred Income Taxes (Line 5) may not equal the Balance Sheet Deferred Income Taxes (Line 48) if the later includes non-operating.
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)
ST. JOHN TELEPHONE, INC.

Line #	Description	Prior Year End of Yr. Balance - 2017	Current Year End of Yr. Balance - 2018	Difference	% Change
	Access Lines:				
1	Residential	357	335	(22)	-6.2%
2	Business	144	144	0	0.0%
3	Total	501	479	(22)	-4.4%

Note: If 2017 does not equal last year's petition and template, explain.

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

Company Name: (Below)
ST. JOHN TELEPHONE, INC.

Line #	Description	Prior Year 2017 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2017 (C)
1	Local Network Services Revenues	129,730		129,730
2	Network Access Services Revenues	1,886,464		1,886,464
3	Long Distance Network Services Revenues	45,011		45,011
4	Carrier Billing and Collection Revenues			0
5	Miscellaneous Revenues	30,149		30,149
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(665)		(665)
7	**Net Operating Revenues (1 thru 6)**	**2,090,689**	**0**	**2,090,689**
8	Plant Specific Operations Expense	570,665	(142,377)	428,288
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	104,174	(26,366)	77,808
10	Depreciation Expense	494,835	(5,167)	489,668
11	Amortization Expense			0
12	Customer Operations Expense	168,691	(50,891)	117,800
13	Corporate Operations	316,026	(51,870)	264,156
14	**Total Operations Expenses (8 thru 13)**	**1,654,391**	**(276,671)**	**1,377,720**
15	Operating Income or Margins (7 less 14)	436,298	276,671	712,969
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes		74,430	74,430
18	Federal Income Taxes **(A1)** - **(LINE IS ZERO IF COMPANY IS S CORP)**	(481,646)	611,685	130,039
19	Other Taxes	78,221	(63,382)	14,839
20	**Total Operating Taxes (17+18+19)**	(403,425)	622,733	219,308
21	**Net Operating Income or Margins (15+16-20)**	839,723	(346,062)	493,661
22	Interest on Funded Debt	310,664	(157,169)	153,495
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (**Record as a Credit**)			0
26	**Total Fixed Charges (22+23+24+25)**	310,664	(157,169)	153,495
27	Nonoperating Net Income	54,241		54,241
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income **(B1)**	135,129	188,893	324,022
31	**Total Net Income or Margins (21+27+28+29+30-26)**	718,429	0	718,429
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	6,573,111		6,573,111
34	Miscellaneous Credits Year-to-Date	3,437		3,437
35	Dividends Declared (Common)	46,250		46,250
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)**	7,248,727	0	7,248,727
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	713,419		713,419
45	Cash Ratio ((14+20-10-11)/7)	0.3617	#DIV/0!	0.5297
46	Operating Accrual Ratio ((14+20+26)/7)	0.7469	#DIV/0!	0.8373
47	TIER ((31+26)/26)	3.3126	1.0000	5.6805
48	DSCR ((31+26+10+11)/44)	2.1361	#DIV/0!	1.9085

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)
(C) Adjusted balance after Part 64 adjustments
Ln 18, column B includes Excess Deferred FIT expense removed
Ln 18, column C total is Operating FIT
Ln 19, column C total is Operating Deferred FIT

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

Company Name: (Below)
ST. JOHN TELEPHONE, INC.

Line #	Description	Current Year 2018 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2018 (C)
1	Local Network Services Revenues	148,312		148,312
2	Network Access Services Revenues	1,760,409		1,760,409
3	Long Distance Network Services Revenues	40,354		40,354
4	Carrier Billing and Collection Revenues			0
5	Miscellaneous Revenues	34,184		34,184
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	187		187
7	**Net Operating Revenues (1 thru 6)**	**1,983,446**	**0**	**1,983,446**
8	Plant Specific Operations Expense	551,274	(124,584)	426,690
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	82,645	(7,350)	75,295
10	Depreciation Expense	473,797	(7,023)	466,774
11	Amortization Expense			0
12	Customer Operations Expense	167,307	(47,103)	120,204
13	Corporate Operations	318,603	(44,933)	273,670
14	**Total Operations Expenses (8 thru 13)**	**1,593,626**	**(230,993)**	**1,362,633**
15	Operating Income or Margins (7 less 14)	389,820	230,993	620,813
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes		77,215	77,215
18	Federal Income Taxes **(A1) - (LINE IS ZERO IF COMPANY IS S CORP)**	3,411	61,279	64,690
19	Other Taxes	80,581	(96,339)	(15,758)
20	**Total Operating Taxes (17+18+19)**	83,992	42,155	126,147
21	**Net Operating Income or Margins (15+16-20)**	305,828	188,838	494,666
22	Interest on Funded Debt	292,993	(155,317)	137,676
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (**Record as a Credit**)			0
26	**Total Fixed Charges (22+23+24+25)**	292,993	(155,317)	137,676
27	Nonoperating Net Income	64,754		64,754
28	Extraordinary Items	135,420		135,420
29	Jurisdictional Differences			0
30	Nonregulated Net Income **(B1)**		(344,155)	(344,155)
31	**Total Net Income or Margins (21+27+28+29+30-26)**	213,009	0	213,009
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	7,248,727		7,248,727
34	Miscellaneous Credits Year-to-Date	1,088		1,088
35	Dividends Declared (Common)	46,425		46,425
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)**	7,416,399	0	7,416,399
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	713,419		713,419
45	Cash Ratio ((14+20-10-11)/7)	0.6069	#DIV/0!	0.5153
46	Operating Accrual Ratio ((14+20+26)/7)	0.9935	#DIV/0!	0.8200
47	TIER ((31+26)/26)	1.7270	1.0000	2.5472
48	DSCR ((31+26+10+11)/44)	1.3734	#DIV/0!	1.1458

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)
(C) Adjusted balance after Part 64 adjustments
Ln 18, column C total is Operating FIT
Ln 19, column B includes amortized Excess Deferred FIT expense
Ln 19, column C total is Operating Deferred FIT

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

Company Name:
ST. JOHN TELEPHONE, INC.

Line #	Description	Adjusted Prior Year 2017	Adjusted Current Year 2018
1	Local Network Services Revenues	129,730	148,312
2	Network Access Services Revenues	1,886,464	1,760,409
3	Long Distance Network Services Revenues	45,011	40,354
4	Carrier Billing and Collection Revenues	0	0
5	Miscellaneous Revenues	30,149	34,184
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(665)	187
7	**Net Operating Revenues (1 thru 6)**	**2,090,689**	**1,983,446**
8	Plant Specific Operations Expense	428,288	426,690
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	77,808	75,295
10	Depreciation Expense	489,668	466,774
11	Amortization Expense	0	0
12	Customer Operations Expense	117,800	120,204
13	Corporate Operations	264,156	273,670
14	**Total Operations Expenses (8 thru 13)**	**1,377,720**	**1,362,633**
15	Operating Income or Margins (7 less 14)	712,969	620,813
16	Other Operating Income and Expenses ( )	0	0
17	State and Local Taxes	74,430	77,215
18	Federal Income Taxes (A1) - **(LINE IS ZERO IF COMPANY IS S CORP)**	130,039	64,690
19	Other Taxes	14,839	(15,758)
20	**Total Operating Taxes (17+18+19)**	219,308	126,147
21	**Net Operating Income or Margins (15+16-20)**	493,661	494,666
22	Interest on Funded Debt	153,495	137,676
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	0	0
25	Allowance for Funds Used During Construction (**Record as a Credit)**	0	0
26	**Total Fixed Charges (22+23+24+25)**	153,495	137,676
27	Nonoperating Net Income	54,241	64,754
28	Extraordinary Items	0	135,420
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	324,022	(344,155)
31	**Total Net Income or Margins (21+27+28+29+30-26)**	718,429	213,009
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	6,573,111	7,248,727
34	Miscellaneous Credits Year-to-Date	3,437	1,088
35	Dividends Declared (Common)	46,250	46,425
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)**	7,248,727	7,416,399
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	713,419	713,419
45	Cash Ratio ((14+20-10-11)/7)	0.5297	0.5153
46	Operating Accrual Ratio ((14+20+26)/7)	0.8373	0.8200
47	TIER ((31+26)/26)	5.6805	2.5472
48	DSCR ((31+26+10+11)/44)	1.91	1.1458

	Footnote	2017	2018
(A1)	S Corporation Effective Tax Rate (2 decimal places):		

Note:
Adjusted Income Statement reflects Part 64 Adustments (Regulated tc Nonregulated).

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

Company Name: (Below)
ST. JOHN TELEPHONE, INC.

Line #	Description	Part 32 Account	Prior Year 2017	Current Year 2018
1	End User Revenue (SLC, ARC, etc.)	5081	74,084	72,443
2	Switched Access (excluding USF):	5082		
2a	Intrastate		41,355	33,435
2b	Interstate (includes CAF)		309,742	108,583
3	Special Access:	5083		
3a	Intrastate		3,695	2,993
3b	Interstate		166,305	216,976
4	Federal USF (except CAF and ACAM/BLS)	Varies	697,723	682,173
5	Federal USF (ACAM or BLS)	Varies	525,795	566,334
6	State USF	Varies	67,765	77,472
7	Other*			
8	Total (must equal line 2 of Income Stmt.)		1,886,464	1,760,409
9	Line 2 of Income Stmt.		1,886,464	1,760,409
10	Difference		0	0

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

PETITION OF ST. JOHN TELEPHONE, INC.
TO RECEIVE SUPPORT FROM THE STATE
UNIVERSAL COMMUNICATIONS SERVICES
PROGRAM - EXHIBIT 4, PAGE - 10

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

Company Name: (Below)
ST. JOHN TELEPHONE, INC.

Description of Out-of-Period (OOP) - 2018 (As Recorded) **OR** Pro Forma (PF)Adjustment for Current Year Petition or Reversing from Prior Year	Year	OOP or PF?	Part 32 Account Debit	Part 32 Account Credit	
Adjustment #1:					
BCM Refund July - Dec 2018 received in 2019 - Add to Network Access Revenues	2018	PF		$ 72,737	
Tax of 21% on BCM Refund	2018	PF	$ 15,275		$ 57,462 Net Adj
Adjustment #2:					
BCM Refund July - Dec 2017 received in 2018 - Remove from Network Access Rev	2017	PF	$ 63,236		
Tax of 21% on BCM Refund	2017	PF		$ 13,280	$ (49,956) Net Adj
Adjustment #3:					
Adjustment #4					
Adjustment #5					
			$ 78,511	$ 86,017	$ 7,506 Net Total

PETITION OF ST. JOHN TELEPHONE, INC.
TO RECEIVE SUPPORT FROM THE STATE
UNIVERSAL COMMUNICATIONS SERVICES
PROGRAM - EXHIBIT 4, PAGE - 11

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

Company Name: (Below)
ST. JOHN TELEPHONE, INC.

Line #	Description	Company 2018 (A)	Staff 2018 (B)
1	Rate Base (Jan. 1)	5,415,000	5,415,000
2	Rate Base (Dec 31)	5,057,527	5,057,527
3	**Average Rate Base**	5,236,264	5,236,264
4	Net Operating Income	494,666	494,666
5	Out-of-Period Adjustments Net of FIT	7,506	
6	**Adjusted Net Operating Income**	502,172	494,666
7	**Earned Regulated Rate of Return**	9.59%	9.45%

Footnotes:

(A) **Column A to be completed by Company,**

(B) **Column B should equal Column A, but may include any Staff Adjustments**

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

Exhibit 4.1 - Statistics

SHADED INFORMATION IS DESIGNATED AS CONFIDENTIAL PER WAC 480-07-160

Company Name: (Below)
ST. JOHN TELEPHONE, INC.

Description	Prior Year End of Yr. Balance - 2017	Current Year End of Yr. Balance - 2018	Difference	% Change
Broadband Connections:	[redacted]			
Residential				
Business				
Total				
Gross Regulated Capital Expenditures:**				
Total Annual Amount				

WASHINGTON 533 ST. JOHN
ST. JOHN TELEPHONE, INC.
AND SUBSIDIARIES

Audited Consolidated Financial Statements

December 31, 2018 and 2017

REDACTED

WASHINGTON 533 ST. JOHN
ST. JOHN TELEPHONE, INC. AND SUBSIDIARIES

Audited Consolidated Financial Statements

December 31, 2018 and 2017

JOHNSON
STONE &
PAGANO, P.S.
CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

Board of Directors
St. John Telephone, Inc. and Subsidiaries
St. John, Washington

Report on Financial Statements

We have audited the accompanying consolidated financial statements of St. John Telephone, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the consolidated statements of income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. John Telephone, Inc. and Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2019 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

JOHNSON, STONE & PAGANO, P.S.

March 13, 2019

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

PETITION OF ST. JOHN TELEPHONE, INC. TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM –
EXHIBIT 5, PAGE - 5

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

WASHINGTON 533 ST. JOHN
ST. JOHN TELEPHONE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

	2018	2017
ASSETS	[redacted]	
CURRENT ASSETS		
Cash and cash equivalents		
Accounts receivable, less allowances for doubtful accounts		
Materials and supplies		
Nonregulated materials inventory		
Prepaid expenses		
Federal income taxes receivable		
Total Current Assets		
INVESTMENTS		
PROPERTY, PLANT AND EQUIPMENT		
Telecommunications plant in service		
Less allowances for depreciation		
Total Telecommunications Plant		
Nonregulated plant		
Less allowances for depreciation		
Plant under construction		
Total Nonregulated Plant		
Total Property, Plant and Equipment		
TOTAL ASSETS		

PETITION OF ST. JOHN TELEPHONE, INC. TO RECEIVE SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS SERVICES PROGRAM – EXHIBIT 5, PAGE - 6

REDACTED

The accompanying notes are an integral part of these consolidated financial statements.

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

WASHINGTON 533 ST. JOHN
ST. JOHN TELEPHONE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2018 and 2017

	2018	2017
LIABILITIES AND STOCKHOLDERS' EQUITY	[redacted]	
CURRENT LIABILITIES		
Accounts payable		
Customers' deposits		
Taxes, other than income taxes		
Other current liabilities		
Deferred revenue		
Installments on long-term debt due within one year		
Total Current Liabilities		
LONG-TERM DEBT, less portion classified as a current liability		
OTHER LIABILITIES		
Deferred income taxes		
Total Liabilities		
STOCKHOLDERS' EQUITY		
Common stock, par value [redacted] per share; Authorized - [redacted] shares Issued and outstanding - (2018 - [redacted] shares; 2017 - [redacted] shares)		
Retained earnings		
Total Stockholders' Equity		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		

PETITION OF ST. JOHN TELEPHONE, INC. TO RECEIVE SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS SERVICES PROGRAM – EXHIBIT 5, PAGE - 7

REDACTED

The accompanying notes are an integral part of these consolidated financial statements.

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

WASHINGTON 533 ST. JOHN
ST. JOHN TELEPHONE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES	[redacted]	
Local network service revenues		
Network access service revenues		
Long distance network service revenues		
Cable television revenues and installations		
Miscellaneous revenues		
Uncollectible revenues		
Total Operating Revenues		
OPERATING EXPENSES		
Plant specific operations		
Plant nonspecific operations		
Depreciation and amortization		
Customer operations		
Corporate operations		
Taxes, other than income taxes		
Other operating expenses		
Total Operating Expenses		
Net Operating Income		
FIXED CHARGES		
OTHER INCOME		
Interest and dividend income		
Other income - net		
Total Other Income		
INCOME TAXES		
Currently payable		
Deferred tax expense (benefit)		
Total Income Taxes (Benefits)		
NET INCOME		

PETITION OF ST. JOHN TELEPHONE, INC. TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM –
EXHIBIT 5, PAGE - 8

REDACTED

The accompanying notes are an integral part of these consolidated financial statements.

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

WASHINGTON 533 ST. JOHN
ST. JOHN TELEPHONE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2018 and 2017

	Common Stock	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2016	[redacted]		
Dividends declared - net			
Issuance of common stock			
Net income for the year			
BALANCE AT DECEMBER 31, 2017			
Dividends declared - net			
Issuance of common stock			
Net income for the year			
BALANCE AT DECEMBER 31, 2018			

PETITION OF ST. JOHN TELEPHONE, INC. TO RECEIVE SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS SERVICES PROGRAM – EXHIBIT 5, PAGE - 9

REDACTED

The accompanying notes are an integral part of these consolidated financial statements.

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

WASHINGTON 533 ST. JOHN
ST. JOHN TELEPHONE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES	[redacted]	
Net income		
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of telecommunications plant		
Depreciation and amortization of nonregulated plant and other assets		
Deferred income taxes		
Net change in operating assets and liabilities		
Net Cash Provided by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to telecommunications plant		
Additions to nonregulated plant		
Net Cash Used by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid		
Payments on long-term debt		
Proceeds from sale of common stock		
Net Cash Used by Financing Activities		
NET DECREASE IN CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Year		
CASH AND CASH EQUIVALENTS AT END OF YEAR		

PETITION OF ST. JOHN TELEPHONE, INC. TO RECEIVE SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS SERVICES PROGRAM – EXHIBIT 5, PAGE - 10

REDACTED

The accompanying notes are an integral part of these consolidated financial statements.

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WASHINGTON 533 ST. JOHN
ST. JOHN TELEPHONE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2018 and 2017

	2018	2017
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES	[redacted]	
(Increase) decrease in assets		
Accounts receivable		
Materials and supplies		
Nonregulated materials inventory		
Prepaid expenses		
Federal income taxes receivable		
Increase (decrease) in liabilities		
Accounts payable		
Taxes, other than income taxes		
Other current liabilities and customers' deposits		
Deferred revenue		
Federal income taxes payable		
Net Change in Operating Assets and Liabilities		
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest		
Federal income taxes		

PETITION OF ST. JOHN TELEPHONE, INC. TO RECEIVE SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS SERVICES PROGRAM – EXHIBIT 5, PAGE - 11

REDACTED

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Operations
The consolidated financial statements include the accounts of St. John Telephone, Inc. (the "Company") and its wholly-owned subsidiaries, St. John Cable Company and Colfax Highline Cable Company (the "Subsidiaries"). All material intercompany accounts and transactions have been eliminated in consolidation.

St. John Telephone, Inc. is a local exchange telecommunications company. The Company provides local exchange, network access, long distance access, other telecommunications services and broadband access services to customers in St. John and the surrounding vicinity in rural Whitman County in eastern Washington State. St. John Cable Company provides cable television and broadband access services to customers in St. John and the surrounding vicinity. Colfax Highline Cable Company provides cable television and broadband access services to customers in Colfax and the surrounding vicinity in eastern Washington State.

The Company is a small rate-of-return carrier operating in eastern Washington State. 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 the Company recovers its telecommunications revenue requirements.

Regulation
The Company is subject to the accounting and rate regulation policies of the Washington Utilities and Transportation Commission ("WUTC") and adheres to the FCC Uniform System of Accounts for Class B telephone companies as prescribed by the FCC under Part 32.

Cash and Cash Equivalents
For purposes of the statements of cash flows, the Company considers cash to be cash on hand, in checking accounts and in certificates of deposit with original maturities of three months or less.

Materials and Supplies
Materials and supplies are stated at the lower of cost (first-in, first-out) or net realizable value.

Investments
Investments in stocks are stated at cost, which approximates fair value.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 in the amount by which the carrying amount of the asset exceeds the fair value of the asset. At December 31, 2018 and 2017, management has determined that there were no material impairment charges to be recorded as of those dates.

Property, Plant and Equipment
Property, plant and equipment are stated at cost and are depreciated on a straight-line basis for accounting purposes. 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 all assets. Likewise, lives used for calculating depreciation on all other property and equipment are based on the estimated economic useful lives of the assets.

Telecommunications Plant Retirements
When a telecommunications plant asset is retired or otherwise disposed of, the cost of the asset is removed from the asset account and charged to the related allowances for depreciation. Similarly, the cost of removal and salvage proceeds are charged or credited to the allowances for depreciation. Consequently, no gain or loss upon disposition is recognized.

Advertising Costs
Costs incurred for advertising are expensed as incurred. Advertising expenses were [redacted] in 2018 and [redacted] in 2017.

Revenue Recognition, Major Customers and Services
Services provided by the Company and Subsidiaries include primarily local network, long distance network, network access services, 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.

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

NOTE 1 - NATURE OF OPERATIONS AND 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 are currently 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 modified and replaced the existing universal 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 set 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 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.

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 the Company'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 the Company's initial HCLS funding amount, causing a significant reduction in revenues of approximately $177,000 and $170,000 for 2018 and 2017.

In September 2016, the FCC implemented a budget control mechanism ("BCM") for rate-of-return telecommunication carriers designed to ensure that federal support disbursements remain within the specified budget of $2 billion. The BCM further reduces HCLS and Connect American Fund Broadband Loop Support ("CAF BLS") funding for the Company by approximately $105,000 in 2017 of which approximately $63,000 was refunded in 2018.

PETITION OF ST. JOHN TELEPHONE, INC. TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM –
EXHIBIT 5, PAGE - 14

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Other methods to limit the budget are the new operating expense limitation and a capital investment allowance calculations, none of which impacted the Company.

As part of FCC 16-33 Universal Service Reform ("USF") order, rate-of-return telecommunication carriers were 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 that was implemented on February 1, 2017. The Company remains with the legacy support option.

The established rate-of-return of 11.25%, used for interstate pooled settlements and other interstate revenue requirements is to be transitioned over six years to 9.75% by July 2021 by a rate-of-return reduction of .25% each July per FCC order. As of July 2018 and 2017, the rate-of-return was reduced to 10.50% and 10.75%, respectively.

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 revenues and cash flow. Revenue impacts are subject to change based upon future data collections and further clarification from the FCC.

Revenues for intrastate access services are received through tariffed access charges filed by the Company 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 the Company 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.

NOTE 1 - NATURE OF OPERATIONS AND 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 the Company received from the federal CAF. The State USF Program began 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 the Company continues to be eligible under the program. The State USF Program year runs from July 1 to June 30. In 2018, the Company received $82,201 from the state USF Program for the period July 1, 2018 to June 30, 2019, and recorded deferred revenue of $41,100 for the unearned portion. In 2017, the Company received $72,743 from the State USF Program for the period July 1, 2017 to June 30, 2018, and recorded deferred revenue of $36,372 for the unearned portion. The State USF Program is scheduled to last for five program years and will expire June 30, 2019 unless extended by the State.

For some of the 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
The Company and Subsidiaries provide federal income taxes for the effects of transactions reported in the financial statements and consists of taxes currently due and deferred income taxes. The Company and Subsidiaries file federal income taxes on a consolidated basis. The consolidated tax liability of the affiliated group is based on each company's contributions to consolidated taxable income.

The Company and Subsidiaries utilize the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities using tax rates expected to be in effect during the years in which the basis differences reverse. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount 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 consolidated financial statements.

WASHINGTON 533 ST. JOHN
ST. JOHN TELEPHONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events
The management of the Company and Subsidiaries evaluated for subsequent events and transactions for potential recognition and disclosure through March 13, 2019, the date the financial statements were available to be issued.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Company and Subsidiaries maintain cash balances at various financial institutions. Accounts at each of the institutions are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation up to $250,000. The Company and Subsidiaries periodically maintain cash balances in excess of the federally insured limits. At December 31, 2018, the Company's and Subsidiaries' cash balances exceeded the insured amount by [redacted].

The Company's and Subsidiaries' accounts receivable are subject to potential credit risk as they are concentrated in and around St. John and Colfax, Washington, and are unsecured.

NOTE 3 - ACCOUNTS AND NOTE RECEIVABLE

The accounts receivable balance at December 31 consists of:

	2018	2017
Due from customers	[redacted]	
Due from exchange carriers and exchange carrier associations		
Allowances for doubtful accounts		

The Company and Subsidiaries extend credit to their business 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 associations settlement statements are rendered and are presented in the balance sheets net of the allowances for doubtful accounts. Certain exchange carrier associations' settlements are subject to out-of-period adjustments and are recorded during the year in which they become determinable. The allowances for doubtful accounts are estimated based on the Company's and Subsidiaries' historical losses, the existing economic conditions in the telecommunications and cable television industry and the financial stability of its customers. As of December 31, 2018, approximately [redacted] of the accounts receivable were outstanding ninety days or more after the date of the invoice on which they were first billed.

REDACTED

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NOTE 4 - INVESTMENTS

Investments consist of the following:

	2018	2017
Investments in Stocks	[redacted]	
St. John Telephone, Inc.		
Grange Patronage Stock Dividend		
Pioneer Telephone Holding Company, Inc. ([redacted] shares)		
Total Investments in Stocks		

Investments in stocks are carried at cost. The difference between fair value and cost at December 31, 2018 and 2017 is not considered material.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Telecommunications Plant in Service

Telecommunications plant in service is stated at cost. Listed below are the major classes of the telecommunications plant as of December 31, 2018 and 2017:

	2018	2017
General support facilities	[redacted]	
Central office equipment		
Cable and wire facilities		

Provisions have been made for depreciation of major classes of the telecommunications plant at straight-line rates as follows:

General support facilities	[redacted]
Buildings	
Furniture and office equipment	
Vehicles and other work equipment	
Central office equipment	
Cable and wire facilities	

PETITION OF ST. JOHN TELEPHONE, INC. TO RECEIVE SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS SERVICES PROGRAM – EXHIBIT 5, PAGE - 18

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NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

Nonregulated Plant
Nonregulated plant is stated at cost. Listed below are the major classes of nonregulated plant as of December 31, 2018 and 2017:

	2018	2017
St. John Telephone, Inc.	[redacted]	
Land		
Nonregulated telecommunications equipment		
Internet equipment		
Paging equipment		
Motel building		
Mini storage building		
St. John Cable Company		
Cable television equipment		
Colfax Highline Cable Company		
General support assets		
Cable television equipment		
Total Nonregulated Plant		

Provisions have been made for depreciation of major classes of nonregulated plant at straight-line rates as follows:

Nonregulated telecommunications equipment	[redacted]
Internet equipment	
Paging equipment	
Motel and mini storage building	
Cable television equipment	
General support assets	

Depreciation Expense
The provision for depreciation on telecommunications plant and nonregulated plant in service is as follows:

	2018	2017
Telecommunications plant	[redacted]	
Nonregulated plant		
Total Depreciation Expense		

PETITION OF ST. JOHN TELEPHONE, INC. TO RECEIVE SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS SERVICES PROGRAM – EXHIBIT 5, PAGE - 19

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NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following:

	Current Annual Installments of Principal	Principal Amount 2018	2017
Rural Utilities Service ("RUS") - first mortgage notes	[redacted]		
[redacted] - due December 2028			
Advance payments unapplied - net			
Less principal installments on long-term debt due within one year			
Total Long-term Debt			

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

2019	[redacted]
2020	
2021	
2022	
2023	
Thereafter	

Substantially all of the Company's telecommunications plant now owned and hereafter acquired is subject to first and supplemental mortgage agreements 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 are based on minimum net worth requirements defined in the agreements. The Company must also maintain certain interest coverage under the mortgage agreements.

The advance payment unapplied - net, represents voluntary unscheduled payments by the Company in excess of amounts due and payable under the Cushion of Credits Payments Program noted in the Rural Electrification Act. The cushion of credit is intended to enable the Company to deposit funds and have those funds available to make scheduled debt payments or installments. If the Company made less than or no payment when their debt payment was due, the cushion of credit would automatically add to or make the Company's debt payment systematically for the Company. By law, cushion of credit accounts earn [redacted] interest annually, accrued daily and recorded quarterly. In 2018 and 2017, the Company added [redacted] and [redacted], respectively, to its cushion of credit attributed to interest earned.

WASHINGTON 533 ST. JOHN
ST. JOHN TELEPHONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7 - FEDERAL INCOME TAXES

The Company and Subsidiaries recognize deferred income taxes for differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent future income tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. The differences relate to depreciable assets' lives and methods of calculating depreciation for financial and income tax reporting.

The tax effects of temporary differences that give rise to significant portions of deferred tax liabilities consist of the following:

	2018	2017
Plant and equipment	[redacted]	

Components of the provisions for income tax expense (benefit) are as follows:

	2018	2017
Current expense	[redacted]	
Deferred tax expense (benefit)		

On December 19, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted, which includes many significant changes to the then existing tax code. Among the changes included in the Act, corporate tax rates will be set at 21% for periods beginning January 1, 2018, which represents a significant decrease from the 34% current effective tax rate for the year ended December 31, 2017. Under accounting principles generally accepted in the United States of America, the Company is required to recognize changes in tax laws and rates on deferred tax assets and liabilities in the period in which the new legislation is enacted through current deferred tax expense from operations. As such, deferred tax liabilities in 2017 were remeasured using the newly effective tax rate, which is the rate expected to be in effect when the deferred liabilities are expected to reverse. Had deferred tax liabilities been measured using the effective tax rate of 34%, deferred tax liabilities would have increased [redacted] in 2017. As such, a deferred income tax benefit of [redacted] has been reported in the accompanying statements of income at December 31, 2017. Due to the remeasurement of deferred tax liabilities using the enacted rate of 21%, deferred tax liabilities decreased [redacted] in 2017.

WASHINGTON 533 ST. JOHN
ST. JOHN TELEPHONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 8 - LEASES

In January 2018, the Company began leasing certain telecommunications facilities, bandwidth and transport services from a local telecommunications provider at [redacted] per month until January 2021. The Company is leasing other facilities on a month-to-month basis at [redacted] per month. In May 2015, the Company began leasing certain telecommunication services from another telecommunications provider at [redacted] per month, which expired in May 2018, and is currently being leased on a month-to-month basis. Total lease expense was [redacted] in 2018 and [redacted] in 2017. The Company subleases some of these facilities to another telecommunications provider and a customer outside of its local exchange boundary. The current sublease agreements are month-to-month with current monthly income of [redacted].

The Company also leases certain telecommunications facilities from the Port of Whitman County. The term of the lease consists of a twenty-year lease commencing August 31, 2004 and expiring August 31, 2024, unless terminated earlier by either party pursuant to the lease agreement. The Company pays monthly rents of [redacted], including monthly taxes. Expense for this agreement was [redacted] for 2018 and 2017. The Company leases certain telecommunications facilities under a separate ten-year lease with the Port of Whitman County that expires November 2022 for [redacted] per year, including taxes.

The Company and Subsidiaries have various other land and building leases that run month-to-month, year-to-year or expire on or before July 2022. The annual amounts paid under these leases were [redacted] in 2018 and [redacted] in 2017. The Company has several sublease agreements that run month-to-month or expire on or before April 2026. The amounts received under these subleases were [redacted] in 2018 and [redacted] in 2017.

Future minimum payments for the next five years under the terms of the agreements referred to above in this Note 8, as determined by the current monthly or scheduled payments, are as follows:

2019	[redacted]
2020	
2021	
2022	
2023	

NOTE 9 - PENSION PLAN

The Company has a pension plan covering all of its eligible employees. All employees over 21 years of age and after one year of service with the Company are covered under the plan. Company contributions are [redacted] of the qualified employees' wages. All accrued pension costs are funded through a trust. The trust covers all vested benefits under the plan. Pension expense for the years ended December 31, 2018 and 2017 was [redacted] and [redacted], respectively.

REDACTED

NOTE 10 - CONTINGENCIES

As noted in Note 1, the FCC established a pro rata expense adjustment factor that is calculated against the actual HCLS distribution to all of the independent telephone companies that receive HCLS funding in order to meet the overall HCLS funding cap. The 2019 estimated pro rata expense adjustment factor is currently approximately 78% and this will cause a significant reduction of approximately $150,000 to the Company's 2018 HCLS revenues.

In 2017, Colfax Highline Cable Company has undertaken a project to provide fiber to the home to its customers. The total estimated cost of the project is approximately [redacted]. At December 31, 2018, [redacted] of costs incurred are recorded in plant under construction.

REDACTED

USDA-RUS

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

OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS

BORROWER NAME
St. John Co-operative Telephone & Telegraph Co.
(Prepared with Audited Data)

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

PERIOD ENDING: December, 2018

BORROWER DESIGNATION: WA0533

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	2,921,676	1,920,833	25. Accounts Payable	28,954	99,582
2. Cash-RUS Construction Fund			26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments		
a. Telecom, Accounts Receivable			28. Customer Deposits	100	100
b. Other Accounts Receivable			29. Current Mat. L/T Debt	357,178	373,952
c. Notes Receivable			30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable	6,483	6,288	32. Income Taxes Accrued		
b. Other Accounts Receivable	222,012	229,900	33. Other Taxes Accrued	11,939	10,123
c. Notes Receivable			34. Other Current Liabilities	51,673	56,999
5. Interest and Dividends Receivable			**35. Total Current Liabilities (25 thru 34)**	449,844	540,756
6. Material-Regulated	18,418	13,819	**LONG-TERM DEBT**		
7. Material-Nonregulated	1,062	312,615	36. Funded Debt-RUS Notes	4,308,710	3,804,600
8. Prepayments	55,656	122,853	37. Funded Debt-RTB Notes		
9. Other Current Assets			38. Funded Debt-FFB Notes		
10. Total Current Assets (1 Thru 9)	3,225,307	2,606,308	39. Funded Debt-Other		
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan		
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt		
a. Rural Development			42. Reacquired Debt		
b. Nonrural Development	1,623,310	1,355,424	43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies		194,622
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development	311,223	57,654	**46. Total Long-Term Debt (36 thru 45)**	4,308,710	3,999,222
13. Nonregulated Investments	57,654	1,175,799	**OTHER LIAB. & DEF. CREDITS**		
14. Other Noncurrent Assets			47. Other Long-Term Liabilities		
15. Deferred Charges			48. Other Deferred Credits	807,266	832,071
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
17. Total Noncurrent Assets (11 thru 16)	1,992,187	2,588,877	50. Total Other Liabilities and Deferred Credits (47 thru 49)	807,266	832,071
PLANT, PROPERTY, AND EQUIPMENT			**EQUITY**		
18. Telecom, Plant-in-Service	13,311,773	13,193,789	51. Cap. Stock Outstand. & Subscribed	37,140	37,180
19. Property Held for Future Use			52. Additional Paid-in-Capital		
20. Plant Under Construction	892,084	1,323,642	53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill			54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation	6,569,664	6,886,988	55. Other Capital		
23. Net Plant (18 thru 21 less 22)	7,634,193	7,630,443	56. Patronage Capital Credits		
24. TOTAL ASSETS (10+17+23)	12,851,687	12,825,628	57. Retained Earnings or Margins	7,248,727	7,416,399
			58. Total Equity (51 thru 57)	7,285,867	7,453,579
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	12,851,687	12,825,628

Total Equity = 58.11% % of Total Assets

USDA-RUS **OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS** *INSTRUCTIONS- See RUS Bulletin 1744-2*	BORROWER DESIGNATION WA0533 PERIOD ENDING December, 2018

PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS

ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	129,730	148,312
2. Network Access Services Revenues	1,886,464	1,760,409
3. Long Distance Network Services Revenues	45,011	40,354
4. Carrier Billing and Collection Revenues		
5. Miscellaneous Revenues	30,149	34,184
6. Uncollectible Revenues	665	(187)
7. Net Operating Revenues (1 thru 5 less 6)	2,090,689	1,983,446
8. Plant Specific Operations Expense	570,665	551,274
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	104,174	82,645
10. Depreciation Expense	494,835	473,797
11. Amortization Expense		
12. Customer Operations Expense	168,691	167,307
13. Corporate Operations Expense	316,026	318,603
14. Total Operating Expenses (8 thru 13)	1,654,391	1,593,626
15. Operating Income or Margins (7 less 14)	436,298	389,820
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes	(481,646)	3,411
19. Other Taxes	78,221	80,581
20. Total Operating Taxes (17+18+19)	(403,425)	83,992
21. Net Operating Income or Margins (15+16-20)	839,723	305,828
22. Interest on Funded Debt	310,664	292,993
23. Interest Expense - Capital Leases		
24. Other Interest Expense		
25. Allowance for Funds Used During Construction		
26. Total Fixed Charges (22+23+24-25)	310,664	292,993
27. Nonoperating Net Income	54,241	64,754
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	135,129	135,420
31. Total Net Income or Margins (21+27+28+29+30-26)	718,429	213,009
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	6,573,111	7,248,727
34. Miscellaneous Credits Year-to-Date	3,437	1,088
35. Dividends Declared (Common)	46,250	46,425
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)]	7,248,727	7,416,399
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	713,419	713,419
45. Cash Ratio [(14+20-10-11) / 7]	0.3617	0.6069
46. Operating Accrual Ratio [(14+20+26) / 7]	0.7469	0.9935
47. TIER [(31+26) / 26]	3.3126	1.7270
48. DSCR [(31+26+10+11) / 44]	2.1361	1.3734

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

I, Eric Trump, an officer of St. John Telephone, 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 St. John Telephone, Inc. ("Company") from corporate operations expense that, for 2017 and 2018, was input in both the high cost loop support and broadband loop support (in part, replacing interstate common line support) cost studies of the Company for the Company's study area(s) in the State of Washington

Dated this 15th day of July, 2019

Eric Trump
General Manager, Assistant Secretary

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

I, Eric Trump, an officer of St. John Telephone, 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 St. John, Washington this 15th day of July, 2019.

Eric Trump
General Manager, Assistant Secretary

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Eric Trump, an officer of St. John Telephone, Inc. (the "Company"), under penalty of perjury, hereby certify that if the Company receives Program support, the Company will continue to provide communications services pursuant to its tariffs on file with the Commission throughout its service territory in Washington for which the Company is seeking and receives Program support during the entirety of 2020.

Dated at St. John, Washington this 15th day of July, 2019.

Eric Trump
General Manager, Assistant Secretary