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

8 IN RE

9  
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, 2020.  
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20  
21 **I. Demonstration of Eligibility under WAC 480-123-100**

- 22 1. WAC 480-123-100(1)(a): The Company is a local exchange company as defined in WAC  
23 480-120-021 that serves less than forty thousand access lines within the state.  
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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. <sup>1</sup>
- 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.  
15
- 16

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.  
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22 <sup>1</sup> On April 15, 2019, the FCC released a Report and Order (FCC 19-32) in its WC Docket No. 10-90,  
23 repealing 47 C.F.R. Sec. 54.318 and eliminating the national local urban rate floor, effective June 6, 2019.  
24 The Program was designed with a minimum rate floor component. In light of the FCC's Order (FCC 19-32),  
25 Commission Staff has provided guidance that, for purposes of the Program, the local urban rate floor  
26 benchmark be considered to have been set at each petitioning company's rates for local exchange service,  
plus mandatory extended area service charges, in effect as of December 31, 2018.

- 1 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between  
2 the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.  
3 A detailed description of any transactions between the Company and the affiliates named in  
4 Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.  
5
- 6 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No.  
7 300 and 301 of the Company's Tariff WN U-5.
- 8 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate  
9 instability or service interruption or cessation in the absence of support from the Program is  
10 attached as Exhibit 3.
- 11 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,  
12 are copies of the Company's balance sheet as of December 31, 2018, and December 31,  
13 2017, and copies of the Company's statements of income and retained earnings or margin for  
14 the years ended December 31, 2018 and December 31, 2017.
- 15 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial  
16 statements for the years ended December 31, 2018 and December 31, 2017, are attached as  
17 Exhibit 5.
- 18 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of  
19 return on a total Washington unseparated regulated operations basis for each of the two prior  
20 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
- 21 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on  
22 equity on a total company (regulated and non-regulated) Washington basis for each of the  
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1 two prior years, calculated in the manner prescribed by the Commission, is provided in  
2 Exhibit 5.

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 10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company officer  
7 with personal knowledge and responsibility certifying that no corporate operations  
8 adjustment to existing high-cost loop and interstate common line support mechanisms  
9 required by the Federal Communications Commission applied to the Company for the two  
10 prior years is attached hereto as Exhibit 7. [ALTERNATIVE: Information detailing the  
11 amounts of any corporate operations adjustments to existing high-cost loop and interstate  
12 common line support mechanism required by the Federal Communications Commission  
13 applied to the Company for the prior two years is attached hereto as Exhibit 7.]

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

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

20 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or  
21 on its behalf with the Federal Communications Commission for the calendar year preceding  
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1 the current year has already been filed with the Commission. See the Company's filing in  
2 Docket No. UT-190005 filed on or about July 1<sup>st</sup>, 2019.

3 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by  
4 the Company as of December 31, 2018, was 1182 all of which were within the geographic  
5 area for which the Company is seeking support. The number of residential local exchange  
6 access lines served by the Company as of December 31, 2017, was 6128, all of which were  
7 within the geographic area for which the Company is seeking support.

8  
9 The number of business local exchange access lines served by the Company as of December  
10 31, 2018, was 499, all of which were within the geographic area for which the Company is  
11 seeking support. The number of business local exchange access lines served by the  
12 Company as of December 31, 2017, was 1483, all of which were within the geographic area  
13 for which the Company is seeking support.

14  
15 The monthly recurring rate charged by the Company for residential local exchange access  
16 service on December 31, 2018, was \$18.00. The monthly recurring rate charged by the  
17 Company for residential local exchange access service on December 31, 2017, was \$18.00.

18 The rate charged by the Company for single line business local exchange access service on  
19 December 31, 2018, was \$18.00. The rate charged by the Company for single line business  
20 local exchange access service on December 31, 2017, was \$18.00. (The Company has  
21 other business local exchange service rates, but the Company understands that WAC 480-  
22 123-110(1)(g) is requesting the single line business local exchange access service rate.)

23  
24 15. WAC 480-123-110(1)(h): The requested statement is attached as Exhibit 9.

1 16. The amount on Line 4, labeled 2011 ROR Carrier Base Period Revenue, of the CAF ICC  
2 Data collection Report for the period 7/1/2019 - 6/30/2020 is \$2,382,945 and has not  
3 changed from the last filing.

4 17. All exhibits attached hereto are incorporated in this Petition as though fully set forth.  
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6 Respectfully submitted this 1<sup>st</sup> day of August, 2019.  
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13 CERTIFICATION

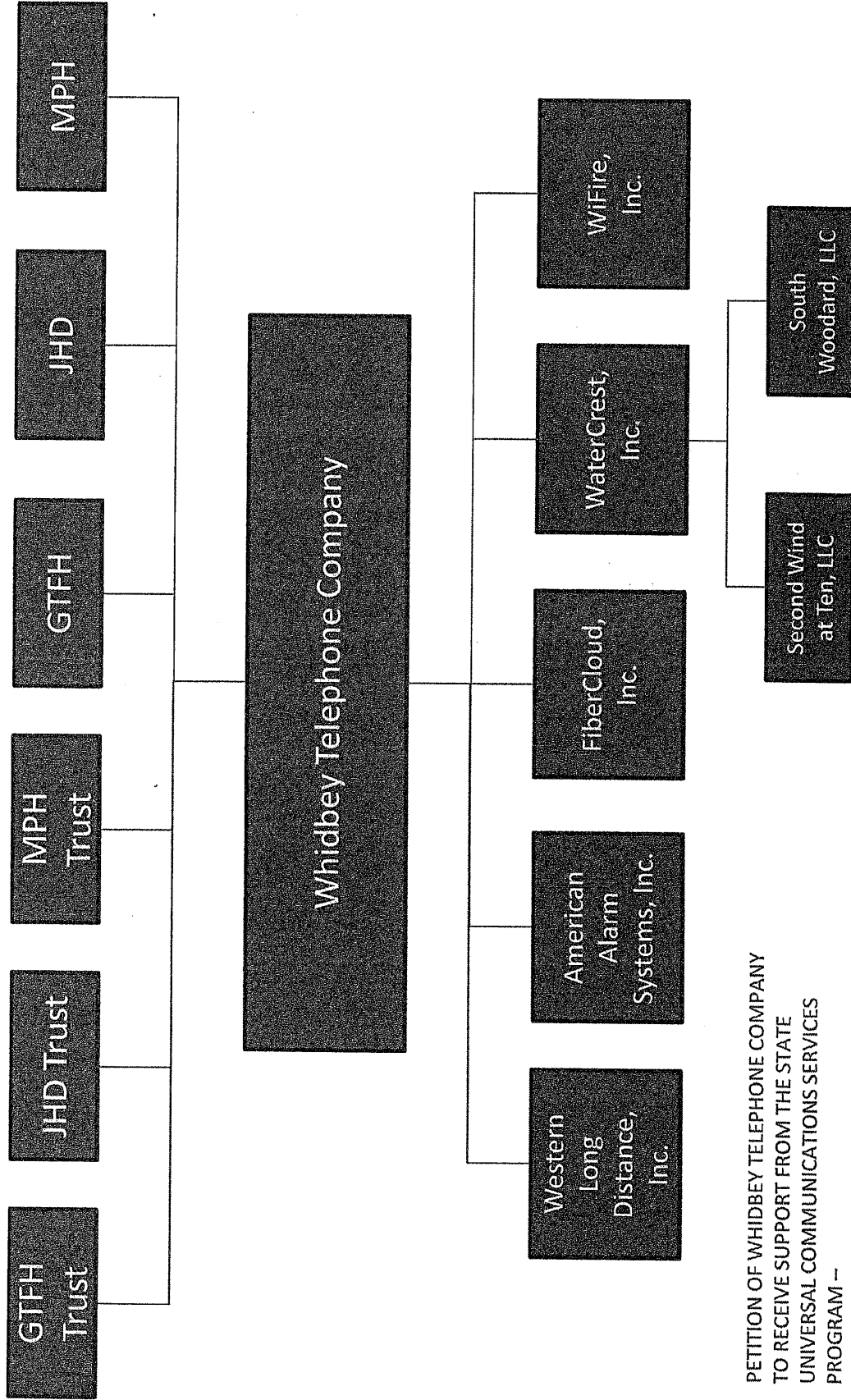
14 I Gary Ricketts, an officer of the Company that is responsible for the Company's business  
15 and financial operations, hereby certify under penalty of perjury that the information and  
16 representations set forth in the Petition, above, are accurate and the Company has not knowingly  
17 withheld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

19 

20 By: Gary Ricketts  
21 Title: Secretary/Treasurer  
22  
23  
24  
25  
26

**EXHIBIT 1**

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**

## 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 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**

### 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 and high speed internet via fiber. This has resulted in the Company making additional investments in regulated plant of approximately \$25 million during the period January 1, 2011 through December 31, 2018. In 2018, the Company continued investing in regulated plant with approximately \$993,181 in expenditures, and the Company has a substantial debt obligation (approximately \$11.5 million) associated with the plant investments that have been made over the last two years, and continues to require substantial cash allocation for plant investment, 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 2018, the Company's total regulated revenue decreased by approximately 13.6% percent from 2011 through 2018. 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; for example, during the second half of 2018, annual debt service costs are expected to increase by approximately \$2 million annually (from approximately \$0.5 million to approximately \$2.5 million).

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, through December 31, 2018, the Company had lost approximately 3,949 access lines and 295 digital lines. While some of these access lines converted to a non-access-line based form of telephony offered by the Company, others have simply ceased to be customers of the Company for telephony service. 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-until that rate floor was eliminated in 2019. However, those increases have been insufficient to fully replace the revenues that have been lost due to the reduction in access and digital lines and have tended to stimulate 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, 2019, including reductions that became effective July 1, 2018, the Company has seen a reduction in support from the base line revenue of approximately \$718,846.

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 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*).

## **EXHIBIT 4**

STATE USF FILING  
FINANCIAL TEMPLATE  
"S CORP" COMPANIES



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

Company Name: (Below)  
Whidbey Telephone Company

ASSETS	Balance End of Year 2017 (A)	Part 64 Adj to NonReg 2017 (B)	Adj. Balance End of Year 2017 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2017 (A)	Part 64 Adj to NonReg 2017 (B)	Adj. Balance End of Year 2017 (C)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
1. Cash and Equivalents	4,724,126		4,724,126	25. Accounts Payable	722,643		722,643
2. Cash-RUS Construction Fund			0	26. Notes Payable		(4,338)	0
3. Affiliates:				27. Advance Billings and Payments	4,338		0
a. Telecom, Accounts Receivable			0	28. Customer Deposits			0
b. Other Accounts Receivable			0	29. Current Mat. L/T Debt	1,000,000		1,000,000
c. Notes Receivable	1,908,915		1,908,915	30. Current Mat. L/T Debt Rur. Dev.			0
4. Non-Affiliates:				31. Current Mat. - Capital Leases			0
a. Telecom, Accounts Receivable	578,408		578,408	32. Income Taxes Accrued	250,839		250,839
b. Other Accounts Receivable	640,406		640,406	33. Other Current Liabilities	788,593		788,593
c. Notes Receivable			0	34. Other Current Liabilities (25 thru 34)			0
5. Interest and Dividends Receivable	1,719,835		1,719,835	<b>LONG-TERM DEBT</b>	2,766,413	(4,338)	2,762,075
6. Material-Regulated	844,205		844,205	36. Funded Debt-RUS Notes			0
7. Material-Nonregulated	34,530	(34,530)	0	37. Funded Debt-RTB Notes			0
8. Prepayments	380,495		380,495	38. Funded Debt-FFB Notes			0
9. Other Current Assets	590,006		590,006	39. Funded Debt-Other			11,500,000
10. Total Current Assets (1 Thru 9)	11,420,926	(34,530)	11,386,396	40. Funded Debt-Rural Develop. Loan			0
				41. Premium (Discount) on L/T Debt			0
<b>NONCURRENT ASSETS</b>				42. Recquired Debt			0
11. Investment in Affiliated Companies				43. Obligations Under Capital Lease			0
a. Rural Development	8,848,341	(8,848,341)	0	44. Adv. From Affiliated Companies			0
b. Nonrural Development	4,962,486	(4,962,486)	0	45. Other Long-Term Debt			0
12. Other Investments				46. Total Long-Term Debt (36 thru 45)	11,500,000	0	11,500,000
a. Rural Development	1,452,711	(1,452,711)	0	<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
b. Nonrural Development	5,521,674	(5,521,674)	0	47. Other Long-Term Liabilities		(5,840,018)	(5,840,018)
13. Nonregulated Investments (B1)	4,971,052	22,166,590	27,137,642	48. Deferred Income Taxes	468,816	(468,816)	0
14. Other Noncurrent Assets			0	49. Other Deferred Credits (D)			0
15. Deferred Charges			0	50. Other Jurisdictional Differences			0
16. Jurisdictional Differences			0	51. Total Other Liab. & Def. Credits (47 thru 50)	468,816	(6,308,834)	(5,840,018)
17. Total noncurrent Assets (11 thru 16)	25,756,264	1,381,378	27,137,642	<b>EQUITY</b>			
<b>PLANT, PROPERTY AND EQUIPMENT</b>				52. Cap. Stock Outstanding & Subscribed	72,000		72,000
18. Telecom Plant-In-Service	103,663,516	(2,467,001)	101,196,515	53. Additional Paid-in-Capital			0
19. Property Held for Future Use	798,914	(798,914)	0	54. Treasury Stock			0
20. Plant Under Construction	123,144		123,144	55. Membership and cap. Certificates			0
21. Plant Adj., Nonop Plant & Goodwill			0	56. Other Capital	105,648		105,648
22. Accumulated Depreciation (Cr.)	(75,606,652)	1,919,067	(73,687,585)	57. Patronage Capital Credits			0
23. Net Plant (18 thru 21 less 22)	28,978,922	(1,346,848)	27,632,074	58. Retained Earnings or Margins (B2)	51,243,235	6,313,172	57,556,407
				59. Total Equity (52 thru 58)	51,420,883	6,313,172	57,734,055
24. TOTAL ASSETS (10+17+23)	66,156,112	0	66,156,112	60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	66,156,112	0	66,156,112

Footnotes:

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

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

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 2018 (A)	Part 64 Adj to NonReg 2018 (B)	Adj. Balance End of Year 2018 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2018 (A)	Part 64 Adj to NonReg 2018 (B)	Adj. Balance End of Year 2018 (C)
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
1. Cash and Equivalents	3,966,467		3,966,467	25. Accounts Payable	498,253		498,253
2. Cash-RUS Construction Fund			0	26. Notes Payable	0		0
3. Affiliates:			0	27. Advance Billings and Payments	1,784	(1,784)	0
a. Telecom, Accounts Receivable			0	28. Customer Deposits	2,000,000		2,000,000
b. Other Accounts Receivable	1,926,002		1,926,002	29. Current Mat. L/T Debt	0		0
c. Notes Receivable			0	30. Current Mat. L/T Debt-Rur. Dev.	0		0
4. Non-Affiliates:			0	31. Current Mat. - Capital Leases	0		0
a. Telecom, Accounts Receivable	375,229		375,229	32. Income Taxes Accrued	274,205		274,205
b. Other Accounts Receivable	1,017,698		1,017,698	33. Other Taxes Accrued	604,645		604,645
c. Notes Receivable			0	34. Other Current Liabilities	3,378,887	(1,784)	3,377,103
5. Interest and Dividends Receivable	216,237		216,237	<b>LONG-TERM DEBT</b>			
6. Material-Regulated	837,016		837,016	35. Total Current Liabilities (25 thru 34)			
7. Material-Nonregulated			0	36. Funded Debt-RUS Notes	0		0
8. Prepayments	380,568		380,568	37. Funded Debt-RTB Notes	0		0
9. Other Current Assets			0	38. Funded Debt-FFB Notes	9,500,000		9,500,000
10. Total Current Assets (1 Thru 9)	8,719,217	0	8,719,217	39. Funded Debt-Other	0		0
				40. Funded Debt-Rural Develop. Loan	0		0
<b>NONCURRENT ASSETS</b>				41. Premium (Discount) on L/T Debt	0		0
11. Investment in Affiliated Companies				42. Recquired Debt	0		0
a. Rural Development	8,855,644	(8,855,644)	0	43. Obligations Under Capital Lease	0		0
b. Nonrural Development	4,962,486	(4,962,486)	0	44. Adv. From Affiliated Companies	0		0
12. Other Investments				45. Other Long-Term Debt	0		0
a. Rural Development	1,337,002	(1,337,002)	0	46. Total Long-Term Debt (36 thru 45)	9,500,000	0	9,500,000
b. Nonrural Development	4,196,891	(4,196,891)	0	<b>OTHER LIAB. &amp; DEF. CREDITS</b>			
13. Nonregulated Investments (B1)	13,111,125	47,253,209	60,364,334	47. Other Long-Term Liabilities	0		0
14. Other Noncurrent Assets			0	48. Deferred Income Taxes	512,608		512,608
15. Deferred Charges			0	49. Other Deferred Credits (D)	0		0
16. Jurisdictional Differences			0	50. Other Jurisdictional Differences	512,608		512,608
17. Total noncurrent Assets (11 thru 16)	32,463,148	27,901,186	60,364,334	51. Total Other Liab. & Def. Credits (47 thru 50)	512,608	0	512,608
				<b>EQUITY</b>			
<b>PLANT, PROPERTY AND EQUIPMENT</b>				52. Cap. Stock Outstanding & Subscribed	72,000		72,000
18. Telecom Plant-In-Service	100,135,885	(17,516,498)	82,619,387	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	72,351		72,351	55. Membership and cap. Certificates	0		0
21. Plant Adj., Nonop Plant & Goodwill	0		0	56. Other Capital	56,682		56,682
22. Accumulated Depreciation (CR.)	(74,942,781)	(9,585,774)	(84,528,555)	57. Patronage Capital Credits	0		0
23. Net Plant (18 thru 21 less 22)	26,064,369	(27,901,186)	(1,836,817)	58. Retained Earnings or Margins (B2)	53,726,557	1,784	53,728,341
				59. Total Equity (52 thru 58)	53,855,239	1,784	53,857,023
<b>24. TOTAL ASSETS (10+17+23)</b>	<b>67,246,734</b>	<b>0</b>	<b>67,246,734</b>	<b>60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)</b>	<b>67,246,734</b>	<b>0</b>	<b>67,246,734</b>

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 2017	Adjusted Current Year Balance 2018	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2017	Adjusted Current Year Balance 2018
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
1. Cash and Equivalents	4,724,126	3,966,467	25. Accounts Payable	722,643	498,253
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	0	0
b. Other Accounts Receivable	0	0	29. Current Mat. L/T Debt	1,000,000	2,000,000
c. Notes Receivable	1,908,915	1,926,002	30. Current Mat. L/T Debt Rur. Dev.	0	0
4. Non-Affiliates:			31. Current Mat. - Capital Leases	0	0
a. Telecom, Accounts Receivable	578,408	375,229	32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	640,406	1,017,698	33. Other Taxes Accrued	250,839	274,205
c. Notes Receivable	0	0	34. Other Current Liabilities	788,593	604,645
5. Interest and Dividends Receivable	1,719,835	216,237	35. Total Current Liabilities (25 - 34)	2,762,075	3,377,103
6. Material-Regulated	844,205	837,016	<b>LONG-TERM DEBT</b>		
7. Material-Nonregulated	0	0	36. Funded Debt-RUS Notes	0	0
8. Prepayments	380,495	380,568	37. Funded Debt-RTB Notes	0	0
9. Other Current Assets	590,006	0	38. Funded Debt-FFB Notes	0	0
10. Total Current Assets (1 Thru 9)	11,386,596	8,719,217	39. Funded Debt-Other	11,500,000	9,500,000
			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	0	0	44. Adv. From Affiliated Companies	0	0
b. Nonrural Development	0	0	45. Other Long-Term Debt	0	0
12. Other Investments			46. Total Long-Term Debt (36-45)	11,500,000	9,500,000
a. Rural Development	0	0	<b>OTHER LIAB. &amp; DEF. CREDITS</b>		
b. Nonrural Development	0	0	47. Other Long-Term Liabilities	(5,840,018)	0
13. Nonregulated Investments	27,137,642	60,364,334	48. Deferred Income Taxes	0	0
14. Other Noncurrent Assets	0	0	49. Other Deferred Credits	0	512,608
15. Deferred Charges	0	0	50. Other Jurisdictional Differences	0	0
16. Jurisdictional Differences	0	0	51. Total Other Liab. & Def. Credits (47 thru 50)	(5,840,018)	512,608
17. Total noncurrent Assets (11 thru 16)	27,137,642	60,364,334	<b>EQUITY</b>		
			52. Cap. Stock Outstanding & Subscribed	72,000	72,000
<b>PLANT, PROPERTY AND EQUIPMENT</b>			53. Additional Paid-in-Capital	0	0
18. Telecom Plant-in-Service	101,196,515	82,619,387	54. Treasury Stock	0	0
19. Property Held for Future Use	0	0	55. Membership and cap. Certificates	0	0
20. Plant Under Construction	123,144	72,351	56. Other Capital	105,648	56,682
21. Plant Adj., Nonop Plant & Goodwill	0	0	57. Patronage Capital Credits	0	0
22. Accumulated Depreciation (CR.)	(73,687,585)	(84,528,555)	58. Retained Earnings or Margins	57,556,407	53,728,341
23. Net Plant (18 thru 21 less 22)	27,632,074	(1,836,817)	59. Total Equity (51 thru 57)	57,734,055	53,857,023
24. TOTAL ASSETS (10+17+23)	66,156,112	67,246,734	60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	66,156,112	67,246,734

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 2017	Adj. Balance End of Year 2018	Average Adj End of Year Balance
<b>Average Rate Base:</b>					
1	Total Regulated Adjusted Telecom Plant-In-Service	18	101,196,515	82,619,387	91,907,951
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(73,687,585)	(84,528,555)	(79,108,070)
4	Total Regulated Materials & Supplies	6	844,205	837,016	840,611
5	Deferred Income Taxes (CR)*		(5,774,951)	(3,899,037)	(4,836,994)
6	<b>Total Regulated Rate Base</b>		<b>22,578,184</b>	<b>(4,971,189)</b>	<b>8,803,498</b>

Footnotes:

1. Normal balance of deferred income taxes and accumulated depreciation is a credit.
- \* 2. For "S Corp" companies, manual input required for Deferred Operating Income Taxes, Line 5.
3. Adjusted balance includes Part 64 adjustments

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 - 2017	Current Year End of Yr. Balance - 2018	Difference	% Change
Access Lines:					
1	Residential	6,128	1,182	(4,946)	-80.7%
2	Business	1,483	499	(984)	-66.4%
3	Total	7,611	1,681	(5,930)	-77.9%

Note: If 2017 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 2017 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2017 (C)
1	Local Network Services Revenues	2,162,168		2,162,168
2	Network Access Services Revenues	10,734,025		10,734,025
3	Long Distance Network Services Revenues			0
4	Carrier Billing and Collection Revenues	84,404	(80,599)	3,805
5	Miscellaneous Revenues	356,866	(7,506)	349,360
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	1,996		1,996
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>13,339,459</b>	<b>(88,105)</b>	<b>13,251,354</b>
8	Plant Specific Operations Expense	3,591,531	(285,498)	3,306,033
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	1,979,367	(107,652)	1,871,715
10	Depreciation Expense	3,299,778	(26,565)	3,273,213
11	Amortization Expense			0
12	Customer Operations Expense	1,265,323	(79,063)	1,186,260
13	Corporate Operations	2,840,281	(67,026)	2,773,255
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>12,976,280</b>	<b>(565,804)</b>	<b>12,410,476</b>
15	Operating Income or Margins (7 less 14)	363,179	477,699	840,878
16	Other Operating Income and Expenses ( )	22	-22	0
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)		0	0
19	Other Taxes	355,653	(47,476)	308,177
20	<b>Total Operating Taxes (17+18+19)</b>	<b>355,653</b>	<b>(47,476)</b>	<b>308,177</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>7,548</b>	<b>525,153</b>	<b>532,701</b>
22	Interest on Funded Debt	539,187	(295,774)	243,413
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (Record as a Credit)	(223,189)		(223,189)
26	<b>Total Fixed Charges (22+23+24+25)</b>	<b>315,998</b>	<b>(295,774)</b>	<b>20,224</b>
27	Nonoperating Net Income	2,911,991		2,911,991
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	(273,227)	(820,927)	(1,094,154)
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>2,330,314</b>	<b>0</b>	<b>2,330,314</b>
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	51,620,121		51,620,121
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)	2,707,200		2,707,200
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>51,243,235</b>	<b>0</b>	<b>51,243,235</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			0
45	Cash Ratio ((14+20-10-11)/7)	0.7521	6.6593	0.7128
46	Operating Accrual Ratio ((14+20+26)/7)	1.0231	10.3178	0.9613
47	TIER ((31+26)/26)	8.3745	1.0000	116.2252
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!	#DIV/0!

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9 Income Statement 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 2018 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2018 (C)
1	Local Network Services Revenues	575,060		575,060
2	Network Access Services Revenues	11,246,729		11,246,729
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	48,783	(45,582)	3,201
5	Miscellaneous Revenues	543,617	(4,967)	538,650
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(29,758)	11,781	(17,977)
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>12,384,431</b>	<b>(38,768)</b>	<b>12,345,663</b>
8	Plant Specific Operations Expense	3,777,977	(496,104)	3,281,873
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	2,207,199	(48,826)	2,158,373
10	Depreciation Expense	3,728,650	(187,304)	3,541,346
11	Amortization Expense	0		0
12	Customer Operations Expense	1,273,322	(535,417)	737,905
13	Corporate Operations	3,113,731	(857,401)	2,256,330
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>14,100,879</b>	<b>(2,125,052)</b>	<b>11,975,827</b>
15	Operating Income or Margins (7 less 14)	(1,716,448)	2,086,284	369,836
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)		0	0
19	Other Taxes	434,854	(82,043)	352,811
20	<b>Total Operating Taxes (17+18+19)</b>	<b>434,854</b>	<b>(82,043)</b>	<b>352,811</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>(2,151,302)</b>	<b>2,168,327</b>	<b>17,025</b>
22	Interest on Funded Debt	627,589	(342,052)	285,537
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (Record as a Credit)			0
26	<b>Total Fixed Charges (22+23+24+25)</b>	<b>627,589</b>	<b>(342,052)</b>	<b>285,537</b>
27	Nonoperating Net Income	3,327,489		3,327,489
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	<b>Nonregulated Net Income (B1)</b>	<b>1,934,724</b>	<b>(2,510,379)</b>	<b>(575,655)</b>
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>2,483,322</b>	<b>0</b>	<b>2,483,322</b>
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	51,243,235		51,243,235
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)	0		0
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>53,726,557</b>	<b>0</b>	<b>53,726,557</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	2,000,000		2,000,000
45	Cash Ratio ((14+20-10-11)/7)	0.8726	52.0994	0.7118
46	Operating Accrual Ratio ((14+20+26)/7)	1.2244	65.7539	1.0217
47	TIER ((31+26)/26)	4.9569	1.0000	9.6970
48	DSCR ((31+26+10+11)/44)	3.4198	#DIV/0!	3.1551

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9, Income Statement 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 2017	Adjusted Current Year 2018
1	Local Network Services Revenues	2,162,168	575,060
2	Network Access Services Revenues	10,734,025	11,246,729
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	3,805	3,201
5	Miscellaneous Revenues	349,360	538,650
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	1,996	(17,977)
7	<b>Net Operating Revenues (1 thru 6)</b>	<b>13,251,354</b>	<b>12,345,663</b>
8	Plant Specific Operations Expense	3,306,033	3,281,873
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	1,871,715	2,158,373
10	Depreciation Expense	3,273,213	3,541,346
11	Amortization Expense	0	0
12	Customer Operations Expense	1,186,260	737,905
13	Corporate Operations	2,773,255	2,256,330
14	<b>Total Operations Expenses (8 thru 13)</b>	<b>12,410,476</b>	<b>11,975,827</b>
15	Operating Income or Margins (7 less 14)	840,878	369,836
16	Other Operating Income and Expenses ( )	0	0
17	State and Local Taxes	0	0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	0	0
19	Other Taxes	308,177	352,811
20	<b>Total Operating Taxes (17+18+19)</b>	<b>308,177</b>	<b>352,811</b>
21	<b>Net Operating Income or Margins (15+16-20)</b>	<b>532,701</b>	<b>17,025</b>
22	Interest on Funded Debt	243,413	285,537
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	0	0
25	Allowance for Funds Used During Construction (Record as a Credit)	(223,189)	0
26	<b>Total Fixed Charges (22+23+24+25)</b>	<b>20,224</b>	<b>285,537</b>
27	Nonoperating Net Income	2,911,991	3,327,489
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	(1,094,154)	(575,655)
31	<b>Total Net Income or Margins (21+27+28+29+30-26)</b>	<b>2,330,314</b>	<b>2,483,322</b>
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	51,620,121	51,243,235
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	2,707,200	0
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>51,243,235</b>	<b>53,726,557</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	0	2,000,000
45	Cash Ratio ((14+20-10-11)/7)	0.7128	0.7118
46	Operating Accrual Ratio ((14+20+26)/7)	0.9613	1.0217
47	TIER ((31+26)/26)	116.2252	9.6970
48	DSCR ((31+26+10+11)/44)	#DIV/0!	3.1551

Footnote	2017	2018
(A1) S Corporation Effective Tax Rate (2 decimal places):	37.67%	27.90%

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 2017	Current Year 2018
1	End User Revenue (SLC, AFC, etc.)	5081	1,336,418	818,352
2	Switched Access (excluding USF):	5082		
2a	Intrastate		530,185	406,087
2b	Interstate (includes CAF)		914,444	1,465,791
3	Special Access:	5083		
3a	Intrastate			62,598
3b	Interstate		4,377,796	3,425,758
4	Federal USF (ICLS/HCL/SN)	Varies	2,683,646	1,789,839
5	Federal USF (ACAM or BLS)	Varies		2,296,879
6	State USF	Varies	891,536	981,425
7	Other*	Varies		
8	Total (must equal line 2 of Income Stmt.)		10,734,025	8,949,850
9	Line 2 of Income Stmt.		10,734,025	11,246,729
10	Difference		0	(2,296,879)

Footnote:

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

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

Company Name: (Below)

Whidbey Telephone Company

Description of Out-of-Period - 2018 (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	2018	
1	Page 9, Line 21 (CY)	Adjusted Net Operating Income	17,025	
2		Out-of-Period or Pro Forma Adjustments (Net of FIT)*		
3	Page 9, Line 26 (CY)	Total Fixed Charges	285,537	(A)
4	Sum	Adj. Taxable Operating Income (Line 1 + Line 2 - Line 3)	(268,512)	
5		Inputted S Corp. Tax Rate(B)	27.90%	
6	Calculated	inputted FIT (Line 4 * Line 5)	(74,915)	
7	Sum	Adj. Net Operating Income after FIT (Lines 1 + 2 - 6)	91,940	(B)
<b>NonOperating Income Inputted FIT Calculation</b>				
8	Page 9, Line 27 (CY)	Nonoperating net income	3,327,489	
9	Page 9, Line 30 (CY)	Nonregulated net income	(575,655)	
10	Sum	Sub-Total (Line 27+Line 30)	2,751,834	
11		Inputted S Corp. Tax Rate(B)	27.90%	
12	Calculated	FIT (Line 10 * Line 11)	767,762	
13	Sum	Nonop/Nonreg income after FIT (Line 10 - Line 12)	1,984,072	(C)
14	Sum	Adjusted Net Income w/inputted FIT	2,076,012	(B)+(C)**
<b>Sanity Check:</b>				
15	Page 9, Line 31 (CY)	Line 31 as reported	2,483,322	
16		Out-of-Period or Pro Forma Adjustments*	-	
17		Total	2,483,322	
18		Inverse of effective tax rate (100%-Line 10 percent)	72.10%	
19	Calculated	Adjusted Net Income (Line 17*Line 18)	1,790,475	(D)**
<b>Regulated Rate of Return</b>				
20	Page 5, Total (PY)	Regulated rate base Year End 2017	22,578,184	
21	Page 5, Total (CY)	Regulated rate base Year End 2018	(4,971,189)	
22	Sum	Total	17,606,995	
23	Calculated	Simple Avg.	8,803,498	(E)
24	Line 7 (above)	Adj Operating Income after inputted FIT	91,940	
27	Calculated	Regulated rate of return	1.0%	(B)/(E)

Footnotes:

- \* In addition to out-of-period or pro forma adjustments, if the company had any disallowed corporate operations expense, please record net of FIT on Line 2. (Line 16 will auto populate)
- \*\* The difference between Line 14 (B + C) and Line 19 (D) should be Total Fixed Charges (Line 3) Fixed charges are deductible for calculating FIT, but is not included in net operating income used to calculate the ROR. Net operating income mirrors Line 21 of the Income statement

**EXHIBIT 4.1**

State USF Petition Filing Requirement - WAC 480-123-110(e)  
 Prior and Current Year Broadband and Gross Capital Expenditures

Exhibit 4.1 - Statistics

Company Name: (Below)  
 Whidbey Telephone Company

Description	Prior Year End of Yr. Balance - 2017	Current Year End of Yr. Balance - 2018	Difference	% Change
<b>Broadband Connections:</b>				
Residential				
Business				
<b>Total</b>				
<b>Gross Regulated Capital Expenditures**:</b>	2017	2018	Difference	% Change
<b>Total Annual Amount</b>				

NOTE: IF THE COMPANY DESIRES TO FILE THIS SCHEDULE AS CONFIDENTIAL, PLEASE MARK AS CONFIDENTIAL PER 480-07-160. (The header and footer is no longer marked as confidential as some companies do not file this report as confidential).

\*\* - NOTE: THIS IS A CHANGE FROM LAST YEAR IN WHICH NONREGULATED CAPITAL EXPENDITURES WERE INCLUDED DUE TO INCONSISTENCIES IN REPORTING, STAFF IS REQUESTING ONLY REGULATED CAPITAL EXPENDITURES. IF THE COMPANY HAS INCURRED LARGE NONREGULATED CAPITAL EXPENDITURES IN THE REPORTING YEAR, IT MAY NOTE BELOW.

PETITION OF WHIDBEY TELEPHONE COMPANY TO  
 RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
 COMMUNICATIONS SERVICES PROGRAM-  
 EXHIBIT 4.1

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**EXHIBIT 5**

Shaded Information is Designated as  
Confidential per WAC 480-07-160

**WHIDBEY TELEPHONE COMPANY  
AND SUBSIDIARIES**

Audited Consolidated Financial Statements

December 31, 2018 and 2017

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

Audited Consolidated Financial Statements

December 31, 2018 and 2017

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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, 2018 and 2017, 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***

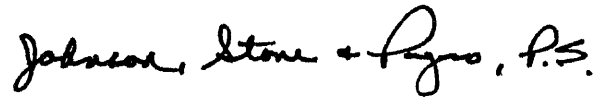
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable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

***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, 2018 and 2017, 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.



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JOHNSON, STONE & PAGANO, P.S.

April 11, 2019

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS

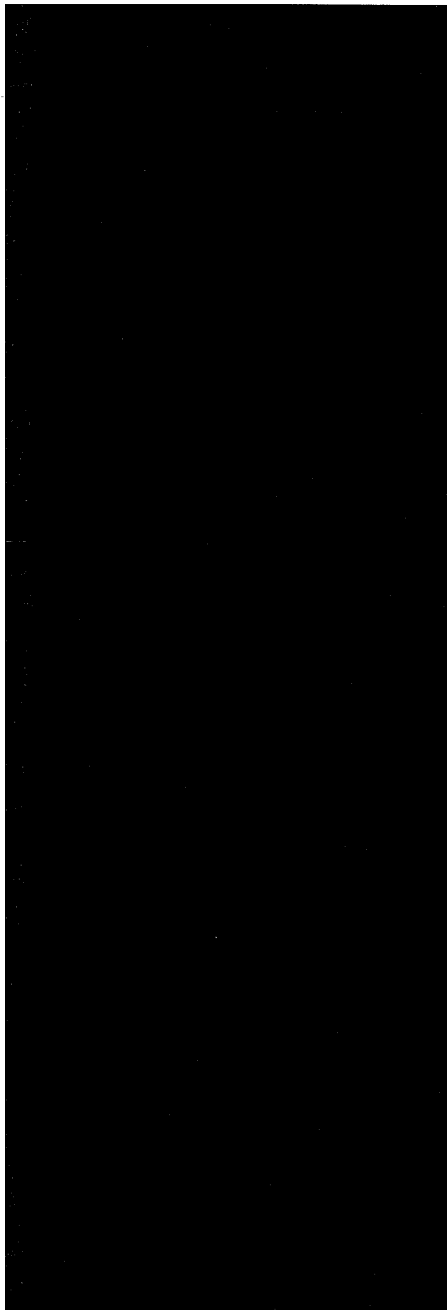
**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents		
Restricted cash		
Accounts receivable		
Trade		
Other		
Materials and supplies		
Prepayments and deposits		
<b>Total Current Assets</b>		
<b>OTHER ASSETS</b>		
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>		

PETITION OF WHIDBEY TELEPHONE COMPANY TO  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 5, PAGE - 6



**REDACTED**

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

Shaded Information is Designated as  
Confidential per WAC 480-07-160

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS (Continued)**

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<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>		

PETITION OF WHIDBEY TELEPHONE COMPANY TO  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM –  
EXHIBIT 5, PAGE - 7

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**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>		
Local network service revenues		
Network access service revenues		
Long distance network service revenues		
Other operating revenues		
Uncollectible revenues		
<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>NET INCOME</b>		
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Unrealized gain (loss) on investments		
<b>COMPREHENSIVE INCOME</b>		

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**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

Years Ended December 31, 2018 and 2017

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
<b>BALANCE AT DECEMBER 31, 2016</b>				
Distributions to stockholders				
Net income for the year				
Other comprehensive income				
<b>BALANCE AT DECEMBER 31, 2017</b>				
Net income for the year				
Other comprehensive loss				
<b>BALANCE AT DECEMBER 31, 2018</b>				

PETITION OF WHIDBEY TELEPHONE COMPANY TO  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 5, PAGE - 9

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**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended December 31, 2018 and 2017

	2018	2017
<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>		
Additions to property, plant and equipment		
Salvage on retired property, plant and equipment		
Partnership capital distribution		
Proceeds from sale of assets		
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 Provided (Used) by Financing Activities</b>		
<b>NET 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>		
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
Cash and cash equivalents		
Restricted cash		

PETITION OF WHIDBEY TELEPHONE COMPANY TO  
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COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 5, PAGE - 10

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**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

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

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Net income		
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization		
Partnership distribution included in net income and not included in operating activities		
Gain on sale of assets		
Realized gain on sale of investments		
Noncash operating income		
Noncash operating expense		
(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>		

PETITION OF WHIDBEY TELEPHONE COMPANY TO  
RECEIVE SUPPORT FROM THE STATE UNIVERSAL  
COMMUNICATIONS SERVICES PROGRAM -  
EXHIBIT 5, PAGE - 11

**REDACTED**

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

## WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

#### 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, the "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. In 2015, FiberCloud sold its assets and discontinued operations. 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 financial instruments to be cash equivalents and in restricted cash.

## WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

#### 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 was required to segregate cash as a guarantee for the amount of financing that exceeds the cash surrender value of these policies. During 2018, the Company paid to Wells Fargo the restricted cash and added the balance to the notes receivable - stockholders (see Note 4).

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

Materials and supplies are stated at average cost or net realizable value.

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

Investments in marketable equity securities and mutual funds are stated at fair value; other investments are carried at cost as fair value is not readily determinable (see Note 4).

##### ***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 and investments carried at cost 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 in the amount by which the carrying amount of the asset exceeds the fair value of the asset. At December 31, 2018, 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.

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

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

***Construction-period Interest***

Interest applicable to funds used for long-term construction projects is capitalized as part of the cost of the asset and depreciated over the asset's estimated useful life. There was not any interest capitalized in 2018. Interest capitalized totaled [REDACTED] in 2017.

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

Services provided by the Company and Subsidiaries include primarily local network, long distance network, network access services and broadband services, as well as other services. In the normal course of the Company's business, 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 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 an end user of telecommunication services.

Revenues for certain interstate access services are currently received through tariffed access charges filed by the National Exchange Carrier Association ("NECA") with the FCC on behalf of the NECA member companies. These access charges are currently billed by the Company to interstate interexchange carriers and pooled with like-revenues from all NECA member companies. The pooled access charge revenues received by the Company are currently based upon the actual cost of providing interstate access services, plus a return on the investment dedicated to providing these services. Pooled access charge revenues are estimated at December 31 each year and are subject to adjustment. Such adjustments are normal occurrences and are recorded by the Company during the year in which they occur.

The FCC 11-161 modified and replaced the existing universal system 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 set 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.

## WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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

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

In September 2016, the FCC implemented a budget control mechanism ("BCM") for rate-of-return telecommunication carriers designed to ensure that federal support disbursements remain within the specified budget of \$2 billion. This BCM further reduces HCLS and Connect American Fund Broadband Loop Support ("CAF BLS") funding for the Company by approximately \$286,000 in 2017, of which approximately \$263,408 was refunded in 2018.

Per the FCC Order 18-29, the BCM was refunded for the period of July 2017 to June 2018, and later per FCC Order 18-176, additional BCM amounts are to be refunded for the period of July to December 2018, and the BCM is to be eliminated for the period of January to June 2019. The BCM has been restructured and simplified by the FCC and will be reinstated in July 2019.

As part of FCC 16-33 Universal Service Reform ("USF") order, rate-of-return telecommunication carriers were 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 February 1, 2017. The Company remains with the legacy support option.

The established rate of return of 11.25% used for interstate pooled settlements and other interstate revenue requirements is 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 2018 and 2017, the rate of return was reduced to 10.50% and 10.75%, respectively.

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,

## WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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

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

assuming the Company continues to be eligible under the program. The State USF Program year runs from July 1 to June 30. In 2018, the Company received \$1,025,217 from the State USF Program for the period July 1, 2018 to June 30, 2019, and recorded deferred revenue of \$512,609 for the unearned portion. In 2017, the Company received \$937,632 from the State USF Program for the period July 1, 2017 to June 30, 2018, and recorded deferred revenue of \$468,816 for the unearned portion. The State USF Program is scheduled to last for five program years and will expire June 30, 2019 unless extended by the state.

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.

##### *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.

##### *Subsequent Events*

The management of the Company evaluated for subsequent events and transactions for potential recognition and disclosure through April 11, 2019, the date the financial statements were available to be issued.

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**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, 2018, 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, 2018 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, 2018 and 2017 consist of:

	<u>2018</u>	<u>2017</u>
Accounts receivable - subscribers	[REDACTED]	
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, 2018, approximately [REDACTED] of accounts receivable were outstanding ninety days or more after the date of the invoice on which they were first billed.

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**NOTE 4 - INVESTMENTS**

Investments consist of:

	<u>2018</u>	<u>2017</u>
Investments at fair value		
Verizon Communications, Inc.		
Sun Life Financial Services of Canada, Inc.		
Frontier Communications		
Mutual funds held at Edward Jones		
Investments at cost		
Note receivable - Green Tea Northwest, LLC		
Notes receivable - stockholders		
Land held for investment		
Artifact Technologies, Inc.		
CoBank, Cooperative Capital Certificate		
Associated Network Partners, Inc.		
Western Independent Networks		

During 2018, the Company sold its investment in Verizon Communications, Inc. for [REDACTED] and realized a gain of [REDACTED].

During 2018, the Company transferred its investment in Sun Life Financial Services of Canada, Inc. to its account held at Edward Jones.

During 2010, Green Tea Northwest, LLC renewed a note in the amount of [REDACTED] from WaterCrest, Inc. secured by real property. During 2018 and 2017, accrued interest on the note in the amount of [REDACTED] and [REDACTED], respectively, was added to the note with total accrued interest on the note of [REDACTED] and [REDACTED] at 2018 and 2017, respectively, for a total of [REDACTED] and [REDACTED] at December 31, 2018 and 2017, respectively. This borrowing is evidenced by a promissory note and is subject to the terms stated therein. The note bears interest at [REDACTED] per annum, due November 3, 2020, 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, which are renewed annually, and individually totaled [REDACTED] in 2018 and [REDACTED] in 2017. These notes total [REDACTED] for 2018 and [REDACTED] for 2017. 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. Accrued interest through December 31, 2018 and 2017 on such notes was [REDACTED] and [REDACTED] each, respectively, and will be added to the balances per the terms of the notes.



**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**NOTE 4 - INVESTMENTS (Continued)**

The Company also has a note receivable from three trusts of whom the trustees are stockholders, for [REDACTED] and [REDACTED] at December 31, 2018 and 2017, respectively. The notes are evidenced by a promissory note and are subject to the terms stated therein. The notes bear interest at the AFR in effect at the time advances were made on the note, and are unsecured. The interest ranges from [REDACTED] to [REDACTED] per annum. Accrued interest through December 31, 2018 and 2017 on such notes was [REDACTED] and [REDACTED], respectively, and will be added to the balances per the terms of the notes.

The Company also has notes receivable from three trusts, in equal amounts, of whom the trustees are stockholders, for [REDACTED] and [REDACTED] each at December 31, 2018 and 2017, respectively. These notes total [REDACTED] and [REDACTED] for 2018 and 2017. The notes are evidenced by promissory notes and are subject to the terms stated therein. The notes bear interest at the APR in effect at the time advances were made on the note, and are unsecured. The interest ranges from [REDACTED] to [REDACTED] per annum. Accrued interest through December 31, 2018 and 2017 on such notes was [REDACTED] and [REDACTED], respectively, and will be added to the balances per the terms of the notes.

The Company has [REDACTED] shares 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, 2018 and 2017 are as follows:

	Fair Value Measurements		
	Quoted Prices in Active Markets For Identical Assets Fair Value (Level 1)	Significant Other Observable Inputs (Level 2)	Other Subjective Inputs (Level 3)
<u>December 31, 2018</u>			
Frontier Communications Growth and Income mutual funds held at Edward Jones			
<u>December 31, 2017</u>			
Verizon Communications, Inc. Sun Life Financial Services of Canada, Inc. Frontier Communications Growth and Income mutual funds held at Edward Jones			

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**NOTE 4 - INVESTMENTS (Continued)**

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 (the "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 [REDACTED] 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, 2018 and 2017 was [REDACTED] and [REDACTED], respectively. During the years ended December 31, 2018 and 2017, the Company received partnership distributions of [REDACTED] and [REDACTED], respectively, which are included in other income for 2018 and 2017 in the consolidated statements of income.

**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, 2018 and 2017 are:

	<u>2018</u>	<u>2017</u>
General support facilities	[REDACTED]	
Central office equipment		
Cable and wire facilities		

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**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>2018</u>	<u>2017</u>
Regulated telecommunications plant		
Nonregulated plant		

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

Notes payable and long-term debt at December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Promissory note with CoBank, that calls for monthly interest payments with variable interest (  and  at December 31, 2018 and 2017). Due August 2021, secured by plant and equipment.		

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

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

	<u>2018</u>	<u>2017</u>
Promissory notes with CoBank, that call for monthly payments of interest at LIBOR, plus [REDACTED] ( [REDACTED] and [REDACTED] at December 31, 2018 and 2017). Principal is due in twenty equal, consecutive, quarterly installments of [REDACTED] 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, secured by plant and equipment.		
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:

2019	[REDACTED]
2020	[REDACTED]
2021	[REDACTED]
2022	[REDACTED]
2023	[REDACTED]

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, 2018.

The Company has available [REDACTED] for future borrowings from CoBank for telephone plant expenditures.

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**NOTE 7 - CAPITAL STOCK**

The authorized, issued and outstanding shares for the years ended December 31, 2018 and 2017 are as follows:

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

**NOTE 8 - LEASES AND SERVICE AGREEMENTS**

FiberCloud had assumed a lease for office space in Seattle, Washington. The terms of the agreement were for seven years. As defined in the agreement, base rents 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. Total lease expense for 2017 was [REDACTED]. The terms of the agreement expired on April 30, 2017 and the lease was not renewed.

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 2025. Expense under these agreements for 2018 and 2017 was [REDACTED] and [REDACTED], respectively.

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:

2019	
2020	
2021	
2022	
2023	

**NOTE 9 - LEASE INCOME**

The Company leases dark fiber, tower space and office space to others. The leases have various termination dates through 2023. Rental income under these agreements for 2018 and 2017 was [REDACTED] and [REDACTED], respectively.

**WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**NOTE 9 - LEASE INCOME (Continued)**

Future minimum amounts to be received are as follows:

2019  
2020  
2021  
2022  
2023



**NOTE 10 - 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 [REDACTED] of the first [REDACTED] of the participant's 401(k) elective deferral contributions, plus [REDACTED] of the participant's 401(k) elective deferral contributions between [REDACTED] and [REDACTED]. At the discretion of the Company, the 401(k) plan also provides for an additional match up to [REDACTED] 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 [REDACTED] for 2018 and [REDACTED] for 2017. During 2018 and 2017, 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 11 - OTHER RELATED PARTY TRANSACTIONS**

Other accounts receivable include 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. 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. 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 on a month-to-month basis. The amount of rent for 2018 and 2017 was [REDACTED] and [REDACTED], respectively.

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**EXHIBIT 6**

(3005b) Operating Report for Privately-Held Rate of Return Carriers

Balance Sheet - Data Collection Form

FCC Form 481

OMB Control No. 3060-0986

July 2013

<010> Study Area Code  
 <015> Study Area Name  
 <020> Program Year  
 <030> Contact Name - Person USAC should contact regarding this data  
 <035> Contact Telephone Number - Number of person identified in data line <030>  
 <039> Contact Telephone Email Address - Email Address of person identified in data line <030>

<010> 522452  
 <015> Whidbey Telephone Company  
 <020> 2020  
 <030> Gary Ricketts  
 <035> 360-321-0051  
 <039> gary.ricketts@whidbeytel.com

PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS		
ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	2162168	575060
2. Network Access Services Revenues	10734025	11246729
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues	84404	48783
5. Miscellaneous Revenues	358866	543617
6. Uncollectible Revenues	-1996	17978
7. Net Operating Revenues (1 thru 5 less 6)	13339459	12396211
8. Plant Specific Operations Expense	3591531	3777977
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	1979867	2207499
10. Depreciation Expense	3299778	5728650
11. Amortization Expense		
12. Customer Operations Expense	1265323	1273322
13. Corporate Operations Expense	2840281	3113731
14. Total Operating Expenses (8 thru 13)	12976280	14100879
15. Operating Income or Margins (7 less 14)	363179	-1704668
16. Other Operating Income and Expenses	22	8
17. State and Local Taxes		
18. Federal Income Taxes		
19. Other Taxes	355653	434854
20. Total Operating Taxes (17+18+19)	355653	434854
21. Net Operating Income or Margins (15+16-20)	7548	-2139514
22. Interest on Funded Debt	539187	627589
23. Interest Expense - Capital Leases		
24. Other Interest Expense		
25. Allowance for Funds Used During Construction	223189	0
26. Total Fixed Charges (22+23+24-25)	315998	627589
27. Nonoperating Net Income	2911991	3315701
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	273227	1934724
31. Total Net Income or margins (21+27+28+29+30-26)	2330314	2483322
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	51620121	51243235
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)	2707200	0
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)]	51243235	53726557
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	0
44. Annual Debt Service Payments		
45. Cash Ratio [(14+20-10-11)/7]	0.75	0.87
46. Operating Accrual Ratio [(14+20+26)/7]	1.02	1.22
47. TIER [(31+26)/26]	8.37	4.96
48. DSCR [(31+26+10+11)/44]	0.00	0.00



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**EXHIBIT 7**

**Exhibit 7**  
**Report Corporate Operations Expense Adjustment**  
**As Required in WAC 480-123-110(1)(e)(vi)**

The following amounts of corporate operations expense were required by 47 C.F.R. § 54.1308(a)(4)(ii) to be excluded by Whidbey Telephone Company (“Company”) from corporate operations expense that, for 2017, was input in both the Federal high cost loop support and interstate common line support cost studies of the Company for the Company’s study area(s) in the State of Washington, or that, for 2018, was input in both the high cost loop support and broadband loop support (in part, replacing interstate common line support) cost studies of the Company for the Company’s study area(s) in the State of Washington: for 2017, \$724,350; for 2018, \$246,808.

Dated this **1st day** of **August**, 2019



**Secretary & Treasurer**

**Notes:**

1. Report corporate operations expense excluded or disallowed pursuant to application of 47 C.F.R. § 54.1308(a)(4)(ii), NOT the revenue impact of such exclusion or disallowance.
2. The disallowed corporate operations expense amounts will only be considered by Staff if the Company is potentially overearning. These amounts WILL NOT be reported on the income statement template.

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**EXHIBIT 8**

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

I, Gary Ricketts, 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 1st day of August, 2019.



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Gary Ricketts  
Secretary & Treasurer

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**EXHIBIT 9**

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Gary Ricketts, 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 2020.

Dated this 1st day of August, 2019.



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Gary Ricketts  
Secretary & Treasurer