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6 **BEFORE THE WASHINGTON**  
7 **UTILITIES AND TRANSPORTATION COMMISSION**

8 IN RE

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10 PETITION OF HAT ISLAND TELEPHONE  
11 COMPANY, TO RECEIVE SUPPORT  
12 FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES  
PROGRAM

DOCKET NO.

PETITION FOR SUPPORT

13  
14 COMES NOW Hat Island Telephone Company (the "Company"), and, pursuant to Chapter  
15 480-123 of the Washington Administrative Code ("WAC") including, but not limited to, WAC 480-  
16 123-110, hereby petitions the Washington Utilities and Transportation Commission (the  
17 "Commission") to receive support from the State Universal Communications Services Program  
18 established in RCW 80.36.650 (the "Program") for the fiscal year ending June 30, 2019.

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

- 21 1. WAC 480-123-100(1)(a): The Company is a local exchange company as defined in WAC  
22 480-120-021 that serves less than forty thousand access lines within the state.  
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PETITION OF HAT ISLAND TELEPHONE COMPANY  
TO RECEIVE SUPPORT  
FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM - 1

- 1 2. WAC 480-123-100(1)(b): The Company is an incumbent local exchange carrier as defined  
2 in 47 U.S.C. Sec. 251(h).
- 3 3. WAC 480-123-100(1)(c): The Company offers basic residential and business exchange  
4 telecommunications services as set forth in WAC 480-120-021 and RCW 80.36.630.
- 5 4. WAC 480-123-100(1)(d): The Company's rates for residential local exchange service, plus  
6 mandatory extended area service charges, are no lower than the local urban rate floor  
7 established by the Commission as the benchmark rate based on the Federal Communications  
8 Commission's national local urban rate floor pursuant to 47 C.F.R. Sec. 54.318 in effect on  
9 the date of this Petition.
- 10 11 5. WAC 480-123-100(1)(e): The Company has been designated by the Commission as an  
12 eligible telecommunications carrier for purposes of receiving federal universal services  
13 support pursuant to 47 C.F.R. Part 54 Subpart D - Universal Service Support for High Cost  
14 Areas with respect to the service area for which the Company is seeking Program support.
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## 17 **II. Demonstration of Eligibility under WAC 480-123-110**

- 18 1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications  
19 services and is seeking Program support is as follows: Hat Island Telephone Company.
- 20 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between  
21 the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.  
22 A detailed description of any transactions between the Company and the affiliates named in  
23 Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.
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- 1 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No.  
2 19 of the Company's Tariff WN U-1.
- 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 as Exhibit 3.
- 6 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,  
7 are copies of the Company's balance sheet as of December 31, 2017, and December 31,  
8 2016, and copies of the Company's statements of income and retained earnings or margin for  
9 the years ended December 31, 2017 and December 31, 2016.
- 10 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial  
11 statements for the years ended December 31, 2017 and December 31, 2016, are attached as  
12 Exhibit 5.
- 13 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of  
14 return on a total Washington unseparated regulated operations basis for each of the two prior  
15 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
- 16 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on  
17 equity on a total company (regulated and non-regulated) Washington basis for each of the  
18 two prior years, calculated in the manner prescribed by the Commission, is provided in  
19 Exhibit 5.
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- 1 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the  
2 statements of income and retained earnings or margin in the same format and detail as is  
3 required to complete RUS Form 479 for the prior two years is presented on Exhibit 6.
- 4 10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company officer  
5 with personal knowledge and responsibility certifying that no corporate operations  
6 adjustment to existing high-cost loop and interstate common line support mechanisms  
7 required by the Federal Communications Commission applied to the Company for the two  
8 prior years is attached hereto as Exhibit 7. [**ALTERNATIVE:** Information detailing the  
9 amounts of any corporate operations adjustments to existing high-cost loop and interstate  
10 common line support mechanism required by the Federal Communications Commission  
11 applied to the Company for the prior two years is attached hereto as Exhibit 7.] More  
12 Specifically, Exhibit 7 sets forth amounts of corporate operations expense that were required  
13 by 47 C.F.R. § 54.1308(a)(4)(ii) to be excluded from the high-cost loop support, and  
14 interstate common line support or broadband loop support (which, in part, has replaced  
15 interstate common line support), mechanisms, as applicable to the subject years.
- 16 11. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains additional supporting information  
17 requested by the Commission.
- 18 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company  
19 officer with personal knowledge and responsibility certifying that the Company complies  
20 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to  
21 incumbent local exchange companies is attached as Exhibit 8.  
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1 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or  
2 on its behalf with the Federal Communications Commission for the calendar year preceding  
3 the current year has already been filed with the Commission. See the Company's filing in  
4 Docket No. UT-180004 filed on or about July 16, 2018.

5 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by  
6 the Company as of December 31, 2017, was 31 all of which were within the geographic area  
7 for which the Company is seeking support. The number of residential local exchange access  
8 lines served by the Company as of December 31, 2016, was 42, all of which were within the  
9 geographic area for which the Company is seeking support.

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11 The number of business local exchange access lines served by the Company as of December  
12 31, 2017, was 11, all of which were within the geographic area for which the Company is  
13 seeking support. The number of business local exchange access lines served by the  
14 Company as of December 31, 2016, was 11, all of which were within the geographic area  
15 for which the Company is seeking support.

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17 The monthly recurring rate charged by the Company for residential local exchange access  
18 service on December 31, 2017, was \$18.00. The monthly recurring rate charged by the  
19 Company for residential local exchange access service on December 31, 2016, was \$18.00.

20 The rate charged by the Company for single line business local exchange access service on  
21 December 31, 2017, was \$25.00. The rate charged by the Company for single line business  
22 local exchange access service on December 31, 2016, was \$25.00. (The Company has  
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1 other business local exchange service rates, but the Company understands that WAC 480-  
2 123-110(1)(g) is requesting the single line business local exchange access service rate.)

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

4 16. The amount on Line 4, labeled 2011 ROR Carrier Base Period Revenue, of the CAF ICC  
5 Data collection Report for the period 7/1/2018 - 6/30/2019 is \$4,001 and has not changed  
6 from the last filing. [ALTERNATIVE: If there has been a change, provide the old and  
7 new amounts and explain the reason for the change.]  
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9 17. All exhibits attached hereto are incorporated in this Petition as though fully set forth.

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11 Respectfully submitted this 1st day of August, 2018.  
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17 CERTIFICATION

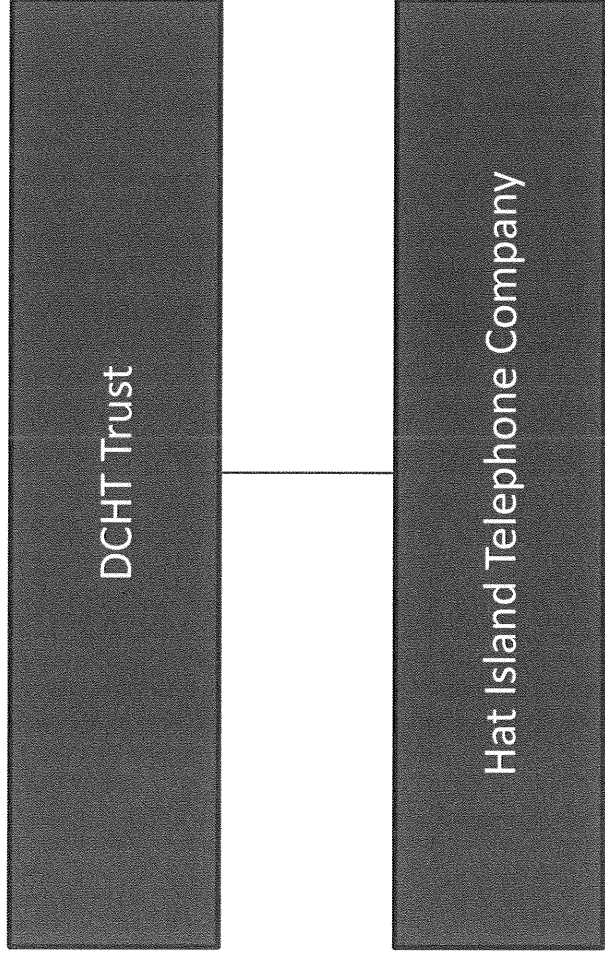
18 I Gary Ricketts, an officer of the Company that is responsible for the Company's business  
19 and financial operations, hereby certify under penalty of perjury that the information and  
20 representations set forth in the Petition, above, are accurate and the Company has not knowingly  
21 withheld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

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24 By: Gary Ricketts  
25 Title: Secretary/Treasurer  
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## **EXHIBIT 1**

EXHIBIT 1  
CORPORATE ORGANIZATION CHART





## **EXHIBIT 2**

## EXHIBIT 2

### DESCRIPTION OF TRANSACTIONS BETWEEN COMPANY AND AFFILIATES

The following are transactions between Hat Island Telephone Company (“Company”) and the Company affiliate that is shown in Exhibit 1 that are recorded on the books of the Company:

#### Ownership and the Company

- Shareholder(s) of the Company receive distributions from the Company that the Company records as Distributions to Ownership.

## **EXHIBIT 3**

### EXHIBIT 3

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

The operating environment in which the Company finds itself has created a climate of great financial uncertainty. The Company has been working over the past several years to address growing competition. The Company has taken steps to increase the availability and attributes of advanced services offered by the Company, including broadband. This has resulted in the Company making additional investments in regulated plant of approximately \$11,187 during the period January 1, 2011 through December 31, 2017.

The overall financial condition of the Company is detailed on other Exhibits to this Petition. What this information demonstrates is that, when adjusted to eliminate the support from the state Universal Communications Services Program that the Company received or accrued in 2017, the Company's total regulated revenue decreased by 29% from 2011 through 2017. The Company has looked for ways to lower expenses.

At the same time, the Company is seeing increased competition. For example, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. Since 2011, the Company has lost 35 access lines. A loss of customers equates to a loss of revenue without a corresponding reduction in expenses or corresponding increase in rates. This trend of access line loss is exacerbated by the Federal Communications Commission's requirement that the Company increase its rates to remain eligible for full federal USF support. Since 2012, the Company has increased its local exchange service rates in order to be in compliance with the national urban rate floor prescribed by the Federal Communications Commission. 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 surge in disconnection of service by customers.

As an example of why state Program support is needed, the Company's receipt of revenue from the traditional Washington intrastate universal service access rate element and related pooling fund were terminated effective July 1, 2014. Since then, the loss of revenues derived from the traditional universal service access rate element has been off-set by revenues received by the Company as a result of its participation in the Program. Using 2012 as a base line, the Company is facing a loss of traditional universal service fund revenues of approximately \$2,029 per year if its participation in the Program is not renewed.

As another example, some of the financial uncertainty that the Company faces stems from the USF/ICC Transformation Order issued by the Federal Communications Commission.<sup>1</sup> The

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<sup>1</sup> *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform - Mobility Fun*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-  
PETITION OF HAT ISLAND TELEPHONE COMPANY TO  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM –  
EXHIBIT 3, PAGE – 1

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, 2019, including reductions that became effective July 1, 2018, the Company has seen a reduction in support from the base line revenue of approximately \$1,208.

On top of all this, during the six-year period ended December 31, 2017, the Company has seen its total federal high cost support undergo a significant reduction, declining from \$24,870 in 2011 to \$11,181 in 2017.

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

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

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

## **EXHIBIT 4**

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)  
 Hat Island Telephone Company

ASSETS	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
1. Cash and Equivalents	24,363		24,363	25. Accounts Payable	475		475
2. Cash-RUS Construction Fund			0	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments	0		0
a. Telecom, Accounts Receivable	1,353		1,353	28. Customer Deposits	0		0
b. Other Accounts Receivable	195,256		195,256	29. Current Mat. L/T Debt	0		0
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			0	32. Income Taxes Accrued	2,721		2,721
b. Other Accounts Receivable			0	33. Other Taxes Accrued			
c. Notes Receivable			0	34. Other Current Liabilities			
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	3,196	0	3,196
6. Material-Regulated			0	<b>LONG-TERM DEBT</b>			
7. Prepayments	190		190	36. Funded Debt-RUS Notes	0		0
8. Other Current Assets			0	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)	221,162	0	221,162	39. Funded Debt-Other	0		0
				40. Funded Debt-Rural Develop. Loan	0		0
<b>NONCURRENT ASSETS</b>				41. Premium (Discount) on L/T Debt	0		0
11. Investment in Affiliated Companies				42. Reacquired Debt	0		0
a. Rural Development			0	43. Obligations Under Capital Lease	0		0
b. Nonrural Development			0	44. Adv. From Affiliated Companies	0		0
12. Other Investments				45. Other Long-Term Debt	0		0
a. Rural Development			0	46. Total Long-Term Debt (36 thru 45)	0	0	0
b. Nonrural Development			0	<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
13. Nonregulated Investments (B1)			0	47. Other Long-Term Liabilities	(7,982)	(7,982)	(7,982)
14. Other Noncurrent Assets			0	48. Deferred Income Taxes	1,467		1,467
15. Deferred Charges			0	49. Other Deferred Credits (D)			
16. Jurisdictional Differences			0	50. Other Jurisdictional Differences	1,467		1,467
17. Total noncurrent Assets (11 thru 16)	0	0	0	51. Total Other Liab. & Def. Credits (47 thru 50)	1,467	(7,982)	(6,515)
				<b>EQUITY</b>			
<b>PLANT, PROPERTY AND EQUIPMENT</b>				52. Cap. Stock Outstanding & Subscribed	4,000		4,000
18. Telecom Plant-in-Service	428,516		428,516	53. Additional Paid-in-Capital	0		0
19. Property Held for Future Use			0	54. Treasury Stock	0		0
20. Plant Under Construction			0	55. Membership and cap. Certificates	0		0
21. Plant Adj./Nonop Plant & Goodwill			0	56. Other Capital	0		0
22. Accumulated Depreciation (CR)	(324,675)		(324,675)	57. Patronage Capital Credits	0		0
23. Net Plant (18 thru 21 less 22)	103,841	0	103,841	58. Retained Earnings or Margins (B2)	316,340	7,982	324,322
				59. Total Equity (52 thru 58)	320,340	7,982	328,322
<b>24. TOTAL ASSETS (10-17+23)</b>	<b>325,003</b>	<b>0</b>	<b>325,003</b>	<b>60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>325,003</b>	<b>0</b>	<b>325,003</b>

Footnotes:

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

Footnotes:

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



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

Company Name: (Below)  
 Hat Island Telephone Company

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)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
1. Cash and Equivalents	19,792		19,792	25. Accounts Payable	656		656
2. Cash-RUS Construction Fund			0	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments	1,556		1,556
a. Telecom, Accounts Receivable			0	28. Customer Deposits			0
b. Other Accounts Receivable	163,450		163,450	29. Current Mat. L/T Debt			0
c. Notes Receivable			0	30. Current Mat. L/T Debt Rur. Dev.			0
4. Non-Affiliates:				31. Current Mat. - Capital Leases			0
a. Telecom, Accounts Receivable	887		887	32. Income Taxes Accrued			0
b. Other Accounts Receivable			0	33. Other Taxes Accrued	3,069		3,069
c. Notes Receivable			0	34. Other Current Liabilities			0
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	5,281	0	5,281
6. Material-Regulated			0	<b>LONG-TERM DEBT</b>			
7. Material-Nonregulated			0	36. Funded Debt-RUS Notes			0
8. Prepayments			0	37. Funded Debt-RTB Notes			0
9. Other Current Assets			0	38. Funded Debt-FFB Notes			0
10. Total Current Assets (1 Thru 9)	184,129	0	184,129	39. Funded Debt-Other			0
				40. Funded Debt-Rural Develop. Loan			0
<b>NONCURRENT ASSETS</b>				41. Premium (Discount) on L/T Debt			0
11. Investment in Affiliated Companies				42. Reacquired Debt			0
a. Rural Development			0	43. Obligations Under Capital Lease			0
b. Nonrural Development			0	44. Adv. From Affiliated Companies		(5,429)	(5,429)
12. Other Investments			0	45. Other Long-Term Debt		(1,545)	(1,545)
a. Rural Development			0	46. Total Long-Term Debt (36 thru 45)	0	0	0
b. Nonrural Development			0	<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
13. Nonregulated Investments (B1)			0	47. Other Long-Term Liabilities			0
14. Other Noncurrent Assets			0	48. Deferred Income Taxes	1,545		1,545
15. Deferred Charges			0	49. Other Deferred Credits (D)			0
16. Jurisdictional Differences			0	50. Other Jurisdictional Differences			0
17. Total noncurrent Assets (11 thru 16)	0	0	0	51. Total Other Liab. & Def. Credits (47 thru 50)	1,545	(6,974)	(5,429)
				<b>EQUITY</b>			
<b>PLANT, PROPERTY AND EQUIPMENT</b>				52. Cap. Stock Outstanding & Subscribed	4,000		4,000
18. Telecom Plant-in-Service	428,516		428,516	53. Additional Paid-in-Capital			0
19. Property Held for Future Use			0	54. Treasury Stock			0
20. Plant Under Construction			0	55. Membership and cap. Certificates			0
21. Plant Adj., Nonop Plant & Goodwill			0	56. Other Capital			0
22. Accumulated Depreciation (CR.)	(337,871)		(337,871)	57. Patronage Capital Credits			0
23. Net Plant (18 thru 21 less 22)	90,645	0	90,645	58. Retained Earnings or Margins (B2)	263,948	6,974	270,922
				59. Total Equity (52 thru 58)	267,948	6,974	274,922
<b>24. TOTAL ASSETS (10+17+23)</b>	<b>274,774</b>	<b>0</b>	<b>274,774</b>	<b>60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>274,774</b>	<b>0</b>	<b>274,774</b>

Footnotes:

(B1) - Part 64 offset to nonreg investment

(B2) - Part 64 offset to retained earnings

(D) - Excludes deferred taxes

Footnotes:

(A) - As reported on RUS Form 479

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

(C) - Adjusted Balance after Part 64

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

Company Name: (Below)  
 Hat Island Telephone Company

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
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
1. Cash and Equivalents	24,363	19,792	25. Accounts Payable	475	656
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	1,353	0	28. Customer Deposits	0	1,556
b. Other Accounts Receivable	195,256	163,450	29. Current Mat. L/T Debt	0	0
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	0	887	32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	0	0	33. Other Taxes Accrued	2,721	3,069
c. Notes Receivable	0	0	34. Other Current Liabilities	0	0
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	3,196	5,281
6. Material-Regulated	0	0	<b>LONG-TERM DEBT</b>		
7. Material-Nonregulated	0	0	36. Funded Debt-RUS Notes	0	0
8. Prepayments	190	0	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)	221,162	184,129	39. Funded Debt-Other	0	0
			40. Funded Debt-Rural Develop. Loan	0	0
<b>NONCURRENT ASSETS</b>			41. Premium (Discount) on L/T Debt	0	0
11. Investment in Affiliated Companies			42. Reactured 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			45. Other Long-Term Debt	0	0
a. Rural Development	0	0	46. Total Long-Term Debt (36-45)	0	0
b. Nonrural Development	0	0	<b>OTHER LIAB. &amp; DEF. CREDITS</b>		
13. Nonregulated Investments	0	0	47. Other Long-Term Liabilities	0	0
14. Other Noncurrent Assets	0	0	48. Deferred Income Taxes	(7,982)	(5,429)
15. Deferred Charges	0	0	49. Other Deferred Credits	1,467	0
16. Jurisdictional Differences	0	0	50. Other Jurisdictional Differences	0	0
17. Total noncurrent Assets (11 thru 16)	0	0	51. Total Other Liab. & Def. Credits (47 thru 50)	(6,515)	(5,429)
			<b>EQUITY</b>		
<b>PLANT, PROPERTY AND EQUIPMENT</b>			52. Cap. Stock Outstanding & Subscribed	4,000	4,000
18. Telecom Plant-in-Service	428,516	428,516	53. Additional Paid-in-Capital	0	0
19. Property Held for Future Use	0	0	54. Treasury Stock	0	0
20. Plant Under Construction	0	0	55. Membership and cap. Certificates	0	0
21. Plant Adj., Nonop Plant & Goodwill	0	0	56. Other Capital	0	0
22. Accumulated Depreciation (CR.)	(324,675)	(337,871)	57. Patronage Capital Credits	0	0
23. Net Plant (18 thru 21 less 22)	103,841	90,645	58. Retained Earnings or Margins	324,322	270,922
			59. Total Equity (51 thru 57)	328,322	274,922
<b>24. TOTAL ASSETS (10-17+23)</b>	<b>325,003</b>	<b>274,774</b>	<b>60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>325,003</b>	<b>274,774</b>

Footnote:  
 Adjusted Balances represents balances  
 after Part 64 adjustments

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

Company Name: (Below)  
 Hat Island Telephone Company

Line #	Description	B/S Line #	Adj. Balance End of Year 2016	Adj. Balance End of Year 2017	Average Adj End of Year Balance
	<b>Average Rate Base:</b>				
1	Total Regulated Adjusted Telecom Plant-In-Service	18	428,516	428,516	428,516
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(324,675)	(337,871)	(331,273)
4	Total Regulated Materials & Supplies	6	0	0	0
5	Deferred Income Taxes (CR)*		(6,748)	(5,429)	(6,089)
6	<b>Total Regulated Rate Base</b>		<b>97,093</b>	<b>85,216</b>	<b>91,155</b>

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 Year Balance Sheet

Company Name: (Below)  
 Hat Island Telephone Company

Line #	Description	Prior Year End of Yr. Balance - 2016	Current Year End of Yr. Balance - 2017	Difference	% Change
1	Residential	55	31	(24)	-43.6%
2	Business	11	11	0	0.0%
3	Total	66	42	(24)	-36.4%

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

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

Company Name: (Below)  
 Hat Island Telephone Company

Line #	Description	Prior Year 2016 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2016 (C)
1	Local Network Services Revenues	20,327		20,327
2	Network Access Services Revenues	40,923		40,923
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	2,183		2,183
5	Miscellaneous Revenues	1,259		1,259
6	Uncollectible Revenues (Normal Balance is debit or in brackets)			0
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>64,692</b>	<b>0</b>	<b>64,692</b>
8	Plant Specific Operations Expense	15,315		15,315
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	0		0
10	Depreciation Expense	13,195		13,195
11	Amortization Expense	0		0
12	Customer Operations Expense	5,993	1,777	7,770
13	Corporate Operations	26,196	(1,942)	24,254
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>60,699</b>	<b>(165)</b>	<b>60,534</b>
15	Operating Income or Margins (7 less 14)	3,993	165	4,158
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)		0	0
19	Other Taxes	2,402		2,402
20	<b>Total Operating Taxes (17+18+19)</b>	<b>2,402</b>	<b>0</b>	<b>2,402</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>1,591</b>	<b>165</b>	<b>1,756</b>
22	Interest on Funded Debt			0
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (Record as a Credit)			0
26	<b>Total Fixed Charges (22+23+24+25)</b>	<b>0</b>	<b>0</b>	<b>0</b>
27	Nonoperating Net Income			0
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	14,606	(165)	14,441
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>16,197</b>	<b>0</b>	<b>16,197</b>
32	Total Taxes Based on Income			0
33	Retained Earning or Margins Beginning-of-Year	300,143		300,143
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)			0
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	<b>Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38)(A2)</b>	<b>316,340</b>	<b>0</b>	<b>316,340</b>
40	Patronage Capital Beginning-of-Year			0
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	<b>Patronage Capital End-of-Year (40+41-42)</b>	<b>0</b>	<b>0</b>	<b>0</b>
44	Annual Debt Service Payments			0
45	Cash Ratio ((14+20-10-11)/7)	0.7714	#DIV/0!	0.7689
46	Operating Accrual Ratio ((14+20+26)/7)	0.9754	#DIV/0!	0.9729
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!	#DIV/0!

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)  
 Prior Year Balance Sheet

Company Name: (Below)  
 Hat Island Telephone Company

Line #	Description	Current Year 2017 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2017 (C)
1	Local Network Services Revenues	15,876		15,876
2	Network Access Services Revenues	37,449		37,449
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	916		916
5	Miscellaneous Revenues	1,259		1,259
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	0		0
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>55,500</b>	<b>0</b>	<b>55,500</b>
8	Plant Specific Operations Expense	16,768		16,768
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	0		0
10	Depreciation Expense	13,196		13,196
11	Amortization Expense	0		0
12	Customer Operations Expense	7,005	2,138	9,143
13	Corporate Operations	79,487	(2,298)	77,189
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>116,456</b>	<b>(160)</b>	<b>116,296</b>
15	Operating Income or Margins (7 less 14)	(60,956)	160	(60,796)
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)		0	0
19	Other Taxes	3,277		3,277
20	<b>Total Operating Taxes (17+18+19)</b>	<b>3,277</b>	<b>0</b>	<b>3,277</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>(64,233)</b>	<b>160</b>	<b>(64,073)</b>
22	Interest on Funded Debt			0
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (Record as a Credit)			0
26	<b>Total Fixed Charges (22+23+24+25)</b>	<b>0</b>	<b>0</b>	<b>0</b>
27	Nonoperating Net Income	7		7
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	11,834	(160)	11,674
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>(52,392)</b>	<b>0</b>	<b>(52,392)</b>
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	316,340		316,340
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)			0
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	<b>Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38))(A2)</b>	<b>263,948</b>	<b>0</b>	<b>263,948</b>
40	Patronage Capital Beginning-of-Year			0
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	<b>Patronage Capital End-of-Year (40+41-42)</b>	<b>0</b>	<b>0</b>	<b>0</b>
44	Annual Debt Service Payments			0
45	Cash Ratio ((14+20-10-11)/7)	1.9196	#DIV/0!	1.9167
46	Operating Accrual Ratio ((14+20+26)/7)	2.1574	#DIV/0!	2.1545
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!	#DIV/0!

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 Year Balance Sheet

Company Name: (Below)  
 Hat Island Telephone Company

Line #	Description	Adjusted Prior Year 2016	Adjusted Current Year 2017
1	Local Network Services Revenues	20,327	15,876
2	Network Access Services Revenues	40,923	37,449
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	2,183	916
5	Miscellaneous Revenues	1,259	1,259
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	0	0
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>64,692</b>	<b>55,500</b>
8	Plant Specific Operations Expense	15,315	16,768
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	0	0
10	Depreciation Expense	13,195	13,196
11	Amortization Expense	0	0
12	Customer Operations Expense	7,770	9,143
13	Corporate Operations	24,254	77,189
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>60,534</b>	<b>116,296</b>
15	Operating Income or Margins (7 less 14)	4,158	(60,796)
16	Other Operating Income and Expenses ( )	0	0
17	State and Local Taxes	0	0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	0	0
19	Other Taxes	2,402	3,277
20	<b>Total Operating Taxes (17+18+19)</b>	<b>2,402</b>	<b>3,277</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>1,756</b>	<b>(64,073)</b>
22	Interest on Funded Debt	0	0
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	<b>Total Fixed Charges (22+23+24+25)</b>	<b>0</b>	<b>0</b>
27	Nonoperating Net Income	0	7
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	14,441	11,674
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>16,197</b>	<b>(52,392)</b>
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	300,143	316,340
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	<b>Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))</b>	<b>316,340</b>	<b>263,948</b>
40	Patronage Capital Beginning-of-Year	0	0
41	Transfers to Patronage Capital	0	0
42	Patronage Capital Credits Retired	0	0
43	<b>Patronage Capital End-of-Year (40+41-42)</b>	<b>0</b>	<b>0</b>
44	Annual Debt Service Payments	0	0
45	Cash Ratio ((14+20-10-11)/7)	0.7689	1.9167
46	Operating Accrual Ratio ((14+20+26)/7)	0.9729	2.1545
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!

Footnote	2016	2017
(A1) S Corporation Effective Tax Rate (2 decimal places):	11.49%	11.01%

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

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

Company Name: (Below)  
 Hat Island Telephone Company

Line #	Description	Part 32 Account	Prior Year 2016	Current Year 2017
1	End User Revenue (SLC, ARC, etc.)	5081	7,205	5,635
2	Switched Access (excluding USF):	5082	933	1,749
2a	Intrastate		2,105	(3,516)
2b	Interstate (includes CAF)			
3	Special Access:	5083		
3a	Intrastate			
3b	Interstate		17,243	23,891
4	Federal USF (ICLS/HCL/SN)	Varies	11,408	7,661
5	Federal USF (ACAM or BLS)	Varies		
6	State USF	Varies	2,029	2,029
7	Other*	Varies		
8	Total (must equal line 2 of Income Stmt.)		40,923	37,449
9	Line 2 of Income Stmt.		40,923	37,449
10	Difference		0	0

Footnote:

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



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

Company Name: (Below)  
 Hat Island Telephone Company

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:				

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

Company Name:  
Hat Island Telephone Company

Line #	Source(A)	Net Operating Income Inputted FIT Calculation	2017	
1	Page 9, Line 21 (CY)	Adjusted Net Operating Income	(64,073)	(A)
2		Out-of-Period or Pro Forma Adjustments (Net of FIT)*		
3	Page 9, Line 26 (CY)	Total Fixed Charges	-	
4	Sum	Adj. Taxable Operating Income (Line 1 + Line 2 - Line 3)	(64,073)	
5		Inputted S Corp. Tax Rate(B)	11.01%	(B)
6	Calculated	inputted FIT (Line 4* Line 5)	(7,054)	
7	Sum	Adj. Net Operating Income after FIT (Lines 1 + 2 - 6)	(57,019)	
Line #	Source(A)	NonOperating Income Inputted FIT Calculation		
8	Page 9, Line 27 (CY)	Nonoperating net income	7	(C)
9	Page 9, Line 30 (CY)	Nonregulated net income	11,674	
10	Sum	Sub-Total (Line 27+Line 30)	11,681	
11		Inputted S Corp. Tax Rate(B)	11.01%	
12	Calculated	FIT (Line 10 * Line 11)	1,286	
13	Sum	Nonop/Nonreg income after FIT (Line 10 - Line 12)	10,395	
14	Sum	<b>Adjusted Net Income w/inputted FIT</b>	<b>(46,624)</b>	<b>(B)+(C)**</b>
Line #	Source(A)	Sanity Check:		
15	Page 9, Line 31 (CY)	Line 31 as reported	(52,392)	(D)**
16		Out-of-Period or Pro Forma Adjustments*	-	
17		Total	(52,392)	
18		Inverse of effective tax rate (100%-Line 10 percent)	88.99%	
19	Calculated	Adjusted Net Income (Line 17*Line 18)	<b>(46,624)</b>	
Line #	Source(A)	Regulated Rate of Return		
20	Page 5, Total (PY)	Regulated rate base Year End 2016	97,093	(E)
21	Page 5, Total (CY)	Regulated rate base Year End 2017	85,216	
22	Sum	Total	182,309	
23	Calculated	Simple Avg.	91,155	
24	Line 7 (above)	Adj Operating Income after inputted FIT	(57,019)	
27	Calculated	Regulated rate of return	-62.6%	(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

## **EXHIBIT 4.1**

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

Company Name: (Below)  
 Hat Island Telephone Company

Description	Prior Year End of Yr. Balance - 2016	Current Year End of Yr. Balance - 2017	Difference	% Change
<b>Broadband Connections:</b>				
Residential	51	58	7	13.7%
Business	3	6	3	100.0%
<b>Total</b>	<b>54</b>	<b>64</b>	<b>10</b>	<b>18.5%</b>
<b>Gross Regulated Capital Expenditures**:</b>	2016	2017	Difference	% Change
<b>Total Annual Amount</b>	\$0	\$0	\$0	#DIV/0!

**NOTE: IF THE COMPANY DESIRES TO FILE THIS SCHEDULE AS CONFIDENTIAL, PLEASE MARK AS CONFIDENTIAL PER 480-07-160. (The header and footer is no longer marked as confidential as some companies do not file this report as confidential).**

**\*\* - NOTE: THIS IS A CHANGE FROM LAST YEAR IN WHICH NONREGULATED CAPITAL EXPENDITURES WERE INCLUDED DUE TO INCONSISTENCIES IN REPORTING, STAFF IS REQUESTING ONLY REGULATED CAPITAL EXPENDITURES. IF THE COMPANY HAS INCURRED LARGE NONREGULATED CAPITAL EXPENDITURES IN THE REPORTING YEAR, IT MAY NOTE BELOW.**

## **EXHIBIT 5**

**HAT ISLAND TELEPHONE COMPANY**

Reviewed Financial Statements

December 31, 2017 and 2016

**HAT ISLAND TELEPHONE COMPANY**

Reviewed Financial Statements

December 31, 2017 and 2016

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

**REVIEWED FINANCIAL STATEMENTS**

Balance Sheets ..... 2

Statements of Operations ..... 3

Statements of Stockholder's Equity ..... 4

Statements of Cash Flows ..... 5

Notes to Financial Statements .....6-11



1501 Regents Blvd., Suite 100

Fircrest, WA 98466-6060

## Independent Accountant's Review Report

Board of Directors  
Hat Island Telephone Company  
Langley, Washington

We have reviewed the accompanying financial statements of Hat Island Telephone Company (an S Corporation) (the "Company"), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, stockholder's equity and cash flows for the years then ended, and the related notes to the 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 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 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 financial statements that are free from material misstatement 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 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 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

JOHNSON, STONE & PAGANO, P.S.

March 9, 2018

Petition of Hat Island Telephone  
Company to Receive Support  
From The State Universal Communications  
Services Program-Exhibit 5



REVIEWED FINANCIAL STATEMENTS

# HAT ISLAND TELEPHONE COMPANY

## BALANCE SHEETS

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 19,792	\$ 24,363
Telecommunications accounts receivable	887	1,353
Prepaid Expenses		190
Due from affiliated company	<u>163,450</u>	<u>195,256</u>
<b>Total Current Assets</b>	184,129	221,162
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Telecommunications plant in service	428,516	428,516
Less allowances for depreciation	<u>337,871</u>	<u>324,675</u>
<b>Total Telecommunications Plant</b>	<u>90,645</u>	<u>103,841</u>
<b>TOTAL ASSETS</b>	<u>\$ 274,774</u>	<u>\$ 325,003</u>
<b><u>LIABILITIES AND STOCKHOLDER'S EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 656	\$ 475
Customer prepayments	1,556	
Taxes, other than income taxes	3,069	2,721
Deferred revenue	<u>1,545</u>	<u>1,467</u>
<b>Total Current Liabilities</b>	6,826	4,663
<b>STOCKHOLDER'S EQUITY</b>		
Capital stock, par value \$10 per share; Authorized - 2,500 shares		
Issued and outstanding - 400 shares	4,000	4,000
Retained earnings	<u>263,948</u>	<u>316,340</u>
<b>Total Stockholder's Equity</b>	<u>267,948</u>	<u>320,340</u>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<u>\$ 274,774</u>	<u>\$ 325,003</u>

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

**HAT ISLAND TELEPHONE COMPANY**

**STATEMENTS OF OPERATIONS**

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Local network service revenues	\$ 15,876	\$ 20,327
Network access service revenues	37,449	40,923
Miscellaneous revenues	2,175	3,443
Other operating revenues	<u>35,379</u>	<u>28,504</u>
<b>Total Operating Revenues</b>	90,879	93,197
<b>OPERATING EXPENSES</b>		
Plant specific operations	16,768	15,316
Depreciation	13,196	13,195
Customer operations	7,155	6,143
Corporate operations	79,337	26,046
Other operating expenses	23,538	13,898
Taxes, other than income taxes	<u>3,277</u>	<u>2,402</u>
<b>Total Operating Expenses</b>	<u>143,271</u>	<u>77,000</u>
<b>NET INCOME (LOSS)</b>	<u>\$ (52,392)</u>	<u>\$ 16,197</u>

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

**HAT ISLAND TELEPHONE COMPANY**  
**STATEMENTS OF STOCKHOLDER'S EQUITY**  
Years Ended December 31, 2017 and 2016

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>BALANCE AT DECEMBER 31, 2015</b>	\$ 4,000	\$ 300,143	\$ 304,143
Net income	_____	<u>16,197</u>	<u>16,197</u>
<b>BALANCE AT DECEMBER 31, 2016</b>	4,000	316,340	320,340
Net loss	_____	<u>(52,392)</u>	<u>(52,392)</u>
<b>BALANCE AT DECEMBER 31, 2017</b>	\$ <u>4,000</u>	\$ <u>263,948</u>	\$ <u>267,948</u>

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

**HAT ISLAND TELEPHONE COMPANY**

**STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (52,392)	\$ 16,197
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation of telecommunications plant	13,196	13,195
(Increase) decrease in assets		
Telecommunications accounts receivable	466	991
Prepaid expenses	190	(190)
Due from affiliated company	31,806	(25,663)
Increase (decrease) in liabilities		
Accounts payable	181	(800)
Customer prepayments	1,556	
Taxes, other than income taxes	348	14
Deferred revenue	78	82
	<u>          </u>	<u>          </u>
<b>Net Cash Provided (Used) by Operating Activities</b>	(4,571)	3,826
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>24,363</u>	<u>20,537</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 19,792</u>	<u>\$ 24,363</u>

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

## HAT ISLAND TELEPHONE COMPANY

### NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

##### ***Telephone Industry***

Hat Island Telephone Company (the "Company") is a local exchange telecommunications company providing local exchange, other telecommunications services including digital subscriber lines and internet access services to customers in Hat Island, Washington.

The Company is a small rate-of-return carrier. The recent 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.

##### ***Accounting Records***

Accounting records are maintained in accordance with the Uniform System of Accounts ("USOA") prescribed by the FCC and, to the extent permitted by the USOA, accounting principles generally accepted in the United States of America. The accounting methods observed by the Company for book and recording purposes are subject to the concurrence of the Washington Utilities and Transportation Commission ("WUTC").

##### ***Cash and Cash Equivalents***

The Company considers funds held in checking accounts, demand deposits, and money market funds to be cash equivalents.

##### ***Accounting for Long-lived Assets***

The Company periodically reviews long-lived assets such as property, plant and equipment for potential 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.

##### ***Regulated Telecommunications Plant, Maintenance and Depreciation***

Regulated telecommunications plant is stated at original cost. The cost of additions to plant includes contracted work, direct labor, materials and overhead. When units of property are retired, the original cost plus removal costs, less salvage, is charged to accumulated depreciation with no gain or loss recognized. The costs of normal maintenance and repairs are charged to operating expense. Depreciation is computed using the straight-line method for financial reporting and accelerated methods for income tax purposes.

Petition of Hat Island Telephone  
Company to Receive Support  
From The State Universal Communications  
Services Program-Exhibit 5

# HAT ISLAND TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

#### *Revenue Recognition, Major Customers and Services*

Services provided by the Company include primarily local network, network access services, long distance access services, digital subscriber lines and broadband access services. In the normal course of the Company's business, certain 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.

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 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 HCL and Connect American Fund Broadband Loop Support. Included in the budget control mechanism were an operating expense limitation calculation and a capital expenditure allowance calculation, none of which impacted the Company.

# HAT ISLAND TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

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

As part of FCC 16-33 Universal Service Reform ("USF") 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. The Company will remain on 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.

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.

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 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. The Company received \$3,089 from the State USF Program for the period July 1, 2017 to June 30, 2018, and recorded deferred revenue of \$1,545 for the unearned portion. In 2016, the Company received \$2,934 from the State USF Program, for the period July 1, 2016 to June 30, 2017, and recorded deferred revenue of \$1,467 for the unearned portion. The State USF Program is scheduled to last for five program years.

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.

Petition of Hat Island Telephone  
Company to Receive Support  
From The State Universal Communications  
Services Program-Exhibit 5



## HAT ISLAND TELEPHONE COMPANY

### NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

##### *Federal Income Taxes*

The Company is a subchapter S corporation. Taxable earnings and losses of the Company are included in the tax return of the Company, amounts from which are then included in the tax return of the Company's stockholder and taxed at the applicable tax rate of the stockholder.

##### *Use of Estimates*

The preparation of 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 financial statements.

##### *Subsequent Events*

The management of the Company evaluated for subsequent events and transactions for potential recognition and disclosure through March 9, 2018, the date of completion of the accountant's review procedures. All identified material events or transactions have been recorded or disclosed.

#### **NOTE 2 - CONCENTRATION OF CREDIT RISK**

The Company maintains cash balances at two financial institutions in western Washington insured by the Federal Deposit Insurance Corporation up to \$250,000. The Company periodically maintains cash balances in excess of the federally insured limits. At December 31, 2017, the Company's cash balance did not exceed the insured amount.

In addition, at December 31, 2017, the Company has a total deposit of \$2,608 in money market funds with a broker-dealer. The funds are insured by the Securities Investor Protection Corporation up to \$500,000 for brokerage accounts with a limit of \$250,000 for claims of uninvested cash balances and additional brokerage insurance through the broker-dealer's underwriters as stated in the broker-dealer account agreement.

The Company's accounts receivable are subject to potential credit risk as they are unsecured.

**HAT ISLAND TELEPHONE COMPANY**

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

**NOTE 3 - TELECOMMUNICATIONS ACCOUNTS RECEIVABLE**

The telecommunications accounts receivable balances at December 31 consist of:

	<u>2017</u>	<u>2016</u>
Due from customers and agents	\$ 323	\$ 114
Due from exchange carriers and exchange carrier associations	<u>564</u>	<u>1,239</u>
	<u>\$ 887</u>	<u>\$ 1,353</u>

The Company extends credit to its business and residential customers based upon a written credit policy. Service interruption is the primary vehicle for controlling losses. Telecommunications accounts receivable are recorded when subscriber bills, carrier access bills and exchange carrier associations settlement statements are rendered. Certain exchange carrier associations' settlements are subject to out-of-period adjustments and are recorded during the year in which they become determinable. Telecommunications accounts receivable are written off when they are determined to be uncollectible. The Company believes no allowance for doubtful accounts is necessary at December 31, 2017 or 2016. As of December 31, 2017, there are no telecommunications accounts receivable that were outstanding ninety days or more after the date of the invoice on which they were first billed.

**NOTE 4 - PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION**

***Regulated Telecommunication Plant***

As required by the USOA, telecommunications plant is stated at its original cost, when first devoted to public service.

Major classes of the telecommunications plant assets in service as of December 31, 2017 and 2016 are:

	<u>2017</u>	<u>2016</u>
General support facilities	\$ 190,487	\$ 190,487
Central office equipment	62,824	62,824
Cable and wire facilities	<u>175,205</u>	<u>175,205</u>
	<u>\$ 428,516</u>	<u>\$ 428,516</u>

**HAT ISLAND TELEPHONE COMPANY**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 and 2016

**NOTE 4 - PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION**

(Continued)

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

General support facilities	
Buildings	2.61%
Tools and other work equipment	16.00%
Central office equipment	7.20%
Cable and wire facilities	3.10%

***Depreciation Expense***

The provisions for depreciation on telecommunications plant in service were \$13,196 and \$13,195 for years ending December 31, 2017 and 2016, respectively.

**NOTE 5 - DUE FROM AFFILIATED COMPANY**

Amounts due from affiliated company include amounts receivable from Whidbey Telephone Company ("Whidbey"). The amounts receivable from Whidbey are payments or advances made by the Company less the result of work performed by Whidbey's work crews on behalf of the Company. The amounts are unsecured, non-interest-bearing and are to be repaid by Whidbey in the ordinary course of business. At December 31, 2017 and 2016, the Company had made payments to Whidbey in excess of the amounts billed by Whidbey.

## **EXHIBIT 6**

**EXHIBIT 6  
RUS FORM 479**

**(3005b) Operating Report for Privately-Held Rate of Return Carriers  
Income Statement - Data Collection Form**

FCC Form 481  
OMB Control No. 3060-0986  
OMB Control No. 3060-0819

<010> Study Area Code 522417  
 <015> Study Area Name Hat Island  
 <020> Program Year 2019  
 <030> Contact Name - Person USAC should contact regarding this data Trish Mason  
 <035> Contact Telephone Number - Number of person identified in data line <030> 360-321-0013  
 <039> Contact Email Address - Email Address of person identified in data line <030> trish.mason@whidbeytel.com

PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS		
ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	20327	15876
2. Network Access Services Revenues	40923	37449
3. Long Distance Network Services Revenues		0
4. Carrier Billing and Collection Revenues	2183	916
5. Miscellaneous Revenues	1259	1259
6. Uncollectible Revenues	0	0
7. Net Operating Revenues (1 thru 5 less 6)	64692	55500
8. Plant Specific Operations Expense	15315	16768
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	0	0
10. Depreciation Expense	13195	13196
11. Amortization Expense	0	0
12. Customer Operations Expense	5993	7005
13. Corporate Operations Expense	26196	79487
14. Total Operating Expenses (8 thru 13)	60699	116456
15. Operating Income or Margins (7 less 14)	3993	-60956
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes		
19. Other Taxes	2402	3277
20. Total Operating Taxes (17+18+19)	2402	3277
21. Net Operating Income or Margins (15+16-20)	1591	-64233
22. Interest on Funded Debt		
23. Interest Expense - Capital Leases		
24. Other Interest Expense		
25. Allowance for Funds Used During Construction		
26. Total Fixed Charges (22+23+24-25)	0	0
27. Nonoperating Net Income		
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	14606	11834
31. Total Net Income or margins (21+27+28+29+30-26)	16197	-52392
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	300143	316340
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)		
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date	0	0
38. Transfers to Patronage Capital		
39. Retained Earnings or Margins end-of-Period [(31+33+34)-(35+36+37+38)]	316340	263948
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	
44. Annual Debt Service Payments		
45. Cash Ratio [(14+20-10-11)/7]		
46. Operating Accrual Ratio [(14+20+26)/7]		
47. TIER [(31+26)/26]		
48. DSCR [(31+26+10+11)/44]		

## **EXHIBIT 7**

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


If a Provider **HAD** corporate operations expense excluded (not allowed to recover) in 2017 or 2016 as calculated in the high cost loop support algorithm which, for 2016, was input in both the high cost loop support and interstate common line support cost studies, or which, for 2017, was input in both the high cost loop support and broadband loop support (in part, replacing common line support) cost studies, report the excluded expense.

The following amounts of corporate operations expense were required by 47 C.F.R. § 54.1308(a)(4)(ii) to be excluded by [Hat Island Telephone] (“Company”) from corporate operations expense that, for 2016, was input in both the Federal 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: for 2016, \$ Ø; for 2017, \$ Ø.

**[OR]**

I, **Gary Ricketts**, an officer of **Hat Island Telephone Company** 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 [Hat Island Telephone Company] (“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 **1st day of August**, 2018

  
Secretary / Treasurer

**Notes:**

1. Report corporate operations expense excluded or disallowed pursuant to application of 47 C.F.R. § 54.1308(a)(4)(ii), NOT the revenue impact of such exclusion or disallowance.
2. The disallowed corporate operations expense amounts will only be considered by Staff if the Company is potentially overearning. These amounts WILL NOT be reported on the income statement template.

## **EXHIBIT 8**




EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

I, Gary Ricketts, an officer of Hat Island Telephone Company with personal knowledge and responsibility, based upon my discussions with Company staff that handle such matters, under penalty of perjury, state that the Company complies with state and federal accounting, cost allocation and cost adjustment rules pertaining to incumbent local exchange companies.

Dated this 1<sup>st</sup> day of August, 2018.

A handwritten signature in black ink, appearing to read "Gary Ricketts", written over a horizontal line.

Gary Ricketts  
Secretary/Treasurer

## **EXHIBIT 9**

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Gary Ricketts, an officer of Hat Island Telephone 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 this 1st day of August, 2018.



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Gary Ricketts  
Secretary/Treasurer