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UTIL. AND TRANSP.
COMMISSION

October 11, 2017

Steven V. King, Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive, SW
Olympia, WA 98504-7250

RE: Pend Oreille Telephone Company
USF Petition – Replacement Exhibits
UT-170859

Dear Mr. King:

Pend Oreille Telephone Company hereby submits its replacement exhibits for Petition of USF Support with demonstration of eligibility under WUTC WAC 480-123-100 and WAC 480-123-110 originally requested on July 31, 2017. This USF Support submission of replacement of Exhibits 2, Exhibit 3, Exhibit 4 and Exhibit 4.1 is filed electronically this date at <http://www.utc.wa.gov/docs/Pages/howToFile.aspx> and includes revisions to Exhibit 2, Exhibit 3, Exhibit 4 and Exhibit 4.1

These exhibits are required under WAC 480-123-110(1)(e)(i) for Pend Oreille Telephone pursuant to Staff comments and initial review. Pend Oreille Telephone Company hereby submits the replacement exhibits to petition Washington Utilities and Transportation Commission to receive support from the Universal Service Communications Program for Program Year 2018.

Sincerely,


Beverly Arrington
Sr. Accounting Specialist

EXHIBIT 2

AFFILIATED TRANSACTIONS

Pend Oreille Telephone Company and its parent, Rural Telephone Company, have a service agreement in which Rural Telephone provides management and operational service to Pend Oreille Telephone Company. These services are direct assigned to Pend Oreille as the expenses are incurred. Rural provided \$ 288,845 and \$ 245,061 of such services in 2016 and 2015, respectively. (The difference in 2016 is because Pend Oreille Telephone Company utilized Rural Telephone Company construction employees for Fiber Construction.)

Pend Oreille leased vehicles and equipment from an affiliate, Little Valley Elk Ranch, in the amount of \$ 14,526 in both 2016 and 2015. In addition, Little Valley Elk Ranch owes Pend Oreille \$ 169,676 for a loan made from Pend Oreille to Little Valley Elk Ranch in 2008. This amount is for principal and interest accrued since that date.

EXHIBIT 3

DEMONSTRATION OF RISK OF RATE INSTABILITY OR SERVICE INTERRUPTION OR CESSATION

The operating environment in which Pend Oreille (or 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 \$2,975,848 during the period January 1, 2011 through December 31, 2016. As a result, the Company has a substantial debt obligation to cover the investment that has been made.

The overall financial condition of the Company is detailed on other Exhibits to this Petition. What this information demonstrates is that, when adjusted to eliminate the support from the state Universal Communications Services Program that the Company received or accrued in 2016, the Company's total regulated revenue decreased by 9.6 percent from 2013 through 2016. Looking forward, the Company could see a further loss in revenue as historical trends have shown decreasing end users, resulting in lower Local Revenues. Coupled with fewer end users, a continued decrease in voice minutes of use could lead to lower Switched Access Revenues. Also, if Pend Oreille continues to see circuit contracts dropped Special Access revenues would likely drop even further.

At the same time, the Company is seeing increased competition. For example, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. Since 2011, the Company has lost 219 access lines or 12.4 percent. A loss of customers equates to a loss of revenue without a corresponding reduction in expenses or corresponding increase in rates. This trend of access line loss is exacerbated by the Federal Communications Commission's requirement that the Company increase its rates to remain eligible for full federal USF support. Since 2012, the Company has increased its local exchange service rates in order to be in compliance with the national urban rate floor prescribed by the Federal Communications Commission. However, those increases have been insufficient to fully replace the revenues that have been lost due to the reduction in access lines. In addition, those rate increases have tended to stimulate a surge in disconnection of service by customers.

Additional 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 inter-carrier 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 calendar year 2018, including additional reductions that will occur July 1, 2017, the Company has seen a reduction in support from the base line revenue amount of approximately \$ 287,151.

On top of all this, during the six-year period ended December 31, 2016, the Company has seen its total Federal High Cost Loop Support undergo a significant reduction, declining from \$178,049 in 2011 to \$127,710 in 2016.

On the supporting schedule to Exhibit 3 the Capital Budget for 2017 – 2021 is outlined to reflect investment related to Alternative Connect America Model (ACAM) and its obligations, as well as the investment related to aspects of the network related to its backbone. Under ACAM, Pend Oreille has substantial build out obligations related to its broadband deployment to locations within its given census blocks (2,259 locations required to build out to). While Pend Oreille is receiving \$1.56 Million in ACAM revenue annually from 2017 – 2026, the investment required to meet ACAM's 10 Year obligations is forecasted at \$13 - \$17 Million. Also, the ACAM obligations will be used to focus on the deployment of broadband to the end user (primarily the loop portion of the network and FTTH build outs). On the supporting schedule for Exhibit 3 Pend Oreille has outlined forecasted Capital Expenditures that are not related to the ACAM build out obligations in the amount of \$2,205,000 for 2017 – 2021. This forecasted investment includes updating the existing electronics and backbone of the current network, improving broadband to existing locations, and building out fiber to new locations near or adjacent to ACAM build out areas. The support from the Washington State Universal Communications Services Program (State USF) would allow Pend Oreille the ability to make these investments without assuming the burden of more LT Debt. These vital improvements to Pend Oreille's network will help retain existing customers as the current broadband product offering would be expanded. This would give the company significantly more flexibility from a rate standpoint and also ensure against cessation of service concerns that persist with outdated technologies supporting the existing network.

From an operating expense standpoint, the Company has seen a steady climb in operating expenses over the period 2012 – 2016. During this timeframe operating expenses (excluding depreciation) have increased \$314,697 or 15.4 percent (see supporting schedule), and if we also consider the forecasted operating expense levels through 2021, the total increase in expenses for 2012- 2021 is \$813,983. While Pend Oreille has diligently cut costs where possible, the overall cost of maintaining the network and navigating the complexities of the industry lead to inherently higher costs. The continued support from the WA State USF program will allow Pend Oreille to ensure the network is maintained to a necessary level so as to not compromise the service customers receive.

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).*

STATE USF FILING
FINANCIAL TEMPLATE
NON-"S CORP" COMPANIES

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

Company Name: (Below)
PEND OREILLE TELEPHONE COMPANY

ASSETS	Balance End of Year 2015 (A)	Part 64 Adj to NonReg 2015 (B)	Adj. Balance End of Year 2015 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2015 (A)	Part 64 Adj to NonReg 2015 (B)	Adj. Balance End of Year 2015 (C)
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	1,159,709		1,159,709	25. Accounts Payable	169,683		169,683
2. Cash-RUS Construction Fund	865		865	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments	213,068		213,068
a. Telecom, Accounts Receivable				28. Customer Deposits	4,650		4,650
b. Other Accounts Receivable	179,221		179,221	29. Current Mat. L/T Debt	98,188		98,188
c. Notes Receivable	82,377		82,377	30. Current Mat. L/T Debt Rur. Dev.	0		0
4. Non-Affiliates:				31. Current Mat. - Capital Leases	0		0
a. Telecom, Accounts Receivable	46,076		46,076	32. Income Taxes Accrued	0		0
b. Other Accounts Receivable	183,224		183,224	33. Other Taxes Accrued	0		0
c. Notes Receivable				34. Other Current Liabilities	52,702		52,702
5. Interest and Dividends Receivable				35. Total Current Liabilities (25 thru 34)	538,291	0	538,291
6. Material-Regulated	185,149	(5,843)	185,149	LONG-TERM DEBT			
7. Material-Nonregulated	5,843		5,843	36. Funded Debt-RUS Notes	1,102,618		1,102,618
8. Prepayments	71,882		71,882	37. Funded Debt-RTB Notes	0		0
9. Other Current Assets	1,914,346	(5,843)	1,908,503	38. Funded Debt-FFB Notes	40,598		40,598
10. Total Current Assets (1 Thru 9)				39. Funded Debt-Other	0		0
				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				43. Obligations Under Capital Lease	0		0
b. Nonrural Development				44. Adv. From Affiliated Companies	0		0
12. Other Investments				45. Other Long-Term Debt	0		0
a. Rural Development	291,118		291,118	46. Total Long-Term Debt (36 thru 45)	1,143,216	0	1,143,216
b. Nonrural Development				OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)		29,850	29,850	47. Other Long-Term Liabilities	0		0
14. Other Noncurrent Assets		29,850	29,850	48. Deferred Income Taxes	333,202	(1,908)	333,202
15. Deferred Charges				49. Other Deferred Credits (D)	0		0
16. Jurisdictional Differences				50. Other Jurisdictional Differences	0		0
17. Total noncurrent Assets (11 thru 16)	291,118	29,850	320,968	51. Total Other Liab. & Def. Credits (47 thru 50)	333,202	(1,908)	333,202
				EQUITY			
PLANT, PROPERTY AND EQUIPMENT				52. Cap. Stock Outstanding & Subscribed	2,666,346		2,666,346
18. Telecom Plant-In-Service	16,754,233	(95,412)	16,658,821	53. Additional Paid-in-Capital	0		0
19. Property Held for Future Use	1,250	(1,250)	0	54. Treasury Stock	0		0
20. Plant Under Construction	99,076		99,076	55. Membership and Capital Certificates	0		0
21. Plant Adj., Nonop Plant & Goodwill				56. Other Capital	0		0
22. Accumulated Depreciation (CR.)	(14,576,779)	72,655	(14,504,124)	57. Patronage Capital Credits	(199,719)	1,908	(197,811)
23. Net Plant (18 thru 21 less 22)	2,277,780	(24,007)	2,253,773	58. Retained Earnings or Margins (B2)	2,466,627	1,908	2,468,535
				59. Total Equity (52 thru 58)	4,483,244	0	4,483,244
24. TOTAL ASSETS (10+17+23)	4,483,244	0	4,483,244	60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	4,483,244	0	4,483,244

Footnotes:

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

Footnotes:

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

State USF Petition Filing Requirement -WAC 480-123-110(2)(e)
Current Year Balance Sheet

Company Name: (Below)
PEND OREILLE 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	1,008,470		1,008,470	25. Accounts Payable	182,640		182,640
2. Cash-RUS Construction Fund			0	26. Notes Payable			0
3. Affiliates:				27. Advance Billings and Payments	245,213		245,213
a. Telecom, Accounts Receivable	0		0	28. Customer Deposits	5,880		5,880
b. Other Accounts Receivable	171,601		171,601	29. Current Mat. L/T Debt	171,457		171,457
c. Notes Receivable	84,039		84,039	30. Current Mat. L/T Debt Rur. Dev.			0
4. Non-Affiliates:				31. Current Mat. - Capital Leases			0
a. Telecom, Accounts Receivable	41,103		41,103	32. Income Taxes Accrued			0
b. Other Accounts Receivable	221,039		221,039	33. Other Taxes Accrued			0
c. Notes Receivable	0		0	34. Other Current Liabilities	64,078		64,078
5. Interest and Dividends Receivable			0	35. Total Current Liabilities (25 thru 34)	669,268	0	669,268
6. Material-Regulated	223,710	(7,895)	215,815	LONG-TERM DEBT			
7. Material-Nonregulated			0	36. Funded Debt-RUS Notes	999,177		999,177
8. Prepayments			0	37. Funded Debt-RTB Notes			0
9. Other Current Assets	70,867		70,867	38. Funded Debt-FFS Notes	266,965		266,965
10. Total Current Assets (1 Thru 9)	1,820,829	(7,895)	1,812,934	39. Funded Debt-Other			0
				40. Funded Debt-Rural Develop. Loan			0
NONCURRENT ASSETS				41. Premium (Discount) on L/T Debt			0
11. Investment in Affiliated Companies			0	42. Reacquired Debt			0
a. Rural Development			0	43. Obligations Under Capital Lease			0
b. Nonrural Development			0	44. Adv. From Affiliated Companies			0
12. Other Investments			0	45. Other Long-Term Debt	0		0
a. Rural Development	0		0	46. Total Long-Term Debt (36 thru 45)	1,266,142	0	1,266,142
b. Nonrural Development	252,958		252,958	OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)		68,392	68,392	47. Other Long-Term Liabilities			0
14. Other Noncurrent Assets		68,392	68,392	48. Deferred Income Taxes	381,721	(3,791)	377,930
15. Deferred Charges	780		780	49. Other Deferred Credits (D)			0
16. Jurisdictional Differences			0	50. Other Jurisdictional Differences			0
17. Total noncurrent Assets (11 thru 16)	253,738	68,392	322,130	51. Total Other Liab. & Def. Credits (47 thru 50)	381,721	(3,791)	377,930
				EQUITY			
PLANT, PROPERTY AND EQUIPMENT				52. Cap. Stock Outstanding & Subscribed	2,666,346		2,666,346
18. Telecom Plant-in-Service	17,386,766	(172,656)	17,214,110	53. Additional Paid-in-Capital			0
19. Property Held for Future Use	1,250	(1,250)	0	54. Treasury Stock			0
20. Plant Under Construction	187,714		187,714	55. Membership and Capital Certificates			0
21. Plant Adj., Nonop Plant & Goodwill			0	56. Other Capital			0
22. Accumulated Depreciation (CR.)	(14,974,712)	113,409	(14,861,303)	57. Patronage Capital Credits	(307,892)	3,791	(304,101)
23. Net Plant (18 thru 21 less 22)	2,601,018	(60,497)	2,540,521	58. Retained Earnings or Margins (B2)			0
				59. Total Equity (52 thru 58)	2,358,454	3,791	2,362,245
24. TOTAL ASSETS (10+17+23)	4,675,585	0	4,675,585	60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	4,675,585	0	4,675,585

Footnotes:

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

Footnotes:

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

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

Company Name: (Below)
PEND OREILLE TELEPHONE COMPANY

ASSETS	Adjusted Prior Year Balance 2015	Adjusted Current Year Balance 2016	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2015	Adjusted Current Year Balance 2016
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	1,159,709	1,008,470	25. Accounts Payable	169,683	182,640
2. Cash-RUS Construction Fund	865	0	26. Notes Payable	0	0
3. Affiliates:			27. Advance Billings and Payments	213,068	245,213
a. Telecom, Accounts Receivable	0	0	28. Customer Deposits	4,650	5,880
b. Other Accounts Receivable	179,221	171,601	29. Current Mat. L/T Debt	98,188	171,457
c. Notes Receivable	82,377	84,039	30. Current Mat. L/T Debt Rur. Dev.	0	0
4. Non-Affiliates:			31. Current Mat. - Capital Leases	0	0
a. Telecom, Accounts Receivable	46,076	41,103	32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	183,224	221,039	33. Other Taxes Accrued	0	0
c. Notes Receivable	0	0	34. Other Current Liabilities	52,702	64,078
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	538,291	669,268
6. Material-Regulated	185,149	215,815	LONG-TERM DEBT		
7. Material-Nonregulated	0	0	36. Funded Debt-RUS Notes	1,102,618	999,177
8. Prepayments	0	0	37. Funded Debt-RTB Notes	0	0
9. Other Current Assets	71,882	70,887	38. Funded Debt-FFB Notes	0	0
10. Total Current Assets (1 Thru 9)	1,908,503	1,812,934	39. Funded Debt-Other	40,598	266,965
			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	0	0	43. Obligations Under Capital Lease	0	0
b. Nonrural Development	0	0	44. Adv. From Affiliated Companies	0	0
12. Other Investments			45. Other Long-Term Debt	0	0
a. Rural Development	0	0	46. Total Long-Term Debt (36-45)	1,143,216	1,266,142
b. Nonrural Development	291,118	252,958	OTHER LIAB. & DEF. CREDITS		
13. Nonregulated Investments	29,850	68,392	47. Other Long-Term Liabilities	333,202	377,950
14. Other Noncurrent Assets	0	0	48. Deferred Income Taxes	0	0
15. Deferred Charges	0	780	49. Other Deferred Credits	0	0
16. Jurisdictional Differences	0	0	50. Other Jurisdictional Differences	0	0
17. Total noncurrent Assets (11 thru 16)	320,968	322,130	51. Total Other Liab. & Def. Credits (47 thru 50)	333,202	377,950
PLANT, PROPERTY AND EQUIPMENT			EQUITY		
18. Telecom Plant-in-Service	16,658,821	17,214,110	52. Cap. Stock Outstanding & Subscribed	2,666,346	2,666,346
19. Property Held for Future Use	0	0	53. Additional Paid-in-Capital	0	0
20. Plant Under Construction	99,076	187,714	54. Treasury Stock	0	0
21. Plant Adj., Nonop Plant & Goodwill	0	0	55. Membership and Capital Certificates	0	0
22. Accumulated Depreciation (CR.)	(14,504,124)	(14,861,303)	56. Other Capital	0	0
23. Net Plant (18 thru 21 less 22)	2,253,773	2,540,521	57. Patronage Capital Credits	0	0
			58. Retained Earnings or Margins	(197,811)	(304,101)
24. TOTAL ASSETS (10+17+23)	4,483,244	4,675,585	59. Total Equity (52 thru 58)	2,468,535	2,362,245
			59. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	4,483,244	4,675,585

Footnote:
Adjusted Balances represents balances after Part 64 adjustments

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

Company Name: (Below)
 PEND OREILLE TELEPHONE COMPANY

Line #	Description	B/S Line #	Adj. Balance End of Year 2015	Adj. Balance End of Year 2016	Average Adj End of Year Balance
Average Rate Base:					
1	Total Regulated Adjusted Telecom Plant-In-service	18	16,558,821	17,214,110	16,936,466
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(14,504,124)	(14,861,303)	(14,682,714)
4	Total Regulated Materials & Supplies	6	185,149	215,815	200,482
5	Deferred Income Taxes (CR)	48	(333,202)	(377,930)	(355,566)
6	Total Regulated Rate Base		2,006,644	2,190,692	2,098,668

Footnotes:

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

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

Company Name: (Below)
 PEND OREILLE TELEPHONE COMPANY

Line #	Description	Prior Year End of Yr. Balance - 2015	Current Year End of Yr. Balance - 2016	Difference	% Change
1	Residential	1,129	1,129	9	0.8%
2	Business	320	327	7	2.2%
3	Total	1,440	1,456	16	1.1%

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

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

Company Name: (Below)
PEND OREILLE TELEPHONE COMPANY

Line #	Description	Prior Year 2015 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2015 (C)
1	Local Network Services Revenues	410,863	3	410,866
2	Network Access Services Revenues	2,203,921		2,203,921
3	Long Distance Network Services Revenues			0
4	Carrier Billing and Collection Revenues			0
5	Miscellaneous Revenues	26,373	(14,555)	11,818
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(18,879)		(18,879)
7	Net Operating Revenues (1 thru 6)	2,622,278	(14,552)	2,607,726
8	Plant Specific Operations Expense	676,176	(4,965)	671,211
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	213,547	(17,129)	196,418
10	Depreciation Expense	318,962	(1,888)	317,074
11	Amortization Expense			0
12	Customer Operations Expense	176,809	(7,307)	169,502
13	Corporate Operations	803,756	(9,625)	794,131
14	Total Operations Expenses (8 thru 13)	2,189,250	(40,914)	2,148,336
15	Operating Income or Margins (7 less 14)	433,028	26,362	459,390
16	Other Operating Income and Expenses ()			0
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	117,039	4,850	121,889
19	Other Taxes	52,621	(110)	52,511
20	Total Operating Taxes (17+18+19)	169,660	4,740	174,400
21	Net Operating Income or Margins (15+16-20)	263,368	21,622	284,990
22	Interest on Funded Debt	63,615	(22,457)	41,158
23	Interest Expense - Capital Leases			0
24	Other Interest Expense	2,311	(2,311)	0
25	Allowance for Funds Used During Construction (CR)	(2,362)		(2,362)
26	Total Fixed Charges (22+23+24-25)	63,564	(24,768)	38,796
27	Nonoperating Net Income	9,050	(16,274)	(7,224)
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	82,314	(46,390)	35,924
31	Total Net Income or Margins (21+27+28+29+30-26)	291,168	(16,274)	274,894
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	(311,576)		(311,576)
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)	179,311		179,311
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)	(199,719)	(16,274)	(215,993)
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	99,774		99,774
45	Cash Ratio ((14+20-10-11)/7)	0.7779	2.3561	0.7691
46	Operating Accrual Ratio ((14+20+26)/7)	0.9238	4.1879	0.9056
47	TIER ((31+26)/26)	5.5807	1.6571	8.0856
48	DSCR ((31+26+10+11)/44)	6.7522	#DIV/0!	6.3219

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9, Inc. 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)
- (C) Adjusted balance after Part 64 adjustments

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

Company Name: (Below)
PEND OREILLE TELEPHONE COMPANY

Line #	Description	Current Year 2016 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2016 (C)
1	Local Network Services Revenues	419,794		419,794
2	Network Access Services Revenues	2,099,061		2,099,061
3	Long Distance Network Services Revenues			0
4	Carrier Billing and Collection Revenues			0
5	Miscellaneous Revenues	30,682		30,682
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(33,780)		(33,780)
7	Net Operating Revenues (1 thru 6)	2,515,757	0	2,515,757
8	Plant Specific Operations Expense	673,453	(11,337)	662,116
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	228,911	5,664	234,575
10	Depreciation Expense	397,932	(2,701)	395,231
11	Amortization Expense			0
12	Customer Operations Expense	175,398	(5,738)	169,660
13	Corporate Operations	835,335	(13,323)	822,012
14	Total Operations Expenses (8 thru 13)	2,311,029	(27,435)	2,283,594
15	Operating Income or Margins (7 less 14)	204,728	27,435	232,163
16	Other Operating Income and Expenses ()		-	0
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	64,573	(27,391)	37,182
19	Other Taxes	56,646	(217)	56,429
20	Total Operating Taxes (17+18+19)	121,219	(27,608)	93,611
21	Net Operating Income or Margins (15+16-20)	83,509	55,043	138,552
22	Interest on Funded Debt	67,744	(25,946)	41,798
23	Interest Expense - Capital Leases			0
24	Other Interest Expense	2,947	(450)	2,497
25	Allowance for Funds Used During Construction (CR)	(6,688)		(6,688)
26	Total Fixed Charges (22+23+24-25)	64,003	(26,396)	37,607
27	Nonoperating Net Income	3,436	-	3,436
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	118,892	(81,439)	37,453
31	Total Net Income or Margins (21+27+28+29+30-26)	141,834	0	141,834
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	(199,719)		(199,719)
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)	250,007		250,007
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)	(307,892)	0	(307,892)
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	161,085		161,085
45	Cash Ratio ((14+20-10-11)/7)	0.8086	#DIV/0!	0.7878
46	Operating Accrual Ratio ((14+20+26)/7)	0.9922	#DIV/0!	0.9599
47	TIER ((31+26)/26)	3.2161	1.0000	4.7715
48	DSCR ((31+26+10+11)/44)	3.7481	#DIV/0!	3.5675

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 9, Inc. 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)
- (C) Adjusted balance after Part 64 adjustments

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

Company Name:
PEND OREILLE TELEPHONE COMPANY

Line #	Description	Adjusted Prior Year 2015	Adjusted Current Year 2016
1	Local Network Services Revenues	410,866	419,794
2	Network Access Services Revenues	2,203,921	2,099,061
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	0	0
5	Miscellaneous Revenues	11,818	30,682
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(18,879)	(33,780)
7	Net Operating Revenues (1 thru 6)	2,607,726	2,515,757
8	Plant Specific Operations Expense	671,211	662,116
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	196,418	234,575
10	Depreciation Expense	317,074	395,231
11	Amortization Expense	0	0
12	Customer Operations Expense	169,502	169,660
13	Corporate Operations	794,131	822,012
14	Total Operations Expenses (8 thru 13)	2,148,336	2,283,594
15	Operating Income or Margins (7 less 14)	459,390	232,163
16	Other Operating Income and Expenses ()	0	0
17	State and Local Taxes	0	0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	121,889	37,182
19	Other Taxes	52,511	56,429
20	Total Operating Taxes (17+18+19)	174,400	93,611
21	Net Operating Income or Margins (15+16-20)	284,990	138,552
22	Interest on Funded Debt	41,158	41,798
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	0	2,497
25	Allowance for Funds Used During Construction	(2,362)	(6,688)
26	Total Fixed Charges (22+23+24-25)	38,796	37,607
27	Nonoperating Net Income	(7,224)	3,436
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	35,924	37,453
31	Total Net Income or Margins (21+27+28+29+30-26)	274,894	141,834
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	(311,576)	(199,719)
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	179,311	250,007
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))	(215,993)	(307,892)
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	99,774	161,085
45	Cash Ratio ((14+20-10-11)/7)	0.7691	0.7878
46	Operating Accrual Ratio ((14+20+26)/7)	0.9056	0.9599
47	TIER ((31+26)/26)	8.0856	4.7715
48	DSCR ((31+26+10+11)/44)	6.32	3.5675

Footnote
 (A1) S Corporation Effective Tax Rate (2 decimal places):
 Note:
 Adjusted Income Statement reflects Part 64 Adjustments (Regulated to
 Nonregulated).

2015 2016

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

Company Name: (Below)
 PEND OREILLE TELEPHONE COMPANY

Line #	Description	Part 52 Account	Prior Year 2015	Current Year 2016
1	End User Revenue (SLC, ARC, etc.)	5081	196,469	193,766
2	Switched Access (excluding USF):	5082		
2a	Intrastate		149,903	107,653
2b	Interstate (includes CAF)		813,375	762,162
3	Special Access:	5083		
3a	Intrastate		100,009	35,911
3b	Interstate		336,869	329,750
4	Federal USF (ICLS/HCL/SN)	Varies	452,927	468,631
5	State USF		154,600	201,068
6	Other*			
7	Total (must equal line 2 of Income Stmt.)		2,204,152	2,098,941
8	Line 2 of Income Stmt.		2,203,921	2,099,061
9	Difference		231	(120)

Footnote:

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

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

Company Name: (Below)
 PEND OREILLE TELEPHONE COMPANY

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

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

Company Name: (Below)
 PEND OREILLE TELEPHONE COMPANY

Line #	Description	2016 (A)	2016 (B)
1	Rate Base (Jan. 1)	2,006,644	2,006,644
2	Rate Base (Dec. 31)	2,190,692	2,190,692
3	Average Rate Base	2,098,668	2,098,668
4	Net Operating Income	138,552	138,552
5	Out-of-Period Adjustments Net of FIT (1)		
6	Adjusted Net Operating Income	138,552	138,552
7	Earned Regulated Rate of Return	6.60%	6.60%

Footnotes:

- (1) Lines 5 & 12 will be completed by Staff
- (A) Column A to be completed by Company,
- (B) Column B should equal Column A, but may include any Staff Adjustments