

The sum of the above-identified rates (\$24.50) is not more than the voice service comparability benchmark identified in the Public Notice (\$41.07).

**FCC FORM 481 (July 2016), Line 1010**  
**Descriptive Document for Compliance of Pricing of**  
**Fixed Voice Services with Required Relationship**  
**To Applicable National Average Urban Rate for Voice**  
**Service Benchmark, as required by 47 C.F.R. § 54.313(a)(10)**  
**Per Instructions for Completing FCC Form 481**

Section 54.313(a)(10) of the rules of the Federal Communications Commission (“FCC”) requires any recipient of high-cost support, such as Whidbey Telephone Company (“Company”), annually to certify that the pricing of the Company’s voice services is no more than two standard deviations above the applicable national average urban rate for voice service, as specified in the most recent public notice issued by the Wireline Competition Bureau and Wireless Telecommunications Bureau.

The most recent such notice issued by the Wireline Competition Bureau is Public Notice DA 16-362, released April 5, 2016, in WC Docket No. 10-90 (“Public Notice”). That public notice includes the following statements, “Based on the survey results, the 2016 rate floor for voice services is \$21.93, [footnote omitted] and the reasonable comparability benchmark for voice services is \$41.07. [footnote omitted] . . . . In addition, each ETC, including competitive ETCs providing fixed voice services, [footnote omitted] must certify in the FCC Form 481 filed no later than July 1, 2016, that the pricing for its *basic residential voice* services is no more than \$41.07. [footnote omitted]” [Italics added.]

It is the Company’s understanding that the above-mentioned comparability benchmark includes the recurring residential service rate, any applicable State subscriber line charge rate, any applicable State universal service fund rate, any applicable minimum mandatory Extended Area Service rate, and any applicable Federal subscriber line charge rate.<sup>1</sup>

Those components for the Company’s basic residential voice telephony service as of June 1, 2016, are as follows:

Recurring residential service rate	\$ 18.00
State subscriber line charge rate	0.00
State universal service fund rate	0.00
Minimum mandatory EAS rate	0.00
Federal subscriber line charge	<u>6.50</u>
Total	\$ 24.50

<sup>1</sup> See Note 5 on the “Data Dictionary” tab of 2016 Results [2016 URS Voice Data.xlsx] located from the FCC webpage having the following URL:

**FCC FORM 481 (July 2016), Line 1030  
 Descriptive Document for Compliance of Pricing of  
 Broadband Services with Required Relationship  
 To Applicable National Average Urban Rate for Broadband  
 Service Benchmark, as required by 47 C.F.R. § 54.313(a)(12)  
 Per Instructions for Completing FCC Form 481**

Section 54.313(a)(12) of the rules of the Federal Communications Commission (“FCC”) requires any recipient of high-cost support, such as Whidbey Telephone Company (“Company”), annually to certify that the pricing of a service that meets the Commission’s broadband public interest obligations is no more than the applicable benchmark to be announced annually in a public notice issued by the Wireline Competition Bureau, or is no more than the non-promotional price charged for a comparable fixed wireline service in urban areas in the states or U.S. Territories where the eligible telecommunications carrier receives support.

The most recent such notice issued by the Wireline Competition Bureau is Public Notice DA 16-362, released April 5, 2016, in WC Docket No. 10-90 (“Public Notice”). That public notice includes the following: “Under the approach adopted by the Bureau in 2014, the reasonable comparability broadband benchmark varies, depending upon the supported service’s download and upload bandwidths and usage allowance. [footnote omitted]”

The Public Notice includes a table showing the “benchmark” rate for certain broadband service offerings and provides a URL link to an FCC webpage at which a tool to calculate “benchmarks” for other broadband service offerings may be found. The following table summarizes the broadband service plans offered to consumers by the Company and the associated “benchmark,” as determined from the Public Notice or the “tool” to which it refers:

Download Speed (Mbps) (up to)	Upload Speed (Mbps) (up to)	Usage Allowance (GB)	Benchmark	Company Pricing
10	3	Unlimited	\$75.43	\$39.95
20	3	Unlimited	\$83.19	\$49.95
30	3	Unlimited	Not Available	\$59.95
30	10	Unlimited	Not Available	\$69.95
50	10	Unlimited	Not Available	\$79.95
50	20	Unlimited	Not Available	\$89.95

As shown in the above table, each of the two broadband service plans offered to consumers by the Company, for which “benchmark” rates are available, is offered at a price that is below the applicable “benchmark.”



Local Telephone Services – Internet & Broadband – Long Distance  
Security & Alarms – Data Center Services

June 27, 2016

Ms. Marlene H. Dortch, Secretary  
Federal Communication Commission  
Office of the Secretary  
455 12<sup>th</sup> Street, SW  
Washington, DC 20554

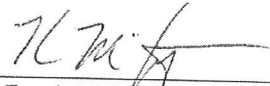
RE: WC Docket No. 14-58 –  
Annual Report Due July 1, 2016, FCC Form 481 for  
Rate of Return Carriers Receiving High-Cost Support –  
47 C.F.R. § 54.313(f)(1) “Milestone Certification”

Dear Ms. Dortch:

In compliance with the filing requirements associated with FCC Form 481 due July 1, 2016, and in compliance with Section 53.313(f)(1) of the Commission’s rules, Whidbey Telephone Company (Study Area 522452) hereby certifies that it is taking reasonable steps to provide upon reasonable request broadband service at actual speeds of at least 4 Mbps downstream/1 Mbps upstream, with latency suitable for real-time applications, including Voice over Internet Protocol, and usage capacity that is reasonably comparable to comparable offerings in urban areas as determined in an annual survey, and that requests for such service are met within a reasonable amount of time.

Sincerely,

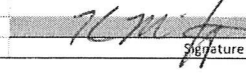
WHIDBEY TELEPHONE COMPANY

By   
Frank McIntyre  
Secretary/Treasurer

(3005a) Operating Report for Privately-Held Rate of Return Carriers Balance Sheet - Data Collection Form Page 1 of 3		FCC Form 481 OMB Control No. 3060-0986 July 2013
<010> Study Area Code		<010> 522452
<015> Study Area Name		<015> Whidbey Telephone Company
<020> Program Year		<020> 2017
<030> Contact Name - Person USAC should contact regarding this data		<030> Trish Mason
<035> Contact Telephone Number - Number of person identified in data line <030>		<035> 3603210013
<039> Contact Telephone Email Address - Email Address of person identified in data line <030>		<039> trish.mason@whidbeytel.com
<input type="checkbox"/> Files as reviewed single company		<input checked="" type="checkbox"/> Filed as audited single company
<input type="checkbox"/> Filed as reviewed consolidated company		<input type="checkbox"/> Filed as audited consolidated company
<input type="checkbox"/> Filed as subsidiary of reviewed consolidated company		<input type="checkbox"/> Filed as subsidiary of audited consolidated company

**CERTIFICATION**

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.


Date: 7/22/16

**PART A. BALANCE SHEET**

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

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**JULY 1, 2016  
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<010> Study Area Code	<010>	522452
<015> Study Area Name	<015>	Whidbey Telephone Company
<020> Program Year	<020>	2017
<030> Contact Name - Person USAC should contact regarding this data	<030>	Trish Mason
<035> Contact Telephone Number - Number of person identified in data line <030>	<035>	3603210013
<039> Contact Telephone Email Address - Email Address of person identified in data line <030>	<039>	trish.mason@whidbeytel.com

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

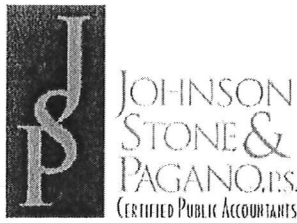
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<010> 522452  
 <015> Whidbey Telephone Company  
 <020> 2017  
 <030> Trish Mason  
 <035> 3603210013  
 <039> trish.mason@whidbeytel.com

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



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April 27, 2016

To the Board of Directors and Management of  
Whidbey Telephone Company and Subsidiaries  
Langley, Washington

To Management and the Board of Directors:

We have audited the consolidated financial statements of Whidbey Telephone Company and Subsidiaries (the "Company") as of December 31, 2015, and have issued our report thereon dated April 27, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 1, 2015. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Whidbey Telephone Company and Subsidiaries are described in Note 1 to the consolidated financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2015. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period. During 2015, the Company's wholly owned subsidiary FiberCloud, Inc. ("FiberCloud") sold all of its equipment, customer contracts, customer lists, marketing information, trademarks and trade names to an unrelated company, which resulted in a material loss. The loss is separately identified in the Company's 2015 Statement of Operations and Comprehensive Income under the caption Loss from Discontinued Operations. A description of the transaction is included in Note 8 to the Company's consolidated financial statements. The Consolidated Statements of Operations and Comprehensive Income report the results of FiberCloud's operations as discontinued operations for all periods presented. The assets and liabilities of discontinued operations are also presented separately on the Consolidated Balance Sheets for all periods presented.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting these consolidated financial statements include management's

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estimate of the useful lives of property, plant and equipment, recoverability of long-term assets, fair value of financial instruments and investments, collectability of related party receivables and interstate revenue requirements all of which are based on prior experience with similar assets, liabilities and interstate filing requirements. Also included is management's estimate of the future maturities of long-term debt which are based on minimum required payments at current levels of debt.

We evaluated these estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

Certain consolidated financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the consolidated financial statements were regarding investments (Note 4), property, plant and equipment (Note 5), notes payable and long-term debt (Note 6), discontinued operations (Note 8), leases and service agreements (Note 9) and various related party transactions (Notes 4 and 11).

The consolidated financial statement disclosures are neutral, consistent and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the consolidated financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the consolidated financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 27, 2016.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's consolidated financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors.

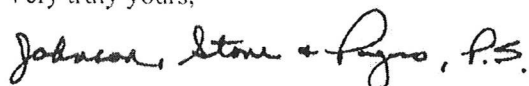
However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*Other Matters*

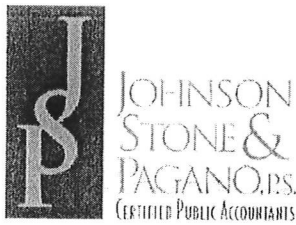
With respect to the supplementary information accompanying the consolidated financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

This information is intended solely for the use of Management and the Board of Directors of Whidbey Telephone Company and Subsidiaries and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



JOHNSON, STONE & PAGANO, P.S.



1501 Regents Blvd., Suite 100  
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(253)566-7070  
fax (253)566-7100

Independent Auditor's Report

To the Board of Directors  
Whidbey Telephone Company  
Langley, Washington

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Whidbey Telephone Company and Subsidiaries which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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

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

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

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To the Board of Directors  
Whidbey Telephone Company

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*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, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

JOHNSON, STONE & PAGANO, P.S.

April 27, 2016

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**JULY 1, 2016  
REDACTED**