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

8 IN RE

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

DOCKET NO.
PETITION FOR SUPPORT

13 COMES NOW Hat Island Telephone Company (the "Company") and, pursuant to Chapter
14 480-123 of the Washington Administrative Code ("WAC") including, but not limited to, WAC 480-
15 123-110, hereby petitions the Washington Utilities and Transportation Commission (the
16 "Commission") to receive support from the State Universal Communications Services Program
17 established in RCW 80.36.650 (the "Program") for the Program year 2016.
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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.
23 2. WAC 480-123-100(1)(b): The Company is an incumbent local exchange carrier as defined
24 in 47 U.S.C. Sec. 251(h)
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26 PETITION OF HAT ISLAND TELEPHONE
COMPANY TO RECEIVE SUPPORT
FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES
PROGRAM - 1

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

- 14 1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications
15 services and is seeking Program support is as follows: Hat Island Telephone Company.
- 16 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between
17 the Company and all affiliates as defined in RCW 80.16.010, except individual officers and
18 directors, is attached hereto as Exhibit 1. A detailed description of any transactions between
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1 the Company and the affiliates named in Exhibit 1, as well as officers and directors of the
2 Company,¹ recorded in the Company's operating accounts is attached hereto as Exhibit 2.

- 3 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No.
4 19 of the Company's Tariff WN U-1.
- 5 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate
6 instability or service interruption or cessation in the absence of support from the Program is
7 attached hereto as Exhibit 3.
- 8 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached hereto as
9 Exhibit 4, are copies of the Company's balance sheet as of December 31, 2014, and
10 December 31, 2013, and copies of the Company's statements of income and retained
11 earnings or margin for the years ended December 31, 2014 and December 31, 2013.
- 12 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial
13 statements for the years ended December 31, 2014 and December 31, 2013, is attached
14 hereto as Exhibit 5.
- 15 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of
16 return on a total Washington unseparated regulated operations basis for each of the two prior
17 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
- 18 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on
19 equity on a total company (regulated and non-regulated) Washington basis for each of the
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24 ¹ Pursuant to agreement with the Commission Staff, Exhibit 2 is limited to transactions other than
25 employment compensation and benefits pursuant to employee benefit plans.

1 two prior years, calculated in the manner prescribed by the Commission, is provided in
2 Exhibit 4.

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 attached hereto.

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

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

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

20 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or
21 on its behalf with the Federal Communications Commission for the calendar year preceding
22 the current year has already been filed with the Commission. See the Company's filing in
23 Docket No. UT-150063 filed on or about July 1, 2015.
24

1 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by
2 the Company as of December 31, 2014, was 57, all of which were within the geographic
3 area for which the Company is seeking support. The number of residential local exchange
4 access lines served by the Company as of December 31, 2013, was 54, all of which were
5 within the geographic area for which the Company is seeking support. The number of
6 business local exchange access lines served by the Company as of December 31, 2014, was
7 11, all of which were within the geographic area for which the Company is seeking support.
8 The number of business local exchange access lines served by the Company as of December
9 31, 2013, was 11, all of which were within the geographic area for which the Company is
10 seeking support. The monthly recurring rate charged by the Company for residential local
11 exchange access service on December 31, 2014, was \$16.00. The monthly recurring rate
12 charged by the Company for residential local exchange access service on December 31,
13 2013, was \$15.00. The rate charged by the Company for single line business local exchange
14 access service on December 31, 2014, was \$25.00. The rate charged by the Company for
15 single line business local exchange access service on December 31, 2013, was \$25.00. (The
16 Company has other business local exchange service rates, but the Company understands that
17 WAC 480-123-110(1)(g) is requesting the single line business local exchange access service
18 rate.)
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21 15. WAC 480-123-110(1)(h): The specified statement is attached hereto as Exhibit 9.
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1 16. All exhibits attached hereto are incorporated in this Petition as though fully set forth.

2 Respectfully submitted this 30th day of July, 2015.

3
4 HAT ISLAND TELEPHONE COMPANY

5
6 CERTIFICATION

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

11 Dated at Langley, Washington this 30th day of July, 2015.

12
13 By:  _____

14 Title: Chief Operating Officer

EXHIBIT 1
CORPORATE ORGANIZATION CHART

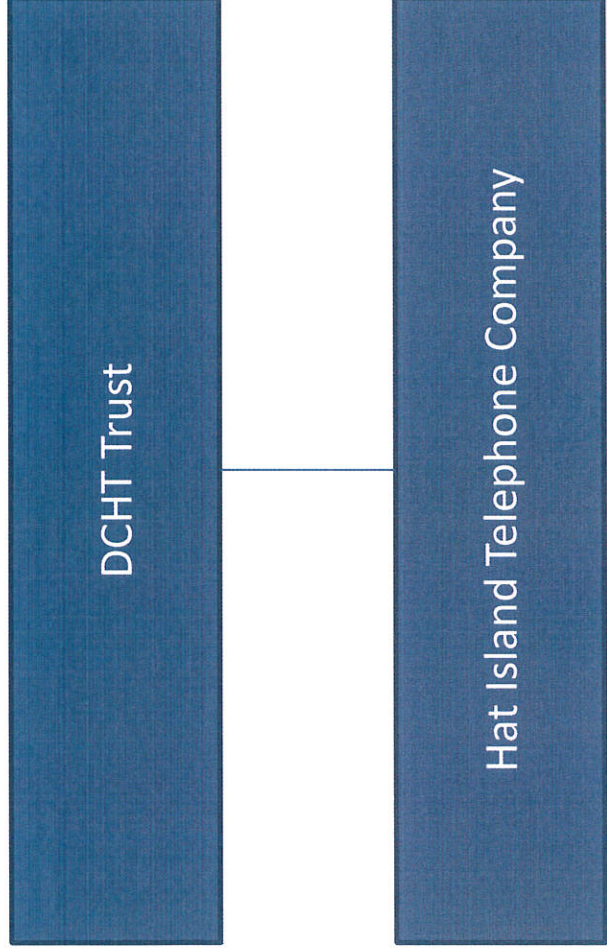


EXHIBIT 2

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

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 potential competition. The Company has taken steps to increase the availability and attributes of advanced services offered by the Company, including broadband.

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 (the "Program") that the Company received or accrued in 2014, the Company's total regulated revenue decreased by approximately 11.2% from 2011 through 2014. The Company has looked for ways to lower expenses.

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 \$4,685 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 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 calendar year 2016, including additional reductions that under existing federal rules will occur July 1, 2016, the Company will see a reduction in support from the base line revenue amount of approximately \$824 for 2016.

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*).

On top of all this, during the four-year period ended December 31, 2014, the Company has seen its federal high cost loop support disappear, declining from \$2,880 in 2011 to \$0 in 2014. This loss has not been made up by increases in other federal USF support programs.

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 Program, the Company may be faced with a choice of increasing rates beyond those increases that may otherwise need to occur 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.

STATE USF FILING
FINANCIAL TEMPLATE
"S CORP" COMPANIES

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

EXHIBIT 4
FINANCIAL TEMPLATE

Company Name: (Below)
Hat Island Telephone Company

ASSETS	Balance End of Year 2013 (A)	Part 64 Adj to NonReg 2013 (B)	Adj. Balance End of Year 2013 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2013 (A)	Part 64 Adj to NonReg 2013 (B)	Adj. Balance End of Year 2013 (C)
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	115,855		115,855	25. Accounts Payable	970		970
2. Cash-RUS Construction Fund			0	26. Notes Payable			0
3. Affiliates:				27. Advance Billings and Payments			0
a. Telecom, Accounts Receivable	3,271		3,271	28. Customer Deposits			0
b. Other Accounts Receivable	28,402		28,402	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			0	32. Income Taxes Accrued			0
b. Other Accounts Receivable			0	33. Other Taxes Accrued	2,721		2,721
c. Notes Receivable			0	34. Other Current Liabilities			0
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	3,691	0	3,691
6. Material-Regulated			0	LONG-TERM DEBT			
7. Material-Nonregulated			0	36. Funded Debt-RUS Notes			0
8. Prepayments	935		935	37. Funded Debt-RTB Notes			0
9. Other Current Assets			0	38. Funded Debt-FFB Notes			0
10. Total Current Assets (1 Thru 9)	148,463	0	148,463	39. Funded Debt-Other			0
NONCURRENT ASSETS				40. Funded Debt-Rural Develop. Loan			0
11. Investment in Affiliated Companies				41. Premium (Discount) on L/T Debt			0
a. Rural Development			0	42. Recquired Debt			0
b. Nonrural Development			0	43. Obligations Under Capital Lease			0
12. Other Investments			0	44. Adv. From Affiliated Companies			0
a. Rural Development			0	45. Other Long-Term Debt			0
b. Nonrural Development			0	46. Total Long-Term Debt (36 thru 45)	0	0	0
13. Nonregulated Investments (B1)			0	OTHER LIAB. & DEF. CREDITS			
14. Other Noncurrent Assets			0	47. Other Long-Term Liabilities			0
15. Deferred Charges			0	48. Other Deferred Credits (C)			0
16. Jurisdictional Differences			0	49. Other Jurisdictional Differences			0
17. Total noncurrent Assets (11 thru 16)	0	0	0	50. Total Other Liab. & Def. Credits (47 thru 49)	0	0	0
PLANT, PROPERTY AND EQUIPMENT				EQUITY			
18. Telecom Plant-In-Service	424,221		424,221	51. Cap. Stock Outstanding & Subscribed	4,000		4,000
19. Property Held for Future Use			0	52. Additional Paid-in-Capital			0
20. Plant Under Construction			0	53. Treasury Stock			0
21. Plant Adj., Nonop Plant & Goodwill			0	54. Membership and cap. Certificates			0
22. Accumulated Depreciation (CR.)	(282,248)		(282,248)	55. Other Capital			0
23. Net Plant (18 thru 21 less 22)	141,973	0	141,973	56. Patronage Capital Credits			0
				57. Retained Earnings or Margins (B2)	282,745	0	282,745
				58. Total Equity (51 thru 57)	286,745		286,745
24. TOTAL ASSETS (10+17+23)	290,436	0	290,436	59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	290,436	0	290,436

Footnotes:

- (B1) - Part 64 offset to nonreg investment
- (B2) - Part 64 offset to retained earnings
- (C) - Includes deferred taxes

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

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

EXHIBIT 4
FINANCIAL TEMPLATE

Company Name: (Below)
Hat Island Telephone Company

ASSETS	Balance End of Year 2014 (A)	Part 64 Adj to NonReg 2014 (B)	Adj. Balance End of Year 2014 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2014 (A)	Part 64 Adj to NonReg 2014 (B)	Adj. Balance End of Year 2014 (C)
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	25,928		25,928	25. Accounts Payable	312		312
2. Cash-RUS Construction Fund			0	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments	1,131		1,131
a. Telecom, Accounts Receivable	1,792		1,792	28. Customer Deposits	0		0
b. Other Accounts Receivable	148,229		148,229	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	0		0
b. Other Accounts Receivable			0	33. Other Taxes Accrued	2,598		2,598
c. Notes Receivable			0	34. Other Current Liabilities	0		0
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	4,041	0	4,041
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	175,949	0	175,949	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	175,949	0	175,949	39. Funded Debt-Other	0		0
NONCURRENT ASSETS				40. Funded Debt-Rural Develop. Loan	0		0
11. Investment in Affiliated Companies				41. Premium (Discount) on L/T Debt	0		0
a. Rural Development			0	42. Recquired Debt	0		0
b. Nonrural Development			0	43. Obligations Under Capital Lease	0		0
12. Other Investments			0	44. Adv. From Affiliated Companies	0		0
a. Rural Development			0	45. Other Long-Term Debt	0		0
b. Nonrural Development			0	46. Total Long-Term Debt (36 thru 45)	0	0	0
13. Nonregulated Investments (B1)		0	0	OTHER LIAB. & DEF. CREDITS			
14. Other Noncurrent Assets			0	47. Other Long-Term Liabilities	0		0
15. Deferred Charges			0	48. Other Deferred Credits (C)	0		0
16. Jurisdictional Differences			0	49. Other Jurisdictional Differences	0		0
17. Total noncurrent Assets (11 thru 16)	0	0	0	50. Total Other Liab. & Def. Credits (47 thru 49)	0	0	0
PLANT, PROPERTY AND EQUIPMENT				EQUITY			
18. Telecom Plant-in-Service	424,221		424,221	51. Cap. Stock Outstanding & Subscribed	4,000		4,000
19. Property Held for Future Use			0	52. Additional Paid-in-Capital	0		0
20. Plant Under Construction			0	53. Treasury Stock	0		0
21. Plant Adj./Nonop Plant & Goodwill			0	54. Membership and cap. Certificates	0		0
22. Accumulated Depreciation (CR.)	(298,400)		(298,400)	55. Other Capital	0		0
23. Net Plant (18 thru 21 less 22)	125,821	0	125,821	56. Patronage Capital Credits	293,729	0	293,729
				57. Retained Earnings or Margins (B2)	297,729		297,729
24. TOTAL ASSETS (10+17+23)	301,770	0	301,770	59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	301,770	0	301,770

Footnotes:
(A) - As reported on RUS Form 479
(B) - Part 64 adjustments from regulated to nonregulated.
(B1) - Part 64 offset to nonreg investment
(B2) - Part 64 offset to retained earnings
(C) - Includes deferred taxes

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

EXHIBIT 4
FINANCIAL TEMPLATE

Company Name: (Below)
Hat Island Telephone Company

ASSETS	Adjusted Prior Year Balance 2013	Adjusted Current Year Balance 2014	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2013	Adjusted Current Year Balance 2014
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	115,855	25,928	25. Accounts Payable	970	312
2. Cash-RUS Construction Fund	0	0	26. Notes Payable	0	0
3. Affiliates:			27. Advance Billings and Payments	0	1,131
a. Telecom, Accounts Receivable	3,271	1,792	28. Customer Deposits	0	0
b. Other Accounts Receivable	28,402	148,229	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	0	32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	0	0	33. Other Taxes Accrued	2,721	2,598
c. Notes Receivable	0	0	34. Other Current Liabilities	0	0
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	3,691	4,041
6. Material-Regulated	0	0	LONG-TERM DEBT		
7. Material-Nonregulated	0	0	36. Funded Debt-RUS Notes	0	0
8. Prepayments	935	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)	148,463	175,949	39. Funded Debt-Other	0	0
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan	0	0
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt	0	0
a. Rural Development	0	0	42. Recquired Debt	0	0
b. Nonrural Development	0	0	43. Obligations Under Capital Lease	0	0
12. Other Investments			44. Adv. From Affiliated Companies	0	0
a. Rural Development	0	0	45. Other Long-Term Debt	0	0
b. Nonrural Development	0	0	46. Total Long-Term Debt (36-45)	0	0
13. Nonregulated Investments	0	0	OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets	0	0	47. Other Long-Term Liabilities	0	0
15. Deferred Charges	0	0	48. Other Deferred Credits	0	0
16. Jurisdictional Differences	0	0	49. Other Jurisdictional Differences	0	0
17. Total noncurrent Assets (11 thru 16)	0	0	50. Total Other Liab. & Def. Credits (47 thru 49)	0	0
PLANT, PROPERTY AND EQUIPMENT			EQUITY		
18. Telecom Plant-in-Service	424,221	424,221	51. Cap. Stock Outstanding & Subscribed	4,000	4,000
19. Property Held for Future Use	0	0	52. Additional Paid-in-Capital	0	0
20. Plant Under Construction	0	0	53. Treasury Stock	0	0
21. Plant Adj., Nonop Plant & Goodwill	0	0	54. Membership and cap. Certificates	0	0
22. Accumulated Depreciation (CR.)	(282,248)	(298,400)	55. Other Capital	0	0
23. Net Plant (18 thru 21 less 22)	141,973	125,821	56. Patronage Capital Credits	0	0
			57. Retained Earnings or Margins	282,745	293,729
			58. Total Equity (51 thru 57)	286,745	297,729
24. TOTAL ASSETS (10+17+23)	290,436	301,770	59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	290,436	301,770

Footnote:
Adjusted Balances represents balances
after Part 64 adjustments

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

EXHIBIT 4
 FINANCIAL TEMPLATE

Company Name: (Below)
 Hat Island Telephone Company

Line #	Description	B/S Line #	Adj. Balance End of Year 2013	Adj. Balance End of Year 2014	Average Adj End of Year Balance
Average Rate Base:					
1	Total Regulated Adjusted Telecom Plant-in-service	18	424,221	424,221	424,221
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(282,248)	(298,400)	(290,324)
4	Total Regulated Materials & Supplies	6	0	0	0
5	Deferred Income Taxes (CR)				
6	Total Regulated Rate Base		141,973	125,821	133,897

Footnotes:

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

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

EXHIBIT 4
 FINANCIAL TEMPLATE

Company Name: (Below)
Hat Island Telephone Company

Line #	Description	Prior Year End of Yr. Balance - 2013	Current Year End of Yr. Balance - 2014	Difference	% Change
1	Access Lines: Residential	54	59	5	9.3%
2	Business	11	9	(2)	-18.2%
3	Total	65	68	3	4.6%

Company Name: (Below)
Hat Island Telephone Company

Line #	Description	Prior Year 2013 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2013 (C)
1	Local Network Services Revenues	19,004		19,004
2	Network Access Services Revenues	25,012		25,012
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	2,225		2,225
5	Miscellaneous Revenues	2,447		2,447
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	71		71
7	Net Operating Revenues (1 thru 6)	48,759	0	48,759
8	Plant Specific Operations Expense	19,245		19,245
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	0		0
10	Depreciation Expense	19,764		19,764
11	Amortization Expense	0		0
12	Customer Operations Expense	7,839		7,839
13	Corporate Operations	17,504		17,504
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()			
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	17,504	0	17,504
14	Total Operations Expenses (8 thru 12 +13b)	64,352	0	64,352
15	Operating Income or Margins (7 less 14)	(15,593)	0	(15,593)
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	6,432		6,432
20	Total Operating Taxes (17+18+19)	6,432	0	6,432
21	Net Operating Income or Margins (15+16-20)	(22,025)	0	(22,025)
22	Interest on Funded Debt			0
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (CR)			0
26	Total Fixed Charges (22+23+24-25)	0	0	0
27	Nonoperating Net Income			0
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	9,495	0	9,495
31	Total Net Income or Margins (21+27+28+29+30-26)	(12,530)	0	(12,530)
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	298,330		298,330
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)			0
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date	3,055		3,055
38	Transfers to Patronage Capital			0
39	Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38))(A2)	282,745	0	282,745
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)	1.0464	#DIV/0!	1.0464
46	Operating Accrual Ratio ((14+20+26)/7)	1.4517	#DIV/0!	1.4517
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!	#DIV/0!

(C)

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 8 Inc. Stmt Summary Schedule Footnote
- (A2) Column A, Line 39 must equal Column A, Line 57 of Page 1, Balance Sheet
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Part 64 offset to nonregulated income (No Impact to retained earnings)
- (C) Corp. Op. Adj Exp. Reduction - See Exhibit 7 of Petition which takes () amount * 65% to Line 13a, Column C (Reduces total operating expense (L 14) and increases Operating Inc. (L15))
- (D) Note: Miscellaneous Revenue/Plant Non Specific Operations Expense/Nonregulated Net Income do not match RUS Form 479 due to adjustment for Non Regulatory Revenues and Expenses for Internet Services

Company Name: (Below)
Hat Island Telephone Company

Line #	Description	Current Year 2014 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2014 (C)
1	Local Network Services Revenues	18,604		18,604
2	Network Access Services Revenues	34,653		34,653
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	3,068		3,068
5	Miscellaneous Revenues	1,406		1,406
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(2)		(2)
7	Net Operating Revenues (1 thru 6)	57,729	0	57,729
8	Plant Specific Operations Expense	9,581		9,581
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)			0
10	Depreciation Expense	16,152		16,152
11	Amortization Expense	0		0
12	Customer Operations Expense	6,091		6,091
13	Corporate Operations	21,479		21,479
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()			
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	21,479	0	21,479
14	Total Operations Expenses (8 thru 12 +13b)	53,303	0	53,303
15	Operating Income or Margins (7 less 14)	4,426	0	4,426
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	3,146		3,146
20	Total Operating Taxes (17+18+19)	3,146	0	3,146
21	Net Operating Income or Margins (15+16-20)	1,280	0	1,280
22	Interest on Funded Debt			0
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (CR)			0
26	Total Fixed Charges (22+23+24-25)	0	0	0
27	Nonoperating Net Income			0
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	9,704	0	9,704
31	Total Net Income or Margins (21+27+28+29+30-26)	10,984	0	10,984
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	282,745		282,745
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)	293,729	0	293,729
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)	0.6980	#DIV/0!	0.6980
46	Operating Accrual Ratio ((14+20+26)/7)	0.9778	#DIV/0!	0.9778
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!	#DIV/0!

(C)

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 8, Inc. Stmt Summary Schedule Footnote
- (A2) Column A, Line 39 must equal Column A, Line 57 of Page 2, Balance Sheet
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Part 64 offset to nonregulated income (No Impact to retained earnings)
- (C) Corp. Op. Adj Exp. Reduction - See Exhibit 7 of Petition which takes () amount * 65% to Line 13a, Column C
(Reduces total operating expense (L 14) and increases Operating Inc. (L15)
- (D) Note: Miscellaneous Revenue/Plant Non Specific Operations Expense/Nonregulated Net Income do not match RUS Form 479 due to adjustmen for Non Regulatory Revenues and Expenses for Internet Services

Company Name:
Hat Island Telephone Company

Line #	Description	Adjusted Prior Year 2013	Adjusted Current Year 2014
1	Local Network Services Revenues	19,004	18,604
2	Network Access Services Revenues	25,012	34,653
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	2,225	3,068
5	Miscellaneous Revenues	2,447	1,406
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	71	(2)
7	Net Operating Revenues (1 thru 6)	48,759	57,729
8	Plant Specific Operations Expense	19,245	9,581
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	0	0
10	Depreciation Expense	19,764	16,152
11	Amortization Expense	0	0
12	Customer Operations Expense	7,839	6,091
13	Corporate Operations	17,504	21,479
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()	0	0
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	17,504	21,479
14	Total Operations Expenses (8 thru 12 +13b)	64,352	53,303
15	Operating Income or Margins (7 less 14)	(15,593)	4,426
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	6,432	3,146
20	Total Operating Taxes (17+18+19)	6,432	3,146
21	Net Operating Income or Margins (15+16-20)	(22,025)	1,280
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	0	0
26	Total Fixed Charges (22+23+24-25)	0	0
27	Nonoperating Net Income	0	0
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	9,495	9,704
31	Total Net Income or Margins (21+27+28+29+30-26)	(12,530)	10,984
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	298,330	282,745
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	3,055	0
38	Transfers to Patronage Capital	0	0
39	Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))	282,745	293,729
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)	1.0464	0.6980
46	Operating Accrual Ratio ((14+20+26)/7)	1.4517	0.9778
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!

Footnote	2013	2014
(A1) S Corporation Effective Tax Rate (2 decimal places):	10.00%	12.25%

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

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

EXHIBIT 4
 FINANCIAL TEMPLATE

Company Name: (Below)
Hat Island Telephone Company

Line #	Description	Part 32 Account	Prior Year 2013	Current Year 2014
1	End User Revenue (SLC, ARC, etc.)	5081	6,714	7,155
2	Switched Access (excluding USF):	5082		
2a	Intrastate		3,033	(104)
2b	Interstate (includes CAF)		(9,596)	2,207
3	Special Access:	5083		
3a	Intrastate		13,692	14,680
3b	Interstate		0	
4	Federal USF (ICLS/HCL/SN)	Varies	11,169	9,531
5	State USF			1,184
6	Other*			
7	Total (must equal line 2 of Income Stmt.)		25,012	34,653
8	Line 2 of Income Stmt.		25,012	34,653
9	Difference		0	0

Footnote:

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

Description of Out-of-Period - 2014 (As Recorded)	Part 32 Account	
	Debit	Credit

Adjustment #1:

Adjustment #2:

Adjustment #3:

Adjustment #4

Company Name:
Hat Island Telephone Company

Line #	Source(A)	Net Operating Income Inputted FIT Calculation	2014	
1	Page 9, Line 21 (CY)	Adjusted Net Operating Income	1,280	
2		Out-of-Period Adjustments		
3	Page 9, Line 26 (CY)	Total Fixed Charges	-	(A)
4	Sum	Adj. Taxable Operating Income (Line 1 + Line 2 - Line 3)	1,280	
5		Inputted S Corp. Tax Rate(B)	12.25%	
6	Calculated	inputted FIT (Line 4* Line 5)	157	
7	Sum	Adj. Net Operating income after FIT (Line 1 - Line 6)	1,123	(B)
NonOperating Income Inputted FIT Calculation				
8	Page 9, Line 27 (CY)	Nonoperating net income	-	
9	Page 9, Line 30 (CY)	Nonregulated net income	9,704	
10	Sum	Sub-Total (Line 27+Line 30)	9,704	
11		Inputted S Corp. Tax Rate(B)	12.25%	
12	Calculated	FIT (Line 10 * Line 11)	1,189	
13	Sum	Nonop/Nonreg income after FIT (Line 10 - Line 12)	8,515	(C)
14	Sum	Adjusted Net Income w/inputted FIT	9,638	(B)+(C)-(A)
Sanity Check:				
15	Page 9, Line 31 (CY)	Line 31 as reported	10,984	
16		Out-of-Period Adjustments		
17		Total	10,984	
18		Inverse of effective tax rate (100%-Line 10 percent)	87.75%	
19	Calculated	Adjusted Net Income (Line 17*Line 18) = Line 14	9,638	(D)
Regulated Rate of Return				
20	Page 5, Total (PY)	Regulated rate base Year End 2013	141,973	
21	Page 5, Total (CY)	Regulated rate base Year End 2014	125,821	
22	Sum	Total	267,794	
23	Calculated	Simple Avg.	133,897	(E)
24	Line 7 (above)	Adj Operating Income after inputted FIT	1,123	
27	Calculated	Regulated rate of return	0.8%	(B)/(E)
Total Consolidated Company Return on Equity				
28	Audited FinStmts	Total Equity Year End 2013	286,745	
29	Audited FinStmts	Total Equity Year End 2014	297,729	
30	Sum	Total	584,474	
31	Calculated	Simple Avg.	292,237	(G)
32	Audited FinStmts	Consolidated Net Income	10,984	
33	Line 2 above	Out-of-period adjustment	-	
34		Adjusted Consolidated Net Income	10,984	
35		Inputted S Corp Tax Rate	12.25%	
36		Inputted FIT (Line 34 * Line 35)	1,346	
37	Sum	Adj Consolidated Net Income after inputted FIT	9,638	(H)
38	Calculated	Total Adj. Consolidated Company Return on Equity	3.3%	(H)/(G)

Footnotes:

(A) - Source is financial template in state USF petition

(B) - Company provided

Company Name: (Below)
 Hat Island Telephone Company

Description	Prior Year End of Yr. Balance - 2013	Current Year End of Yr. Balance - 2014	Difference	% Change
Broadband Connections:				
Residential	43	48	5	11.6%
Business	3	3	0	0.0%
Total	46	51	5	10.9%
Gross Regulated and Nonregulated Capital Expenditures:				
Total Annual Amount	2013 \$0	2014 \$0	Difference \$0	% Change 0.0%

**EXHIBIT 6
RUS FORM 479**

(3005b) Operating Report for Privately-Held Rate of Return Carriers	FCC Form 481
Income Statement - Data Collection Form	OMB Control No. 3060-0986
	OMB Control No. 3060-0819
Page 2 of 3	April 2014

<010> Study Area Code	522417
<015> Study Area Name	Hat Island
<020> Program Year	2016
<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	19004	18604
2. Network Access Services Revenues	25012	34653
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues	2225	3068
5. Miscellaneous Revenues	23290	23744
6. Uncollectible Revenues	-71	-2
7. Net Operating Revenues (1 thru 5 less 6)	69602	80067
8. Plant Specific Operations Expense	19245	9581
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	11348	12634
10. Depreciation Expense	19764	16152
11. Amortization Expense		
12. Customer Operations Expense	7839	6091
13. Corporate Operations Expense	17504	21479
14. Total Operating Expenses (8 thru 13)	75700	65937
15. Operating Income or Margins (7 less 14)	-6098	14130
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes		
19. Other Taxes	6432	3145
20. Total Operating Taxes (17+18+19)	6432	3146
21. Net Operating Income or Margins (15+16-20)	-12530	10984
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		
31. Total Net Income or margins (21+27+28+29+30-26)	-12530	10984
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	298330	282745
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)		
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date	3055	0
38. Transfers to Patronage Capital		
39. Retained Earnings or Margins end-of-Period [(31+33+34)-(35+36+37+38)]	282745	293729
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]		

HAT ISLAND TELEPHONE COMPANY

Reviewed Financial Statements

December 31, 2014 and 2013

HAT ISLAND TELEPHONE COMPANY

Reviewed Financial Statements

December 31, 2014 and 2013

INDEPENDENT ACCOUNTANT'S REVIEW REPORT 1

REVIEWED FINANCIAL STATEMENTS

Balance Sheets2
Statements of Income3
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 balance sheets of Hat Island Telephone Company (the "Company") as of December 31, 2014 and 2013, and the related statements of income, stockholder's equity and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

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

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

Johnson, Stone & Pagano, P.S.

JOHNSON, STONE & PAGANO, P.S.

March 9, 2015

REVIEWED FINANCIAL STATEMENTS

HAT ISLAND TELEPHONE COMPANY

BALANCE SHEETS

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 25,928	\$ 115,855
Telecommunications accounts receivable	1,792	3,271
Due from affiliated company	148,229	28,402
Prepaid expenses	<u> </u>	<u>935</u>
Total Current Assets	175,949	148,463
PROPERTY, PLANT AND EQUIPMENT		
Telecommunications plant in service	424,221	424,221
Less allowances for depreciation	<u>298,400</u>	<u>282,248</u>
Total Telecommunications Plant	<u>125,821</u>	<u>141,973</u>
TOTAL ASSETS	\$ <u>301,770</u>	\$ <u>290,436</u>
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 312	\$ 970
Taxes, other than income taxes	2,598	2,721
Deferred revenue	<u>1,131</u>	<u> </u>
Total Current Liabilities	4,041	3,691
STOCKHOLDER'S EQUITY		
Capital stock, par value \$10 per share; Authorized - 2,500 shares		
Issued and outstanding - 400 shares	4,000	4,000
Retained earnings	<u>293,729</u>	<u>282,745</u>
Total Stockholder's Equity	<u>297,729</u>	<u>286,745</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ <u>301,770</u>	\$ <u>290,436</u>

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

HAT ISLAND TELEPHONE COMPANY

STATEMENTS OF INCOME

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Local network service revenues	\$ 18,604	\$ 19,004
Network access service revenues	34,653	25,012
Miscellaneous revenues	4,472	4,743
Other operating revenues	<u>22,338</u>	<u>20,843</u>
Total Operating Revenues	80,067	69,602
OPERATING EXPENSES		
Plant specific operations	9,581	19,245
Depreciation	16,152	19,764
Customer operations	6,091	7,839
Corporate operations	21,479	17,504
Other operating expenses	12,634	11,348
Taxes, other than income taxes	<u>3,146</u>	<u>6,432</u>
Total Operating Expenses	<u>69,083</u>	<u>82,132</u>
NET INCOME (LOSS)	<u>\$ 10,984</u>	<u>\$ (12,530)</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, 2014 and 2013

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
BALANCE AT DECEMBER 31, 2012	\$ 4,000	\$ 295,275	\$ 299,275
Net loss	<u> </u>	<u>(12,530)</u>	<u>(12,530)</u>
BALANCE AT DECEMBER 31, 2013	4,000	282,745	286,745
Net income	<u> </u>	<u>10,984</u>	<u>10,984</u>
BALANCE AT DECEMBER 31, 2014	\$ <u>4,000</u>	\$ <u>293,729</u>	\$ <u>297,729</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 10,984	\$ (12,530)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation of telecommunications plant	16,152	19,764
Net change in operating assets and liabilities	<u>(117,063)</u>	<u>(581)</u>
Net Cash Provided (Used) by Operating Activities	(89,927)	6,653
CASH FLOWS FROM INVESTING ACTIVITIES		
Salvage on retired property, plant and equipment	<u> </u>	<u>1,200</u>
Net Cash Provided by Investing Activities	<u> </u>	<u>1,200</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(89,927)	7,853
Cash and Cash Equivalents at Beginning of Year	<u>115,855</u>	<u>108,002</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 25,928</u>	<u>\$ 115,855</u>
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Telecommunications accounts receivable	\$ 1,479	\$ (341)
Due from affiliated company	(119,827)	(3,392)
Prepaid expenses	935	375
Increase (decrease) in liabilities		
Accounts payable	(658)	56
Taxes, other than income taxes	(123)	2,721
Deferred revenue	<u>1,131</u>	<u> </u>
NET CHANGE IN OPERATING ASSETS AND LIABILITIES	<u>\$ (117,063)</u>	<u>\$ (581)</u>

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

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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") reformed the universal service and intercarrier compensation systems. These reforms 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 all highly liquid debt instruments 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, 2014, management has determined that there were no material impairment charges to be recorded as of that date.

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, 2014 and 2013

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

Revenue Recognition, Major Customers and Services

Services provided by the Company include local network, network access services as well as other services. In the normal course of business of the Company, 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 end users of telecommunication services.

The FCC 11-161 modified and replaced the existing universal service and intercarrier compensation systems, with universal service reform and intercarrier compensation reform. A Connect America Fund has been established to replace all existing high-cost support mechanisms and sets broadband service requirements. Alongside the broadband service rules, reforms to establish a framework to limit reimbursements for excessive capital and operating expenses have been 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.

The Company continues to review the reforms and modifications to the support that the Company receives and understands that those reforms and modifications will have an adverse effect on the Company's revenues and cash flow. Revenue impacts are subject to change based on future data submissions 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. Before July 1, 2014, the switched access charges associated with carrier common line and state universal service fund were pooled with all Washington Exchange Carrier Association ("WECA") member companies and the Company received a distribution of net revenues based upon the Company's proportionate share of WUTC approved revenue objectives of all participating WECA member companies.

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

Revenue Recognition, Major Customers and Services (Continued)

Effective July 1, 2014, the WUTC implemented a state universal communications service program ("State USF Program") that temporarily replaced the terminated universal service support pool ("Traditional USF") administered by WECA and also replaced the cumulative reduction in support the Company received from the federal Connect America Fund ("CAF"). The State USF Program was to begin January 2015 which resulted in a cash flow issue for some of the companies that met the WUTC criteria to be eligible for such support. The WUTC granted a one-time partial distribution in 2014 of the State USF Program equal to the amount the Company received from the Traditional USF for 2012 in the amount of \$2,029. The remainder of the annual distribution, which was comprised of the cumulative reduction in CAF support of \$571, was disbursed in January 2015. 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, therefore, the Company accrued \$1,131 as deferred revenue due to the State USF Program for the period July 1, 2014 to December 31, 2014 for the unearned portion of the State USF Program revenues received. The State USF Program is scheduled to last for five program years.

As of July 31, 2014, WECA terminated the pooling of originating carrier common line ("CCL") minutes of use and the Company opted to keep its' existing originating CCL rate, which was allowed by the WUTC to become effective as a matter of law.

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

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.

The Company provides for the measurement and disclosure of uncertain tax positions recognized in the Company's financial statements. Management is of the opinion that the income tax positions taken by the Company meet the more-likely-than-not threshold that the tax returns filed by the Company have greater than a 50 percent chance of being sustained under examination of the Internal Revenue Service. The Company's federal income tax returns for the tax years ending before December 31, 2011 are closed to examination.

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

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, 2015 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 a financial institution 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, 2014, the Company's cash balance did not exceed the insured amount.

In addition, at December 31, 2014, the Company has a total deposit of \$2,601 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 consist of:

	<u>2014</u>	<u>2013</u>
Due from customers and agents	\$ 633	\$ 1,524
Due from exchange carriers and exchange carrier associations	<u>1,159</u>	<u>1,747</u>
	<u>\$ 1,792</u>	<u>\$ 3,271</u>

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 3 - TELECOMMUNICATIONS ACCOUNTS RECEIVABLE (Continued)

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, 2014. As of December 31, 2014, approximately 4% of telecommunications accounts receivable 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, 2014 and 2013 are:

	<u>2014</u>	<u>2013</u>
General support facilities	\$ 190,487	\$ 190,487
Central office equipment	58,529	58,529
Cable and wire facilities	<u>175,205</u>	<u>175,205</u>
	<u>\$ 424,221</u>	<u>\$ 424,221</u>

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 \$16,152 and \$19,764 for years ending December 31, 2014 and 2013, respectively.

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE 5 - DUE FROM AFFILIATED COMPANY

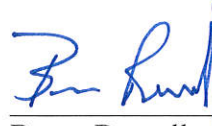
Amounts due from affiliated company include amounts receivable from Whidbey Telephone Company ("Whidbey"). The amounts receivable from Whidbey are payments or advances made by the Company less the result of work performed by Whidbey's work crews on behalf of the Company. The amounts are unsecured, non-interest-bearing and are to be repaid by Whidbey in the ordinary course of business. At December 31, 2014 and 2013, the Company had made payments to Whidbey in excess of the amounts billed by Whidbey.

EXHIBIT 7

CORPORATE OPERATIONS EXPENSE ADJUSTMENT CERTIFICATE

I, Bruce Russell, an officer of Hat Island Telephone Company with personal knowledge and responsibility, under penalty of perjury, hereby certify that no corporate operations adjustment to existing high-cost loop and interstate common line support mechanisms, as required by the Federal Communications Commission, applied to the Company for 2014 and 2013.

Date this 30th day of July, 2015.



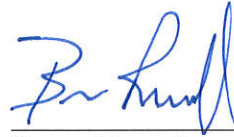
Bruce Russell
Chief Operating Officer

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

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

Dated this 30th day of July, 2015.



Bruce Russell
Chief Operating Officer

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Bruce Russell, an officer of the Company, under penalty of perjury, hereby certify that if the Company receives Program support, the Company will continue to provide communications services pursuant to its tariffs on file with the Commission throughout its service territory in Washington for which the company is seeking and receives Program support during the entirety of 2016.

Dated this 30th day of July, 2015.



Bruce Russell
Chief Operating Officer