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

8 IN RE

9
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, 2020.

19
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. ¹
- 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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16 **II. Demonstration of Eligibility under WAC 480-123-110**

- 17 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.
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22 ¹ On April 15, 2019, the FCC released a Report and Order (FCC 19-32) in its WC Docket No. 10-90,
23 repealing 47 C.F.R. Sec. 54.318 and eliminating the national local urban rate floor, effective June 6, 2019.
24 The Program was designed with a minimum rate floor component. In light of the FCC's Order (FCC 19-32),
25 Commission Staff has provided guidance that, for purposes of the Program, the local urban rate floor
26 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.

- 1 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between
2 the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.
3 A detailed description of any transactions between the Company and the affiliates named in
4 Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.
- 5 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No.
6 19 of the Company's Tariff WN U-1.
- 7 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate
8 instability or service interruption or cessation in the absence of support from the Program is
9 attached as Exhibit 3.
- 10 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,
11 are copies of the Company's balance sheet as of December 31, 2018, and December 31,
12 2017, and copies of the Company's statements of income and retained earnings or margin for
13 the years ended December 31, 2018 and December 31, 2017.
- 14 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial
15 statements for the years ended December 31, 2018 and December 31, 2017, are attached as
16 Exhibit 5.
- 17 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of
18 return on a total Washington unseparated regulated operations basis for each of the two prior
19 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
- 20 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on
21 equity on a total company (regulated and non-regulated) Washington basis for each of the
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1 two prior years, calculated in the manner prescribed by the Commission, is provided in
2 Exhibit 5.

3 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the
4 statements of income and retained earnings or margin in the same format and detail as is
5 required to complete RUS Form 479 for the prior two years is presented on Exhibit 6.

6
7 10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company officer
8 with personal knowledge and responsibility certifying that no corporate operations
9 adjustment to existing high-cost loop and interstate common line support mechanisms
10 required by the Federal Communications Commission applied to the Company for the two
11 prior years is attached hereto as Exhibit 7. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains
12 additional supporting information requested by the Commission.

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

17
18 12. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or
19 on its behalf with the Federal Communications Commission for the calendar year preceding
20 the current year has already been filed with the Commission. See the Company's filing in
21 Docket No. UT-190005 filed on or about July 1, 2019.

22 13. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by
23 the Company as of December 31, 2018, was 27 all of which were within the geographic area
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1 for which the Company is seeking support. The number of residential local exchange access
2 lines served by the Company as of December 31, 2017, was 31, all of which were within the
3 geographic area for which the Company is seeking support.

4 The number of business local exchange access lines served by the Company as of December
5 31, 2018, was 11, all of which were within the geographic area for which the Company is
6 seeking support. The number of business local exchange access lines served by the
7 Company as of December 31, 2017, was 11, all of which were within the geographic area
8 for which the Company is seeking support.

9
10 The monthly recurring rate charged by the Company for residential local exchange access
11 service on December 31, 2018, was \$18.00. The monthly recurring rate charged by the
12 Company for residential local exchange access service on December 31, 2017, was \$18.00.

13 The rate charged by the Company for single line business local exchange access service on
14 December 31, 2018, was \$25.00. The rate charged by the Company for single line business
15 local exchange access service on December 31, 2017, was \$25.00. (The Company has
16 other business local exchange service rates, but the Company understands that WAC 480-
17 123-110(1)(g) is requesting the single line business local exchange access service rate.)

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

20 15. The amount on Line 4, labeled 2011 ROR Carrier Base Period Revenue, of the CAF ICC
21 Data collection Report for the period 7/1/2019 - 6/30/2020 is \$4001 and has not changed
22 from the last filing

23
24 16. All exhibits attached hereto are incorporated in this Petition as though fully set forth.

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2 Respectfully submitted this 1st day of August, 2019.
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8 CERTIFICATION

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

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15 By: Gary Ricketts
16 Title: Secretary/Treasurer
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EXHIBIT 1

EXHIBIT 1
CORPORATE ORGANIZATION CHART

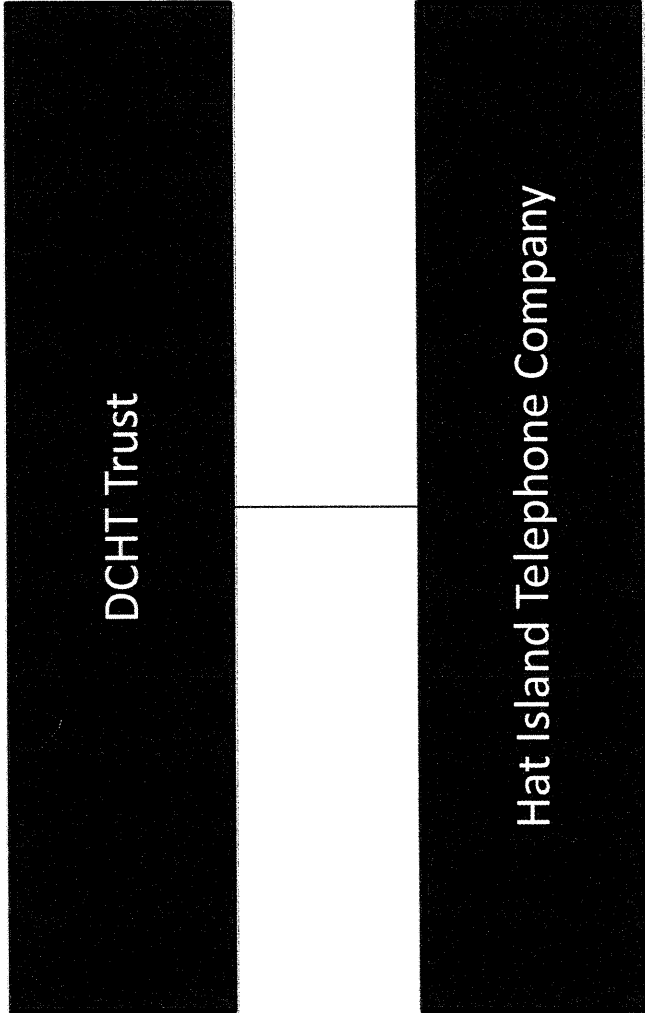


EXHIBIT 2

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 \$14,058 during the period January 1, 2011 through December 31, 2018.

The overall financial condition of the Company is detailed on other Exhibits to this Petition. The Company has looked for ways to lower expenses.

The Company is also 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-until that rate floor was eliminated in 2019. 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.¹ The

¹ *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform - Mobility Fun*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011)(USF/ICC Transformation Order).

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

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.

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 2017 (A)	Part 64 Adj to NonReg 2017 (B)	Adj. Balance End of Year 2017 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2017 (A)	Part 64 Adj to NonReg 2017 (B)	Adj. Balance End of Year 2017 (C)
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	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			
a. Telecom, Accounts Receivable			0	28. Customer Deposits	1,556		1,556
b. Other Accounts Receivable	163,450		163,450	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	887		887	32. Income Taxes Accrued	0		0
b. Other Accounts Receivable			0	33. Other Taxes Accrued	3,069		3,069
c. Notes Receivable			0	34. Other Current Liabilities			
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	5,281	0	5,281
6. Material-Regulated			0	LONG-TERM DEBT			
7. Material-Nonregulated			0	36. Funded Debt-RUS Notes	0		0
8. Prepayments			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)	184,129	0	184,129	39. Funded Debt-Other	0		0
				40. Funded Debt-Rural Develop. Loan	0		0
NONCURRENT ASSETS				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	OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)			0	47. Other Long-Term Liabilities			
14. Other Noncurrent Assets			0	48. Deferred Income Taxes	1,545	(5,429)	(5,429)
15. Deferred Charges			0	49. Other Deferred Credits (D)	0	(1,545)	(1,545)
16. Jurisdictional Differences			0	50. Other Jurisdictional Differences	0		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)
PLANT, PROPERTY AND EQUIPMENT				EQUITY			
18. Telecom Plant-in-Service	428,516		428,516	52. Cap. Stock Outstanding & Subscribed	4,000		4,000
19. Property Held for Future Use			0	53. Additional Paid-in-Capital	0		0
20. Plant Under Construction			0	54. Treasury Stock	0		0
21. Plant Adj., Nonop Plant & Goodwill			0	55. Membership and cap. Certificates	0		0
22. Accumulated Depreciation (CR.)	(337,871)		(337,871)	56. Other Capital	0		0
23. Net Plant (18 thru 21 less 22)	90,645	0	90,645	57. Patronage Capital Credits	0		0
				58. Retained Earnings or Margins (B2)	263,948	6,974	270,922
				59. Total Equity (52 thru 58)	267,948	6,974	274,922
24. TOTAL ASSETS (10+17+23)	274,774	0	274,774	60. TOTAL LIABILITIES AND EQUITY (B5+46+51+59)	274,774	0	274,774

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)
Current Year Balance Sheet

Company Name: (Below)
Hat Island Telephone Company

ASSETS	Balance End of Year 2018 (A)	Part 64 Adj to NonReg 2018 (B)	Adj. Balance End of Year 2018 (C)	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 ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	43,392		43,392	25. Accounts Payable	4,168		4,168
2. Cash-RUS Construction Fund			0	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments	1,458		1,458
a. Telecom, Accounts Receivable			0	28. Customer Deposits	0		0
b. Other Accounts Receivable	108,574		108,574	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	3,510		3,510	32. Income Taxes Accrued	3,136		3,136
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)	8,762	0	8,762
6. Material-Regulated			0	LONG-TERM DEBT			
7. Material-Nonregulated			0	36. Funded Debt-RUS Notes	0		0
8. Prepayments			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)	155,476	0	155,476	39. Funded Debt-Other	0		0
				40. Funded Debt-Rural Develop. Loan	0		0
NONCURRENT ASSETS				41. Premium (Discount) on L/T Debt	0		0
11. Investment in Affiliated Companies				42. Recquired 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	0
a. Rural Development			0	46. Total Long-Term Debt (36 thru 45)			
b. Nonrural Development			0	OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)			0	47. Other Long-Term Liabilities	0		0
14. Other Noncurrent Assets			0	48. Deferred Income Taxes	1,618		1,618
15. Deferred Charges			0	49. Other Deferred Credits (D)			
16. Jurisdictional Differences			0	50. Other Jurisdictional Differences			
17. Total noncurrent Assets (11 thru 16)	0	0	0	51. Total Other Liab. & Def. Credits (47 thru 50)	1,618	0	1,618
				EQUITY			
PLANT, PROPERTY AND EQUIPMENT				52. Cap. Stock Outstanding & Subscribed	4,000		4,000
18. Telecom Plant-in-Service	431,387		431,387	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.)	(351,066)		(351,066)	57. Patronage Capital Credits	0		0
23. Net Plant (18 thru 21 less 22)	80,321	0	80,321	58. Retained Earnings or Margins (B2)	221,417	0	221,417
				59. Total Equity (52 thru 58)	225,417	-	225,417
24. TOTAL ASSETS (10+17+23)	235,797	0	235,797	60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	235,797	0	235,797

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)
Hat Island Telephone Company

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	19,792	43,392	25. Accounts Payable	656	4,168
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	1,556	1,458
b. Other Accounts Receivable	163,450	108,574	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	887	3,510	32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	0	0	33. Other Taxes Accrued	3,069	3,136
c. Notes Receivable	0	0	34. Other Current Liabilities	0	0
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	5,281	8,762
6. Material-Regulated	0	0	LONG-TERM DEBT		
7. Material-Nonregulated	0	0	36. Funded Debt-RUS Notes	0	0
8. Prepayments	0	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)	184,129	155,476	39. Funded Debt-Other	0	0
			40. Funded Debt-Rural Develop. Loan	0	0
NONCURRENT ASSETS			41. Premium (Discount) on L/T Debt	0	0
11. Investment in Affiliated Companies			42. Reacquired Debt	0	0
a. Rural Development	0	0	43. Obligations Under Capital Lease	0	0
b. Nonrural Development	0	0	44. Adv. From Affiliated Companies	0	0
12. Other Investments			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	OTHER LIAB. & DEF. CREDITS		
13. Nonregulated Investments	0	0	47. Other Long-Term Liabilities	0	0
14. Other Noncurrent Assets	0	0	48. Deferred Income Taxes	(5,429)	0
15. Deferred Charges	0	0	49. Other Deferred Credits	0	1,618
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)	(5,429)	1,618
			EQUITY		
PLANT, PROPERTY AND EQUIPMENT			52. Cap. Stock Outstanding & Subscribed	4,000	4,000
18. Telecom Plant-in-Service	428,516	431,387	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.)	(337,871)	(351,066)	57. Patronage Capital Credits	0	0
23. Net Plant (18 thru 21 less 22)	90,645	80,321	58. Retained Earnings or Margins	270,922	221,417
			59. Total Equity (51 thru 57)	274,922	225,417
24. TOTAL ASSETS (10+17+23)	274,774	235,797	60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	274,774	235,797

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)
 Hat Island Telephone Company

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	428,516	431,387	429,952
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(337,871)	(351,066)	(344,469)
4	Total Regulated Materials & Supplies	6	0	0	0
5	Deferred Income Taxes (CR)*		(5,429)	(3,372)	(4,401)
6	Total Regulated Rate Base		85,216	76,949	81,083

Footnotes:

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

*

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

Company Name: (Below)
Hat Island Telephone Company

Line #	Description	Prior Year End of Yr. Balance - 2017	Current Year End of Yr. Balance - 2018	Difference	% Change
Access Lines:					
1	Residential	31	25	(6)	-19.4%
2	Business	11	11	0	0.0%
3	Total	42	36	(6)	-14.3%

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)
 Hat Island Telephone Company

Line #	Description	Prior Year 2017 (A)	Part 64 Adj. to NonReg (B)	Prior 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	Net Operating Revenues (1 thru 6)	55,500	0	55,500
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	Total Operations Expenses (8 thru 13)	116,456	(160)	116,296
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	Total Operating Taxes (17+18+19)	3,277	0	3,277
21	Net Operating Income or Margins (15+16-20)	(64,233)	160	(64,073)
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	Total Fixed Charges (22+23+24+25)	0	0	0
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	Total Net Income or Margins (21+27+28+29+30-26)	(52,392)	0	(52,392)
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	Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38))(A2)	263,948	0	263,948
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			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 2, Balance Sheet
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Column B, automatic offset to Nonregulated Net Income (No Impact to retained earnings)

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

Company Name: (Below)
Hat Island Telephone Company

Line #	Description	Current Year 2018 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2018 (C)
1	Local Network Services Revenues	14,093		14,093
2	Network Access Services Revenues	68,286		68,286
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	747		747
5	Miscellaneous Revenues	1,278		1,278
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(322)		(322)
7	Net Operating Revenues (1 thru 6)	84,081	0	84,081
8	Plant Specific Operations Expense	12,804		12,804
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	7,119	2,351	9,470
13	Corporate Operations	98,273	(3,001)	95,272
14	Total Operations Expenses (8 thru 13)	131,392	(650)	130,742
15	Operating Income or Margins (7 less 14)	(47,311)	650	(46,661)
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	2,558		2,558
20	Total Operating Taxes (17+18+19)	2,558	0	2,558
21	Net Operating Income or Margins (15+16-20)	(49,869)	650	(49,219)
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	Total Fixed Charges (22+23+24+25)	0	0	0
27	Nonoperating Net Income	32		32
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	7,306	(650)	6,656
31	Total Net Income or Margins (21+27+28+29+30-26)	(42,531)	0	(42,531)
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	263,948		263,948
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)			0
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38))(A2)	221,417	0	221,417
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			0
45	Cash Ratio ((14+20-10-11)/7)	1.4362	#DIV/0!	1.4284
46	Operating Accrual Ratio ((14+20+26)/7)	1.5931	#DIV/0!	1.5854
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 and Current Year Income Statement

Company Name: (Below)
 Hat Island Telephone Company

Line #	Description	Adjusted Prior Year 2017	Adjusted Current Year 2018
1	Local Network Services Revenues	15,876	14,093
2	Network Access Services Revenues	37,449	68,286
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	916	747
5	Miscellaneous Revenues	1,259	1,278
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	0	(322)
7	Net Operating Revenues (1 thru 6)	55,500	84,081
8	Plant Specific Operations Expense	16,768	12,804
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	9,143	9,470
13	Corporate Operations	77,189	95,272
14	Total Operations Expenses (8 thru 13)	116,296	130,742
15	Operating Income or Margins (7 less 14)	(60,796)	(46,661)
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	3,277	2,558
20	Total Operating Taxes (17+18+19)	3,277	2,558
21	Net Operating Income or Margins (15+16-20)	(64,073)	(49,219)
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	Total Fixed Charges (22+23+24+25)	0	0
27	Nonoperating Net Income	7	32
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	11,674	6,656
31	Total Net Income or Margins (21+27+28+29+30-26)	(52,392)	(42,531)
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	316,340	263,948
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	0	0
36	Dividends Declared (Preferred)	0	0
37	Other Debits Year-to-Date	0	0
38	Transfers to Patronage Capital	0	0
39	Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))	263,948	221,417
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	0	0
45	Cash Ratio ((14+20-10-11)/7)	1.9167	1.4284
46	Operating Accrual Ratio ((14+20+26)/7)	2.1545	1.5854
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!

Footnote	2017	2018
(A1) S Corporation Effective Tax Rate (2 decimal places):	11.01%	8.00%

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

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

Company Name: (Below)
Hat Island Telephone Company

Line #	Description	Part 32 Account	Prior Year 2017	Current Year 2018
1	End User Revenue (SIC, ARC, etc.)	5081	5,635	4,457
2	Switched Access (excluding USF):			
2a	Intrastate	5082	1,749	634
2b	Interstate (includes CAF)		(3,516)	20,417
3	Special Access:	5083		
3a	Intrastate			
3b	Interstate		23,891	38,823
4	Federal USF (ICLS/HCL/SN)	Varies	7,661	792
5	Federal USF (ACAM or BLS)	Varies		
6	State USF	Varies	2,029	3,163
7	Other*	Varies		
8	Total (must equal line 2 of income Stmt.)		37,449	68,286
9	Line 2 of income Stmt.		37,449	68,286
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)
 Out-of-Period and Pro Forma Adjustments

Company Name: (Below)
 Hat Island Telephone Company

Description of Out-of-Period - 2018 (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)
Rate of Return and Consolidated Return on Equity

Company Name:
Hat Island Telephone Company

Line #	Source(A)	Net Operating Income Inputted FIT Calculation	2018	
1	Page 9, Line 21 (CY)	Adjusted Net Operating Income	(49,219)	(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)	(49,219)	
5		Inputted S Corp. Tax Rate(B)	8.00%	
6	Calculated	inputted FIT (Line 4* Line 5)	(3,938)	
7	Sum	Adj. Net Operating Income after FIT (Lines 1 + 2 - 6)	(45,282)	(B)
NonOperating Income Inputted FIT Calculation				
Line #	Source(A)	NonOperating Income Inputted FIT Calculation		
8	Page 9, Line 27 (CY)	Nonoperating net income	32	(C)
9	Page 9, Line 30 (CY)	Nonregulated net income	6,656	
10	Sum	Sub-Total (Line 27+Line 30)	6,688	
11		Inputted S Corp. Tax Rate(B)	8.00%	
12	Calculated	FIT (Line 10 * Line 11)	535	
13	Sum	Nonop/Nonreg income after FIT (Line 10 - Line 12)	6,153	
14	Sum	Adjusted Net Income w/inputted FIT	(39,129)	(B)+(C)**
Sanity Check:				
Line #	Source(A)	Sanity Check:		
15	Page 9, Line 31 (CY)	Line 31 as reported	(42,531)	(D)**
16		Out-of-Period or Pro Forma Adjustments*	-	
17		Total	(42,531)	
18		Inverse of effective tax rate (100%-Line 10 percent)	92.00%	
19	Calculated	Adjusted Net Income (Line 17*Line 18)	(39,129)	
Regulated Rate of Return				
Line #	Source(A)	Regulated Rate of Return		
20	Page 5, Total (PY)	Regulated rate base Year End 2017	85,216	(E)
21	Page 5, Total (CY)	Regulated rate base Year End 2018	76,949	
22	Sum	Total	162,165	
23	Calculated	Simple Avg.	81,083	
24	Line 7 (above)	Adj Operating Income after inputted FIT	(45,282)	
27	Calculated	Regulated rate of return	-55.8%	(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 - 2017	Current Year End of Yr. Balance - 2018	Difference	% Change
Broadband Connections:				
Residential				
Business				
Total				
Gross Regulated Capital Expenditures**:	2017	2018	Difference	% Change
Total Annual Amount				

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.

PETITION OF HAT ISLAND TELEPHONE COMPANY TO RECEIVE
 SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS
 SERVICES PROGRAM- EXHIBIT 4.1

EXHIBIT 5

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

HAT ISLAND TELEPHONE COMPANY

Reviewed Financial Statements

December 31, 2018 and 2017

HAT ISLAND TELEPHONE COMPANY

Reviewed Financial Statements

December 31, 2018 and 2017

INDEPENDENT ACCOUNTANT'S REVIEW REPORT1

REVIEWED FINANCIAL STATEMENTS

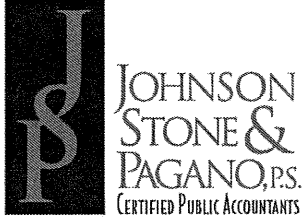
Balance Sheets2

Statements of Operations3

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

Statements of Cash Flows5

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, 2018 and 2017, 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

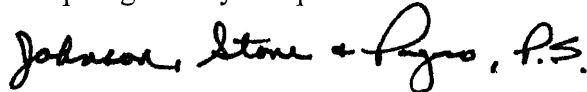
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair 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 8, 2019

PETITION OF HAT ISLAND TELEPHONE COMPANY TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -
EXHIBIT 5, PAGE - 3

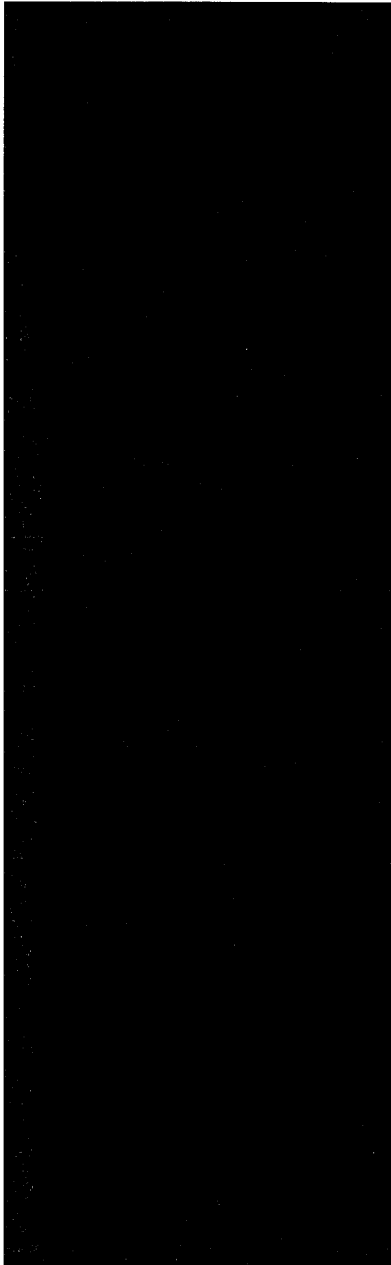
REVIEWED FINANCIAL STATEMENTS

HAT ISLAND TELEPHONE COMPANY

BALANCE SHEETS

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents		
Telecommunications accounts receivable		
Due from affiliated company		
Total Current Assets		
PROPERTY, PLANT AND EQUIPMENT		
Telecommunications plant in service		
Less allowances for depreciation		
Total Telecommunications Plant		
TOTAL ASSETS		
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable		
Customer prepayments		
Taxes, other than income taxes		
Deferred revenue		
Total Current Liabilities		
STOCKHOLDER'S EQUITY		
Capital stock, par value ■ per share;		
Authorized - ■ shares		
Issued and outstanding - ■ shares		
Retained earnings		
Total Stockholder's Equity		
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY		



PETITION OF HAT ISLAND TELEPHONE COMPANY TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -
EXHIBIT 5, PAGE - 5

REDACTED

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

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

HAT ISLAND TELEPHONE COMPANY

STATEMENTS OF OPERATIONS

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Local network service revenues		
Network access service revenues		
Miscellaneous revenues		
Other operating revenues		
Uncollectible revenues		
Total Operating Revenues		
OPERATING EXPENSES		
Plant specific operations		
Depreciation		
Customer operations		
Corporate operations		
Other operating expenses		
Taxes, other than income taxes		
Total Operating Expenses		
NET LOSS		

PETITION OF HAT ISLAND TELEPHONE COMPANY TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -
EXHIBIT 5, PAGE - 6

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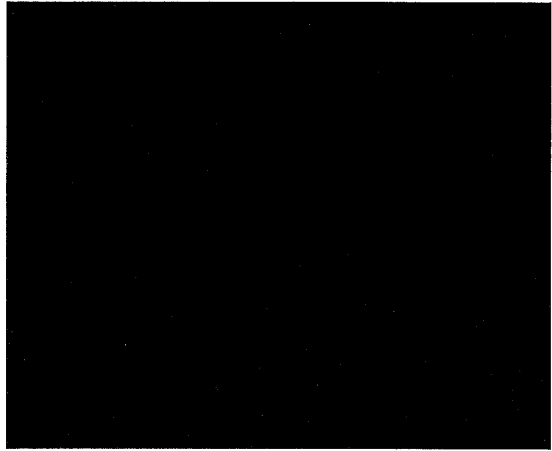
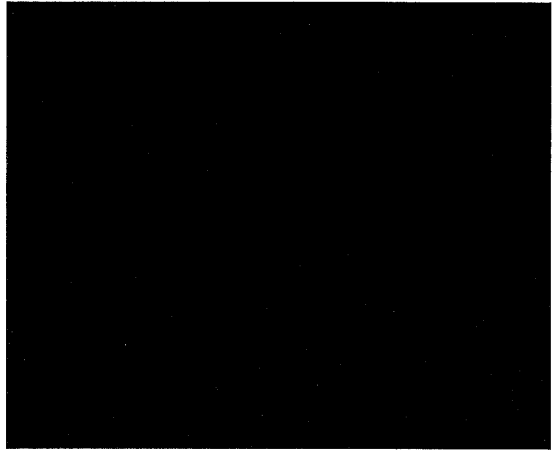
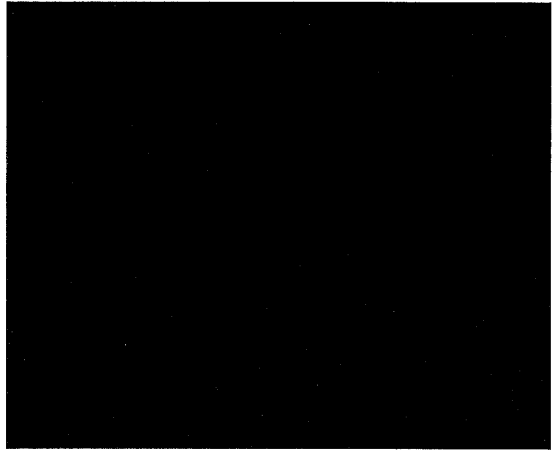
See independent accountant's review report and accompanying notes to financial statements.

Shaded Information is Designated as
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HAT ISLAND TELEPHONE COMPANY

STATEMENTS OF STOCKHOLDER'S EQUITY

Years Ended December 31, 2018 and 2017

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
BALANCE AT DECEMBER 31, 2016			
Net loss			
BALANCE AT DECEMBER 31, 2017			
Net loss			
BALANCE AT DECEMBER 31, 2018			

PETITION OF HAT ISLAND TELEPHONE COMPANY TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -
EXHIBIT 5, PAGE - 7

REDACTED

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

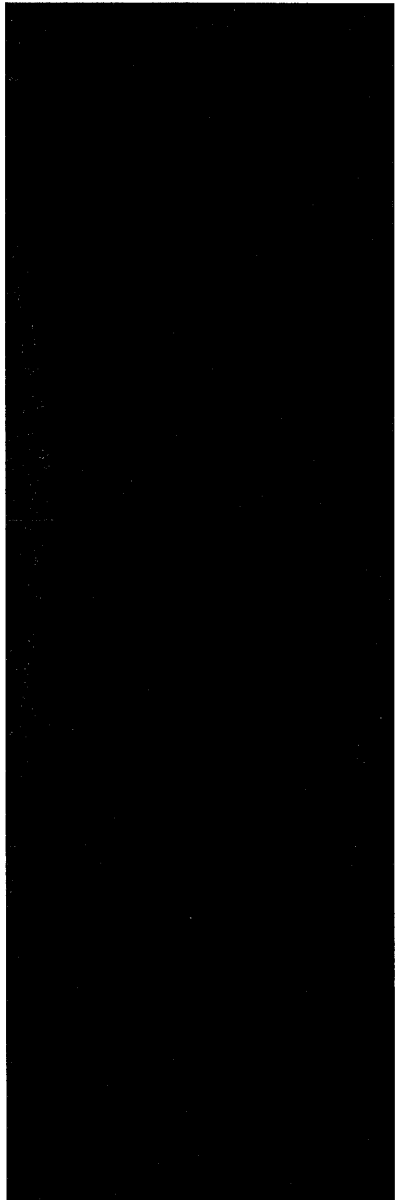
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HAT ISLAND TELEPHONE COMPANY

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss		
Adjustments to reconcile net loss to net cash provided (used) by operating activities		
Depreciation of telecommunications plant		
(Increase) decrease in assets		
Telecommunications accounts receivable		
Prepaid expenses		
Due from affiliated company		
Increase (decrease) in liabilities		
Accounts payable		
Customer prepayments		
Taxes, other than income taxes		
Deferred revenue		
Net Cash Provided (Used) by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment		
Net Cash Used by Investing Activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents at Beginning of Year		
CASH AND CASH EQUIVALENTS AT END OF YEAR		



PETITION OF HAT ISLAND TELEPHONE COMPANY TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -
EXHIBIT 5, PAGE - 8

REDACTED

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

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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 and 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 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.

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.

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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 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 ("BCM") for rate-of-return telecommunication carriers designed to ensure that federal support disbursements remain within the specified budget of \$2 billion. This BCM further reduces HCL and Connect American Fund Broadband Loop Support.

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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 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 to begin implementation February 1, 2017. The Company remains on 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.

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. In 2018, the Company received \$3,236 from the State USF

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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

Revenue Recognition, Major Customers and Services (Continued)

Program for the period July 1, 2018 to June 30, 2019, and recorded deferred revenue of \$1,618 for the unearned portion. In 2017, 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. 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 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 8, 2019, the date of completion of the accountant's review procedures.

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, 2018, the Company's cash balance did not exceed the insured amount.

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 2 - CONCENTRATION OF CREDIT RISK (Continued)

In addition, at December 31, 2018, the Company has a total deposit of [REDACTED] 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.

NOTE 3 - TELECOMMUNICATIONS ACCOUNTS RECEIVABLE

The telecommunications accounts receivable balances at December 31 consist of:

	<u>2018</u>	<u>2017</u>
Due from customers and agents	[REDACTED]	[REDACTED]
Due from exchange carriers and exchange carrier associations	[REDACTED]	[REDACTED]

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, 2018 or 2017. As of December 31, 2018, 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.

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS


December 31, 2018 and 2017

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION
(Continued)


Major classes of the telecommunications plant assets in service as of December 31, 2018 and 2017 are:

	<u>2018</u>	<u>2017</u>
General support facilities		
Central office equipment		
Cable and wire facilities		

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

General support facilities	
Buildings	
Tools and other work equipment	
Central office equipment	
Cable and wire facilities	

Depreciation Expense

The provision for depreciation on telecommunications plant in service was  for the years ending December 31, 2018 and 2017.

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, 2018 and 2017, the Company had made payments to Whidbey in excess of the amounts billed by Whidbey.

EXHIBIT 6

<010> Study Area Code
 <015> Study Area Name
 <020> Program Year
 <030> Contact Name - Person USAC should contact regarding this data
 <035> Contact Telephone Number - Number of person identified in data line <030>
 <039> Contact Telephone Email Address - Email Address of person identified in data line <030>

<010> 522417
 <015> Hat Island Telephone Company
 <020> 2020
 <030> Gary Ricketts
 <035> 360-321-0051
 <039> gary.ricketts@whidbeytel.com

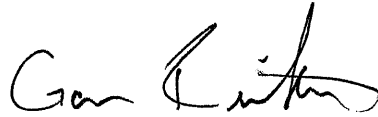
PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS		
ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	15876	14093
2. Network Access Services Revenues	37449	68286
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues	916	747
5. Miscellaneous Revenues	1259	1278
6. Uncollectible Revenues		322
7. Net Operating Revenues (1 thru 5 less 6)	55500	84082
8. Plant Specific Operations Expense	16768	12804
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)		
10. Depreciation Expense	13196	13196
11. Amortization Expense		
12. Customer Operations Expense	7005	7119
13. Corporate Operations Expense	79487	98273
14. Total Operating Expenses (8 thru 13)	116456	131392
15. Operating Income or Margins (7 less 14)	-60956	-47310
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes		
19. Other Taxes	3277	2558
20. Total Operating Taxes (17+18+19)	3277	2558
21. Net Operating Income or Margins (15+16-20)	-64233	-49868
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	7	31
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	11834	7306
31. Total Net Income or margins (21+27+28+29+30-26)	-52392	-42531
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	316340	263948
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)		
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date		
38. Transfers to Patronage Capital		
39. Retained Earnings or Margins end-of-Period ((31+33+34)-(35+36+37+38))	263948	221417
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		
45. Cash Ratio [(14+20-10-11)/7]	1.92	1.44
46. Operating Accrual Ratio [(14+20+26)/7]	2.16	1.59
47. TIER [(31+26)/26]	0.00	0.00
48. DSCR [(31+26+10+11)/44]	0.00	0.00

EXHIBIT 7

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

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 2017, 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 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 **1st day of August**, 2019



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 1st day of August, 2019.

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 2020.

Dated this 1st day of August, 2019.

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

Gary Ricketts
Secretary & Treasurer