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

7
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 fiscal year ending June 30, 2017.
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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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15 **II. Demonstration of Eligibility under WAC 480-123-110**

- 16 1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications
17 services and is seeking Program support is as follows: Hat Island Telephone Company.
- 18 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between
19 the Company and all affiliates as defined in RCW 80.16.010, except individual officers and
20 directors, is attached hereto as Exhibit 1. A detailed description of any transactions between
21

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, 2015, and
10 December 31, 2014, and copies of the Company's statements of income and retained
11 earnings or margin for the years ended December 31, 2015 and December 31, 2014.
- 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, 2015 and December 31, 2014, 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.

15
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-160030 filed on or about July 1, 2016.
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, 2015, was 55, 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, 2014, was 57, 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, 2015, 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, 2014, 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, 2015, was \$16.00. The monthly recurring rate
12 charged by the Company for residential local exchange access service on December 31,
13 2014, was \$16.00. The rate charged by the Company for single line business local exchange
14 access service on December 31, 2015, was \$25.00. The rate charged by the Company for
15 single line business local exchange access service on December 31, 2014, 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 17. The amount on line 4, titled "2011 ROR Carrier Base Period Revenue", of the CAF ICC

3 Data Collection Report for the period 7/1/16 – 6/30/17 has not changed from prior filings.

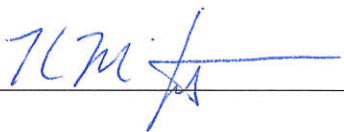
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6 Respectfully submitted this 30th day of July, 2016.

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8
9 HAT ISLAND TELEPHONE COMPANY

10
11 CERTIFICATION

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

17 Dated at Langley, Washington this 30th day of July, 2016.

18 By:  _____

19 Title: Secretary/Treasurer

EXHIBIT 1
CORPORATE ORGANIZATION CHART

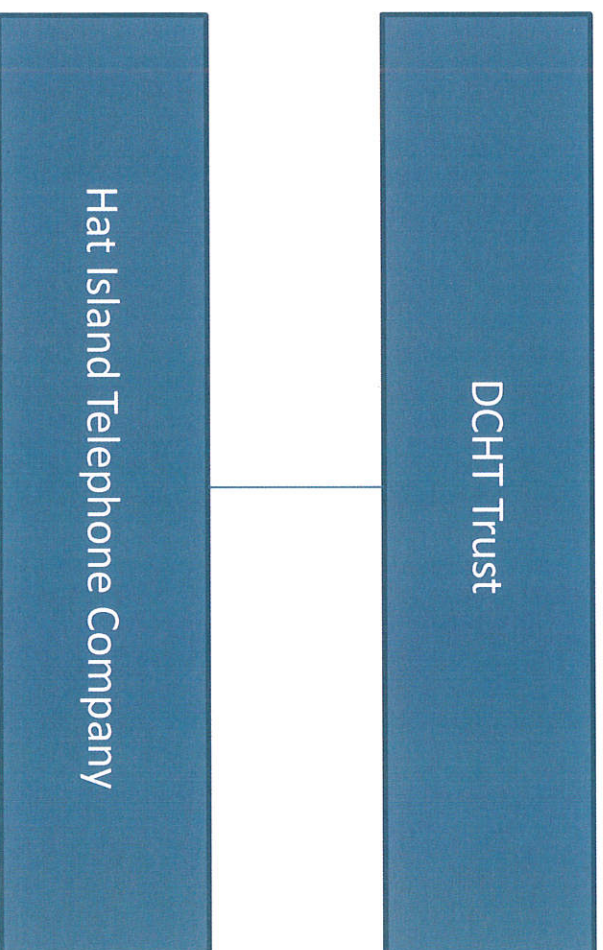


EXHIBIT 2

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 growing competition. The Company has taken steps to increase the availability and attributes of advanced services offered by the Company, including broadband. This has resulted in the Company making additional investments in regulated plant of approximately \$11,187 during the period January 1, 2011 through December 31, 2015.

The overall financial condition of the Company is detailed on other Exhibits to this Petition. What this information demonstrates is that, when adjusted to eliminate the support from the state Universal Communications Services Program that the Company received or accrued in 2015, the Company's total regulated revenue decreased by 24.34 percent from 2011 through 2015. The Company has looked for ways to lower expenses. However, much of the Company's operating expenses are fixed obligations.

At the same time, the Company is seeing increased competition. For example, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. Since 2011, the Company has lost 2 access lines. A loss of customers equates to a loss of revenue without a corresponding reduction in expenses or corresponding increase in rates. This trend of access line loss is exacerbated by the Federal Communications Commission's requirement that the Company increase its rates to remain eligible for full federal USF support. Since 2012, the Company has increased its local exchange service rates in order to be in compliance with the national urban rate floor prescribed by the Federal Communications Commission. However, those increases have been insufficient to fully replace the revenues that have been lost due to the reduction in access lines. In addition, those rate increases have tended to stimulate a surge in disconnection of service by customers.

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

As another example, some of the financial uncertainty that the Company faces stems from the USF/ICC Transformation Order issued by the Federal Communications Commission.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, PETITION OF HAT ISLAND TELEPHONE COMPANY TO RECEIVE SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS SERVICES PROGRAM – EXHIBIT 3, PAGE – 1

USF/ICC Transformation Order has built in an automatic decline in the Company's intrastate and interstate access revenues. The intercarrier compensation portion of the Transformation Order introduces a concept of a base line year for calculating terminating access and reciprocal compensation revenues and provides support from the Connect America Fund ("CAF") based on the base line year. However, the base line year revenues (from which the level of CAF support is derived) are reduced iteratively by five percent each year. The CAF support reduction began in July 2012. Projecting through the fiscal year ending June 30, 2017, including reductions that occurred July 1, 2016, the Company has seen a reduction in the annual base line revenue from \$4,001 at July 2012 to \$3,096 at June 30, 2017 or a total reduction of \$905.

On top of all this, during the four-year period ended December 31, 2015, the Company has seen its total federal high cost support undergo a significant reduction, declining from \$24,870 in 2011 to \$12,390 in 2015.

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.

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*).

PETITION OF HAT ISLAND TELEPHONE COMPANY TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM –
EXHIBIT 3, PAGE – 2

EXHIBIT 4
FINANCIAL TEMPLATE

STATE USE FILING

FINANCIAL TEMPLATE

"S CORP" COMPANIES

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
3. Affiliates:				27. Advance Billings and Payments	1,131		1,131
a. Telecom, Accounts Receivable	1,792		1,792	28. Customer Deposits			0
b. Other Accounts Receivable	148,229		148,229	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	2,598		2,598
c. Notes Receivable			0	34. Other Current Liabilities			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
8. Prepayments			0	37. Funded Debt-RTB Notes			0
9. Other Current Assets			0	38. Funded Debt-FFB Notes			0
10. Total Current Assets (1 Thru 9)	175,949	0	175,949	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. Reacquired 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	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	(298,400)		0	54. Membership and cap. Certificates			0
22. Accumulated Depreciation (CR.)	125,821	0	(298,400)	55. Other Capital			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	58. Total Equity (51 thru 57)			
				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.

Footnotes:

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

EXHIBIT 4
FINANCIAL TEMPLATE

Company Name: (Below)
Hart Island Telephone Company

ASSETS	Balance End of Year 2015 (A)	Part 64 Adj to NonReg 2015 (B)	Adj. Balance End of Year 2015 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2015 (A)	Part 64 Adj to NonReg 2015 (B)	Adj. Balance End of Year 2015 (C)
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	20,537		20,537	25. Accounts Payable	1,275		1,275
2. Cash-RUS Construction Fund			0	26. Notes Payable			0
3. Affiliates:				27. Advance Billings and Payments			0
a. Telecom, Accounts Receivable	2,344		2,344	28. Customer Deposits			0
b. Other Accounts Receivable	169,593		169,593	29. Current Mat. L/T Debt			0
c. Notes Receivable	0		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	2,707		2,707
c. Notes Receivable			0	34. Other Current Liabilities			0
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)			3,982
6. Material-Regulated			0	LONG-TERM DEBT			
7. Material-Nonregulated			0	36. Funded Debt-RUS Notes			0
8. Prepayments			0	37. Funded Debt-RTB Notes			0
9. Other Current Assets			0	38. Funded Debt-FFB Notes			0
10. Total Current Assets (1 Thru 9)	192,474	0	192,474	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. Reacquired 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	0	OTHER LIAB. & DEF. CREDITS			0
14. Other Noncurrent Assets		0	0	47. Other Long-Term Liabilities			0
15. Deferred Charges			0	48. Other Deferred Credits (C)	1,385		1,385
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)	1,385	0	1,385
PLANT, PROPERTY AND EQUIPMENT				EQUITY			
18. Telecom Plant-In-Service	428,516		428,516	51. Cap. Stock Outstanding & Subscribed	4,000		4,000
19. Property Held for Future Use	0		0	52. Additional Paid-in-Capital			0
20. Plant Under Construction	0		0	53. Treasury Stock			0
21. Plant Adj., Nonop Plant & Goodwill	(311,480)		(311,480)	54. Membership and cap. Certificates			0
22. Accumulated Depreciation (CR.)			0	55. Other Capital			0
23. Net Plant (18 thru 21 less 22)	117,036	0	117,036	56. Patronage Capital Credits			0
24. TOTAL ASSETS (10+17+23)	309,510	0	309,510	57. Retained Earnings or Margins (B2)	300,143	0	300,143
				58. Total Equity (51 thru 57)	304,143		304,143
				59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	309,510	0	309,510

Footnotes:

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

Footnotes:

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

EXHIBIT 4
FINANCIAL TEMPLATE

Company Name: (Below)
Hat Island Telephone Company

ASSETS	Adjusted Prior Year Balance 2014	Adjusted Current Year Balance 2015	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2014	Adjusted Current Year Balance 2015
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	25,928	20,537	25. Accounts Payable	312	1,275
2. Cash-RUS Construction Fund	0	0	26. Notes Payable	0	0
3. Affiliates:			27. Advance Billings and Payments	1,131	0
a. Telecom, Accounts Receivable	1,792	2,344	28. Customer Deposits	0	0
b. Other Accounts Receivable	148,229	169,593	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	2,598	2,707
c. Notes Receivable	0	0	34. Other Current Liabilities	0	0
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	4,041	3,982
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)	175,949	192,474	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. Reacquired 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	1,385
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	1,385
PLANT, PROPERTY AND EQUIPMENT			EQUITY		
18. Telecom Plant-in-Service	424,221	428,516	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.)	(298,400)	(311,480)	55. Other Capital	0	0
23. Net Plant (18 thru 21 less 22)	125,821	117,036	56. Patronage Capital Credits	0	0
			57. Retained Earnings or Margins	293,729	300,143
			58. Total Equity (51 thru 57)	297,729	304,143
24. TOTAL ASSETS (10+17+23)	301,770	309,510	59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	301,770	309,510

Footnote:
Adjusted Balances represents balances
after Part 64 adjustments

EXHIBIT 4
FINANCIAL TEMPLATE

Company Name: (Below)
 Hat Island Telephone Company _____

Line #	Description	B/S Line #	Adj. Balance End of Year 2014	Adj. Balance End of Year 2015	Average Adj End of Year Balance
Average Rate Base:					
1	Total Regulated Adjusted Telecom Plant-In-service	18	424,221	428,516	426,369
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(298,400)	(311,480)	(304,940)
4	Total Regulated Materials & Supplies		0	0	0
5	Deferred Income Taxes (CR)	6	(9,362)	(8,017)	(8,690)
6	Total Regulated Rate Base		116,459	109,019	112,739

Footnotes:

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

EXHIBIT 4
FINANCIAL TEMPLATE

Company Name: (Below)
 Hat Island Telephone Company _____

Line #	Description	Prior Year End of Yr. Balance - 2014	Current Year End of Yr. Balance - 2015	Difference	% Change
Access Lines:					
1	Residential	59	55	(4)	-6.8%
2	Business	9	11	2	22.2%
3	Total	68	66	(2)	-2.9%

Note: If 2014 does not equal last year's petition and template, explain.

Company Name: (Below)
Hart Island Telephone Company

Line #	Description	Prior Year 2014 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2014 (C)
1	Local Network Services Revenues			
2	Network Access Services Revenues	18,604		18,604
3	Long Distance Network Services Revenues	34,653		34,653
4	Carrier Billing and Collection Revenues	0		0
5	Miscellaneous Revenues	3,068		3,068
6	Uncollectible Revenues (Normal balance is debit or in brackets)	1,406		1,406
7	Net Operating Revenues (1 thru 6)	(2)		(2)
8	Plant Specific Operations Expense	57,729	0	57,729
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	9,581		9,581
10	Depreciation Expense	0		0
11	Amortization Expense	16,152		16,152
12	Customer Operations Expense	0		0
13	Corporate Operations	6,091	0	6,091
14	Total Operations Expenses (8 thru 12 +13b)	21,479	0	21,479
15	Operating Income or Margins (7 less 14)	53,303	0	53,303
16	Other Operating Income and Expenses ()	4,426	0	4,426
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	0		0
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		0
23	Interest Expense - Capital Leases	0		0
24	Other Interest Expense	0		0
25	Allowance for Funds Used During Construction (CF)	0		0
26	Total Fixed Charges (22+23+24-25)	0	0	0
27	Nonoperating Net Income	0		0
28	Extraordinary Items	0		0
29	Jurisdictional Differences	0		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		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 End-of-Period (31+33+34)-(35+36+37+38)(A2)	293,729	0	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	0
44	Annual Debt Service Payments	0		0
45	Cash Ratio ((14+20-11)/7)	0.6980	#DIV/0!	0.6980
46	Operating Accrual Ratio ((14+20+26)/7)	0.9778	#DIV/0!	0.9778
47	TEER ((31+26)/26)		#DIV/0!	
48	DSCR ((31+26+10+11)/44)		#DIV/0!	

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9 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) Column B, automatic offset to Nonregulated Net Income (No Impact to retained earnings)

Company Name: (Below)
Hart Island Telephone Company

Line #	Description	Current Year 2015 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2015 (C)
1	Local Network Services Revenues	19,765		19,765
2	Network Access Services Revenues	29,612		29,612
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	1,329		1,329
5	Miscellaneous Revenues	1,405		1,405
6	Uncollectible Revenues (Normal balance is debit or in brackets)	0		0
7	Net Operating Revenues (1 thru 6)	52,111	0	52,111
8	Plant Specific Operations Expense	15,392		15,392
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	0		0
10	Depreciation Expense	13,080		13,080
11	Amortization Expense	0		0
12	Customer Operations Expense	6,017	1,740	7,757
13	Corporate Operations	22,704	(2,360)	20,344
14	Total Operations Expenses (8 thru 12 +13b)	57,193	(620)	56,573
15	Operating Income or Margins (7 less 14)	(5,082)	620	(4,462)
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	2,319		2,319
20	Total Operating Taxes (17+18+19)	2,319	0	2,319
21	Net Operating Income or Margins (15+16-20)	(7,401)	620	(6,781)
22	Interest on Funded Debt			0
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (CF)			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)	13,815	(620)	13,195
31	Total Net Income or Margins (21+27+28+29+30-26)	6,414	0	6,414
32	Total Taxes Based on Income			293,729
33	Retained Earning or Margins Beginning-of-Year			0
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)	300,143	0	300,143
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	0.8910	#DIV/0!	0.8791
45	Cash Ratio ((14+20-11)/7)	1.1420	#DIV/0!	1.1301
46	Operating Accrual Ratio ((14+20+26)/7)		#DIV/0!	
47	TEER ((31+26)/26)		#DIV/0!	
48	DSCR ((31+26+10+11)/44)		#DIV/0!	

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9, 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) Column B, automatic offset to Nonregulated Net Income (No impact to retained earnings)

Company Name: (Below)
Hart Island Telephone Company

Line #	Description	Adjusted Prior Year 2014	Adjusted Current Year 2015
1	Local Network Services Revenues	18,604	19,765
2	Network Access Services Revenues	34,653	29,612
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	3,068	1,329
5	Miscellaneous Revenues	1,406	1,405
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(2)	0
7	Net Operating Revenues (1 thru 6)	57,729	52,111
8	Plant Specific Operations Expense	9,581	15,392
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	0	0
10	Depreciation Expense	16,152	13,080
11	Amortization Expense	0	0
12	Customer Operations Expense	6,091	7,757
13	Corporate Operations	21,479	20,344
14	Total Operations Expenses (8 thru 12 +13b)	53,303	56,573
15	Operating Income or Margins (7 less 14)	4,426	(4,462)
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	3,146	2,319
20	Total Operating Taxes (17+18+19)	3,146	2,319
21	Net Operating Income or Margins (15+16-20)	1,280	(6,781)
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	9,704	0
30	Nonregulated Net Income	9,704	13,195
31	Total Net Income or Margins (21+27+28+29-30-26)	10,984	6,414
32	Total Taxes Based on Income		
33	Retained Earnings or Margins Beginning-of-Year	282,745	293,729
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)	293,729	300,143
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)	0.6980	0.8791
46	Operating Accrual Ratio ((14+20+26)/7)	0.9778	1.1301
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!

Footnote
(A1) S Corporation Effective Tax Rate (2 decimal places):
2014 12.25%
2015 11.90%

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

EXHIBIT 4
FINANCIAL TEMPLATE

Company Name: (Below)

Hat Island Telephone Company

Description of Out-of-Period - 2015 (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				

Company Name:
Hat Island Telephone Company

Line #	Source(A)	Net Operating Income Imputed FIT Calculation	2015	
1	Page 9, Line 21 (CY)	Adjusted Net Operating Income	(6,781)	
2	Page 9, Line 26 (CY)	Out-of-Period or Pro Forma Adjustments	-	(A)
3	Page 9, Line 26 (CY)	Total Fixed Charges	(6,781)	
4	Sum	Adj. Taxable Operating Income (Line 1 + Line 2 - Line 3)	11.90%	
5	Calculated	Imputed S Corp. Tax Rate(B)	(807)	
6	Calculated	Imputed FIT (Line 4 * Line 5)	(5,974)	(B)
7	Sum	Adj. Net Operating Income after FIT (Line 1 - Line 6)		
NonOperating Income Imputed FIT Calculation				
8	Page 9, Line 27 (CY)	Nonoperating net income	-	
9	Page 9, Line 30 (CY)	Nonregulated net income	13,195	
10	Sum	Sub-Total (Line 27+Line 30)	13,195	
11	Calculated	Imputed S Corp. Tax Rate(B)	11.90%	
12	Calculated	FIT (Line 10 * Line 11)	1,570	(C)
13	Sum	Nonop./Nonreg Income after FIT (Line 10 - Line 12)	11,625	
14	Sum	Adjusted Net Income w/Imputed FIT	5,651	(B)+(C)-(A)
Sanity Check:				
15	Page 9, Line 31 (CY)	Line 31 as reported	6,414	
16	Out-of-Period or Pro Forma Adjustments	Out-of-Period or Pro Forma Adjustments	-	
17	Total	Total	6,414	
18	Calculated	Inverse of effective tax rate (100%-Line 10 percent)	88.10%	
19	Calculated	Adjusted Net Income (Line 17*Line 18) = Line 14	5,651	(D)
Regulated Rate of Return				
20	Page 5, Total (PY)	Regulated rate base Year End 2014	116,459	
21	Page 5, Total (CY)	Regulated rate base Year End 2015	109,019	
22	Sum	Total	225,478	
23	Calculated	Simple Avg.	112,739	(E)
24	Line 7 (above)	Adj Operating Income after imputed FIT	(5,974)	
27	Calculated	Regulated rate of return	-5.3%	(B)/(E)
Total Consolidated Company Return on Equity				
28	Audited FinStmts	Total Equity Year End 2014	297,729	
29	Audited FinStmts	Total Equity Year End 2015	304,143	
30	Sum	Total	601,872	
31	Calculated	Simple Avg.	300,936	(G)
32	Audited FinStmts	Consolidated Net Income	6,414	
33	Line 2 above	Out-of-period or Pro Forma Adjustments	-	
34	Adjusted Consolidated Net Income	Adjusted Consolidated Net Income	6,414	
35	Imputed S Corp Tax Rate	Imputed S Corp Tax Rate	11.90%	
36	Imputed FIT (Line 34 * Line 35)	Imputed FIT (Line 34 * Line 35)	763	
37	Sum	Adj Consolidated Net Income after Imputed FIT	5,651	(H)
38	Calculated	Total Adj. Consolidated Company Return on Equity	1.9%	(H)/(G)

Footnotes:
Lines 2, 16 & 33 will be completed by Staff
Lines 28, 29 & 32 to be completed by the Company

Prior and Current Year Broadband and Gross Capital Expenditures

Company Name: (Below)

Hat Island Telephone Company _____

Description	Prior Year	Current Year	Difference	% Change
	End of Yr. Balance - 2014	End of Yr. Balance - 2015		
Broadband Connections:				
Residential	48	48	0	0.0%
Business	3	3	0	0.0%
Total	51	51	0	0.0%
Gross Regulated and Nonregulated Capital Expenditures:				
Total Annual Amount	2014 \$0	2015 \$4,294	Difference \$4,294	% Change #DIV/0!

EXHIBIT 5

HAT ISLAND TELEPHONE COMPANY

Reviewed Financial Statements

December 31, 2015 and 2014

HAT ISLAND TELEPHONE COMPANY

Reviewed Financial Statements

December 31, 2015 and 2014

INDEPENDENT ACCOUNTANT'S REVIEW REPORT 1

REVIEWED FINANCIAL STATEMENTS

Balance Sheets 2

 Statements of Income 3

 Statements of Stockholder's Equity 4

 Statements of Cash Flows 5

 Notes to Financial Statements 6-11



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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, 2015 and 2014, and the related statements of income, 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 4, 2016

REVIEWED FINANCIAL STATEMENTS

HAT ISLAND TELEPHONE COMPANY

BALANCE SHEETS

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,537	\$ 25,928
Telecommunications accounts receivable	2,344	1,792
Due from affiliated company	<u>169,593</u>	<u>148,229</u>
Total Current Assets	192,474	175,949
PROPERTY, PLANT AND EQUIPMENT		
Telecommunications plant in service	428,516	424,221
Less allowances for depreciation	<u>311,480</u>	<u>298,400</u>
Total Telecommunications Plant	<u>117,036</u>	<u>125,821</u>
TOTAL ASSETS	<u>\$ 309,510</u>	<u>\$ 301,770</u>
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 1,275	\$ 312
Taxes, other than income taxes	2,707	2,598
Deferred revenue	<u>1,385</u>	<u>1,131</u>
Total Current Liabilities	5,367	4,041
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>300,143</u>	<u>293,729</u>
Total Stockholder's Equity	<u>304,143</u>	<u>297,729</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 309,510</u>	<u>\$ 301,770</u>

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

HAT ISLAND TELEPHONE COMPANY

STATEMENTS OF INCOME

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Local network service revenues	\$ 19,765	\$ 18,604
Network access service revenues	29,612	34,653
Miscellaneous revenues	2,734	4,472
Other operating revenues	<u>25,427</u>	<u>22,338</u>
Total Operating Revenues	77,538	80,067
OPERATING EXPENSES		
Plant specific operations	15,392	9,581
Depreciation	13,080	16,152
Customer operations	6,017	6,091
Corporate operations	22,704	21,479
Other operating expenses	11,612	12,634
Taxes, other than income taxes	<u>2,319</u>	<u>3,146</u>
Total Operating Expenses	<u>71,124</u>	<u>69,083</u>
NET INCOME	<u>\$ 6,414</u>	<u>\$ 10,984</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, 2015 and 2014

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
BALANCE AT DECEMBER 31, 2013	\$ 4,000	\$ 282,745	\$ 286,745
Net Income	_____	<u>10,984</u>	<u>10,984</u>
BALANCE AT DECEMBER 31, 2014	4,000	293,729	297,729
Net income	_____	<u>6,414</u>	<u>6,414</u>
BALANCE AT DECEMBER 31, 2015	\$ <u>4,000</u>	\$ <u>300,143</u>	\$ <u>304,143</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 6,414	\$ 10,984
Adjustments to reconcile net income to net cash used by operating activities		
Depreciation of telecommunications plant	13,080	16,152
Net change in operating assets and liabilities	<u>(20,590)</u>	<u>(117,063)</u>
Net Cash Used by Operating Activities	(1,096)	(89,927)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	<u>(4,295)</u>	<u> </u>
Net Cash Used by Investing Activities	<u>(4,295)</u>	<u> </u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,391)	(89,927)
Cash and Cash Equivalents at Beginning of Year	<u>25,928</u>	<u>115,855</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 20,537</u>	<u>\$ 25,928</u>
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Telecommunications accounts receivable	\$ (552)	\$ 1,479
Due from affiliated company	(21,364)	(119,827)
Prepaid expenses		935
Increase (decrease) in liabilities		
Accounts payable	963	(658)
Taxes, other than income taxes	109	(123)
Deferred revenue	<u>254</u>	<u>1,131</u>
NET CHANGE IN OPERATING ASSETS AND LIABILITIES	<u>\$ (20,590)</u>	<u>\$ (117,063)</u>

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

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014

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 system 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, 2015 and 2014

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 began 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 in 2014 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. In 2015, the Company received \$2,771 from the state USF program for the period July 1, 2015 to June 30, 2016, and recorded deferred revenue of \$1,385 for the unearned portion. 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's federal income tax returns for the tax years ending before December 31, 2012 are closed to examinations.

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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 4, 2016 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, 2015, the Company's cash balance did not exceed the insured amount.

In addition, at December 31, 2015, 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>2015</u>	<u>2014</u>
Due from customers and agents	\$ 705	\$ 633
Due from exchange carriers and exchange carrier associations	<u>1,639</u>	<u>1,159</u>
	<u>\$ 2,344</u>	<u>\$ 1,792</u>

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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, 2015. As of December 31, 2015, there are no telecommunications accounts receivable that were outstanding ninety days or more after the date of the invoice on which they were first billed.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Regulated Telecommunication Plant

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

Major classes of the telecommunications plant assets in service as of December 31, 2015 and 2014 are:

	<u>2015</u>	<u>2014</u>
General support facilities	\$ 190,487	\$ 190,487
Central office equipment	62,824	58,529
Cable and wire facilities	<u>175,205</u>	<u>175,205</u>
	<u>\$ 428,516</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 \$13,080 and \$16,152 for years ending December 31, 2015 and 2014, respectively.

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

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, 2015 and 2014, the Company had made payments to Whidbey in excess of the amounts billed by Whidbey.

**EXHIBIT 6
RUS FORM 479**

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

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

<010> Study Area Code 522417
 <015> Study Area Name Hat Island
 <020> Program Year 2017
 <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	18604	19765
2. Network Access Services Revenues	34653	29612
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues	3068	1329
5. Miscellaneous Revenues	1406	1405
6. Uncollectible Revenues	-2	0
7. Net Operating Revenues (1 thru 5 less 6)	57729	52111
8. Plant Specific Operations Expense	9581	15392
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	0	0
10. Depreciation Expense	16152	13080
11. Amortization Expense		0
12. Customer Operations Expense	6091	6017
13. Corporate Operations Expense	21479	22704
14. Total Operating Expenses (8 thru 13)	53303	57193
15. Operating Income or Margins (7 less 14)	4426	-5082
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes		
19. Other Taxes	3146	2319
20. Total Operating Taxes (17+18+19)	3146	2319
21. Net Operating Income or Margins (15+16-20)	1280	-7401
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	9704	13815
31. Total Net Income or margins (21+27+28+29+30-26)	10984	6414
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	282745	293729
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)		
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date	0	0
38. Transfers to Patronage Capital		
39. Retained Earnings or Margins end-of-Period [(31+33+34)-(35+36+37+38)]	293729	300143
40. Patronage Capital Beginning-of-Year		
41. Transfers to Patronage Capital		
42. Patronage Capital Credits Retired		
43. Patronage Capital End-of-Year (40+41-42)	0	
44. Annual Debt Service Payments		
45. Cash Ratio [(14+20-10-11)/7]		
46. Operating Accrual Ratio [(14+20+26)/7]		
47. TIER [(31+26)/26]		
48. DSCR [(31+26+10+11)/44]		

EXHIBIT 7

CORPORATE OPERATIONS EXPENSE ADJUSTMENT CERTIFICATE

I, Frank McIntyre, 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 2015 and 2014.

Date this 30th day of July, 2016.



Frank McIntyre
Secretary/Treasurer

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

I, Frank McIntyre, 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, 2016.



Frank McIntyre
Secretary/Treasurer

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Frank McIntyre, 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 2017.

Dated this 30th day of July, 2016.



Frank McIntyre
Secretary/Treasurer