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

8 IN RE

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

DOCKET NO.

PETITION TO RECEIVE SUPPORT

14  
15 COMES NOW Hat Island Telephone Company (the "Company") and, pursuant to Chapter  
16 480-123 of the Washington Administrative Code ("WAC"), including, but not limited to, WAC  
17 480-123-110, hereby petitions the Washington Utilities and Transportation Commission (the  
18 "Commission") to receive support from the state Universal Communications Services Program  
19 established by RCW 80.36.650 (the "Program") for the Program year 2015.

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

- 22 1. WAC 480-123-100(1)(a): The Company is a local exchange company as defined in WAC  
23 480-120-021 that serves less than forty thousand access lines within the state.

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26 PETITION OF HAT ISLAND TELEPHONE  
COMPANY TO RECEIVE SUPPORT  
FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES  
PROGRAM - 1

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

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

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

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<sup>1</sup> Pursuant to agreement with the Commission Staff, Exhibit 1 is limited to those affiliates, if any, having transactions with the Company that are to be identified in Exhibit 2.

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

- 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 as Exhibit 3.
- 8 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,  
9 are copies of the Company's balance sheet as of December 31, 2013, and December 31,  
10 2012, and copies of the Company's statements of income and retained earnings or margin for  
11 the years ended December 31, 2013, and December 31, 2012.
- 12 6. WAC 480-123-110(1)(e)(ii): Copies of the Company's financial statements for the years  
13 ended December 31, 2013, and December 31, 2012, reviewed by a certified public  
14 accountant, are attached 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  
20 two prior years, calculated in the manner prescribed by the Commission, is provided in  
21 Exhibit 4.

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22  
23 <sup>2</sup> Exhibit 2 also includes transactions between the Company and Whidbey Telephone Company.  
24 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 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the  
2 statements of income and retained earnings or margin section of RUS Form 479 for the prior  
3 two years is attached as Exhibit 6.
- 4 10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company officer  
5 with personal knowledge and responsibility certifying that no corporate operations  
6 adjustment to existing high-cost loop and interstate common line support mechanisms  
7 required by the Federal Communications Commission applied to the Company for the two  
8 prior years is attached hereto as Exhibit 7.
- 9 11. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains additional supporting information  
10 requested by the Commission.
- 11 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company  
12 officer with personal knowledge and responsibility certifying that the Company complies  
13 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to  
14 incumbent local exchange companies is attached as Exhibit 8.
- 15 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or  
16 on its behalf with the Federal Communications Commission for the calendar year preceding  
17 the current year has already been filed with the Commission. See the Company's filing in  
18 Docket No. UT-143013 filed on or about July 1, 2014.
- 19 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by  
20 the Company as of December 31, 2013, was 54. The number of residential local exchange  
21 access lines served by the Company as of December 31, 2012, was 55. The number of  
22 business local exchange access lines served by the Company as of December 31, 2013, was  
23 11. The number of business local exchange access lines served by the Company as of

1 December 31, 2012, was 11. The monthly recurring rate charged by the Company for  
2 residential local exchange access service on December 31, 2013, was \$15.00. The monthly  
3 recurring rate charged by the Company for residential local exchange access service on  
4 December 31, 2012, was \$15.00. The monthly recurring rate charged by the Company for  
5 single line business local exchange access service on December 31, 2013, was \$25.00. The  
6 monthly recurring rate charged by the Company for single line business local exchange  
7 access service on December 31, 2012, was \$25.00.

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

9 16. All exhibits attached hereto are incorporated into this Petition as though fully set forth.

10 Respectfully submitted this 1st day of August, 2014.

11 HAT ISLAND TELEPHONE COMPANY

12  
13  
14 By   
15 Bruce Russell, Chief Operating Officer

16 CERTIFICATION

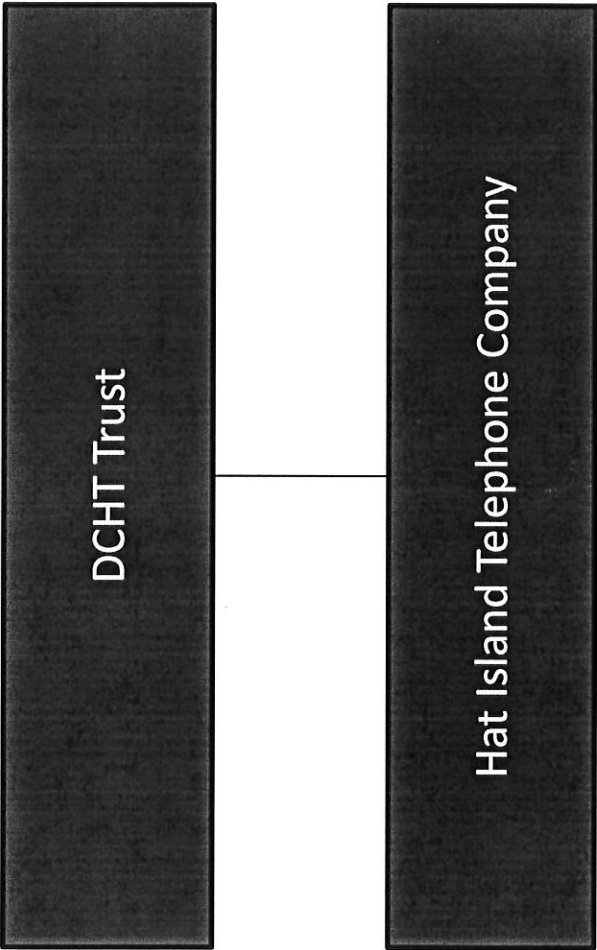
17 I, Bruce Russell, an officer of the Company that is responsible for the Company's business  
18 and financial operations, hereby certify under penalty of perjury that the information and  
19 representations set forth in the Petition, above, are accurate and the Company has not knowingly  
20 withheld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

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25 Bruce Russell

26 Chief Operating Officer

EXHIBIT 1  
CORPORATE ORGANIZATION CHART



## EXHIBIT 2

### DESCRIPTION OF TRANSACTIONS BETWEEN COMPANY AND AFFILIATES

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

#### Ownership and the Company

- Shareholders of the Company receive distributions from the Company that the Company records as Distributions to Ownership.

#### The Company and Whidbey Telephone Company

- Whidbey Telephone Company provides switching and billing services to the Company. These services are billed to the Company by Whidbey Telephone Company, and are treated by the Company as Central Office Switching expense. They are priced at rates equal to the rates specified in Whidbey Telephone Company Tariff WN U-5.

### EXHIBIT 3

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

The operating environment in which the Hat Island Telephone Company ("Company") finds itself is one of great financial uncertainty. In large part, this financial uncertainty stems from the Transformation Order issued by the Federal Communications Commission.<sup>1</sup> The 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 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 Company had been exploring ways of addressing access bypass to increase access revenues. However, any increase in access revenues under the Transformation Order would simply be a reduction in CAF support and no new net revenues would be produced. The CAF support reduction began July 2012. Projecting through the calendar year 2015, including additional reductions that will occur July 1, 2015, the Company is seeing a reduction in annual support from the base line revenue amount of approximately \$ 570.

In addition, by order of this Commission, the traditional universal service access rate element and related pooling fund have been terminated effective July 1, 2014. Using 2012 as a base line, which is the latest year with final pool numbers, the Company is facing a loss of traditional universal service fund revenues of approximately \$2,100 per year.

In addition, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. A loss of customers easily equates to a loss of revenue without a corresponding reduction in expenses.

In addition, during the 5-year period ended December 31, 2013, the Company has seen its Federal high cost loop support vanish – declining from \$1,680 in 2009 to \$0 in 2013.

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

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<sup>1</sup> *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform - Mobility Fund*, 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* or *Transformation Order*).



The combination of factors noted above creates a situation in which, without support from the state universal service communications program, the Company may be faced with a choice of increasing rates further, which may drive more customers away, or cutting service in order to be able to match expenses to revenues. Neither choice presents a viable path for providing good 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.

Company Name: (Below)  
 Hat Island Telephone Company

ASSETS	Balance End of Year 2012 (A)	Part 64 Adj to NonReg 2012 (B)	Adj. Balance End of Year 2012	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance Prior Year 2012 (A)	Part 64 Adj to NonReg 2012 (B)	Adj. Balance End of Year 2012
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
1. Cash and Equivalents	108,002		108,002	25. Accounts Payable	5,048		5,048
2. Cash-RUS Construction Fund			0	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments	0		0
a. Telecom, Accounts Receivable	1,428		1,428	28. Customer Deposits	0		0
b. Other Accounts Receivable	33,071		33,071	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	(1,058)		(1,058)
b. Other Accounts Receivable			0	33. Other Taxes Accrued			0
c. Notes Receivable			0	34. Other Current Liabilities			0
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	3,990		3,990
6. Material-Regulated			0	<b>LONG-TERM DEBT</b>			
7. Material-Nonregulated			0	36. Funded Debt-RUS Notes	0		0
8. Prepayments	882		882	37. Funded Debt-RTB Notes	0		0
9. Other Current Assets			0	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	143,383	-	143,383	39. Funded Debt-Other	0		0
				40. Funded Debt-Rural Develop. Loan	0		0
<b>NONCURRENT ASSETS</b>				41. Premium (Discount) on L/T Debt	0		0
11. Investment in Affiliated Companies			0	42. Reacquired Debt	0		0
a. Rural Development			0	43. Obligations Under Capital Lease	0		0
b. Nonrural Development			0	44. Adv. From Affiliated Companies	0		0
12. Other Investments			0	45. Other Long-Term Debt	0		0
a. Rural Development			0	46. Total Long-Term Debt (36 thru 45)	0		0
b. Nonrural Development			0	<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
13. Nonregulated Investments (B1)			0	47. Other Long-Term Liabilities	0		0
14. Other Noncurrent Assets			0	48. Other Deferred Credits (C)	0		0
15. Deferred Charges			0	49. Other Jurisdictional Differences	0		0
16. Jurisdictional Differences			0	50. Total Other Liab. & Def. Credits (47 thru 49)	0		0
17. Total noncurrent Assets (11 thru 16)	0	0	0	<b>EQUITY</b>			
				51. Cap. Stock Outstanding & Subscribed	4,000		4,000
<b>PLANT, PROPERTY AND EQUIPMENT</b>				52. Additional Paid-in-Capital	0		0
18. Telecom Plant-In-Service	429,021		429,021	53. Treasury Stock	0		0
19. Property Held for Future Use			0	54. Membership and cap. Certificates	0		0
20. Plant Under Construction			0	55. Other Capital	0		0
21. Plant Adj., Nonop Plant & Goodwill			0	56. Patronage Capital Credits	0		0
22. Accumulated Depreciation (CR.)	(266,084)		(266,084)	57. Retained Earnings or Margins (B2)	298,330		298,330
23. Net Plant (18 thru 21 less 22)	162,937	0	162,937	58. Total Equity (51 thru 57)	302,330	-	302,330
<b>TOTAL ASSETS (10+17+23)</b>	<b>306,320</b>	<b>0</b>	<b>306,320</b>	<b>59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)</b>	<b>306,320</b>	<b>0</b>	<b>306,320</b>

(A) - As reported on Form 481

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

(B1) - Part 64 offset to nonreg investment

(B2) - Part 64 offset to retained earnings

(C) - Part 64 Adj. for line 48 is only for deferred taxes.

2014 State USF Petition Filing requirement - WAC 480-123-110 (e)  
 Network Access Services Revenue  
 Prior and Current Year

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

(A) - As reported on Form 481  
 (B) - Part 64 adjustments to rate base from regulated to nonregulated.  
 (B1) - Part 64 offset to nonreg investment  
 (B2) - Part 64 offset to retained earnings  
 (C) - Part 64 Adj. for line 48 is only for deferred taxes.

2014 State USF Petition Filing requirement - WAC 480-123-110 (e)  
 Network Access Services Revenue  
 Prior and Current Year

Company Name: (Below)  
 Hat Island Telephone Company

ASSETS	Adjusted Prior Year Balance 2012	Adjusted Current Year Balance 2013	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2012	Adjusted Prior Year Balance 2013
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
1. Cash and Equivalents	108,002	115,855	25. Accounts Payable	5,048	970
2. Cash-RUS Construction Fund	0	0	26. Notes Payable	0	0
3. Affiliates:			27. Advance Billings and Payments	0	0
a. Telecom, Accounts Receivable	1,428	3,271	28. Customer Deposits	0	0
b. Other Accounts Receivable	33,071	28,402	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	(1,058)	2,721
c. Notes Receivable	0	0	34. Other Current Liabilities	0	0
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	3,990	3,691
6. Material-Regulated	0	0	<b>LONG-TERM DEBT</b>		
7. Material-Nonregulated	0	0	36. Funded Debt-RUS Notes	0	0
8. Prepayments	882	935	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)	143,383	148,463	39. Funded Debt-Other	0	0
			40. Funded Debt-Rural Develop. Loan	0	0
<b>NONCURRENT ASSETS</b>			41. Premium (Discount) on L/T Debt	0	0
11. Investment in Affiliated Companies			42. Reacquired Debt	0	0
a. Rural Development	0	0	43. Obligations Under Capital Lease	0	0
b. Nonrural Development	0	0	44. Adv. From Affiliated Companies	0	0
12. Other Investments			45. Other Long-Term Debt	0	0
a. Rural Development	0	0	46. Total Long-Term Debt (36-45)	0	0
b. Nonrural Development	0	0	<b>OTHER LIAB. &amp; DEF. CREDITS</b>		
13. Nonregulated Investments	0	0	47. Other Long-Term Liabilities	0	0
14. Other Noncurrent Assets	0	0	48. Other Deferred Credits (B)	0	0
15. Deferred Charges	0	0	49. Other Jurisdictional Differences	0	0
16. Jurisdictional Differences	0	0	50. Total Other Liab. & Def. Credits (47 thru 49)	0	0
17. Total noncurrent Assets (11 thru 16)	0	0	<b>EQUITY</b>		
			51. Cap. Stock Outstanding & Subscribed	4,000	4,000
<b>PLANT, PROPERTY AND EQUIPMENT</b>			52. Additional Paid-in-Capital	0	0
18. Telecom Plant-in-Service	429,021	424,221	53. Treasury Stock	0	0
19. Property Held for Future Use	0	0	54. Membership and cap. Certificates	0	0
20. Plant Under Construction	0	0	55. Other Capital	0	0
21. Plant Adj., Nonop Plant & Goodwill	0	0	56. Patronage Capital Credits	0	0
22. Accumulated Depreciation (Cr.)	(266,084)	(282,248)	57. Retained Earnings or Margins	298,330	282,745
23. Net Plant (18 thru 21 less 22)	162,937	141,973	58. Total Equity (51 thru 57)	302,330	286,745
<b>TOTAL ASSETS (10+17+23)</b>	<b>306,320</b>	<b>290,436</b>	<b>59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)</b>	<b>306,320</b>	<b>290,436</b>

Note:  
 Adjusted Balances represents balances  
 after current year Part 64 adjustments  
 (B) - Provide Deferred Taxes on  
 separate rate base schedule

2014 State USF Petition Filing requirement - WAC 480-123-110 (e)  
 Network Access Services Revenue  
 Prior and Current Year

Company Name: (Below)  
 Hat Island Telephone Company

Line #	Adj. Balance End of Year 2012	Adj. Balance End of Year 2013	Average Adj End of Year Balance
18	429,021	424,221	426,621
19	0	0	0
22	(266,084)	(282,248)	(274,166)
6	0	0	0
	162,937	141,973	152,455

Note:

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

2014 State USF Petition Filing requirement - WAC 480-123-110 (e)  
 Network Access Services Revenue  
 Prior and Current Year

Company Name: (Below)  
 Hat Island Telephone Company \_\_\_\_\_

Description	Prior Year End of Yr. Balance - 2012	Current Year End of Yr Balance - 2013	Difference	% Change
<b>Access Lines:</b>				
Residential	55	54	(1)	-1.8%
Business	11	11	0	0.0%
<b>Total</b>	<b>66</b>	<b>65</b>	<b>(1)</b>	<b>-1.5%</b>
	End of Yr. Balance - 2012	End of Year Balance -2013	Difference	% Change
<b>Broadband Connections</b>	45	46	1	2.2%
	Prior Yr. 2012	Current Yr. 2013	Difference	% Change
<b>Total Annual Amount:</b>				
Gross Capital Expenditures	6,893	0	(6,893)	-100.0%

Network Access Services Revenue

Prior and Current Year

FCC Form 481

Part B Statement of Income and Retained Earnings Statement

Company Name: (Below)

Hat Island Telephone Company

Line #	Item	Prior Year 2012 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2012
1	Local Network Services Revenues	19,177		19,177
2	Network Access Services Revenues	23,972		23,972
3	Long Distance Network Services Revenues			0
4	Carrier Billing and Collection Revenues	2,125		2,125
5	Miscellaneous Revenues	23,028		23,028
6	Uncollectible Revenues (Normal Balance is debit or in brackets)			0
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>68,302</b>	<b>0</b>	<b>68,302</b>
8	Plant Specific Operations Expense	13,846		13,846
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	9,185		9,185
10	Depreciation Expense	19,640		19,640
11	Amortization Expense			0
12	Customer Operations Expense	10,295		10,295
13	Corporate Operations	7,951		7,951
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ( )			0
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	7,951	0	7,951
14	<b>Total Operations Expenses (8 thru 12 +13b)</b>	<b>60,917</b>	<b>0</b>	<b>60,917</b>
15	Operating Income or Margins (7 less 14)	7,385	0	7,385
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes			0
18	Federal Income Taxes (A1)			0
19	Other Taxes	2,643		2,643
20	Total Operating Taxes (17+18+19)	2,643	0	2,643
21	Net Operating Income or Margins (15+16-20)	4,742	0	4,742
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)		0	0
31	Total Net Income or Margins (21+27+28+29+30-26)	4,742	0	4,742
32	Total Taxes Based on Income			0
33	Retained Earning or Margins Beginning-of-Year	318,588		318,588
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)	25,000		25,000
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))	298,330	0	298,330
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)	0.6430	#DIV/0!	0.6430
46	Operating Accrual Ratio ((14+20+26)/7)	0.9306	#DIV/0!	0.9306
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!	#DIV/0!

Notes:

- (A) As reported on Form 481
- (A1) S Corporations provide effective tax rate on Income Statement Summary Schedule footnote, Page 8
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Part 64 offset to nonregulated income (No Impact to retained earnings)

2014 State USF Petition Filing requirement - WAC 480-123-110 (e)  
 Network Access Services Revenue  
 Prior and Current Year

Company Name: (Below)  
 Hat Island Telephone Company

Line #	Item	Prior Year 2013 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2013
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
4	Carrier Billing and Collection Revenues	2,225		2,225
5	Miscellaneous Revenues	23,290		23,290
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	71		71
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>69,602</b>	<b>0</b>	<b>69,602</b>
8	Plant Specific Operations Expense	19,245		19,245
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	11,348		11,348
10	Depreciation Expense	19,764		19,764
11	Amortization Expense			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 ( )			0
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	17,504	0	17,504
14	<b>Total Operations Expenses (8 thru 12 +13b)</b>	<b>75,700</b>	<b>0</b>	<b>75,700</b>
15	Operating Income or Margins (7 less 14)	(6,098)	0	(6,098)
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes			0
18	Federal Income Taxes (A1)			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)	(12,530)	0	(12,530)
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)		0	0
31	Total Net Income or Margins (21+27+28+29+30-26)	(12,530)	0	(12,530)
32	Total Taxes Based on Income			0
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 or Margins End-of-Period ((31+33+34)-(35+36+37+38))	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)	0.8961	#DIV/0!	0.8961
46	Operating Accrual Ratio ((14+20+26)/7)	1.1800	#DIV/0!	1.1800
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!	#DIV/0!

Notes:

- (A) As reported on Form 481
- (A1) S Corporations provide effective tax rate on Income Statement Summary Schedule footnote, Page 8
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Part 64 offset to nonregulated income (No Impact to retained earnings)



2014 State USF Petition Filing requirement - WAC 480-123-110 (e)  
**Network Access Services Revenue**  
**Prior and Current Year**

Company Name:  
Hat Island Telephone Company

Line #	Item	Adjusted Prior Year 2012	Adjusted Current Year 2013
1	Local Network Services Revenues	19,177	19,004
2	Network Access Services Revenues	23,972	25,012
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	2,125	2,225
5	Miscellaneous Revenues	23,028	23,290
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	0	71
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>68,302</b>	<b>69,602</b>
8	Plant Specific Operations Expense	13,846	19,245
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	9,185	11,348
10	Depreciation Expense	19,640	19,764
11	Amortization Expense	0	0
12	Customer Operations Expense	10,295	7,839
13	Corporate Operations	7,951	17,504
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ( )	0	0
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	7,951	17,504
14	<b>Total Operations Expenses (8 thru 12 +13b)</b>	<b>60,917</b>	<b>75,700</b>
15	Operating Income or Margins (7 less 14)	7,385	(6,098)
16	Other Operating Income and Expenses ( )	0	0
17	State and Local Taxes	0	0
18	Federal Income Taxes	0	0
19	Other Taxes	2,643	6,432
20	Total Operating Taxes (17+18+19)	2,643	6,432
21	Net Operating Income or Margins (15+16-20)	4,742	(12,530)
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	0	0
31	Total Net Income or Margins (21+27+28+29+30-26)	4,742	(12,530)
32	Total Taxes Based on Income	0	0
33	Retained Earning or Margins Beginning-of-Year	318,588	298,330
34	Miscellaneous Credits Year-to-Date		0
35	Dividends Declared (Common)	25,000	0
36	Dividends Declared (Preferred)		0
37	Other Debits Year-to-Date	0	3,055
38	Transfers to Patronage Capital	0	0
39	Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))	298,330	282,745
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)	0.6430	0.8961
46	Operating Accrual Ratio ((14+20+26)/7)	0.9306	1.1800
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):

2012	2013
10.00%	10.00%

2014 State USF Petition Filing requirement - WAC 480-123-110 (e)  
 Network Access Services Revenue  
 Prior and Current Year

Company Name: (Below)  
Hat Island Telephone Company

Description	Part 32 Account	2012	2013
End User Revenue (SLC, ARC, etc.)	5081	5,678	6,714
Switched Access (excluding USF):	5082		
Intrastate		9,134	3,033
Interstate		(17,929)	(9,596)
Special Access:	5083		
Intrastate		12,866	13,692
Interstate		0	0
Federal USF (ICLS/CAF/HCL/SN)	Varies	14,223	11,169
Total (must equal line 2 of Income Stmt.)		23,972	25,012
Line 2 of Income Stmt.		23,972	25,012
Difference		0	0

**HAT ISLAND TELEPHONE COMPANY**

Reviewed Financial Statements

December 31, 2013 and 2012

**HAT ISLAND TELEPHONE COMPANY**

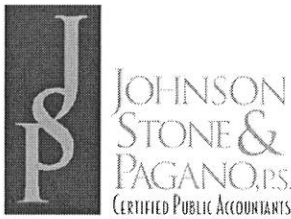
Reviewed Financial Statements

December 31, 2013 and 2012

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

**REVIEWED FINANCIAL STATEMENTS**

Balance Sheets .....2  
Statements of Operations .....3  
Statements of Stockholder’s Equity .....4  
Statements of Cash Flows .....5  
Notes to Financial Statements..... 6-10



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

### Independent Accountant's Review Report

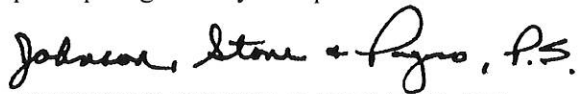
Board of Directors  
Hat Island Telephone Company  
Langley, Washington

We have reviewed the accompanying balance sheets of Hat Island Telephone Company (the "Company") as of December 31, 2013 and 2012, and the related statements of operations, 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.

March 22, 2014

REVIEWED FINANCIAL STATEMENTS

# HAT ISLAND TELEPHONE COMPANY

## BALANCE SHEETS

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 115,855	\$ 108,002
Telecommunications accounts receivable	3,271	2,930
Due from affiliated company	28,402	25,010
Prepaid expenses	<u>935</u>	<u>1,310</u>
<b>Total Current Assets</b>	148,463	137,252
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Telecommunications plant in service	424,221	429,021
Less allowances for depreciation	<u>282,248</u>	<u>266,084</u>
<b>Total Telecommunications Plant</b>	<u>141,973</u>	<u>162,937</u>
<b>TOTAL ASSETS</b>	<u>\$ 290,436</u>	<u>\$ 300,189</u>
<b><u>LIABILITIES AND STOCKHOLDER'S EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 970	\$ 914
Taxes, other than income taxes	<u>2,721</u>	<u>          </u>
<b>Total Current Liabilities</b>	3,691	914
<b>STOCKHOLDER'S EQUITY</b>		
Capital stock, par value \$10 per share; Authorized - 2,500 shares		
Issued and outstanding - 400 shares	4,000	4,000
Retained earnings	<u>282,745</u>	<u>295,275</u>
<b>Total Stockholder's Equity</b>	<u>286,745</u>	<u>299,275</u>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<u>\$ 290,436</u>	<u>\$ 300,189</u>

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

**HAT ISLAND TELEPHONE COMPANY**

**STATEMENTS OF OPERATIONS**

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Local network service revenues	\$ 19,004	\$ 19,177
Network access service revenues	25,012	23,972
Miscellaneous revenues	4,743	5,124
Other operating revenues	<u>20,843</u>	<u>20,028</u>
<b>Total Operating Revenues</b>	69,602	68,301
<b>OPERATING EXPENSES</b>		
Plant specific operations	19,245	13,208
Depreciation	19,764	19,640
Customer operations	7,839	10,295
Corporate operations	17,504	7,951
Other operating expenses	11,348	9,823
Taxes, other than income taxes	<u>6,432</u>	<u>2,642</u>
<b>Total Operating Expenses</b>	<u>82,132</u>	<u>63,559</u>
<b>NET INCOME (LOSS)</b>	<u>\$ (12,530)</u>	<u>\$ 4,742</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, 2013 and 2012

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>BALANCE AT DECEMBER 31, 2011</b>	\$ 4,000	\$ 315,533	\$ 319,533
Distributions to stockholder		(25,000)	(25,000)
Net income	<u>          </u>	<u>4,742</u>	<u>4,742</u>
<b>BALANCE AT DECEMBER 31, 2012</b>	4,000	295,275	299,275
Net loss	<u>          </u>	<u>(12,530)</u>	<u>(12,530)</u>
<b>BALANCE AT DECEMBER 31, 2013</b>	<u>\$ 4,000</u>	<u>\$ 282,745</u>	<u>\$ 286,745</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (12,530)	\$ 4,742
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation of telecommunications plant	19,764	19,640
Net change in operating assets and liabilities	<u>(581)</u>	<u>3,570</u>
<b>Net Cash Provided by Operating Activities</b>	6,653	27,952
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to telecommunications plant		(6,893)
Salvage on retired property, plant and equipment	<u>1,200</u>	<u>          </u>
<b>Net Cash Provided (Used) by Investing Activities</b>	1,200	(6,893)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Distributions to stockholder	<u>          </u>	<u>(25,000)</u>
<b>Net Cash Used by Financing Activities</b>	<u>          </u>	<u>(25,000)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	7,853	(3,941)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>108,002</u>	<u>111,943</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 115,855</u>	<u>\$ 108,002</u>
<b>COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES</b>		
(Increase) decrease in assets		
Telecommunications accounts receivable	\$ (341)	\$ 1,144
Due from affiliated company	(3,392)	2,610
Prepaid expenses	375	(964)
Increase in liabilities		
Accounts payable	56	780
Taxes, other than income taxes	<u>2,721</u>	<u>          </u>
<b>NET CHANGE IN OPERATING ASSETS AND LIABILITIES</b>	<u>\$ (581)</u>	<u>\$ 3,570</u>

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

## HAT ISLAND TELEPHONE COMPANY

### NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

#### **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") has reformed the universal service and intercarrier compensation systems. These reforms have modified the manner in which the Company recovers its telecommunications revenue requirements.

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

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

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

The Company considers 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, 2013, 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, 2013 and 2012

**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 recently issued 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 have 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 could have an adverse effect on the Company's revenues and cash flow. Revenue impacts are subject to change based on the outcome of numerous petitions and legal challenges, as well as future data submissions and further clarification from the FCC.

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.

**HAT ISLAND TELEPHONE COMPANY**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2013 and 2012

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

*Federal Income Taxes (Continued)*

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, 2010 are closed to examination.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles 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 22, 2014 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 ("FDIC") up to \$250,000. The Company periodically maintains cash balances in excess of the federally insured limits. At December 31, 2013, the Company's cash balance did not exceed the insured amount.

In addition, at December 31, 2013, 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 ("SIPC") up to \$500,000 for brokerage accounts with a limit of \$250,000 for claims of uninvested cash balances and additional brokerage insurance through the broker-dealer's underwriters as stated in the broker-dealer account agreement.

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

# HAT ISLAND TELEPHONE COMPANY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

### NOTE 3 - TELECOMMUNICATIONS ACCOUNTS RECEIVABLE

The telecommunications accounts receivable balances consist of:

	<u>2013</u>	<u>2012</u>
Due from customers and agents	\$ 1,524	\$ 1,428
Due from exchange carriers and exchange carriers association	<u>1,747</u>	<u>1,502</u>
	<u>\$ 3,271</u>	<u>\$ 2,930</u>

The Company extends credit to its business and residential customers based upon a written credit policy. Service interruption is the primary vehicle for controlling losses. Telecommunications accounts receivable are recorded when subscriber bills, carrier access bills and exchange carrier associations settlement statements are rendered. Certain exchange carrier associations' settlements are subject to out-of-period adjustments and are recorded during the year in which they become determinable. Telecommunications accounts receivable are written off when they are determined to be uncollectible. The Company believes no allowance for doubtful accounts is necessary at December 31, 2013. As of December 31, 2013, approximately 7% 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, 2013 and 2012 are:

	<u>2013</u>	<u>2012</u>
General support facilities	\$ 190,487	\$ 190,487
Central office equipment	58,529	63,329
Cable and wire facilities	<u>175,205</u>	<u>175,205</u>
	<u>\$ 424,221</u>	<u>\$ 429,021</u>

**HAT ISLAND TELEPHONE COMPANY**

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

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

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

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

***Depreciation Expense***

The provisions for depreciation on telecommunications plant in service were \$19,964 and \$19,640 for years ending December 31, 2013 and 2012, respectively.

**NOTE 5 - DUE FROM AFFILIATED COMPANY**

Amounts due from affiliated company include amounts receivable from Whidbey Telephone Company ("Whidbey"). The amounts receivable from Whidbey are generally the result of work performed by Whidbey's work crews on behalf of the Company, less payments made by the Company. The amounts are unsecured, non-interest-bearing and are to be repaid in the ordinary course of business. At December 31, 2013 and 2012, the Company had made/received payments to/from Whidbey in excess of the amounts billed by Whidbey.

<b>(3005b) Operating Report for Privately-Held Rate of Return Carriers</b> <b>Income Statement - Data Collection Form</b>	FCC Form 481
	OMB Control No. 3060-0986
	OMB Control No. 3060-0819
	July 2013

<010> Study Area Code	522417
<015> Study Area Name	Hat Island Telephone
<020> Program Year	2015
<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	19177	19004
2. Network Access Services Revenues	23972	25012
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues	2125	2225
5. Miscellaneous Revenues	23028	23290
6. Uncollectible Revenues		71
7. Net Operating Revenues (1 thru 5 less 6)	68302	69602
8. Plant Specific Operations Expense	13846	19245
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	9185	11348
10. Depreciation Expense	19640	19764
11. Amortization Expense		
12. Customer Operations Expense	10295	7839
13. Corporate Operations Expense	7951	17504
14. Total Operating Expenses (8 thru 13)	60917	75700
15. Operating Income or Margins (7 less 14)	7385	-6098
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes		
19. Other Taxes	2643	6432
20. Total Operating Taxes (17+18+19)	2643	6432
21. Net Operating Income or Margins (15+16-20)	4742	-12530
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)		
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)	4742	-12530
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	318588	298330
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)	25000	
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date		3055
38. Transfers to Patronage Capital		
39. Retained Earnings or Margins end-of-Period [(31+33+34)-(35+36+37+38)]	298330	282745
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)		
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]		

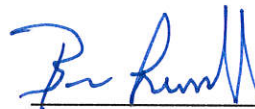


EXHIBIT 7

CORPORATE OPERATIONS EXPENSE ADJUSTMENT CERTIFICATE

I, 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 2013 and 2012.

Date this 1st day of August, 2014.



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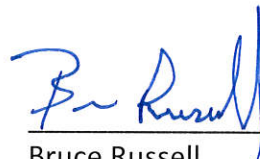
Bruce Russell  
Chief Operating Officer

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 1st day of August, 2014.



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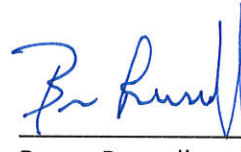
Bruce Russell  
Chief Operating Officer

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 2015.

Dated this 1st day of August, 2014.



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Bruce Russell  
Chief Operating Officer