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

8 IN RE

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

DOCKET NO.

PETITION FOR SUPPORT

13
14 COMES NOW Hat Island Telephone Company (the "Company"), and, pursuant to Chapter
15 480-123 of the Washington Administrative Code ("WAC") including, but not limited to, WAC 480-
16 123-110, hereby petitions the Washington Utilities and Transportation Commission (the
17 "Commission") to receive support from the State Universal Communications Services Program
18 established in RCW 80.36.650 (the "Program") for the fiscal year ending June 30, 2017.
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20 **I. Demonstration of Eligibility under WAC 480-123-100**

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

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

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

- 1 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No.
2 19 of the Company's Tariff WN U-1.
- 3 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate
4 instability or service interruption or cessation in the absence of support from the Program is
5 attached as Exhibit 3.
- 6 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,
7 are copies of the Company's balance sheet as of December 31, 2016, and December 31,
8 2015, and copies of the Company's statements of income and retained earnings or margin for
9 the years ended December 31, 2016 and December 31, 2015.
- 10 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial
11 statements for the years ended December 31, 2016 and December 31, 2015, are attached as
12 Exhibit 5.
- 13 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of
14 return on a total Washington unseparated regulated operations basis for each of the two prior
15 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
- 16 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on
17 equity on a total company (regulated and non-regulated) Washington basis for each of the
18 two prior years, calculated in the manner prescribed by the Commission, is provided in
19 Exhibit 5.
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- 1 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the
2 statements of income and retained earnings or margin in the same format and detail as is
3 required to complete RUS Form 479 for the prior two years is presented on Exhibit 6.
- 4 10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company officer
5 with personal knowledge and responsibility certifying that no corporate operations
6 adjustment to existing high-cost loop and interstate common line support mechanisms
7 required by the Federal Communications Commission applied to the Company for the two
8 prior years is attached hereto as Exhibit 7.
- 9 11. WAC 480-123-110(1)(e)(vii): Exhibit 4, and Exhibit 4.1, which is also attached and is on
10 the Commission's prescribed form, contains additional supporting information requested by
11 the Commission.
- 12 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company
13 officer with personal knowledge and responsibility certifying that the Company complies
14 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to
15 incumbent local exchange companies is attached as Exhibit 8.
- 16 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or
17 on its behalf with the Federal Communications Commission for the calendar year preceding
18 the current year has already been filed with the Commission. See the Company's filing in
19 Docket No. UT-170011 filed on or about June 28, 2017.
- 20 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by
21 the Company as of December 31, 2016, was 42 all of which were within the geographic area
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1 for which the Company is seeking support. The number of residential local exchange access
2 lines served by the Company as of December 31, 2015, was 55, all of which were within the
3 geographic area for which the Company is seeking support.

4 The number of business local exchange access lines served by the Company as of December
5 31, 2016, was 11, all of which were within the geographic area for which the Company is
6 seeking support. The number of business local exchange access lines served by the
7 Company as of December 31, 2015, was 11, all of which were within the geographic area
8 for which the Company is seeking support.

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10 The monthly recurring rate charged by the Company for residential local exchange access
11 service on December 31, 2016, was \$18.00. The monthly recurring rate charged by the
12 Company for residential local exchange access service on December 31, 2015, was \$16.00.
13 The rate charged by the Company for single line business local exchange access service on
14 December 31, 2016, was \$25.00. The rate charged by the Company for single line business
15 local exchange access service on December 31, 2015, was \$25.00. (The Company has
16 other business local exchange service rates, but the Company understands that WAC 480-
17 123-110(1)(g) is requesting the single line business local exchange access service rate.)

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

20 16. The amount on Line 4, labeled 2011 ROR Carrier Base Period Revenue, of the CAF ICC
21 Data Collection Report for the period 7/1/2017 - 6/30/2018 is \$4,001 and has not changed
22 from the last filing.


23 17. All exhibits attached hereto are incorporated in this Petition as though fully set forth.
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Respectfully submitted this 31st day of July, 2017.

CERTIFICATION

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



By: Frank McIntyre
Title: Secretary/Treasurer

EXHIBIT 1
CORPORATE ORGANIZATION CHART

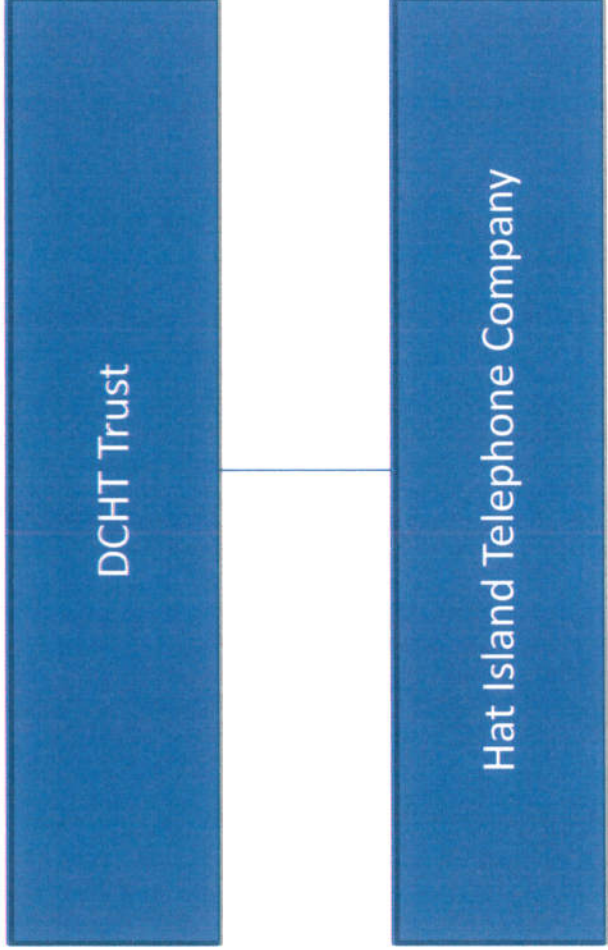


EXHIBIT 2

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, 2016.

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 2016, the Company's total regulated revenue decreased by 9.25 percent from 2011 through 2016. The Company has looked for ways to lower expenses. However, much of the Company's operating expenditures are fixed obligations, such as debt-related payments.

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 13 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 Fund*, 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 year ending June 30, 2018, including reductions that will occur July 1, 2017, the Company has seen a reduction in support from the base line revenue of approximately \$3,868

On top of all this, during the six-year period ended December 31, 2016, the Company has seen its total federal high cost support undergo a significant reduction, declining from \$24,870 in 2011 to \$12,390 in 2016.

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*).

STATE USF FILING
FINANCIAL TEMPLATE
"S CORP" COMPANIES

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

Company Name: (Below)
 Hat Island Telephone Company

ASSETS	Balance End of Year 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		0
3. Affiliates:				27. Advance Billings and Payments	0		0
a. Telecom, Accounts Receivable	2,344		2,344	28. Customer Deposits	0		0
b. Other Accounts Receivable	169,593		169,593	29. Current Mat. L/T Debt	0		0
c. Notes Receivable			0	30. Current Mat. L/T Debt Rur. Dev.	0		0
4. Non-Affiliates:				31. Current Mat. - Capital Leases	0		0
a. Telecom, Accounts Receivable			0	32. Income Taxes Accrued	2,707		2,707
b. Other Accounts Receivable			0	33. Other Taxes Accrued	0		0
c. Notes Receivable			0	34. Other Current Liabilities	0		0
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	3,982	0	3,982
6. Material-Regulated			0	LONG-TERM DEBT			
7. Material-Nonregulated			0	36. Funded Debt-RUS Notes	0		0
8. Prepayments			0	37. Funded Debt-RTB Notes	0		0
9. Other Current Assets			0	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	192,474	0	192,474	39. Funded Debt-Other	0		0
				40. Funded Debt-Rural Develop. Loan	0		0
NONCURRENT ASSETS				41. Premium (Discount) on L/T Debt	0		0
11. Investment in Affiliated Companies				42. Reacquired Debt	0		0
a. Rural Development			0	43. Obligations Under Capital Lease	0		0
b. Nonrural Development			0	44. Adv. From Affiliated Companies	0		0
12. Other Investments				45. Other Long-Term Debt	0		0
a. Rural Development			0	46. Total Long-Term Debt (36 thru 45)	0		0
b. Nonrural Development			0	OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)			0	47. Other Long-Term Liabilities	(7,982)		(7,982)
14. Other Noncurrent Assets		0	0	48. Deferred Income Taxes	1,385		1,385
15. Deferred Charges			0	49. Other Deferred Credits (D)	0		0
16. Jurisdictional Differences			0	50. Other Jurisdictional Differences	0		0
17. Total noncurrent Assets (11 thru 16)	0	0	0	51. Total Other Liab. & Def. Credits (47 thru 50)	1,385	(7,982)	(6,597)
				EQUITY			
PLANT, PROPERTY AND EQUIPMENT				52. Cap. Stock Outstanding & Subscribed	4,000		4,000
18. Telecom Plant-in-Service	428,516		428,516	53. Additional Paid-in-Capital	0		0
19. Property Held for Future Use			0	54. Treasury Stock	0		0
20. Plant Under Construction			0	55. Membership and cap. Certificates	0		0
21. Plant Adj., Nonop Plant & Goodwill			0	56. Other Capital	0		0
22. Accumulated Depreciation (CR.)	(311,480)		(311,480)	57. Patronage Capital Credits	0		0
23. Net Plant (18 thru 21 less 22)	117,036	0	117,036	58. Retained Earnings or Margins (B2)	300,143	7,982	308,125
				59. Total Equity (51 thru 58)	304,143	7,982	312,125
24. TOTAL ASSETS (10-17+23)	309,510	0	309,510	60. TOTAL LIABILITIES AND EQUITY (35-46+51-59)	309,510	0	309,510

Footnotes:

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

Footnotes:

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

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

Company Name: (Below)
Hat Island Telephone Company

ASSETS	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	24,363		24,363	25. Accounts Payable	475		475
2. Cash-RUS Construction Fund			0	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments	0		0
a. Telecom, Accounts Receivable	1,353		1,353	28. Customer Deposits	0		0
b. Other Accounts Receivable	195,256		195,256	29. Current Mat. L/T Debt	0		0
c. Notes Receivable			0	30. Current Mat. L/T Debt Rur. Dev.	0		0
4. Non-Affiliates:				31. Current Mat. - Capital Leases	0		0
a. Telecom, Accounts Receivable			0	32. Income Taxes Accrued	2,721		2,721
b. Other Accounts Receivable			0	33. Other Taxes Accrued			
c. Notes Receivable			0	34. Other Current Liabilities			
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	3,196	0	3,196
6. Material-Regulated			0	LONG-TERM DEBT			
7. Material-Nonregulated			0	36. Funded Debt-RUS Notes	0		0
8. Prepayments	190		190	37. Funded Debt-RTB Notes	0		0
9. Other Current Assets			0	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	221,162	0	221,162	39. Funded Debt-Other	0		0
				40. Funded Debt-Rural Develop. Loan	0		0
NONCURRENT ASSETS				41. Premium (Discount) on L/T Debt	0		0
11. Investment in Affiliated Companies				42. Reacquired Debt	0		0
a. Rural Development			0	43. Obligations Under Capital Lease	0		0
b. Nonrural Development			0	44. Adv. From Affiliated Companies	0		0
12. Other Investments				45. Other Long-Term Debt	0		0
a. Rural Development			0	46. Total Long-Term Debt (36 thru 45)	0		0
b. Nonrural Development			0	OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)			0	47. Other Long-Term Liabilities	(7,982)		(7,982)
14. Other Noncurrent Assets			0	48. Deferred Income Taxes	1,467		1,467
15. Deferred Charges			0	49. Other Deferred Credits (D)	0		0
16. Jurisdictional Differences			0	50. Other Jurisdictional Differences	0		0
17. Total noncurrent Assets (11 thru 16)	0	0	0	51. Total Other Liab. & Def. Credits (47 thru 50)	1,467	(7,982)	(6,515)
				EQUITY			
PLANT, PROPERTY AND EQUIPMENT				52. Cap. Stock Outstanding & Subscribed	4,000		4,000
18. Telecom Plant-in-Service	428,516		428,516	53. Additional Paid-in-Capital	0		0
19. Property Held for Future Use	0		0	54. Treasury Stock	0		0
20. Plant Under Construction	0		0	55. Membership and cap. Certificates	0		0
21. Plant Adj., Nonop Plant & Goodwill			0	56. Other Capital	0		0
22. Accumulated Depreciation (CR.)	(324,675)		(324,675)	57. Patronage Capital Credits	316,340	7,982	324,322
23. Net Plant (18 thru 21 less 22)	103,841	0	103,841	58. Retained Earnings or Margins (B2)	320,340	7,982	328,322
				59. Total Equity (52 thru 58)	325,003	0	325,003
24. TOTAL ASSETS (10-17+23)	325,003	0	325,003	60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	325,003	0	325,003

Footnotes:

- (A) - As reported on RUS Form 479
- (B) - Part 64 adjustments from regulated to nonregulated.
- (C) - Adjusted Balance after Part 64
- (B1) - Part 64 offset to nonreg investment
- (B2) - Part 64 offset to retained earnings
- (D) - Excludes deferred taxes

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

Company Name: (Below)
 Hat Island Telephone Company

ASSETS	Adjusted Prior Year Balance 2015	Adjusted Current Year Balance 2016	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2015	Adjusted Current Year Balance 2016
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	20,537	24,363	25. Accounts Payable	1,275	475
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	2,344	1,353	28. Customer Deposits	0	0
b. Other Accounts Receivable	169,593	195,256	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	2,707	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)	3,982	3,196
6. Material-Regulated	0	0	LONG-TERM DEBT		
7. Material-Nonregulated	0	0	36. Funded Debt-RUS Notes	0	0
8. Prepayments	0	190	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)	192,474	221,162	39. Funded Debt-Other	0	0
			40. Funded Debt-Rural Develop. Loan	0	0
NONCURRENT ASSETS			41. Premium (Discount) on L/T Debt	0	0
11. Investment in Affiliated Companies	0	0	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	0	0	45. Other Long-Term Debt	0	0
a. Rural Development	0	0	46. Total Long-Term Debt (36-45)	0	0
b. Nonrural Development	0	0	OTHER LIAB. & DEF. CREDITS		
13. Nonregulated Investments	0	0	47. Other Long-Term Liabilities	0	0
14. Other Noncurrent Assets	0	0	48. Deferred Income Taxes	(7,982)	(6,748)
15. Deferred Charges	0	0	49. Other Deferred Credits	1,385	1,467
16. Jurisdictional Differences	0	0	50. Other Jurisdictional Differences	0	0
17. Total noncurrent Assets (11 thru 16)	0	0	51. Total Other Liab. & Def. Credits (47 thru 50)	(6,597)	(5,281)
			EQUITY		
PLANT, PROPERTY AND EQUIPMENT			52. Cap. Stock Outstanding & Subscribed	4,000	4,000
18. Telecom Plant-in-Service	428,516	428,516	53. Additional Paid-in-Capital	0	0
19. Property Held for Future Use	0	0	54. Treasury Stock	0	0
20. Plant Under Construction	0	0	55. Membership and cap. Certificates	0	0
21. Plant Adj., Nonop Plant & Goodwill	0	0	56. Other Capital	0	0
22. Accumulated Depreciation (CR.)	(311,480)	(324,675)	57. Patronage Capital Credits	0	0
23. Net Plant (18 thru 21 less 22)	117,036	103,841	58. Retained Earnings or Margins	308,125	324,322
			59. Total Equity (51 thru 57)	312,125	328,322
24. TOTAL ASSETS (10-17+23)	309,510	325,003	60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	309,510	326,237

Footnote:
 Adjusted Balances represents balances
 after Part 64 adjustments

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

Company Name: (Below)
 Hat Island Telephone Company

Line #	Description	B/S Line #	Adj. Balance End of Year 2015	Adj. Balance End of Year 2016	Average Adj End of Year Balance
Average Rate Base:					
1	Total Regulated Adjusted Telecom Plant-in-service	18	428,516	428,516	428,516
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(311,480)	(324,675)	(318,078)
4	Total Regulated Materials & Supplies	6	0	0	0
5	Deferred Income Taxes (CR)	48	(7,982)	(6,748)	(7,365)
6	Total Regulated Rate Base		109,054	97,093	103,074

Footnotes:

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

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

Company Name: (Below)
 Hat Island Telephone Company

Line #	Description	Prior Year End of Yr. Balance - 2015	Current Year End of Yr. Balance - 2016	Difference	% Change
1	Access Lines:				
2	Residential	55	42	(13)	-23.6%
3	Business	11	11	0	0.0%
	Total	66	53	(13)	-19.7%

Note: If 2015 does not equal last year's petition and template, explain.

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

Company Name: (Below)
 Hat Island Telephone Company

Line #	Description	Prior Year 2015 (A)	Part 64 Adj. to NonReg (B)	Prior 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 13)	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 (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)	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			
33	Retained Earning or Margins Beginning-of-Year	293,729		293,729
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
45	Cash Ratio ((14+20-10-11)/7)	0.8910	#DIV/0!	0.8791
46	Operating Accrual Ratio ((14+20+26)/7)	1.1420	#DIV/0!	1.1301
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!	#DIV/0!

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9 Inc. Stmt Summary Schedule Footnote
- (A2) Column A, Line 39 must equal Column A, Line 58 of Page 2, Balance Sheet
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Column B, automatic offset to Nonregulated Net Income (No Impact to retained earnings)

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

Company Name: (Below)
Hat Island Telephone Company

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

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9, Inc. Stmt Summary Schedule Footnote
- (A2) Column A, Line 39 must equal Column A, Line 58 of Page 3, Balance Sheet
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Column B, automatic offset to Nonregulated Net Income (No Impact to retained earnings)

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

Company Name: (Below)
 Hat Island Telephone Company

Line #	Description	Adjusted Prior Year 2015	Adjusted Current Year 2016
1	Local Network Services Revenues	19,765	20,327
2	Network Access Services Revenues	29,612	40,923
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	1,329	2,183
5	Miscellaneous Revenues	1,405	1,259
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	0	0
7	Net Operating Revenues (1 thru 6)	52,111	64,692
8	Plant Specific Operations Expense	15,392	15,315
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	0	0
10	Depreciation Expense	13,080	13,195
11	Amortization Expense	0	0
12	Customer Operations Expense	7,757	7,770
13	Corporate Operations	20,344	24,254
14	Total Operations Expenses (8 thru 13)	56,573	60,534
15	Operating Income or Margins (7 less 14)	(4,462)	4,158
16	Other Operating Income and Expenses ()	0	0
17	State and Local Taxes	0	0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	0	0
19	Other Taxes	2,319	2,402
20	Total Operating Taxes (17+18+19)	2,319	2,402
21	Net Operating Income or Margins (15+16-20)	(6,781)	1,756
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	13,195	14,441
31	Total Net Income or Margins (21+27+28+29+30-26)	6,414	16,197
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	293,729	300,143
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))	300,143	316,340
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)	0.8791	0.7689
46	Operating Accrual Ratio ((14+20+26)/7)	1.1301	0.9729
47	TIER ((31+26)/26)	#DIV/0!	#DIV/0!
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!

Footnote	2015	2016
(A1) S Corporation Effective Tax Rate (2 decimal places):	11.85%	11.49%

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

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

Company Name: (Below)
 Hat Island Telephone Company

Line #	Description	Part 32 Account	Prior Year 2015	Current Year 2016
1	End User Revenue (SLC, ARC, etc.)	5081	7,514	7,205
2	Switched Access (excluding USF):	5082		
2a	Intrastate		1,759	933
2b	Interstate (includes CAF)		(3,460)	2,105
3	Special Access:	5083		
3a	Intrastate		12,058	17,243
3b	Interstate		0	0
4	Federal USF (ICLS/HCL/SIN)	Varies	9,881	11,408
5	State USF		1,860	2,029
6	Other*			
7	Total (must equal line 2 of Income Stmt.)		29,612	40,923
8	Line 2 of Income Stmt.		29,612	40,923
9	Difference		0	(0)

Footnote:

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

State USF Petition Filing Requirement - WAC 480-123-110 (1)(e)
 Out-of-Period and Pro Forma Adjustments

Company Name: (Below)
 Hat Island Telephone Company

Description of Out-of-Period - 2016 (As Recorded) OR Pro Forma (PF) Adjustments for Current Year or Reversing from Prior Year	Year	OOP or PDF?	Part 32 Account	
			Debit	Credit
Adjustment #1:				
Adjustment #2:				
Adjustment #3:				
Adjustment #4:				
Adjustment #5:				

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

Company Name:
Hat Island Telephone Company

Line #	Source(A)	Net Operating Income Inputted FIT Calculation	2016	
1	Page 9, Line 21 (CY)	Adjusted Net Operating Income	1,756	
2		Out-of-Period or Pro Forma Adjustments		
3	Page 9, Line 26 (CY)	Total Fixed Charges	-	(A)
4	Sum	Adj. Taxable Operating Income (Line 1 + Line 2 - Line 3)	1,756	
5		Inputted S Corp. Tax Rate(B)	11.49%	
6	Calculated	inputted FIT (Line 4 * Line 5)	202	
7	Sum	Adj. Net Operating income after FIT (Line 4 - Line 6)	1,554	(B)
NonOperating Income Inputted FIT Calculation				
8	Page 9, Line 27 (CY)	Nonoperating net income	-	
9	Page 9, Line 30 (CY)	Nonregulated net income	14,441	
10	Sum	Sub-Total (Line 27+Line 30)	14,441	
11		Inputted S Corp. Tax Rate(B)	11.49%	
12	Calculated	FIT (Line 10 * Line 11)	1,659	
13	Sum	Nonop/Nonreg income after FIT (Line 10 - Line 12)	12,782	(C)
14	Sum	Adjusted Net Income w/inputted FIT	14,336	(B)+(C)
Sanity Check:				
15	Page 9, Line 31 (CY)	Line 31 as reported	16,197	
16		Out-of-Period or Pro Forma Adjustments	-	
17		Total	16,197	
18		Inverse of effective tax rate (100%-Line 10 percent)	88.51%	
19	Calculated	Adjusted Net Income (Line 17*Line 18) = Line 14	14,336	(D)
Regulated Rate of Return				
20	Page 5, Total (PY)	Regulated rate base Year End 2015	109,054	
21	Page 5, Total (CY)	Regulated rate base Year End 2016	97,093	
22	Sum	Total	206,147	
23	Calculated	Simple Avg.	103,074	(E)
24	Line 7 (above)	Adj Operating Income after inputted FIT	1,554	
27	Calculated	Regulated rate of return	1.5%	(B)/(E)

HAT ISLAND TELEPHONE COMPANY

Reviewed Financial Statements

December 31, 2016 and 2015

HAT ISLAND TELEPHONE COMPANY

Reviewed Financial Statements

December 31, 2016 and 2015

INDEPENDENT ACCOUNTANT'S REVIEW REPORT 1

REVIEWED FINANCIAL STATEMENTS

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1501 Regents Blvd., Suite 100

Faircrest, WA 98466-6060

Independent Accountant's Review Report

Board of Directors
Hat Island Telephone Company
Langley, Washington

We have reviewed the accompanying financial statements of Hat Island Telephone Company (an S Corporation) (the "Company"), which comprise the balance sheets as of December 31, 2016 and 2015, 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 3, 2017

REVIEWED FINANCIAL STATEMENTS

HAT ISLAND TELEPHONE COMPANY

BALANCE SHEETS

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 24,363	\$ 20,537
Telecommunications accounts receivable	1,353	2,344
Prepaid Expenses	190	
Due from affiliated company	<u>195,256</u>	<u>169,593</u>
Total Current Assets	221,162	192,474
PROPERTY, PLANT AND EQUIPMENT		
Telecommunications plant in service	428,516	428,516
Less allowances for depreciation	<u>324,675</u>	<u>311,480</u>
Total Telecommunications Plant	<u>103,841</u>	<u>117,036</u>
TOTAL ASSETS	<u>\$ 325,003</u>	<u>\$ 309,510</u>
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 475	\$ 1,275
Taxes, other than income taxes	2,721	2,707
Deferred revenue	<u>1,467</u>	<u>1,385</u>
Total Current Liabilities	4,663	5,367
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>316,340</u>	<u>300,143</u>
Total Stockholder's Equity	<u>320,340</u>	<u>304,143</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 325,003</u>	<u>\$ 309,510</u>

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

HAT ISLAND TELEPHONE COMPANY

STATEMENTS OF INCOME

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Local network service revenues	\$ 20,327	\$ 19,765
Network access service revenues	40,923	29,612
Miscellaneous revenues	3,443	2,734
Other operating revenues	<u>28,504</u>	<u>25,427</u>
Total Operating Revenues	93,197	77,538
OPERATING EXPENSES		
Plant specific operations	15,316	15,392
Depreciation	13,195	13,080
Customer operations	6,143	6,017
Corporate operations	26,046	22,704
Other operating expenses	13,898	11,612
Taxes, other than income taxes	<u>2,402</u>	<u>2,319</u>
Total Operating Expenses	<u>77,000</u>	<u>71,124</u>
NET INCOME	<u>\$ 16,197</u>	<u>\$ 6,414</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, 2016 and 2015

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Total</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	4,000	300,143	304,143
Net income	_____	<u>16,197</u>	<u>16,197</u>
BALANCE AT DECEMBER 31, 2016	<u>\$ 4,000</u>	<u>\$ 316,340</u>	<u>\$ 320,340</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 16,197	\$ 6,414
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Depreciation of telecommunications plant	13,195	13,080
(Increase) decrease in assets		
Telecommunications accounts receivable	991	(552)
Prepaid expenses	(190)	
Due from affiliated company	(25,663)	(21,364)
Increase (decrease) in liabilities		
Accounts payable	(800)	963
Taxes, other than income taxes	14	109
Deferred revenue	82	254
Net Cash Provided (Used) by Operating Activities	3,826	(1,096)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	_____	(4,295)
Net Cash Used by Investing Activities	_____	(4,295)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,826	(5,391)
Cash and Cash Equivalents at Beginning of Year	<u>20,537</u>	<u>25,928</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 24,363</u>	<u>\$ 20,537</u>

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

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

Telephone Industry

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

The Company is a small rate-of-return carrier. The recent Federal Communications Commission ("FCC") Report and Order and Further Notice of Proposed Rulemaking, ("FCC 11-161") and Report and Order, Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking ("FCC 16-33"), have reformed the universal service and intercarrier compensation systems. These reforms have modified the manner in which the Company recovers its telecommunications revenue requirements.

Accounting Records

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

Cash and Cash Equivalents

The Company considers 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, 2016 and 2015, 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, 2016 and 2015

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

Revenue Recognition, Major Customers and Services

Services provided by the Company include local network, network access services as well as other services. In the normal course of business of the Company, certain network access service revenues are subject to out-of-period adjustments. Such adjustments are normal occurrences and are recorded by the Company during the year in which they become determinable.

Network access service revenues, which represent a major portion of the Company's operating revenues, are derived from the provision of exchange access services to interexchange carriers or to end users of telecommunication services.

The FCC 11-161 modified and replaced the existing universal service and intercarrier compensation systems with universal service reform and intercarrier compensation reform. A Connect America Fund ("CAF") 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 were implemented as of July 1, 2012, and phase outs of certain support payments occurred. Intercarrier compensation reform adopts a uniform bill-and-keep framework as the ultimate end state for all telecommunications traffic exchanged with the Company. Intercarrier compensation rates are capped, and the disparity between intrastate and interstate terminating end office rates are being brought to parity in two steps as outlined in FCC 11-161. The state's public utilities commissions will be overseeing the modifications to rates in intrastate tariffs. Limits on carriers' total eligible recovery will reflect existing downward trends on intercarrier compensation revenues with declining switching costs and minutes of use.

In September 2016, the FCC implemented a budget control mechanism for rate-of-return telecommunication carriers designed to ensure that federal support disbursements remain within the specified budget. This budget control mechanism further reduces Interstate Common Line Support now renamed Connect America Fund Broadband Loop Support. Included in the budget control mechanism were an operating expense limitation calculation and a capital expenditure allowance calculation, none of which impacted the Company.

As part of FCC 16-33 Universal Service Reform order, rate-of-return telecommunication carriers have been given an option of remaining on a legacy support mechanism that includes broadband data only service funding or electing a model based support funding mechanism with an emphasis on broadband obligation deployment to begin implementation January 1, 2017. The Company will remain with the legacy support option.

The established rate of return of 11.25% used for interstate pooled settlements and other interstate revenue requirements are to be transitioned over six years to 9.75% by July 2021 by a rate of return reduction of .25% each July per FCC order. As of July 2016, the rate of return was reduced to 11%.

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

Revenue Recognition, Major Customers and Services (Continued)

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.

The WUTC implemented a state universal communications service program ("State USF Program") and also replaced the cumulative reduction in support the Company received from the federal CAF. The State USF Program began January 2015 and subsequent annual disbursements comprised of the Traditional USF and the disbursement of the cumulative CAF deficit support are scheduled to occur in January of the following State USF Program years, assuming the Company continues to be eligible under the program. The State USF Program year runs from July 1 to June 30. The Company received \$2,934 from the State USF Program for the period July 1, 2016 to June 30, 2017, and recorded deferred revenue of \$1,467 for the unearned portion. 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.

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, 2013 are closed to examinations.

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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 3, 2017, 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, 2016, the Company's cash balance did not exceed the insured amount.

In addition, at December 31, 2016, 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>2016</u>	<u>2015</u>
Due from customers and agents	\$ 114	\$ 705
Due from exchange carriers and exchange carrier associations	<u>1,239</u>	<u>1,639</u>
	<u>\$ 1,353</u>	<u>\$ 2,344</u>

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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, 2016 or 2015. As of December 31, 2016, 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, 2016 and 2015 are:

	<u>2016</u>	<u>2015</u>
General support facilities	\$ 190,487	\$ 190,487
Central office equipment	62,824	62,824
Cable and wire facilities	<u>175,205</u>	<u>175,205</u>
	<u>\$ 428,516</u>	<u>\$ 428,516</u>

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 \$13,195 and \$13,080 for years ending December 31, 2016 and 2015, respectively.

HAT ISLAND TELEPHONE COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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, 2016 and 2015, 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 2018
 <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	19765	20327
2.	Network Access Services Revenues	29612	40923
3.	Long Distance Network Services Revenues		
4.	Carrier Billing and Collection Revenues	1329	2183
5.	Miscellaneous Revenues	1405	1259
6.	Uncollectible Revenues	0	0
7.	Net Operating Revenues (1 thru 5 less 6)	52111	64692
8.	Plant Specific Operations Expense	15392	15315
9.	Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	0	0
10.	Depreciation Expense	13080	13195
11.	Amortization Expense	0	0
12.	Customer Operations Expense	6017	5993
13.	Corporate Operations Expense	22704	26196
14.	Total Operating Expenses (8 thru 13)	57193	60699
15.	Operating Income or Margins (7 less 14)	-5082	3993
16.	Other Operating Income and Expenses		
17.	State and Local Taxes		
18.	Federal Income Taxes		
19.	Other Taxes	2319	2402
20.	Total Operating Taxes (17+18+19)	2319	2402
21.	Net Operating Income or Margins (15+16-20)	-7401	1591
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	13815	14606
31.	Total Net Income or margins (21+27+28+29+30-26)	6414	16197
32.	Total Taxes Based on Income		
33.	Retained Earnings or Margins Beginning-of-Year	293729	300143
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)]	300143	316340
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 2016 and 2015.

Date this 31st day of July, 2017.



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 Company staff that handle such matters, under penalty of perjury, state that the Company complies with state and federal accounting, cost allocation and cost adjustment rules pertaining to incumbent local exchange companies.

Dated this 31st day of July, 2017.



Frank McIntyre
Secretary/Treasurer

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Frank McIntyre, an officer of Hat Island Telephone Company, under penalty of perjury, hereby certify that if the Company receives Program support, the Company will continue to provide communications services pursuant to its tariffs on file with the Commission throughout its service territory in Washington for which the company is seeking and receives Program support during the entirety of 2018.

Dated this 31st day of July, 2017.



Frank McIntyre
Secretary/Treasurer