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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 fiscal year ending June 30, 2017.

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

- 21  
22 1. WAC 480-123-100(1)(a): The Company is a local exchange company as defined in WAC  
23 480-120-021 that serves less than forty thousand access lines within the state.

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

- 1 2. WAC 480-123-100(1)(b): The Company is an incumbent local exchange carrier as defined  
2 in 47 U.S.C. Sec. 251(h).
- 3 3. WAC 480-123-100(1)(c): The Company offers basic residential and business exchange  
4 telecommunications services as set forth in WAC 480-120-021 and RCW 80.36.630.
- 5 4. WAC 480-123-100(1)(d): The Company's rates for residential local exchange service, plus  
6 mandatory extended area service charges, are no lower than the local urban rate floor  
7 established by the Commission as the benchmark rate based on the Federal Communications  
8 Commission's national local urban rate floor pursuant to 47 C.F.R. Sec. 54.318 in effect on  
9 the date of this Petition.
- 10 5. WAC 480-123-100(1)(e): The Company has been designated by the Commission as an  
11 eligible telecommunications carrier for purposes of receiving federal universal service  
12 support pursuant to 47 C.F.R. Part 54 Subpart D - Universal Service Support for High Cost  
13 Areas with respect to the service area for which the Company is seeking Program support.  
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## 16 **II. Demonstration of Eligibility under WAC 480-123-110**

- 17 1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications  
18 services and is seeking Program support is as follows: Whidbey Telephone Company.
- 19 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between  
20 the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.  
21 A detailed description of any transactions between the Company and the affiliates named in  
22 Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.  
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- 1 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No.  
2 300 and 301 of the Company's Tariff WN U-5.
- 3 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate  
4 instability or service interruption or cessation in the absence of support from the Program is  
5 attached as Exhibit 3.
- 6 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,  
7 are copies of the Company's balance sheet as of December 31, 2016, and December 31,  
8 2015, and copies of the Company's statements of income and retained earnings or margin for  
9 the years ended December 31, 2016 and December 31, 2015.
- 10 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial  
11 statements for the years ended December 31, 2016 and December 31, 2015, are attached as  
12 Exhibit 5.
- 13 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of  
14 return on a total Washington unseparated regulated operations basis for each of the two prior  
15 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
- 16 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on  
17 equity on a total company (regulated and non-regulated) Washington basis for each of the  
18 two prior years, calculated in the manner prescribed by the Commission, is provided in  
19 Exhibit 5.
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- 1 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the  
2 statements of income and retained earnings or margin in the same format and detail as is  
3 required to complete RUS Form 479 for the prior two years is presented on Exhibit 6.
- 4 10. WAC 480-123-110(1)(e)(vi): Information detailing the amounts of any corporate operations  
5 adjustments to existing high-cost loop and interstate common line support mechanism  
6 required by the Federal Communications Commission applied to the Company for the prior  
7 two years is attached hereto as Exhibit 7.
- 8 11. WAC 480-123-110(1)(e)(vii): Exhibit 4, and Exhibit 4.1, which is also attached and is on  
9 the Commission's prescribed form, contains additional supporting information requested by  
10 the Commission.
- 11 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company  
12 officer with personal knowledge and responsibility certifying that the Company complies  
13 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to  
14 incumbent local exchange companies is attached as Exhibit 8.
- 15 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or  
16 on its behalf with the Federal Communications Commission for the calendar year preceding  
17 the current year has already been filed with the Commission. See the Company's filing in  
18 Docket No. UT 17-17011 filed on or about July 1, 2017.
- 19 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by  
20 the Company as of December 31, 2016, was 7,116 all of which were within the geographic  
21 area for which the Company is seeking support. The number of residential local exchange  
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1 access lines served by the Company as of December 31, 2015, was 7,987, all of which were  
2 within the geographic area for which the Company is seeking support.

3 The number of business local exchange access lines served by the Company as of December  
4 31, 2016, was 1,614, all of which were within the geographic area for which the Company is  
5 seeking support. The number of business local exchange access lines served by the  
6 Company as of December 31, 2015, was 1695, all of which were within the geographic area  
7 for which the Company is seeking support.  
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9 The monthly recurring rate charged by the Company for residential local exchange access  
10 service on December 31, 2016, was \$18.00. The monthly recurring rate charged by the  
11 Company for residential local exchange access service on December 31, 2015, was \$16.50.  
12 The rate charged by the Company for single line business local exchange access service on  
13 December 31, 2016, was \$18.00. The rate charged by the Company for single line business  
14 local exchange access service on December 31, 2015, was \$16.50. (The Company has  
15 other business local exchange service rates, but the Company understands that WAC 480-  
16 123-110(1)(g) is requesting the single line business local exchange access service rate.)  
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18 15. WAC 480-123-110(1)(h): The requested statement is attached as Exhibit 9.

19 16. The amount on Line 4, labeled 2011 ROR Carrier Base Period Revenue, of the CAF ICC  
20 Data Collection Report for the period 7/1/2017 - 6/30/2018 is \$2,382,945 and has not  
21 changed from the last filing  
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23 17. All exhibits attached hereto are incorporated in this Petition as though fully set forth.  
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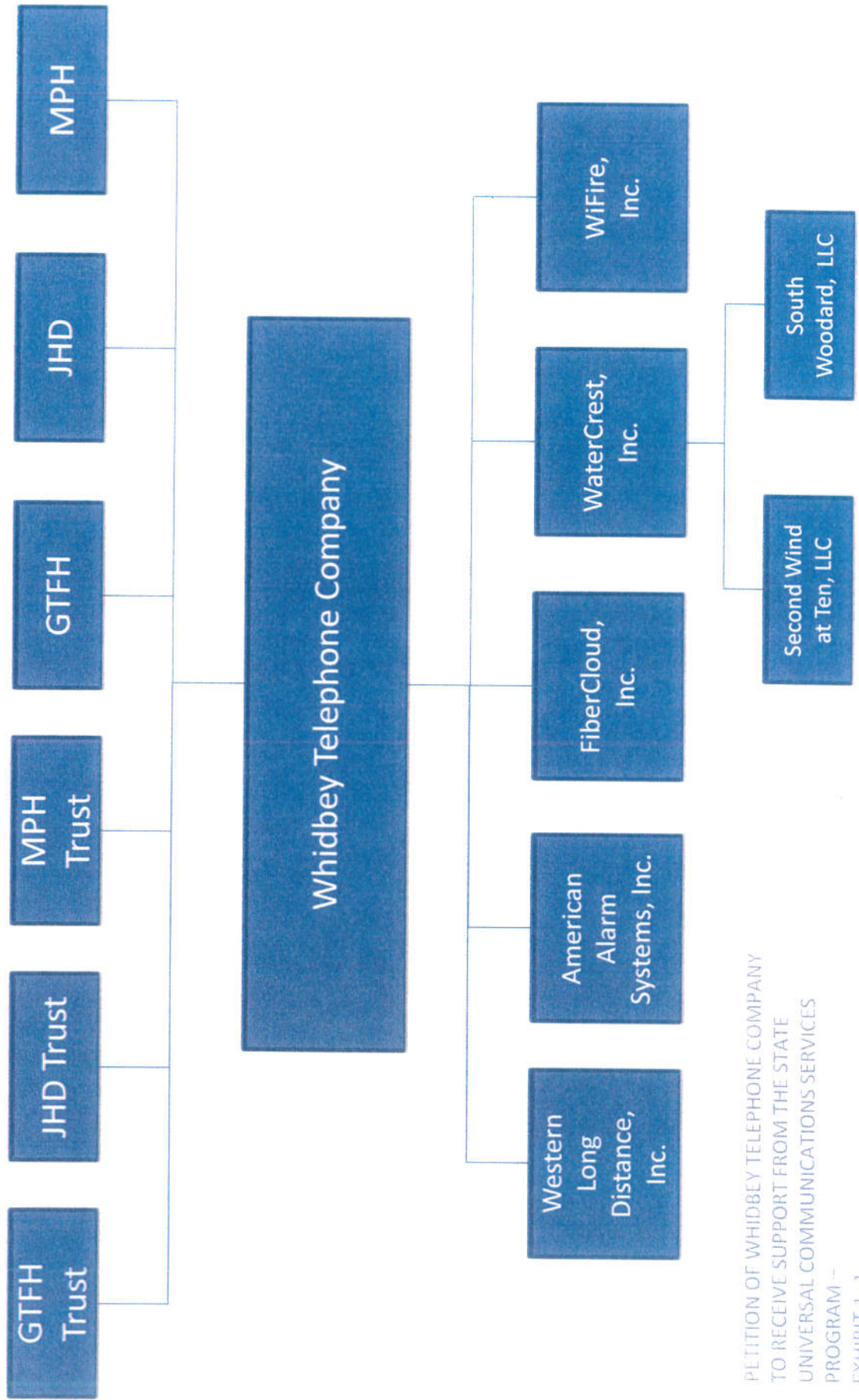
1 Respectfully submitted this 30th day of July, 2017.

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7 CERTIFICATION

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

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15 By: Frank McIntyre  
16 Title: Secretary/Treasurer  
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EXHIBIT 1  
CORPORATE ORGANIZATION CHART



## 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 sold all assets of FiberCloud, Inc. on 3/31/2015 to non-affiliated concern.
- Certain obligations of FiberCloud, Inc., remain in force, primarily relating to lease obligations, until the conclusion of those agreements. Proceeds from the sale of the assets will be used to fund those obligations.

### 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 \$15.4 Million during the period January 1, 2011 through December 31, 2016. 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 that the Company received or accrued in 2016, the Company's total regulated revenue decreased by 11.5 percent from 2011 through 2016. The Company has looked for ways to lower expenses. However, much of the Company's operating expenditures are fixed obligations, such as debt-related payments.

[Include language concerning loss of access lines, if appropriate. For example some or all of the following may apply: "At the same time, the Company is seeing increased competition. For example, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. Since 2011, the Company has lost 2,165 access lines. A loss of customers equates to a loss of revenue without a corresponding reduction in expenses or corresponding increase in rates. This trend of access line loss is exacerbated by the Federal Communications Commission's requirement that the Company increase its rates to remain eligible for full federal USF support. Since 2012, the Company has increased its local exchange service rates in order to be in compliance with the national urban rate floor prescribed by the Federal Communications Commission. However, those increases have been insufficient to fully replace the revenues that have been lost due to the reduction in access lines. In addition, those rate increases have tended to stimulate a surge in disconnection of service by customers.

As an example of why state Program support is needed, the Company's receipt of revenue from the traditional Washington intrastate universal service access rate element and related pooling fund were terminated effective July 1, 2014. Since then, the loss of revenues derived from the traditional universal service access rate element has been off-set by revenues received by the Company as a result of its participation in the Program. Using 2012 as a base line, the Company is facing a loss of traditional universal service fund revenues of approximately \$306,371 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 year ending June 30, 2018, including reductions that will occur July 1, 2017, the Company has seen a reduction in support from the base line revenue of approximately \$2,303,702.

On top of all this, during the six-year period ended December 31, 2016, the Company has seen its total federal high cost support undergo a significant reduction, declining from \$2,595,126 in 2011 to \$1,590,393 in 2016.

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

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

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<sup>1</sup> *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform - Mobility Fund*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011)(*USF/ICC Transformation Order*).

STATE USE FILING  
FINANCIAL TEMPLATE  
"S CORP" COMPANIES

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

Company Name: (Below)  
Whidbey Telephone Company

ASSETS	Balance End of Year 2015 (A)	Part 64 Adj to NonReg 2015 (B)	Adj. Balance End of Year 2015 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2015 (A)	Part 64 Adj to NonReg 2015 (B)	Adj. Balance End of Year 2015 (C)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
1. Cash and Equivalents	1,687,522		1,687,522	25. Accounts Payable	580,199		580,199
2. Cash-RUS Construction Fund			0	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments			
a. Telecom, Accounts Receivable	0		0	28. Customer Deposits	3,125		3,125
b. Other Accounts Receivable	0		0	29. Current Mat. L/T Debt	1,500,000		1,500,000
c. Notes Receivable	1,627,962		1,627,962	30. Current Mat. L/T Debt Rur. Dev.	0		0
4. Non-Affiliates:				31. Current Mat. - Capital Leases	0		0
a. Telecom, Accounts Receivable	408,083		408,083	32. Income Taxes Accrued	257,138		257,138
b. Other Accounts Receivable	699,486		699,486	33. Other Taxes Accrued	482,625		482,625
c. Notes Receivable	0		0	34. Other Current Liabilities			
5. Interest and Dividends Receivable	123,746		123,746	35. Total Current Liabilities (25 thru 34)	2,823,087	0	2,823,087
6. Material-Regulated	611,569	(4,275)	607,294	<b>LONG-TERM DEBT</b>			
7. Material-Nonregulated	34,531		34,531	36. Funded Debt-RUS Notes	0		0
8. Prepayments	405,014		405,014	37. Funded Debt-RTB Notes	0		0
9. Other Current Assets	590,006		590,006	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	6,187,919	(4,275)	6,183,644	39. Funded Debt-Other	4,122,210		4,122,210
				40. Funded Debt-Rural Develop. Loan	0		0
<b>NONCURRENT ASSETS</b>				41. Premium (Discount) on L/T Debt	0		0
11. Investment in Affiliated Companies				42. Recquired Debt	0		0
a. Rural Development	8,610,545		8,610,545	43. Obligations Under Capital Lease	0		0
b. Nonrural Development	4,962,486		4,962,486	44. Adv. From Affiliated Companies	0		0
12. Other Investments				45. Other Long-Term Debt	0		0
a. Rural Development	1,885,260		1,885,260	46. Total Long-Term Debt (36 thru 45)	4,122,210	0	4,122,210
b. Nonrural Development	6,432,068	3,935,374	10,367,442	<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
13. Nonregulated Investments (B1)	4,052,489		4,052,489	47. Other Long-Term Liabilities		(4,818,339)	(4,818,339)
14. Other Noncurrent Assets				48. Deferred Income Taxes	374,196		374,196
15. Deferred Charges			0	49. Other Deferred Credits (D)			0
16. Jurisdictional Differences			0	50. Other Jurisdictional Differences			0
17. Total noncurrent Assets (11 thru 16)	25,942,848	3,935,374	29,878,222	51. Total Other Liab. & Def. Credits (47 thru 50)	374,196	(4,818,339)	(4,444,143)
				<b>EQUITY</b>			
<b>PLANT, PROPERTY AND EQUIPMENT</b>				52. Cap. Stock Outstanding & Subscribed	72,000		72,000
18. Telecom Plant-In-Service	94,399,655	(7,266,275)	87,133,380	53. Additional Paid-in-Capital	0		0
19. Property Held for Future Use	798,914	(798,914)	0	54. Treasury Stock	0		0
20. Plant Under Construction	190,061		190,061	55. Membership and cap. Certificates	47,840		47,840
21. Plant Adj., Nonop Plant & Goodwill			0	56. Other Capital			0
22. Accumulated Depreciation (CR.)	(69,726,487)	4,134,090	(65,592,397)	57. Patronage Capital Credits	50,353,577	4,818,339	55,171,916
23. Net Plant (18 thru 21 less 22)	25,662,143	(3,931,099)	21,731,044	58. Retained Earnings or Margins (B2)	50,473,417	4,818,339	55,291,756
				59. Total Equity (51 thru 58)	57,792,910	0	57,792,910
<b>24. TOTAL ASSETS (10+17+23)</b>	<b>57,792,910</b>	<b>0</b>	<b>57,792,910</b>	<b>60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>57,792,910</b>	<b>0</b>	<b>57,792,910</b>

Footnotes:

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

Footnotes:

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

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

Company Name: (Below)  
Whidbey Telephone Company

ASSETS	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
1. Cash and Equivalents	5,466,584		5,466,584	25. Accounts Payable	873,012		873,012
2. Cash-RUS Construction Fund	0		0	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments	0		0
a. Telecom, Accounts Receivable	0		0	28. Customer Deposits	3,125	(3,125)	0
b. Other Accounts Receivable	0		0	29. Current Mat. L/T Debt	0		0
c. Notes Receivable	1,719,789		1,719,789	30. Current Mat. L/T Debt Rur. Dev.	0		0
4. Non-Affiliates:				31. Current Mat. - Capital Leases	0		0
a. Telecom, Accounts Receivable	400,541		400,541	32. Income Taxes Accrued	264,677		264,677
b. Other Accounts Receivable	1,346,322		1,346,322	33. Other Taxes Accrued	671,157		671,157
c. Notes Receivable	193,227		193,227	34. Other Current Liabilities	1,811,971	(3,125)	1,808,846
5. Interest and Dividends Receivable	874,713		874,713	35. Total Current Liabilities (25 thru 34)	1,811,971	(3,125)	1,808,846
6. Material-Regulated	26,180		26,180	<b>LONG-TERM DEBT</b>			
7. Material-Nonregulated	354,765		354,765	36. Funded Debt-RUS Notes	0		0
8. Prepayments	590,006		590,006	37. Funded Debt-RTB Notes	0		0
9. Other Current Assets	10,972,127	0	10,972,127	38. Funded Debt-FFB Notes	8,000,000		8,000,000
10. Total Current Assets (1 Thru 9)				39. Funded Debt-Other	0		0
				40. Funded Debt-Rural Develop. Loan	0		0
				41. Premium (Discount) on L/T Debt	0		0
<b>NONCURRENT ASSETS</b>				42. Reacquired Debt	0		0
11. Investment in Affiliated Companies				43. Obligations Under Capital Lease	0		0
a. Rural Development	8,734,033		8,734,033	44. Adv. From Affiliated Companies	0		0
b. Nonrural Development	4,962,486		4,962,486	45. Other Long-Term Debt	0		0
12. Other Investments				46. Total Long-Term Debt (36 thru 45)	8,000,000	0	8,000,000
a. Rural Development	1,439,096		1,439,096	<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
b. Nonrural Development	6,132,044	2,405,402	8,537,446	47. Other Long-Term Liabilities	0	(4,456,194)	(4,456,194)
13. Nonregulated Investments (B1)	4,505,938		4,505,938	48. Deferred Income Taxes	422,720	(472,720)	0
14. Other Noncurrent Assets	25,773,597	2,405,402	28,178,999	49. Other Deferred Credits (D)	0		0
15. Deferred Charges				50. Other Jurisdictional Differences	0		0
16. Jurisdictional Differences				51. Total Other Liab. & Def. Credits (47 thru 50)	422,720	(4,878,914)	(4,456,194)
17. Total noncurrent Assets (11 thru 16)				<b>EQUITY</b>			
<b>PLANT, PROPERTY AND EQUIPMENT</b>				52. Cap. Stock Outstanding & Subscribed	72,000		72,000
18. Telecom Plant-In-Service	94,883,530	(3,475,634)	91,407,896	53. Additional Paid-in-Capital	0		0
19. Property Held for Future Use	798,914	(798,914)	0	54. Treasury Stock	0		0
20. Plant Under Construction	2,063,972		2,063,972	55. Membership and cap. Certificates	100,029		100,029
21. Plant Adj., Nonop Plant & Goodwill	(72,465,299)	1,869,146	(70,596,153)	56. Other Capital	0		0
22. Accumulated Depreciation (Cr.)	25,281,117	(2,405,402)	22,875,715	57. Patronage Capital Credits	51,620,121	4,882,039	56,502,160
23. Net Plant (18 thru 21 less 22)	62,026,841	0	62,026,841	58. Retained Earnings or Margins (B2)	51,792,150	4,882,039	56,674,189
24. TOTAL ASSETS (10+17+23)	62,026,841	0	62,026,841	59. Total Equity (52 thru 58)	62,026,841	0	62,026,841

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

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

Company Name: (Below)  
Whidbey Telephone Company

ASSETS	Adjusted Prior Year Balance 2015	Adjusted Current Year Balance 2016	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2015	Adjusted Current Year Balance 2016
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
1. Cash and Equivalents	1,687,522	5,466,584	25. Accounts Payable	580,199	873,012
2. Cash-RUS Construction Fund	0	0	26. Notes Payable	0	0
3. Affiliates:			27. Advance Billings and Payments	0	0
a. Telecom, Accounts Receivable	0	0	28. Customer Deposits	3,125	0
b. Other Accounts Receivable	0	0	29. Current Mat. L/T Debt	1,500,000	0
c. Notes Receivable	1,627,962	1,719,789	30. Current Mat. L/T Debt Rur. Dev.	0	0
4. Non-Affiliates:			31. Current Mat. - Capital Leases	0	0
a. Telecom, Accounts Receivable	408,083	400,541	32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	699,486	1,346,322	33. Other Taxes Accrued	257,138	264,677
c. Notes Receivable	0	0	34. Other Current Liabilities	482,625	671,157
5. Interest and Dividends Receivable	123,746	193,227	35. Total Current Liabilities (25 - 34)	2,823,087	1,808,846
6. Material-Regulated	607,294	874,713	<b>LONG-TERM DEBT</b>		
7. Material-Nonregulated	34,531	26,180	36. Funded Debt-RUS Notes	0	0
8. Prepayments	405,014	354,765	37. Funded Debt-RTB Notes	0	0
9. Other Current Assets	590,006	590,006	38. Funded Debt-FFB Notes	0	0
10. Total Current Assets (1 thru 9)	6,183,644	10,972,127	39. Funded Debt-Other	4,122,210	8,000,000
			40. Funded Debt-Rural Develop. Loan	0	0
<b>NONCURRENT ASSETS</b>			41. Premium (Discount) on L/T Debt	0	0
11. Investment in Affiliated Companies			42. Acquired Debt	0	0
a. Rural Development	8,610,545	8,734,033	43. Obligations Under Capital Lease	0	0
b. Nonrural Development	4,962,486	4,962,486	44. Adv. From Affiliated Companies	0	0
12. Other Investments			45. Other Long-Term Debt	0	0
a. Rural Development	0	0	46. Total Long-Term Debt (36-45)	4,122,210	8,000,000
b. Nonrural Development	1,885,260	1,439,096	<b>OTHER LIAB. &amp; DEF. CREDITS</b>		
13. Nonregulated Investments	10,367,442	8,537,446	47. Other Long-Term Liabilities	0	0
14. Other Noncurrent Assets	4,052,489	4,505,938	48. Deferred Income Taxes	(4,818,339)	(4,456,194)
15. Deferred Charges	0	0	49. Other Deferred Credits	374,196	0
16. Jurisdictional Differences	0	0	50. Other Jurisdictional Differences	0	0
17. Total noncurrent Assets (11 thru 16)	29,878,222	28,178,999	51. Total Other Liab. & Def. Credits (47 thru 50)	(4,444,143)	(4,456,194)
			<b>EQUITY</b>		
<b>PLANT, PROPERTY AND EQUIPMENT</b>			52. Cap. Stock Outstanding & Subscribed	72,000	72,000
18. Telecom Plant-in-Service	87,133,380	91,407,896	53. Additional Paid-in-Capital	0	0
19. Property Held for Future Use	0	0	54. Treasury Stock	0	0
20. Plant Under Construction	190,061	2,063,972	55. Membership and cap. Certificates	0	0
21. Plant Adj., Nonop Plant & Goodwill	0	0	56. Other Capital	47,840	100,029
22. Accumulated Depreciation (CR.)	(65,592,397)	(70,596,153)	57. Patronage Capital Credits	0	0
23. Net Plant (18 thru 21 less 22)	21,731,044	22,875,715	58. Retained Earnings or Margins	55,171,916	56,502,160
			59. Total Equity (51 thru 57)	55,291,756	56,674,189
<b>24. TOTAL ASSETS (10+17+23)</b>	<b>57,792,910</b>	<b>62,026,841</b>	<b>60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>57,792,910</b>	<b>62,026,841</b>

Footnote:  
Adjusted Balances represents balances  
after Part 64 adjustments

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

Company Name: (Below)  
 Whidbey Telephone Company

Line #	Description	B/S Line #	Adj. Balance End of Year 2015	Adj. Balance End of Year 2016	Average Adj End of Year Balance
<b>Average Rate Base:</b>					
1	Total Regulated Adjusted Telecom Plant-in-service	18	87,133,380	91,407,896	89,270,638
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(65,592,397)	(70,596,153)	(68,094,275)
4	Total Regulated Materials & Supplies	6	607,294	874,713	741,004
5	Deferred Income Taxes (CR)	48	(4,818,339)	(4,456,194)	(4,637,267)
6	<b>Total Regulated Rate Base</b>		<b>17,329,938</b>	<b>17,230,262</b>	<b>17,280,100</b>

Footnotes:

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



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

Company Name: (Below)  
 Whidbey Telephone Company

Line #	Description	Prior Year End of Yr. Balance - 2015	Current Year End of Yr. Balance - 2016	Difference	% Change
	<b>Access Lines:</b>				
1	Residential	7,987	7,113	(874)	-10.9%
2	Business	1,695	1,614	(81)	-4.8%
3	Total	9,682	8,727	(955)	-9.9%

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

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

Company Name: (Below)  
 Whidbey Telephone Company

Line #	Description	Prior Year 2015 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2015 (C)
1	Local Network Services Revenues	2,345,222	(108,207)	2,237,015
2	Network Access Services Revenues	9,565,794	(48,239)	9,517,555
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	87,342	(81,865)	5,477
5	Miscellaneous Revenues	434,577	(11,339)	423,238
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(8,363)		(8,363)
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>12,424,572</b>	<b>(249,650)</b>	<b>12,174,922</b>
8	Plant Specific Operations Expense	3,345,031	(174,637)	3,170,394
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	1,874,504	(216,657)	1,657,847
10	Depreciation Expense	3,085,853	(178,152)	2,907,701
11	Amortization Expense	0		0
12	Customer Operations Expense	1,011,236	(120,489)	890,747
13	Corporate Operations	2,677,606	(164,996)	2,512,610
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>11,994,230</b>	<b>(854,931)</b>	<b>11,139,299</b>
15	Operating Income or Margins (7 less 14)	430,342	605,281	1,035,623
16	Other Operating Income and Expenses ( )	16		16
17	State and Local Taxes	0		0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	0	0	0
19	Other Taxes	392,258	(62,020)	330,238
20	<b>Total Operating Taxes (17+18+19)</b>	<b>392,258</b>	<b>(62,020)</b>	<b>330,238</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>38,100</b>	<b>667,301</b>	<b>705,401</b>
22	Interest on Funded Debt	117,595	(80,271)	37,324
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (CR)			0
26	<b>Total Fixed Charges (22+23+24-25)</b>	<b>117,595</b>	<b>(80,271)</b>	<b>37,324</b>
27	Nonoperating Net Income	(30,686,807)	30,681,816	(4,991)
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	17,706	(747,572)	(729,866)
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>(30,748,596)</b>	<b>30,681,816</b>	<b>(66,780)</b>
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	83,799,773		83,799,773
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)	2,697,600		2,697,600
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	<b>Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38))(A2)</b>	<b>50,353,577</b>	<b>30,681,816</b>	<b>81,035,393</b>
40	Patronage Capital Beginning-of-Year			0
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	<b>Patronage Capital End-of-Year (40+41-42)</b>	<b>0</b>	<b>0</b>	<b>0</b>
44	Annual Debt Service Payments	1,500,000		1,500,000
45	Cash Ratio ((14+20-10-11)/7)	0.7486	2.9593	0.7032
46	Operating Accrual Ratio ((14+20+26)/7)	1.0064	3.9945	0.9451
47	TIER ((31+26)/26)	(260.4788)	(381.2279)	(0.7892)
48	DSCR ((31+26+10+11)/44)	(18.3634)	#DIV/0!	1.9188

Footnotes:

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

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

Company Name: (Below)  
Whidbey Telephone Company

Line #	Description	Current Year 2016 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2016 (C)
1	Local Network Services Revenues	2,301,935		2,301,935
2	Network Access Services Revenues	9,785,647		9,785,647
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	91,818	(85,022)	6,796
5	Miscellaneous Revenues	416,946	(8,327)	408,619
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(7,210)		(7,210)
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>12,589,136</b>	<b>(93,349)</b>	<b>12,495,787</b>
8	Plant Specific Operations Expense	3,423,438	(52,444)	3,370,994
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	2,008,423	(362,909)	1,645,514
10	Depreciation Expense	3,045,348	(74,926)	2,970,422
11	Amortization Expense	0		0
12	Customer Operations Expense	1,170,870	(71,800)	1,099,070
13	Corporate Operations	2,752,452	(55,570)	2,696,882
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>12,400,531</b>	<b>(617,649)</b>	<b>11,782,882</b>
15	Operating Income or Margins (7 less 14)	188,605	524,300	712,905
16	Other Operating Income and Expenses ( )	18,182	(24,425)	(6,243)
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)		0	0
19	Other Taxes	365,223	(43,934)	321,289
20	<b>Total Operating Taxes (17+18+19)</b>	<b>365,223</b>	<b>(43,934)</b>	<b>321,289</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>(158,436)</b>	<b>543,809</b>	<b>385,373</b>
22	Interest on Funded Debt	163,413	(104,772)	58,641
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (CR)			0
26	<b>Total Fixed Charges (22+23+24-25)</b>	<b>163,413</b>	<b>(104,772)</b>	<b>58,641</b>
27	Nonoperating Net Income	3,754,671		3,754,671
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	322,522	(648,581)	(326,059)
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>3,755,344</b>	<b>0</b>	<b>3,755,344</b>
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	81,035,393		81,035,393
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)	2,488,800		2,488,800
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	<b>Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38))(A2)</b>	<b>82,301,937</b>	<b>0</b>	<b>82,301,937</b>
40	Patronage Capital Beginning-of-Year			0
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	<b>Patronage Capital End-of-Year (40+41-42)</b>	<b>0</b>	<b>0</b>	<b>0</b>
44	Annual Debt Service Payments	750,000		750,000
45	Cash Ratio ((14+20-10-11)/7)	0.7721	6.2846	0.7309
46	Operating Accrual Ratio ((14+20+26)/7)	1.0270	8.2096	0.9734
47	TIER ((31+26)/26)	23.9807	1.0000	65.0396
48	DSCR ((31+26+10+11)/44)	9.2855	#DIV/0!	9.0459

Footnotes:

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

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

Company Name: (Below)  
 Whidbey Telephone Company

Line #	Description	Adjusted Prior Year 2015	Adjusted Current Year 2016
1	Local Network Services Revenues	2,237,015	2,301,935
2	Network Access Services Revenues	9,517,555	9,785,647
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	5,477	6,796
5	Miscellaneous Revenues	423,238	408,619
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(8,363)	(7,210)
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>12,174,922</b>	<b>12,495,787</b>
8	Plant Specific Operations Expense	3,170,394	3,370,994
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	1,657,847	1,645,514
10	Depreciation Expense	2,907,701	2,970,422
11	Amortization Expense	0	0
12	Customer Operations Expense	890,747	1,099,070
13	Corporate Operations	2,512,610	2,696,882
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>11,139,299</b>	<b>11,782,882</b>
15	Operating Income or Margins (7 less 14)	1,035,623	712,905
16	Other Operating Income and Expenses ( )	16	(6,243)
17	State and Local Taxes	0	0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	0	0
19	Other Taxes	330,238	321,289
20	<b>Total Operating Taxes (17+18+19)</b>	<b>330,238</b>	<b>321,289</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>705,401</b>	<b>385,373</b>
22	Interest on Funded Debt	37,324	58,641
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	0	0
25	Allowance for Funds Used During Construction	0	0
26	<b>Total Fixed Charges (22+23+24-25)</b>	<b>37,324</b>	<b>58,641</b>
27	Nonoperating Net Income	(4,991)	3,754,671
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	(729,866)	(326,059)
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>(66,780)</b>	<b>3,755,344</b>
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	83,799,773	81,035,393
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	2,697,600	2,488,800
36	Dividends Declared (Preferred)	0	0
37	Other Debits Year-to-Date	0	0
38	Transfers to Patronage Capital	0	0
39	<b>Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))</b>	<b>81,035,393</b>	<b>82,301,937</b>
40	Patronage Capital Beginning-of-Year	0	0
41	Transfers to Patronage Capital	0	0
42	Patronage Capital Credits Retired	0	0
43	<b>Patronage Capital End-of-Year (40+41-42)</b>	<b>0</b>	<b>0</b>
44	Annual Debt Service Payments	1,500,000	750,000
45	Cash Ratio ((14+20-10-11)/7)	0.7032	0.7309
46	Operating Accrual Ratio ((14+20+26)/7)	0.9451	0.9734
47	TIER ((31+26)/26)	(0.7892)	65.0396
48	DSCR ((31+26+10+11)/44)	1.92	9.0459

Footnote	2015	2016
(A1) S Corporation Effective Tax Rate (2 decimal places):	37.74%	37.73%

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

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

Company Name: (Below)  
 Whidbey Telephone Company

Line #	Description	Part 32 Account	Prior Year 2015	Current Year 2016
1	End User Revenue (SLC, ARC, etc.)	5081	1,236,838	1,268,716
2	Switched Access (excluding USF):	5082		
2a	Intrastate		657,055	667,128
2b	Interstate (includes CAF)		1,188,555	1,279,585
3	Special Access:	5083		
3a	Intrastate		0	0
3b	Interstate		3,102,808	3,065,017
4	Federal USF (ICLS/HCL/SN)	Varies	2,634,984	2,708,286
5	State USF		697,315	796,916
6	Other*			
7	Total (must equal line 2 of Income Stmt.)		9,517,555	9,785,647
8	Line 2 of Income Stmt.		9,517,555	9,785,647
9	Difference		0	(0)

Footnote:

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

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

Whidbey Telephone Company \_\_\_\_\_  
 Company Name: (Below)

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

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

Company Name:  
Whidbey Telephone Company

Line #	Source(A)	Net Operating Income Inputted FIT Calculation	2016	
1	Page 9, Line 21 (CY)	Adjusted Net Operating Income	385,373	
2		Out-of-Period or Pro Forma Adjustments		
3	Page 9, Line 26 (CY)	Total Fixed Charges	58,641	(A)
4	Sum	Adj. Taxable Operating Income (Line 1 + Line 2 - Line 3)	326,732	
5		Inputted S Corp. Tax Rate(B)	37.73%	
6	Calculated	inputted FIT (Line 4* Line 5)	123,276	
7	Sum	Adj. Net Operating income after FIT (Line 4 - Line 6)	203,456	(B)
<b>NonOperating Income Inputted FIT Calculation</b>				
8	Page 9, Line 27 (CY)	Nonoperating net income	3,754,671	
9	Page 9, Line 30 (CY)	Nonregulated net income	(326,059)	
10	Sum	Sub-Total (Line 27+Line 30)	3,428,612	
11		Inputted S Corp. Tax Rate(B)	37.73%	
12	Calculated	FIT (Line 10 * Line 11)	1,293,615	
13	Sum	Nonop/Nonreg income after FIT (Line 10 - Line 12)	2,134,997	(C)
14	Sum	<b>Adjusted Net Income w/inputted FIT</b>	<b>2,338,453</b>	(B)+(C)
<b>Sanity Check:</b>				
15	Page 9, Line 31 (CY)	Line 31 as reported	3,755,344	
16		Out-of-Period or Pro Forma Adjustments	-	
17		Total	3,755,344	
18		Inverse of effective tax rate (100%-Line 10 percent)	62.27%	
19	Calculated	Adjusted Net Income (Line 17*Line 18) = Line 14	<b>2,338,453</b>	(D)
<b>Regulated Rate of Return</b>				
20	Page 5, Total (PY)	Regulated rate base Year End 2015	17,329,938	
21	Page 5, Total (CY)	Regulated rate base Year End 2016	17,230,262	
22	Sum	Total	34,560,200	
23	Calculated	Simple Avg.	17,280,100	(E)
24	Line 7 (above)	Adj Operating Income after inputted FIT	203,456	
27	Calculated	Regulated rate of return	1.2%	(B)/(E)

Company Name: (Below)

---

Description	Prior Year End of Yr. Balance - 2015	Current Year End of Yr. Balance - 2016	Difference	% Change
<b>Broadband Connections:</b>				
Residential	6,621	6,866	245	3.7%
Business	861	883	22	2.6%
<b>Total</b>	<b>7,482</b>	<b>7,749</b>	<b>267</b>	<b>3.6%</b>
<b>Gross Regulated and Nonregulated Capital Expenditures:</b>	2015	2016	Difference	% Change
<b>Total Annual Amount</b>				



REDACTED

**WHIDBEY TELEPHONE COMPANY  
AND SUBSIDIARIES**

Audited Consolidated Financial Statements

December 31, 2016 and 2015

REDACTED

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

Audited Consolidated Financial Statements

December 31, 2016 and 2015

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**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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REDACTED



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

### Independent Auditor's Report

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, 2016 and 2015, and the related consolidated statements of operations 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 consolidated 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.

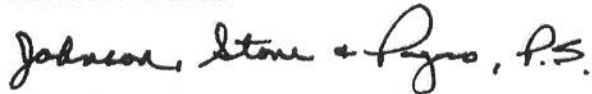
REDACTED

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, 2016 and 2015, 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.

April 26, 2017

REDACTED

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

PETITION OF WHIDBEY TELEPHONE COMPANY TO RECEIVE  
SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS  
SERVICES PROGRAM -  
EXHIBIT 5-5

REDACTED

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2016 and 2015

	2016	2015
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents		
Accounts receivable		
Trade		
Other		
Materials and supplies		
Prepayments and deposits		
<b>Total Current Assets</b>		
<b>OTHER ASSETS</b>		
Restricted cash		
Investments		
<b>Total Other Assets</b>		
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
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.  
PETITION OF WHIDBEY TELEPHONE COMPANY TO RECEIVE  
SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS  
SERVICES PROGRAM -  
EXHIBIT 5-6

REDACTED

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2016 and 2015

	2016	2015
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable		
Taxes, other than income taxes		
Other current liabilities		
Deferred revenue		
Current portion of long-term debt		
<b>        Total Current Liabilities</b>		
<b>LONG-TERM DEBT</b> , less portion classified as a current liability		
<b>        Total Liabilities</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Capital stock		
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.

REDACTED

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

Years Ended December 31, 2016 and 2015

	2016	2015
<b>OPERATING REVENUES</b>		
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 AND EXPENSES - NET</b>		
Other income		
<b>Income Available for Fixed Charges</b>		
<b>FIXED CHARGES AND RELATED ITEMS - NET</b>		
<b>Income from Continuing Operations</b>		
<b>LOSS FROM DISCONTINUED OPERATIONS</b>		
Loss from discontinued operations		
Loss on sale of discontinued operations		
<b>Loss from Discontinued Operations</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.



REDACTED

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
Years Ended December 31, 2016 and 2015

	Capital Stock	Retained Earnings	Accumulated Other Comprehensive Income	To t al
<b>BALANCE AT DECEMBER 31, 2014</b>				
Distributions to stockholders				
Net loss for the year				
Other comprehensive loss				
<b>BALANCE AT DECEMBER 31, 2015</b>				
Distributions to stockholders				
Net income for the year				
Other comprehensive income				
<b>BALANCE AT DECEMBER 31, 2016</b>				

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

REDACTED

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and 2015

	2016	2015
<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 by Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in restricted cash		
Additions to property, plant and equipment		
Proceeds from sale of property, plant and equipment		
Salvage on retired property, plant and equipment		
Cost of removal		
Partnership capital distribution		
Proceeds from sale of investments		
Purchase of investments		
Loans and advances to affiliates and stockholders		
<b>Net Cash 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.

REDACTED

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

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

Years Ended December 31, 2016 and 2015

	2016	2015
<b>RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net income (loss)		
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization		
Partnership distribution included in net income and not included in operating activities		
Loss on sale of property, plant and equipment		
Realized loss 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 BY OPERATING ACTIVITIES</b>		
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING TRANSACTIONS</b>		
Noncash transfer of accounts receivable		
Accounts payable assumed in sale transaction		

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

# REDACTED

## WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

#### 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. ("FiberCloud"), 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 subscriber television services to customers in western Washington. American Alarm Systems, Inc. provides alarm system installation and alarm monitoring services in western Washington. FiberCloud provided offsite computer data storage, hosted services, internet access and web-hosting services in western Washington. During 2015, FiberCloud sold all of its equipment, customer contracts, customer lists, marketing information, trademarks and trade names and discontinued operations (see Note 8). 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") and Report and Order, Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking ("FCC 16-33"), have reformed the universal service and intercarrier compensation systems. These reforms have modified the manner in which the Company recovers its telecommunications revenue requirements.

##### *Accounting Records*

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

##### *Cash and Cash Equivalents*

The Company and Subsidiaries consider all highly liquid debt instruments to be cash equivalents.

# REDACTED

## WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

##### ***Restricted Cash***

The stockholders of the Company are trustees for trusts that hold life insurance policies on the chairperson of the Board of Directors. Wells Fargo bank has provided financing to the trusts for the premiums on these policies, for which the Company is a guarantor. As part of that agreement the Company is required to segregate cash as a guarantee for the amount of financing that exceeds the cash surrender value of these policies.

##### ***Materials and Supplies***

Materials and supplies are stated at average cost.

##### ***Investments***

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

##### ***Fair Value Measurements***

The Company and Subsidiaries 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 and Subsidiaries are required to determine the level in the fair value hierarchy within which a fair value measurement ultimately falls and provide disclosure of such determinations.

##### ***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, 2016, 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.

# REDACTED

## WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

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

Services provided by the Company 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.

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

In September 2016, the FCC implemented a budget control mechanism for rate-of-return telecommunication carriers designed to ensure that federal support disbursements remain within the specified budget. This budget control mechanism further reduces Interstate Common Line Support now renamed Connect America Fund Broadband Loop Support, funding for the Company by approximately \$33,000 in 2016.

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

# REDACTED

## WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

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

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

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.

The WUTC implemented a state universal communications service program ("State USF Program") and also replaced the cumulative reduction in support the Company received from the federal CAF. The State USF Program began January 2015 and subsequent annual disbursements comprised of the Traditional USF and the disbursement of the cumulative CAF deficit support are scheduled to occur in January of the following State USF Program years, assuming the Company continues to be eligible under the program. The State USF Program year runs from July 1 to June 30. The Company received \$845,439 from the State USF Program for the period July 1, 2016 to June 30, 2017, and recorded deferred revenue of \$422,720 for the unearned portion. In 2015, the Company received \$748,392 from the State USF Program, for the period July 1, 2015 to June 30, 2016, and recorded deferred revenue of \$374,196 for the unearned portion. The State USF Program is scheduled to last for five program years.

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.

# REDACTED

## WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

##### ***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, 2013 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 consolidated financial statements.

##### ***Reclassifications***

Certain reclassifications to the consolidated statement of cash flows have been made to the previously reported 2015 consolidated statement of cash flows in order to make it comparable with the 2016 consolidated statement of cash flows.

##### ***Subsequent Events***

The management of the Company evaluated for subsequent events and transactions for potential recognition and disclosure through April 26, 2017, the date the financial statements were available to be issued. All identified material events or transactions have been recorded or disclosed.

#### **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, 2016, the Company and its subsidiaries' cash balances exceeded the insured amount by \$5,821,041.



REDACTED

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE 2 - CONCENTRATION OF CREDIT RISK** (Continued)

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, 2016 is \$2,652.

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, 2016 and 2015 consist of:

	2016	2015
Accounts receivable - subscribers		
Accounts receivable - interexchange carriers and exchange carrier associations		
Allowance for doubtful accounts (deduction)		

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, 2016, approximately 5% of accounts receivable were outstanding ninety days or more after the date of the invoice on which they were first billed.

REDACTED

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

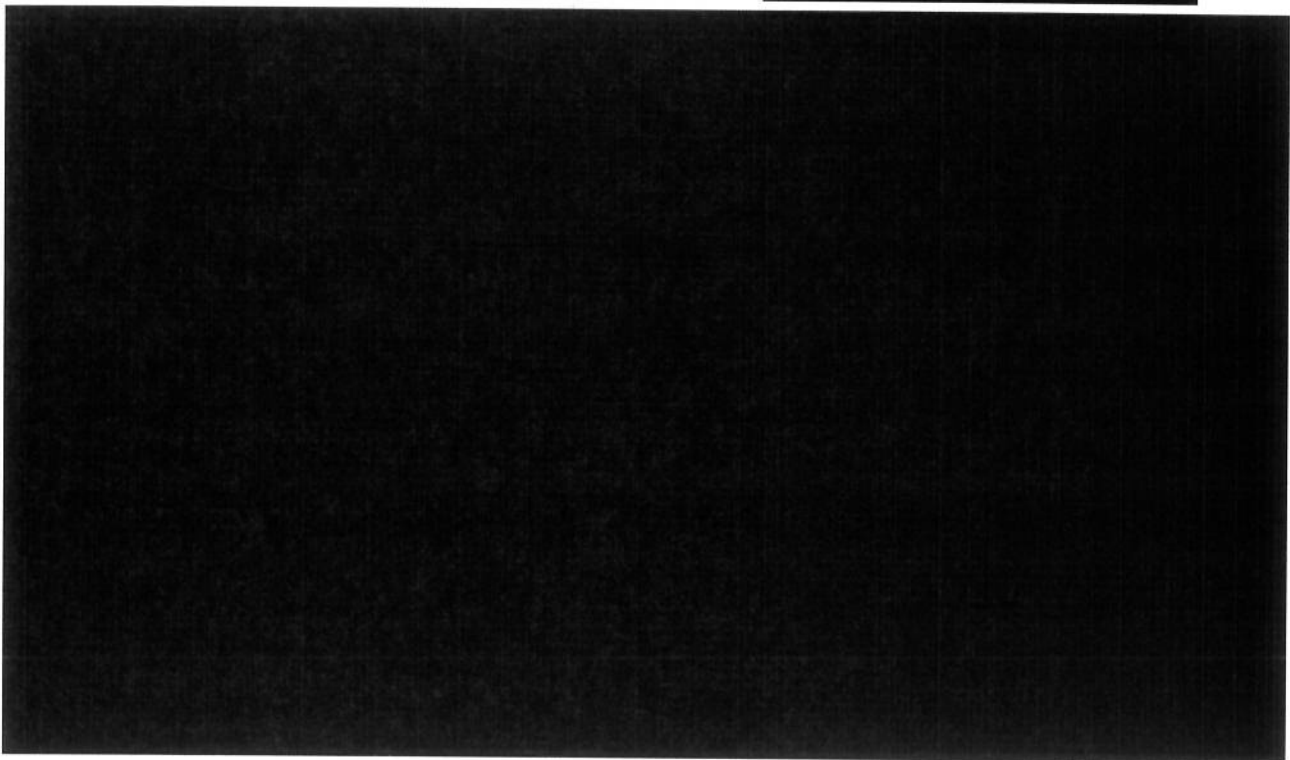
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 4 - INVESTMENTS

Investments consist of:

	<u>2016</u>	<u>2015</u>
Investments at fair value		
Verizon Communications, Inc.	\$	
Sun Life Financial Services of Canada, Inc.		
Frontier Communications		
Mutual funds held at Edward Jones		
CoBank, Cooperative Capital Certificate		
Associated Network Partners, Inc.		
Western Independent Networks		
Artifact Technologies, Inc.		
Investments at cost		
Note receivable - Green Tea Northwest, LLC		
Notes receivable - stockholders		
Land held for investment		



REDACTED

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 4 - INVESTMENTS (Continued)

The Company has 1,052,278 shares of Series A stock (11.44% 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, 2016 and 2015 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, 2016</u>			
Verizon Communications, Inc.			
Sun Life Financial Services of Canada, Inc.			
Frontier Communications Growth and Income mutual funds held at Edward Jones			
CoBank, Cooperative Capital Certificate			
Associated Network Partners, Inc.			
Western Independent Networks			
Artifact Technologies, Inc.			
<u>December 31, 2015</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.

REDACTED

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

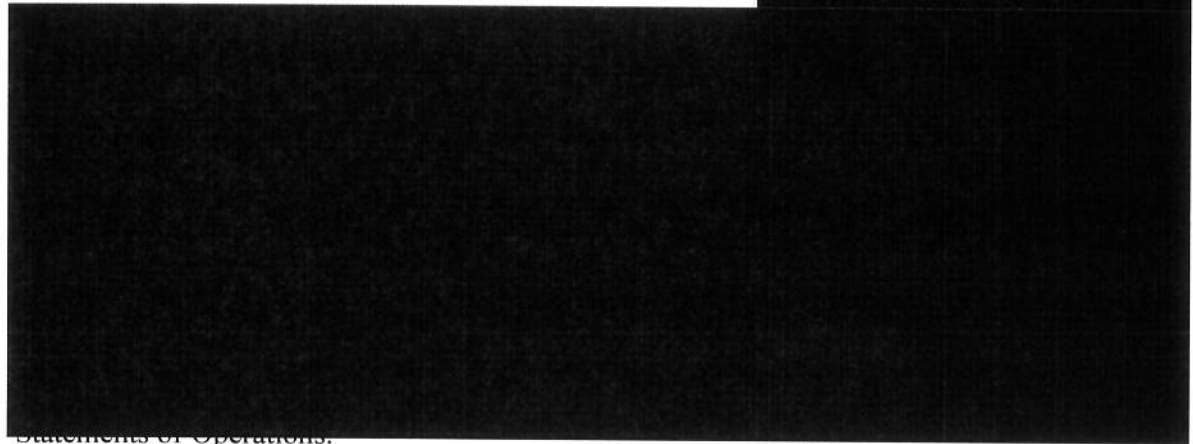
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE 4 - INVESTMENTS** (Continued)

The following sets forth a summary of changes in the fair value of the Company's level 3 assets for the year ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Balance at beginning of year		
Purchases		
Balance at End of Year		



Statements of Operations.

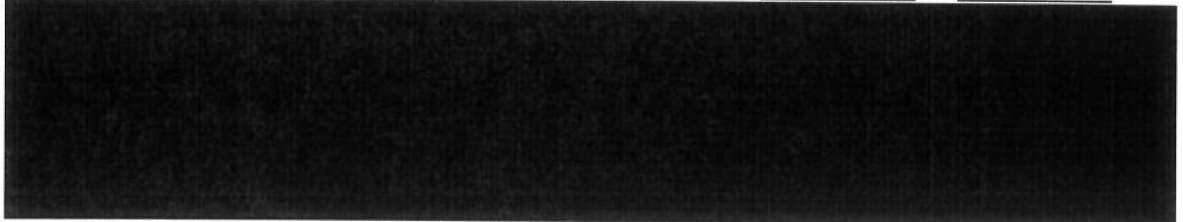
**NOTE 5 - PROPERTY, PLANT AND EQUIPMENT**

***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, 2016 and 2015 are:

	<u>2016</u>	<u>2015</u>
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**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

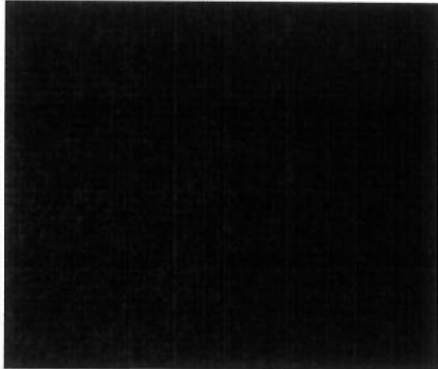
December 31, 2016 and 2015

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

(Continued)

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



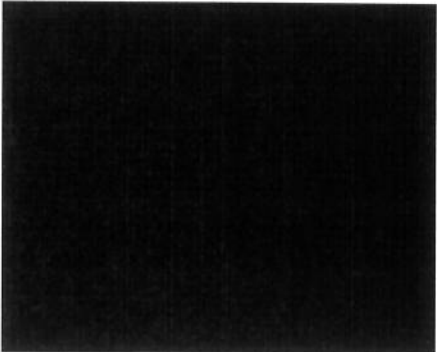
***Nonregulated Plant***

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.

***Depreciation Expense***

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

	<u>2016</u>	<u>2015</u>
Regulated telecommunications plant		
Nonregulated plant		



REDACTED

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

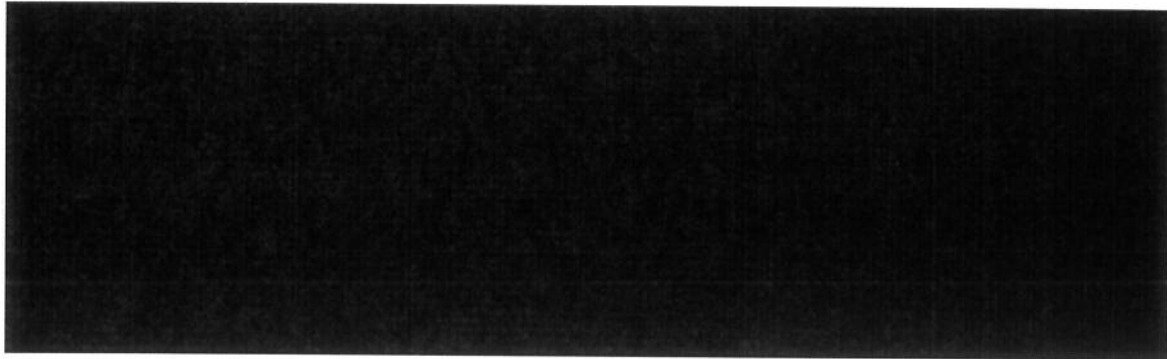
December 31, 2016 and 2015

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

Notes payable and long-term debt at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Promissory notes with CoBank, that call for monthly payments of interest at LIBOR plus 2.75% (3.75% at December 31, 2016). Principal is due in twenty equal, consecutive, quarterly installments of \$500,000 beginning on September 20, 2018 and the last installment due June 20, 2023, and one final installment of remaining unpaid principal balance due on September 20, 2023.		
Note payable consists of a revolving reducing line of credit with Wells Fargo Bank of up to a maximum of \$6,000,000 at December 31, 2015, reduced each quarter by payments of \$375,000 beginning December 2015. The agreement calls for monthly payments of interest at 2.25% above a daily one month LIBOR rate as determined by the bank (2.67950% at December 31, 2015). Principal and accrued interest were due June 30, 2019. Security includes all assets as noted in the security agreement. Paid in full in 2016.		
Less portion due within one year classified as a current liability		
Long-term Debt		

Aggregate annual maturities of long-term debt for the next five years are as follows:



REDACTED

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

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

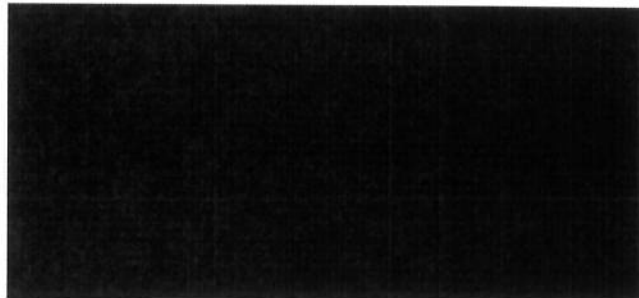
As part of the promissory notes and agreements executed by the Company with respect to the notes payable with CoBank, the Company agreed to various negative covenants including limitations on guarantees, other indebtedness, loan advances and investments. The Company also agreed to comply with certain financial covenants as a condition to each of the credit facilities. Management believes the Company was in compliance at December 31, 2016.

The Company has available \$8,000,000 for future borrowings from CoBank for telephone plant expenditures.

**NOTE 7 - CAPITAL STOCK**

The authorized, issued and outstanding shares for the years ended December 31, 2016 and 2015 are as follows:

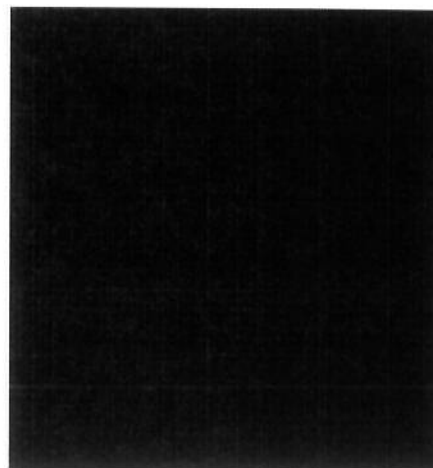
Common stock - no par, voting  
Common stock - no par, non-voting



**NOTE 8 - DISCONTINUED OPERATIONS**

On March 31, 2015 FiberCloud sold its equipment, customer contracts, customer lists, marketing information, trademarks and trade names to an unrelated company that operates in the same industry as FiberCloud. The purchase price after adjustments was \$3,204,032. The loss on the sale for the year ended December 31, 2015 was \$961,962 calculated as follows:

Proceeds  
    Received  
    Escrowed  
    Working capital  
    Adjusted Proceeds  
  
Less, net assets sold  
    Current assets  
    Nonregulated plant, net  
Liabilities assumed  
    Current liabilities  
  
Net assets sold  
    Net Loss on Sale



REDACTED

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

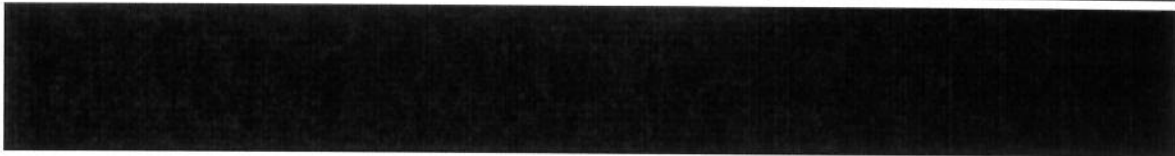
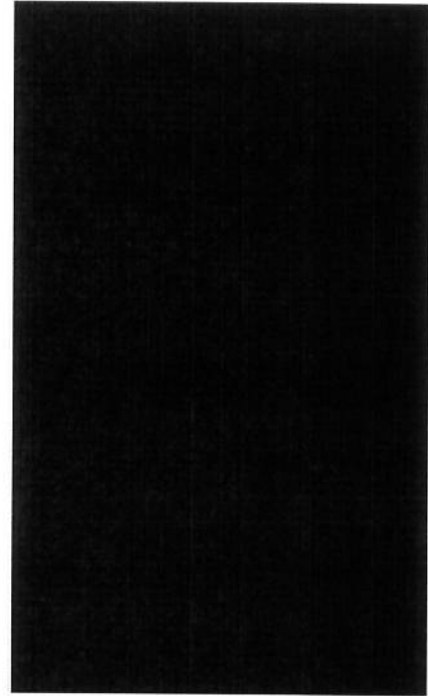
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

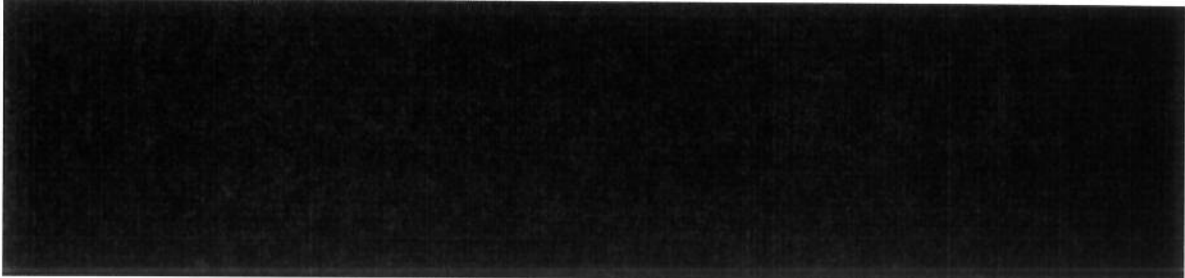
**NOTE 8 - DISCONTINUED OPERATIONS** (Continued)

The discontinued component reported the following amounts, which are included in the Company's statement of operations for the year ended December 31, 2015:

Other operating revenues	
Uncollectible revenues (deduction)	
Total Operating Revenues	
Operating expenses	
Plant specific operations	
Plant nonspecific operations	
Depreciation and amortization	
Customer operations	
Corporate operations	
Taxes, other than income taxes	
Total Operating Expenses	
Net Operating Loss	
Other income and expenses - net	
Loss on Sale of Discontinued Operations	
Loss from Discontinued Operations	



**NOTE 9 - LEASES AND SERVICE AGREEMENTS**





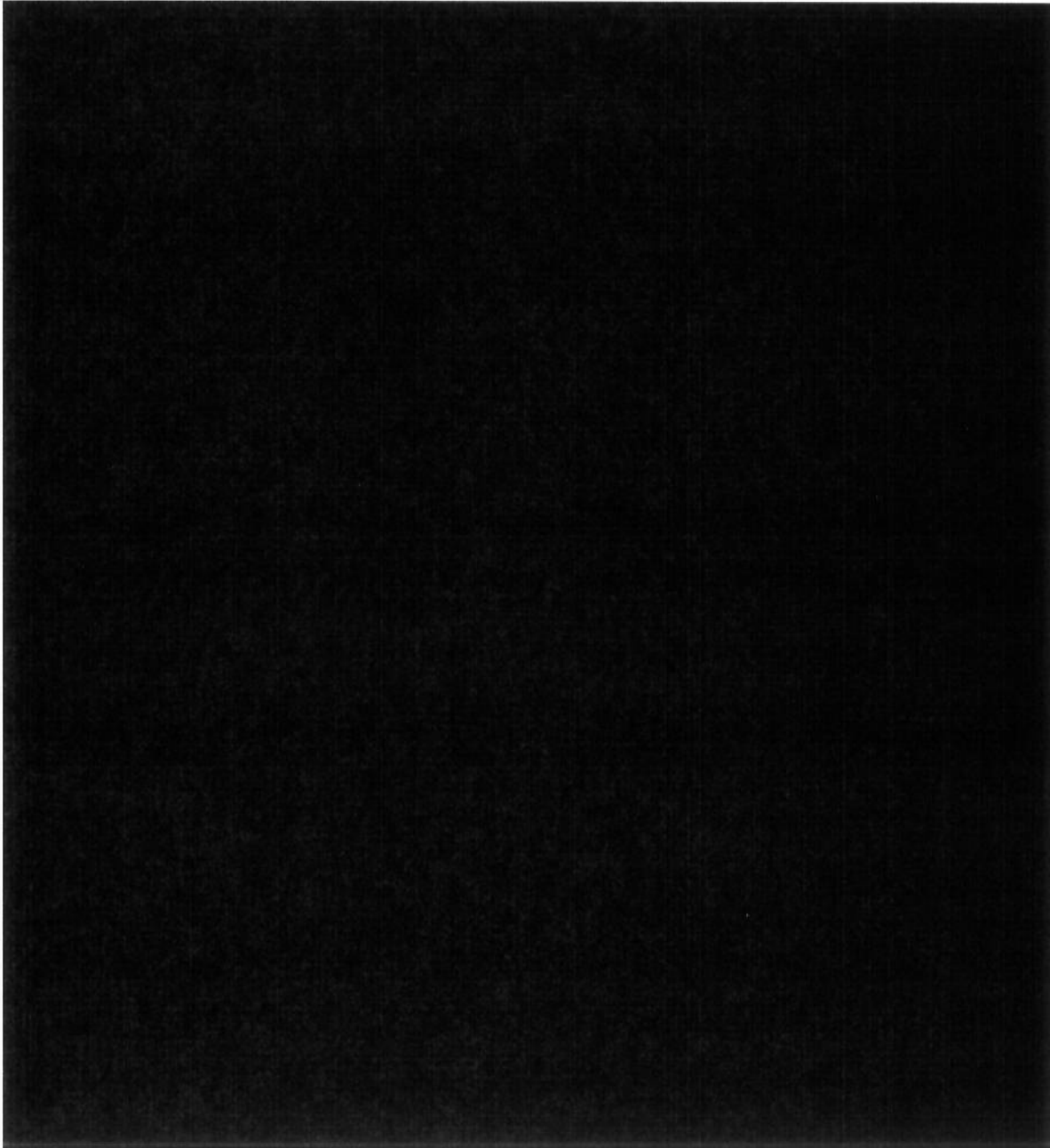
REDACTED

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2016 and 2015

**NOTE 9 - LEASES AND SERVICE AGREEMENTS (Continued)**



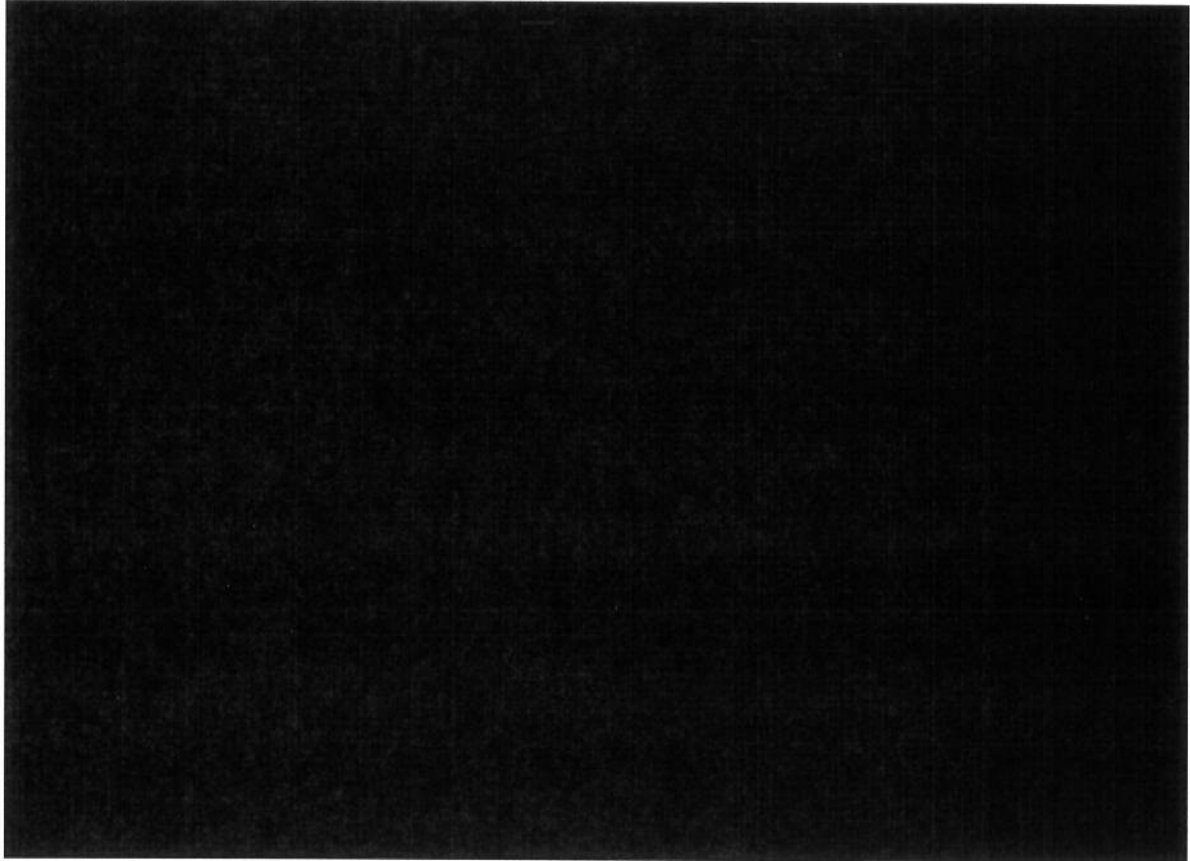
REDACTED

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2016 and 2015

**NOTE 10 - PENSION PLAN AND 401(k) PLAN**



**EXHIBIT 6  
RUS FORM 479**

<b>(3005b) Operating Report for Privately-Held Rate of Return Carriers</b> <b>Income Statement - Data Collection Form</b>	FCC Form 481 OMB Control No. 3060-0986 OMB Control No. 3060-0819
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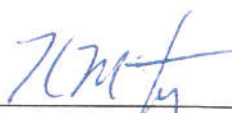
<010> Study Area Code	522452
<015> Study Area Name	Whidbey Telephone Company
<020> Program Year	2018
<030> Contact Name - Person USAC should contact regarding this data	Trish Mason
<035> Contact Telephone Number - Number of person identified in data line <030>	360-321-0013
<039> Contact Email Address - Email Address of person identified in data line <030>	trish.mason@whidbeytel.com

PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS		
ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	2345222	2301935
2. Network Access Services Revenues	9565794	9785647
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues	87342	91818
5. Miscellaneous Revenues	434577	416946
6. Uncollectible Revenues	8363	7210
7. <b>Net Operating Revenues (1 thru 5 less 6)</b>	12424572	12589136
8. Plant Specific Operations Expense	3345031	3423438
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	1874504	2008423
10. Depreciation Expense	3085853	3045348
11. Amortization Expense	0	0
12. Customer Operations Expense	1011236	1170870
13. Corporate Operations Expense	2677606	2752452
14. <b>Total Operating Expenses (8 thru 13)</b>	11994230	12400531
15. Operating Income or Margins (7 less 14)	430342	188605
16. Other Operating Income and Expenses	16	18182
17. State and Local Taxes		
18. Federal Income Taxes		
19. Other Taxes	392258	365223
20. Total Operating Taxes (17+18+19)	392258	365223
21. Net Operating Income or Margins (15+16-20)	38100	-158436
22. Interest on Funded Debt	117595	163413
23. Interest Expense - Capital Leases		
24. Other Interest Expense		
25. Allowance for Funds Used During Construction		
26. Total Fixed Charges (22+23+24-25)	117595	163413
27. Nonoperating Net Income	-30686807	3754671
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	17706	322522
31. Total Net Income or margins (21+27+28+29+30-26)	-30748596	3755344
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	83799773	50353577
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)	2697600	2488800
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date	0	0
38. Transfers to Patronage Capital		
39. Retained Earnings or Margins end-of-Period $[(31+33+34)-(35+36+37+38)]$	50353577	51620121
40. Patronage Capital Beginning-of-Year		
41. Transfers to Patronage Capital		
42. Patronage Capital Credits Retired		
43. Patronage Capital End-of-Year (40+41-42)	0	
44. Annual Debt Service Payments		
45. Cash Ratio $[(14+20-10-11)/7]$		
46. Operating Accrual Ratio $[(14+20+26)/7]$		
47. TIER $[(31+26)/26]$		
48. DSCR $[(31+26+10+11)/44]$		

Exhibit 7  
(Option 2 – Report Corporate Operations Expense Adjustment and Certify)  
As Required in WAC 480-123-110(e)(vi)

I, Frank McIntyre, an officer of Whidbey Telecom with personal knowledge and responsibility, under penalty of perjury, hereby certify that a corporate operations adjustment(s) to existing high-cost loop and/or interstate common line support mechanisms, as required by the Federal Communications Commission applied to the Company in the amount of \$724,350 in 2016 and \$648,232 in 2015.

Dated this 31<sup>st</sup> day of July, 2017



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Frank McIntyre  
Secretary/Treasurer

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

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

Dated this 31<sup>st</sup> day of July, 2017.

  
\_\_\_\_\_  
Frank McIntyre  
Secretary/Treasurer

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

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

Dated this 31st day of July, 2017.

  
\_\_\_\_\_  
Frank McIntyre  
Secretary/Treasurer