



August 1, 2018

**BY ELECTRONIC FILING
VIA WUTC WEB PORTAL**

Mr. Mark L. Johnson
Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
1300 South Evergreen Park Drive, SW
Olympia, WA 98504-7250

Dear Mr. Johnson:

Re: 2018 Petition to Receive Support from the State
Universal Communications Services Program –
CLAIM OF CONFIDENTIALITY

Pursuant to WAC 480-123-110, on behalf of Whidbey Telephone Company (“Company”) accompanying this letter for filing with the Washington Utilities and Transportation Commission (“Commission”) is the Company’s petition to receive support for the fiscal year ending June 30, 2019, from the State Universal Communications Services Program established by RCW 80.36.350 (“Petition”).

The accompanying filing includes the petition for support and exhibits that are specified in WAC 480-123-100 and WAC 480-123-110. More specifically, this filing consists of an electronic version (in .pdf format) of this cover letter and electronic versions (in .pdf format) of both redacted and unredacted versions of the above-mentioned petition and exhibits. Electronic versions (in Excel (.xlsx) format) of the Financial Template (from which Exhibit 4 has been generated) and Exhibit 4.1 (containing broadband connection and gross capital expenditure information) are also included in this filing.

Please note that portions of the information in the petition and accompanying exhibits, as well as the above-mentioned electronic version (in Excel format) of Exhibit 4.1, are being filed on a confidential basis pursuant to WAC 480-07-160. The Company hereby asserts a claim of confidentiality with respect thereto. The basis for this claim is that the portions of the petition, including the exhibits, that have been designated as

Mr. Mark L. Johnson
Executive Director and Secretary
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Page 2

confidential, and the Excel file of Exhibit 4.1, contain valuable commercial information, including confidential marketing, cost and financial information. In addition to the Company, the persons and entities named in Exhibit 1 to the Petition might be directly affected by disclosure of the confidential information.

If the Commission has any questions regarding the enclosed petition, please do not hesitate to contact me by e-mail at gary.ricketts@whidbeytel.com or call me at (360) 321-0051.

Sincerely,



Gary Ricketts
Secretary/Treasurer

Accompanying Files (including this file):

WhidbeyTelCo-Pet-UCSP-Suprt-CLtr-8-1-18.pdf
WhidbeyTelCo-Pet-UCSP-Suprt-Pet-8-1-18 (CONFIDENTIAL).pdf
WhidbeyTelCo-Pet-UCSP-Suprt-Pet-8-1-18 (REDACTED).pdf
WhidbeyTelCo-Pet-UCSP-Suprt-Exh-4-Excel-8-1-18.xlsx
WhidbeyTelCo-Pet-UCSP Suprt-Exh-4.1-Excel-8-1-18
(CONFIDENTIAL).xlsx

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

8 IN RE

9
10 PETITION OF WHIDBEY TELEPHONE
11 COMPANY, TO RECEIVE SUPPORT
12 FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES
PROGRAM

DOCKET NO.

PETITION FOR SUPPORT

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14 COMES NOW Whidbey Telephone Company (the "Company"), and, pursuant to Chapter
15 480-123 of the Washington Administrative Code ("WAC") including, but not limited to, WAC 480-
16 123-110, hereby petitions the Washington Utilities and Transportation Commission (the
17 "Commission") to receive support from the State Universal Communications Services Program
18 established in RCW 80.36.650 (the "Program") for the fiscal year ending June 30, 2019.
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20 **I. Demonstration of Eligibility under WAC 480-123-100**

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22 1. WAC 480-123-100(1)(a): The Company is a local exchange company as defined in WAC
23 480-120-021 that serves less than forty thousand access lines within the state.
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PETITION OF WHIDBEY TELEPHONE COMPANY
TO RECEIVE SUPPORT
FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM - 1

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

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

- 18 1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications
19 services and is seeking Program support is as follows: Whidbey Telephone Company.
- 20 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between
21 the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.
22 A detailed description of any transactions between the Company and the affiliates named in
23 Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.

- 1 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No.
2 300 and 301 of the Company's Tariff WN U-5.
- 3 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate
4 instability or service interruption or cessation in the absence of support from the Program is
5 attached as Exhibit 3.
- 6 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,
7 are copies of the Company's balance sheet as of December 31, 2017, and December 31,
8 2016, and copies of the Company's statements of income and retained earnings or margin for
9 the years ended December 31, 2017 and December 31, 2016.
- 10 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial
11 statements for the years ended December 31, 2017 and December 31, 2016, are attached as
12 Exhibit 5.
- 13 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of
14 return on a total Washington unseparated regulated operations basis for each of the two prior
15 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
- 16 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on
17 equity on a total company (regulated and non-regulated) Washington basis for each of the
18 two prior years, calculated in the manner prescribed by the Commission, is provided in
19 Exhibit 5.
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- 1 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the
2 statements of income and retained earnings or margin in the same format and detail as is
3 required to complete RUS Form 479 for the prior two years is presented on Exhibit 6.
- 4 10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company officer
5 with personal knowledge and responsibility certifying that no corporate operations
6 adjustment to existing high-cost loop and interstate common line support mechanisms
7 required by the Federal Communications Commission applied to the Company for the two
8 prior years is attached hereto as Exhibit 7. [ALTERNATIVE: Information detailing the
9 amounts of any corporate operations adjustments to existing high-cost loop and interstate
10 common line support mechanism required by the Federal Communications Commission
11 applied to the Company for the prior two years is attached hereto as Exhibit 7.] More
12 Specifically, Exhibit 7 sets forth amounts of corporate operations expense that were required
13 by 47 C.F.R. § 54.1308(a)(4)(ii) to be excluded from the high-cost loop support, and
14 interstate common line support or broadband loop support (which, in part, has replaced
15 interstate common line support), mechanisms, as applicable to the subject years.
- 16 11. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains additional supporting information
17 requested by the Commission.
- 18 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company
19 officer with personal knowledge and responsibility certifying that the Company complies
20 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to
21 incumbent local exchange companies is attached as Exhibit 8.
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1 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or
2 on its behalf with the Federal Communications Commission for the calendar year preceding
3 the current year has already been filed with the Commission. See the Company's filing in
4 Docket No. UT-180004 filed on or about July 16, 2018.

5 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by
6 the Company as of December 31, 2017, was 6,128 all of which were within the geographic
7 area for which the Company is seeking support. The number of residential local exchange
8 access lines served by the Company as of December 31, 2016, was 7,113, all of which were
9 within the geographic area for which the Company is seeking support.

10 The number of business local exchange access lines served by the Company as of December
11 31, 2017, was 1,483, all of which were within the geographic area for which the Company is
12 seeking support. The number of business local exchange access lines served by the
13 Company as of December 31, 2016, was 1,614, all of which were within the geographic area
14 for which the Company is seeking support.

15 The monthly recurring rate charged by the Company for residential local exchange access
16 service on December 31, 2017, was \$18.00. The monthly recurring rate charged by the
17 Company for residential local exchange access service on December 31, 2016, was \$18.00.

18 The rate charged by the Company for single line business local exchange access service on
19 December 31, 2017, was \$18.00. The rate charged by the Company for single line business
20 local exchange access service on December 31, 2016, was \$18.00. (The Company has
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1 other business local exchange service rates, but the Company understands that WAC 480-
2 123-110(1)(g) is requesting the single line business local exchange access service rate.)

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

4 16. The amount on Line 4, labeled 2011 ROR Carrier Base Period Revenue, of the CAF ICC
5 Data collection Report for the period 7/1/2018 - 6/30/2019 is \$2,382,945 and has not
6 changed from the last filing. [ALTERNATIVE: If there has been a change, provide the
7 old and new amounts and explain the reason for the change.]
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9 17. All exhibits attached hereto are incorporated in this Petition as though fully set forth.

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11 Respectfully submitted this 1st day of August, 2018.

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17 CERTIFICATION

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

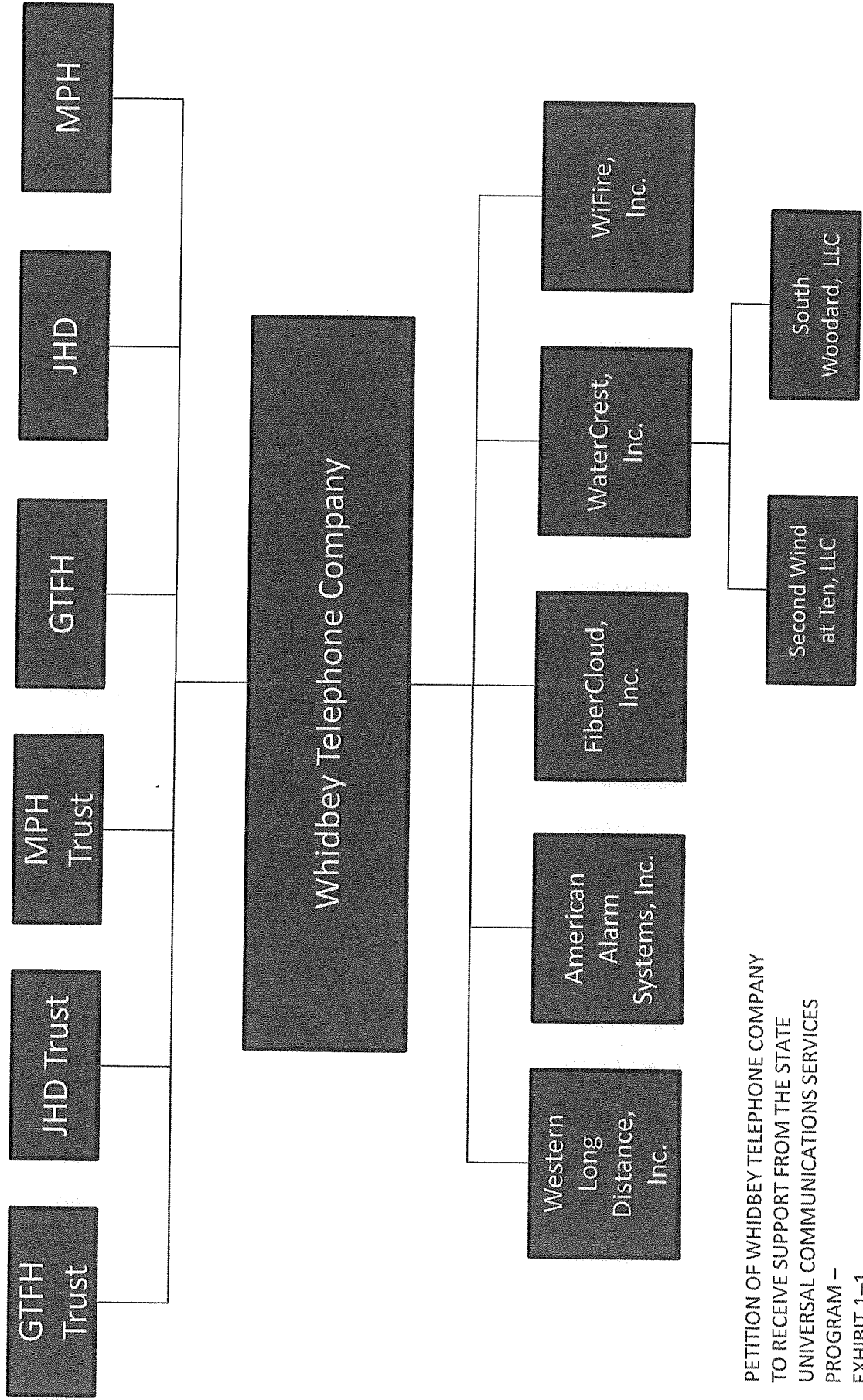
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24 By: Gary Ricketts
25 Title: Secretary/Treasurer
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PETITION OF WHIDBEY TELEPHONE COMPANY
TO RECEIVE SUPPORT
FROM THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM - 7

EXHIBIT 1

EXHIBIT 1
CORPORATE ORGANIZATION CHART



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

EXHIBIT 2

EXHIBIT 2

DESCRIPTION OF TRANSACTIONS BETWEEN COMPANY AND AFFILIATES

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

Ownership and the Company

- Certain shareholders holding, directly or indirectly, five percent or more of the stock of the Company are also employees of the Company and receive from the Company employment compensation and employment-associated benefits in accordance with benefit plans that are in place.
- Shareholders of the Company receive distributions from the Company that the Company records as Distributions to Ownership.
- Certain shareholders, who are also officers and directors of the Company, have loans from the Company. The Company records Interest Revenue and Receivables on those loans. As loans are repaid, the Company reduces the appropriate Notes Receivable upon receipt of funds.

The Company and Western Long Distance, Inc.

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

The Company and American Alarm Services, Inc.

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

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

The Company and Watercrest, Inc.

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

The Company and WiFire, Inc.

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

The Company and FiberCloud, Inc.

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

EXHIBIT 3

EXHIBIT 3

DEMONSTRATION OF RISK OF RATE INSTABILITY OR SERVICE INTERRUPTION OR CESSATION

The operating environment in which the Company finds itself has created a climate of great financial uncertainty. The Company has been working over the past several years to address growing competition. The Company has taken steps to increase the availability and attributes of advanced services offered by the Company, including broadband. This has resulted in the Company making additional investments in regulated plant of approximately \$24.3 million during the period January 1, 2011 through December 31, 2017. In 2017 alone, the Company invested in regulated plant approximately \$8.9 million. As a result, the Company has a substantial debt obligation (approximately \$12.5 million) associated with the plant investments that have been made, and continues to require substantial cash allocation for plant investment, as well as operation and maintenance of existing infrastructure.

The overall financial condition of the Company is detailed on other Exhibits to this Petition. What this information demonstrates is that, when adjusted to eliminate the support from the state Universal Communications Services Program that the Company received or accrued in 2017, the Company's total regulated revenue decreased by approximately 7.2% percent from 2011 through 2017. The Company has looked for ways to lower expenses. However, much of the Company's operating expenditures are fixed obligations, such as debt-related payments; for example, during the second half of 2018, annual debt service costs are expected to increase by approximately \$2 million annually (from approximately \$0.5 million to approximately \$2.5 million).

At the same time, the Company is seeing increased competition. For example, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. Since 2011, through December 31, 2017, the Company had lost 3,568 access lines. While some of these converted to a non-access-line based form of telephony offered by the Company, others have simply ceased to be customers of the Company for telephony service. A loss of customers equates to a loss of revenue without a corresponding reduction in expenses or corresponding increase in rates. This trend of access line loss is exacerbated by the Federal Communications Commission's requirement that the Company increase its rates to remain eligible for full federal USF support. Since 2012, the Company has increased its local exchange service rates in order to be in compliance with the national urban rate floor prescribed by the Federal Communications Commission. However, those increases have been insufficient to fully replace the revenues that have been lost due to the reduction in access lines and have tended to stimulate disconnection of service by customers.

As an example of why state Program support is needed, the Company's receipt of revenue from the traditional Washington intrastate universal service access rate element and related pooling fund were terminated effective July 1, 2014. Since then, the loss of revenues derived from the traditional universal service access rate element has been off-set by revenues received by the Company as a result of its participation in the Program. Using 2012 as a base line, the Company

is facing a loss of traditional universal service fund revenues of approximately \$306,371 per year if its participation in the Program is not renewed.

As another example, some of the financial uncertainty that the Company faces stems from the USF/ICC Transformation Order issued by the Federal Communications Commission.¹ The USF/ICC Transformation Order has built in an automatic decline in the Company's intrastate and interstate access revenues. The intercarrier compensation portion of the Transformation Order introduces a concept of a base line year for calculating terminating access and reciprocal compensation revenues and provides support from the Connect America Fund ("CAF") based on the base line year. However, the base line year revenues (from which the level of CAF support is derived) are reduced iteratively by five percent each year. The CAF support reduction began in July 2012. Projecting through the year ending June 30, 2019, including reductions that became effective July 1, 2018, the Company has seen a reduction in support from the base line revenue of approximately \$718,846.

On top of all this, during the seven-year period ended December 31, 2017, the Company has seen its total federal high cost support undergo a significant reduction, declining from \$2,595,126 in 2011 to \$2,072,451 in 2017.

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

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

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*).

EXHIBIT 4

STATE USF FILING
FINANCIAL TEMPLATE
"S CORP" COMPANIES

Company Name: (Below)
Whidbey Telephone Company

ASSETS	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	5,466,584		5,466,584	25. Accounts Payable	873,012		873,012
2. Cash-RUS Construction Fund			0	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments	3,125	(3,125)	0
a. Telecom, Accounts Receivable			0	28. Customer Deposits	0		0
b. Other Accounts Receivable	1,719,789		1,719,789	29. Current Mat. L/T Debt	0		0
c. Notes Receivable				30. Current Mat. L/T Debt Rur. Dev.	0		0
4. Non-Affiliates:				31. Current Mat. - Capital Leases	0		0
a. Telecom, Accounts Receivable	400,541		400,541	32. Income Taxes Accrued	264,677		264,677
b. Other Accounts Receivable	1,346,322		1,346,322	33. Other Current Liabilities	671,157		671,157
c. Notes Receivable			0	34. Other Current Liabilities			
5. Interest and Dividends Receivable	193,227		193,227	35. Total Current Liabilities (25 thru 34)	1,811,971	(3,125)	1,808,846
6. Material-Regulated	874,713		874,713	LONG-TERM DEBT			
7. Material-Nonregulated	26,180		26,180	36. Funded Debt-RUS Notes	0		0
8. Prepayments	354,765		354,765	37. Funded Debt-RTB Notes	0		0
9. Other Current Assets	590,006		590,006	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	10,972,127	0	10,972,127	39. Funded Debt-Other	8,000,000		8,000,000
				40. Funded Debt-Rural Develop. Loan	0		0
NONCURRENT ASSETS				41. Premium (Discount) on L/T Debt	0		0
11. Investment in Affiliated Companies				42. Reacquired Debt	0		0
a. Rural Development	8,734,033		8,734,033	43. Obligations Under Capital Lease	0		0
b. Nonrural Development	4,962,486		4,962,486	44. Adv. From Affiliated Companies	0		0
12. Other Investments				45. Other Long-Term Debt	0		0
a. Rural Development			0	46. Total Long-Term Debt (36 thru 45)	8,000,000	0	8,000,000
b. Nonrural Development	1,439,096		1,439,096	OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)	6,132,044	2,405,402	8,537,446	47. Other Long-Term Liabilities	0		0
14. Other Noncurrent Assets	4,505,938		4,505,938	48. Deferred Income Taxes	(4,456,194)		(4,456,194)
15. Deferred Charges			0	49. Other Deferred Credits (D)	422,720	(422,720)	0
16. Jurisdictional Differences			0	50. Other Jurisdictional Differences	0		0
17. Total noncurrent Assets (11 thru 16)	25,773,597	2,405,402	28,178,999	51. Total Other Liab. & Def. Credits (47 thru 50)	422,720	(4,878,914)	(4,456,194)
				EQUITY			
PLANT, PROPERTY AND EQUIPMENT				52. Cap. Stock Outstanding & Subscribed	72,000		72,000
18. Telecom Plant-In-Service	94,883,530	(3,475,634)	91,407,896	53. Additional Paid-in-Capital	0		0
19. Property Held for Future Use	798,914	(798,914)	0	54. Treasury Stock	0		0
20. Plant Under Construction	2,063,972		2,063,972	55. Membership and cap. Certificates	0		0
21. Plant Adj., Nonop Plant & Goodwill			0	56. Other Capital	100,029		100,029
22. Accumulated Depreciation (CR.)	(72,465,299)	1,869,146	(70,596,153)	57. Patronage Capital Credits	0		0
23. Net Plant (18 thru 21 less 22)	25,281,117	(2,405,402)	22,875,715	58. Retained Earnings or Margins (B2)	51,620,121	4,882,039	56,502,160
				59. Total Equity (52 thru 58)	51,792,150	4,882,039	56,674,189
24. TOTAL ASSETS (10+17+23)	62,026,841	0	62,026,841	60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	62,026,841	0	62,026,841

Footnotes:

(A) - As reported on RUS Form 479

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

(C) - Adjusted Balance after Part 64

Footnotes:

(B1) - Part 64 offset to nonreg investment

(B2) - Part 64 offset to retained earnings

(D) - Excludes deferred taxes

Company Name: (Below)
Whidbey Telephone Company

ASSETS	Balance End of Year 2017 (A)	Part 64 Adj to NonReg 2017 (B)	Adj. Balance End of Year 2017 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2017 (A)	Part 64 Adj to NonReg 2017 (B)	Adj. Balance End of Year 2017 (C)
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	4,724,126		4,724,126	25. Accounts Payable	722,643		722,643
2. Cash-RUS Construction Fund			0	26. Notes Payable			0
3. Affiliates:				27. Advance Billings and Payments	4,338	(4,338)	0
a. Telecom, Accounts Receivable			0	28. Customer Deposits			0
b. Other Accounts Receivable			1,908,915	29. Current Mat. L/T Debt	1,000,000		1,000,000
c. Notes Receivable	1,908,915			30. Current Mat. L/T Debt Rur. Dev.			0
4. Non-Affiliates:				31. Current Mat. - Capital Leases			0
a. Telecom, Accounts Receivable	578,408		578,408	32. Income Taxes Accrued			0
b. Other Accounts Receivable	640,406		640,406	33. Other Taxes Accrued	250,839		250,839
c. Notes Receivable			0	34. Other Current Liabilities	788,593		788,593
5. Interest and Dividends Receivable	1,719,835		1,719,835	35. Total Current Liabilities (25 thru 34)	2,766,413	(4,338)	2,762,075
6. Material-Regulated	844,205		844,205	LONG-TERM DEBT			
7. Material-Nonregulated	34,530		34,530	36. Funded Debt-RUS Notes			0
8. Prepayments	380,495		380,495	37. Funded Debt-RTB Notes			0
9. Other Current Assets	590,006		590,006	38. Funded Debt-FFB Notes			0
10. Total Current Assets (1 Thru 9)	11,420,926	0	11,420,926	39. Funded Debt-Other	11,500,000		11,500,000
				40. Funded Debt-Rural Develop. Loan			0
NONCURRENT ASSETS				41. Premium (Discount) on L/T Debt			0
11. Investment in Affiliated Companies				42. Recquired Debt			0
a. Rural Development	8,848,341		8,848,341	43. Obligations Under Capital Lease			0
b. Nonrural Development	4,962,486		4,962,486	44. Adv. From Affiliated Companies			0
12. Other Investments				45. Other Long-Term Debt			0
a. Rural Development	1,452,711		1,452,711	46. Total Long-Term Debt (36 thru 45)	11,500,000	0	11,500,000
b. Nonrural Development	5,521,674		5,521,674	OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)	4,971,052		4,971,052	47. Other Long-Term Liabilities		(5,840,018)	(5,840,018)
14. Other Noncurrent Assets				48. Deferred Income Taxes	468,816	(468,816)	0
15. Deferred Charges				49. Other Deferred Credits (D)			0
16. Jurisdictional Differences				50. Other Jurisdictional Differences			0
17. Total noncurrent Assets (11 thru 16)	25,756,264	1,346,849	27,103,113	51. Total Other Liab. & Def. Credits (47 thru 50)	468,816	(6,308,834)	(5,840,018)
				EQUITY			
PLANT, PROPERTY AND EQUIPMENT				52. Cap. Stock Outstanding & Subscribed			72,000
18. Telecom Plant-In-Service	103,663,516	(2,467,001)	101,196,515	53. Additional Paid-in-Capital	72,000		0
19. Property Held for Future Use	798,914	(798,914)	0	54. Treasury Stock			0
20. Plant Under Construction	123,144		123,144	55. Membership and cap. Certificates			0
21. Plant Adj., Nonop Plant & Goodwill			0	56. Other Capital	105,648		105,648
22. Accumulated Depreciation (CR.)	(75,606,652)	1,919,067	(73,687,585)	57. Patronage Capital Credits			0
23. Net Plant (18 thru 21 less 22)	28,978,922	(1,346,849)	27,632,073	58. Retained Earnings or Margins (B2)	51,243,235	6,313,172	57,556,407
				59. Total Equity (52 thru 58)	51,243,235	6,313,172	57,556,407
24. TOTAL ASSETS (10+17+23)	66,156,112	0	66,156,112	60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	66,156,112	0	66,156,112

Footnotes:

(A) - As reported on RUS Form 479

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

(C) - Adjusted Balance after Part 64

Footnotes:

(B1) - Part 64 offset to nonreg investment

(B2) - Part 64 offset to retained earnings

(D) - Excludes deferred taxes

Company Name: (Below)
Whidbey Telephone Company

ASSETS	Adjusted Prior Year Balance 2016	Adjusted Current Year Balance 2017	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2016	Adjusted Current Year Balance 2017
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	5,466,584	4,724,126	25. Accounts Payable	873,012	722,643
2. Cash-RUS Construction Fund	0	0	26. Notes Payable	0	0
3. Affiliates:			27. Advance Billings and Payments	0	0
a. Telecom, Accounts Receivable	0	0	28. Customer Deposits	0	0
b. Other Accounts Receivable	0	0	29. Current Mat. L/T Debt	0	1,000,000
c. Notes Receivable	1,719,789	1,908,915	30. Current Mat. L/T Debt Rur. Dev.	0	0
4. Non-Affiliates:			31. Current Mat. - Capital Leases	0	0
a. Telecom, Accounts Receivable	400,541	578,408	32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	1,346,322	640,406	33. Other Taxes Accrued	264,677	250,839
c. Notes Receivable	0	0	34. Other Current Liabilities	671,157	788,593
5. Interest and Dividends Receivable	193,227	1,719,835	35. Total Current Liabilities (25 - 34)	1,808,846	2,762,075
6. Material-Regulated	874,713	844,205	LONG-TERM DEBT		
7. Material-Nonregulated	26,180	34,530	36. Funded Debt-RUS Notes	0	0
8. Prepayments	354,765	380,495	37. Funded Debt-RTB Notes	0	0
9. Other Current Assets	590,006	590,006	38. Funded Debt-FFB Notes	0	0
10. Total Current Assets (1 Thru 9)	10,972,127	11,420,926	39. Funded Debt-Other	8,000,000	11,500,000
			40. Funded Debt-Rural Develop. Loan	0	0
NONCURRENT ASSETS			41. Premium (Discount) on L/T Debt	0	0
11. Investment in Affiliated Companies			42. Reacquired Debt	0	0
a. Rural Development	8,734,033	8,848,341	43. Obligations Under Capital Lease	0	0
b. Nonrural Development	4,962,486	4,962,486	44. Adv. From Affiliated Companies	0	0
12. Other Investments			45. Other Long-Term Debt	0	0
a. Rural Development	0	1,452,711	46. Total Long-Term Debt (36-45)	8,000,000	11,500,000
b. Nonrural Development	1,439,096	5,521,674	OTHER LIAB. & DEF. CREDITS		
13. Nonregulated Investments	8,537,446	6,317,901	47. Other Long-Term Liabilities	0	(5,840,018)
14. Other Noncurrent Assets	4,505,938	0	48. Deferred Income Taxes	(4,456,194)	0
15. Deferred Charges	0	0	49. Other Deferred Credits	0	0
16. Jurisdictional Differences	0	0	50. Other Jurisdictional Differences	0	0
17. Total noncurrent Assets (11 thru 16)	28,178,999	27,103,113	51. Total Other Liab. & Def. Credits (47 thru 50)	(4,456,194)	(5,840,018)
			EQUITY		
PLANT, PROPERTY AND EQUIPMENT			52. Cap. Stock Outstanding & Subscribed	72,000	72,000
18. Telecom Plant-in-Service	91,407,896	101,196,515	53. Additional Paid-in-Capital	0	0
19. Property Held for Future Use	0	0	54. Treasury Stock	0	0
20. Plant Under Construction	2,063,972	123,144	55. Membership and cap. Certificates	0	0
21. Plant Adj., Nonop Plant & Goodwill	0	0	56. Other Capital	100,029	105,648
22. Accumulated Depreciation (CR.)	(70,596,153)	(73,687,585)	57. Patronage Capital Credits	0	0
23. Net Plant (18 thru 21 less 22)	22,875,715	27,632,073	58. Retained Earnings or Margins	56,502,160	57,556,407
			59. Total Equity (51 thru 57)	56,674,189	57,734,055
24. TOTAL ASSETS (10+17+23)	62,026,841	66,156,112	60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	62,026,841	66,156,112

Footnote:
Adjusted Balances represents balances after Part 64 adjustments

Company Name: (Below)
Whidbey Telephone Company

Line #	Description	B/S Line #	Adj. Balance End of Year 2016	Adj. Balance End of Year 2017	Average Adj End of Year Balance
	Average Rate Base:				
1	Total Regulated Adjusted Telecom Plant-In-Service	18	91,407,896	101,196,515	96,302,205
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(70,596,153)	(73,687,585)	(72,141,869)
4	Total Regulated Materials & Supplies	6	874,713	844,205	859,459
5	Deferred Income Taxes (CR)*		(4,387,989)	(5,774,951)	(5,081,470)
6	Total Regulated Rate Base		17,298,467	22,578,183	19,938,325

Footnotes:

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

Company Name: (Below)
Whidbey Telephone Company

Line #	Description	Prior Year End of Yr. Balance - 2016	Current Year End of Yr. Balance - 2017	Difference	% Change
	Access Lines:				
1	Residential	7,113	6,128	(985)	-13.8%
2	Business	1,614	1,483	(131)	-8.1%
3	Total	8,727	7,611	(1,116)	-12.8%

Note: If 2016 does not equal last year's petition and template, explain.

Company Name: (Below)
Whidbey Telephone Company

Line #	Description	Prior Year 2016 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2016 (C)
1	Local Network Services Revenues	2,301,935		2,301,935
2	Network Access Services Revenues	9,785,647		9,785,647
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	91,818	(85,022)	6,796
5	Miscellaneous Revenues	416,946	(8,327)	408,619
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(7,210)		(7,210)
7	Net Operating Revenues (1 thru 6)	12,589,136	(93,349)	12,495,787
8	Plant Specific Operations Expense	3,423,438	(52,444)	3,370,994
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	2,008,423	(362,909)	1,645,514
10	Depreciation Expense	3,045,348	(74,926)	2,970,422
11	Amortization Expense	0		0
12	Customer Operations Expense	1,170,870	(71,800)	1,099,070
13	Corporate Operations	2,752,452	(55,570)	2,696,882
14	Total Operations Expenses (8 thru 13)	12,400,531	(617,649)	11,782,882
15	Operating Income or Margins (7 less 14)	188,605	524,300	712,905
16	Other Operating Income and Expenses ()	18,182	-24425	(6,243)
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)		0	0
19	Other Taxes	365,223	(43,934)	321,289
20	Total Operating Taxes (17+18+19)	365,223	(43,934)	321,289
21	Net Operating Income or Margins (15+16-20)	(158,436)	543,809	385,373
22	Interest on Funded Debt	163,413	(104,772)	58,641
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (Record as a Credit)			0
26	Total Fixed Charges (22+23+24+25)	163,413	(104,772)	58,641
27	Nonoperating Net Income	3,754,671		3,754,671
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	322,522	(648,581)	(326,059)
31	Total Net Income or Margins (21+27+28+29+30-26)	3,755,344	0	3,755,344
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	50,353,577		50,353,577
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)	2,488,800		2,488,800
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38)(A2)	51,620,121	0	51,620,121
40	Patronage Capital Beginning-of-Year			0
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	Patronage Capital End-of-Year (40+41-42)	0	0	0
44	Annual Debt Service Payments	750,000		750,000
45	Cash Ratio ((14+20-10-11)/7)	0.7721	6.2846	0.7309
46	Operating Accrual Ratio ((14+20+26)/7)	1.0270	8.2096	0.9734
47	TIER ((31+26)/26)	23.9807	1.0000	65.0396
48	DSCR ((31+26+10+11)/44)	9.2855	#DIV/0!	9.0459

Footnotes:

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

Company Name: (Below)
Whidbey Telephone Company

Line #	Description	Current Year 2017 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2017 (C)
1	Local Network Services Revenues	2,162,168		2,162,168
2	Network Access Services Revenues	10,734,025		10,734,025
3	Long Distance Network Services Revenues			0
4	Carrier Billing and Collection Revenues	84,404	(80,599)	3,805
5	Miscellaneous Revenues	356,866	(7,506)	349,360
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	1,996		1,996
7	Net Operating Revenues (1 thru 6)	13,339,459	(88,105)	13,251,354
8	Plant Specific Operations Expense	3,591,531	(285,498)	3,306,033
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	1,979,367	(107,652)	1,871,715
10	Depreciation Expense	3,299,778	(26,545)	3,273,233
11	Amortization Expense			0
12	Customer Operations Expense	1,265,323	(79,063)	1,186,260
13	Corporate Operations	2,840,281	(67,026)	2,773,255
14	Total Operations Expenses (8 thru 13)	12,976,280	(565,784)	12,410,496
15	Operating Income or Margins (7 less 14)	363,179	477,679	840,858
16	Other Operating Income and Expenses ()	22	(22)	0
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)		0	0
19	Other Taxes	355,653	(47,476)	308,177
20	Total Operating Taxes (17+18+19)	355,653	(47,476)	308,177
21	Net Operating Income or Margins (15+16-20)	7,548	525,133	532,681
22	Interest on Funded Debt	539,187	(295,774)	243,413
23	Interest Expense - Capital Leases			0
24	Other Interest Expense			0
25	Allowance for Funds Used During Construction (Record as a Credit)	(223,189)		(223,189)
26	Total Fixed Charges (22+23+24+25)	315,998	(295,774)	20,224
27	Nonoperating Net Income	2,911,991		2,911,991
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	(273,227)	(820,907)	(1,094,134)
31	Total Net Income or Margins (21+27+28+29+30-26)	2,330,314	0	2,330,314
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	51,620,121		51,620,121
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)	2,707,200		2,707,200
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38))(A2)	51,243,235	0	51,243,235
40	Patronage Capital Beginning-of-Year			0
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	Patronage Capital End-of-Year (40+41-42)	0	0	0
44	Annual Debt Service Payments			0
45	Cash Ratio ((14+20-10-11)/7)	0.7521	6.6593	0.7128
46	Operating Accrual Ratio ((14+20+26)/7)	1.0231	10.3176	0.9613
47	TIER ((31+26)/26)	8.3745	1.0000	116.2252
48	DSCR ((31+26+10+11)/44)	#DIV/0!	#DIV/0!	#DIV/0!

Footnotes:

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

Company Name: (Below)
 Whidbey Telephone Company

Line #	Description	Adjusted Prior Year 2016	Adjusted Current Year 2017
1	Local Network Services Revenues	2,301,935	2,162,168
2	Network Access Services Revenues	9,785,647	10,734,025
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	6,796	3,805
5	Miscellaneous Revenues	408,619	349,360
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(7,210)	1,996
7	Net Operating Revenues (1 thru 6)	12,495,787	13,251,354
8	Plant Specific Operations Expense	3,370,994	3,306,033
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	1,645,514	1,871,715
10	Depreciation Expense	2,970,422	3,273,233
11	Amortization Expense	0	0
12	Customer Operations Expense	1,099,070	1,186,260
13	Corporate Operations	2,696,882	2,773,255
14	Total Operations Expenses (8 thru 13)	11,782,882	12,410,496
15	Operating Income or Margins (7 less 14)	712,905	840,858
16	Other Operating Income and Expenses ()	(6,243)	0
17	State and Local Taxes	0	0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	0	0
19	Other Taxes	321,289	308,177
20	Total Operating Taxes (17+18+19)	321,289	308,177
21	Net Operating Income or Margins (15+16-20)	385,373	532,681
22	Interest on Funded Debt	58,641	243,413
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	0	0
25	Allowance for Funds Used During Construction (Record as a Credit)	0	(223,189)
26	Total Fixed Charges (22+23+24+25)	58,641	20,224
27	Nonoperating Net Income	3,754,671	2,911,991
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	(326,059)	(1,094,134)
31	Total Net Income or Margins (21+27+28+29+30-26)	3,755,344	2,330,314
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	50,353,577	51,620,121
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	2,488,800	2,707,200
36	Dividends Declared (Preferred)	0	0
37	Other Debits Year-to-Date	0	0
38	Transfers to Patronage Capital	0	0
39	Retained Earnings or Margins End-of-Period ((31+33+34)-(35+36+37+38))	51,620,121	51,243,235
40	Patronage Capital Beginning-of-Year	0	0
41	Transfers to Patronage Capital	0	0
42	Patronage Capital Credits Retired	0	0
43	Patronage Capital End-of-Year (40+41-42)	0	0
44	Annual Debt Service Payments	750,000	0
45	Cash Ratio ((14+20-10-11)/7)	0.7309	0.7128
46	Operating Accrual Ratio ((14+20+26)/7)	0.9734	0.9613
47	TIER ((31+26)/26)	65.0396	116.2252
48	DSCR ((31+26+10+11)/44)	9.05	#DIV/0!

Footnote	2016	2017
(A1) S Corporation Effective Tax Rate (2 decimal places):	37.73%	37.67%

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

Company Name: (Below)
 Whidbey Telephone Company

Line #	Description	Part 32 Account	Prior Year 2016	Current Year 2017
1	End User Revenue (SLC, ARC, etc.)	5081	1,268,716	1,336,418
2	Switched Access (excluding USF):	5082		
2a	Intrastate		667,128	530,185
2b	Interstate (includes CAF)		1,279,585	914,444
3	Special Access:	5083		
3a	Intrastate			
3b	Interstate			
4	Federal USF (ICLS/HCL/SN)	Varies	3,065,017	4,377,796
5	Federal USF (ACAM or BLS)	Varies	2,708,286	2,683,646
6	State USF	Varies	796,916	891,536
7	Other*	Varies		
8	Total (must equal line 2 of Income Stmt.)		9,785,648	10,734,025
9	Line 2 of Income Stmt.		9,785,647	10,734,025
10	Difference		1	0

Footnote:

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

Company Name: (Below)

Whidbey Telephone Company

Description of Out-of-Period - 2017 (As Recorded) OR Pro Forma (PF) Adjustments for Current Year or Reversing from Prior Year	Year	OOP or PDF?	Part 32 Account	
			Debit	Credit
Adjustment #1:				
Adjustment #2:				
Adjustment #3:				
Adjustment #4				
Adjustment #5				

Company Name:
Whidbey Telephone Company

Line #	Source(A)	Net Operating Income Inputted FIT Calculation	2017	
1	Page 9, Line 21 (CY)	Adjusted Net Operating Income	532,681	(A)
2		Out-of-Period or Pro Forma Adjustments (Net of FIT)*		
3	Page 9, Line 26 (CY)	Total Fixed Charges	20,224	
4	Sum	Adj. Taxable Operating Income (Line 1 + Line 2 - Line 3)	512,457	
5		Inputted S Corp. Tax Rate(B)	37.67%	(B)
6	Calculated	inputted FIT (Line 4* Line 5)	193,043	
7	Sum	Adj. Net Operating Income after FIT (Lines 1 + 2 - 6)	339,638	
Line #	Source(A)	NonOperating Income Inputted FIT Calculation		
8	Page 9, Line 27 (CY)	Nonoperating net income	2,911,991	(C)
9	Page 9, Line 30 (CY)	Nonregulated net income	(1,094,134)	
10	Sum	Sub-Total (Line 27+Line 30)	1,817,857	
11		Inputted S Corp. Tax Rate(B)	37.67%	
12	Calculated	FIT (Line 10 * Line 11)	684,787	
13	Sum	Nonop/Nonreg income after FIT (Line 10 - Line 12)	1,133,070	
14	Sum	Adjusted Net Income w/inputted FIT	1,472,709	(B)+(C)**
Line #	Source(A)	Sanity Check:		
15	Page 9, Line 31 (CY)	Line 31 as reported	2,330,314	(D)**
16		Out-of-Period or Pro Forma Adjustments*	-	
17		Total	2,330,314	
18		Inverse of effective tax rate (100%-Line 10 percent)	62.33%	
19	Calculated	Adjusted Net Income (Line 17*Line 18)	1,452,485	
Line #	Source(A)	Regulated Rate of Return		
20	Page 5, Total (PY)	Regulated rate base Year End 2016	17,298,467	(E)
21	Page 5, Total (CY)	Regulated rate base Year End 2017	22,578,183	
22	Sum	Total	39,876,650	
23	Calculated	Simple Avg.	19,938,325	
24	Line 7 (above)	Adj Operating Income after inputted FIT	339,638	
27	Calculated	Regulated rate of return	1.7%	

Footnotes:

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

EXHIBIT 4.1

State USF Petition Filing Requirement - WAC 480-123-110(e)
 Prior and Current Year Broadband and Gross Capital Expenditures
 Exhibit 4.1 - Statistics

Company Name: (Below)
 Whidbey Telephone Company

Description	Prior Year End of Yr. Balance - 2016	Current Year End of Yr. Balance - 2017	Difference	% Change
Broadband Connections:				
Residential	6,866	7,189	323	4.7%
Business	883	870	(13)	-1.5%
Total	7,749	8,059	310	4.0%
Gross Regulated Capital Expenditures**:	2016	2017	Difference	% Change
Total Annual Amount	\$3,650,290	\$8,897,533	\$5,247,243	143.7%

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

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

EXHIBIT 5

**WHIDBEY TELEPHONE COMPANY
AND SUBSIDIARIES**

Audited Consolidated Financial Statements

December 31, 2017 and 2016

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

Audited Consolidated Financial Statements

December 31, 2017 and 2016

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JOHNSON
STONE &
PAGANO, P.S.
CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

Board of Directors
Whidbey Telephone Company
Langley, Washington

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Whidbey Telephone Company and Subsidiaries which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Redacted

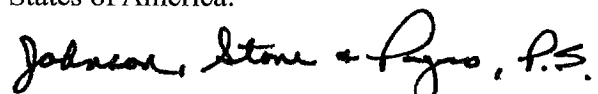
Petition of Whidbey Telephone Company To
Receive Support From The State Universal
Communications Services Program-Exhibit 5

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, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



JOHNSON, STONE & PAGANO, P.S.

April 25, 2018

Designated information is confidential per WAC 480-07-160

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Redacted

Petition of Whidbey Telephone Company To
Receive Support From The State Universal
Communications Services Program-Exhibit 5

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents		
Restricted cash		
Accounts receivable		
Trade		
Other		
Materials and supplies		
Prepayments and deposits		
Total Current Assets		
OTHER ASSETS		
Restricted cash		
Investments		
Total Other Assets		
PROPERTY, PLANT AND EQUIPMENT		
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		

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

Redacted

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable		
Taxes, other than income taxes		
Other current liabilities		
Deferred revenue		
Current portion of long-term debt		
Total Current Liabilities		
LONG-TERM DEBT , less portion classified as a current liability		
Total Liabilities		
STOCKHOLDERS' EQUITY		
Capital stock		
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.

Redacted

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Local network service revenues		
Network access service revenues		
Long distance network service revenues		
Other operating revenues		
Uncollectible revenues		
Total Operating Revenues		
OPERATING EXPENSES		
Plant specific operations		
Plant nonspecific operations		
Depreciation and amortization		
Customer operations		
Corporate operations		
Taxes, other than income taxes		
Total Operating Expenses		
Net Operating Loss		
OTHER INCOME AND EXPENSES - NET		
Other income		
Income Available for Fixed Charges		
FIXED CHARGES AND RELATED ITEMS - NET		
NET INCOME		
OTHER COMPREHENSIVE INCOME		
Unrealized gain on investments		
COMPREHENSIVE INCOME		

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

Redacted

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2017 and 2016

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total</u>
BALANCE AT DECEMBER 31, 2015				
Distributions to stockholders				
Net income for the year				
Other comprehensive income				
BALANCE AT DECEMBER 31, 2016				
Distributions to stockholders				
Net income for the year				
Other comprehensive income				
BALANCE AT DECEMBER 31, 2017				

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

Redacted

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</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		
Net Cash Provided by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment		
Salvage on retired property, plant and equipment		
Cost of removal		
Partnership capital distribution		
Proceeds from sale of investments		
Purchase of investments		
Loans and advances to affiliates and stockholders		
Net Cash Used by Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to stockholders		
Proceeds from long-term debt		
Payments on long-term debt		
Net Cash Provided (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		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and cash equivalents		
Restricted cash		

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

Redacted

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income		
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization		
Partnership distribution included in net income and not included in operating activities		
Realized loss on sale of investments		
Noncash operating income		
Noncash operating expense		
(Increase) decrease in assets		
Accounts receivable		
Materials and supplies		
Prepayments and deposits		
Increase (decrease) in liabilities		
Accounts payable		
Taxes, other than income taxes		
Other current liabilities		
Deferred revenue		
NET CASH PROVIDED BY OPERATING ACTIVITIES		

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

Redacted

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

Principles of Consolidation

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

Organization and Regulation

The Company is a local exchange telecommunications company. The Company, together with its subsidiary Western Long Distance, Inc., provides local exchange, long distance and other telecommunications services including digital subscriber lines to South Whidbey Island and Point Roberts, Washington. The Company also provides internet access services and subscriber television services to customers in western Washington. American Alarm Systems, Inc. provides alarm system installation and alarm monitoring services in western Washington. FiberCloud provided offsite computer data storage, hosted services, internet access and web-hosting services in western Washington. In 2015, FiberCloud sold its assets and discontinued operations. WaterCrest, Inc. and its wholly-owned subsidiary, Second Wind at Ten, LLC, are real estate development companies with a primary focus in western Washington. WiFire, Inc. is a coffee bar located in Freeland, Washington. The Company and each of its subsidiaries are organized under the laws of the State of Washington.

The Company is a small rate-of-return carrier. The Federal Communication Commission ("FCC") Report and Order and Further Notice of Proposed Rulemaking, ("FCC 11-161") and Report and Order, Order and Order on Reconsideration and Further Notice of Proposed Rulemaking ("FCC 16-33"), have reformed the universal service and intercarrier compensation systems. These reforms have modified the manner in which the Company recovers its telecommunications revenue requirements.

Accounting Records

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

Cash and Cash Equivalents

The Company and Subsidiaries consider all highly liquid financial instruments to be cash equivalents and in restricted cash.

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

Restricted Cash

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

Materials and Supplies

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

Investments

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

Fair Value Measurements

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

Accounting for Long-Lived Assets

The Company and Subsidiaries periodically review long-lived assets such as property, plant and equipment and investments carried at cost for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. At December 31, 2017, management has determined that there were no material impairment charges to be recorded as of that date.

Regulated Telecommunications Plant, Maintenance and Depreciation

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

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

Construction-period Interest

Interest applicable to funds used for long-term construction projects is capitalized as part of the cost of the asset and depreciated over the asset's estimated useful life. Interest capitalized totaled \$223,189 in 2017. There was not any interest capitalized in 2016.

Revenue Recognition, Major Customers and Services

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

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

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

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

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

Revenue Recognition, Major Customers and Services (Continued)

In September 2016, the FCC implemented a budget control mechanism for rate-of-return telecommunication carriers designed to ensure that federal support disbursements remain within the specified budget of \$2 billion. This budget control mechanism further reduces HCLS and Connect American Fund Broadband Loop Support ("CAF BLS") funding for the Company by approximately \$286,000 in 2017 and \$33,000 in 2016.

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

The established rate of return of 11.25% used for interstate pooled settlements and other interstate revenue requirements are to be transitioned over six years to 9.75% by July 2021 by a rate of return reduction of .25% each July per FCC order. As of July 2017 and 2016, the rate of return was reduced to 10.75% and 11%, respectively.

The Company continues to review the reforms and modifications to the support that the Company receives, and understands that those reforms and modifications could have an adverse effect on the Company's revenues and cash flow. Revenue impacts are subject to change based upon future data collections and further clarification from the FCC.

Revenues for intrastate access services are received through tariffed access charges filed by the Company at the WUTC. Once filed, the tariffed access charges become effective if specifically approved by the WUTC or allowed to become effective by operation of law. The intrastate switched access charges are billed by the Company to intrastate interexchange carriers. Intrastate special access charges are also billed to intrastate interexchange carriers that order such services and, in some cases, to retail customers that order special access services.

The WUTC implemented a state universal communications service program ("State USF Program") and also replaced the cumulative reduction in support the Company received from the federal CAF. The State USF Program began January 2015 and subsequent annual disbursements comprised of the Traditional USF and the disbursement of the cumulative CAF deficit support are scheduled to occur in January of the following State USF Program years, assuming the Company continues to be eligible under the program. The State USF Program year runs from July 1 to June 30. The Company received \$937,632 from the State USF Program for the period July 1, 2017 to June 30, 2018, and recorded deferred revenue of \$468,816 for the unearned portion. In 2016, the Company received \$845,439 from the State USF Program, for the period July 1, 2016 to June 30, 2017, and recorded deferred revenue of \$422,720 for the unearned portion. The State USF Program is scheduled to last for five program years.

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

Revenue Recognition, Major Customers and Services (Continued)

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

Federal Income Taxes

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

Use of Estimates

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

Subsequent Events

The management of the Company evaluated for subsequent events and transactions for potential recognition and disclosure through April 25, 2018, the date the financial statements were available to be issued. All identified material events or transactions have been recorded or disclosed.

NOTE 2 - CONCENTRATION OF CREDIT RISK

The Company and Subsidiaries maintain cash balances at various financial institutions in western Washington. Accounts at each of the financial institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") with basic coverage up to \$250,000. The Company and its subsidiaries periodically maintain cash in excess of federally insured limits. At December 31, 2017, the Company and its subsidiaries' cash balances exceeded the insured

[REDACTED]

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 2 - CONCENTRATION OF CREDIT RISK (Continued)

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

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

NOTE 3 - ACCOUNTS RECEIVABLE

The trade accounts receivable balances at December 31, 2017 and 2016 consist of:

	<u>2017</u>	<u>2016</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, 2017, 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

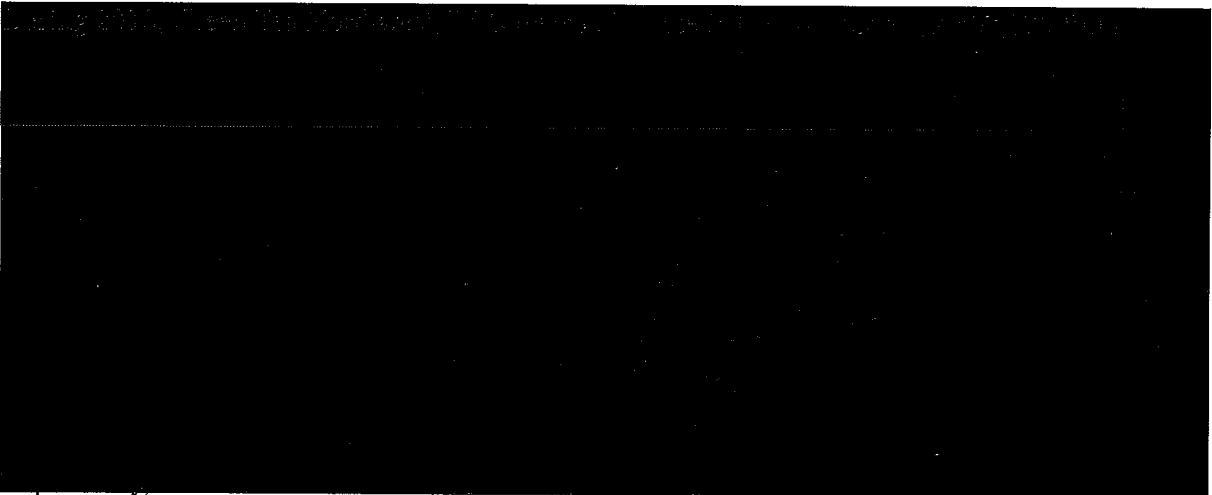
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 4 - INVESTMENTS

Investments consist of:

	<u>2017</u>	<u>2016</u>
Investments at fair value		
Verizon Communications, Inc.		
Sun Life Financial Services of Canada, Inc.		
Frontier Communications		
Mutual funds held at Edward Jones		
Investments at cost		
Note receivable - Green Tea Northwest, LLC		
Notes receivable - stockholders		
Land held for investment		
Artifact Technologies, Inc.		
CoBank, Cooperative Capital Certificate		
Associated Network Partners, Inc.		
Western Independent Networks		

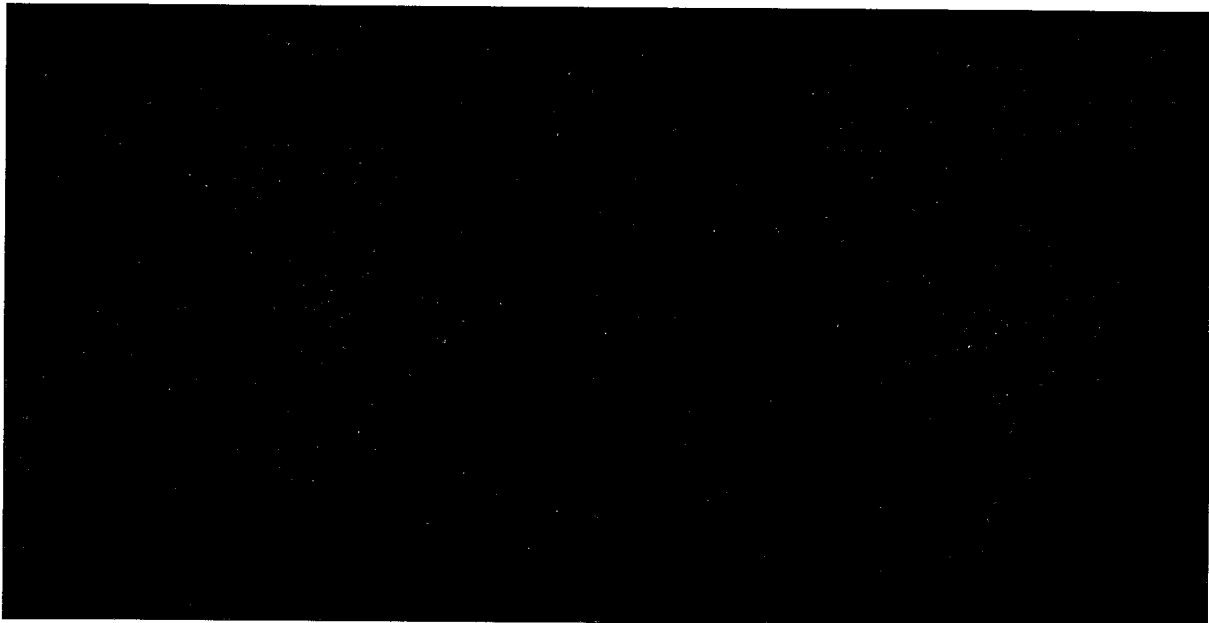


WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

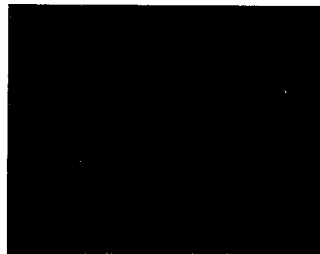
NOTE 4 - INVESTMENTS (Continued)



	<u>Fair Value Measurements</u>		
	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)

December 31, 2017

Verizon Communications, Inc.
Sun Life Financial Services of
Canada, Inc.
Frontier Communications
Growth and Income mutual funds
held at Edward Jones



_____	_____
\$ _____	\$ _____

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 4 - INVESTMENTS (Continued)

	<u>Fair Value Measurements</u>		
	<u>Quoted Prices in Active Markets For Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Other Subjective Inputs (Level 3)</u>
<u>December 31, 2016</u>			
Verizon Communications, Inc.		_____	_____
Sun Life Financial Services of Canada, Inc.			
Frontier Communications Growth and Income mutual funds held at Edward Jones		\$ _____	\$ _____

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, 2017 and 2016

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Regulated Telecommunications Plant

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

Major classes of the telecommunications plant assets in service as of December 31, 2017 and 2016 are:

	<u>2017</u>	<u>2016</u>
General support facilities	\$	
Central office equipment		
Cable and wire facilities		
	\$	

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

General support facilities	
Buildings	4.00%
Furniture and office equipment	15.00% - 25.00%
Vehicles and other work equipment	16.00% - 20.00%
Central office equipment	
Radio systems	13.00%
Other	9.00% - 11.19%
Cable and wire facilities	4.55% - 7.59%

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>2017</u>	<u>2016</u>
Regulated telecommunications plant		
Nonregulated plant		

WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

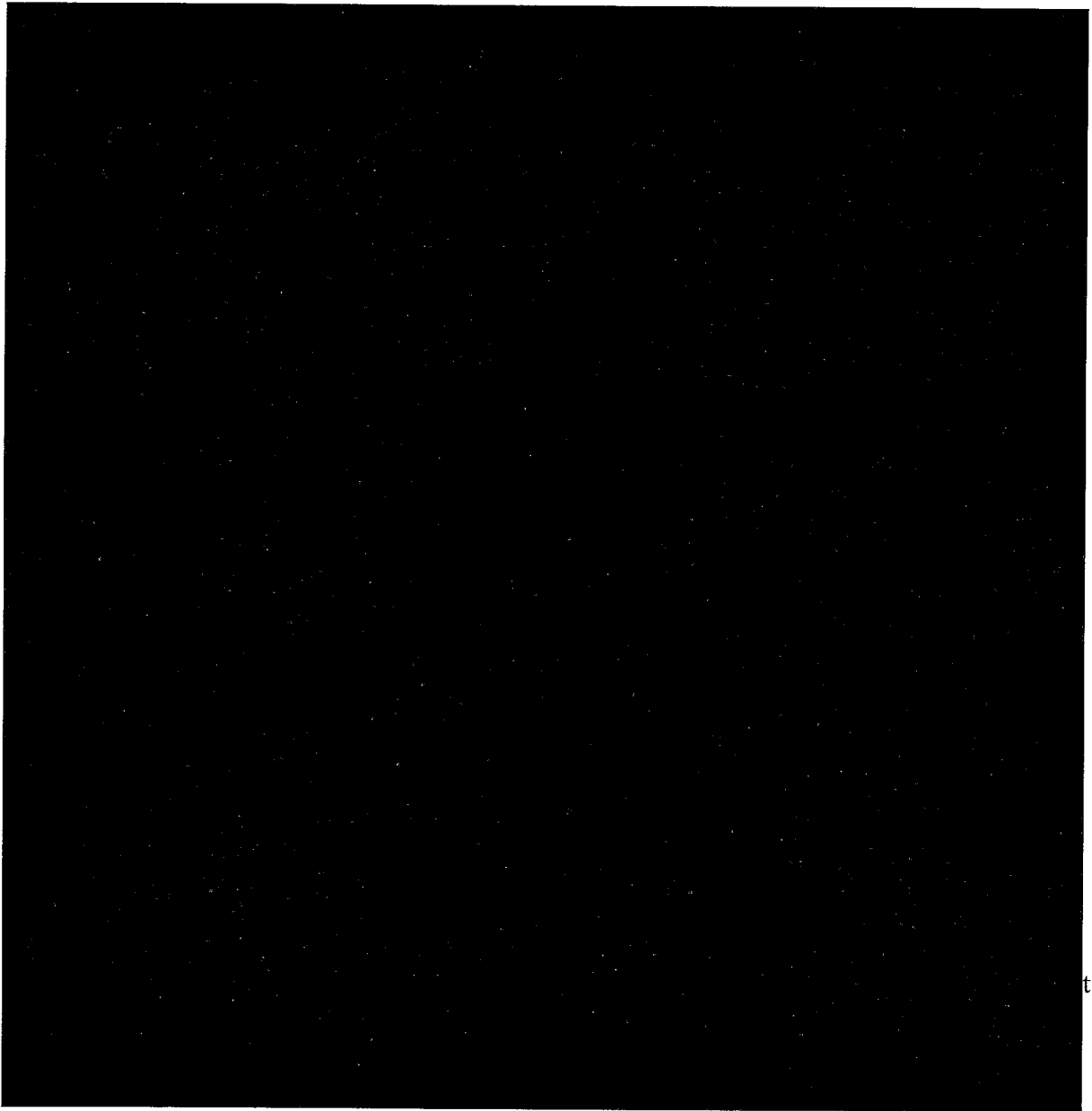
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 6 - NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt at December 31, 2017 and 2016 consist of the following:

2017 2016



WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES


NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

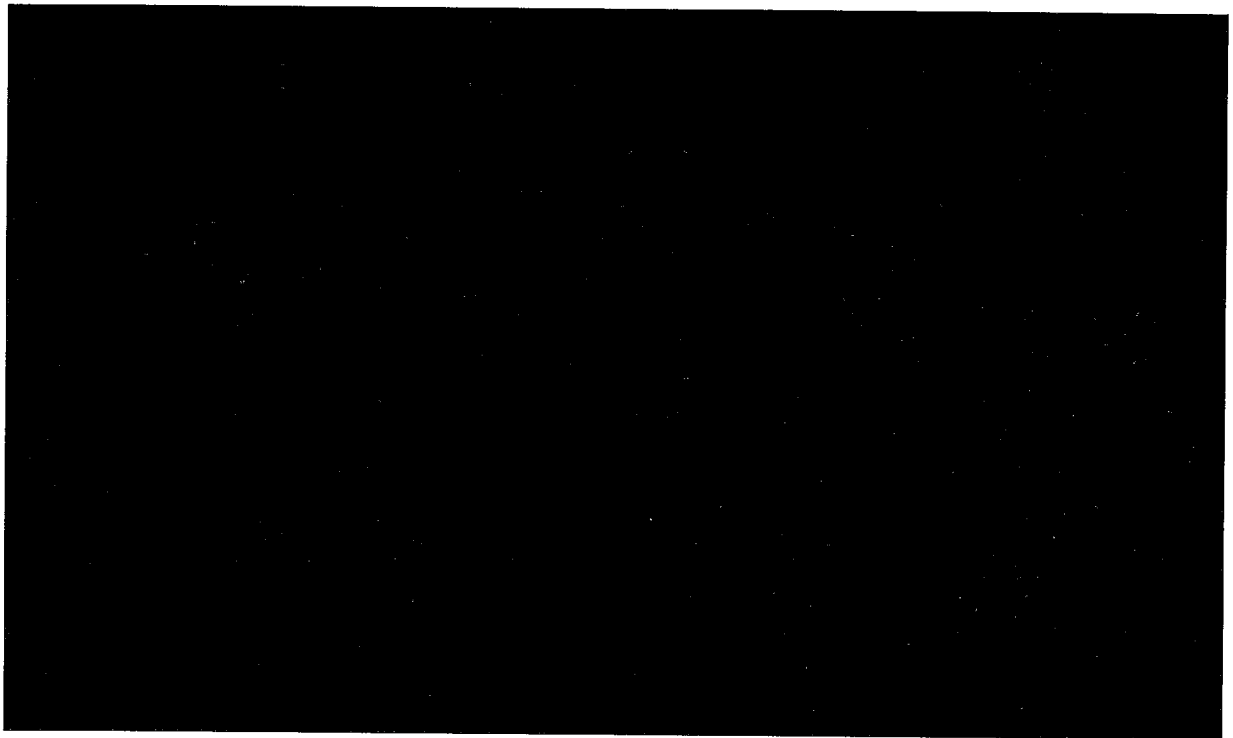
NOTE 7 - CAPITAL STOCK

The authorized, issued and outstanding shares for the years ended December 31, 2017 and 2016 are as follows:

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



NOTE 8 - LEASES AND SERVICE AGREEMENTS

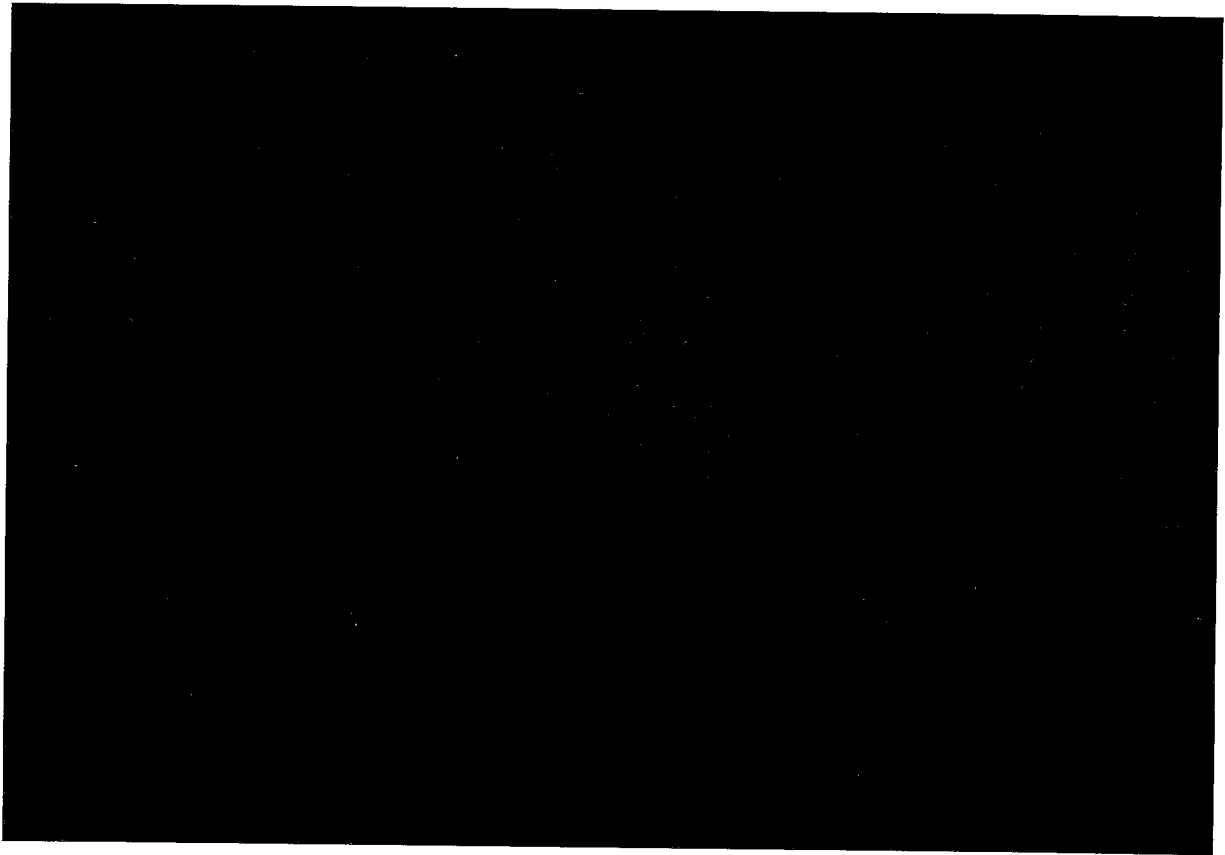


WHIDBEY TELEPHONE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE 9 - PENSION PLAN AND 401(k) PLAN



NOTE 11 - CONTINGENCIES

The budget control mechanism as discussed in Note 1 has been calculated for the first half of 2018 and the Company's federal funding will be further reduced by approximately \$174,000.

EXHIBIT 6

**EXHIBIT 6
RUS FORM 479**

(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
--	--

<010> Study Area Code	522452
<015> Study Area Name	Whidbey Telephone Company
<020> Program Year	2019
<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	2301935	2162168
2. Network Access Services Revenues	9785647	10734025
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues	91818	84404
5. Miscellaneous Revenues	416946	356866
6. Uncollectible Revenues	7210	-1996
7. Net Operating Revenues (1 thru 5 less 6)	12589136	13339459
8. Plant Specific Operations Expense	3423438	3591531
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	2008423	1979367
10. Depreciation Expense	3045348	3299778
11. Amortization Expense	0	0
12. Customer Operations Expense	1170870	1265323
13. Corporate Operations Expense	2752452	2840281
14. Total Operating Expenses (8 thru 13)	12400531	12976280
15. Operating Income or Margins (7 less 14)	188605	363179
16. Other Operating Income and Expenses	18182	2
17. State and Local Taxes		
18. Federal Income Taxes		
19. Other Taxes		
20. Total Operating Taxes (17+18+19)	365223	355653
21. Net Operating Income or Margins (15+16-20)	365223	355653
22. Interest on Funded Debt	-158436	7548
23. Interest Expense - Capital Leases	163413	539187
24. Other Interest Expense		
25. Allowance for Funds Used During Construction		223189
26. Total Fixed Charges (22+23+24-25)	163413	315998
27. Nonoperating Net Income	3754671	2911991
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	322522	-273227
31. Total Net Income or margins (21+27+28+29+30-26)	3755344	2330314
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	50353577	51620121
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)	2488800	2707200
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date	0	0
38. Transfers to Patronage Capital		
39. Retained Earnings or Margins end-of-Period [(31+33+34)-(35+36+37+38)]	51620121	51243235
40. Patronage Capital Beginning-of-Year		
41. Transfers to Patronage Capital		
42. Patronage Capital Credits Retired		
43. Patronage Capital End-of-Year (40+41-42)	0	
44. Annual Debt Service Payments		
45. Cash Ratio [(14+20-10-11)/7]		
46. Operating Accrual Ratio [(14+20+26)/7]		
47. TIER [(31+26)/26]		
48. DSCR [(31+26+10+11)/44]		

EXHIBIT 7

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


If a Provider **HAD** corporate operations expense excluded (not allowed to recover) in 2017 or 2016 as calculated in the high cost loop support algorithm which, for 2016, was input in both the high cost loop support and interstate common line support cost studies, or which, for 2017, was input in both the high cost loop support and broadband loop support (in part, replacing common line support) cost studies, report the excluded expense.

The following amounts of corporate operations expense were required by 47 C.F.R. § 54.1308(a)(4)(ii) to be excluded by [Whidbey Telephone Company] (“Company”) from corporate operations expense that, for 2016, was input in both the Federal high cost loop support and interstate common line support cost studies of the Company for the Company’s study area(s) in the State of Washington, or that, for 2017, was input in both the high cost loop support and broadband loop support (in part, replacing interstate common line support) cost studies of the Company for the Company’s study area(s) in the State of Washington: for 2016, \$ 724,350 ; for 2017, \$ 788,733 .

[OR]

I, **Gary Ricketts**, an officer of **Whidbey Telephone Company** with personal knowledge and responsibility, under penalty of perjury, hereby certify that no amount of corporate operations expense was required by 47 C.F.R. § 54.1308(a)(4)(ii) to be excluded by [Whidbey Telephone Company] (“Company”) from corporate operations expense that, for 2016, was input in both the high cost loop support and interstate common line support cost studies of the Company for the Company’s study area(s) in the State of Washington, or that, for 2017, was input in both the high cost loop support and broadband loop support (in part, replacing interstate common line support) cost studies of the Company for the Company’s study area(s) in the State of Washington

Dated this **2nd** day of **August**, 2018



Secretary / Treasurer

Notes:

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

EXHIBIT 8

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

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

Dated this 1st day of August, 2018.

A handwritten signature in cursive script, appearing to read "Gary Ricketts", is written above a horizontal line.

Gary Ricketts
Secretary/Treasurer

EXHIBIT 9

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Gary Ricketts, an officer of Whidbey Telephone Company, under penalty of perjury, hereby certify that if the Company receives Program support, the Company will continue to provide communications services pursuant to its tariffs on file with the Commission throughout its service territory in Washington for which the company is seeking and receives Program support during the entirety of 2019.

Dated this 1st day of August, 2018.



Gary Ricketts
Secretary/Treasurer