

July 29, 2015

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

Dear Mr. King:

Pend Oreille Telephone Company hereby submits its Petition for USF Support with demonstration of eligibility under WUTC WAC 480-123-100 and WAC 480-123-110. This USF Support Petition submission, also filed electronically at <http://www.utc.wa.gov/docs/Pages/howToFile.aspx>, includes : (1) a description of transactions with affiliates; (2) most recent consolidated audited financial statements ; (3) revenues from statements of income and retained earnings or margin section of RUS 479 for prior two years; and (4) the line count by residential and business for 12/31/2014 and 12/31/2013, together with the applicable rates for each class by calendar year.

Also attached are Pend Oreille Telephone Company's reports, certificates and/or exhibits as required under WAC 480-123-110(1)(e)(i) for Pend Oreille Telephone Company pursuant to Chapter 480-123 of the Washington Administrative Code, including, but not limited to, WAC 480-123-110. Pend Oreille Telephone Company hereby petitions the Washington Utilities and Transportation Commission to receive support from the Universal Service Communications Program for Program Year 2016.

Sincerely,



Michael J. Martell
Vice President

MJM/baa

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**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

IN RE

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

DOCKET NO.

PETITION FOR SUPPORT

COMES NOW Pend Oreille Telephone Company (the "Company") and, pursuant to Chapter 480-123 of the Washington Administrative Code ("WAC") including, but not limited to, WAC 480-123-110, hereby petitions the Washington Utilities and Transportation Commission (the "Commission") to receive support from the State Universal Communications Services Program established in RCW 80.36.650 (the "Program") for the Program year 2016.

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

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

PETITION OF PEND OREILLE TELEPHONE
COMPANY TO RECEIVE SUPPORT FROM
THE STATE UNIVERSAL
COMMUNICATIONS SERVICES PROGRAM -

- 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) [Skyline alternative: The Company has been designated as an
3 incumbent local exchange carrier by the Federal Communications Commission.]
- 4 3. WAC 480-123-100(1)(c): The Company offers basic residential and business exchange
5 telecommunications services as set forth in WAC 480-120-021 and RCW 80.36.630.
- 6 4. WAC 480-123-100(1)(d): The Company's rates for residential local exchange service, plus
7 mandatory extended area service charges, are no lower than the local urban rate floor
8 established by the Commission as the benchmark rate based on the Federal Communications
9 Commission's national local urban rate floor pursuant to 47 C.F.R. Sec. 54.318 in effect on
10 the date of this Petition.
- 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: Pend Oreille Telephone Company .
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- 21 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between
22 the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.
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1 A detailed description of any transactions between the Company and the affiliates named in
2 Exhibit 1¹ recorded in the Company's operating accounts is attached hereto as Exhibit 2.²

3 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No.
4 102 in Schedule Exchange Maps 3/97 of the Company's Tariff WN U-1.

5 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate
6 instability or service interruption or cessation in the absence of support from the Program is
7 attached as Exhibit 3.

8 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,
9 are copies of the Company's balance sheet as of December 31, 2014, and December 31,
10 2013, and copies of the Company's statements of income and retained earnings or margin for
11 the years ended December 31, 2014 and December 31, 2013.

12 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial
13 statements for the years ended December 31, 2014 and December 31, 2013, is attached as
14 Exhibit 5.

15 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of
16 return on a total Washington unseparated regulated operations basis for each of the two prior
17 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
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22 ¹ Pursuant to agreement with the Commission Staff, Exhibit 1 is limited to those affiliates having transactions with the
Company that are to be identified in Exhibit 2.

23 ² [Exhibit 2 also includes transactions between the Company and Little Valley Elk Ranch. [Note: This may not apply
24 for all companies.] Pursuant to agreement with the Commission Staff, Exhibit 2 is limited to transactions other than
employment compensation and benefits pursuant to employee benefit plans.
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- 1 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on
2 equity on a total company (regulated and non-regulated) Washington basis for each of the
3 two prior years, calculated in the manner prescribed by the Commission, is provided in
4 Exhibit 4.
- 5 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the
6 statements of income and retained earnings or margin in the same format and detail as is
7 required to complete RUS Form 479 for the prior two years is presented on Exhibit 6.
- 8 10. WAC 480-123-110(1)(e)(vi): [A statement under penalty of perjury from a Company
9 officer with personal knowledge and responsibility certifying that no corporate operations
10 adjustment to existing high-cost loop and interstate common line support mechanisms
11 required by the Federal Communications Commission applied to the Company for the two
12 prior years is attached hereto as Exhibit 7.]
- 13 11. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains additional supporting information
14 requested by the Commission.
- 15 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company
16 officer with personal knowledge and responsibility certifying that the Company complies
17 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to
18 incumbent local exchange companies is attached as Exhibit 8.
- 19 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or
20 on its behalf with the Federal Communications Commission for the calendar year preceding
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1 the current year has already been filed with the Commission. See the Company's filing in
2 Docket No. UT-150063 filed on or about July 1, 2015.

3 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by
4 the Company as of December 31, 2014, was 1161, all of which were within the geographic
5 area for which the Company is seeking support. The number of residential local exchange
6 access lines served by the Company as of December 31, 2013, was 1261, all of which were
7 within the geographic area for which the Company is seeking support. The number of
8 business local exchange access lines served by the Company as of December 31, 2014, was
9 347, all of which were within the geographic area for which the Company is seeking
10 support. The number of business local exchange access lines served by the Company as of
11 December 31, 2013, was 353, all of which were within the geographic area for which the
12 Company is seeking support. The monthly recurring rate charged by the Company for
13 residential local exchange access service on December 31, 2014, was 16.00. The monthly
14 recurring rate charged by the Company for residential local exchange access service on
15 December 31, 2013, was 14.00. The rate charged by the Company for single line business
16 local exchange access service on December 31, 2014, was 25.03. The rate charged by the
17 Company for single line business local exchange access service on December 31, 2013, was
18 25.03. (The Company has other business local exchange service rates, but the Company
19 understands that WAC 480-123-110(1)(g) is requesting the single line business local
20 exchange access service rate.)
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23 15. WAC 480-123-110(1)(h): The requested statement is attached as Exhibit 9.
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1 16. All exhibits attached hereto are incorporated in this Petition as though fully set forth.

2 Respectfully submitted this 29 day of July, 2015.

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4 Pend Oreille Telephone Company

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6 CERTIFICATION

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8 I Michael J. Martell, an officer of the Company that is responsible for the Company's
9 business and financial operations, hereby certify under penalty of perjury that the information and
10 representations set forth in the Petition, above, are accurate and the Company has not knowingly
11 withheld any information required to be provided to the Commission pursuant to the rules
12 governing the Program.

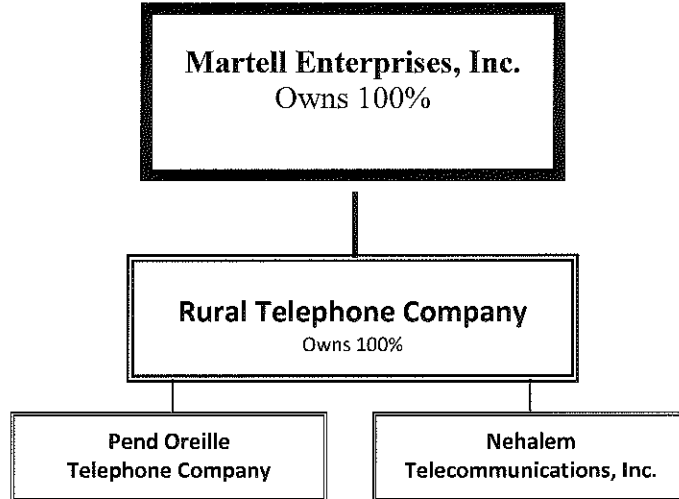
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By: 

Title: Vice-President

EXHIBIT 1

CORPORATE ORGANIZATION CHART



James R. Martell, President	892 W. Madison Avenue	Glenns Ferry, ID 83623
Carmela M. Martell, Secretary/Treasurer	892 W. Madison Avenue	Glenns Ferry, ID 83623
Michael J. Martell, Vice President	892 W. Madison Avenue	Glenns Ferry, ID 83623
Angela C. Carpenter, Board Director	892 W. Madison Avenue	Glenns Ferry, ID 83623
Andrea E. Roberts, Board Director	892 W. Madison Avenue	Glenns Ferry, ID 83623
Mark R. Martell, Board Director	892 W. Madison Avenue	Glenns Ferry, ID 83623
Matthew J. Martell, Board Director	892 W. Madison Avenue	Glenns Ferry, ID 83623

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 \$ 297,712 and \$244,935 of such services in 2014 and 2013, respectively.

Pend Oreille leased vehicles and equipment from an affiliate, Little Valley Elk Ranch, in the amount of \$ 14,526 in both 2014 and 2013.

EXHIBIT 3

DEMONSTRATION OF RISK OF RATE INSTABILITY OR SERVICE INTERRUPTION OR CESSATION

The operating environment in which the Company finds itself is one of great financial uncertainty. In large part, this financial uncertainty stems from the Transformation Order issued by the Federal Communications Commission.¹ The Transformation Order has built in an automatic decline in the Company's intrastate and interstate access revenues. The intercarrier compensation portion of the Transformation Order introduces a concept of a base line year for calculating revenues and provides support from the Connect America Fund ("CAF") based on the base line year. However, the base line year revenues (i.e. CAF support) are reduced by five percent each year. The Company had been exploring ways of addressing access bypass to increase access revenues. However, any increase in access revenues under the Transformation Order would simply be a reduction in CAF support and no new net revenues would be produced. The CAF support reduction began July 2012. Projecting through the calendar year 2015, including additional reductions that will occur July 1, 2015, the Company has seen a reduction in support from the base line revenue amount of approximately \$179,189.

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

In addition, during the 5-year period ended December 31, 2014, the Company has seen its Federal high cost loop support [vanish][undergo a significant reduction] – declining from \$217,347 in 2010 to \$ 123,864 in 2014.

These factors have led to the risky 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 service communications program, the Company may be faced with a choice of increasing rates further, which may drive more customers away, or cutting service in order to be able to match expenses to revenues. Neither choice presents a viable path for providing

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*).

good service to customers. The dilemma presented by these choices reflects the risk of rate instability or service interruption or cessation to which the Company is subject.

Company Name: (Below)
 Pend Oreille Telephone Company

Description	Prior Year End of Yr. Balance - 2013	Current Year End of Yr. Balance - 2014	Difference	% Change
Broadband Connections:				
Residential				
Business				
Total				
Gross Regulated and Nonregulated Capital Expenditures:				
Total Annual Amount				

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 2013 (A)	Part 64 Adj to NonReg 2013 (B)	Adj. Balance End of Year 2013 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2013 (A)	Part 64 Adj to NonReg 2013 (B)	Adj. Balance End of Year 2013 (C)
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	317,801		317,801	25. Accounts Payable	124,046		124,046
2. Cash-RUS Construction Fund	865		865	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments	0		0
a. Telecom, Accounts Receivable	0		0	28. Customer Deposits	3,670		3,670
b. Other Accounts Receivable	184,464		184,464	29. Current Mat. L/T Debt	87,435		87,435
c. Notes Receivable	78,745		78,746	30. Current Mat. L/T Debt-Rur. Dev.	0		0
4. Non-Affiliates:				31. Current Mat. - Capital Leases	0		0
a. Telecom, Accounts Receivable	46,546		46,546	32. Income Taxes Accrued	0		0
b. Other Accounts Receivable	265,892		265,892	33. Other Taxes Accrued	0		0
c. Notes Receivable	0		0	34. Other Current Liabilities	54,771		54,771
5. Interest and Dividends Receivable	0		0	35. Total Current Liabilities (25 thru 34)	269,922	0	269,922
6. Material-Regulated	220,526		220,526	LONG-TERM DEBT			
7. Material-Nonregulated	5,862		5,862	36. Funded Debt-RUS Notes	1,295,829		1,295,829
8. Prepayments	0		0	37. Funded Debt-RTB Notes	0		0
9. Other Current Assets	67,390		67,390	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	1,188,092	0	1,188,092	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	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 thru 45)	1,295,829	0	1,295,829
b. Nonrural Development	367,590		367,590	OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)	0	6,563	6,563	47. Other Long-Term Liabilities	0		0
14. Other Noncurrent Assets	0		0	48. Other Deferred Credits (C)	0		0
15. Deferred Charges	0		0	49. Other Jurisdictional Differences	0		0
16. Jurisdictional Differences	0		0	50. Total Other Liab. & Def. Credits (47 thru 49)	0	0	0
17. Total noncurrent Assets (11 thru 16)	367,590	6,563	374,153	EQUITY			
				51. Cap. Stock Outstanding & Subscribed	2,666,346		2,666,346
PLANT, PROPERTY AND EQUIPMENT				52. Additional Paid-in-Capital	0		0
18. Telecom Plant-In-Service	16,617,822	(30,841)	16,586,981	53. Treasury Stock	0		0
19. Property Held for Future Use	1,250		1,250	54. Membership and cap. Certificates	0		0
20. Plant Under Construction	39,971		39,971	55. Other Capital	0		0
21. Plant-Adj., Nonop Plant & Goodwill	0		0	56. Patronage Capital Credits	0		0
22. Accumulated Depreciation (CR.)	(13,998,451)	24,278	(13,974,173)	57. Retained Earnings or Margins (B2)	(15,828)		(15,828)
23. Net Plant (18 thru 21 less 22)	2,660,588	(6,563)	2,654,025	58. Total Equity (51 thru 57)	2,650,518		2,650,518
24. TOTAL ASSETS (10+17+23)	4,216,270	0	4,216,270	59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	4,216,270	0	4,216,270

Footnotes:
(A) - As reported on RUS Form 479
(B) - Part 64 adjustments from regulated to nonregulated.
(B1) - Part 64 offset to nonreg investment
(B2) - Part 64 offset to retained earnings
(C) - Includes deferred taxes

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

Company Name: (Below)
Pend Oreille Telephone Company

ASSETS	Balance End of Year 2014 (A)	Part 64 Adj to NonReg 2014 (B)	Adj. Balance End of Year 2014 (C)	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2014 (A)	Part 64 Adj to NonReg 2014 (B)	Adj. Balance End of Year 2014 (C)
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	566,521		566,521	25. Accounts Payable	142,660		142,660
2. Cash-RUS Construction Fund	865		865	26. Notes Payable	0		0
3. Affiliates:				27. Advance Billings and Payments	0		0
a. Telecom, Accounts Receivable	0		0	28. Customer Deposits	4,910		4,910
b. Other Accounts Receivable	293,882		293,882	29. Current Mat. L/T Debt	93,408		93,408
c. Notes Receivable	80,747		80,747	30. Current Mat. L/T Debt Rur. Dev.	0		0
4. Non-Affiliates:				31. Current Mat. - Capital Leases	0		0
a. Telecom, Accounts Receivable	57,788		57,788	32. Income Taxes Accrued	0		0
b. Other Accounts Receivable	209,747		209,747	33. Other Taxes Accrued	0		0
c. Notes Receivable	0		0	34. Other Current Liabilities	52,379		52,379
5. Interest and Dividends Receivable	0		0	35. Total Current Liabilities (25 thru 34)	293,357	0	293,357
6. Material-Regulated	218,892		218,892	LONG-TERM DEBT			
7. Material-Nonregulated	9,717	(9,717)	0	36. Funded Debt-RUS Notes	1,200,832		1,200,832
8. Prepayments	0		0	37. Funded Debt-RTB Notes	0		0
9. Other Current Assets	67,799		67,799	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	1,505,958	(9,717)	1,496,240	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	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 thru 45)	1,200,832	0	1,200,832
b. Nonrural Development	367,590		367,590	OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)	0	14,516	14,516	47. Other Long-Term Liabilities	342,946		342,946
14. Other Noncurrent Assets	0		0	48. Other Deferred Credits (C)	0		0
15. Deferred Charges	0		0	49. Other Jurisdictional Differences	0		0
16. Jurisdictional Differences	0		0	50. Total Other Liab. & Def. Credits (47 thru 49)	342,946	0	342,946
17. Total noncurrent Assets (11 thru 16)	367,590	14,516	382,106	EQUITY			
PLANT, PROPERTY AND EQUIPMENT				51. Cap. Stock Outstanding & Subscribed	2,666,346		2,666,346
18. Telecom Plant-in-Service	16,626,707	(31,050)	16,595,657	52. Additional Paid-in-Capital	0		0
19. Property Held for Future Use	1,250	(1,250)	0	53. Treasury Stock	0		0
20. Plant Under Construction	40,128	2,397	42,525	54. Membership and cap. Certificates	0		0
21. Plant Adj., Nonop Plant & Goodwill	0		0	55. Other Capital	0		0
22. Accumulated Depreciation (CR.)	(14,314,403)	25,104	(14,289,299)	56. Patronage Capital Credits	0		0
23. Net Plant (18 thru 21 less 22)	2,353,683	(4,799)	2,348,884	57. Retained Earnings or Margins (B2)	(311,575)	0	(311,575)
24. TOTAL ASSETS (10+17+23)	4,227,230	0	4,227,230	58. Total Equity (51 thru 57)	2,354,771	-	2,354,771
				59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	4,191,906	0	4,191,906

Footnotes:

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

Footnotes:

- (B1) - Part 64 offset to nonreg investment
- (B2) - Part 64 offset to retained earnings
- (C) - Includes 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 2013	Adjusted Current Year Balance 2014	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2013	Adjusted Current Year Balance 2014
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	317,801	566,521	25. Accounts Payable	124,046	142,660
2. Cash-RUS Construction Fund	865	865	26. Notes Payable	0	0
3. Affiliates:			27. Advance Billings and Payments	0	0
a. Telecom, Accounts Receivable	0	0	28. Customer Deposits	3,670	4,910
b. Other Accounts Receivable	184,464	293,882	29. Current Mat. L/T Debt	87,435	93,408
c. Notes Receivable	78,746	80,747	30. Current Mat. L/T Debt Rur. Dev.	0	0
4. Non-Affiliates:			31. Current Mat. - Capital Leases	0	0
a. Telecom, Accounts Receivable	46,546	57,788	32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	265,892	209,747	33. Other Taxes Accrued	0	0
c. Notes Receivable	0	0	34. Other Current Liabilities	54,771	52,379
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	269,922	293,357
6. Material-Regulated	220,526	218,892	LONG-TERM DEBT		
7. Material-Nonregulated	5,862	0	36. Funded Debt-RUS Notes	1,295,829	1,200,832
8. Prepayments	0	0	37. Funded Debt-RTB Notes	0	0
9. Other Current Assets	67,590	67,799	38. Funded Debt-FFB Notes	0	0
10. Total Current Assets (1 Thru 9)	1,188,092	1,496,240	39. Funded Debt-Other	0	0
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan	0	0
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt	0	0
a. Rural Development	0	0	42. Reacquired Debt	0	0
b. Nonrural Development	0	0	43. Obligations Under Capital Lease	0	0
12. Other Investments			44. Adv. From Affiliated Companies	0	0
a. Rural Development	0	0	45. Other Long-Term Debt	0	0
b. Nonrural Development	367,590	367,590	46. Total Long-Term Debt (36-45)	1,295,829	1,200,832
13. Nonregulated Investments	6,563	14,516	OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets	0	0	47. Other Long-Term Liabilities	0	342,946
15. Deferred Charges	0	0	48. Other Deferred Credits	0	0
16. Jurisdictional Differences	0	0	49. Other Jurisdictional Differences	0	0
17. Total noncurrent Assets (11 thru 16)	374,153	382,106	50. Total Other Liab. & Def. Credits (47 thru 49)	0	342,946
PLANT, PROPERTY AND EQUIPMENT			EQUITY		
18. Telecom Plant-in-Service	16,586,981	16,595,657	51. Cap. Stock Outstanding & Subscribed	2,666,346	2,666,346
19. Property Held for Future Use	1,250	0	52. Additional Paid-in-Capital	0	0
20. Plant Under Construction	39,971	42,525	53. Treasury Stock	0	0
21. Plant Adj, Nonop Plant & Goodwill	0	0	54. Membership and cap. Certificates	0	0
22. Accumulated Depreciation (CR.)	(13,974,177)	(14,289,299)	55. Other Capital	0	0
23. Net Plant (18 thru 21 less 22)	2,654,025	2,348,884	56. Patronage Capital Credits	0	0
			57. Retained Earnings or Margins	(15,828)	(311,575)
			58. Total Equity (51 thru 57)	2,650,518	2,354,771
24. TOTAL ASSETS (10+17+23)	4,216,270	4,227,230	59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	4,216,270	4,191,906

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 2013	Adj. Balance End of Year 2014	Average Adj End of Year Balance
Average Rate Base:					
1	Total Regulated Adjusted Telecom Plant-In-service	18	16,586,981	16,595,657	16,591,319
2	Total Property Held for Future Use	19	1,250	0	625
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(13,974,177)	(14,289,299)	(14,131,738)
4	Total Regulated Materials & Supplies	6	220,526	218,892	219,709
5	Deferred Income Taxes (CR)				0
6	Total Regulated Rate Base		2,834,580	2,525,251	2,679,915

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 - 2013	Current Year End of Yr. Balance - 2014	Difference	% Change
Access Lines:					
1	Residential	1,261	1,166	(95)	-7.5%
2	Business	353	347	(6)	-1.7%
3	Total	1,614	1,513	(101)	-6.3%

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 2013 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2013 (C)
1	Local Network Services Revenues	400,949		400,949
2	Network Access Services Revenues	2,148,410		2,148,410
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	(5,282)		(5,282)
5	Miscellaneous Revenues	21,345		21,345
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(5,841)		(5,841)
7	Net Operating Revenues (1 thru 6)	2,559,581	0	2,559,581
8	Plant Specific Operations Expense	623,800	(3,124)	620,676
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	172,200	0	172,200
10	Depreciation Expense	300,876	(629)	300,247
11	Amortization Expense	0		0
12	Customer Operations Expense	167,109	(3,103)	164,006
13	Corporate Operations	783,978	(4,962)	779,016
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()			
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	783,978	(4,962)	779,016
14	Total Operations Expenses (8 thru 12 +13b)	2,047,962	(11,818)	2,036,144
15	Operating Income or Margins (7 less 14)	511,619	11,818	523,437
16	Other Operating Income and Expenses ()	0		0
17	State and Local Taxes	0	0	0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	0	0	0
19	Other Taxes	52,375	(40)	52,335
20	Total Operating Taxes (17+18+19)	52,375	(40)	52,335
21	Net Operating Income or Margins (15+16-20)	459,244	11,858	471,102
22	Interest on Funded Debt	69,518		69,518
23	Interest Expense - Capital Leases	0		0
24	Other Interest Expense	1,422		1,422
25	Allowance for Funds Used During Construction (CR)	(12,054)		(12,054)
26	Total Fixed Charges (22+23+24-25)	58,886	0	58,886
27	Nonoperating Net Income	32,246		32,246
28	Extraordinary Items	0		0
29	Jurisdictional Differences	0		0
30	Nonregulated Net Income (B1)	48,877	(11,858)	37,019
31	Total Net Income or Margins (21+27+28+29+30-26)	481,481	0	481,481
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	(497,312)		(497,312)
34	Miscellaneous Credits Year-to-Date	0		0
35	Dividends Declared (Common)	0		0
36	Dividends Declared (Preferred)	0		0
37	Other Debits Year-to-Date	0		0
38	Transfers to Patronage Capital	0		0
39	Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38))(A2)	(15,831)	0	(15,831)
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	0
44	Annual Debt Service Payments	1,365,347		1,365,347
45	Cash Ratio ((14+20-10-11)/7)	0.7030	#DIV/0!	0.6986
46	Operating Accrual Ratio ((14+20+26)/7)	0.8436	#DIV/0!	0.8390
47	TIER ((31+26)/26)	9.1765	#DIV/0!	9.1765
48	DSCR ((31+26+10+11)/44)	0.6161	#DIV/0!	0.6157

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 8, Inc. Statement Summary Schedule Footnote
- (A2) Column A, Line 39 must equal Column A, Line 57 of Page 1, Balance Sheet
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Part 64 offset to nonregulated income (No Impact to retained earnings)
- (C) Corp. Op. Adj Exp. Reduction - See Exhibit 7 of Petition which takes () amount * 65% to Line 13a, Column C (Reduces total operating expense (L 14) and increases Operating Inc. (L15)

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 2014 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2014 (C)
1	Local Network Services Revenues	393,106		393,106
2	Network Access Services Revenues	1,905,132		1,905,132
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	0		0
5	Miscellaneous Revenues	27,027	(13,195)	13,832
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(9,913)		(9,913)
7	Net Operating Revenues (1 thru 6)	2,315,353	(13,195)	2,302,158
8	Plant Specific Operations Expense	673,124	1,644	674,768
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	191,957	(1,980)	189,977
10	Depreciation Expense	315,948	(633)	315,315
11	Amortization Expense	0		0
12	Customer Operations Expense	165,053	(37,612)	127,441
13	Corporate Operations	797,211	(26,999)	770,212
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()			
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	797,211	(26,999)	770,212
14	Total Operations Expenses (8 thru 12 +13b)	2,143,293	(65,580)	2,077,713
15	Operating Income or Margins (7 less 14)	172,060	52,385	224,445
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)	383,585	(343,866)	39,719
19	Other Taxes	54,556	(37)	54,519
20	Total Operating Taxes (17+18+19)	438,141	(343,903)	94,238
21	Net Operating Income or Margins (15+16-20)	(266,081)	396,288	130,207
22	Interest on Funded Debt	67,118	-16828	50,290
23	Interest Expense - Capital Leases	0		0
24	Other Interest Expense	3,297		3,297
25	Allowance for Funds Used During Construction (CR)	(65)		(65)
26	Total Fixed Charges (22+23+24-25)	70,350	(16,828)	53,522
27	Nonoperating Net Income	11,916	(11,916)	0
28	Extraordinary Items	0		0
29	Jurisdictional Differences	0		0
30	Nonregulated Net Income (B1)	28,767	(413,116)	(384,348)
31	Total Net Income or Margins (21+27+28+29+30-26)	(295,748)	(11,916)	(307,664)
32	Total Taxes Based on income			
33	Retained Earning or Margins Beginning-of-Year	(15,828)		(15,828)
34	Miscellaneous Credits Year-to-Date	0		0
35	Dividends Declared (Common)	0		0
36	Dividends Declared (Preferred)	0		0
37	Other Debits Year-to-Date	0		0
38	Transfers to Patronage Capital	0		0
39	Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38)(A2)	(311,575)	(11,916)	(323,491)
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	0
44	Annual Debt Service Payments	94,997		94,997
45	Cash Ratio ((14+20-10-11)/7)	0.9785	30.9846	0.8065
46	Operating Accrual Ratio ((14+20+26)/7)	1.1453	32.3078	0.9667
47	TIER ((31+26)/26)	(3.2039)	1.7081	(4.7483)
48	DSCR ((31+26+10+11)/44)	0.9532	#DIV/0!	0.6440

Footnotes:

- (A) As reported on RUS Form 479
- (A1) S Corps provide effective tax rate from Cost study on Page 8, Inc. Statement Summary Schedule Footnote
- (A2) Column A, Line 39 must equal Column A, Line 57 of Page 2, Balance Sheet
- (B) Part 64 adjustment from regulated to nonregulated
- (B1) Part 64 offset to nonregulated income (No Impact to retained earnings)
- (C) Corp. Op. Adj Exp. Reduction - See Exhibit 7 of Petition which takes (j) amount * 65% to Line 13a, Column C (Reduces total operating expense (L 14) and increases Operating Inc. (L15)

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 2013	Adjusted Current Year 2014
1	Local Network Services Revenues	400,949	393,106
2	Network Access Services Revenues	2,148,410	1,905,132
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	(5,282)	0
5	Miscellaneous Revenues	21,345	13,832
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(5,841)	(9,913)
7	Net Operating Revenues (1 thru 6)	2,559,581	2,302,158
8	Plant Specific Operations Expense	620,676	674,768
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	172,200	189,977
10	Depreciation Expense	300,247	315,315
11	Amortization Expense	0	0
12	Customer Operations Expense	164,006	127,441
13	Corporate Operations	779,016	770,212
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()	0	0
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	779,016	770,212
14	Total Operations Expenses (8 thru 12 +13b)	2,036,144	2,077,713
15	Operating Income or Margins (7 less 14)	523,437	224,445
16	Other Operating Income and Expenses ()	0	0
17	State and Local Taxes	0	0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	0	39,719
19	Other Taxes	52,335	54,519
20	Total Operating Taxes (17+18+19)	52,335	94,238
21	Net Operating Income or Margins (15+16-20)	471,102	130,207
22	Interest on Funded Debt	69,518	50,290
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	1,422	3,297
25	Allowance for Funds Used During Construction	(12,054)	(65)
26	Total Fixed Charges (22+23+24-25)	58,886	53,522
27	Nonoperating Net Income	32,246	0
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	37,019	(384,348)
31	Total Net Income or Margins (21+27+28+29+30-26)	481,481	(307,664)
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	(497,312)	(15,828)
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	0	0
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))	(15,831)	(323,491)
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	1,365,347	94,997
45	Cash Ratio ((14+20-10-11)/7)	0.6986	0.8065
46	Operating Accrual Ratio ((14+20+26)/7)	0.8390	0.9667
47	TIER ((31+26)/26)	9.1765	(4.7483)
48	DSCR ((31+26+10+11)/44)	0.62	0.6440

Footnote

2013

2014

(A1) S Corporation Effective Tax Rate (2 decimal places):

Note:

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

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

Company Name: (Below)
Pend Oreille Telephone Company

Line #	Description	Part 32 Account	Prior Year 2013	Current Year 2014
1	End User Revenue (SLC, ARC, etc.)	5081	207,356	198,134
2	Switched Access (excluding USF):	5082		
2a	Intrastate		139,967	104,407
2b	Interstate (includes CAF)		331,599	30,993
3	Special Access:	5083		
3a	Intrastate		98,912	111,417
3b	Interstate		308,228	302,822
4	Federal USF (ICLS/HCL/SN)	Varies	1,062,348	1,158,803
5	State USF		0	(1,444)
6	Other*		0	
7	Total (must equal line 2 of Income Stmt.)		2,148,409	1,905,132
8	Line 2 of Income Stmt.		2,148,410	1,905,132
9	Difference		(0)	(0)

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 Adjustments

Description of Out-of-Period - 2014 (As Recorded)

	Part 32 Account
	Debit Credit

Adjustment #1:

Adjustment #2:

Adjustment #3:

Adjustment #4

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	2014
1	Rate Base (Jan. 1)	2,834,580
2	Rate Base (Dec 31)	2,525,251
3	Average Rate Base	2,679,915
4	Net Operating Income	130,207
5	Out-of-Period Adjustments Net of FIT (A)	
6	Adjusted Net Operating Income	130,207
7	Earned Regulated Rate of Return	4.86%
8	Consolidated Equity (Jan 1)	2,650,518
9	Consolidated Equity (Dec 31)	2,354,771
10	Average Equity	2,502,645
11	Consolidated Net Income	(295,748)
12	Out-of-Period Adjustments Net of FIT (B)	
13	Adjusted Consolidated Net Income	(295,748)
14	Earned Return on Equity	-11.82%

Footnote:

(A) Source: Line 31 from Out-of-Period Adjustment work sheet

**WASHINGTON 545
PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
Years ended December 31, 2014 and 2013**

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pend Oreille Telephone Company
Glenns Ferry, Idaho

Report on the Financial Statements

We have audited the accompanying balance sheets of Pend Oreille Telephone Company (an Idaho corporation) as of December 31, 2014, and the related statements of operations, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 significant estimates made by management as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pend Oreille Telephone Company as of December 31, 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued a report dated April 24, 2015, on our consideration of Pend Oreille Telephone Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in assessing the results of our audit.

Kinling Associates LLP

Madison, Wisconsin
April 24, 2015

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**BALANCE SHEETS
December 31, 2014 and 2013**

	2014	2013
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 566,521	\$ 317,803
Special construction account	865	865
Marketable securities	67,799	-
Accounts receivable:		
Due from customers	57,788	46,546
Interexchange carriers		
Less allowance of \$0 and \$90,000, respectively	199,843	263,027
Affiliates	374,629	263,209
Other	9,904	2,865
Materials and supplies at average cost	218,892	220,526
Inventory at average cost	9,717	5,862
	1,505,958	1,120,703
 OTHER NONCURRENT ASSETS		
Marketable securities	-	67,390
Other investments	332,265	367,590
	332,265	434,980
 PROPERTY, PLANT AND EQUIPMENT		
Telephone plant in service	16,626,705	16,617,819
Other property	26,904	26,904
	16,653,609	16,644,723
Less accumulated depreciation	14,341,305	14,025,357
	2,312,304	2,619,366
Plant under construction	40,128	39,971
Property held for future use	1,250	1,250
	2,353,682	2,660,587
 TOTAL ASSETS	\$ 4,191,905	\$ 4,216,270

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

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**BALANCE SHEETS
December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 93,408	\$ 87,435
Accounts payable:		
Interexchange carriers	25,366	20,291
Affiliates	53,859	52,793
Other	63,435	50,963
Customer deposits	4,910	3,670
Other accrued liabilities	52,379	54,771
	<u>293,357</u>	<u>269,923</u>
LONG-TERM DEBT, LESS CURRENT PORTION	<u>1,200,832</u>	<u>1,295,829</u>
OTHER NONCURRENT LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes	<u>342,946</u>	<u>-</u>
STOCKHOLDERS' EQUITY		
Common stock - no par value, 25,000 shares authorized, 5,000 shares issued and outstanding	2,666,346	2,666,346
Retained deficit	<u>(311,576)</u>	<u>(15,828)</u>
	<u>2,354,770</u>	<u>2,650,518</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 4,191,905</u>	<u>\$ 4,216,270</u>

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

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**STATEMENTS OF OPERATIONS
Years ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Local network services	\$ 393,108	\$ 400,949
Network access services	1,905,133	2,148,410
Internet services	419,799	403,985
Other nonregulated services	20,812	25,891
Miscellaneous	27,027	16,064
Uncollectible	<u>(9,913)</u>	<u>(5,841)</u>
	<u>2,755,966</u>	<u>2,989,458</u>
OPERATING EXPENSES		
Plant specific operations	693,426	645,155
Plant nonspecific operations	191,957	172,200
Cost of internet services	388,260	361,128
Depreciation and amortization	315,948	300,875
Customer operations	165,053	167,110
Corporate operations	797,211	783,979
General taxes	<u>54,556</u>	<u>52,375</u>
	<u>2,606,411</u>	<u>2,482,822</u>
OPERATING INCOME	<u>149,555</u>	<u>506,636</u>
OTHER INCOME (EXPENSE)		
Interest and dividend income	17,951	33,571
Allowance for funds used during construction	65	12,054
Interest expense	(70,415)	(70,940)
Other, net	<u>(6,100)</u>	<u>163</u>
	<u>(58,499)</u>	<u>(25,152)</u>
INCOME BEFORE INCOME TAXES	91,056	481,484
INCOME TAXES	<u>386,804</u>	<u>-</u>
NET INCOME (LOSS)	<u>\$ (295,748)</u>	<u>\$ 481,484</u>

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

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2014 and 2013**

	Common Stock Shares	Amount	Retained Deficit	Total Stockholders' Equity
Balance at December 31, 2012	5,000	\$ 2,666,346	\$ (497,312)	\$ 2,169,034
Net income			481,484	481,484
Balance at December 31, 2013	5,000	2,666,346	(15,828)	2,650,518
Net loss			(295,748)	(295,748)
Balance at December 31, 2014	5,000	\$ 2,666,346	\$ (311,576)	\$ 2,354,770

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

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**STATEMENTS OF CASH FLOWS
Years ended December 31, 2014 and 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (295,748)	\$ 481,484
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	315,948	300,875
Deferred income taxes	342,946	-
Patronage in business conducted with cooperatives	(5,547)	(17,672)
Patronage distributions received from business conducted with cooperatives	41,039	40,035
Allowance for funds used during construction	(65)	(12,054)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(66,517)	(57,990)
Material and supplies and inventory	(2,221)	3,924
Increase (Decrease) in:		
Accounts payable	18,613	(739,175)
Customer deposits	1,240	(380)
Advanced billings	-	(82,547)
Other accrued liabilities	(2,392)	11,366
Net cash provided by (used in) operating activities	347,296	(72,134)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(8,978)	(68,332)
Purchases of investments	(576)	(65,055)
Proceeds from sales of investments	-	22,674
Net cash used in investing activities	(9,554)	(110,713)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(89,024)	(7,096)
Change in special construction account	-	304,360
Net cash provided by (used in) financing activities	(89,024)	297,264
Net Increase in Cash and Cash Equivalents	248,718	114,417
Cash and Cash Equivalents at Beginning of Year	317,803	203,386
Cash and Cash Equivalents at End of Year	\$ 566,521	\$ 317,803

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

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Pend Oreille Telephone Company (herein referred to as "the Company") is a provider of telecommunications exchange, local access, and internet services in a service area located in northeast Washington. The Company is a wholly-owned subsidiary of Rural Telephone Company, which is a wholly-owned subsidiary of Martell Enterprises, Inc., both of which are Idaho corporations.

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts 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 could differ from those estimates. Management has evaluated subsequent events through April 24, 2015, the date the financial statements were available for issue. Telephone operations reflect practices appropriate to the telephone industry. The accounting records of the telephone company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Federal Communications Commission (FCC) as modified by the state regulatory authority.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected.

Inventory

Inventory is stated at the lower of cost or market with cost determined by the average cost method.

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Marketable securities bought and held principally for selling in the near future are classified as trading securities and carried at fair value. Unrealized holding gains and losses on trading securities are reported in earnings. Marketable securities classified as available-for-sale are carried at fair value with unrealized holding gains and losses recorded as a separate component of stockholders' equity. Debt securities for which the Company has both the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. The Company uses the specific identification method of computing realized gains and losses. As of December 31, 2014 and 2013, all marketable securities have been categorized as held to maturity, and amortized cost approximates fair value.

Nonmarketable equity investments over which the Company has significant influence are reflected on the equity method. Other nonmarketable equity investments are stated at cost.

Property, Plant and Equipment

Telephone plant in service is capitalized at original cost including the capitalized cost of salaries and wages, materials, certain payroll taxes, employee benefits and interest incurred during the construction period.

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property as approved by the state regulatory authority. These estimates are subject to change in the near term.

Renewals and betterments of units of telephone property are charged to telephone plant in service. When telephone plant is retired, its cost is removed from the asset account and charged against accumulated depreciation less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable telephone property. Repairs and renewals of minor items of telephone property are included in plant specific operations expense.

Repairs of other property, as well as renewals of minor items, are charged to plant specific operations expense. A gain or loss is recognized when other property is sold or retired.

Asset Retirement Obligations

Generally accepted accounting principles require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset Retirement Obligations (Continued)

The Company has determined it does not have a material legal obligation to remove long-lived assets, and accordingly, there have been no liabilities recorded for the years ended December 31, 2014 and 2013.

Software

The Company capitalizes software costs (including right-to-use fees) associated with externally acquired software for internal use. Software maintenance and training costs are expensed as incurred. Capitalized software is generally amortized on a straight-line basis over its useful life, not to exceed five years.

Income Taxes

The Company was taxed as an S Corporation for federal and state income tax purposes for the year ending December 31, 2013. The shareholders included their respective shares of income or loss on their individual tax returns. Accordingly, no provision was made in the accompanying financial statements. The Company is included in the consolidated return of Martell Enterprises, Inc. In 2014, Martell Enterprises, Inc. revoked their S Corporation election. As a result, the Company recognized into current expense the deferred tax consequences of all book to tax differences at the time of revocation.

Beginning in 2014, income taxes are accounted for using a liability method and provide for the tax effects of transactions reported in the financial statements including both taxes currently due and deferred. Deferred taxes are adjusted to reflect deferred tax consequences at current enacted tax rates. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes arise from the effects of accelerated depreciation on property and equipment for tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible, when the assets and liabilities are recovered or settled.

Revenue Recognition

The Company recognizes revenues when earned regardless of the period in which they are billed. The Company is required to provide telephone service to subscribers within its defined service territory.

Local network service and internet revenues are recognized over the period a subscriber is connected to the network.

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Network access revenues are derived from charges for access to the Company's local exchange network. The interstate portion of access revenues is based on a cost separation procedure settlement formula administered by the National Exchange Carrier Association (NECA) which is regulated by the FCC. The intrastate portion of access revenues are billed based on an individual company tariff access charge structure based on expense and plant investment of the Company as approved by the state regulatory authority. The tariffs developed from this structure are used to charge the connecting carrier and recognize revenues in the period the traffic is transported based on the minutes of traffic carried.

Reported network access revenues are estimates subject to settlement adjustments in the near term resulting from changes in expense and plant investment levels and rate of return experience.

Revenues from network access and long distance services were increased/(decreased) by approximately \$(72,000) and \$177,000 in 2014 and 2013, respectively, as a result of adjustments to prior years' estimates.

The Company recognizes internet revenue as the total amount earned from charges to customers in the statement of operations as internet services. In accordance with tariffs filed with the FCC by NECA, the Company charges its non-regulated internet operations the tariffed wholesale DSL rate for the use of the Company's regulated plant facilities. These charges in network access services and cost of internet services totaled \$154,455 and \$144,582 in 2014 and 2013, respectively.

The Company recognizes taxes charged to customers on a net basis.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$75,570 and \$76,567 in 2014 and 2013, respectively.

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Company determined the fair value of its financial assets and liabilities based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform with the 2014 presentation.

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 2. SECURITIES INVESTMENTS

The amortized cost and fair value of held-to-maturity securities are:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2014:</u>				
Held-to-Maturity:				
US Government obligations	\$ <u>67,799</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>67,799</u>
Amounts classified as:				
Current marketable	\$ <u>67,799</u>			
<u>December 31, 2013:</u>				
Held-to-Maturity:				
US Government obligations	\$ <u>67,390</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>67,390</u>
Amounts classified as:				
Marketable securities	\$ <u>67,390</u>			

Investments measured at fair value are valued at Level 1 in the fair value hierarchy.

The amortized cost and fair value of debt securities at December 31, 2014, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Amortized Cost	Fair Value
Held-to-Maturity:		
Due in one year or less	\$ <u>67,799</u>	\$ <u>67,799</u>

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	2014	2013
Telephone plant in service:		
Land	\$ 73,954	\$ 73,954
Buildings	512,429	512,429
Furniture and office equipment	135,951	135,951
Vehicles and work equipment	454,922	454,922
Switching equipment	6,655,361	6,651,732
Outside plant	8,794,088	8,788,831
Subtotal	16,626,705	16,617,819
Other property:		
Internet equipment	26,904	26,904
 Total property, plant and equipment	 \$ 16,653,609	 \$ 16,644,723

Depreciation on depreciable property resulted in composite rates of 1.91% and 1.84% for 2014 and 2013, respectively.

NOTE 4. INCOME TAXES

Income taxes reflected in the Statements of Operations consist of the following:

	2014	2013
Federal income taxes:		
Current tax expense	\$ 43,858	\$ -
Deferred tax expense	342,946	-
Total income tax expense	\$ 386,804	\$ -

No cash was paid for income taxes during 2014. Accounts receivable - affiliates includes federal income taxes due to the parent company of \$43,858 at December 31, 2014.

Deferred federal and state tax liabilities and assets reflected in the Balance Sheets are summarized as follows:

	2014	2013
Deferred Tax Liabilities		
Federal	\$ 342,946	\$ -
Total Deferred Tax Liabilities	342,946	-
Net Deferred Tax Liabilities - Long-Term	\$ 342,946	\$ -

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 4. INCOME TAXES (Continued)

The Company has evaluated its income tax positions and determined that there are no uncertain income tax positions that need to be recorded or reported in the consolidated financial statements at December 31, 2014 and 2013.

The Company's federal income tax returns for years after 2011 remain subject to examination.

NOTE 5. LONG-TERM DEBT

Long-term debt consists of:

	2014	2013
RDUP mortgage notes - 5%	\$ 1,294,240	\$ 1,383,264
Less current portion	<u>93,408</u>	<u>87,435</u>
	<u>\$ 1,200,832</u>	<u>\$ 1,295,829</u>

The annual requirements for principal payments on long-term debt for the next five years are as follows:

2015	\$	93,408
2016		98,200
2017		103,200
2018		108,500
2019		114,000

Substantially all assets of the Company are pledged as security for the long-term debt under certain loan agreements with the Rural Development Utilities Program (RDUP). These mortgage notes are to be repaid in equal monthly and quarterly installments covering principal and interest beginning after date of issue and expiring by 2029.

Cash paid for interest net of amounts capitalized for 2014 and 2013 totaled \$70,350 and \$58,886, respectively.

Unadvanced funds at December 31, 2014 and 2013 for long-term notes totaled \$6,495,000 and \$11,279,640, respectively.

Under the provisions of the loan contract, advances of loan funds shall be deposited in a special construction account and held in trust for the government until disbursed. The loan contract restricts disbursements to such expenditures as RDUP may authorize. All payments from the trust accounts are subject to RDUP approval.

The mortgage to the United States of America, underlying the RDUP notes, contains certain restrictions on the declaration or payment of cash dividends, redemption of capital stock or investment in affiliated companies except as might be specifically authorized in writing in advance by the RDUP noteholders.

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 6. EMPLOYEE BENEFITS

The Company participates in a Safe Harbor 401(k) profit sharing plan (Plan) sponsored by its parent company. The Plan covers all employees who meet certain eligibility requirements under the Plan. Eligible participants may defer wages to their employee deferral accounts subject to specific limitations set by the Internal Revenue Service. Pension costs expensed and capitalized for 2014 and 2013 were \$55,422 and \$48,846, respectively.

NOTE 7. RELATED PARTY TRANSACTIONS

The Company and its parent, Rural Telephone Company (Rural), have a service agreement in which Rural provides management and operational services to the Company. Rural provided \$237,620 and \$244,935 of such services in 2014 and 2013, respectively.

The Company leased equipment from an affiliate, Little Valley Elk Ranch, in the amount of \$14,526 in both 2014 and 2013.

Accounts receivable (payable) affiliates at December 31 consists of the following:

	2014	2013
Accounts receivable, stockholders and employees	\$ 81,522	\$ 81,757
Accounts receivable, Little Valley Elk Ranch	161,038	157,852
Accounts receivable, Rural Telephone Company	132,069	23,600
Accounts receivable (payable), Nehalem Telecommunications, Inc.	(53,859)	(52,793)
	\$ 320,770	\$ 210,416

NOTE 8. CONCENTRATIONS OF CREDIT RISK

The Company grants credit to customers, all of whom are located in the franchised service area, and telecommunications intrastate and interstate long distance carriers. The Company is subject to competition for telecommunications services including telecommunications exchange services offered by other providers in the franchised area.

The Company received 69% of its 2014 revenues from access revenues and assistance provided by the Federal Universal Service Fund. As a result of the Telecommunications Act of 1996, the manner in which access revenues and Universal Service Funds are determined is currently being modified by regulatory bodies.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 9. SUBSEQUENT EVENT

The Company requested funds from the State of Washington Universal Service Fund (WUSF) Program during 2014. The state regulatory authority determined the Company qualified for a disbursement from the USF for 2015 and a payment of \$154,600 was received during 2015. The Company anticipates receiving these disbursements annually going forward.

NOTE 10. REGULATORY ACCOUNTING

For its telephone operations, the Company follows generally accepted accounting principles for regulated enterprises. Accordingly, the Company defers certain cost and obligations and depreciates plant and equipment over lives approved by regulators. While the Company continues to believe the current regulatory and competitive environment supports this accounting treatment, should conditions change the Company would be required to write-off these deferred cost and obligations and evaluate the net carrying value of its plant and equipment for any impairment losses absent the future recovery currently permitted by the regulators.

NOTE 11. REGULATORY MATTERS

The Company receives revenues from access revenues and assistance provided by the Federal Universal Service Fund. As a result of the National Broadband Plan the manner in which access revenues and Universal Service Funds are determined has been modified by the Federal Communications Commission in an order effective December 29, 2011. Among other things, this order provides for (1) a requirement to provide broadband services; (2) the establishment of a Connect America Fund (CAF) to replace current USF and high cost support mechanisms with a cap on the total fund; (3) modifications to the current rate of return support model including caps on the recovery of certain expenditures; (4) a reduction in the terminating access charges billed by the Company over a nine year period with eventual transition to a bill-and-keep framework for the exchange of traffic between carriers; (5) a new access recovery charge on monthly customer bills; and (6) a national framework for reporting and oversight.

The order calls for further guidelines to be adopted on implementation and other topics. Portions of this order applicable to the Company are being challenged. Accordingly, neither the outcome of these proceedings nor their potential impact on the Company can be predicted at this time.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Pend Oreille Telephone Company
Glenns Ferry, Idaho

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Pend Oreille Telephone Company as of and for the year ended December 31, 2014, and have issued our report thereon dated April 24, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pend Oreille Telephone Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Company's internal control to be significant deficiencies:

- **Comment:** Similar to other companies its size, the Company has a limited number of personnel, as a result, it had utilized accounting assistance from another party to draft financial statements and assist with preparation of certain normal annual closing entries.

Potential Effects: Lack of knowledge and experience in preparing financial statements and normal closing entries could result in incomplete disclosures and/or incorrect presentation of information which could have an adverse impact to investors relying on the financial statements.

Management's Response: The Company reviews and approves the results of these activities and believes this approach provides a cost effective solution in light of their limited resources.

- **Comment:** The Company's limited resources and personnel also limits their ability to have a formal internal control and information technology system, complete segregation of duties and a formal risk assessment and monitoring system.

Potential Effects: Due to the lack of segregation of duties, there is a potential for an employee to perpetrate and conceal a theft of assets from the Company.

Management's Response: The Company periodically performs an informal risk assessment and monitors the business risk associated with assignment of personnel to various activities.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pend Oreille Telephone Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under Government Auditing Standards.

Pend Oreille Telephone Company' Response to Findings

The Company's written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kinley Associates LLP

Madison, Wisconsin
April 24, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS
OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS
FOR TELECOMMUNICATIONS BORROWERS**

To the Board of Directors
Pend Oreille Telephone Company
Glenns Ferry, Idaho

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Pend Oreille Telephone Company, which comprise the balance sheet as of December 31, 2014, and the related statements of operations, stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 24, 2015. In accordance with Government Auditing Standards, we have also issued our report dated April 24, 2015, on our consideration of Pend Oreille Telephone Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Pend Oreille Telephone Company failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and the clarified RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Pend Oreille Telephone Company's noncompliance with the above-referenced terms, covenants, provisions or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Pend Oreille Telephone Company's accounting and records to indicate that Pend Oreille Telephone Company did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;

- Record and properly price the retirement of plant;
- Seek the approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers substantially all of the telecommunications system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures).

This report is intended solely for the information and use of the board of directors and management of the Company, the Rural Development Utilities Program and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Kinley Associates LLP

Madison, Wisconsin
April 24, 2015

**WASHINGTON 545
PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
Years ended December 31, 2013 and 2012**

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pend Oreille Telephone Company
Glenns Ferry, Idaho

Report on the Financial Statements

We have audited the accompanying balance sheets of Pend Oreille Telephone Company (an Idaho corporation) as of December 31, 2013, and the related statements of operations, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 significant estimates made by management as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pend Oreille Telephone Company as of December 31, 2013, 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.

Other Matters

The financial statements of Pend Oreille Telephone Company as of December 31, 2012, were audited by other auditors whose report dated May 3, 2013, expressed an unmodified opinion on those statements.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued a report dated April 15, 2014, on our consideration of Pend Oreille Telephone Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in assessing the results of our audit.

Kinling Associates LLP

Madison, Wisconsin
April 15, 2014

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**BALANCE SHEETS
December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 317,803	\$ 203,386
Special construction account	865	305,225
Accounts receivable:		
Due from customers	46,546	120,966
Interexchange carriers		
Less allowance of \$90,000 and \$90,000, respectively	263,027	165,160
Affiliates	263,209	232,427
Other	2,865	(896)
Materials and supplies at average cost	220,526	221,704
Inventory at average cost	5,862	8,608
	<u>1,120,703</u>	<u>1,256,580</u>
 OTHER NONCURRENT ASSETS		
Marketable securities	67,390	22,674
Other investments	367,590	392,288
	<u>434,980</u>	<u>414,962</u>
 PROPERTY, PLANT AND EQUIPMENT		
Telephone plant in service	16,617,819	16,197,416
Other property	26,904	26,904
	<u>16,644,723</u>	<u>16,224,320</u>
Less accumulated depreciation	14,025,357	13,724,482
	<u>2,619,366</u>	<u>2,499,838</u>
Plant under construction	39,971	379,988
Property held for future use	1,250	1,250
	<u>2,660,587</u>	<u>2,881,076</u>
 TOTAL ASSETS	 <u>\$ 4,216,270</u>	 <u>\$ 4,552,618</u>

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

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**BALANCE SHEETS
December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 87,435	\$ -
Accounts payable:		
Interexchange carriers	20,291	53,838
Affiliates	52,793	389,587
Other	50,963	419,797
Advance billing and payments	-	82,547
Customer deposits	3,670	4,050
Other accrued liabilities	<u>54,771</u>	<u>43,405</u>
	<u>269,923</u>	<u>993,224</u>
 LONG-TERM DEBT, LESS CURRENT PORTION	 <u>1,295,829</u>	 <u>1,390,360</u>
 STOCKHOLDERS' EQUITY		
Common stock - no par value, 25,000 shares authorized, 5,000 shares issued and outstanding	2,666,346	2,666,346
Retained deficit	<u>(15,828)</u>	<u>(497,312)</u>
	<u>2,650,518</u>	<u>2,169,034</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 <u>\$ 4,216,270</u>	 <u>\$ 4,552,618</u>

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

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**STATEMENTS OF OPERATIONS
Years ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Local network services	\$ 400,949	\$ 407,262
Network access services	2,148,410	1,426,807
Internet services	403,985	424,462
Other nonregulated services	25,891	23,237
Miscellaneous	16,064	23,318
Uncollectible	<u>(5,841)</u>	<u>(2,594)</u>
	<u>2,989,458</u>	<u>2,302,492</u>
 OPERATING EXPENSES		
Plant specific operations	645,155	563,402
Plant nonspecific operations	172,200	178,982
Cost of internet services	361,128	331,809
Depreciation and amortization	300,875	283,108
Customer operations	167,110	173,112
Corporate operations	783,979	765,805
General taxes	<u>52,375</u>	<u>36,488</u>
	<u>2,482,822</u>	<u>2,332,706</u>
 OPERATING INCOME (LOSS)	 <u>506,636</u>	 <u>(30,214)</u>
 OTHER INCOME (EXPENSE)		
Interest and dividend income	33,571	10,490
Allowance for funds used during construction	12,054	85,298
Interest expense	(70,940)	(76,308)
Other, net	<u>163</u>	<u>(2,846)</u>
	<u>(25,152)</u>	<u>16,634</u>
 NET INCOME (LOSS)	 <u>\$ 481,484</u>	 <u>\$ (13,580)</u>

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

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2013 and 2012**

	<u>Common Stock</u>		<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Deficit</u>	<u>Stockholders'</u>
				<u>Equity</u>
Balance at December 31, 2011	5,000	\$ 2,666,346	\$ (483,732)	\$ 2,182,614
Net loss			(13,580)	(13,580)
Balance at December 31, 2012	5,000	2,666,346	(497,312)	2,169,034
Net income			481,484	481,484
Balance at December 31, 2013	5,000	\$ 2,666,346	\$ (15,828)	\$ 2,650,518

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

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**STATEMENTS OF CASH FLOWS
Years ended December 31, 2013 and 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 481,484	\$ (13,580)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	300,875	248,983
Amortization	-	34,125
Patronage in business conducted with cooperatives	(17,672)	(3,433)
Patronage distributions received from business conducted with cooperatives	40,035	42,047
Allowance for funds used during construction	(12,054)	(85,298)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(57,990)	489,682
Material and supplies and inventory	3,924	(14,442)
Increase (Decrease) in:		
Accounts payable	(739,175)	372,838
Accrued taxes	-	(37)
Customer deposits	(380)	(190)
Advanced billings	(82,547)	-
Other accrued liabilities	11,366	(10,225)
Net cash provided by (used in) operating activities	(72,134)	1,060,470
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(68,332)	(495,097)
Purchases of investments	(65,055)	(21,935)
Proceeds from sales of investments	22,674	49,436
Net cash used in investing activities	(110,713)	(467,596)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowing	-	304,360
Repayment of long-term debt	(7,096)	(468,345)
Change in special construction account	304,360	(304,360)
Net cash provided by (used in) financing activities	297,264	(468,345)
Net Increase in Cash and Cash Equivalents	114,417	124,529
Cash and Cash Equivalents at Beginning of Year	203,386	78,857
Cash and Cash Equivalents at End of Year	\$ 317,803	\$ 203,386

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

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Pend Oreille Telephone Company (herein referred to as "the Company") is a provider of telecommunications exchange, local access, and internet services in a service area located in northeast Washington. The Company is a wholly-owned subsidiary of Rural Telephone Company, which is a wholly-owned subsidiary of Martell Enterprises, Inc., both of which are Idaho corporations.

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts 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 could differ from those estimates. Management has evaluated subsequent events through April 15, 2014, the date the financial statements were available for issue. Telephone operations reflect practices appropriate to the telephone industry. The accounting records of the telephone company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Federal Communications Commission (FCC) as modified by the state regulatory authority.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected.

Inventory

Inventory is stated at the lower of cost or market with cost determined by the average cost method.

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Marketable securities bought and held principally for selling in the near future are classified as trading securities and carried at fair value. Unrealized holding gains and losses on trading securities are reported in earnings. Marketable securities classified as available-for-sale are carried at fair value with unrealized holding gains and losses recorded as a separate component of stockholders' equity. Debt securities for which the Company has both the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. The Company uses the specific identification method of computing realized gains and losses. As of December 31, 2013 and 2012, all marketable securities have been categorized as held to maturity, and amortized cost approximates fair value.

Nonmarketable equity investments over which the Company has significant influence are reflected on the equity method. Other nonmarketable equity investments are stated at cost.

Property, Plant and Equipment

Telephone plant in service is capitalized at original cost including the capitalized cost of salaries and wages, materials, certain payroll taxes, employee benefits and interest incurred during the construction period.

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property as approved by the state regulatory authority. These estimates are subject to change in the near term.

Renewals and betterments of units of telephone property are charged to telephone plant in service. When telephone plant is retired, its cost is removed from the asset account and charged against accumulated depreciation less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable telephone property. Repairs and renewals of minor items of telephone property are included in plant specific operations expense.

Repairs of other property, as well as renewals of minor items, are charged to plant specific operations expense. A gain or loss is recognized when other property is sold or retired.

Asset Retirement Obligations

Generally accepted accounting principles require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset Retirement Obligations (Continued)

The Company has determined it does not have a material legal obligation to remove long-lived assets, and accordingly, there have been no liabilities recorded for the years ended December 31, 2013 and 2012.

Software

The Company capitalizes software costs (including right-to-use fees) associated with externally acquired software for internal use. Software maintenance and training costs are expensed as incurred. Capitalized software is generally amortized on a straight-line basis over its useful life, not to exceed five years.

Income Taxes

The Company is taxed as an S Corporation for federal and state income tax purposes. Shareholders include their respective shares of income or loss on their individual income tax returns. Accordingly, no provision has been made in the accompanying financial statements. The Company is included in the consolidated returns of Martell Enterprises, Inc. The Company's federal and state income tax returns for years 2010 to present remain subject to examination.

During 2014, Martell Enterprises, Inc. revoked their S Corporation election.

Revenue Recognition

The Company recognizes revenues when earned regardless of the period in which they are billed. The Company is required to provide telephone service to subscribers within its defined service territory.

Local network service and internet revenues are recognized over the period a subscriber is connected to the network.

Network access revenues are derived from charges for access to the Company's local exchange network. The interstate portion of access revenues is based on a cost separation procedure settlement formula administered by the National Exchange Carrier Association (NECA) which is regulated by the FCC. The intrastate portion of access revenues are billed based on an individual company tariff access charge structure based on expense and plant investment of the Company as approved by the state regulatory authority. The tariffs developed from this structure are used to charge the connecting carrier and recognize revenues in the period the traffic is transported based on the minutes of traffic carried.

Reported network access revenues are estimates subject to settlement adjustments in the near term resulting from changes in expense and plant investment levels and rate of return experience.

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Revenues from network access and long distance services were increased by approximately \$177,000 in 2013, as a result of adjustments to prior years' estimates.

The Company recognizes internet revenue as the total amount earned from charges to customers in the statement of operations as internet services. In accordance with tariffs filed with the FCC by NECA, the Company charges its non-regulated internet operations the tariffed wholesale DSL rate for the use of the Company's regulated plant facilities. These charges in network access services and cost of internet services totaled \$144,582 and \$119,488 in 2013 and 2012, respectively.

The Company recognizes taxes charged to customers on a net basis.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$76,567 and \$77,061 in 2013 and 2012, respectively.

Fair Value Measurements

The Company determined the fair value of its financial assets and liabilities based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform with the 2013 presentation.

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 2. SECURITIES INVESTMENTS

The amortized cost and fair value of held-to-maturity securities are:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2013:</u>				
Held-to-Maturity:				
US Government obligations	\$ <u>67,390</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>67,390</u>
Amounts classified as:				
Marketable securities	\$ <u>67,390</u>			
<u>December 31, 2012:</u>				
Held-to-Maturity:				
US Government obligations	\$ <u>22,674</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>22,674</u>
Amounts classified as:				
Marketable securities	\$ <u>22,674</u>			

Investments measured at fair value are valued at Level 1 in the fair value hierarchy.

The amortized cost and fair value of debt securities at December 31, 2013, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Amortized Cost	Fair Value
Held-to-Maturity:		
Due after one year through three years	\$ <u>67,390</u>	\$ <u>67,390</u>

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	2013	2012
Telephone plant in service:		
Land	\$ 73,954	\$ 73,954
Buildings	512,429	512,429
Furniture and office equipment	135,951	135,951
Vehicles and work equipment	454,922	454,922
Switching equipment	6,651,732	6,235,295
Outside plant	8,788,831	8,784,865
Subtotal	16,617,819	16,197,416
Other property:		
Internet equipment	26,904	26,904
Total property, plant and equipment	\$ 16,644,723	\$ 16,224,320

Depreciation on depreciable property resulted in composite rates of 1.84% and 1.73% for 2013 and 2012, respectively.

Plant acquisition adjustments of \$2,457,803 were approved by the Washington Utilities Commission and were included as a component of property, plant and equipment due to the underlying assets which produced the adjustments. The adjustments were being amortized over 15 years. Amortization expense in 2012 was \$34,125.

NOTE 4. LONG-TERM DEBT

Long-term debt consists of:

	2013	2012
RDUP mortgage notes - 5%	1,383,264	1,390,360
Less current portion	87,435	-
	\$ 1,295,829	\$ 1,390,360

The annual requirements for principal payments on long-term debt for the next five years are as follows:

2014	\$	87,435
2015		93,400
2016		98,200
2017		103,200
2018		108,500

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 4. LONG-TERM DEBT (Continued)

Substantially all assets of the Company are pledged as security for the long-term debt under certain loan agreements with the Rural Development Utilities Program (RDUP). These mortgage notes are to be repaid in equal monthly and quarterly installments covering principal and interest beginning after date of issue and expiring by 2029.

Cash paid for interest net of amounts capitalized for 2013 and 2012 totaled \$58,886 and \$53,902, respectively.

Unadvanced funds at December 31, 2013 and 2012 for long-term notes totaled \$11,279,640.

Under the provisions of the loan contract, advances of loan funds shall be deposited in a special construction account and held in trust for the government until disbursed. The loan contract restricts disbursements to such expenditures as RDUP may authorize. All payments from the trust accounts are subject to RDUP approval.

The mortgage to the United States of America, underlying the RDUP notes, contains certain restrictions on the declaration or payment of cash dividends, redemption of capital stock or investment in affiliated companies except as might be specifically authorized in writing in advance by the RDUP noteholders.

NOTE 5. EMPLOYEE BENEFITS

The Company participates in a Safe Harbor 401(k) profit sharing plan (Plan) sponsored by its parent company. The Plan covers all employees who meet certain eligibility requirements under the Plan. Eligible participants may defer wages to their employee deferral accounts subject to specific limitations set by the Internal Revenue Service. Pension costs expensed and capitalized for 2013 and 2012 were \$48,846 and \$44,000, respectively.

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 6. RELATED PARTY TRANSACTIONS

The Company and its parent, Rural Telephone Company (Rural), have a service agreement in which Rural provides management and operational services to the Company. Rural provided \$244,935 and \$223,320 of such services in 2013 and 2012, respectively.

The Company leased equipment from an affiliate, Little Valley Elk Ranch, in the amount of \$14,526 in both 2013 and 2012.

Accounts receivable (payable) affiliates at December 31 consists of the following:

	2013	2012
Accounts receivable, stockholders and employees	\$ 81,757	\$ 77,699
Accounts receivable, Little Valley Elk Ranch	157,852	154,729
Accounts receivable (payable), Rural Telephone Company	23,601	(337,839)
Accounts receivable (payable), Nehalem Telecommunications, Inc.	(52,793)	-
	\$ 210,417	\$ (105,411)

NOTE 7. CONCENTRATIONS OF CREDIT RISK

The Company grants credit to customers, all of whom are located in the franchised service area, and telecommunications intrastate and interstate long distance carriers. The Company is subject to competition for telecommunications services including telecommunications exchange services offered by other providers in the franchised area.

The Company received 72% of its 2013 revenues from access revenues and assistance provided by the Federal Universal Service Fund. As a result of the Telecommunications Act of 1996, the manner in which access revenues and Universal Service Funds are determined is currently being modified by regulatory bodies.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

**PEND OREILLE TELEPHONE COMPANY
GLENN'S FERRY, IDAHO**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 8. REGULATORY ACCOUNTING

For its telephone operations, the Company follows generally accepted accounting principles for regulated enterprises. Accordingly, the Company defers certain cost and obligations and depreciates plant and equipment over lives approved by regulators. While the Company continues to believe the current regulatory and competitive environment supports this accounting treatment, should conditions change the Company would be required to write-off these deferred cost and obligations and evaluate the net carrying value of its plant and equipment for any impairment losses absent the future recovery currently permitted by the regulators.

NOTE 9. REGULATORY MATTERS

The Company receives revenues from access revenues and assistance provided by the Federal Universal Service Fund. As a result of the National Broadband Plan the manner in which access revenues and Universal Service Funds are determined has been modified by the Federal Communications Commission in an order effective December 29, 2011. Among other things, this order provides for (1) a requirement to provide broadband services; (2) the establishment of a Connect America Fund (CAF) to replace current USF and high cost support mechanisms with a cap on the total fund; (3) modifications to the current rate of return support model including caps on the recovery of certain expenditures; (4) a reduction in the terminating access charges billed by the Company over a nine year period with eventual transition to a bill-and-keep framework for the exchange of traffic between carriers; (5) a new access recovery charge on monthly customer bills; and (6) a national framework for reporting and oversight.

The order calls for further guidelines to be adopted on implementation and other topics. Portions of this order applicable to the Company are being challenged. Accordingly, neither the outcome of these proceedings nor their potential impact on the Company can be predicted at this time.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Pend Oreille Telephone Company
Glenns Ferry, Idaho

We have audited the accompanying financial statements of Pend Oreille Telephone Company as of and for the year ended December 31, 2013, and have issued our report thereon dated April 15, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pend Oreille Telephone Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Company's internal control to be significant deficiencies:

- **Comment:** Similar to other companies its size, the Company has a limited number of personnel, as a result, it had utilized accounting assistance from another party to draft financial statements and assist with preparation of certain normal annual closing entries.

Potential Effects: Lack of knowledge and experience in preparing financial statements and normal closing entries could result in incomplete disclosures and/or incorrect presentation of information which could have an adverse impact to investors relying on the financial statements.

Management's Response: The Company reviews and approves the results of these activities and believes this approach provides a cost effective solution in light of their limited resources.

- **Comment:** The Company's limited resources and personnel also limits their ability to have a formal internal control and information technology system, complete segregation of duties and a formal risk assessment and monitoring system.

Potential Effects: Due to the lack of segregation of duties, there is a potential for an employee to perpetrate and conceal a theft of assets from the Company.

Management's Response: The Company periodically performs an informal risk assessment and monitors the business risk associated with assignment of personnel to various activities.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pend Oreille Telephone Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under Government Auditing Standards.

Pend Oreille Telephone Company' Response to Findings

The Company's written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kimling Associates LLP

Madison, Wisconsin
April 15, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS
OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS
FOR TELECOMMUNICATIONS BORROWERS**

To the Board of Directors
Pend Oreille Telephone Company
Glenns Ferry, Idaho

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Pend Oreille Telephone Company, which comprise the balance sheet as of December 31, 2013, and the related statements of operations, stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 15, 2014. In accordance with Government Auditing Standards, we have also issued our report dated April 15, 2014, on our consideration of Pend Oreille Telephone Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Pend Oreille Telephone Company failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and the clarified RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Pend Oreille Telephone Company's noncompliance with the above-referenced terms, covenants, provisions or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Pend Oreille Telephone Company's accounting and records to indicate that Pend Oreille Telephone Company did not:

- Maintain adequate and effective accounting procedures;
- Utilize adequate and fair methods for accumulating and recording labor, material and overhead costs, and the distribution of these costs to construction, retirement and maintenance or other expense accounts;
- Reconcile continuing property records to the controlling general ledger plant accounts;
- Clear construction accounts and accrue depreciation on completed construction;

- Record and properly price the retirement of plant;
- Seek the approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material or scrap;
- Maintain adequate control over materials and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers substantially all of the telecommunications system;
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;
- Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

This report is intended solely for the information and use of the audit committee, board of directors and management of the Company, the Rural Development Utilities Program and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Kimley Associates LLP

Madison, Wisconsin
April 15, 2014

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0572-0031. The time required to complete this information collection is estimated to average 4 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	<i>This data will be used by RUS to review your financial situation. Your response is required by 7 U.S.C. 901 et seq. and, subject to federal laws and regulations regarding confidential information, will be treated as confidential.</i>	
	BORROWER NAME Pend Oreille Telephone Company (Prepared with Audited Data)	
INSTRUCTIONS-Submit report to RUS within 30 days after close of the period. For detailed instructions, see RUS Bulletin 1744-2. Report in whole dollars only.	PERIOD ENDING December, 2014	BORROWER DESIGNATION WA0545

CERTIFICATION

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

ALL INSURANCE REQUIRED BY 7 CFR PART 1788, CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES.

DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1788 OF 7CFR CHAPTER XVII
(Check one of the following)

All of the obligations under the RUS loan documents have been fulfilled in all material respects.
 There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in the Telecom Operating Report

_____ Mark Martell _____ 6/2/2015 _____
 DATE

PART A. BALANCE SHEET					
ASSETS	BALANCE PRIOR YEAR	BALANCE END OF PERIOD	LIABILITIES AND STOCKHOLDERS' EQUITY	BALANCE PRIOR YEAR	BALANCE END OF PERIOD
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	317,801	566,521	25. Accounts Payable	124,047	142,660
2. Cash-RUS Construction Fund	865	865	26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments		
a. Telecom, Accounts Receivable			28. Customer Deposits	3,670	4,910
b. Other Accounts Receivable	184,464	293,882	29. Current Mat. L/T Debt	87,435	93,408
c. Notes Receivable	78,746	80,747	30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable	46,546	57,788	32. Income Taxes Accrued		
b. Other Accounts Receivable	265,892	209,747	33. Other Taxes Accrued		
c. Notes Receivable			34. Other Current Liabilities	54,771	52,379
5. Interest and Dividends Receivable			35. Total Current Liabilities (25 thru 34)	269,923	293,357
6. Material-Regulated	220,526	218,892	LONG-TERM DEBT		
7. Material-Nonregulated	5,862	9,717	36. Funded Debt-RUS Notes	1,295,829	1,200,832
8. Prepayments			37. Funded Debt-RTB Notes		
9. Other Current Assets	67,390	67,799	38. Funded Debt-FFB Notes		
10. Total Current Assets (1 Thru 9)	1,188,092	1,505,958	39. Funded Debt-Other		
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan		
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt		
a. Rural Development			42. Reacquired Debt		
b. Nonrural Development			43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies	0	0
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development	367,590	332,265	46. Total Long-Term Debt (36 thru 45)	1,295,829	1,200,832
13. Nonregulated Investments			OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets			47. Other Long-Term Liabilities		342,946
15. Deferred Charges			48. Other Deferred Credits		
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
17. Total Noncurrent Assets (11 thru 16)	367,590	332,265	50. Total Other Liabilities and Deferred Credits (47 thru 49)	0	342,946
PLANT, PROPERTY, AND EQUIPMENT			EQUITY		
18. Telecom, Plant-in-Service	16,617,822	16,626,707	51. Cap. Stock Outstand. & Subscribed	2,666,346	2,666,346
19. Property Held for Future Use	1,250	1,250	52. Additional Paid-in-Capital		
20. Plant Under Construction	39,971	40,128	53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill			54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation	13,998,455	14,314,403	55. Other Capital		
23. Net Plant (18 thru 21 less 22)	2,660,588	2,353,682	56. Patronage Capital Credits		
24. TOTAL ASSETS (10+17+23)			57. Retained Earnings or Margins	(15,828)	(311,576)
			58. Total Equity (51 thru 57)	2,650,518	2,354,770
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	4,216,270	4,191,905
	4,216,270	4,191,905			

Total Equity = 56.17% % of Total Assets

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

WA0545

PERIOD ENDING

December, 2014

INSTRUCTIONS- See RUS Bulletin 1744-2

PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS

ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	400,950	393,106
2. Network Access Services Revenues	2,148,410	1,905,132
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues	(5,281)	0
5. Miscellaneous Revenues	21,345	27,027
6. Uncollectible Revenues	5,840	9,913
7. Net Operating Revenues (1 thru 5 less 6)	2,559,584	2,315,352
8. Plant Specific Operations Expense	623,800	673,124
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	172,200	191,957
10. Depreciation Expense	300,876	315,948
11. Amortization Expense	0	0
12. Customer Operations Expense	167,108	165,053
13. Corporate Operations Expense	783,978	797,211
14. Total Operating Expenses (8 thru 13)	2,047,962	2,143,293
15. Operating Income or Margins (7 less 14)	511,622	172,059
16. Other Operating Income and Expenses		
17. State and Local Taxes		383,585
18. Federal Income Taxes		54,556
19. Other Taxes	52,375	438,141
20. Total Operating Taxes (17+18+19)	52,375	438,141
21. Net Operating Income or Margins (15+16-20)	459,247	(266,082)
22. Interest on Funded Debt	69,518	67,118
23. Interest Expense - Capital Leases		
24. Other Interest Expense	1,422	3,297
25. Allowance for Funds Used During Construction	12,054	65
26. Total Fixed Charges (22+23+24-25)	58,886	70,350
27. Nonoperating Net Income	32,246	11,916
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	48,877	28,768
31. Total Net Income or Margins (21+27+28+29+30-26)	481,494	(295,748)
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	(497,312)	(15,828)
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)		
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date		
38. Transfers to Patronage Capital		
39. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]	(15,828)	(311,576)
40. Patronage Capital Beginning-of-Year		
41. Transfers to Patronage Capital		
42. Patronage Capital Credits Retired		
43. Patronage Capital End-of-Year (40+41-42)	0	0
44. Annual Debt Service Payments	76,614	94,997
45. Cash Ratio [(14+20-10-11) / 7]	0.7030	0.9785
46. Operating Accrual Ratio [(14+20+26) / 7]	0.8436	1.1453
47. TIER [(31+26) / 26]	9.1765	-3.2040
48. DSCR [(31+26+10+11) / 44]	10.9803	0.9532

USDA-RUS

This data will be used by RUS to review your financial situation. Your response is required by 7 U.S.C. 901 et seq. and, subject to federal laws and regulations regarding confidential information, will be treated as confidential.

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

BORROWER NAME

Pend Oreille Telephone Company

(Prepared with Audited Data)

INSTRUCTIONS-Submit report to RUS within 30 days after close of the period.
or detailed instructions, see RUS Bulletin 1744-2. Report in whole dollars only.

PERIOD ENDING
December, 2013

BORROWER DESIGNATION
WA0545

CERTIFICATION

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

ALL INSURANCE REQUIRED BY 7 CFR PART 1788, CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES.

DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1788 OF 7CFR CHAPTER XVII

(Check one of the following)

All of the obligations under the RUS loan documents have been fulfilled in all material respects.

There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in the Telecom Operating Report

Mark Martelli

5/6/2014

DATE

PART A. BALANCE SHEET

ASSETS	BALANCE PRIOR YEAR	BALANCE END OF PERIOD	LIABILITIES AND STOCKHOLDERS' EQUITY	BALANCE PRIOR YEAR	BALANCE END OF PERIOD
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	153,935	317,801	25. Accounts Payable	473,593	124,047
2. Cash-RUS Construction Fund	305,225	865	26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments	82,547	
a. Telecom, Accounts Receivable			28. Customer Deposits	4,050	3,670
b. Other Accounts Receivable	230,955	184,464	29. Current Mat. L/T Debt	0	87,435
c. Notes Receivable	77,188	78,746	30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable	120,966	46,546	32. Income Taxes Accrued		
b. Other Accounts Receivable	164,770	265,892	33. Other Taxes Accrued		
c. Notes Receivable			34. Other Current Liabilities	43,443	54,771
5. Interest and Dividends Receivable			35. Total Current Liabilities (25 thru 34)	603,633	269,923
6. Material-Regulated	221,708	220,526	LONG-TERM DEBT		
7. Material-Nonregulated	8,608	5,862	36. Funded Debt-RUS Notes	1,390,360	1,295,829
8. Prepayments			37. Funded Debt-RTB Notes		
9. Other Current Assets	22,674	67,390	38. Funded Debt-FFB Notes		
0. Total Current Assets (1 Thru 9)	1,306,029	1,188,092	39. Funded Debt-Other		
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan		
1. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt		
a. Rural Development			42. Recquired Debt		
b. Nonrural Development			43. Obligations Under Capital Lease		
2. Other Investments			44. Adv. From Affiliated Companies	389,587	0
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development	365,509	367,590	46. Total Long-Term Debt (36 thru 45)	1,779,947	1,295,829
3. Nonregulated Investments	0		OTHER LIAB. & DEF. CREDITS		
4. Other Noncurrent Assets			47. Other Long-Term Liabilities		
5. Deferred Charges			48. Other Deferred Credits		
6. Jurisdictional Differences			49. Other Jurisdictional Differences		
7. Total Noncurrent Assets (11 thru 16)	365,509	367,590	50. Total Other Liabilities and Deferred Credits (47 thru 49)	0	0
PLANT, PROPERTY, AND EQUIPMENT			EQUITY		
8. Telecom, Plant-in-Service	16,197,416	16,617,822	51. Cap. Stock Outstand. & Subscribed	2,666,346	2,666,346
9. Property Held for Future Use	1,250	1,250	52. Additional Paid-in-Capital		
0. Plant Under Construction	379,988	39,971	53. Treasury Stock		
1. Plant Adj., Nonop. Plant & Goodwill	0		54. Membership and Cap. Certificates		
2. Less Accumulated Depreciation	13,697,578	13,998,455	55. Other Capital		
3. Net Plant (18 thru 21 less 22)	2,881,076	2,660,588	56. Patronage Capital Credits		
4. TOTAL ASSETS (10+17+23)			57. Retained Earnings or Margins	(497,312)	(15,828)
	4,552,614	4,216,270	58. Total Equity (51 thru 57)	2,169,034	2,650,518
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	4,552,614	4,216,270

Total Equity = 62.86% % of Total Assets

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

WA0545

PERIOD ENDING

December, 2013

INSTRUCTIONS- See RUS Bulletin 1744-2

PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS

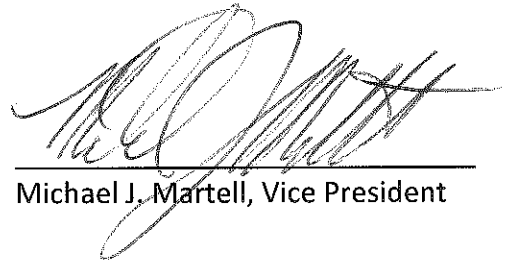
ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	407,265	400,950
2. Network Access Services Revenues	1,426,808	2,148,410
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues	1,033	(5,281)
5. Miscellaneous Revenues	22,285	21,345
6. Uncollectible Revenues	2,594	5,840
7. Net Operating Revenues (1 thru 5 less 6)	1,854,797	2,559,584
8. Plant Specific Operations Expense	544,987	623,800
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	178,981	172,200
10. Depreciation Expense	248,983	300,876
11. Amortization Expense	34,125	0
12. Customer Operations Expense	173,112	167,108
13. Corporate Operations Expense	765,806	783,978
14. Total Operating Expenses (8 thru 13)	1,945,994	2,047,962
15. Operating Income or Margins (7 less 14)	(91,197)	511,622
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes		
19. Other Taxes	36,489	52,375
20. Total Operating Taxes (17+18+19)	36,489	52,375
21. Net Operating Income or Margins (15+16-20)	(127,686)	459,247
22. Interest on Funded Debt	70,037	69,518
23. Interest Expense - Capital Leases		
24. Other Interest Expense	6,271	1,422
25. Allowance for Funds Used During Construction	85,298	12,054
26. Total Fixed Charges (22+23+24-25)	(8,990)	58,886
27. Nonoperating Net Income	9,663	32,246
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	95,453	48,877
31. Total Net Income or Margins (21+27+28+29+30-26)	(13,580)	481,484
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	(483,732)	(497,312)
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)		
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date		
38. Transfers to Patronage Capital		
39. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]	(497,312)	(15,828)
40. Patronage Capital Beginning-of-Year		
41. Transfers to Patronage Capital		
42. Patronage Capital Credits Retired		
43. Patronage Capital End-of-Year (40+41-42)	0	0
44. Annual Debt Service Payments	538,382	76,614
45. Cash Ratio [(14+20-10-11) / 7]	0.9162	0.7030
46. Operating Accrual Ratio [(14+20+26) / 7]	1.0640	0.8436
47. TIER [(31+26) / 26]	2.5106	9.1765
48. DSCR [(31+26+10+11) / 44]	0.4839	10.9803

ALTERNATE EXHIBIT 7

CORPORATE OPERATIONS EXPENSE ADJUSTMENT CERTIFICATE

I, Michael J. Martell, an officer of Pend Oreille Telephone Company with personal knowledge and responsibility, under penalty of perjury, hereby certify that no corporate operations adjustment to existing high-cost loop and interstate common line support mechanisms, as required by the Federal Communications Commission, applied to the Company for 2014 and 2013.

Date this 27th day of July, 2015.



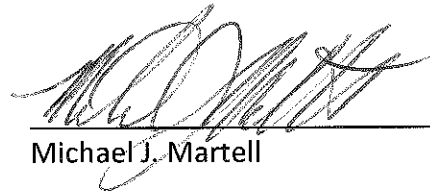
Michael J. Martell, Vice President

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

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

Dated this 27th day of July, 2015.



Michael J. Martell

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Michael J. Martell, an officer of Pend Oreille Telephone Company "the Company", under penalty of perjury, hereby certify that if the Company receives Program support, the Company will continue to provide communications services pursuant to its tariffs on file with the Commission throughout its service territory in Washington for which the company is seeking and receives Program support during the entirety of 2016.

Dated this 27th day of July, 2015.



Michael J. Martell, Vice President