

August 18, 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 – Replacement Exhibits
UT-151559

Dear Mr. King:

Pend Oreille Telephone Company hereby submits its replacement exhibits for Petition of USF Support with demonstration of eligibility under WUTC WAC 480-123-100 and WAC 480-123-110 originally requested on July 29, 2015. This USF Support submission of replacement of Exhibits 3, and Exhibit 4 is filed electronically this date at <http://www.utc.wa.gov/docs/Pages/howToFile.aspx> and includes revisions to Exhibit 3 and Exhibit 4.

These exhibits are required under WAC 480-123-110(1)(e)(i) for Pend Oreille Telephone pursuant to Staff comments and initial review. Pend Oreille Telephone Company hereby submits the replacement exhibits to petition Washington Utilities and Transportation Commission to receive support from the Universal Service Communications Program for Program Year 2016

Sincerely,



Beverly Arrington
Sr. Accounting Specialist

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

State USF Petition Filing Requirement -WAC 480-123-110 (3)(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	78,746		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
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. Reactivated 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 thru 45)	1,295,829	0	1,295,829
13. Nonregulated Investments (B1)	0	6,563	6,563	OTHER LIAB. & DEF. CREDITS			
14. Other Noncurrent Assets	0		0	47. Other Long-Term Liabilities	0		0
15. Deferred Charges	0		0	48. Other Deferred Credits (C)	0		0
16. Jurisdictional Differences	0		0	49. Other Jurisdictional Differences	0		0
17. Total noncurrent Assets (11 thru 16)	367,590	6,563	374,153	50. Total Other Liab. & Def. Credits (47 thru 49)	0		0
PLANT, PROPERTY AND EQUIPMENT				EQUITY			
18. Telecom Plant-In-Service	16,617,822	(30,841)	16,586,981	51. Cap. Stock Outstanding & Subscribed	2,666,346		2,666,346
19. Property Held for Future Use	1,250		1,250	52. Additional Paid-in-Capital	0		0
20. Plant Under Construction	39,971		39,971	53. Treasury Stock	0		0
21. Plant Adj., Nonop Plant & Goodwill	0		0	54. Membership and cap. Certificates	0		0
22. Accumulated Depreciation (CR.)	(13,998,455)	24,278	(13,974,177)	55. Other Capital	0		0
23. Net Plant (18 thru 21 less 22)	2,660,588	(6,563)	2,654,025	56. Patronage Capital Credits	(15,828)		(15,828)
				57. Retained Earnings or Margins (B2)	2,650,518		2,650,518
				58. Total Equity (51 thru 57)	4,216,270	0	4,216,270
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 480-123-1101(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
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. Recquired 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	332,265		332,265	46. Total Long-Term Debt (36 thru 45)	1,200,832	0	1,200,832
13. Nonregulated Investments (B1)	0	14,516	14,516	OTHER LIAB. & DEF. CREDITS			
14. Other Noncurrent Assets	0		0	47. Other Long-Term Liabilities	342,946	-636	342,310
15. Deferred Charges	0		0	48. Other Deferred Credits (C)	0		0
16. Jurisdictional Differences	0		0	49. Other Jurisdictional Differences	0		0
17. Total noncurrent Assets (11 thru 16)	332,265	14,516	346,782	50. Total Other Liab. & Def. Credits (47 thru 49)	342,946	(636)	342,310
PLANT, PROPERTY AND EQUIPMENT				EQUITY			
18. Telecom Plant-In-Service	16,626,707	(31,050)	16,595,657	51. Cap. Stock Outstanding & Subscribed	2,666,346		2,666,346
19. Property Held for Future Use	1,250	(1,250)	0	52. Additional Paid-in-Capital	0		0
20. Plant Under Construction	40,128	2,397	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.)	(14,314,403)	25,104	(14,289,299)	55. Other Capital	0		0
23. Net Plant (18 thru 21 less 22)	2,353,683	(4,799)	2,348,884	56. Patronage Capital Credits	(311,575)	636	(310,939)
24. TOTAL ASSETS (10+17+23)	4,191,906	0	4,191,906	57. Retained Earnings or Margins (B2)	2,354,771	636	2,355,407
				58. Total Equity (51 thru 57)	4,191,906	0	4,191,906
				59. TOTAL LIABILITIES AND EQUITY (B5+46+50+58)			

Footnotes:
(A) - As reported on RUS Form 479
(B) - Part 64 adjustments from regulated to nonregulated.
(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	45,546	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	67,390	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. Recquired 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	332,265	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	342,310
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	346,782	50. Total Other Liab. & Def. Credits (47 thru 49)	0	342,310
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)	(310,939)
			58. Total Equity (51 thru 57)	2,650,518	2,355,407
24. TOTAL ASSETS (10-17+23)	4,216,270	4,191,906	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	220,536	218,892	219,709
5	Deferred Income Taxes (CR)			(342,310)	(171,155)
6	Total Regulated Rate Base		2,834,580	2,182,941	2,508,760

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	1,161	(100)	-7.9%
2	Business	353	347	(6)	-1.7%
3	Total	1,614	1,508	(106)	-6.6%

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)	(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

(C)

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

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

2013 2014

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	0
6	Other*		0	(1,444)
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)	2,182,941
3	Average Rate Base	2,508,760
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	5.19%
8	Consolidated Equity (Jan 1)	2,650,518
9	Consolidated Equity (Dec 31)	2,355,407
10	Average Equity	2,502,963
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

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.