

July 29, 2014

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

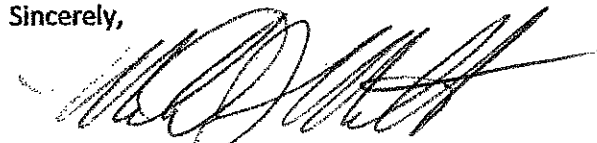
RE: Pend Oreille Telephone Company
USF Petition

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 (this is non-applicable for Pend Oreille Telephone Company); (2) most recent consolidated audited financial statements; (3) revenues from the 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 12/31/2013 and 12/31/2012, 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 2015.

Sincerely,



Michael J. Martell
Vice President

MRM/sec

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**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

IN RE

DOCKET NO.

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

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 Universal Service Communications Program (the "Program") for the Program year 2015.

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

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

- 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) or has been designated as an incumbent local exchange carrier by
3 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 areas for which the Company is seeking Program support.

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

- 16 1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications
17 services and is seeking Program support is as follows: Pend Oreille Telephone Company
- 18 2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between
19 the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1.
20 A detailed description of any transactions between the Company and the affiliates named in
21 Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.
- 22 3. WAC 480-123-110(1)(c): A service area map for the Company can be found at Sheet No.
23 102 in Schedule Exchange Maps 3/97 of the Company's Tariff WN U-1.

- 1 4. WAC 480-123-110(1)(d): A demonstration that the Company's customers are at risk of rate
2 instability or service interruption or cessation in the absence of support from the Program is
3 attached as Exhibit 3.
- 4 5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4,
5 are copies of the Company's balance sheet as of December 31, 2013, and December 31,
6 2012, and copies of the Company's statements of income and retained earnings or margin for
7 the years ended December 31, 2013, and December 31, 2012.
- 8 6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial
9 statements for the years ended December 31, 2012, and December 31, 2013, are
10 attached as Exhibit 5.
- 11 7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of
12 return on a total Washington unseparated regulated operations basis for each of the two prior
13 years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.
- 14 8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on
15 equity on a total company (regulated and non-regulated) Washington basis for each of the
16 two prior years, calculated in the manner prescribed by the Commission, is provided in
17 Exhibit 4.
- 18 9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the
19 statements of income and retained earnings or margin section of RUS Form 479 for the prior
20 two years is attached as Exhibit 6.
- 21 10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company with
22 personal knowledge and responsibility certifying that no corporate operations adjustment to
23 existing high-cost loop and interstate common line support mechanisms required by the
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1 Federal Communications Commission applied to the Company for the two prior years is
2 attached hereto as Exhibit 7.

3 11. WAC 480-123-110(1)(e)(vii): Exhibit 4 contains additional supporting information
4 requested by the Commission.

5 12. WAC 480-123-110(1)(e)(viii): A statement under penalty of perjury from a Company
6 officer with personal knowledge and responsibility certifying that the Company complies
7 with state and federal accounting, cost allocation, and cost adjustment rules pertaining to
8 incumbent local exchange companies is attached as Exhibit 8.

9 13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or
10 on its behalf with the Federal Communications Commission for the calendar year preceding
11 the current year has already been filed with the Commission. See the Company's filing in
12 Docket No. UT-143013 filed on or about July 1, 2014.

13 14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by
14 the Company as of December 31, 2013, was 1,261. The number of residential local
15 exchange access lines served by the Company as of December 31, 2012, was 1,345. The
16 number of business local exchange access lines served by the Company as of December 31,
17 2013, was 353. The number of business local exchange access lines served by the Company
18 as of December 31, 2012, was 310. The monthly recurring rate charged by the Company
19 for residential local exchange access service on December 31, 2013, was \$11.75 with REAS
20 of \$2.25 (\$14.00 total). The monthly recurring rate charged by the Company for residential
21 local exchange access service on December 31, 2012, was \$10.00 with BEAS of \$2.25
22 (\$12.25 total). The rate charged by the Company for single line business local exchange
23 access service on December 31, 2013, was \$21.65 with \$3.38 BEAS. The rate charged by
24 the Company for single line business local exchange access service on December 31, 2012,

1 was \$21.65 with \$3.38 BEAS. (The Company has other business local exchange service
2 rates, but the Company understands that WAC 480-123-110(1)(g) is requesting the single
3 line business local exchange access service rate.

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

5 16. All exhibits attached hereto are incorporated into this Petition as though fully set forth.

6 Respectfully submitted this 28th day of July, 2014.

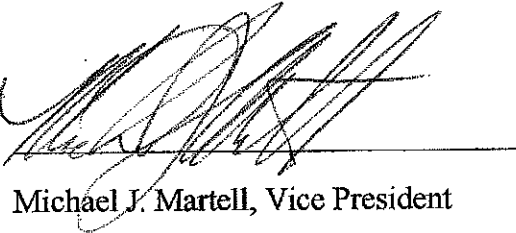
7
8 PENDING TELEPHONE COMPANY

9 By 

10 Michael J. Martell, Vice President

11 CERTIFICATION

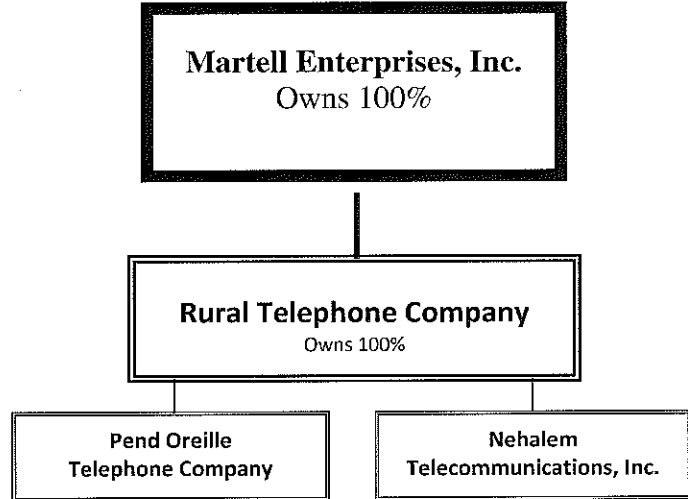
12 I Michael J. Martell, an officer of the Company that is responsible for the Company's
13 business and financial operations, hereby certify under penalty of perjury that the information and
14 representations set forth in the Petition, above, are accurate and the Company has not knowingly
15 withheld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

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Michael J. Martell, 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

Not applicable to Pend Oreille Telephone Company

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 \$ 104,065.00.

In addition, by order of this Commission, the traditional universal service access rate element and related pooling fund have been terminated effective July 1, 2014. Using 2012 as a base line, which is the latest year with final pool numbers, the Company is facing a loss of traditional universal service fund revenues of approximately \$ 55,276.00 per year.

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

In addition, during the 5-year period ending December 31, 2013, the Company has seen its Federal high cost loop support undergo a significant reduction – declining from \$336,181 in 2009 to \$54,187 in 2013.

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

¹ *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, Lifeline and Link-Up, Universal Service Reform - Mobility Fun*, WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (rel. Nov. 18, 2011)(*USF/ICC Transformation Order*).

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

Company Name:

PEND ORELLE TELEPHONE COMPANY

ASSETS	Balance End of Year 2012 (A)	Part 64 Adj to NonReg 2012 (B)	Adj. Balance End of Year 2012	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2012 (A)	Part 64 Adj to NonReg 2012 (B)	Adj. Balance End of Year 2012
CURRENT ASSETS				CURRENT LIABILITIES			
1. Cash and Equivalents	153,935		153,935	25. Accounts Payable	473,593		473,593
2. Cash-RUS Construction Fund	305,225		305,225	26. Notes Payable	0		0
3. Affiliates:	0		0	27. Advance Billings and Payments	82,547		82,547
a. Telecom, Accounts Receivable	230,955		230,955	28. Customer Deposits	4,050	(4,050)	0
b. Other Accounts Receivable	77,188		77,188	29. Current Mat. L/T Debt	0		0
c. Notes Receivable	0		0	30. Current Mat. L/T Debt Rur. Dev.	0		0
4. Non-Affiliates:				31. Current Mat. - Capital Leases	0		0
a. Telecom, Accounts Receivable	120,966		120,966	32. Income Taxes Accrued	0		0
b. Other Accounts Receivable	164,770		164,770	33. Other Taxes Accrued	0		0
c. Notes Receivable	0		0	34. Other Current Liabilities	43,443		43,443
5. Interest and Dividends Receivable	0		0	35. Total Current Liabilities (25 thru 34)	603,633	(4,050)	599,583
6. Material-Regulated	221,708	(419)	221,289	LONG-TERM DEBT			
7. Material-Nonregulated	8,608		8,608	36. Funded Debt-RUS Notes	1,390,360		1,390,360
8. Prepayments	0		0	37. Funded Debt-RTB Notes	0		0
9. Other Current Assets	22,674		22,674	38. Funded Debt-FFB Notes	0		0
10. Total Current Assets (1 Thru 9)	1,306,029	(419)	1,305,610	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. Acq. From Affiliated Companies	389,587		389,587
a. Rural Development	0		0	45. Other Long-Term Debt	0		0
b. Nonrural Development	365,509		365,509	46. Total Long-Term Debt (36 thru 45)	1,779,947		1,779,947
13. Nonregulated Investments (B1)	0		0	OTHER LIAB. & DEF. CREDITS			
14. Other Noncurrent Assets	0	0	0	47. Other Long-Term Liabilities	0		0
15. Deferred Charges	0		0	48. Other Deferred Credits (C)	0	0	0
16. Jurisdictional Differences	0		0	49. Other Jurisdictional Differences	0		0
17. Total noncurrent Assets (11 thru 16)	365,509	0	365,509	50. Total Other Liab. & Def. Credits (47 thru 49)	0	0	0
PLANT, PROPERTY AND EQUIPMENT				EQUITY			
18. Telecom Plant-In-Service	16,197,416	(34,120)	16,163,296	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	379,988		379,988	53. Treasury Stock	0		0
21. Plant Adj., Nonop Plant & Goodwill	0		0	54. Membership and cap. Certificates	0		0
22. Accumulated Depreciation (CR.)	(13,697,578)	26,140	(13,671,438)	55. Other Capital	0		0
23. Net Plant (18 thru 21 less 22)	2,881,076	(7,980)	2,873,096	56. Patronages Capital Credits	0		0
TOTAL ASSETS (10+17+23)	4,552,614	(8,399)	4,544,215	57. Retained Earnings or Margins (B2)	(497,312)	(4,349)	(501,661)
				58. Total Equity (51 thru 57)	2,169,034	(4,349)	2,164,685
				59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	4,552,614	(8,399)	4,544,215

(A) - As reported on Form 481

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

(B1) - Part 64 offset to nonreg investment

(B2) - Part 64 offset to retained earnings

(C) - Part 64 Adj. for line 48 is only for deferred taxes.

ASSETS	Balance End of Year 2013 (A)	Part 64 Adj to NonReg 2013 (B)	Adj. Balance End of Year 2013	LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2013 (A)	Part 64 Adj to NonReg 2013 (B)	Adj. Balance End of Year 2013
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)	0
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	(3,670)	266,252
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-FEB Notes	0		0
10. Total Current Assets (1 Thru 9)	1,188,092	-	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. Recquired Debt	0		0
b. Nonrural Development	0		0	43. Obligations Under Capital Lease	0		0
a. Rural Development	0		0	44. Adv. From Affiliated Companies	0		0
b. Nonrural Development	0		0	45. Other Long-Term Debt	0		0
a. Rural Development	0		0	46. Total Long-Term Debt (36 thru 45)	1,295,829		1,295,829
b. Nonrural Development	367,590		367,590	OTHER LIAB. & DEF. CREDITS			
13. Nonregulated Investments (B1)	0		0	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	-	367,590	EQUITY			
PLANT, PROPERTY AND EQUIPMENT				51. Cap. Stock Outstanding & Subscribed	2,666,346		2,666,346
18. Telecom Plant-in-Service	16,617,822	(30,841)	16,586,981	52. Additional Paid-in-Capital	0		0
19. Property Held for Future Use	1,250		1,250	53. Treasury Stock	0		0
20. Plant Under Construction	39,971		39,971	54. Membership and cap. Certificates	0		0
21. Plant Adj./Nonop Plant & Goodwill	0		0	55. Other Capital	0		0
22. Accumulated Depreciation (CR.)	(13,998,455)	24,278	(13,974,177)	56. Patronage Capital Credits	0		0
23. Net Plant (18 thru 21 less 22)	2,660,588	(6,563)	2,654,025	57. Retained Earnings or Margins (B2)	(15,828)	(2,893)	(18,721)
TOTAL ASSETS (10+17+23)	4,216,270	(6,563)	4,209,707	58. Total Equity (51 thru 57)	2,650,518	(2,893)	2,647,625
				59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	4,216,270	(6,563)	4,209,707

(A) - As reported on Form 481

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

(B1) - Part 64 offset to nonreg investment

(B2) - Part 64 offset to retained earnings

(C) - Part 64 Adj. for line 48 is only for deferred taxes.

Company Name:
PEND OREILLE TELEPHONE COMPANY

ASSETS	Adjusted	Adjusted	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted	Adjusted
	Prior Year Balance 2012	Current Year Balance 2013		Prior Year Balance 2012	Current Year Balance 2013
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	153,935	317,801	25. Accounts Payable	473,593	124,046
2. Cash-RUS Construction Fund	305,225	865	26. Notes Payable	0	0
3. Affiliates:			27. Advance Billings and Payments	82,547	0
a. Telecom, Accounts Receivable	0	0	28. Customer Deposits	0	0
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.	0	0
4. Non-Affiliates:			31. Current Mat. - Capital Leases	0	0
a. Telecom, Accounts Receivable	120,966	46,546	32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	164,770	265,892	33. Other Taxes Accrued	0	0
c. Notes Receivable	0	0	34. Other Current Liabilities	43,443	54,771
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	599,583	266,252
6. Material-Regulated	221,289	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	0	0	37. Funded Debt-RTB Notes	0	0
9. Other Current Assets	22,674	67,390	38. Funded Debt-FIB Notes	0	0
10. Total Current Assets (1 Thru 9)	1,305,610	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. Reacquired Debt	0	0
b. Nonrural Development	0	0	43. Obligations Under Capital Lease	0	0
12. Other Investments			44. Adv. From Affiliated Companies	389,587	0
a. Rural Development	0	0	45. Other Long-Term Debt	0	0
b. Nonrural Development	355,509	367,590	46. Total Long-Term Debt (36-45)	1,779,947	1,295,829
13. Nonregulated Investments	0	0	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 (B)	0	0
16. Jurisdictional Differences	0	0	49. Other Jurisdictional Differences	0	0
17. Total noncurrent Assets (11 thru 16)	365,509	367,590	50. Total Other Liab. & Def. Credits (47 thru 49)	0	0
PLANT, PROPERTY AND EQUIPMENT			EQUITY		
18. Telecom Plant-in-Service	16,163,296	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	379,988	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.)	(13,674,438)	(13,974,177)	55. Other Capital	0	0
23. Net Plant (18 thru 21 less 22)	2,873,096	2,654,025	56. Patronage Capital Credits	0	0
TOTAL ASSETS (10+17+23)	4,544,215	4,209,707	57. Retained Earnings or Margins	(501,661)	(18,721)
			58. Total Equity (51 thru 57)	2,164,685	2,647,625
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+56)	4,544,215	4,209,707

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

Company Name:
 PEND OREILLE TELEPHONE COMPANY

	Line #	Adj. Balance End of Year 2012	Adj. Balance End of Year 2013	Average Adj. End of Year Balance
Average Rate Base:				
Total Regulated Adjusted Telecom Plant-in-service	18	16,163,296	16,586,981	16,375,138
Total Regulated Adjusted Accumulated Depreciation (CR)	22	(13,671,438)	(13,974,177)	(13,822,807)
Total Regulated Materials & Supplies	6	221,289	220,526	220,907
Deferred Income Taxes (CR)				0
Total Regulated Rate Base		2,713,147	2,833,330	2,773,239

Note:

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

Company Name:
 PEND OREILLE TELEPHONE COMPANY

Description	Prior Year End of Yr. Balance - 2012	Current Year End of Yr Balance - 2013	Difference	% Change
Access Lines:				
Residential	1,345	1,261	84	6.2%
Business	310	353	43	13.9%
Total	1,655	1,614	127	7.7%
	End of Yr. Balance - 2012	End of Year Balance -2013	Difference	% Change
Broadband Connections	645	651	6	0.9%
	Prior Yr. 2012	Current Yr. 2013	Difference	% Change
Total Annual Amount:				
Gross Capital Expenditures	1,059,467	420,406	(639,061)	-60.3%

Part B Statement of Income and Retained Earnings Statement

Company Name:

PEND OREILLE TELEPHONE COMPANY

Line #	Item	Prior Year 2012 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2012
1	Local Network Services Revenues	407,265	-	407,265
2	Network Access Services Revenues	1,426,808	-	1,426,808
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	1,033	-	1,033
5	Miscellaneous Revenues	22,285		22,285
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(2,594)		(2,594)
7	Net Operating Revenues (1 thru 6)	1,854,797	0	1,854,797
8	Plant Specific Operations Expense	544,987	(3,675)	541,312
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	178,981	0	178,981
10	Depreciation Expense	248,983	(693)	248,290
11	Amortization Expense	34,125		34,125
12	Customer Operations Expense	173,112	(4,331)	168,781
13	Corporate Operations	765,806	(6,705)	759,101
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()	0		0
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	765,806	(6,705)	759,101
14	Total Operations Expenses (8 thru 12 +13b)	1,945,994	(15,404)	1,930,590
15	Operating Income or Margins (7 less 14)	(91,197)	15,404	(75,793)
16	Other Operating Income and Expenses ()	0		0
17	State and Local Taxes	0	0	0
18	Federal Income Taxes (A1)	0	0	0
19	Other Taxes	36,489	(48)	36,441
20	Total Operating Taxes (17+18+19)	36,489	(48)	36,441
21	Net Operating Income or Margins (15+16-20)	(127,686)	15,452	(112,234)
22	Interest on Funded Debt	70,037	1,355	71,392
23	Interest Expense - Capital Leases	0		0
24	Other Interest Expense	6,271		6,271
25	Allowance for Funds Used During Construction (CR)	(85,298)		(85,298)
26	Total Fixed Charges (22+23+24-25)	(8,990)	1,355	(7,635)
27	Nonoperating Net Income	9,663		9,663
28	Extraordinary Items	0		0
29	Jurisdictional Differences	0		0
30	Nonregulated Net Income (B1)	95,453	(15,452)	80,001
31	Total Net Income or Margins (21+27+28+29+30-26)	(13,580)	(1,355)	(14,935)
32	Total Taxes Based on Income	36,489		36,489
33	Retained Earnings 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 or Margins End-of-Period ((31+33+34)-(35+36+37+38))	(510,892)	(1,355)	(512,247)
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	1,460,397		1,460,397
45	Cash Ratio ((14+20-10-11)/7)	0.9162	#DIV/0!	0.9082
46	Operating Accrual Ratio ((14+20+26)/7)	1.0640	#DIV/0!	1.0564
47	TIER ((31+26)/26)	2.5106	-	2.9561
48	DSCR ((31+26+10+11)/44)	0.1784	#DIV/0!	0.1779

Notes:

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

Part B Statement of Income and Retained Earnings Statement

Company Name:

PEND OREILLE TELEPHONE COMPANY

Line #	Item	Current Year 2013 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2013
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 ()	0		0
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)	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	837	70,355
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	837	59,723
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	(837)	480,644
32	Total Taxes Based on Income	52,375		52,375
33	Retained Earnings 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 or Margins End-of-Period ((31+33+34)-(35+36+37+38))	465,654	(837)	464,817
40	Patronage Capital Beginning-of-Year			0
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	Patronage Capital End-of-Year (40+41-42)	0	0	0
44	Annual Debt Service Payments	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!	0.8393
47	TIER ((31+26)/26)	9.1765	0.0000	9.0479
48	DSCR ((31+26+10+11)/44)	0.6161	#DIV/0!	0.6157

Notes:

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

Part B Statement of Income and Retained Earnings Statement

Company Name:

PEND OREILLE TELEPHONE COMPANY

Line #	Item	Adjusted Prior Year 2012	Adjusted Current Year 2013
1	Local Network Services Revenues	407,265	400,949
2	Network Access Services Revenues	1,426,808	2,148,410
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	1,033	(5,282)
5	Miscellaneous Revenues	22,285	21,345
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(2,594)	(5,841)
7	Net Operating Revenues (1 thru 6)	1,854,797	2,559,581
8	Plant Specific Operations Expense	541,312	620,676
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	178,981	172,200
10	Depreciation Expense	248,290	300,247
11	Amortization Expense	34,125	0
12	Customer Operations Expense	168,781	164,006
13	Corporate Operations	759,101	779,016
13a	Less: Corporate Operations Adjustment (FCC 36.621) report in ()	0	0
13b	Adjusted Corporate Operations Expense (Line 13 minus Line 13a)	759,101	779,016
14	Total Operations Expenses (8 thru 12 +13b)	1,930,590	2,036,144
15	Operating Income or Margins (7 less 14)	(75,793)	523,437
16	Other Operating Income and Expenses ()	0	0
17	State and Local Taxes	0	0
18	Federal Income Taxes	0	0
19	Other Taxes	36,441	52,335
20	Total Operating Taxes (17+18+19)	36,441	52,335
21	Net Operating Income or Margins (15+16-20)	(112,234)	471,102
22	Interest on Funded Debt	71,392	70,355
23	Interest Expense - Capital Leases	0	0
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)	(7,635)	59,723
27	Nonoperating Net Income	9,663	32,246
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	80,001	37,019
31	Total Net Income or Margins (21+27+28+29+30-26)	(14,935)	480,644
32	Total Taxes Based on Income	36,489	52,375
33	Retained Earnings 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))	(512,247)	464,817
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	1,460,397	1,365,347
45	Cash Ratio ((14+20-10-11)/7)	0.9082	0.6986
46	Operating Accrual Ratio ((14+20+26)/7)	1.0564	0.8393
47	TIER ((31+26)/26)	2.9561	9.0479
48	DSCR ((31+26+10+11)/44)	0.18	0.6157

Footnote (A1)

S Corporation Effective Tax Rate (2 decimal places):

2012

2013

Network Access Services Revenue:

Company Name:

PEND OREILLE TELEPHONE COMPANY

Description	Part 32 Account	2012	2013
End User Revenue (SLC, ARC, etc.)	5081	5,130	14,724
Switched Access (excluding USF):	5082		
Intrastate	5084	166,683	139,967
Interstate	5082	762,064	1,532,392
Special Access:	5083		
Intrastate	5084.2	98,134	98,912
Interstate	5083	292,835	308,228
Federal USF (ICLS/Caf/HCL/SN)	5082.1	101,961	54,187
Total (must equal line 2 of Income Stmt.)		1,426,808	2,148,410
Line 2 of Income Stmt.		1,426,808	2,148,410
Difference		(0)	0

**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.

Kindig Associates LLP

Madison, Wisconsin
April 15, 2014

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

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

	2013	2012
<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
	1,120,703	1,256,580
 OTHER NONCURRENT ASSETS		
Marketable securities	67,390	22,674
Other investments	367,590	392,288
	434,980	414,962
 PROPERTY, PLANT AND EQUIPMENT		
Telephone plant in service	16,617,819	16,197,416
Other property	26,904	26,904
	16,644,723	16,224,320
Less accumulated depreciation	14,025,357	13,724,482
	2,619,366	2,499,838
Plant under construction	39,971	379,988
Property held for future use	1,250	1,250
	2,660,587	2,881,076
 TOTAL ASSETS	\$ 4,216,270	\$ 4,552,618

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**

	2013	2012
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	(5,841)	(2,594)
	2,989,458	2,302,492
 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	52,375	36,488
	2,482,822	2,332,706
 OPERATING INCOME (LOSS)	506,636	(30,214)
 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	163	(2,846)
	(25,152)	16,634
 NET INCOME (LOSS)	\$ 481,484	\$ (13,580)

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	<u> </u>	<u> </u>	<u>(13,580)</u>	<u>(13,580)</u>
Balance at December 31, 2012	5,000	2,666,346	(497,312)	2,169,034
Net income	<u> </u>	<u> </u>	<u>481,484</u>	<u>481,484</u>
Balance at December 31, 2013	<u>5,000</u>	<u>\$ 2,666,346</u>	<u>\$ (15,828)</u>	<u>\$ 2,650,518</u>

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	<u>8,788,831</u>	<u>8,784,865</u>
Subtotal	<u>16,617,819</u>	<u>16,197,416</u>
Other property:		
Internet equipment	<u>26,904</u>	<u>26,904</u>
 Total property, plant and equipment	 <u>\$ 16,644,723</u>	 <u>\$ 16,224,320</u>

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	<u>87,435</u>	<u>-</u>
	<u>\$ 1,295,829</u>	<u>\$ 1,390,360</u>

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.

Kinling 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.

Kinling Associates LLP

Madison, Wisconsin
April 15, 2014



PEND OREILLE TELEPHONE COMPANY

Financial Statements with RUS Letters

Years Ended December 31, 2012 and 2011



PEND OREILLE TELEPHONE COMPANY

Financial Statements with RUS Letters

Years Ended December 31, 2012 and 2011

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CPAS AND BUSINESS CONSULTANTS

PERSONAL AND PRIVATE

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Pend Oreille Telephone Company (the Company) which comprise the balance sheet as of December 31, 2012, and the related statements of operations, changes in stockholders' equity, and cash flows for the year 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 audit. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pend Oreille Telephone Company at December 31, 2012, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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PORTLAND, OR ; SALEM, OR ; CARLSBAD, CA ; ESCONDIDO, CA ; SAN DIEGO, CA ; ANCHORAGE, AK

AKT LLP

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued a report dated 5/3/2013, 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, and 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 the 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 considering the results of our audit.

OTHER MATTERS

The financial statements of Pend Oreille Telephone Company as of December 31, 2011, were audited by other auditors whose report dated April 26, 2012 expressed an unmodified opinion on those statements.

AKT LLP

Salem, Oregon
5/3/2013

PEND OREILLE TELEPHONE COMPANY**Balance Sheets**

December 31, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and cash equivalents	\$ 508,612	\$ 79,722
Marketable securities	-	45,897
Accounts receivable, net of allowance for doubtful accounts of zero	120,966	134,143
Other accounts receivable, net of allowance for doubtful accounts of \$90,000 in 2012 and 2011	164,770	165,271
Materials and supplies	<u>230,312</u>	<u>215,870</u>
Total Current Assets	<u>1,024,660</u>	<u>640,903</u>
Other Assets:		
Marketable securities	22,674	-
Related party receivables	231,916	332,340
Investments	<u>392,288</u>	<u>435,180</u>
Total Other Assets	<u>646,878</u>	<u>767,520</u>
Property, Plant, and Equipment:		
In service	16,197,416	15,137,949
Under construction	379,988	859,056
Property held for future use	<u>1,250</u>	<u>1,250</u>
	16,578,654	15,998,255
Less accumulated depreciation	<u>13,697,578</u>	<u>13,448,593</u>
	2,881,076	2,549,662
Acquisition adjustment, net	<u>-</u>	<u>34,125</u>
Property, Plant, and Equipment, net	<u>2,881,076</u>	<u>2,583,787</u>
	<u>\$ 4,552,614</u>	<u>\$ 3,992,210</u>

See accompanying notes to financial statements.

LIABILITIES AND STOCKHOLDER'S EQUITY

	<u>2012</u>	<u>2011</u>
Current Liabilities:		
Current portion of long-term debt	\$ -	\$ 468,300
Accounts payable	473,799	115,768
Accrued expenses	125,784	134,983
Customer deposits	<u>4,050</u>	<u>4,240</u>
Total Current Liabilities	<u>603,633</u>	<u>723,291</u>
Long-Term Liabilities:		
Related party payables	389,587	260
Long-term debt	<u>1,390,360</u>	<u>1,086,045</u>
Total Long-Term Liabilities	<u>1,779,947</u>	<u>1,086,305</u>
Stockholder's Equity:		
Common stock, authorized 25,000 shares, no par value, issued and outstanding 5,000 shares	2,666,346	2,666,346
Accumulated deficit	<u>(497,312)</u>	<u>(483,732)</u>
Total Stockholder's Equity	<u>2,169,034</u>	<u>2,182,614</u>
	<u>\$ 4,552,614</u>	<u>\$ 3,992,210</u>

PEND OREILLE TELEPHONE COMPANY

Statements of Operations

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Local network	\$ 407,265	\$ 427,730
Network access	1,426,806	1,559,338
Internet services	424,462	412,085
Miscellaneous	23,318	31,657
Uncollectible	<u>(2,594)</u>	<u>(49,272)</u>
Total Operating Revenues	<u>2,279,257</u>	<u>2,381,538</u>
Operating Expenses:		
Plant specific	544,987	645,291
Plant nonspecific	178,982	191,436
Customer	173,112	189,807
Corporate	765,805	772,791
Depreciation and amortization	283,108	399,602
Cost of internet services	350,295	363,480
Other operating taxes	<u>36,488</u>	<u>46,421</u>
Total Operating Expenses	<u>2,332,777</u>	<u>2,608,828</u>
Operating Loss	<u>(53,520)</u>	<u>(227,290)</u>
Other Income:		
Investment income, net	9,663	31,924
Other nonregulated services	22,537	19,946
Other income, net	<u>84,048</u>	<u>8,239</u>
Total Other Income	<u>116,248</u>	<u>60,109</u>
Income (Loss) Available for Fixed Charges	62,728	(167,181)
Fixed charges - interest on long-term debt	<u>76,308</u>	<u>45,858</u>
Net loss	<u>\$ (13,580)</u>	<u>\$ (213,039)</u>

PEND OREILLE TELEPHONE COMPANY
Statements of Changes in Stockholders' Equity
Years Ended December 31, 2012 and 2011

	<u>Common Stock</u>	<u>Accumulated Deficit</u>	<u>Total Stockholder's Equity</u>
Balance, December 31, 2010	\$ 2,666,346	(270,693)	2,395,653
Net Loss	<u>-</u>	<u>(213,039)</u>	<u>(213,039)</u>
Balance, December 31, 2011	2,666,346	(483,732)	2,182,614
Net Loss	<u>-</u>	<u>(13,580)</u>	<u>(13,580)</u>
Balance, December 31, 2012	<u>\$ 2,666,346</u>	<u>(497,312)</u>	<u>2,169,034</u>

PEND OREILLE TELEPHONE COMPANY

Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Net income (loss)	\$ (13,580)	\$ (213,039)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	283,108	399,602
Noncash patronage	-	(18,603)
Allowance for funds used during construction	(22,406)	(6,949)
Changes in assets and liabilities:		
Accounts receivable	13,177	(5,507)
Accounts receivable, other	501	47,558
Materials and supplies	(14,442)	8,754
Accounts payable	358,031	19,182
Customer deposits	(190)	(690)
Accrued expenses	(9,199)	(29,138)
Related party receivables and payables, net	489,751	5,128
Net Cash Provided by Operating Activities	<u>1,084,751</u>	<u>206,298</u>
Cash Flows from Investing Activities:		
Capital expenditures	(557,991)	(803,753)
Purchase of investments and marketable securities	(21,935)	-
Proceeds from investments and sales of marketable securities	88,050	55,917
Net Cash Used by Investing Activities	<u>(491,876)</u>	<u>(747,836)</u>
Cash Flows from Financing Activities:		
Payments on long-term debt	(468,345)	(597,554)
Proceeds from long-term debt	304,360	1,086,000
Net Cash Provided (Used) by Financing Activities	<u>(163,985)</u>	<u>488,446</u>
Net Change in Cash and Cash Equivalents	428,890	(53,092)
Cash and Cash Equivalents, beginning	<u>79,722</u>	<u>132,814</u>
Cash and Cash Equivalents, ending	\$ <u>508,612</u>	\$ <u>79,722</u>
Cash Paid During the Year for Interest, Net of Amount Capitalized	\$ <u>53,902</u>	\$ <u>38,909</u>

See accompanying notes to financial statements.

PEND OREILLE TELEPHONE COMPANY

Notes to Financial Statements

December 31, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies

Organization

Pend Oreille Telephone Company (the Company) is a Washington S-Corporation providing 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 (the Parent), which is a wholly-owned subsidiary of Martell Enterprises, Inc., both of which are Idaho corporations.

Regulation

The Company is subject to limited regulation by the Washington Utilities and Transportation Commission (WUTC). The Company maintains its accounting records in accordance with the Uniform System of Accounts, as prescribed by the Federal Communications Commission (FCC), and adopted by the WUTC. As a result, the application of accounting principles generally accepted in the United States of America by the Company differs in certain respects from the application by non-regulated entities. Such differences primarily concern the time at which certain items enter into the determination of net income.

Regulatory and legislative actions, as well as future regulations, could have a significant impact on the Company's future operations and financial condition. See Note 1, National Broadband Plan and FCC Order.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. These estimates involve judgments with respect to numerous factors that are beyond management's control. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investment securities purchased with a maturity of 3 months or less to be cash equivalents. The Company maintains its cash and cash equivalents either in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor or in certain non-interest bearing accounts that are fully insured by the FDIC. As of December 31, 2012 and 2011, the Company had no uninsured cash.

Subsequent to year end, the temporary liquidity guarantee program, which fully insured all non-interest bearing accounts, expired. Therefore, at January 1, 2013, the Company had \$55,225 of uninsured cash.

The Company has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash.

Fair Value of Financial Instruments

The Company's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, receivables, marketable securities, accounts payable, and long-term debt. The Company estimates that the fair value of all of these non-derivative financial instruments at December 31, 2012 and 2011 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheets.

PEND OREILLE TELEPHONE COMPANY

Notes to Financial Statements

December 31, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies, continued

Marketable Securities

The Company has classified all marketable securities as held to maturity. These investments are stated at amortized cost which approximates fair value.

Materials and Supplies

Materials and supplies are stated at the lower of cost or market. Cost is determined principally by the average cost method.

Property, Plant, and Equipment

Property, plant, and equipment in service and under construction are stated at cost, including direct labor, materials, freight, and indirect overhead costs. Maintenance and repairs are charged to operations when incurred. Renewals and betterments are capitalized. Depreciation is calculated on a straight-line basis over the estimated life of the classes of property and equipment in accordance with rates consistent with industry standards. Depreciation rates range from 4% to 25%. In accordance with composite group depreciation methodology, when a portion of the Company's property, plant, and equipment is retired in the ordinary course of business, the gross book value, plus removal expenses, less salvage, is charged to accumulated depreciation and no gain or loss is recognized in accordance with industry standards.

Telecommunication plant acquisition is being amortized over 15 years and became fully amortized in 2012.

The Company follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. In 2012, total interest capitalized to property, plant, and equipment was \$22,406 (\$6,949 in 2011).

Accounts Receivable

Accounts receivable are recorded at unpaid balances, less an allowance for doubtful accounts of \$90,000 at December 31, 2012 and 2011. The Company generally does not require collateral or other security to support accounts receivable. Receivables are considered past due if payments are not received in accordance with invoice terms of net 30 days. Receivables are written off when the Company determines an account is uncollectible.

Network Access Revenues

Network access revenue related to intralata and interlata toll service is received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long distance carrier for access and interconnection to local facilities. The Company has elected to file access tariffs through the Washington Exchange Carrier Association (WECA) and the National Exchange Carrier Association (NECA). These access tariffs are subject to approval by the WUTC for intrastate charges and FCC for interstate charges.

When network access revenues have been received pursuant to the settlement and access agreements above, they are divided into traffic sensitive, nontraffic sensitive, and billing and collecting portions. The revenues are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Company. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investments maintained. The Company participates in various pooling arrangements with NECA and WECA.

Settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months (NECA pool only) after the close of the related calendar year, are recorded in the year in which such adjustments become determinable, based upon studies prepared by outside consultants.

PEND OREILLE TELEPHONE COMPANY

Notes to Financial Statements

December 31, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies, continued

Network Access Revenues, continued

In addition to recoveries from the NECA and WECA pools, the Company also receives revenues from the Universal High Cost Loop Fund administered by the Universal Service Administration Company (USAC). Amounts received from USAC are based on the number of customers served and the cost of providing service in that area being in excess of the national average cost per loop, as determined by the FCC, and are included in network access revenues in the accompanying financial statements.

In 2012, the Company received \$101,961 (\$178,049 in 2011) from the USAC High Cost Loop Fund and \$1,073,279 in interstate access revenues administered through the NECA pool (\$1,010,040 in 2011).

National Broadband Plan and FCC Order

In 2010, the FCC issued the National Broadband Plan which outlined a long-term plan to increase broadband penetrations and services throughout the United States of America. The plan further outlined a proposed long-term phase-out of access charges (referred to as Intercarrier Compensation) and moved to support mechanisms based on broadband services rather than the current Universal Service High Cost Loop Fund administered by USAC.

In response to the plan, the FCC on October 27, 2011, approved Report and Order 11-161 (the Order), that begins the process of reforming the universal service and intercarrier compensation (ICC) systems and adopts support for broadband-capable networks as an express universal service principle. The Order further creates the Connect America Fund which will ultimately replace all existing high-cost support mechanisms as well as help facilitate ICC reforms. The Order, among other things, caps the federal universal service fund at current levels and reforms the current system by putting various limits on capital and operating spending, requiring minimum levels for local rates and capping the per-line support amount at \$250 per month. At December 31, 2012, the Company meets minimum local rate benchmarks and is not subject to the \$250 per line support cap.

The Order also reforms the ICC system by adopting a plan to transition from access charges to a bill and keep framework. The transition period for rate-of-return carriers such as the Company is 9 years. Recovery will be calculated initially based on the fiscal year 2011 interstate switched access revenue requirement and will decline annually by 5% during the transition period beginning July 1, 2012. The Order includes the adoption of a monthly Access Recovery Charge as a transitional recovery mechanism to mitigate the impact of reduced intercarrier revenues. The Order was effective December 29, 2011, and implementation began on July 1, 2012.

As of the implementation date, July 1, 2012, the Company is subject to the 5% annual decline in interstate switched access revenue requirement during the 9 year transition period. For the period ended December 31, 2012 the impacts to the Company have not been significant.

The overall reform process takes place in phases and will take several years to implement. Furthermore the Order includes a Further Notice of Proposed Rulemaking and seeks comments on various items and the ultimate outcome of these proceedings and their impact is uncertain at this time.

Income Taxes

The Company and its Parent have elected S Corporation status. Earnings and losses of the Company are included in the income tax returns of the stockholders of Martell Enterprises, Inc. Accordingly, no provision has been made for federal and state income taxes in the accompanying financial statements.

Advertising Costs

Advertising costs are expenses when incurred. Advertising expenses were \$77,061 in 2012 (\$79,595 in 2011).

Subsequent Events

The Company has evaluated subsequent events through 5/3/2013, which is the date the financial statements were available to be issued.

PEND OREILLE TELEPHONE COMPANY

Notes to Financial Statements

December 31, 2012 and 2011

Note 2 - Investments

Investments consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
CoBank patronage certificates	\$ 240,253	\$ 282,300
NECA Independent Services	10,000	10,000
NRTC patronage allocations	135,486	136,489
Other investments	<u>6,549</u>	<u>6,391</u>
	<u>\$ 392,288</u>	<u>\$ 435,180</u>

Investments in other cooperatives are stated at the net realizable value of the patronage and equity allocated to the Company. All other investments are stated at cost.

Note 3 - Marketable Securities

Marketable securities include U.S. Government and corporate obligations with interest rates ranging from 8.95% to 10.375% in 2012 (3.265% in 2011). The bonds totaled \$22,674 at December 31, 2012 and mature in 2015 (\$45,897 at December 31, 2011, maturing in 2012). Management has determined that all bonds held at December 31, 2012 and 2011 are held to maturity and cost approximates fair market value.

Note 4 - Property, Plant, and Equipment

Listed below are the major classes of property, plant, and equipment in service at December 31:

	<u>2012</u>	<u>2011</u>
Land and support	\$ 1,177,256	\$ 1,173,779
Central office	6,235,295	6,211,104
Cable and wire facilities	<u>8,784,865</u>	<u>7,753,066</u>
	<u>\$ 16,197,416</u>	<u>\$ 15,137,949</u>

Note 5 - Long-Term Debt

Long-term debt consists of the following at December 31:

	<u>2012</u>	<u>2011</u>
5.0% notes payable to the Rural Utilities Service (RUS), payable in equal monthly installments of principal and interest, collateralized by real and personal property, paid in full in 2012.	\$ -	\$ 468,300
5.0% notes payable to RUS, interest only payments made monthly through December 2013, then monthly payments of \$10,211, principal and interest, collateralized by substantially all real and personal property, due December 2029.	<u>\$ 1,390,360</u>	<u>\$ 1,086,045</u>
	1,390,360	1,554,345
Less current portion	<u>-</u>	<u>468,300</u>

PEND OREILLE TELEPHONE COMPANY

Notes to Financial Statements

December 31, 2012 and 2011

Note 5 - Long-Term Debt, continued

Future maturities of long-term debt are as follows:

2013	\$	-
2014		48,235
2015		60,248
2016		63,331
2017		66,570
Thereafter		<u>1,151,976</u>

The long-term debt agreement with RUS contains restrictions on the payment of dividends and stipulates certain financial covenants. For the years ended December 31, 2012 and 2011, the Company was not in compliance with the financial covenants of the RUS loan agreement.

At December 31, 2012, the Company had approximately \$11,279,640 of unadvanced loan commitments from RUS.

Note 6 - Pension Plan

The Company participates in a Safe Harbor 401(k) profit sharing plan (the Plan) sponsored by its Parent company. The Plan is available to participants who meet certain eligibility requirements. Eligible participants can contribute a portion of their annual compensation to the Plan subject to Internal Revenue Service limitations. Total pension expense in 2012 was approximately \$44,000 (\$27,500 in 2011).

Note 7 - Related Party

The Company and its Parent have a service agreement in which the Parent provides management and operational services to the Company. The Parent also pays for some expenses incurred on behalf of the Company. During 2012, the Parent provided \$223,320 of such services, materials, and other expenditures to the Company (\$265,144 in 2011).

The Company invoices Nehalem Telecommunications, Inc. (NTI), an affiliated company through common ownership, for any costs incurred on behalf of NTI. Similarly, NTI invoices the Company for any costs incurred on behalf of the Company.

The Company incurs expenses on behalf of Martell Construction, an affiliated company through common ownership. There were no amounts incurred in 2012 or 2011.

PEND OREILLE TELEPHONE COMPANY

Notes to Financial Statements

December 31, 2012 and 2011

Note 7 - Related Party, continued

The Company leased equipment from Little Valley Elk Ranch, an affiliate company through common ownership, in the amount of \$14,526 in 2012 (\$115,370 in 2011).

	<u>2012</u>	<u>2011</u>
Accounts receivable, Rural Telephone Company	\$ -	102,644.00
Accounts receivable, Nehalem Telecommunications, Inc.	-	2,071
Accounts receivable, Martell Construction, Inc.	29,388	28,806
Accounts receivable, Little Valley Elk Ranch	125,341	122,861
Notes receivable - shareholders	<u>77,187</u>	<u>75,958</u>
	\$ <u>231,916</u>	\$ <u>332,340</u>
Accounts payable, Rural Telephone Company	\$ 337,839.00	\$ 260.00
Accounts payable, Nehalem Telecommunications, Inc.	<u>51,748.00</u>	<u>-</u>
	\$ <u>389,587</u>	\$ <u>260</u>

Note 8 - Reclassification

Certain accounts in the 2011 financial statements have been reclassified to conform to the presentation in the 2012 financial statements. Such reclassifications have no effect on net income or stockholder's equity.

PEND OREILLE TELEPHONE COMPANY

RUS Letters

Year Ended December 31, 2012

**AKT**[®]**CPAS AND BUSINESS CONSULTANTS****INDEPENDENT AUDITORS' MANAGEMENT LETTER**

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 the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and 7 CFR 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers, the financial statements of Pend Oreille Telephone Company (the Company), which comprise the balance sheet, and the related statements of operations, changes in stockholder's equity and cash flows for the year ended December 31, 2012, and have issued our report thereon dated 5/3/2013. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of the Company as of and for the year ended December 31, 2012, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A description of the responsibility of management for establishing and maintaining the internal control over financial reporting, and the objectives of and inherent limitations in such control, is set forth in our independent auditors' report on compliance and on internal control over financial reporting dated 5/3/2013 and should be read in conjunction with this report.

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, as defined above.

A significant deficiency is a deficiency, or a 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 deficiency in the Company's internal control discussed in the independent auditors' report on internal control over financial reporting and other matters to be a significant deficiency.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed in our independent auditors' report on internal control over financial reporting and on compliance and other matters, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR 1773.33(e)(2), and related party transactions and investments. In addition, our audit of the financial statements also included the procedures specified in 7 CFR 1773.38-45.

Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports, other than our independent auditors' report, and our independent auditors' report on compliance and on internal control over financial reporting, both dated 5/3/2013, or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters, as required by 7 CFR 1773.33, are presented below.

Comments on Certain Specific Aspects of the Internal Control Over Financial Reporting

We noted no matters regarding the Company's internal control over financial reporting and its operation that we consider to be a material weakness, as previously defined, with respect to the:

- Accounting procedures and records.
- Process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance, or other expense accounts.
- Materials control.

Comments on Compliance with Specific RUS Loan and Security Instrument Provisions

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts, and grants. The procedures we performed are summarized as follows:

- In performing the procedure with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement, or lease between borrower and an affiliate of the Company for the year ended December 31, 2012, we:
 1. Obtained and read a borrower-prepared schedule of new written contracts, agreements, or leases entered into during the year between the borrower and an affiliate as defined in 7 CFR 1773.33(e)(2)(i).
 2. Reviewed Board of Directors minutes to ascertain whether board-approved written contracts are included in the borrower-prepared schedule.
 3. Noted the existence of written RUS approval of each contract listed by the borrower.
- In performing the procedure with respect to the requirement to submit the Operating Report for Telecommunications Borrowers to the RUS, we:
 1. Agreed amounts reported in the Operating Report for Telecommunications Borrowers to the Company's records.

The results of our tests indicate that, with respect to the items tested, the Company complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested include the requirements that:

- The borrower has obtained written approval of the RUS and other mortgagees to enter into any contract, agreement, or lease with an affiliate as defined in 7 CFR 1773.33(e)(2)(i).
- The borrower has submitted its Operating Report for Telecommunications Borrowers, as of December 31, 2012, and the report represented by the borrower as having been submitted to RUS, is in agreement with the Company's audited records in all material respects.

Comments on Other Additional Matters

In connection with our audit of the financial statements of the Company, nothing came to our attention, except as noted below, that caused us to believe that the Company failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33(c)(1). The Company's subsidiary plant records have not been updated to agree with the general ledger. The Company is in the process of updating these records to ensure the balances agree to the general ledger going forward.
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33(c)(2).
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4).
- 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 addressed at 7 CFR 1773.33(c)(5).
- The disclosure of material related party transactions, in accordance FASB ASC 850-10-50-1, for the year ended December 31, 2012, in the financial statements referenced in the first paragraph of this report, addressed at 7 CFR 1773.33(e).

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments required by 7 CFR 1773.33(i) is omitted as the Company does not have investments in affiliated or subsidiary companies.

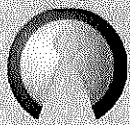
Other Matters

As a result of current year operating results, the Company is not in compliance with the Times Interest Earned Ratio (TIER) requirement as defined and included in the debt agreement with RUS.

This report is intended solely for the information and use of the Board of Directors, management, Rural Utilities Service, 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.

AKT LLP

AKT LLP
5/3/2013

**AKT**

CPAS AND BUSINESS CONSULTANTS

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

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 balance sheet of Pend Oreille Telephone Company (the Company) as of December 31, 2012, and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended and the related notes to the financial statements, and have issued our report thereon dated 5/3/2013. The financial statements of the Company as of December 31, 2011 were audited by other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements we considered the 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 over financial reporting.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control, as described below, that we consider to be a significant deficiency.

Accounting and Financial Reporting –

During the audit we assisted the Company with reconciling certain activities and posting adjustments to the general ledger. While some of these adjustments were identified by the Company, other adjustments would only be identified through our audit process. Further, our expertise is required to report the activity and to draft the financial statements and supporting footnotes in accordance with accounting standards generally accepted in the United States of America. This is considered to be a significant deficiency in internal control over financial reporting. The Board of Directors has considered the cost of staffing the financial expertise to address these issues outweighs the benefit, and as such, has determined to continue outsourcing these matters to external experts.

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Management is responsible for the controls over the selection and application of accounting principles in conformity with generally accepted accounting principles, and is also responsible for the controls over the period-end financial reporting process. The period-end financial reporting process includes the controls over procedures used to initiate, authorize, record and process transactions and journal entries into the general ledger; record recurring and nonrecurring adjustments to the financial statements; and prepare the financial statements and related notes. Having sufficient expertise in selecting and applying accounting principles is an aspect of such controls.

Even though management has requested the auditors' assistance in preparing the financial statements and notes, management is still responsible for the financial information presented. In addition, management is responsible for:

- Making management decisions and performing all management functions.
- Designating an individual with suitable skill, knowledge, or experience to oversee the services provided by the auditors.
- Evaluating the adequacy and results of the services performed by the auditors.
- Accepting responsibility for the results of the services performed by the auditors.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free from 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 financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted one instance of noncompliance which we have reported in our independent auditors' management letter in the Other Matters section, as required by 7 CFR 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. As a result of current year operating results, the Company is not in compliance with the Times Interest Earned Ratio (TIER) requirement as defined and included in the debt agreement with RUS.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

AKT LLP

AKT LLP
5/3/2013

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	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. BORROWER NAME Pend Oreille Telephone Company (Prepared with Audited Data)
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<i>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.</i>	PERIOD ENDING December, 2012	BORROWER DESIGNATION WA0545
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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 5/5/2014
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	85,248	153,935	25. Accounts Payable	114,797	473,593
2. Cash-RUS Construction Fund	865	305,225	26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments	82,547	82,547
a. Telecom, Accounts Receivable			28. Customer Deposits	4,240	4,050
b. Other Accounts Receivable	271,482	230,955	29. Current Mat. L/T Debt	468,300	0
c. Notes Receivable	60,957	77,188	30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat. Capital Leases		
a. Telecom, Accounts Receivable	134,143	120,966	32. Income Taxes Accrued		
b. Other Accounts Receivable	165,174	164,770	33. Other Taxes Accrued		
c. Notes Receivable			34. Other Current Liabilities	53,664	43,443
5. Interest and Dividends Receivable			35. Total Current Liabilities (25 thru 34)	723,548	603,633
6. Material-Regulated	206,343	221,708	LONG-TERM DEBT		
7. Material-Nonregulated	9,527	8,608	36. Funded Debt-RUS Notes	1,086,045	1,390,360
8. Prepayments			37. Funded Debt-RTB Notes		
9. Other Current Assets	45,897	22,674	38. Funded Debt-FFB Notes		
10. Total Current Assets (1 Thru 9)	979,636	1,306,029	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. Recquired Debt		
b. Nonrural Development			43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies		389,587
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development	428,789	365,509	46. Total Long-Term Debt (36 thru 45)	1,086,045	1,779,947
13. Nonregulated Investments	0	0	OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets			47. Other Long-Term Liabilities		
15. Deferred Charges			48. Other Deferred Credits		
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
17. Total Noncurrent Assets (11 thru 16)	428,789	365,509	50. Total Other Liabilities and Deferred Credits (47 thru 49)	0	0
PLANT, PROPERTY, AND EQUIPMENT			EQUITY		
18. Telecom, Plant-in-Service	15,137,950	16,197,416	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	859,056	379,988	53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill	34,125	0	54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation	13,448,596	13,697,578	55. Other Capital		
23. Net Plant (18 thru 21 less 22)	2,583,785	2,881,076	56. Patronage Capital Credits		
24. TOTAL ASSETS (10+17+23)			57. Retained Earnings or Margins	(483,729)	(497,312)
	3,992,210	4,552,614	58. Total Equity (51 thru 57)	2,182,617	2,169,034
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	3,992,210	4,552,614

Total Equity = 47.64% % of Total Assets

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	BORROWER DESIGNATION WA0545
	PERIOD ENDING December, 2012

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	427,730	407,265
2. Network Access Services Revenues	1,559,338	1,426,808
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues	1,088	1,033
5. Miscellaneous Revenues	30,570	22,285
6. Uncollectible Revenues	49,272	2,594
7. Net Operating Revenues (1 thru 5 less 6)	1,969,454	1,854,797
8. Plant Specific Operations Expense	645,291	544,987
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	191,436	178,981
10. Depreciation Expense	235,750	248,983
11. Amortization Expense	163,852	34,125
12. Customer Operations Expense	189,807	173,112
13. Corporate Operations Expense	772,791	765,806
14. Total Operating Expenses (8 thru 13)	2,198,927	1,945,994
15. Operating Income or Margins (7 less 14)	(229,473)	(91,197)
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes		
19. Other Taxes	46,421	36,489
20. Total Operating Taxes (17+18+19)	46,421	36,489
21. Net Operating Income or Margins (15+16-20)	(275,894)	(127,686)
22. Interest on Funded Debt	39,642	70,037
23. Interest Expense - Capital Leases		
24. Other Interest Expense	6,216	6,271
25. Allowance for Funds Used During Construction	6,949	85,298
26. Total Fixed Charges (22+23+24-25)	38,909	(8,990)
27. Nonoperating Net Income	31,925	9,663
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	69,842	95,453
31. Total Net Income or Margins (21+27+28+29+30-26)	(213,036)	(13,580)
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	(270,693)	(483,732)
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)]	(483,729)	(497,312)
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	637,196	538,382
45. Cash Ratio [(14+20-10-11) / 7]	0.9372	0.9162
46. Operating Accrual Ratio [(14+20+26) / 7]	1.1598	1.0640
47. TIER [(31+26) / 26]	-4.4752	2.5106
48. DSCR [(31+26+10+11) / 44]	0.3539	0.4839

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 Martell

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 = 62.85% 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

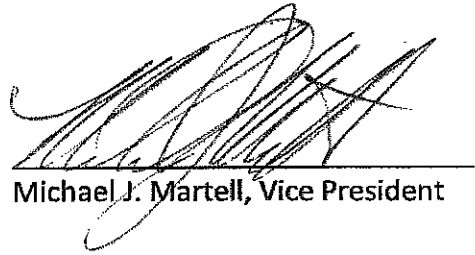
ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	407,265	400,950
2. Network Access Services Revenues	1,426,808	2,148,410
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues	1,033	(5,281)
5. Miscellaneous Revenues	22,285	21,345
6. Uncollectible Revenues	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 2013 and 2012.

Date this 28th day of July, 2014.



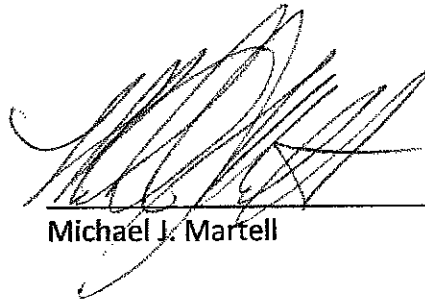
Michael J. Martell, Vice President

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 28th day of July, 2014.



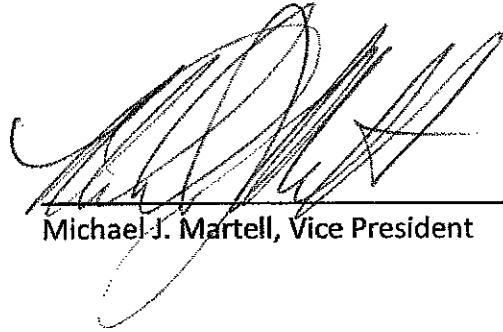
Michael J. Martell

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 2015.

Dated this 28th day of July, 2014.



Michael J. Martell, Vice President