

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

IN RE

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

DOCKET NO.

PETITION TO RECEIVE SUPPORT

COMES NOW Whidbey Telephone Company (the "Company") and, pursuant to Chapter 480-123 of the Washington Administrative Code ("WAC"), including, but not limited to, WAC 480-123-110, hereby petitions the Washington Utilities and Transportation Commission (the "Commission") to receive support from the state Universal Communications Services Program established by RCW 80.36.650 (the "Program") for the Program year 2015.

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

1. WAC 480-123-100(1)(a): The Company is a local exchange company as defined in WAC 480-120-021 that serves less than forty thousand access lines within the state.
2. WAC 480-123-100(1)(b): The Company is an incumbent local exchange carrier as defined in 47 U.S.C. Sec. 251(h) or has been designated as an incumbent local exchange carrier by

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

CONFIDENTIAL PER WAC 480-07-160
REDACTED

1 the Federal Communications Commission.

2 3. WAC 480-123-100(1)(c): The Company offers basic residential and business exchange
3 telecommunications services as set forth in WAC 480-120-021 and RCW 80.36.630.

4 4. WAC 480-123-100(1)(d): The Company's rates for residential local exchange service, plus
5 mandatory extended area service charges, are no lower than the local urban rate floor
6 established by the Commission as the benchmark rate based on the Federal Communications
7 Commission's national local urban rate floor pursuant to 47 C.F. R. Sec. 54.318 in effect on
8 the date of this Petition.

9 5. WAC 480-123-100(1)(e): The Company has been designated by the Commission as an
10 eligible telecommunications carrier for purposes of receiving federal universal service
11 support pursuant to 47 C.F.R. Part 54 Subpart D - Universal Service Support for High Cost
12 Areas with respect to the service areas for which the Company is seeking Program support.

13 **II. Demonstration of Eligibility under WAC 480-123-110**

14 1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications
15 services and is seeking Program support is as follows: Whidbey Telephone Company

16 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between
17 the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.¹
18 A detailed description of any transactions between the Company and the affiliates named in
19 Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.²

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21
22 ¹ Pursuant to agreement with the Commission Staff, Exhibit 1 is limited to those affiliates having
23 transactions with the Company that are to be identified in Exhibit 2.

24 ² Exhibit 2 also includes transactions between the Company and Hat Island Telephone Company.
25 Pursuant to agreement with the Commission Staff, Exhibit 2 is limited to transactions other than
employment compensation and benefits pursuant to employee benefit plans.

3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No. 300 and 301 in Schedule 42 of the Company's Tariff WN U-5.
4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate instability or service interruption or cessation in the absence of support from the Program is attached as Exhibit 3.
5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4, are copies of the Company's balance sheet as of December 31, 2013, and December 31, 2012, and copies of the Company's statements of income and retained earnings or margin for the years ended December 31, 2013, and December 31, 2012.
6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial statements for the years ended December 31, 2013, and December 31, 2012, is attached as Exhibit 5.
7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of return on a total Washington unseparated regulated operations basis for each of the two prior years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on equity on a total company (regulated and non-regulated) Washington basis for each of the two prior years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the statements of income and retained earnings or margin section of RUS Form 479 for the prior two years is attached as Exhibit 6.

[continued on page 4]

- 1 10. WAC 480-123-110(1)(e)(vi): Information detailing the amounts of any corporate operations
2 adjustment to existing high-cost loop and interstate common line support mechanisms
3 required of the Company by the Federal Communications Commission for the past two
4 years is attached as Exhibit 7.
- 5 11. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains additional supporting information
6 requested by the Commission.
- 7 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company
8 officer with personal knowledge and responsibility certifying that the Company complies
9 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to
10 incumbent local exchange companies is attached as Exhibit 8.
- 11 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or
12 on its behalf with the Federal Communications Commission for the calendar year preceding
13 the current year has already been filed with the Commission. See the Company's filing in
14 Docket No. UT-143013 filed on or about July 1, 2014.
- 15 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by
16 the Company as of December 31, 2013, was 8,406, all of which were within the geographic
17 area for which the Company is seeking support. The number of residential local exchange
18 access lines served by the Company as of December 31, 2012, was 8,703, all of which were
19 within the geographic area for which the Company is seeking support. The number of
20 business local exchange access lines served by the Company as of December 31, 2013, was
21 1,953, all of which were within the geographic area for which the Company is seeking
22 support. The number of business local exchange access lines served by the Company as of
23 December 31, 2012, was 2,059 all of which were within the geographic area for which the
24 Company is seeking support. The monthly recurring rate charged by the Company for
25 residential local exchange access service on December 31, 2013, was \$14.00. The monthly

1 recurring rate charged by the Company for residential local exchange access service on
2 December 31, 2012, was \$9.40. The monthly recurring rate charged by the Company for
3 single line business local exchange access service on December 31, 2013, was \$16.50. The
4 monthly recurring rate charged by the Company for single line business local exchange
5 access service on December 31, 2012, was \$16.50. The Company has other business local
6 exchange service rates, but the Company understands that WAC 480-123-110(1)(g) is
7 requesting the single line business local exchange access service rate. WAC 480-123-
8 110(1)(h): The requested statement is attached as Exhibit 9.

9 15. All exhibits attached hereto are incorporated into this Petition as though fully set forth.

10 Respectfully submitted this 1st day of August, 2014.

11
12 WHIDBEY TELEPHONE COMPANY

13
14 By 
15 Bruce Russell, Chief Operating Officer

16 CERTIFICATION

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

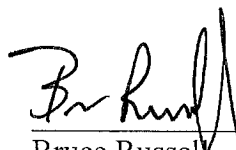
22
23 
24 Bruce Russell
25 Chief Operating Officer

EXHIBIT 1
CORPORATE ORGANIZATION CHART

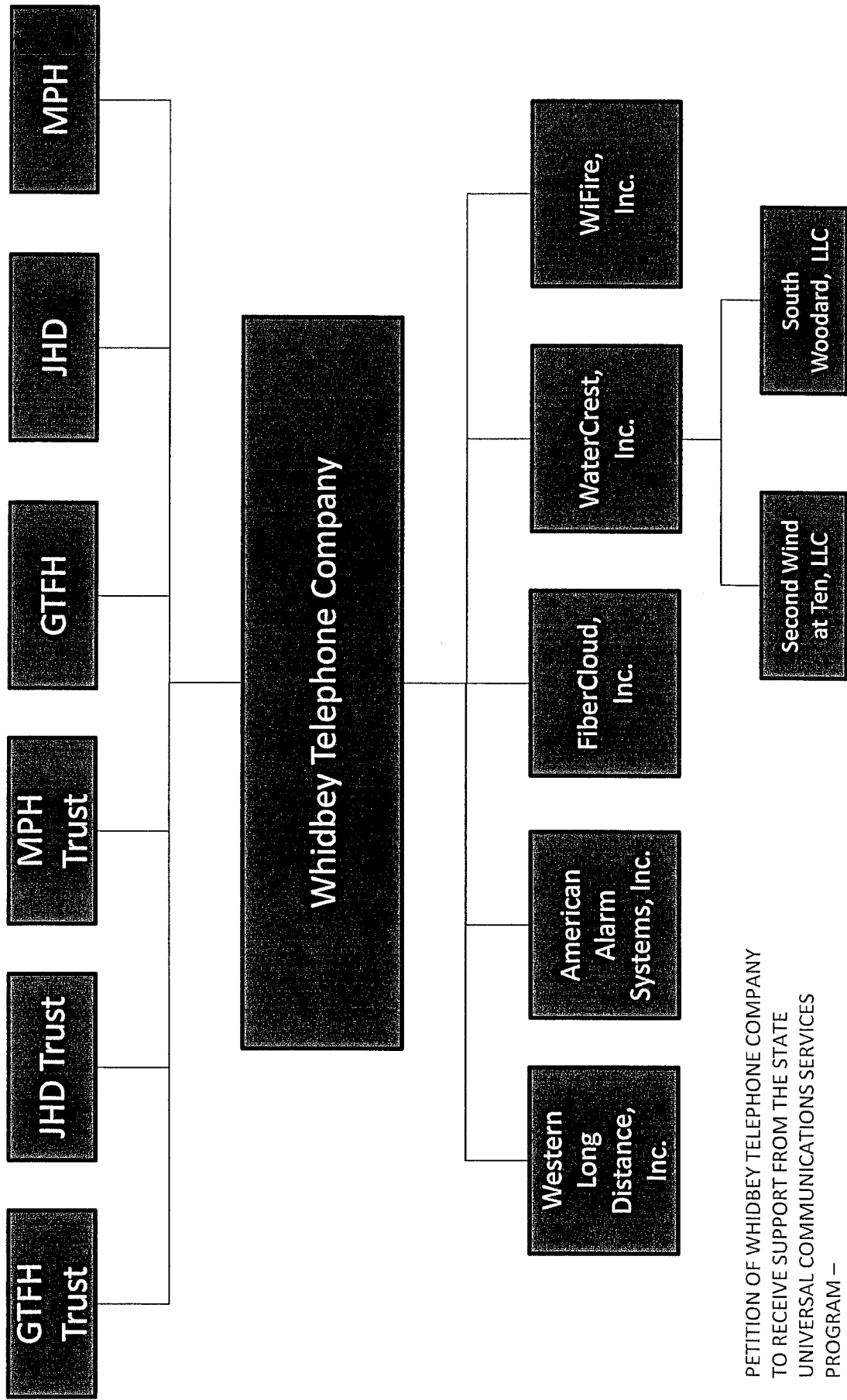


EXHIBIT 2

DESCRIPTION OF TRANSACTIONS BETWEEN COMPANY AND AFFILIATES

The following are transactions between the Whidbey Telephone Company (“Company”) and the Company affiliates that are shown in Exhibit 1, together with transactions between the Company and Hat Island Telephone Company 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 have loans from the Company. The Company records Interest Revenue and Receivables on those loans. As loans are repaid, the Company reduces the appropriate Notes Receivable upon receipt of funds.
- The Company creates work orders for services performed for certain shareholders. These work orders are reimbursed to the Company and result in a decrease in the Company’s recorded capital items and operating expenses.

The Company and Western Long Distance, Inc.

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

The Company and American Alarm Services, Inc.

- The Company provides American Alarm Services, Inc. (AAS) with local telephone service at rates and charges set forth in the Company’s Tariff WN U-5.

- AAS provides alarm and monitoring services for the Company. AAS records Revenue and the Company records Regulated Land & Building Expense subject to Part 64 allocations.

The Company and Watercrest, Inc.

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

The Company and WiFire, Inc.

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

The Company and FiberCloud, Inc.

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

The Company and Hat Island Telephone Company

- The Company provides switching and billing services to Hat Island Telephone Company (HITC). These services are billed by the Company to HITC, and are treated as Miscellaneous Revenue by the Company. They are priced at rates equal to the rates specified in the Company's Tariff WN U-5.

EXHIBIT 3

DEMONSTRATION OF RISK OF RATE INSTABILITY OR SERVICE INTERRUPTION OR CESSATION

The operating environment in which the Whidbey Telephone Company ("Company") finds itself is one of great financial uncertainty. In large part, this financial uncertainty stems from the Transformation Order issued by the Federal Communications Commission.¹ The 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 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 Company had been exploring ways of addressing access bypass to increase access revenues. However, any increase in access revenues under the Transformation Order would simply be a reduction in CAF support and no new net revenues would be produced. The CAF support reduction began July 2012. Projecting through the calendar year 2015, including additional reductions that will occur July 1, 2015, the Company is seeing a reduction in annual support from the base line revenue amount of approximately \$ 340,000.

In addition, by order of this Commission, the traditional universal service access rate element and related pooling fund have been terminated effective July 1, 2014. Using 2012 as a base line, which is the latest year with final pool numbers, the Company is facing a loss of traditional universal service fund revenues of approximately \$316,000 per year.

In addition, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. Further, in moving to the federal urban rate floor, the Company has seen an accelerated pace of customers giving up their land line telephone service subscribership. A loss of customers easily equates to a loss of revenue without a corresponding reduction in expenses.

In addition, during the 5-year period ended December 31, 2013, the Company has seen its Federal high cost loop support vanish – declining from \$1,100,916 in 2009 to \$0 in 2013.

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

¹ *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 or Transformation Order*).

The combination of factors noted above creates a situation in which, without support from the state universal service communications program, the Company may be faced with a choice of increasing rates further, which may drive more customers away, or cutting service in order to be able to match expenses to revenues. Neither choice presents a viable path for providing good 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.

Company Name: (Below)
 Whidbey Telephone Company

ASSETS	Balance End of Year 2012 (A)	Part 64 Adj to NonReg 2012 (B)	Adj. Balance End of Year 2012	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance Prior Year 2012 (A)	Part 64 Adj to NonReg 2012 (B)	Adj. Balance End of Year 2012
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	Redacted		Redacted	25. Accounts Payable	Redacted		Redacted
2. Cash-RUS Construction Fund	Redacted		Redacted	26. Notes Payable	Redacted		Redacted
3. Affiliates:				27. Advance Billings and Payments	Redacted		Redacted
a. Telecom, Accounts Receivable	Redacted		Redacted	28. Customer Deposits	Redacted		Redacted
b. Other Accounts Receivable	Redacted		Redacted	29. Current Mat. L/T Debt	Redacted		Redacted
c. Notes Receivable	Redacted		Redacted	30. Current Mat. L/T Debt Rur. Dev.	Redacted		Redacted
4. Non-Affiliates:				31. Current Mat. - Capital Leases	Redacted		Redacted
a. Telecom, Accounts Receivable	Redacted		Redacted	32. Income Taxes Accrued	Redacted		Redacted
b. Other Accounts Receivable	Redacted		Redacted	33. Other Taxes Accrued	Redacted		Redacted
c. Notes Receivable	Redacted		Redacted	34. Other Current Liabilities	Redacted		Redacted
5. Interest and Dividends Receivable	Redacted		Redacted	35. Total Current Liabilities (25 thru 34)	Redacted		Redacted
6. Material-Regulated	Redacted		Redacted	LONG-TERM DEBT			
7. Material-Nonregulated	Redacted		Redacted	36. Funded Debt-RUS Notes	Redacted		Redacted
8. Prepayments	Redacted		Redacted	37. Funded Debt-RTB Notes	Redacted		Redacted
9. Other Current Assets	Redacted		Redacted	38. Funded Debt-FFB Notes	Redacted		Redacted
10. Total Current Assets (1 Thru 9)	Redacted	Redacted	Redacted	39. Funded Debt-Other	Redacted		Redacted
				40. Funded Debt-Rural Develop. Loan	Redacted		Redacted
NONCURRENT ASSETS				41. Premium (Discount) on L/T Debt	Redacted		Redacted
11. Investment in Affiliated Companies				42. Reacquired Debt	Redacted		Redacted
a. Rural Development	Redacted		Redacted	43. Obligations Under Capital Lease	Redacted		Redacted
b. Nonrural Development	Redacted		Redacted	44. Adv. From Affiliated Companies	Redacted		Redacted
12. Other Investments				45. Other Long-Term Debt	Redacted		Redacted
a. Rural Development	Redacted		Redacted	46. Total Long-Term Debt (36 thru 45)	Redacted		Redacted
b. Nonrural Development	Redacted		Redacted	OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)	Redacted		Redacted	47. Other Long-Term Liabilities	Redacted		Redacted
14. Other Noncurrent Assets	Redacted		Redacted	48. Other Deferred Credits (C)	Redacted		Redacted
15. Deferred Charges	Redacted		Redacted	49. Other Jurisdictional Differences	Redacted		Redacted
16. Jurisdictional Differences	Redacted		Redacted	50. Total Other Liab. & Def. Credits (47 thru 49)	Redacted		Redacted
17. Total noncurrent Assets (11 thru 16)	Redacted	Redacted	Redacted	EQUITY			
				51. Cap. Stock Outstanding & Subscribed	Redacted		Redacted
PLANT, PROPERTY AND EQUIPMENT				52. Additional Paid-in-Capital	Redacted		Redacted
18. Telecom Plant-in-Service	Redacted		Redacted	53. Treasury Stock	Redacted		Redacted
19. Property Held for Future Use	Redacted		Redacted	54. Membership and cap. Certificates	Redacted		Redacted
20. Plant Under Construction	Redacted		Redacted	55. Other Capital	Redacted		Redacted
21. Plant Adj, Nonop Plant & Goodwill	Redacted		Redacted	56. Patronage Capital Credits	Redacted		Redacted
22. Accumulated Depreciation (CR.)	Redacted		Redacted	57. Retained Earnings or Margins (B2)	Redacted		Redacted
23. Net Plant (18 thru 21 less 22)	Redacted	Redacted	Redacted	58. Total Equity (51 thru 57)	Redacted		Redacted
TOTAL ASSETS (10+17+23)	Redacted	Redacted	Redacted	59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	Redacted		Redacted

(A) - As reported on Form 481

(B) - Part 64 adjustments to rate base from regulated to nonregulated.

(B1) - Part 64 offset to nonreg investment

(C) - Part 64 offset to retained earnings deferred taxes.

Company Name: (Below)
 Whidbey Telephone Company

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

(A) - As reported on Form 481
 (B) - Part 64 adjustments to rate base from regulated to nonregulated.
 (B1) - Part 64 offset to nonreg investment
 (B2) - Part 64 offset to retained earnings
 (C) - Part 64 Adj. for line 48 is only for deferred taxes.

Company Name: (Below)
 Whidbey Telephone Company

ASSETS	Adjusted Prior Year Balance 2012	Adjusted Current Year Balance 2013	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2012	Adjusted Prior Year Balance 2013
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	Redacted	Redacted	25. Accounts Payable	Redacted	Redacted
2. Cash-RUS Construction Fund	Redacted	Redacted	26. Notes Payable	Redacted	Redacted
3. Affiliates:			27. Advance Billings and Payments	Redacted	Redacted
a. Telecom, Accounts Receivable	Redacted	Redacted	28. Customer Deposits	Redacted	Redacted
b. Other Accounts Receivable	Redacted	Redacted	29. Current Mat. L/T Debt	Redacted	Redacted
c. Notes Receivable	Redacted	Redacted	30. Current Mat. L/T Debt-Rur. Dev.	Redacted	Redacted
4. Non-Affiliates:			31. Current Mat. - Capital Leases	Redacted	Redacted
a. Telecom, Accounts Receivable	Redacted	Redacted	32. Income Taxes Accrued	Redacted	Redacted
b. Other Accounts Receivable	Redacted	Redacted	33. Other Taxes Accrued	Redacted	Redacted
c. Notes Receivable	Redacted	Redacted	34. Other Current Liabilities	Redacted	Redacted
5. Interest and Dividends Receivable	Redacted	Redacted	35. Total Current Liabilities (25 - 34)	Redacted	Redacted
6. Material-Regulated	Redacted	Redacted	LONG-TERM DEBT		
7. Material-Nonregulated	Redacted	Redacted	36. Funded Debt-RUS Notes	Redacted	Redacted
8. Prepayments	Redacted	Redacted	37. Funded Debt-RTB Notes	Redacted	Redacted
9. Other Current Assets	Redacted	Redacted	38. Funded Debt-FFB Notes	Redacted	Redacted
10. Total Current Assets (1 Thru 9)	Redacted	Redacted	39. Funded Debt-Other	Redacted	Redacted
			40. Funded Debt-Rural Develop. Loan	Redacted	Redacted
NONCURRENT ASSETS			41. Premium (Discount) on L/T Debt	Redacted	Redacted
11. Investment in Affiliated Companies	Redacted	Redacted	42. Recquired Debt	Redacted	Redacted
a. Rural Development	Redacted	Redacted	43. Obligations Under Capital Lease	Redacted	Redacted
b. Nonrural Development	Redacted	Redacted	44. Adv. From Affiliated Companies	Redacted	Redacted
12. Other Investments	Redacted	Redacted	45. Other Long-Term Debt	Redacted	Redacted
a. Rural Development	Redacted	Redacted	46. Total Long-Term Debt (36-45)	Redacted	Redacted
b. Nonrural Development	Redacted	Redacted	OTHER LIAB. & DEF. CREDITS		
13. Nonregulated Investments	Redacted	Redacted	47. Other Long-Term Liabilities	Redacted	Redacted
14. Other Noncurrent Assets	Redacted	Redacted	48. Other Deferred Credits (B)	Redacted	Redacted
15. Deferred Charges	Redacted	Redacted	49. Other Jurisdictional Differences	Redacted	Redacted
16. Jurisdictional Differences	Redacted	Redacted	50. Total Other Liab. & Def. Credits (47 thru 49)	Redacted	Redacted
17. Total noncurrent Assets (11 thru 16)	Redacted	Redacted	EQUITY		
			51. Cap. Stock Outstanding & Subscribed	Redacted	Redacted
PLANT, PROPERTY AND EQUIPMENT			52. Additional Paid-in-Capital	Redacted	Redacted
18. Telecom Plant-in-Service	Redacted	Redacted	53. Treasury Stock	Redacted	Redacted
19. Property Held for Future Use	Redacted	Redacted	54. Membership and cap. Certificates	Redacted	Redacted
20. Plant Under Construction	Redacted	Redacted	55. Other Capital	Redacted	Redacted
21. Plant Adj, Nonop Plant & Goodwill	Redacted	Redacted	56. Patronage Capital Credits	Redacted	Redacted
22. Accumulated Depreciation (CR.)	Redacted	Redacted	57. Retained Earnings or Margins	Redacted	Redacted
23. Net Plant (18 thru 21 less 22)	Redacted	Redacted	58. Total Equity (51 thru 57)	Redacted	Redacted
TOTAL ASSETS (10+17+23)	Redacted	Redacted	59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	Redacted	Redacted

Note:

Adjusted Balances represents balances after current year Part 64 adjustments (B) - Provide Deferred Taxes on separate rate base schedule

Company Name: (Below)
 Whidbey Telephone Company

Line #	Adj. Balance End of Year 2012	Adj. Balance End of Year 2013	Average Adj End of Year Balance
18	Redacted	Redacted	#VALUE!
19	Redacted	Redacted	#VALUE!
22	Redacted	Redacted	#VALUE!
6	Redacted	Redacted	#VALUE!
	0	0	0

Average Rate Base:

Total Regulated Adjusted Telecom Plant-In-service
 Total Property Held for Future Use
 Total Regulated Adjusted Accumulated Depreciation (CR)
 Total Regulated Materials & Supplies
 Deferred Income Taxes (CR)
 Total Regulated Rate Base

Note:

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

Company Name: (Below)

Whidbey Telephone Company

Description	Prior Year End of Yr. Balance - 2012	Current Year End of Yr Balance - 2013	Difference	% Change
Access Lines:				
Residential	Redacted	Redacted	Redacted	#VALUE!
Business	Redacted	Redacted	Redacted	#VALUE!
Total	Redacted	Redacted	Redacted	#VALUE!
<hr/>				
	End of Yr. Balance - 2012	End of Year Balance -2013	Difference	% Change
Broadband Connections	Redacted	Redacted	Redacted	#VALUE!
<hr/>				
	Prior Yr. 2012	Current Yr. 2013	Difference	% Change
Total Annual Amount:	Redacted	Redacted	Redacted	
Gross Capital Expenditures	Redacted	Redacted	Redacted	#VALUE!

FCC Form 481

Part B Statement of Income and Retained Earnings Statement

Company Name: (Below)
Whidbey Telephone Company

Line #	Item	Prior Year 2012 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2012
1	Local Network Services Revenues	Redacted		Redacted
2	Network Access Services Revenues	Redacted		Redacted
3	Long Distance Network Services Revenues	Redacted	Redacted	Redacted
4	Carrier Billing and Collection Revenues	Redacted	Redacted	Redacted
5	Miscellaneous Revenues	Redacted	Redacted	Redacted
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	Redacted	Redacted	Redacted
7	Net Operating Revenues (1 thru 6)	Redacted	Redacted	Redacted
8	Plant Specific Operations Expense	Redacted	Redacted	Redacted
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	Redacted	Redacted	Redacted
10	Depreciation Expense	Redacted	Redacted	Redacted
11	Amortization Expense	Redacted	Redacted	Redacted
12	Customer Operations Expense	Redacted	Redacted	Redacted
13	Corporate Operations	Redacted	Redacted	Redacted
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()	Redacted	Redacted	Redacted
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	Redacted	Redacted	Redacted
14	Total Operations Expenses (8 thru 12 +13b)	Redacted	Redacted	Redacted
15	Operating Income or Margins (7 less 14)	Redacted	Redacted	Redacted
16	Other Operating Income and Expenses ()	Redacted		Redacted
17	State and Local Taxes	Redacted	Redacted	Redacted
18	Federal Income Taxes (A1)	Redacted	Redacted	Redacted
19	Other Taxes	Redacted	Redacted	Redacted
20	Total Operating Taxes (17+18+19)	Redacted	Redacted	Redacted
21	Net Operating Income or Margins (15+16-20)	Redacted	Redacted	Redacted
22	Interest on Funded Debt	Redacted		Redacted
23	Interest Expense - Capital Leases	Redacted		Redacted
24	Other Interest Expense	Redacted		Redacted
25	Allowance for Funds Used During Construction (CR)	Redacted		Redacted
26	Total Fixed Charges (22+23+24-25)	Redacted	Redacted	Redacted
27	Nonoperating Net Income	Redacted		Redacted
28	Extraordinary Items	Redacted		Redacted
29	Jurisdictional Differences	Redacted		Redacted
30	Nonregulated Net Income (B1)	Redacted	Redacted	Redacted
31	Total Net Income or Margins (21+27+28+29+30-26)	Redacted	Redacted	Redacted
32	Total Taxes Based on Income	Redacted	Redacted	Redacted
33	Retained Earning or Margins Beginning-of-Year	Redacted		Redacted
34	Miscellaneous Credits Year-to-Date	Redacted		Redacted
35	Dividends Declared (Common)	Redacted		Redacted
36	Dividends Declared (Preferred)	Redacted		Redacted
37	Other Debits Year-to-Date	Redacted		Redacted
38	Transfers to Patronage Capital	Redacted		Redacted
39	Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))	Redacted	Redacted	Redacted
40	Patronage Capital Beginning-of-Year	Redacted		Redacted
41	Transfers to Patronage Capital	Redacted		Redacted
42	Patronage Capital Credits Retired	Redacted		Redacted
43	Patronage Capital End-of-Year (40+41-42)	Redacted	Redacted	Redacted
44	Annual Debt Service Payments	Redacted		Redacted
45	Cash Ratio ((14+20-10-11)/7)	Redacted	Redacted	Redacted
46	Operating Accrual Ratio ((14+20+26)/7)	Redacted	Redacted	Redacted
47	TIER ((31+26)/26)	Redacted	Redacted	Redacted
48	DSCR ((31+26+10+11)/44)	Redacted	Redacted	Redacted

Notes:

- (A) As reported on Form 481
- (A1) S Corporations provide effective tax rate on Income Statement Summary Schedule footnote, Page 8
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Part 64 offset to nonregulated income (No impact to retained earnings)

Company Name: (Below)
 Whidbey Telephone Company

Line #	Item	Prior Year 2013 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2013
1	Local Network Services Revenues	Redacted		Redacted
2	Network Access Services Revenues	Redacted		Redacted
3	Long Distance Network Services Revenues	Redacted	Redacted	Redacted
4	Carrier Billing and Collection Revenues	Redacted	Redacted	Redacted
5	Miscellaneous Revenues	Redacted	Redacted	Redacted
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Notes:

- (A) As reported on Form 481
- (A1) S Corporations provide effective tax rate on Income Statement Summary Schedule footnote, Page 8
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Part 64 offset to nonregulated income (No impact to retained earnings)

Company Name:
Whidbey Telephone Company

Line #	Item	Adjusted Prior Year 2012	Adjusted Current Year 2013
1	Local Network Services Revenues	Redacted	Redacted
2	Network Access Services Revenues	Redacted	Redacted
3	Long Distance Network Services Revenues	Redacted	Redacted
4	Carrier Billing and Collection Revenues	Redacted	Redacted
5	Miscellaneous Revenues	Redacted	Redacted
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47	TIER ((31+26)/26)	Redacted	Redacted
48	DSCR ((31+26+10+11)/44)	Redacted	Redacted

Footnote (A1)

S Corporation Effective Tax Rate (2 decimal places):

	2012	2013
	Redacted	Redacted

Company Name: (Below)

Description	Part 32 Account	2012	2013
End User Revenue (SLC, ARC, etc.)	5081		
Switched Access (excluding USF):	5082		
Intrastate			
Interstate			
Special Access:	5083		
Intrastate			
Interstate			
Federal USF (ICLS/CAF/HCL/SN)	Varies		
Total (must equal line 2 of Income Stmt.)		0	0
Line 2 of Income Stmt.		Redacted	Redacted
Difference		#VALUE!	#VALUE!

Confidential per WAC 480-07-160

**WHIDBEY TELEPHONE COMPANY
AND SUBSIDIARIES**

Audited Consolidated Financial Statements

December 31, 2013 and 2012

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

Audited Consolidated Financial Statements

December 31, 2013 and 2012

INDEPENDENT AUDITOR'S REPORT..... 1-2

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

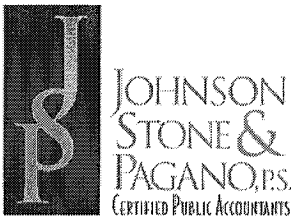
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1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

Independent Auditor's Report

To the Board of Directors
Whidbey Telephone Company
Langley, Washington

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Whidbey Telephone Company and Subsidiaries which comprise the consolidated balance sheets as of December 31, 2013 and 2012, 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 financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Directors
Whidbey Telephone Company

Page 2

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Whidbey Telephone Company and Subsidiaries as of December 31, 2013 and 2012, 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 30, 2014

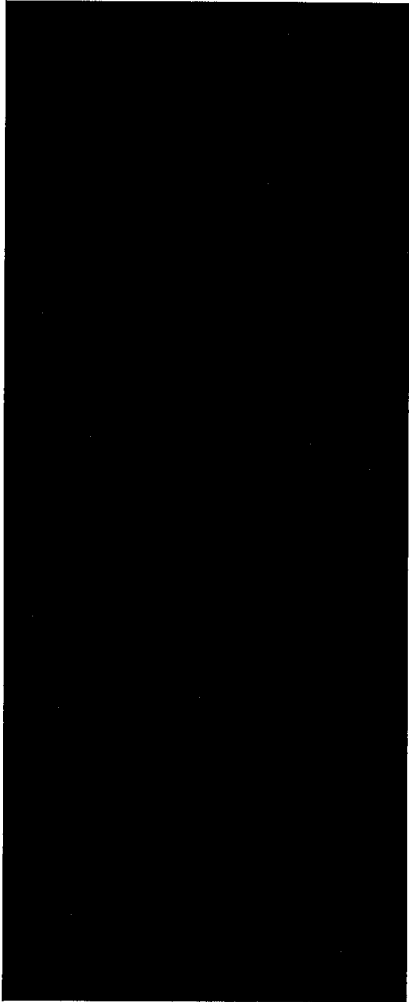
AUDITED CONSOLIDATED FINANCIAL STATEMENTS

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents (Notes 1 and 2)		
Accounts receivable		
Trade (Notes 2, 3 and 6)		
Other (Note 11)		
Materials and supplies (Note 1)		
Prepayments and deposits		
Total Current Assets		
OTHER ASSETS		
Investments (Notes 1, 2 and 4)		
PROPERTY, PLANT AND EQUIPMENT		
(Notes 1, 5 and 6)		
Telecommunications plant in service		
Less allowances for depreciation		
Telecommunications plant under construction		
Plant held for future use		
Total Telecommunications Plant		
Nonregulated plant		
Less allowances for depreciation		
Nonregulated plant under construction		
Total Nonregulated Plant		
TOTAL ASSETS		



WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$	
Taxes, other than income taxes		
Other current liabilities		
Current portion of long-term debt (Note 6)		
Total Current Liabilities		
LONG-TERM DEBT , less portion classified as a current liability (Note 6)		
Total Liabilities		
STOCKHOLDERS' EQUITY		
Capital stock (Note 8)		
Retained earnings		
Accumulated other comprehensive income		
Total Stockholders' Equity		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	

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

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES (Note 1)		
Local network service revenues		
Network access service revenues		
Long distance network service revenues		
Other operating revenues		
Uncollectible revenues (deduction)		
Total Operating Revenues		
OPERATING EXPENSES		
Plant specific operations		
Plant nonspecific operations		
Depreciation and amortization (Note 5)		
Customer operations		
Corporate operations		
Taxes, other than income taxes		
Total Operating Expenses		
Net Operating Loss		
OTHER INCOME, EXPENSE AND TAXES - NET		
Other income		
Income (Loss) Available for Fixed Charges		
FIXED CHARGES AND RELATED ITEMS - NET		
NET INCOME (LOSS)		
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gain (loss) on investments		
COMPREHENSIVE INCOME (LOSS)		

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

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2013 and 2012

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
BALANCE AT DECEMBER 31, 2011				
Distributions to stockholders				
Net income for the year				
Other comprehensive income				
BALANCE AT DECEMBER 31, 2012				
Distributions to stockholders				
Net loss for the year				
Other comprehensive loss				
BALANCE AT DECEMBER 31, 2013				

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

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and settlements		
Cash paid to vendors, suppliers and employees		
Interest and dividends received		
Interest paid		
Federal income taxes received		
 Net Cash Used by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment		
Salvage on retired property, plant and equipment		
Partnership capital distribution		
Proceeds from sale of property, plant and equipment		
Proceeds from sale of investments		
Purchase of investments		
 Net Cash Provided (Used) by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to stockholders		
Proceeds from long-term debt		
Payments on long-term debt		
 Net Cash Used by Financing Activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
 Cash and Cash Equivalents at Beginning of Year		
CASH AND CASH EQUIVALENTS AT END OF YEAR		

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

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES		
Net income (loss)		
Adjustments to reconcile net income (loss) to net cash by operating activities		
Depreciation and amortization		
Partnership distribution included in net income and not included in operating activities		
Realized (gain) loss on sale of investments		
Noncash operating income		
(Increase) decrease in assets		
Accounts receivable		
Materials and supplies		
Prepayments and deposits		
Increase (decrease) in liabilities		
Accounts payable		
Taxes, other than income taxes		
Other current liabilities		
NET CASH USED BY OPERATING ACTIVITIES		
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Land and building received in payment of note receivable		

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

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

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

Principles of Consolidation

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

Organization and Regulation

The Company is a local exchange telecommunications company. The Company, together with its subsidiary Western Long Distance, Inc., provides local exchange, long distance and other telecommunications services including digital subscriber lines to South Whidbey Island and Point Roberts, Washington. The Company also provides internet access services and web-hosting services to customers in western Washington, located both within and outside its local exchange service areas. American Alarm Systems, Inc. provides alarm system installation and alarm monitoring services in western Washington. FiberCloud, Inc. provides offsite computer data storage, hosted services, internet access and web-hosting services in western Washington. 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 recent Federal Communication Commission ("FCC") Report and Order and Further Notice of Proposed Rulemaking, ("FCC 11-161"), has 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 Federal Communications Commission ("FCC") and, to the extent permitted by the USOA, accounting principles generally accepted in the United States of America. The accounting methods observed by the Company for book and recording purposes are subject to the concurrence of the Washington Utilities and Transportation Commission ("WUTC").

Cash and Cash Equivalents

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

Materials and Supplies

Materials and supplies are stated at average cost.

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

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

Investments

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

Fair Value Measurements

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

Accounting for Long-Lived Assets

The Company and Subsidiaries periodically review long-lived assets such as property, plant and equipment for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. At December 31, 2013, management has determined that there were no material impairment charges to be recorded as of that date.

Regulated Telecommunications Plant, Maintenance and Depreciation

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

Revenue Recognition, Major Customers and Services

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

Network access service revenues, which represent a major portion of the Company's operating revenues, are derived from the provision of exchange access services to interexchange carriers or to end users of telecommunication services.

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

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

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

The Company continues to review the reforms and modifications to the support that the Company receives and understands that those reforms and modifications could have an adverse effect on the Company's revenues and cash flow. Revenue impacts are subject to change based on the outcome of numerous petitions and legal challenges, as well as future data submissions and further clarification from the FCC.

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. 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 (see Note 8).

The Company provides for the measurement and disclosure of uncertain tax positions recognized in the Company's financial statements. Management is of the opinion that the income tax positions taken by the Company meet the more-likely-than-not threshold that the tax returns filed by the Company have greater than a ■ percent chance of being sustained under examination of the Internal Revenue Service. The Company's federal income tax returns for the tax years ending before December 31, 2010 are closed to examination.

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions used in preparing the accompanying financial statements.

Subsequent Events

The management of the Company evaluated for subsequent events and transactions for potential recognition and disclosure through April 30, 2014, the date the financial statements were available to be issued. All identified material events or transactions have been recorded or disclosed.

Reclassifications

Certain reclassifications have been made to the previously issued 2012 financial statements in order to make them comparable with the 2013 financial statements.

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, 2013, 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, 2013 is \$[REDACTED].

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

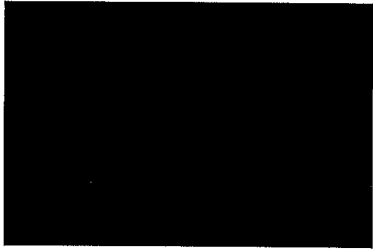
WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 3 - ACCOUNTS RECEIVABLE

The trade accounts receivable balances at December 31, 2013 and 2012 consist of:

	<u>2013</u>	<u>2012</u>
Accounts receivable - subscribers		
Accounts receivable - interexchange carriers and exchange carrier associations		
Allowance for doubtful accounts (deduction)		

The Company and Subsidiaries extend credit to business and residential customers based upon a written credit policy. Service interruption is the primary vehicle for controlling accounts receivable losses. Telecommunications accounts receivable are recorded when subscriber bills, carrier access bills and exchange carrier associations settlement statements are rendered and are reflected in the balance sheets net of the allowance for doubtful accounts. Certain exchange carrier associations' settlements are subject to out-of-period adjustments. Such settlements and adjustments are recorded during the year in which they become determinable. The allowance for doubtful accounts is estimated based on the Company's historical uncollectibles, the existing economic conditions in the telecommunications industry and the financial stability of its customers. As of December 31, 2013, approximately █% 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, 2013 and 2012

NOTE 4 - INVESTMENTS

Investments consist of:

	<u>2013</u>	<u>2012</u>
Investments at fair value		
Verizon Communications, Inc.		
Sun Life Financial Services of Canada, Inc.		
Frontier Communications		
Mutual funds held at Edward Jones		
Associated Network Partners, Inc.		
Western Independent Networks		
Artifact Technologies, LLC		
Investments at cost		
Personal Communications Services ("PCS")		
licenses and 700 MHz Licenses (in 2011)		
Note receivable - Green Tea Northwest, LLC		
Notes receivable - stockholders		
Land held for investment		

During 2005, Green Tea Northwest, LLC borrowed \$ [REDACTED] from WaterCrest, Inc. Accrued interest on the note in the amount of \$ [REDACTED] and \$ [REDACTED] was added to the note with total accrued interest on the note of \$ [REDACTED] and \$ [REDACTED] in 2013 and 2012, respectively. This borrowing is evidenced by a promissory note and is subject to the terms stated therein. The note bore interest at [REDACTED]% per annum and was to be paid in full by November 3, 2010. During November 2010, the note was renegotiated with interest at [REDACTED]% per annum, due November 3, 2015, with a beginning principal balance of \$ [REDACTED]. A stockholder of the Company is a member of Green Tea Northwest, LLC.

Also included in investments are notes receivable from two stockholders of the Company issued in 2013 for \$ [REDACTED] and 2012 for \$ [REDACTED], each. These notes total \$2,145,902 for 2013 and \$ [REDACTED] for 2012. 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. Interest accrued through December 31, 2013 and 2012 on such notes was \$ [REDACTED] and \$ [REDACTED], each, respectively and will be added to the balances per the terms of the notes. The Company also has a note receivable from three trusts, in equal amounts, of whom the trustees are stockholders for \$ [REDACTED] and \$ [REDACTED] at December 31, 2013 and 2012, respectively. The note is evidenced by a promissory note and is subject to the terms stated therein. The note bears interest at the AFR in effect at the time advances were made on the note. The interest ranges from [REDACTED]% to [REDACTED]% per annum.

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

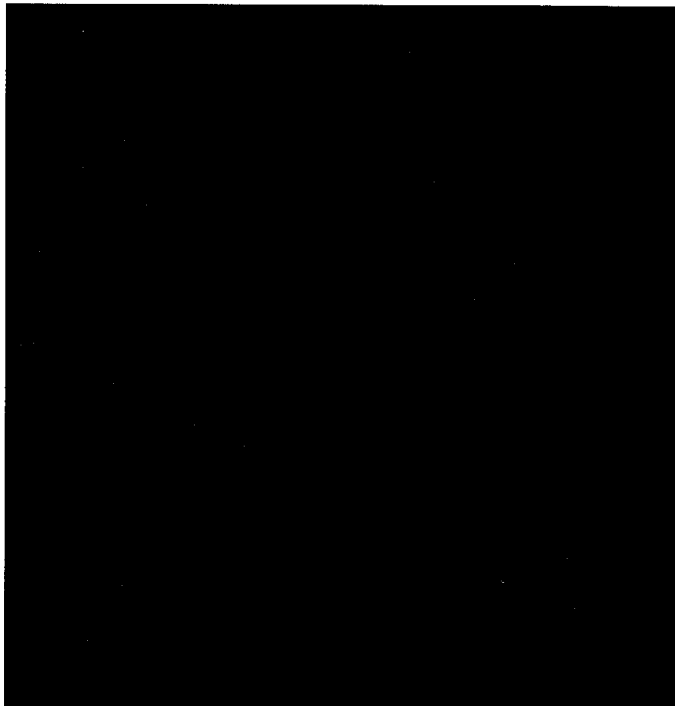
December 31, 2013 and 2012

NOTE 4 - INVESTMENTS (Continued)

The Company has a ■% Class A preferred unit interest (■% aggregate interest) in Artifact Technologies, LLC, a limited liability company organized to conduct an internet-based business.

Assets measured at fair value on a recurring basis at December 31, 2013 and 2012 are as follows:

	Fair Value Measurements		
	Quoted Prices in Active Markets For Identical Assets <u>Fair Value</u> (Level 1)	Significant Other Observable Inputs (Level 2)	Other Subjective Inputs (Level 3)
<u>December 31, 2013</u>			
Verizon Communications, Inc.			
Sun Life Financial Services of Canada, Inc.			
Frontier Communications Growth and Income mutual funds held at Edward Jones			
Associated Network Partners, Inc.			
Western Independent Networks			
Artifact Technologies, LLC			
<u>December 31, 2012</u>			
Verizon Communications, Inc.			
Sun Life Financial Services of Canada, Inc.			
Frontier Communications Growth and Income mutual funds held at Edward Jones			
Associated Network Partners, Inc.			
Western Independent Networks			
Artifact Technologies, LLC			



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.

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 4 - INVESTMENTS (Continued)

Reconciliation of Level 3 Inputs

Balance at December 31, 2011
Investment in Artifact Technologies, LLC

Balance at December 31, 2012
Investment in Artifact Technologies, LLC

Balance at December 31, 2013



The Company holds a limited partnership interest in Seattle SMSA Limited Partnership (“Partnership”); the investment is carried at cost. Management has determined there are no identified events or changes in circumstances that would have a significant adverse effect on the fair value of the investment. The Company has not made fair value disclosures for its interest as management has further determined that it is not practicable to estimate the fair value of the investment as the Company holds a less than █% interest in the Partnership, the cost to determine the fair value would be prohibitive and the financial information of the Partnership is proprietary among the Company and the partners. The Company’s capital account in the Partnership at December 31, 2013 and 2012 was \$█ and \$█, respectively. During the years ended December 31, 2013 and 2012, the Company received partnership distributions of \$█ and \$█, respectively which are included in other income for 2013 and 2012 in the Consolidated Statements of Operations.

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

Regulated Telecommunications Plant

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

Major classes of the telecommunications plant assets in service as of December 31, 2013 and 2012 are:

General support facilities
Central office equipment
Cable and wire facilities

	2013	2012
	█	

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

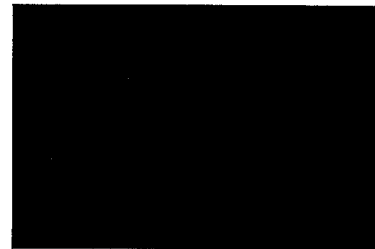
December 31, 2013 and 2012

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

(See Note 1) (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>2013</u>	<u>2012</u>
Regulated telecommunications plant		
Nonregulated plant		

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 6 - NOTES PAYABLE AND LONG-TERM DEBT

Note payable and long-term debt at December 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Note payable consists of a revolving reducing line of credit with Wells Fargo Bank of up to a maximum of \$██████████ at December 31, 2013 and \$██████████ at December 31, 2012 reduced each quarter by payments of \$██████████ June 2013 and September 2011, respectively. The agreement calls for monthly payments of interest at ███% above a daily one month LIBOR rate as determined by the bank, with interest rate selection options available to the Company (███% at December 31, 2013). Principal and accrued interest are due June 21, 2015. Security includes all assets as noted in the security agreement.		
Note payable consists of a revolving line of credit with Wells Fargo Bank of up to a maximum of \$██████████. The agreement calls for monthly payments of interest at ███% above a daily one month LIBOR rate as determined by the bank with interest selection options available to the Company (███% at December 31, 2013). Principal and accrued interest are due June 21, 2015. Security includes all assets as noted in the security agreement.		
Less portion due within one year classified as a current liability		
Long-term Debt		



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

2014	
2015	



WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

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

As part of the promissory notes and agreements executed by the Company with respect to the notes payable, the Company agreed to various negative covenants including limitations on additions to fixed assets, annual lease payments, guarantees, other indebtedness, loan advances and investments. The Company also agreed to comply with certain financial covenants as a condition to each of the credit facilities. The Company was in compliance at December 31, 2013.

NOTE 7 - FEDERAL INCOME TAXES

The Company has elected to be an S corporation and has elected to have each of its corporate subsidiaries be a Qualified Subchapter S Subsidiary. Second Wind at Ten, LLC is organized as a single member LLC; as such, its activities flow through to its sole member, WaterCrest, Inc., a subsidiary of the Company. All activities of the Company and its subsidiaries are included in the Company's annual federal income tax return. Taxable earnings and losses of the Company and its subsidiaries are included in the income tax returns of the Company's stockholders and are taxed at the applicable tax rates of its stockholders, except for the application of the built-in gains tax.

Built-in gains relate to asset appreciation, including appreciation of intangible assets, at the time of conversion to S corporation status. The built-in gains tax arises when, during the ten-year period following the election of S corporation status, the assets of the S-status electing corporation or its Qualified Subchapter S Subsidiaries are disposed of at a gain. Built-in gains arising from such transactions will be subject to the highest C corporation tax rate at that time. The current highest C corporation tax rate is █%. At the time of the S status elections described above, some assets of the Company and its Subsidiaries had built-in gains.

A potential contingent liability may exist for the Company and Subsidiaries if certain assets are sold by the Company and Subsidiaries before January 1, 2015. Future restatement of deferred federal income taxes related to estimated built-in gains taxes will be reflected in the accumulated undistributed net income (accumulated adjustments account) of the Company in accordance with the applicable sections of the Internal Revenue Code, if prior to January 1, 2015, assets having built-in gains are disposed of by the Company or any of its subsidiaries.

NOTE 8 - CAPITAL STOCK

During the year ended December 31, 2012, two of the Company's stockholders, owning █% of the issued and outstanding shares of the Company's voting and non-voting capital stock, transferred all their shares to three newly created trusts (█% to each for a total of █% of the Company's issued and outstanding shares) and to one new individual shareholder (█% of the Company's issued and outstanding shares). The Company's authorized, issued and outstanding capital stock did not change as a result of these transfers.

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 8 - CAPITAL STOCK (Continued)

The authorized, issued and outstanding shares for the years ended December 31, 2013 and 2012 are as follows:

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

NOTE 9 - LEASES AND SERVICE AGREEMENTS

The Company has two lease agreements for leased office space in Everett, Washington. The terms of the agreements are for five years with a five-year renewal option. As defined in the agreements, base rent can be increased by the scheduled amounts as noted in the agreements and the Company's prorata share of reasonable and customary operating expenses of the land and building. Lease expense for 2013 and 2012 was \$ [REDACTED] and \$ [REDACTED], respectively. At December 31, 2013, the lease payments were in the aggregate of \$ [REDACTED] per month. The initial terms of the leases expired in December 2004 and were renewed for five years, expiring December 31, 2009. Each of the renewals also included a new five-year renewal option. Effective December 30, 2009, the leases were renewed and changed to FiberCloud, Inc. and the terms of the agreement extended for ten years.

FiberCloud, Inc. ("FiberCloud") assumed a lease agreement for leased office space in Bellingham, Washington. The term of the agreement was for ten years with a five-year renewal option. As defined in the agreement, base rent can be increased by the scheduled amounts as noted in the agreement and FiberCloud's prorata share of reasonable and customary operating expenses of the land and building. Lease expense for 2013 and 2012 was \$ [REDACTED] and \$ [REDACTED], respectively. At December 31, 2013, the lease payment was \$ [REDACTED] per month. The initial term of the lease expired in October 2009, and was renewed until October 31, 2014 and includes a five-year renewal option.

FiberCloud assumed three lease agreements during 2004 and one lease agreement during 2005 for office space in Seattle, Washington. The terms of the agreements range from five to seven years. As defined in the agreements, base rents can be increased by the scheduled amounts as noted in the agreements and FiberCloud's prorata share of reasonable and customary operating expenses of the land and building. Total lease expense for 2013 and 2012 was \$ [REDACTED] and \$ [REDACTED], respectively. At December 31, 2013, the lease payments were in the aggregate \$ [REDACTED] per month. The terms of the agreements in effect at December 31, 2013 expire April 30, 2015.

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 9 - LEASES AND SERVICE AGREEMENTS (Continued)

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 April 2018. Expense under these agreements for 2013 and 2012 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 9, as determined by the current monthly or scheduled payments, are as follows:

2014	[REDACTED]
2015	[REDACTED]
2016	[REDACTED]
2017	[REDACTED]
2018	[REDACTED]

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 participants 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 2013 and \$[REDACTED] for 2012. During 2013 and 2012, 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.

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

NOTE 11 - OTHER RELATED PARTY TRANSACTIONS

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

In addition, the Company rents real property from the Company's former sole stockholder of record. The amount of rent for 2013 and 2012 was \$[REDACTED] and \$[REDACTED], respectively.

(3005b) Operating Report for Privately-Held Rate of Return Carriers Income Statement - Data Collection Form	FCC Form 481
	OMB Control No. 3060-0986
	OMB Control No. 3060-0819
	July 2013

<010> Study Area Code	522452
<015> Study Area Name	WHIDBEY TEL CO.
<020> Program Year	2015
<030> Contact Name - Person USAC should contact regarding this data	Trish Mason
<035> Contact Telephone Number - Number of person identified in data line <030>	360-321-0013
<039> Contact Email Address - Email Address of person identified in data line <030>	trish.mason@whidbeytel.com

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

EXHIBIT 7

CORPORATE OPERATIONS EXPENSE ADJUSTMENT(S)

The Company did not receive high-cost loop support in either 2012 or 2013, so therefore no corporate operations adjustments were required by the Federal Communications Commission.

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

For 2013: \$162,005

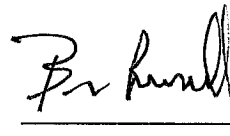
For 2012: \$160,696

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

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

Dated this 1st day of August, 2014.

A handwritten signature in black ink, appearing to read "Bruce Russell", is written above a horizontal line.

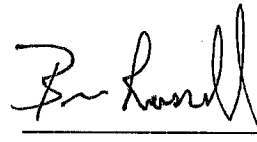
Bruce Russell
Chief Operating Officer

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Bruce Russell, an officer of the Company, under penalty of perjury, hereby certify that if the Company receives Program support, the Company will continue to provide communications services pursuant to its tariffs on file with the Commission throughout its service territory in Washington for which the company is seeking and receives Program support during the entirety of 2015.

Dated this 1st day of August, 2014.

A handwritten signature in black ink, appearing to read "Bruce Russell", written over a horizontal line.

Bruce Russell
Chief Operating Officer