

**Hat Island Telephone Company  
FCC Form 481 (July, 2015), Line 510  
Description of Processes and Procedures to Ensure  
Compliance with Service Quality Standards and  
Consumer Protection Rules Per Instructions  
For Completing FCC Form 481**

This document details the processes and procedures that Hat Island Telephone Company (the "Company") follows to ensure compliance with service quality standards and consumer protections rules as set forth in the Instructions for Completing FCC Form 481.

For service quality standards that are affected by plant issues, the Company engineers and installs its plant and other facilities in such a way as to ensure, to the greatest extent possible, compliance with service quality standards that exist at the time that the plant and facilities are constructed. Plant is augmented, upgraded and/or reconfigured as needed.

The Company obtains certain functionality and support from its affiliate, Whidbey Telephone, including support related to service quality standards and consumer protection rules. A description of Whidbey Telephone Company's policies and procedures relating to service quality standards and consumer protection rules is set forth in its response to Line 510 of its FCC Form 481 that is being filed contemporaneously herewith. To the extent relevant, that description is incorporated herein by this reference.

The Company also periodically reviews its operating procedures to be sure that those operating procedures are in compliance with service quality standards and are not in violation of consumer protection rules. If questions arise, legal counsel is sought as needed.

If a complaint pertaining to the Company's compliance with service quality standards or consumer protection rules is received by the Company, the complaint is promptly investigated, the matter tracked and any corrective action noted. This process ensures that issues involved in the matter are addressed and corrections made, if needed.

**Hat Island Telephone Company**  
**FCC Form 481 (July, 2015), Line 610**  
**Statement Describing Ability to Function in Emergency Situations**  
**Per Instructions for Completing FCC Form 481**

**SUMMARY**

Hat Island Telephone Company (the "Company") has a long-standing tradition of providing reliable voice telephony services. It is the Company's policy and standard operating procedure to bury all of its local distribution cable and wire. The Company operates a primary local distribution and transmission node that is equipped with back-up power generation. In regard to the Company's overall network design, the Company's practices are consistent with Rural Utility Service ("RUS") telecommunications industry best practices.

The Company obtains certain functionality and support from its affiliate, Whidbey Telephone Company. Together, they operate and maintain transport transmission equipment that serves the Company's service area and that is of the highest grade. Equipment specifications, which are consistent with the RUS specifications, require both redundant power and redundant circuit interfaces. All of the Company's transport equipment, as well as the transport and switching equipment that serves the Company's service area and is operated by Whidbey Telephone Company, is monitored 7x24x365(366) by trained staff located at Whidbey Telephone Company's network operations center.

**NETWORK REDUNDANCY**

The Company is a provider of voice telephony services to the Hat Island Exchange. The service area of the Company's Hat Island Exchange comprises less than one (1) square mile. It is connected by submarine cable to a neighboring exchange operated by Whidbey Telephone Company, which provides local distribution connectivity, switching and transmission utilizing its facilities. A description of those facilities and of Whidbey Telephone Company's policies and procedures relating to its ability to function in emergency situations is set forth in its response to Line 610 of its FCC Form 481 that is being filed contemporaneously herewith. To the extent relevant, that description is incorporated herein by this reference.

**BACK-UP POWER**

The Company maintains at its principal local distribution and transmission node a power plant with batteries capable of carrying the power load for a number of hours with the load typically transitioning more immediately to a generator back-up power generation. In addition, the Company has installed back-up power generation at that node, utilizing an 8kw generator, together with a dedicated fuel tank onsite designed to carry the power load multiple days. The site is equipped with an automatic transfer switch and has monitoring equipment that provides monitoring visibility with respect to loss of external commercial power and transfer switch status. Upon recognition of loss of the commercial power source, the automatic transfer switch is designed to automatically start the back-up generator and transfer the selected power source.

Alarm messages are automatically reported to key personnel, as well as to Whidbey Telephone Company's 7x24x365(366) network operations center.

Whidbey Telephone Company has in-house staff available to support the Company's operations and trained to perform all maintenance of the power plant, as well as third-party services available for support.



14888 SR 525 Langley WA 98260

## Lifeline, Tribal Link-Up and Washington Telephone Assistance Programs<sup>1</sup>

Hat Island Telephone Company participates in the federal Lifeline program and Tribal Link-Up program, to the extent applicable, as well as the Washington Telephone Assistance Program ("WTAP"). Under these programs, we offer to qualifying low-income consumers a discount off of the monthly rate for basic residential exchange service and a discount off of the non-recurring charge to install a basic residential exchange service line. Please refer to the below table for current basic residential service charges and program discounts. The installation charge for such service may vary and may be discounted by 50% (up to \$22.00) for qualifying WTAP customers<sup>2</sup>.

| Residential Service Customer Program Eligibility | Basic Residential Service Line Charge | FCC Subscriber Line Charge | Discount Amount(s)                          | Discounted Basic Residential Service Line Charge <sup>3</sup> |
|--|---------------------------------------|----------------------------|---|---|
| Lifeline Certified & WTAP Verified               | \$16.00                               | \$6.50                     | \$9.25 – Lifeline<br>-----<br>\$5.25 – WTAP | \$8.00  |
| Lifeline Only Certified                          | \$16.00                               | \$6.50                     | \$9.25 – Lifeline<br>-----<br>\$0.00 – WTAP | \$13.25   |
| WTAP Only Verified                               | \$16.00                               | \$6.50                     | \$14.50 – WTAP                              | \$8.00  |

For more information on these programs that may help you afford phone service and/or to obtain a copy of the Lifeline Service Application Certification & Authorization Form, you may contact our Customer Experience Center representatives. They may be reached at 360.444.1122 or, when calling from outside the local area, toll free at 800.351.2337. You may also contact the Washington Telephone Assistance Program unit of DSHS at 1.888.700.8880 or visit their website [DSHS-WTAP](http://DSHS-WTAP) or contact the Federal Communications Commission at 1.888.CALL.FCC/1.888.225.5322 (voice) or 1.888.TELL.FCC/1.888.835.5322 (TTY) or visit their website <https://www.fcc.gov/lifeline>. For information regarding the current Federal Poverty Guidelines please feel free to contact our Customer Experience Center or visit the U.S. Department of Health & Human Services' website <http://aspe.hhs.gov/poverty/15poverty.cfm>.

<sup>1</sup> WTAP and the Lifeline program are governmental assistance programs that are limited to one discount per eligible household. Only eligible consumers may enroll in the Lifeline program and/or WTAP and the service is non-transferable. To receive Lifeline program benefits you must provide documentation for Hat Island Telephone Company to confirm either your participation in one of the seven (7) qualifying federal programs or your household income to be at or below 135% of the current [Federal Poverty Guidelines](#). A Hat Island Telephone Company Lifeline Service Application Certification & Authorization form must be completed and signed certifying the accuracy of the information you have provided to Hat Island Telephone Company and authorizing the use of some of your information in a national database in order to maintain your eligibility in the Lifeline program. Before applying WTAP benefits, Hat Island Telephone Company must contact the Washington State Department of Social and Health Services ("DSHS") and provide them with your DSHS client identification number to verify your benefit eligibility. WTAP requires that the billing name on the Hat Island Telephone Company customer account match the name of the person who qualifies the household for that program. Benefits for WTAP begin on the date Hat Island Telephone Company verifies your eligibility. Benefits for the Lifeline program begin on the date Hat Island Telephone Company receives your completed Lifeline Service Application Certification & Authorization form and completes its review of the applicable federal program participation or household income documentation.

<sup>2</sup> The Lifeline and WTAP discounts apply only to basic residential local exchange service. You will have to pay the full monthly charge for special features such as Call Forwarding and Call Waiting that are added to your residential local exchange service. Basic residential local exchange service includes an unlimited number of local and Extended Area Service ("EAS") minutes. EAS consists of calling from the Hat Island exchange to the South Whidbey exchange. Charges for long distance calls are in addition and will be as determined by the long distance carrier you select and/or utilize. Toll Restriction is offered without a monthly recurring charge. Certain non-recurring charges may also apply to installation or change of service. Charges for basic residential local exchange service, long distance service and installation or change of service are subject to change and in some instances are subject to change without notice.

<sup>3</sup> Additional discounts for the basic residential local exchange service line, as well as for the installation charge for such service, may apply for the benefit of qualifying low-income consumers on tribal reservation lands.



(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

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April 2014

<010> Study Area Code 522417  
 <015> Study Area Name Hat Island  
 <020> Program Year 2016  
 <030> Contact Name - Person USAC should contact regarding this data Trish Mason  
 <035> Contact Telephone Number - Number of person identified in data line <030> 360-321-0013  
 <039> Contact Email Address - Email Address of person identified in data line <030> trish.mason@whidbeytel.com

| PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS                   |            |           |
|---|------------|-----------|
| ITEM  | PRIOR YEAR | THIS YEAR |
| 1. Local Network Services Revenues  | 19004      | 18604     |
| 2. Network Access Services Revenues   | 25012      | 34653     |
| 3. Long Distance Network Services Revenues                                      |            |           |
| 4. Carrier Billing and Collection Revenues                                      | 2225       | 3068      |
| 5. Miscellaneous Revenues   | 23290      | 23744     |
| 6. Uncollectible Revenues   | -71        | -2        |
| 7. Net Operating Revenues (1 thru 5 less 6)                                     | 69602      | 80067     |
| 8. Plant Specific Operations Expense  | 19245      | 9581      |
| 9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization) | 11348      | 12634     |
| 10. Depreciation Expense  | 19764      | 16152     |
| 11. Amortization Expense  |            |           |
| 12. Customer Operations Expense   | 7839       | 6091      |
| 13. Corporate Operations Expense  | 17504      | 21479     |
| 14. Total Operating Expenses (8 thru 13)  | 75700      | 65937     |
| 15. Operating Income or Margins (7 less 14)                                     | -6098      | 14130     |
| 16. Other Operating Income and Expenses   |            |           |
| 17. State and Local Taxes   |            |           |
| 18. Federal Income Taxes  |            |           |
| 19. Other Taxes   | 6432       | 3145      |
| 20. Total Operating Taxes (17+18+19)  | 6432       | 3146      |
| 21. Net Operating Income or Margins (15+16-20)                                  | -12530     | 10984     |
| 22. Interest on Funded Debt   |            |           |
| 23. Interest Expense - Capital Leases   |            |           |
| 24. Other Interest Expense  |            |           |
| 25. Allowance for Funds Used During Construction                                |            |           |
| 26. Total Fixed Charges (22+23+24-25)   | 0          | 0         |
| 27. Nonoperating Net Income   |            |           |
| 28. Extraordinary Items   |            |           |
| 29. Jurisdictional Differences  |            |           |
| 30. Nonregulated Net Income   |            |           |
| 31. Total Net Income or margins (21+27+28+29+30-26)                             | -12530     | 10984     |
| 32. Total Taxes Based on Income   |            |           |
| 33. Retained Earnings or Margins Beginning-of-Year                              | 298330     | 282745    |
| 34. Miscellaneous Credits Year-to-Date  |            |           |
| 35. Dividends Declared (Common)   |            |           |
| 36. Dividends Declared (Preferred)  |            |           |
| 37. Other Debits Year-to-Date   | 3055       | 0         |
| 38. Transfers to Patronage Capital  |            |           |
| 39. Retained Earnings or Margins end-of-Period [(31+33+34)-(35+36+37+38)]       | 282745     | 293729    |
| 40. Patronage Capital Beginning-of-Year   |            |           |
| 41. Transfers to Patronage Capital  |            |           |
| 42. Patronage Capital Credits Retired   |            |           |
| 43. Patronage Capital End-of-Year (40+41-42)                                    | 0          |           |
| 44. Annual Debt Service Payments  |            |           |
| 45. Cash Ratio [(14+20-10-11)/7]  |            |           |
| 46. Operating Accrual Ratio [(14+20+26)/7]                                      |            |           |
| 47. TIER [(31+26)/26]   |            |           |
| 48. DSCR [(31+26+10+11)/44]   |            |           |

(3005c) Operating Report for Privately-Held Rate of Return Carriers  
Cash Flow - Data Collection Form

FCC Form 481  
OMB Control No. 3060-0986  
OMB Control No. 3060-0819  
April 2014

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|   |                            |
|---|----------------------------|
| <010> Study Area Code   | 522417                     |
| <015> Study Area Name   | Hat Island                 |
| <020> Program Year  | 2016                       |
| <030> Contact Name - Person USAC should contact regarding this data                 | Trish Mason                |
| <035> Contact Telephone Number - Number of person identified in data line <030>     | 360-321-0013               |
| <039> Contact Email Address - Email Address of person identified in data line <030> | trish.mason@whidbeytel.com |

| PART C. STATEMENTS OF CASH FLOWS   |         |
|--|---------|
| 1. Beginning Cash (Cash and Equivalents plus RUS Construction Fund)  | 115855  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |         |
| 2. Net Income  | 10984   |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities                               |         |
| 3. Add: Depreciation   | 16152   |
| 4. Add: Amortization   |         |
| 5. Other (Explain) Partnership Distribution, Realized Gain-Sale of Investment, Noncash Operating Income        |         |
| Changes in Operating Assets and Liabilities  |         |
| 6. Decrease/(Increase) in Accounts Receivable  | -118348 |
| 7. Decrease/(Increase) in Materials and Inventory  |         |
| 8. Decrease/(Increase) in Prepayments and Deferred Charges   | 935     |
| 9. Decrease/(Increase) in Other Current Assets   |         |
| 10. Increase/(Decrease) in Accounts Payable  | -658    |
| 11. Increase/(Decrease) in Advance Billings & Payments   | -123    |
| 12. Increase/(Decrease) in Other Current Liabilities   | 1131    |
| 13. Net Cash Provided/(Used) by Operations   | -89927  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |         |
| 14. Decrease/(Increase) in Notes Receivable  |         |
| 15. Increase/(Decrease) in Notes Payable   |         |
| 16. Increase/(Decrease) in Customer Deposits   |         |
| 17. Net Increase/(Decrease) in Long Term Debt (Including Current Maturities)                                   |         |
| 18. Increase/(Decrease) in Other Liabilities & Deferred Credits  |         |
| 19. Increase/(Decrease) in Capital Stock, Paid-in Capital, Membership and Capital Certificates & Other Capital |         |
| 20. Less: Payment of Dividends   |         |
| 21. Less: Patronage Capital Credits Retired  |         |
| 22. Other (Explain)  |         |
| 23. Net Cash Provided/(Used) by Financing Activities   | 0       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |         |
| 24. Net Capital Expenditures (Property, Plant & Equipment)   | 0       |
| 25. Other Long-Term Investments  |         |
| 26. Other Noncurrent Assets & Jurisdictional Differences   |         |
| 27. Other (Explain) Partnership Capital Distribution, Loans/Advances to Affiliates                             |         |
| 28. Net Cash Provided/(Used) by Investing Activities   | 0       |
| 29. Net Increase/(Decrease) in Cash  | -89927  |
| 30. Ending Cash  | 25928   |



JOHNSON  
STONE &  
PAGANO, P.S.  
CERTIFIED PUBLIC ACCOUNTANTS

Independent Accountant's Review Report

Board of Directors  
Hat Island Telephone Company  
Langley, Washington

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

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

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

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

*Johnson, Stone & Pagano, P.S.*  
JOHNSON, STONE & PAGANO, P.S.

March 9, 2015