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

8 IN RE

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

DOCKET NO.  
PETITION FOR SUPPORT

13  
14 COMES NOW Whidbey 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 Program year 2016.

19  
20 **I. Demonstration of Eligibility under WAC 480-123-100**

- 21 1. WAC 480-123-100(1)(a): The Company is a local exchange company as defined in WAC  
22 480-120-021 that serves less than forty thousand access lines within the state.  
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26 PETITION OF WHIDBEY TELEPHONE  
COMPANY TO RECEIVE SUPPORT  
FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES  
PROGRAM - 1

CONFIDENTIAL PER WAC 480-07-160  
REDACTED

- 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 11 5. WAC 480-123-100(1)(e): The Company has been designated by the Commission as an  
12 eligible telecommunications carrier for purposes of receiving federal universal services  
13 support pursuant to 47 C.F.R. Part 54 Subpart D - Universal Service Support for High Cost  
14 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: Whidbey 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, except individual officers and  
22 directors, is attached hereto as Exhibit 1. A detailed description of any transactions between  
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1 the Company and the affiliates named in Exhibit 1, as well as officers and directors of the  
2 Company,<sup>1</sup> recorded in the Company's operating accounts is attached hereto as Exhibit 2.

- 3 3. WAC 480-123-110(1)(c): Service area maps for the Company can be found at Sheet Nos.  
4 300 and 301 of the Company's Tariff WN U-5.
- 5 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate  
6 instability or service interruption or cessation in the absence of support from the Program is  
7 attached hereto as Exhibit 3.
- 8 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached hereto as  
9 Exhibit 4, are copies of the Company's balance sheet as of December 31, 2014, and  
10 December 31, 2013, and copies of the Company's statements of income and retained  
11 earnings or margin for the years ended December 31, 2014 and December 31, 2013.
- 12 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial  
13 statements for the years ended December 31, 2014 and December 31, 2013, is attached  
14 hereto as Exhibit 5.
- 15 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of  
16 return on a total Washington unseparated regulated operations basis for each of the two prior  
17 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
- 18 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on  
19 equity on a total company (regulated and non-regulated) Washington basis for each of the  
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23  
24 <sup>1</sup> Pursuant to agreement with the Commission Staff, Exhibit 2 is limited to transactions other than  
25 employment compensation and benefits pursuant to employee benefit plans.

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

3 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the  
4 statements of income and retained earnings or margin in the same format and detail as is  
5 required to complete RUS Form 479 for the prior two years is presented on Exhibit 6  
6 attached hereto.

7  
8 10. WAC 480-123-110(1)(e)(vi): Information detailing the amounts of any corporate operations  
9 adjustment to existing high-cost loop and interstate common line support mechanisms  
10 required of the Company by the Federal Communications Commission for the past two  
11 years is attached hereto as Exhibit 7.

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

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

18  
19 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or  
20 on its behalf with the Federal Communications Commission for the calendar year preceding  
21 the current year has already been filed with the Commission. See the Company's filing in  
22 Docket No. UT-150063 filed on or about July 1, 2015.

1 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by  
2 the Company as of December 31, 2014, was 7,876, all of which were within the geographic  
3 area for which the Company is seeking support. The number of residential local exchange  
4 access lines served by the Company as of December 31, 2013, was 7,965, all of which were  
5 within the geographic area for which the Company is seeking support. The number of  
6 business local exchange access lines served by the Company as of December 31, 2014, was  
7 1,778, all of which were within the geographic area for which the Company is seeking  
8 support. The number of business local exchange access lines served by the Company as of  
9 December 31, 2013, was 1,919, all of which were within the geographic area for which the  
10 Company is seeking support. The monthly recurring rate charged by the Company for  
11 residential local exchange access service on December 31, 2014, was \$16.00. The monthly  
12 recurring rate charged by the Company for residential local exchange access service on  
13 December 31, 2013, was \$14.00. The rate charged by the Company for single line business  
14 local exchange access service on December 31, 2014, was \$16.50. The rate charged by the  
15 Company for single line business local exchange access service on December 31, 2013, was  
16 \$16.50. (The Company has other business local exchange service rates, but the Company  
17 understands that WAC 480-123-110(1)(g) is requesting the single line business local  
18 exchange access service rate.)  
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21 15. WAC 480-123-110(1)(h): The specified statement is attached hereto as Exhibit 9.  
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1 16. All exhibits attached hereto are incorporated in this Petition as though fully set forth.


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

3  
4 WHIDBEY TELEPHONE COMPANY

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6  
7 CERTIFICATION

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

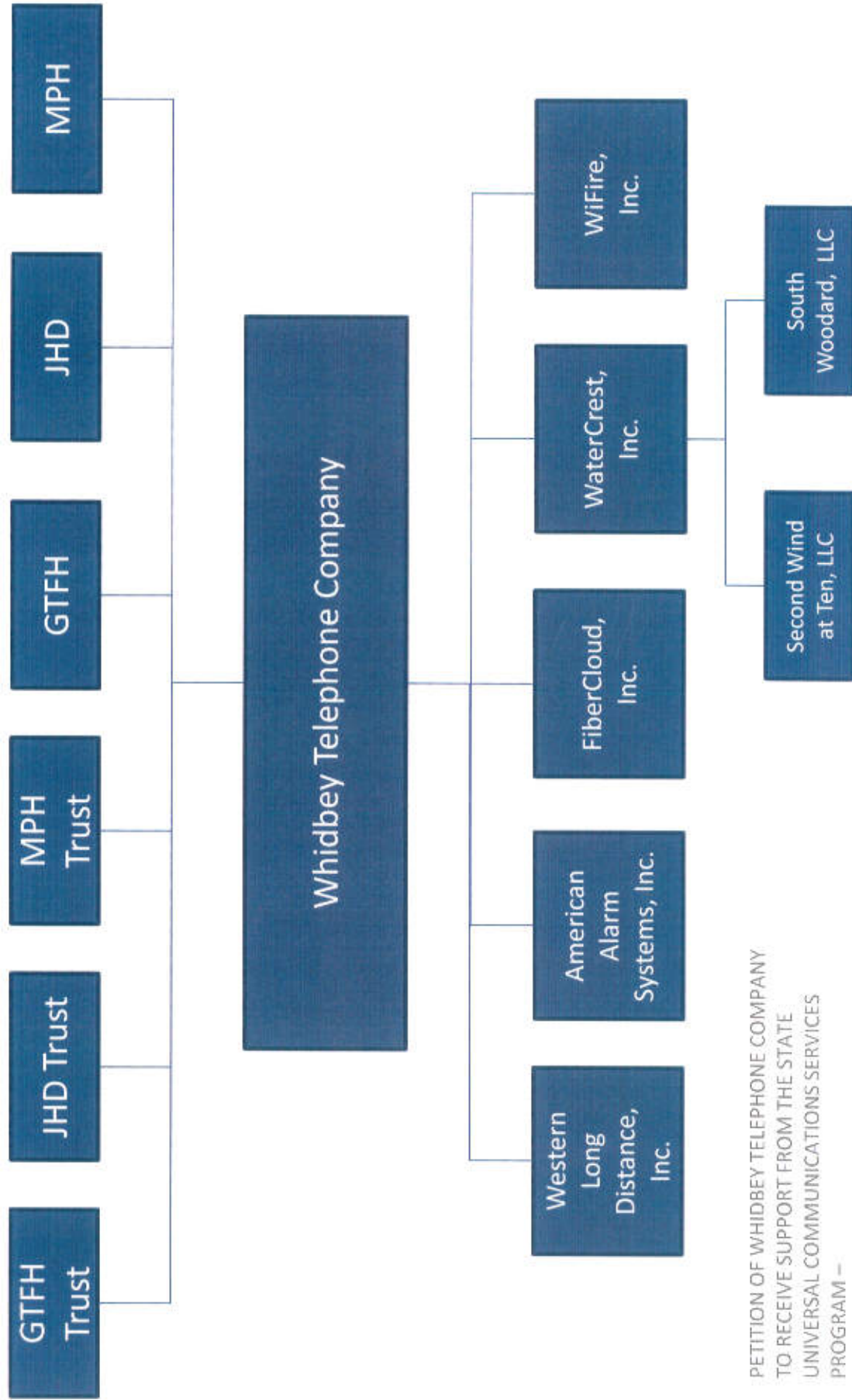
13 Dated at Langley, Washington this 30th day of July, 2015.

14 By:  \_\_\_\_\_

15 Title: Chief Operating Officer



EXHIBIT 1  
CORPORATE ORGANIZATION CHART



PETITION OF WHIDBEY TELEPHONE COMPANY  
TO RECEIVE SUPPORT FROM THE STATE  
UNIVERSAL COMMUNICATIONS SERVICES  
PROGRAM --  
EXHIBIT 1-1

## EXHIBIT 2

### DESCRIPTION OF TRANSACTIONS BETWEEN COMPANY AND AFFILIATES

The following are transactions between Whidbey Telephone Company (“Company”) and the Company affiliates that are shown in Exhibit 1, as well as officers and directors, that are recorded on the books of the Company:

#### Ownership and the Company

- Certain shareholders holding, directly or indirectly, five percent or more of the stock of the Company are also employees of the Company and receive from the Company employment compensation and employment-associated benefits in accordance with benefit plans that are in place.
- Shareholders of the Company receive distributions from the Company that the Company records as Distributions to Ownership.
- Certain shareholders, who are also officers and directors of the Company, have loans from the Company. The Company records Interest Revenue and Receivables on those loans. As loans are repaid, the Company reduces the appropriate Notes Receivable upon receipt of funds.
- The Company creates work orders for services performed for certain shareholders, who are also officers and directors of the Company. These work orders are reimbursed to the Company and result in a decrease in the Company’s recorded capital items and operating expenses.

#### The Company and Western Long Distance, Inc.

- The Company provides billing and collection services on behalf of Western Long Distance, Inc. (WLD). These services are billed to WLD, and are treated as Carrier Billing and Collection Revenue by the Company. To the extent that these services are jurisdictionally intrastate, they are priced at rates equal to the billing and collection rates specified in the Company’s Tariff WN U-5; to the extent that these services are jurisdictionally interstate, they are charged (to the extent applicable) at the same rate charged to other IXC(s) to whom the Company provides Billing and Collection services.
- WLD provides long distance carrier service to the Company. This service is billed to the Company at WLD’s price list rates. The Company records General and Administrative Expenses for this service.



#### The Company and American Alarm Services, Inc.

- The Company provides American Alarm Services, Inc. (AAS) with local telephone service at rates and charges set forth in the Company's Tariff WN U-5.
- AAS provides alarm and monitoring services for the Company. The Company records Regulated Land & Building Expense subject to Part 64 allocations.

#### The Company and Watercrest, Inc.

- There are loans from the Company to Watercrest, Inc. The Company records Interest Income on the loans. As the loans are repaid, the Company reduces the appropriate Notes Receivable.

#### The Company and WiFire, Inc.

- Retail transactions for food and beverages furnished by WiFire, Inc. to the Company are recorded by the Company as Operating Expenses.

#### The Company and FiberCloud, Inc.

- The Company obtains from FiberCloud, Inc. co-location space, dark fiber, and transport and bandwidth services at commercial rates from FiberCloud, Inc. With respect to these transactions, the Company records Regulated and Non-Regulated Operating Expenses determined in accordance with the Company's FCC Part 64 procedures.
- There is a loan between the Company and FiberCloud, Inc. The Company records Interest Income on the loan. As the loan is repaid, the Company reduces the appropriate Notes Receivable upon receipt of funds.
- The Company allows FiberCloud, Inc. to use tower space on a Company tower. The Company records Rental Revenue at an appropriate rate and FiberCloud, Inc. records Rental Expense.
- The Company provides transport services to FiberCloud, Inc. at rates set forth in the Company's Tariff WN U-5 and/or NECA Tariff FCC No. 5, depending upon the jurisdiction of the transport service furnished. The Company records Special Access Revenue for these services. If the transport services are jurisdictionally interstate, the revenues and corresponding costs are reported to NECA.
- The Company provides administrative services to FiberCloud, Inc. on a cost allocation basis. This allocation reduces Administrative Expenses to the Company.

### 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 \$10.5 million during the period 2011 through 2014. As a result, the Company has a substantial debt obligation to cover the investment that has been made, and continues to require substantial cash allocation for investments, as well as operation and maintenance of existing infrastructure.

The overall financial condition of the Company is detailed on other Exhibits to this Petition. What this information demonstrates is that, when adjusted to eliminate the support from the state Universal Communications Services Program (the "Program") that the Company received or accrued in 2014, the Company's total regulated revenue decreased by approximately 9% from 2011 through 2014. The Company has looked for ways to lower expenses, including a reduction in workforce in 2014. However, much of the Company's operating expenses are fixed obligations, such as debt-related payments. In 2014, the Company had to defer approximately \$1 million in capital expenditures due to lack of funding. In the long term, an inability to replace and improve existing infrastructure will tend to drive operating expenses higher, which will inevitably cause further rate instability.

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. From December 31, 2011 through December 31, 2014, the Company has lost 9.45% of access lines, for a total of 1,007 access lines. However, the portions of the Company's service area for which the Company is seeking Program support includes recreational areas that experience seasonal fluctuations within the customer base. After adjusting for seasonal fluctuations, the actual loss since 2011 for the areas for which the Company is seeking support is 11.76%, for a total of 1,254 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. 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 \$746,182 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.<sup>1</sup> The USF/ICC Transformation Order has built-in an automatic decline in the Company's intrastate and interstate access revenues. The intercarrier compensation portion of the Transformation Order introduces a concept of a base line year for calculating terminating access and reciprocal compensation revenues and provides support from the Connect America Fund ("CAF") based on the base line year. However, the base line year revenues (from which the level of CAF support is derived) are reduced iteratively by five percent each year. The CAF support reduction began in July 2012. Projecting through the calendar year 2016, including additional reductions that under existing federal rules will occur July 1, 2016 the Company will see a reduction in support from the base line revenue amount of approximately \$ 490,545 for 2016.

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

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

The combination of factors noted above creates a situation in which, without support from the Program, the Company may be faced with a choice of increasing rates beyond those increases that may otherwise need to occur or reducing service in order to be able to match expenses to revenues. Neither choice presents a viable path for providing continued high quality service to customers. The dilemma presented by these choices reflects the risk of rate instability or service interruption or cessation to which the Company is subject.

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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 Fun*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011)(*USF/ICC Transformation Order*).

STATE USE FILING  
FINANCIAL TEMPLATE  
"S CORP" COMPANIES

State USE Filing Requirement -WAC 480-123-110 (L)(k)  
 Prior Year Balance Sheet

EXHIBIT 4  
 FINANCIAL TEMPLATE

Company Name: (Below)  
 Whidbey Telephone Company

ASSETS	Balance End of Year 2013 (A)	Part 64 Adj to NonReg 2013 (B)	Adj. Balance End of Year 2013 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2013 (A)	Part 64 Adj to NonReg 2013 (B)	Adj. Balance End of Year 2013 (C)
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
1. Cash and Equivalents				25. Accounts Payable			
2. Cash-RUS Construction Fund				26. Notes Payable			
3. Affiliates:				27. Advance Billings and Payments			
a. Telecom, Accounts Receivable				28. Customer Deposits			
b. Other Accounts Receivable				29. Current Mac. L/T Debt			
c. Notes Receivable				30. Current Mac. L/T Debt Bur. Dev.			
4. Non-Affiliates:				31. Current Mac. - Capital Leases			
a. Telecom, Accounts Receivable				32. Income Taxes Accrued			
b. Other Accounts Receivable				33. Other Taxes Accrued			
c. Notes Receivable				34. Other Current Liabilities			
5. Interest and Dividends Receivable				35. Total Current Liabilities (25 thru 34)			
6. Material-Regulated				<b>LONG-TERM DEBT</b>			
7. Material-Nonregulated				36. Funded Debt-RUS Notes			
8. Prepayments				37. Funded Debt-RTB Notes			
9. Other Current Assets				38. Funded Debt-FFB Notes			
10. Total Current Assets (1 Thru 9)				39. Funded Debt-Other			
<b>NONCURRENT ASSETS</b>				40. Funded Debt-Rural Develop. Loan			
11. Investment in Affiliated Companies				41. Premium (Discount) on L/T Debt			
a. Rural Development				42. Recaptured Debt			
b. Nonrural Development				43. Obligations Under Capital Lease			
12. Other Investments				44. Adv. From Affiliated Companies			
a. Rural Development				45. Other Long-Term Debt			
b. Nonrural Development				46. Total Long-Term Debt (36 thru 45)			
13. Nonregulated Investments (B1)				<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
14. Other Noncurrent Assets				47. Other Long-Term Liabilities			
15. Deferred Charges				48. Other Deferred Credits (C)			
16. Jurisdictional Differences				49. Other Jurisdictional Differences			
17. Total noncurrent Assets (11 thru 16)				50. Total Other Liab. & Def. Credits (47 thru 49)			
<b>PLANT, PROPERTY AND EQUIPMENT</b>				<b>EQUITY</b>			
18. Telecom Plant in Service				51. Cap. Stock Outstanding & Subscribed			
19. Property Held for Future Use				52. Additional Paid-in-Capital			
20. Plant Under Construction				53. Treasury Stock			
21. Plant Adj./Nonop Plant & Goodwill				54. Membership and cap. Certificates			
22. Accumulated Depreciation (CR.)				55. Other Capital			
23. Net Plant (18 thru 21 less 22)				56. Patronage Capital Credits			
24. TOTAL ASSETS (10+17+23)				57. Retained Earnings or Margins (B2)			
				58. Total Equity (51 thru 57)			
				59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)			

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

Company Name: (Below)  
 Whidbey Telephone Company

ASSETS	Balance End of Year 2014 (A)	Part 64 Adj to NonReg 2014 (B)	Adj. Balance End of Year 2014 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2014 (A)	Part 64 Adj to NonReg 2014 (B)	Adj. Balance End of Year 2014 (C)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
1. Cash and Equivalents				25. Accounts Payable			
2. Cash-RUS Construction Fund				26. Notes Payable			
3. Affiliates:				27. Advance Billings and Payments			
a. Telecom, Accounts Receivable				28. Customer Deposits			
b. Other Accounts Receivable				29. Current Mat. L/T Debt			
c. Notes Receivable				30. Current Mat. L/T Debt Rur. Dev.			
4. Non-Affiliates:				31. Current Mat. - Capital Leases			
a. Telecom, Accounts Receivable				32. Income Taxes Accrued			
b. Other Accounts Receivable				33. Other Taxes Accrued			
c. Notes Receivable				34. Other Current Liabilities			
5. Interest and Dividends Receivable				35. Total Current liabilities (25 thru 34)			
6. Metered-Regulated				<b>LONG-TERM DEBT</b>			
7. Material-Nonregulated				36. Funded Debt-RUS Notes			
8. Prepayments				37. Funded Debt-RTB Notes			
9. Other Current Assets				38. Funded Debt-FFB Notes			
10. Total Current Assets (1 Thru 9)				39. Funded Debt-Other			
				40. Funded Debt-Rural Develop. Loan			
<b>NONCURRENT ASSETS</b>				41. Premium (Discount) on L/T Debt			
11. Investment in Affiliated Companies				42. Reacquired Debt			
a. Rural Development				43. Obligations Under Capital Lease			
b. Nonrural Development				44. Adv. From Affiliated Companies			
12. Other Investments				45. Other Long-Term Debt			
a. Rural Development				46. Total Long-Term Debt (36 thru 45)			
b. Nonrural Development				<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
13. Nonregulated Investments (B1)				47. Other Long-Term Liabilities			
14. Other Noncurrent Assets				48. Other Deferred Credits (C)			
15. Deferred Charges				49. Other Jurisdictional Differences			
16. Jurisdictional Differences				50. Total Other Liab. & Def. Credits (47 thru 49)			
17. Total noncurrent Assets (11 thru 16)				<b>EQUITY</b>			
				51. Cap. Stock Outstanding & Subscribed			
<b>PLANT, PROPERTY AND EQUIPMENT</b>				52. Additional Paid-in-Capital			
18. Telecom Plant-In-Service				53. Treasury Stock			
19. Property Held for Future Use				54. Membership and cap. Certificates			
20. Plant Under Construction				55. Other Capital			
21. Plant Adj., Nonop Plant & Goodwill				56. Patronage Capital Credits			
22. Accumulated Depreciation (CR.)				57. Retained Earnings or Margins (B2)			
23. Net Plant (18 thru 21 less 22)				58. Total Equity (51 thru 57)			
24. TOTAL ASSETS (10+17+23)				59. TOTAL LIABILITIES AND EQUITY (B5+46+50+58)			

Footnotes:

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

Footnotes:

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



Company Name: (below)  
 Whidbey Telephone Company

ASSETS	Adjusted Prior Year Balance 2013	Adjusted Current Year Balance 2014	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2013	Adjusted Current Year Balance 2014
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
1. Cash and Equivalents			25. Accounts Payable		
2. Cash-RUS Construction Fund			26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments		
a. Telecom, Accounts Receivable			28. Customer Deposits		
b. Other Accounts Receivable			29. Current Mat. L/T Debt		
c. Notes Receivable			30. Current Mat. L/T Debt Bur. Dev.		
4. Non-Affiliates:			31. Current Mat. - Capital Leases		
a. Telecom, Accounts Receivable			32. Income Taxes Accrued		
b. Other Accounts Receivable			33. Other Taxes Accrued		
c. Notes Receivable			34. Other Current Liabilities		
5. Interest and Dividends Receivable			35. Total Current Liabilities (25 - 34)		
6. Material-Regulated			<b>LONG-TERM DEBT</b>		
7. Material-Nonregulated			36. Funded Debt-RUS Notes		
8. Prepayments			37. Funded Debt-RTB Notes		
9. Other Current Assets			38. Funded Debt-FFB Notes		
10. Total Current Assets (1 thru 9)			39. Funded Debt-Other		
			40. Funded Debt-Rural Develop. Loan		
<b>NONCURRENT ASSETS</b>			41. Premium (Discount) on L/T Debt		
11. Investment in Affiliated Companies			42. Required Debt		
a. Rural Development			43. Obligations Under Capital Lease		
b. Nonrural Development			44. Adv. From Affiliated Companies		
c. Other Investments			45. Other Long-Term Debt		
a. Rural Development			46. Total Long-Term Debt (36-45)		
b. Nonrural Development			<b>OTHER LIAB. &amp; DEF. CREDITS</b>		
13. Nonregulated Investments			47. Other Long-Term Liabilities		
14. Other Noncurrent Assets			48. Other Deferred Credits		
15. Deferred Charges			49. Other Jurisdictional Differences		
16. Jurisdictional Differences			50. Total Other Liab. & Def. Credits (47 thru 49)		
17. Total noncurrent Assets (11 thru 16)			<b>EQUITY</b>		
			51. Cap. Stock Outstanding & Subscribed		
<b>PLANT, PROPERTY AND EQUIPMENT</b>			52. Additional Paid-in-Capital		
18. Telecom Plans-in-Service			53. Treasury Stock		
19. Property Held for Future Use			54. Membership and cap. Certificates		
20. Plant Under Construction			55. Other Capital		
21. Plant Adj., Nonop. Plant & Goodwill			56. Patrons Capital Credits		
22. Accumulated Depreciation (CR.)			57. Retained Earnings or Margins		
23. Net Plant (18 thru 21 less 22)			58. Total Equity (51 thru 57)		
24. TOTAL ASSETS (10+17+23)			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)		

Footnote:  
 Adjusted balances represents balances  
 after Part 6A adjustments

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

EXHIBIT 4  
 FINANCIAL TEMPLATE

Company Name: (Below)  
 Whidbey Telephone Company

Line #	Description	B/S Line #	Adj. Balance End of Year 2013	Adj. Balance End of Year 2014	Average Adj. End of Year Balance
1	Average Rate Base:				
2	Total Regulated Adjusted Telecom Plant-in-service				
3	Total Property Held for Future Use				
4	Total Regulated Adjusted Accumulated Depreciation (CR)				
5	Total Regulated Materials & Supplies				
6	Deferred Income Taxes (CR)				
	Total Regulated Rate Base				

Footnotes:

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

Company Name: (Below)  
 Whidbey Telephone Company

Line #	Description	Prior Year End of Yr. Balance - 2013	Current Year End of Yr. Balance - 2014	Difference	% Change
1	Access Lines: Residential				
2	Business				
3	Total				

Company Name: (Below)  
 Whidbey Telephone Company

Line #	Description	Prior Year 2013 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2013 (C)
1	Local Network Services Revenues			
2	Network Access Services Revenues			
3	Long Distance Network Services Revenues			
4	Carrier Billing and Collection Revenues			
5	Miscellaneous Revenues			
6	Uncollectible Revenues (Normal Balance is debit or in brackets)			
7	Net Operating Revenues (1 thru 6)			
8	Plant Specific Operations Expense			
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)			
10	Depreciation Expense			
11	Amortization Expense			
12	Customer Operations Expense			
13	Corporate Operations			
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ( )			
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)			
14	Total Operations Expenses (8 thru 12 +13b)			
15	Operating Income or Margins (7 less 14)			
16	Other Operating Income and Expenses ( )			
17	State and Local Taxes			
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)			
19	Other Taxes			
20	Total Operating Taxes (17+18+19)			
21	Net Operating Income or Margins (15+16-20)			
22	Interest on Funded Debt			
23	Interest Expense - Capital Leases			
24	Other Interest Expense			
25	Allowance for Funds Used During Construction (CF)			
26	Total Fixed Charges (22+23+24-25)			
27	Nonoperating Net Income			
28	Extraordinary Items			
29	Jurisdictional Differences			
30	Nonregulated Net Income (B1)			
31	Total Net Income or Margins (21+27+28+29+30-26)			
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year			
34	Miscellaneous Credits Year-to-Date			
35	Dividends Declared (Common)			
36	Dividends Declared (Preferred)			
37	Other Debits Year-to-Date			
38	Transfers to Patronage Capital			
39	Retained Earnings End-of-Period (((31+33+34)-(35+36+37+38))(A2)			
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)			

Footnotes:  
 (A) As reported on RUS Form 479  
 (A1) S Corps provide effective tax rate from Cost study on Page 8 Inc. Stmt Summary Schedule Footnote  
 (A2) Column A, Line 39 must equal Column A, Line 57 of Page 1, Balance Sheet  
 (B) Part 64 adjustment from regulated to nonregulated  
 (B1) Part 64 offset to nonregulated income (No Impact to retained earnings)  
 (C) Corp. Op. Adj Exp. Reduction - See Exhibit 7 of Petition which takes amount \* 65% to Line 13a, Column C  
 (Reduces total operating expense (L 14) and increases Operating Inc. [L15])

Company Name: (Below)  
 Whidbey Telephone Company

Line #	Description	Current Year 2014 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2014 (C)
1	Local Network Services Revenues			
2	Network Access Services Revenues			
3	Long Distance Network Services Revenues			
4	Carrier Billing and Collection Revenues			
5	Miscellaneous Revenues			
6	Uncollectible Revenues (Normal Balance is debit or in brackets)			
7	<b>Net Operating Revenues (1 thru 6)</b>			
8	Plant Specific Operations Expense			
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)			
10	Depreciation Expense			
11	Amortization Expense			
12	Customer Operations Expense			
13	Corporate Operations			
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ( )			
13b	<b>Adjusted Corporate Operations Expense (Line 13 minus Line 13a)</b>			
14	<b>Total Operations Expenses (8 thru 12 +13b)</b>			
15	Operating Income or Margins (7 less 14)			
16	Other Operating Income and Expenses ( )			
17	State and Local Taxes			
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)			
19	Other Taxes			
20	<b>Total Operating Taxes (17+18+19)</b>			
21	<b>Net Operating Income or Margins (15+16-20)</b>			
22	Interest on Funded Debt			
23	Interest Expense - Capital Leases			
24	Other Interest Expense			
25	Allowance for Funds Used During Construction (CF)			
26	<b>Total Fixed Charges (22+23+24-25)</b>			
27	Nonoperating Net Income			
28	Extraordinary Items			
29	Jurisdictional Differences			
30	<b>Nonregulated Net Income (B1)</b>			
31	<b>Total Net Income or Margins (21+27+28+29-30-26)</b>			
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year			
34	Miscellaneous Credits Year-to-Date			
35	Dividends Declared (Common)			
36	Dividends Declared (Preferred)			
37	Other Debits Year-to-Date			
38	Transfers to Patronage Capital			
39	<b>Retained Earnings End-of-Period <math>\{[(31+33+34)-(35+36+37+38)](A2)\}</math></b>			
40	Patronage Capital Beginning-of-Year			
41	Transfers to Patronage Capital			
42	Patronage Capital Credits Retired			
43	<b>Patronage Capital End-of-Year (40+41-42)</b>			
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 $\{(31+26+10+11)/44\}$			

(C)

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 8, Inc. Stmt Summary Schedule Footnote
- (A2) Column A, Line 39 must equal Column A, Line 57 of Page 2, Balance Sheet
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Part 64 offset to nonregulated income (No impact to retained earnings)
- (C) Corp. Op. Adj Exp. Reduction - See Exhibit 7 of Petition which takes ( ) amount \* 65% to line 13a, Column C  
 [Reduces total operating expense (L 14) and increases Operating Inc. (L15)]





Company Name:  
Whidbey Telephone Company

Line #	Description	Adjusted Prior Year 2013	Adjusted Current Year 2014
1	Local Network Services Revenues		
2	Network Access Services Revenues		
3	Long Distance Network Services Revenues		
4	Carrier Billing and Collection Revenues		
5	Miscellaneous Revenues		
6	Uncollectible Revenues (Normal Balance is debit or in brackets)		
7	Net Operating Revenues (1 thru 6)		
8	Plant Specific Operations Expense		
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)		
10	Depreciation Expense		
11	Amortization Expense		
12	Customer Operations Expense		
13	Corporate Operations		
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ( )		
13b	Adjusted Corporate Operations Expense (Line 13 minus (line 13a))		
14	Total Operations Expenses (8 thru 12 +13b)		
15	Operating Income or Margins (7 less 14)		
16	Other Operating Income and Expenses ( )		
17	State and Local Taxes		
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)		
19	Other Taxes		
20	Total Operating Taxes (17+18+19)		
21	Net Operating Income or Margins (15+16-20)		
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)		
32	Total Taxes Based on Income		
33	Retained Earnings or Margins Beginning-of-Year		
34	Miscellaneous Credits Year-to-Date		
35	Dividends Declared (Common)		
36	Dividends Declared (Preferred)		
37	Other Debits Year-to-Date		
38	Transfers to Patronage Capital		
39	Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))		
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+25)/7)		
47	TIER ((31+26)/26)		
48	DSCR ((31+26+10+11)/44)		

Footnote  
 (A1) S Corporation Effective Tax Rate (2 decimal places):

2013      2014

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

Company Name: (Below)  
 Whidbey Telephone Company

Line #	Description	Pert 3.2 Account	Prior Year 2013	Current Year 2014
1	End User Revenue (SLC, ARC, etc.)	5081		
2	Switched Access (excluding USF):	5082		
2a	Intrastate			
2b	Interstate (includes CAF)			
3	Special Access:	5083		
3a	Intrastate			
3b	Interstate			
4	Federal USF (ICLS/HCL/SN)	Varies		
5	State USF			
6	Other*			
7	Total (must equal line 2 of Income Stmt.)			
8	Line 2 of Income Stmt.			
9	Difference			

Footnote:

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

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

EXHIBIT 4  
FINANCIAL TEMPLATE

Description of Out-of-Period - 2014 (As Rerostered)

	Part 32 Account	
	Debit	Credit

Adjustment #1:

Adjustment #2:

Adjustment #3:

Adjustment #4:

Company Name:  
 Whidbey Telephone Company

Line #	Source(A)	Net Operating Income Inputted FIT Calculation	2014
1	Page 9, Line 21 (CY)	Adjusted Net Operating Income	
2		Out-of-Period Adjustments	
3	Page 9, Line 26 (CY)	Total Fixed Charges	
4	Sum	Adj. Taxable Operating Income [(Line 1 + Line 2 - Line 3)]	
5		Inputted S Corp. Tax Rate(B)	
6	Calculated	inputted FIT (Line 4 * Line 5)	
7	Sum	Adj. Net Operating Income after FIT (Line 1 - Line 6)	
<b>NonOperating Income Inputted FIT Calculation</b>			
8	Page 9, Line 27 (CY)	Nonoperating net income	
9	Page 9, Line 30 (CY)	Nonregulated net income	
10	Sum	Sub-Total [(Line 27+Line 30)]	
11		Inputted S Corp. Tax Rate(B)	
12	Calculated	FIT (Line 10 * Line 11)	
13	Sum	Nonop/Nonreg income after FIT (Line 10 - Line 12)	
14	Sum	Adjusted Net Income w/Inputted FIT	
<b>Sanity Check:</b>			
15	Page 5, Line 31 (CY)	Line 31 as reported	
16		Out-of-Period Adjustments	
17		Total	
18		Inverse of effective tax rate (100%-Line 10 percent)	
19	Calculated	Adjusted Net Income (Line 17*Line 18) - Line 14	
<b>Regulated Rate of Return</b>			
20	Page 5, Total (PY)	Regulated rate base Year End 2013	
21	Page 5, Total (CY)	Regulated rate base Year End 2014	
22	Sum	Total	
23	Calculated	Simple Avg.	
24	Line 7 (above)	Adj Operating Income after inputted FIT	
27	Calculated	Regulated rate of return	
<b>Total Consolidated Company Return on Equity</b>			
28	Audited FinStmts	Total Equity Year End 2013	
29	Audited FinStmts	Total Equity Year End 2014	
30	Sum	Total	
31	Calculated	Simple Avg.	
32	Audited FinStmts	Consolidated Net Income	
33	Line 2 above	Out-of-period adjustment	
34		Adjusted Consolidated Net Income	
35		Inputted S Corp Tax Rate	
36		Inputted FIT (Line 34 * Line 35)	
37	Sum	Adj. Consolidated Net Income after inputted FIT	
38	Calculated	Total Adj. Consolidated Company Return on Equity	

Footnotes:

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

(B) - Company provided

Company Name: (Below)  
 Whidbey Telephone Company

Description	Prior Year End of Yr. Balance - 2013	Current Year End of Yr. Balance - 2014	Difference	% Change
<b>Broadband Connections:</b>				
Residential	6,335	6,610	275	4.3%
Business	882	869	(13)	-1.5%
<b>Total</b>	<b>7,217</b>	<b>7,479</b>	<b>262</b>	<b>3.6%</b>
<b>Gross Regulated and Nonregulated Capital Expenditures:</b>	<b>2013</b>	<b>2014</b>	<b>Difference</b>	<b>% Change</b>
<b>Total Annual Amount</b>	<b>Redacted</b>	<b>Redacted</b>	<b>Redacted</b>	<b>Redacted</b>

Confidential per WAC 480-07-160

**WHIDBEY TELEPHONE COMPANY  
AND SUBSIDIARIES**

Audited Consolidated Financial Statements

December 31, 2014 and 2013



**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

Audited Consolidated Financial Statements

December 31, 2014 and 2013

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**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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Fircrest, WA 98466-6060

## Independent Auditor's Report

To the Board of Directors  
Whidbey Telephone Company  
Langley, Washington

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Whidbey Telephone Company and Subsidiaries which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors  
Whidbey Telephone Company

Page 2

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Whidbey Telephone Company and Subsidiaries as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Johnson, Stone & Pagano, P.S.*

**JOHNSON, STONE & PAGANO, P.S.**

April 29, 2015

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

December 31, 2014 and 2013

	2014	2013
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Notes 1 and 2)		
Accounts receivable		
Trade (Notes 1, 2 and 3)		
Other (Note 10)		
Materials and supplies (Note 1)		
Prepayments and deposits		
<b>Total Current Assets</b>		
<b>OTHER ASSETS</b>		
Investments (Notes 1, 2 and 4)		
<b>Total Other Assets</b>		
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
(Notes 1, 5 and 11)		
Telecommunications plant in service		
Less allowances for depreciation		
Telecommunications plant under construction		
Plant held for future use		
<b>Total Telecommunications Plant</b>		
Nonregulated plant		
Less allowances for depreciation		
Nonregulated plant under construction		
<b>Total Nonregulated Plant</b>		
<b>TOTAL ASSETS</b>		

The accompanying notes are an integral part of these consolidated financial statements.

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2014 and 2013

	2014	2013
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable		
Taxes, other than income taxes		
Other current liabilities		
Deferred revenue (Note 1)		
Current portion of long-term debt (Note 6)		
<b>Total Current Liabilities</b>		
<b>LONG-TERM DEBT</b> , less portion classified as a current liability (Note 6)		
<b>Total Liabilities</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Capital stock (Note 7)		
Retained earnings		
Accumulated other comprehensive income		
<b>Total Stockholders' Equity</b>		
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		

The accompanying notes are an integral part of these consolidated financial statements.



**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b> (Note 1)		
Local network service revenues		
Network access service revenues		
Long distance network service revenues		
Other operating revenues		
Uncollectible revenues (deduction)		
<b>Total Operating Revenues</b>		
<b>OPERATING EXPENSES</b>		
Plant specific operations		
Plant nonspecific operations		
Depreciation and amortization		
Customer operations		
Corporate operations		
Taxes, other than income taxes		
<b>Total Operating Expenses</b>		
<b>Net Operating Loss</b>		
<b>OTHER INCOME, EXPENSE AND TAXES - NET</b>		
Other income		
<b>Income (Loss) Available for Fixed Charges</b>		
<b>FIXED CHARGES AND RELATED ITEMS - NET</b>		
<b>NET INCOME (LOSS)</b>		
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Unrealized gain (loss) on investments		
<b>COMPREHENSIVE INCOME (LOSS)</b>		

The accompanying notes are an integral part of these consolidated financial statements.

Confidential per WAC 480-07-160

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

Years Ended December 31, 2014 and 2013

	Capital Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>BALANCE AT DECEMBER 31, 2012</b>				
Distributions to stockholders				
Net loss for the year				
Other comprehensive loss				
<b>BALANCE AT DECEMBER 31, 2013</b>				
Distributions to stockholders				
Net income for the year				
Other comprehensive income				
<b>BALANCE AT DECEMBER 31, 2014</b>				

The accompanying notes are an integral part of these consolidated financial statements.



**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers and settlements		
Cash paid to vendors, suppliers and employees		
Interest and dividends received		
Interest paid		
<b>Net Cash Provided (Used) by Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment		
Salvage on retired property, plant and equipment		
Partnership capital distribution		
Proceeds from sale of investments		
Purchase of investments		
<b>Net Cash Provided (Used) by Investing Activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Distributions to stockholders		
Proceeds from long-term debt		
Payments on long-term debt		
<b>Net Cash Used by Financing Activities</b>		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
<b>Cash and Cash Equivalents at Beginning of Year</b>		
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		

The accompanying notes are an integral part of these consolidated financial statements.

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

Years Ended December 31, 2014 and 2013

	2014	2013
<b>RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Net income (loss)		
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities		
Depreciation and amortization		
Partnership distribution included in net income and not included in operating activities		
Realized gain on sale of investments		
Noncash operating income		
(Increase) decrease in assets		
Accounts receivable		
Materials and supplies		
Prepayments and deposits		
Increase (decrease) in liabilities		
Accounts payable		
Taxes, other than income taxes		
Other current liabilities		
Deferred revenue		
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		



The accompanying notes are an integral part of these consolidated financial statements.

## WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

##### *Principles of Consolidation*

The consolidated financial statements include the accounts of Whidbey Telephone Company (the "Company") and its wholly-owned subsidiaries, Western Long Distance, Inc., American Alarm Systems, Inc., FiberCloud, Inc., WaterCrest, Inc., Second Wind at Ten, LLC and WiFire, Inc. (collectively, "Company and Subsidiaries"). All material intercompany accounts and transactions have been eliminated in consolidation.

##### *Organization and Regulation*

The Company is a local exchange telecommunications company. The Company, together with its subsidiary Western Long Distance, Inc., provides local exchange, long distance and other telecommunications services including digital subscriber lines to South Whidbey Island and Point Roberts, Washington. The Company also provides internet access services and web-hosting services to customers in western Washington, located both within and outside its local exchange service areas. American Alarm Systems, Inc. provides alarm system installation and alarm monitoring services in western Washington. FiberCloud, Inc. provides offsite computer data storage, hosted services, internet access and web-hosting services in western Washington (see Note 11). WaterCrest, Inc. and its wholly-owned subsidiary, Second Wind at Ten, LLC, are real estate development companies with a primary focus in western Washington. WiFire, Inc. is a coffee bar located in Freeland, Washington. The Company and each of its subsidiaries are organized under the laws of the State of Washington.

The Company is a small rate-of-return carrier. The Federal Communication Commission ("FCC") Report and Order and Further Notice of Proposed Rulemaking, ("FCC 11-161"), reformed the universal service and intercarrier compensation systems. These reforms modify 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 Federal Communications Commission ("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 and Subsidiaries consider all highly liquid debt instruments to be cash equivalents.

##### *Materials and Supplies*

Materials and supplies are stated at average cost.

## WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

##### *Investments*

Investments are stated at market value if readily determinable or at cost.

##### *Fair Value Measurements*

The Company provides information regarding the inputs that underlie a fair value measurement of financial instruments. The three levels of inputs essentially distinguish the relative reliability of inputs to fair value measurements. Level 1 inputs are more reliable and objective than Level 2 inputs which are in turn more reliable and objective than Level 3 inputs. In arriving at a fair value measure, the Company is required to determine the level in the fair value hierarchy within which a fair value measurement ultimately falls and provide disclosure of such determinations (see Note 4).

##### *Accounting for Long-Lived Assets*

The Company and Subsidiaries periodically review long-lived assets such as property, plant and equipment for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. At December 31, 2014, management has determined that there were no material impairment charges to be recorded as of that date.

##### *Regulated Telecommunications Plant, Maintenance and Depreciation*

Regulated telecommunications plant is stated at original cost. The cost of additions to plant includes contracted work, direct labor, materials and overhead. When units of property are retired, the original cost plus removal costs, less salvage, is charged to accumulated depreciation with no gain or loss recognized. The costs of normal maintenance and repairs are charged to operating expense. Depreciation is computed using the straight-line method for financial reporting and accelerated methods for income tax purposes (see Note 5).

##### *Revenue Recognition, Major Customers and Services*

Services provided by the Company and Subsidiaries include local network, long distance network and network access services, as well as other services. In the normal course of business of the Company and Subsidiaries, certain long distance network and network access service revenues are subject to out-of-period adjustments. Such adjustments are normal occurrences and are recorded by the Company and Subsidiaries 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.



**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

***Revenue Recognition, Major Customers and Services (Continued)***

The FCC 11-161 modified and replaced the existing system with universal service reform and intercarrier compensation reform. A Connect America Fund has been established to replace all existing high-cost support mechanisms and sets broadband service requirements. Alongside the broadband service rules, reforms to establish a framework to limit reimbursements for excessive capital and operating expenses have been implemented as of July 1, 2012 and phase outs of certain support payments 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 upon future data collections and further clarification from the FCC.

Revenues for intrastate access services are received through tariffed access charges filed by the Company at the WUTC. Once filed, the tariffed access charges become effective if specifically approved by the WUTC or allowed to become effective by operation of law. The intrastate switched access charges are billed by the Company to intrastate interexchange carriers. Intrastate special access charges are also billed to intrastate interexchange carriers that order such services and, in some cases, to retail customers that order special access services. Before July 1, 2014, the switched access charges associated with carrier common line and state universal service fund were pooled with all Washington Exchange Carrier Association ("WECA") member companies and the Company received a distribution of net revenues based upon the Company's proportionate share of WUTC approved revenue objectives of all participating WECA member companies.

Effective July 1, 2014, the WUTC implemented a state universal communications service program ("State USF Program") that temporarily replaced the terminated universal service support pool ("Traditional USF") administered by WECA and also replaced the cumulative reduction in support the Company received from the federal Connect America Fund ("CAF"). The State USF Program was to begin January 2015 which resulted in a cash flow issue for some of the companies that met the WUTC criteria to be eligible for such support. The WUTC granted a one-time partial distribution in 2014 of the State USF Program equal to the amount the Company received from the Traditional USF for 2012 in the amount of \$[REDACTED]. The remainder of the annual distribution, which was comprised of the cumulative reduction in CAF support of \$[REDACTED], was disbursed in January 2015. Subsequent annual disbursements

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

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

***Revenue Recognition, Major Customers and Services (Continued)***

comprised of the Traditional USF and the disbursement of the cumulative CAF deficit support are scheduled to occur in January of the following State USF Program years, assuming the Company continues to be eligible under the program. The State USF Program year runs from July 1 to June 30, therefore, the Company accrued \$[REDACTED] as a receivable due from the State USF Program for the period July 1, 2014 to June 30, 2015, and deferred revenue of \$[REDACTED] for the unearned portion. The State USF Program is scheduled to last for five program years.

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

For some of the services that the Company and Subsidiaries provide to their respective customers, the Company and Subsidiaries rely upon services and facilities supplied to the Company and Subsidiaries by other companies. Any material disruption of the services or facilities supplied to the Company and Subsidiaries by other companies could potentially have an adverse effect upon the operating results of the Company and Subsidiaries.

***Federal Income Taxes***

Effective January 1, 2005, the Company elected to become a Subchapter S corporation and elected to have each of its then-existing and subsequently formed subsidiaries to be Qualified Subchapter S Subsidiaries. Similar elections were made for WaterCrest, Inc. and WiFire, Inc. on the dates of their incorporations. Second Wind at Ten, LLC is organized as a single member LLC, as such, its activities flow through to its sole member, Watercrest, Inc. Taxable earnings and losses of the Company and its subsidiaries on and after that date are included in the consolidated tax return of the Company, amounts from which are then included in the tax return of the Company's stockholders and taxed at the applicable tax rate of the stockholders.

The Company's federal income tax returns for the tax years ending before December 31, 2011 are closed to examination.

***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.



**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

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

***Subsequent Events***

The management of the Company evaluated for subsequent events and transactions for potential recognition and disclosure through April 29, 2015, the date the financial statements were available to be issued. All identified material events or transactions have been recorded or disclosed (see Note 11).

**NOTE 2 - CONCENTRATION OF CREDIT RISK**

The Company and Subsidiaries maintain cash balances at various financial institutions in western Washington. Accounts at each of the financial institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") with basic coverage up to \$250,000. The Company and its subsidiaries periodically maintain cash in excess of federally insured limits. At December 31, 2014, the Company and its subsidiaries' cash balances exceeded the insured amount by \$[REDACTED].

The Company has an account with a broker-dealer with investments including a money market fund and certain securities. Securities held at such institutions are each insured by the Securities Investor Protection Corporation up to \$500,000 for brokerage accounts, of which \$250,000 of the total available applies to any cash claims. The balance in the money market fund at December 31, 2014 is \$[REDACTED].

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

**NOTE 3 - ACCOUNTS RECEIVABLE**

The trade accounts receivable balances at December 31, 2014 and 2013 consist of:

	<u>2014</u>	<u>2013</u>
Accounts receivable - subscribers	[REDACTED]	
Accounts receivable - interexchange carriers and exchange carrier associations		
Allowance for doubtful accounts (deduction)		

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

**NOTE 3 - ACCOUNTS RECEIVABLE (Continued)**

The Company and Subsidiaries extend credit to business and residential customers based upon a written credit policy. Service interruption is the primary vehicle for controlling accounts receivable losses. Telecommunications accounts receivable are recorded when subscriber bills, carrier access bills and exchange carrier associations settlement statements are rendered and are reflected in the balance sheets net of the allowance for doubtful accounts. Certain exchange carrier associations' settlements are subject to out-of-period adjustments. Such settlements and adjustments are recorded during the year in which they become determinable. The allowance for doubtful accounts is estimated based on the Company's historical uncollectibles, the existing economic conditions in the telecommunications industry and the financial stability of its customers. As of December 31, 2014, approximately █% of accounts receivable were outstanding ninety days or more after the date of the invoice on which they were first billed.

**NOTE 4 - INVESTMENTS**

Investments consist of:

	<u>2014</u>	<u>2013</u>
Investments at fair value		
Verizon Communications, Inc.		
Sun Life Financial Services of Canada, Inc.		
Frontier Communications		
Mutual funds held at Edward Jones		
Associated Network Partners, Inc.		
Western Independent Networks		
Artifact Technologies, Inc.		
Investments at cost		
Personal Communications Services ("PCS")		
licenses and 700 MHz Licenses		
Note receivable - Green Tea Northwest, LLC		
Notes receivable - stockholders		
Land held for investment		



During 2014, the Company sold its remaining PCS 700 MHz licenses.



**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

**NOTE 4 - INVESTMENTS (Continued)**

During 2005, Green Tea Northwest, LLC borrowed \$ [REDACTED] from WaterCrest, Inc. Accrued interest on the note in the amount of \$ [REDACTED] and \$ [REDACTED] was added to the note with total accrued interest on the note of \$ [REDACTED] and \$ [REDACTED] in 2014 and 2013, respectively. This borrowing is evidenced by a promissory note and is subject to the terms stated therein. The note bore interest at [REDACTED]% per annum and was to be paid in full by November 3, 2010. During November 2010, the note was renegotiated with interest at [REDACTED]% per annum, due November 3, 2015, with a beginning principal balance of \$ [REDACTED]. A stockholder of the Company is a member of Green Tea Northwest, LLC.

Also included in investments are notes receivable from two stockholders of the Company issued in 2014 for \$ [REDACTED] and 2013 for \$ [REDACTED], each. These notes total \$ [REDACTED] for 2014 and \$ [REDACTED] for 2013. The notes receivable are evidenced by various promissory notes and are subject to the terms stated therein. These notes bear interest ranging from [REDACTED]% to [REDACTED]% per annum, and are unsecured. Interest accrued through December 31, 2014 and 2013 on such notes was \$ [REDACTED] and \$ [REDACTED], each, respectively and will be added to the balances per the terms of the notes. The Company also has a note receivable from three trusts, in equal amounts, of whom the trustees are stockholders for \$ [REDACTED] and \$ [REDACTED] at December 31, 2014 and 2013, respectively. The note is evidenced by a promissory note and is subject to the terms stated therein. The note bears interest at the AFR in effect at the time advances were made on the note, and is unsecured. The interest ranges from [REDACTED]% to [REDACTED]% per annum.

The Company has a [REDACTED] share of Series A stock ([REDACTED]% aggregate interest) in Artifact Technologies, Inc., a company organized to conduct an internet-based business.

Assets measured at fair value on a recurring basis at December 31, 2014 and 2013 are as follows:

	Fair Value Measurements		
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Other Subjective Inputs (Level 3)
<u>December 31, 2014</u>			
Verizon Communications, Inc.			
Sun Life Financial Services of Canada, Inc.			
Frontier Communications			
Growth and Income mutual funds held at Edward Jones			
Associated Network Partners, Inc.			
Western Independent Networks			
Artifact Technologies, Inc.			



**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

**NOTE 4 - INVESTMENTS (Continued)**

	Fair Value Measurements		
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Other Subjective Inputs (Level 3)
<u>December 31, 2013</u>			
Verizon Communications, Inc.			
Sun Life Financial Services of Canada, Inc.			
Frontier Communications Growth and Income mutual funds held at Edward Jones			
Associated Network Partners, Inc.			
Western Independent Networks			
Artifact Technologies, Inc.			

Investments valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Investments valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Level 3 inputs are based on the Company's own assumptions on how knowledgeable parties would price assets or liabilities and are developed using the best information available in the circumstances.

The Company holds a limited partnership interest in Seattle SMSA Limited Partnership ("Partnership"); the investment is carried at cost with no basis for financial statement purposes as the cumulative distributions received exceed the capital contributed. Management has determined there are no identified events or changes in circumstances that would have a significant adverse effect on the fair value of the investment. The Company has not made fair value disclosures for its interest as management has further determined that it is not practicable to estimate the fair value of the investment as the Company holds a less than █% interest in the Partnership, the cost to determine the fair value would be prohibitive and the financial information of the Partnership is proprietary among the Company and the partners. The Company's capital account in the Partnership at December 31, 2014 and 2013 was \$█ and \$█, respectively. During the years ended December 31, 2014 and 2013, the Company received partnership distributions of \$█ and \$█, respectively which are included in other income for 2014 and 2013 in the Consolidated Statements of Income.



**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION**

(See Note 1)

***Regulated Telecommunications Plant***

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

Major classes of the telecommunications plant assets in service as of December 31, 2014 and 2013 are:

	<u>2014</u>	<u>2013</u>
General support facilities		
Central office equipment		
Cable and wire facilities		

Provision has been made for depreciation of the major classes of the telecommunications plant in service at straight-line annual rates as follows:

General support facilities	
Buildings	
Furniture and office equipment	
Vehicles and other work equipment	
Central office equipment	
Radio systems	
Other	
Cable and wire facilities	

***Nonregulated Plant***

Nonregulated plant is recorded at original cost when first placed in service. The Company and Subsidiaries provide for depreciation using the straight-line method at annual rates which are intended to amortize the depreciable property over its estimated useful life. The depreciable lives range from 5 to 25 years.

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**


NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION**  
(See Note 1) (Continued)









*Depreciation Expense*

The provision for depreciation on regulated telecommunications plant and nonregulated plant in service is:

	<u>2014</u>	<u>2013</u>
Regulated telecommunications plant		
Nonregulated plant		

**NOTE 6 - NOTES PAYABLE AND LONG-TERM DEBT**

Notes payable and long-term debt at December 31, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
Note payable consists of a revolving reducing line of credit with Wells Fargo Bank of up to a maximum of \$  at December 31, 2014 reduced each quarter by payments of \$  beginning June 2013. The agreement calls for monthly payments of interest at  % above a daily one month LIBOR rate as determined by the bank, with interest rate selection options available to the Company (  % at December 31, 2014 and 2013). Principal and accrued interest are due June 21, 2015. Security includes all assets as noted in the security agreement.		
Note payable consists of a revolving line of credit with Wells Fargo Bank of up to a maximum of \$  . The agreement calls for monthly payments of interest at  % above a daily one month LIBOR rate as determined by the bank with interest selection options available to the Company (  % at December 31, 2014 and 2013). Principal and accrued interest are due June 21, 2015. Security includes all assets as noted in the security agreement.		

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

**NOTE 6 - NOTES PAYABLE AND LONG-TERM DEBT (Continued)**

	<u>2014</u>	<u>2013</u>
Less portion due within one year classified as a current liability	[REDACTED]	
Long-term Debt	[REDACTED]	

Aggregate annual maturities of long-term debt, which are expected to be renegotiated with similar terms and repayment schedule before the June 2015 renewal date for the next four years are as follows:

2015	[REDACTED]
2016	
2017	
2018	

As part of the promissory notes and agreements executed by the Company with respect to the notes payable, the Company agreed to various negative covenants including limitations on additions to fixed assets, annual lease payments, guarantees, other indebtedness, loan advances and investments. The Company also agreed to comply with certain financial covenants as a condition to each of the credit facilities. The Company was in compliance at December 31, 2014.

**NOTE 7 - CAPITAL STOCK**

The authorized, issued and outstanding shares for the years ended December 31, 2014 and 2013 are as follows:

	<u>Shares</u>		<u>Stated Capital Value</u>
	<u>Authorized</u>	<u>Issued</u>	
Common stock - no par, voting	[REDACTED]		
Common stock - no par, non-voting			



**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

**NOTE 8 - LEASES AND SERVICE AGREEMENTS**

FiberCloud, Inc. ("FiberCloud") assumed a lease agreement for leased office space in Everett, Washington effective December 30, 2009. The term of the agreement is for ten years. As defined in the agreement, base rent can be increased by the scheduled amounts as noted in the agreement and FiberCloud's prorata share of reasonable and customary operating expenses of the land and building. Lease expense for 2014 and 2013 was \$[REDACTED] and \$[REDACTED], respectively. At December 31, 2014, the lease payments were in the aggregate of \$[REDACTED] per month. Subsequent to the balance sheet date, the remaining term of this lease was assumed by a company that purchased the assets of FiberCloud (see Note 11).

FiberCloud assumed a lease agreement for leased office space in Bellingham, Washington. The term of the agreement was for ten years with a five-year renewal option. As defined in the agreement, base rent can be increased by the scheduled amounts as noted in the agreement and FiberCloud's prorata share of reasonable and customary operating expenses of the land and building. Lease expense for 2014 and 2013 was \$[REDACTED] and \$[REDACTED], respectively. At December 31, 2014, the lease payment was \$[REDACTED] per month. The initial term of the lease expired in October 2009, and was renewed until October 31, 2014 and includes a five-year renewal option which was exercised by the Company. Subsequent to the balance sheet date the remaining term of this lease was assumed by a company that purchased the assets of FiberCloud (see Note 11).

FiberCloud assumed three lease agreements during 2004 and one lease agreement during 2005 for office space in Seattle, Washington. The terms of the agreements range from five to seven years. As defined in the agreements, base rents can be increased by the scheduled amounts as noted in the agreements and FiberCloud's prorata share of reasonable and customary operating expenses of the land and building. Total lease expense for 2014 and 2013 was \$[REDACTED] and \$[REDACTED], respectively. At December 31, 2014, the lease payments were in the aggregate \$[REDACTED] per month. The terms of the agreements in effect at December 31, 2014 expire April 30, 2017. Subsequent to the balance sheet date the remaining term of two of the lease agreements was assumed by a company that purchased the assets of FiberCloud (see Note 11). The third lease was subleased to the purchaser effective April 4, 2015 on a month-to-month basis with monthly rent of \$[REDACTED].

The Company and Subsidiaries have various agreements under which telecommunications bandwidth and transport services are obtained from several service providers. The various service agreements include various termination dates through February 2019. Expense under these agreements for 2014 and 2013 was \$[REDACTED] and \$[REDACTED], respectively.

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2014 and 2013

**NOTE 8 - LEASES AND SERVICE AGREEMENTS (Continued)**

Future minimum payments for the next five years under the terms of the agreements referred to above in this Note 8, as determined by the current monthly or scheduled payments, are as follows:

2014  
2015  
2016  
2017  
2018



**NOTE 9 - PENSION PLAN AND 401(k) PLAN**

The Company provides a 401(k) plan. Eligibility for participation in the 401(k) plan begins on the first day of the first month following one year of service and attainment of age 21. The 401(k) plan provides for the Company to make matching contributions. The safe harbor matching contribution rate is equal to █% of the first █% of the participant's 401(k) elective deferral contributions, plus █% of the participants 401(k) elective deferral contributions between █% and █%. At the discretion of the Company, the 401(k) plan also provides for an additional match up to █% of qualifying payroll and a non-elective contribution amount. Company contributions were made to qualifying employees' self-directed 401(k) plan investment accounts described above in the amounts of \$█ for 2014 and \$█ for 2013. During 2014 and 2013, the Company elected to not make any additional matching or non-elective contributions to employee accounts.

The Company's wholly-owned subsidiaries except WiFire, Inc. are adopting employers of the Company's 401(k) plan.

**NOTE 10 - OTHER RELATED PARTY TRANSACTIONS**

Other accounts receivable includes amounts receivable from Hat Island Telephone Company ("Hat") and the Company's former sole stockholder of record. Hat is 100% owned by the Company's former sole stockholder of record. The amounts receivable from Hat are generally the result of work performed by Company work crews on behalf of Hat and Hat's former sole stockholder of record. The amounts are unsecured, non-interest-bearing and are to be repaid in the ordinary course of business.

In addition, the Company rents real property from the Company's former sole stockholder of record. The amount of rent for 2014 and 2013 was \$█ and \$█, respectively.



**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

**NOTE 11 - SUBSEQUENT EVENTS**

On March 31, 2015 the Company sold FiberCloud's equipment, customer contracts, customer lists, marketing information and trademarks and trade names to an unrelated company that operates in the same industry as FiberCloud. The purchase price is \$ [REDACTED], with possible adjustments for differences between closing date working capital and target date working capital as set forth in the asset purchase agreement. The purchaser also obtained an assignment of FiberCloud's interests in operating leases for data center space, transport, bandwidth and dark fiber leases. The assets sold had a carrying value of \$ [REDACTED] with accumulated depreciation of \$ [REDACTED] with a net book value of \$ [REDACTED] at March 31, 2015 resulting in a loss of approximately \$ [REDACTED] for financial statement purposes with the final amounts depending on final allocation of purchase price with possible adjustments as noted above. The leases assumed by the purchaser had future minimum lease payments totaling approximately \$ [REDACTED] over the next three years.

For the years ending December 31, 2014 and 2013 FiberCloud had revenues of \$ [REDACTED] and \$ [REDACTED] and expenses of \$ [REDACTED] and \$ [REDACTED] resulting in net losses of \$ [REDACTED] and \$ [REDACTED], respectively.



EXHIBIT 6  
RUS FORM 479

<b>(3005b) Operating Report for Privately-Held Rate of Return Carriers</b>	FCC Form 481
<b>Income Statement - Data Collection Form</b>	OMB Control No. 3060-0986
Page 2 of 3	OMB Control No. 3060-0839
	April 2014

<010> Study Area Code	522452
<015> Study Area Name	Whidbey Tel. Co.
<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	Redacted	Redacted
2. Network Access Services Revenues	Redacted	Redacted
3. Long Distance Network Services Revenues	Redacted	Redacted
4. Carrier Billing and Collection Revenues	Redacted	Redacted
5. Miscellaneous Revenues	Redacted	Redacted
6. Uncollectible Revenues	Redacted	Redacted
7. <b>Net Operating Revenues (1 thru 5 less 6)</b>	Redacted	Redacted
8. Plant Specific Operations Expense	Redacted	Redacted
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	Redacted	Redacted
10. Depreciation Expense	Redacted	Redacted
11. Amortization Expense	Redacted	Redacted
12. Customer Operations Expense	Redacted	Redacted
13. Corporate Operations Expense	Redacted	Redacted
14. <b>Total Operating Expenses (8 thru 13)</b>	Redacted	Redacted
15. <b>Operating Income or Margins (7 less 14)</b>	Redacted	Redacted
16. Other Operating Income and Expenses	Redacted	Redacted
17. State and Local Taxes	Redacted	Redacted
18. Federal Income Taxes	Redacted	Redacted
19. Other Taxes	Redacted	Redacted
20. <b>Total Operating Taxes (17+18+19)</b>	Redacted	Redacted
21. <b>Net Operating Income or Margins (15+16-20)</b>	Redacted	Redacted
22. Interest on Funded Debt	Redacted	Redacted
23. Interest Expense - Capital Leases	Redacted	Redacted
24. Other Interest Expense	Redacted	Redacted
25. Allowance for Funds Used During Construction	Redacted	Redacted
26. <b>Total Fixed Charges (22+23+24-25)</b>	Redacted	Redacted
27. <b>Nonoperating Net Income</b>	Redacted	Redacted
28. Extraordinary Items	Redacted	Redacted
29. Jurisdictional Differences	Redacted	Redacted
30. <b>Nonregulated Net Income</b>	Redacted	Redacted
31. <b>Total Net Income or Margins (21+27+28+29+30-26)</b>	Redacted	Redacted
32. Total Taxes Based on Income	Redacted	Redacted
33. <b>Retained Earnings or Margins Beginning of Year</b>	Redacted	Redacted
34. Miscellaneous Credits Year-to-Date	Redacted	Redacted
35. Dividends Declared (Common)	Redacted	Redacted
36. Dividends Declared (Preferred)	Redacted	Redacted
37. Other Debits Year-to-Date	Redacted	Redacted
38. Transfers to Patronage Capital	Redacted	Redacted
39. <b>Retained Earnings or Margins end-of-Period ((31+35+34)-(35+36+37+38))</b>	Redacted	Redacted
40. Patronage Capital Beginning-of-Year		
41. Transfers to Patronage Capital		
42. Patronage Capital Credits Retired		
43. <b>Patronage Capital End-of-Year (40+41-42)</b>		
44. Annual Debt Service Payments		
45. Cash Ratio ((14+20-30-11)/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(S)

The Company did not receive high-cost loop support in either 2013 or 2014, so therefore no corporate operations adjustments were required by the Federal Communications Commission.

The Company had the following corporate operations adjustments for interstate common line support:

For 2013: \$162,005

For 2014: \$55,886

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

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

Dated this 30th day of July, 2015.



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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 2016.

Dated this 30th day of July, 2015.



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Bruce Russell  
Chief Operating Officer