PEND OREILLE TELECOM 892 W. Madison Ave., Glenns Ferry, ID 83623
208.366.2840 (P)
208.366.2615 (F)
www.potc.net

Received
Records Management
08/01/18 15:56
State Of WASH.
UTIL. AND TRANSP.
COMMISSION

July 31, 2018

Mark L Johnson, 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. Johnson:

Pend Oreille Telephone Company hereby submits its Petition for USF Support with demonstration of eligibility under WUTC WAC 480-123-100 and WAC 480-123-110. This USF Support Petition submission, also filed electronically at http://www.utc.wa.gov/docs/Pages/howToFile.aspx , includes : (1) a description of transactions with affiliates; (2) most recent consolidated audited financial statements ; (3) revenues from statements of income and retained earnings or margin section of RUS 479 for prior two years; and (4) the line count by residential and business for 12/31/2017 and 12/31/2016, 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 2019.

Sincerely,

Michael J. Martell
Vice President

MJM/baa

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

IN RE PETITION OF Pend Oreille Telephone Company, TO RECEIVE SUPPORT FROM THE STATE UNIVERSAL COMMUNICATIONS SERVICES PROGRAM	DOCKET NO. PETITION FOR SUPPORT

COMES NOW Pend Oreille Telephone Company (the "Company"), and, pursuant to Chapter 480-123 of the Washington Administrative Code ("WAC") including, but not limited to, WAC 480-123-110, hereby petitions the Washington Utilities and Transportation Commission (the "Commission") to receive support from the State Universal Communications Services Program established in RCW 80.36.650 (the "Program") for the fiscal year ending June 30, 2019.

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.

2. WAC 480-123-100(1)(b): The Company is an incumbent local exchange carrier as defined in 47 U.S.C. Sec. 251(h).

3. WAC 480-123-100(1)(c): The Company offers basic residential and business exchange telecommunications services as set forth in WAC 480-120-021 and RCW 80.36.630.

4. WAC 480-123-100(1)(d): The Company's rates for residential local exchange service, plus mandatory extended area service charges, are no lower than the local urban rate floor established by the Commission as the benchmark rate based on the Federal Communications Commission's national local urban rate floor pursuant to 47 C.F.R. Sec. 54.318 in effect on the date of this Petition.

5. WAC 480-123-100(1)(e): The Company has been designated by the Commission as an eligible telecommunications carrier for purposes of receiving federal universal services support pursuant to 47 C.F.R. Part 54 Subpart D - Universal Service Support for High Cost Areas with respect to the service area for which the Company is seeking Program support.

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

1. WAC 480-123-110(1)(a): The name of the legal entity that provides communications services and is seeking Program support is as follows: Pend Oreille Telephone Company

2. WAC 480-123-110(1)(b): A corporate organization chart showing the relationship between the Company and all affiliates as defined in RCW 80.16.010 is attached hereto as Exhibit 1. A detailed description of any transactions between the Company and the affiliates named in Exhibit 1 recorded in the Company's operating accounts is attached hereto as Exhibit 2.

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

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

5. WAC 480-123-110(1)(e)(i): On the Commission's prescribed form, attached as Exhibit 4, are copies of the Company's balance sheet as of December 31, 2017, and December 31, 2016, and copies of the Company's statements of income and retained earnings or margin for the years ended December 31, 2017 and December 31, 2016.

6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial statements for the years ended December 31, 2017 and December 31, 2016, are attached as Exhibit 5.

7. WAC 480-123-110(1)(e)(iii): Information demonstrating the Company's earned rate of return on a total Washington unseparated regulated operations basis for each of the two prior years, calculated in the manner prescribed by the Commission, is provided in Exhibit 4.

8. WAC 480-123-110(1)(e)(iv): Information demonstrating the Company's earned return on equity on a total company (regulated and non-regulated) Washington basis for each of the two prior years, calculated in the manner prescribed by the Commission, is provided in Exhibit 5.

9. WAC 480-123-110(1)(e)(v): Information detailing all of the Company's revenues from the statements of income and retained earnings or margin in the same format and detail as is required to complete RUS Form 479 for the prior two years is presented on Exhibit 6.

10. WAC 480-123-110(1)(e)(vi): A statement under penalty of perjury from a Company officer with personal knowledge and responsibility certifying that no corporate operations adjustment to existing high-cost loop and interstate common line support mechanisms required by the Federal Communications Commission applied to the Company for the two prior years is attached hereto as Exhibit 7. [**ALTERNATIVE**: Information detailing the amounts of any corporate operations adjustments to existing high-cost loop and interstate common line support mechanism required by the Federal Communications Commission applied to the Company for the prior two years is attached hereto as Exhibit 7.]

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

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

13. WAC 480-123-110(1)(f): A complete copy of the FCC Form 481 filed by the Company or on its behalf with the Federal Communications Commission for the calendar year preceding the current year has already been filed with the Commission. See the Company's filing in Docket No. UT-180004 filed on or about 07/11/2018. Confirmation #10965

14. WAC 480-123-110(1)(g): The number of residential local exchange access lines served by the Company as of December 31, 2017, was 1095 all of which were within the geographic area for which the Company is seeking support. The number of residential local exchange access lines served by the Company as of December 31, 2016, was 1129, all of which were within the geographic area for which the Company is seeking support. The number of business local exchange access lines served by the Company as of December 31, 2017, was 329, all of which were within the geographic area for which the Company is seeking support. The number of business local exchange access lines served by the Company as of December 31, 2016, was 327, all of which were within the geographic area for which the Company is seeking support.

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

The rate charged by the Company for single line business local exchange access service on December 31, 2017, was $ 25.03. The rate charged by the Company for single line business local exchange access service on December 31, 2016, was $ 25.03. (The Company has other business local exchange service rates, but the Company understands that WAC 480-123-110(1)(g) is requesting the single line business local exchange access service rate.)

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

16. The amount on Line 4, labeled 2011 ROR Carrier Base Period Revenue, of the CAF ICC Data collection Report for the period 7/1/2018 - 6/30/2019 is \$1,083,963 and has not changed from the last filing. [**ALTERNATIVE**: If there has been a change, provide the old and new amounts and explain the reason for the change.]

17. All exhibits attached hereto are incorporated in this Petition as though fully set forth.

Respectfully submitted this 1st day of August, 2018.

CERTIFICATION

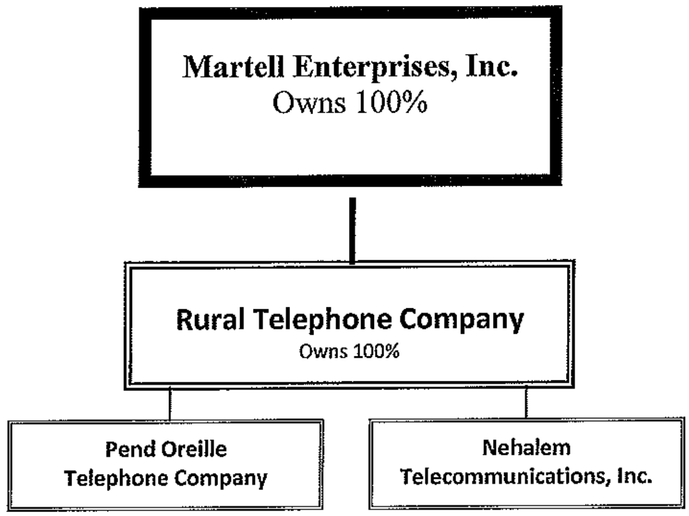
I Michael J. Martell, an officer of the Company that is responsible for the Company's business and financial operations, hereby certify under penalty of perjury that the information and representations set forth in the Petition, above, are accurate and the Company has not knowingly withheld any information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

By: Michael J. Martell
Title: Vice President

EXHIBIT 1

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

EXHIBIT 2

AFFILIATED TRANSACTIONS

Pend Oreille Telephone Company and its parent, Rural Telephone Company, have a service agreement in which Rural Telephone provides management and operational service to Pend Oreille Telephone Company. These services are direct assigned to Pend Oreille as the expenses are incurred. Rural provided $ 269,879 and $288,845 of such services in 2017 and 2016, respectively. (The difference in 2016 is because Pend Oreille Telephone Company utilized Rural Telephone Company construction employees for Fiber Construction.)

Pend Oreille leased vehicles and equipment from an affiliate, Little Valley Elk Ranch, in the amount of $ 14,526 in both 2017 and 2016. In addition, Little Valley Elk Ranch owes Pend Oreille $ 173,101 for a loan made from Pend Oreille to Little Valley Elk Ranch in 2008. This amount is for principal and interest accrued since that date.

EXHIBIT 3

EXHIBIT 3

DEMONSTRATION OF RISK OF RATE INSTABILITY OR SERVICE INTERRUPTION OR CESSATION

Pend Oreille Telephone ("Company") is currently in a situation of financial uncertainty as the marketplace has changed and moved away from voice services; which is the Company's historical mainstay of income. The Company over the past several years has had to address increasing competition. The Company has taken steps to increase the availability and attributes of advanced services offered by the Company, including accepting ACAM to assist with further building out it broadband capabilities. This has resulted in the Company making estimated additional investments in regulated plant of approximately $17,838,392 during the period January 1, 2017 through December 31, 2022. While the company has seen an increase of support with ACAM, the build out to meet the ACAM obligations is going to cost an estimated $15,596,332. As a result of prior year support decreases and construction to improve the network before 2017, the Company had to take out a substantial debt obligation to cover the investment that was made $1,085,573.

The Company's overall financial condition is detailed on other Exhibits to this Petition. This information demonstrates that, when adjusted to eliminate the support from the state Universal Communications Services Program and ACAM that the Company received in 2017, the Company's total regulated estimated revenues decrease by 12.21 percent from 2017 through 2022. Looking forward, the Company could see a further loss in revenue than projected as historical trends have shown decreasing end users, resulting in lower Local Revenues. Coupled with fewer end users, a continued decrease in voice minutes of use could lead to lower Switched Access Revenues. Also, if Pend Oreille continues to see circuit contracts dropped Special Access revenues will likely drop even further.

In addition to the increased competition, the Company has seen migration of its customers to wireless or other services for their communications needs and completely foregoing the use of landline services. Since 2011, the Company has lost 433 access lines or 24.4 percent. From 2016 to 2017 the Company lost 117 access lines or 8.0 percent. A loss of customers equates to a loss of revenue without a corresponding reduction in expenses or corresponding increase in rates. Furthermore, ACAM locations are fixed and must be built out to regardless of the customer purchasing our service.

USF/ICC Transformation Order issued by the Federal Communications Commission.[1] adds uncertainty to the financial forecast that the Company faces. Furthermore, the USF/ICC Transformation Order built in an automatic decline in the Company's intrastate and interstate access revenues. The inter-carrier compensation portion of the Transformation Order introduces a concept of a base line year for calculating terminating access and reciprocal compensation revenues and provides support from the Connect America Fund ("CAF") based on the base line year. However, the base line year revenues (from which the level of CAF support is derived) are

---

reduced iteratively by five percent each year. The CAF support reduction began in July 2012. Projecting through calendar year 2018, including additional reductions that will occur July 1, 2017, the Company has seen a reduction in support from the base line revenue amount of approximately $ 287,151.

On the supporting schedule to Exhibit 3 the Capital Budget for 2017 – 2022 is outlined to reflect investment related to Alternative Connect America Model (ACAM) and its obligations, as well as the investment related to aspects of the network related to its backbone. Under ACAM, Pend Oreille has substantial build out obligations related to its broadband deployment to locations within its given census blocks (2,259 locations required to build out to). While Pend Oreille is receiving $1.56 Million in ACAM revenue annually from 2017 – 2026, the investment required to meet ACAM's 10 Year obligations is forecasted at $15 - $17 Million. Also, the ACAM obligations will be used to focus on the deployment of broadband to the end user (primarily the loop portion of the network and FTTH build outs). On the supporting schedule for Exhibit 3 Pend Oreille has outlined forecasted Capital Expenditures that are not related to the ACAM build out obligations in the amount of $2,242,060 for 2017 – 2022. This forecasted investment includes updating the existing electronics and backbone of the current network, improving broadband to existing locations, and building out fiber to new locations near or adjacent to ACAM build out areas. The support from the Washington State Universal Communications Services Program (State USF) would allow Pend Oreille the ability to make these investments without assuming the burden of more LT Debt. These vital improvements to Pend Oreille's network will help retain existing customers as the current broadband product offering would be expanded. This would give the company significantly more flexibility from a rate standpoint and also ensure against cessation of service concerns that persist with outdated technologies supporting the existing network.

From an operating expense standpoint, the Company has seen a steady climb in operating expenses over the period over the years and projects them to continue to increase. During the timeframe of 2017- 2022 we are projecting expenses to increase $218,781. These increases will include, but not limited to: additional staff for maintenance and construction. While Pend Oreille has diligently cut costs where possible, the overall cost of maintaining the network and navigating the complexities of the industry lead to inherently higher costs. The continued support from the WA State USF program will allow Pend Oreille to ensure the network is maintained to a necessary level so as to not compromise the service customers receive.

The above mentioned reasoning and combination of factors have created a situation in which, without support from the state universal communications services program, the Company most likely will be faced with a choice of increasing rates further or reducing service in order to match expenses to revenues. Neither choice presents a practicable or feasible option for providing continued high quality service to its customers. The dilemma presented by these choices reflects the risk of rate instability, service interruption, and the worst case scenario, cessation of services.

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

EXHIBIT 4

Exhibit 3, Demonstration of Risk
Supporting Financial & Statistical Data
for Exhibit 3

Exhibit 3 Reference	Description	(A) 2022	2021	2020	2019	2018	(B) 2017	(C) Total	
Page 1 Par. 1	Projected Regulated Plant Additions for 2017 - 2022	$ 1,725,000	$ 2,660,000	$ 5,035,000	$ 5,640,000	$ 2,385,000	$ 393,392	$ 17,838,392	
Par. 1	Loop Related CapEx (ACAM)	$ 1,500,000	$ 2,115,000	$ 4,200,000	$ 5,250,000	$ 2,225,000	$ 306,332	$ 15,596,332	
	Network Backbone CapEx (WA USF)	$ 225,000	$ 545,000	$ 835,000	$ 390,000	$ 160,000	$ 87,060	$ 2,242,060	
		2022	2021	2020	2019	2018	2017	Total	
	Total Operating Expenses Excluding Taxes	$ 3,343,892	$ 3,215,579	$ 3,011,804	$ 2,701,360	$ 2,505,050	$ 2,490,293		
	Less: Depreciation & Amortization	$ (1,107,342)	$ (1,022,699)	$ (863,435)	$ (599,251)	$ (448,867)	$ (472,524)		
	Total Operating Expenses excluding Depreciation	$ 2,236,550	$ 2,192,880	$ 2,148,369	$ 2,102,109	$ 2,056,183	$ 2,017,769		
	Annual Expense Increase	$ 43,670	$ 44,511	$ 46,260	$ 45,926	$ 38,414		$ 218,781	
		(A) 2022	2021	2020	2019	2018	(B) 2017	(C) Total	
Page 1 Par. 2	Regulated Revenue Decrease from 2011 to 2017 and Projected Regulated Revenue from 2018 - 2022	$ 3,334,330	$ 3,356,052	$ 3,369,839	$ 3,405,790	$ 3,444,262	$ 3,580,727		
	Less ACAM	$ (1,562,611)	$ (1,562,611)	$ (1,562,611)	$ (1,562,611)	$ (1,562,611)	(1,562,611)		
	Other Regulated Revenues	$ 1,771,719	$ 1,793,441	$ 1,807,228	$ 1,843,179	$ 1,881,651	$ 2,018,116	$ (246,397)	-12.21%
Page 1 Par 1		After	2022	2021	2020	2019	2018	Total	
		$ 217,782	$ 132,500	$ 165,100	$ 199,800	$ 190,000	$ 180,391	$ 1,085,573	
Page 1 Par. 3		(A) 2017	(B) 2011	(A) - (B) Decrease					
	Access Line Decrease from 2011 to 2017	1,339	1,772	(433)	-24.4%				
		(A) 2017	(B) 2016	(C) 2015	(D) 2014	(E) 2013	(F) 2012	(G) Total	
Page 2 Par. 1	Reduction in base line revenue beginning 7/1/2012 and including reduction beginning 7/1/2017*	(41,937.50)	(44,144.73)	(46,468.14)	(48,913.83)	(51,488.24)	(54,198.15)	(287,150.59)	

* Each year is for the period 7/1/Current Yr to 6/30/Following Yr (Example 7/1/2017-6/30/2018) for 2017.
** Excludes CAF Support

STATE USF FILING

FINANCIAL TEMPLATE

NON-"S CORP" COMPANIES

8/1/2018

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

Company Name: (Below)
Pend Oreille Telephone Company

ASSETS	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)
CURRENT ASSETS			
1. Cash and Equivalents	1,008,470		1,008,470
2. Cash-RUS Construction Fund			0
3. Affiliates:			
a. Telecom, Accounts Receivable	0		0
b. Other Accounts Receivable	171,601		171,601
c. Notes Receivable	84,039		84,039
4. Non-Affiliates:			
a. Telecom, Accounts Receivable	41,103		41,103
b. Other Accounts Receivable	221,039		221,039
c. Notes Receivable	0		0
5. Interest and Dividends Receivable			0
6. Material-Regulated	223,710	(7,895)	215,815
7. Material-Nonregulated			0
8. Prepayments			0
9. Other Current Assets	70,867		70,867
10. Total Current Assets (1 Thru 9)	1,820,829	(7,895)	1,812,934
NONCURRENT ASSETS			
11. Investment in Affiliated Companies			
a. Rural Development	0		0
b. Nonrural Development	0		0
12. Other Investments			
a. Rural Development	0		0
b. Nonrural Development	252,958		252,958
13. Nonregulated Investments (B1)		68,392	68,392
14. Other Noncurrent Assets			0
15. Deferred Charges	780		780
16. Jurisdictional Differences			0
17. Total noncurrent Assets (11 thru 16)	253,738	68,392	322,130
PLANT, PROPERTY AND EQUIPMENT			
18. Telecom Plant-In-Service	17,386,766	(172,656)	17,214,110
19. Property Held for Future Use	1,250	(1,250)	0
20. Plant Under Construction	187,714		187,714
21. Plant Adj.,Nonop Plant & Goodwill			0
22. Accumulated Depreciation (CR.)	(14,974,712)	113,409	(14,861,303)
23. Net Plant (18 thru 21 less 22)	2,601,018	(60,497)	2,540,521
24. TOTAL ASSETS (10+17+23)	4,675,585	0	4,675,585

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

LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)
CURRENT LIABILITIES			
25. Accounts Payable	182,640		182,640
26. Notes Payable			0
27. Advance Billings and Payments	245,213		245,213
28. Customer Deposits	5,880		5,880
29. Current Mat. L/T Debt	171,457		171,457
30. Current Mat. L/T Debt Rur. Dev.			0
31. Current Mat. - Capital Leases			0
32. Income Taxes Accrued			0
33. Other Taxes Accrued			0
34. Other Current Liabilities	64,078		64,078
35. Total Current Liabilities (25 thru 34)	669,268	0	669,268
LONG-TERM DEBT			
36. Funded Debt-RUS Notes	999,177		999,177
37. Funded Debt-RTB Notes			0
38. Funded Debt-FFB Notes			0
39. Funded Debt-Other	266,965		266,965
40. Funded Debt-Rural Develop. Loan			0
41. Premium (Discount) on L/T Debt			0
42. Reacquired Debt			0
43. Obligations Under Capital Lease			0
44. Adv. From Affiliated Companies			0
45. Other Long-Term Debt			0
46. Total Long-Term Debt (36 thru 45)	1,266,142	0	1,266,142
OTHER LIAB. & DEF. CREDITS			
47. Other Long-Term Liabilities			0
48. Deferred Income Taxes	381,721	(3,791)	377,930
49. Other Deferred Credits (D)			0
50. Other Jurisdictional Differences			0
51. Total Other Liab. & Def. Credits (47 thru 50)	381,721	(3,791)	377,930
EQUITY			
52. Cap. Stock Outstanding & Subscribed	2,666,346		2,666,346
53. Additional Paid-in-Capital			0
54. Treasury Stock			0
55. Membership and Capital Certificates			0
56. Other Capital			0
57. Patronage Capital Credits			0
58. Retained Earnings or Margins (B2)	(307,892)	3,791	(304,101)
59. Total Equity (52 thru 58)	2,358,454	3,791	2,362,245
60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	4,675,585	0	4,675,585

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

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

Company Name: (Below)
Pend Oreille Telephone Company

ASSETS	Balance End of Year 2017 (A)	Part 64 Adj to NonReg 2017 (B)	Adj. Balance End of Year 2017 (C)
CURRENT ASSETS			
1. Cash and Equivalents	1,309,923		1,309,923
2. Cash-RUS Construction Fund	865		865
3. Affiliates:			
a. Telecom, Accounts Receivable	0		0
b. Other Accounts Receivable	810,957		810,957
c. Notes Receivable	85,735		85,735
4. Non-Affiliates:			
a. Telecom, Accounts Receivable	35,663		35,663
b. Other Accounts Receivable	252,218		252,218
c. Notes Receivable			0
5. Interest and Dividends Receivable			0
6. Material-Regulated	227,782		227,782
7. Material-Nonregulated	11,492		11,492
8. Prepayments			0
9. Other Current Assets	67,322		67,322
10. Total Current Assets (1 Thru 9)	2,801,957	0	2,801,957
NONCURRENT ASSETS			
11. Investment in Affiliated Companies			
a. Rural Development			0
b. Nonrural Development	232,647		232,647
12. Other Investments			
a. Rural Development			0
b. Nonrural Development			0
13. Nonregulated Investments (B1)	15,872	(56,065)	(40,193)
14. Other Noncurrent Assets			0
15. Deferred Charges	610		610
16. Jurisdictional Differences			0
17. Total noncurrent Assets (11 thru 16)	249,129	(56,065)	193,064
PLANT, PROPERTY AND EQUIPMENT			
18. Telecom Plant-In-Service	17,689,008	(27,480)	17,661,528
19. Property Held for Future Use	1,250	(1,250)	0
20. Plant Under Construction	70,337		70,337
21. Plant Adj.,Nonop Plant & Goodwill	72,321		72,321
22. Accumulated Depreciation (CR.)	(15,449,090)	84,795	(15,364,295)
23. Net Plant (18 thru 21 less 22)	2,383,826	56,065	2,439,891
24. TOTAL ASSETS (10+17+23)	5,434,912	0	5,434,912

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

LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2017 (A)	Part 64 Adj to NonReg 2017 (B)	Adj. Balance End of Year 2017 (C)
CURRENT LIABILITIES			
25. Accounts Payable	268,919		268,919
26. Notes Payable			0
27. Advance Billings and Payments	287,151		287,151
28. Customer Deposits	4,850		4,850
29. Current Mat. L/T Debt	180,391		180,391
30. Current Mat. L/T Debt Rur. Dev.			0
31. Current Mat. - Capital Leases			0
32. Income Taxes Accrued			0
33. Other Taxes Accrued			0
34. Other Current Liabilities	60,516		60,516
35. Total Current Liabilities (25 thru 34)	801,827	0	801,827
LONG-TERM DEBT			
36. Funded Debt-RUS Notes	890,488		890,488
37. Funded Debt-RTB Notes			0
38. Funded Debt-FFB Notes			0
39. Funded Debt-Other	195,085		195,085
40. Funded Debt-Rural Develop. Loan			0
41. Premium (Discount) on L/T Debt			0
42. Reacquired Debt			0
43. Obligations Under Capital Lease			0
44. Adv. From Affiliated Companies			0
45. Other Long-Term Debt			0
46. Total Long-Term Debt (36 thru 45)	1,085,573	0	1,085,573
OTHER LIAB. & DEF. CREDITS			
47. Other Long-Term Liabilities			0
48. Deferred Income Taxes	231,579	36,477	268,056
49. Other Deferred Credits (D)			0
50. Other Jurisdictional Differences	205,953		205,953
51. Total Other Liab. & Def. Credits (47 thru 50)	437,532	36,477	474,009
EQUITY			
52. Cap. Stock Outstanding & Subscribed	2,666,346		2,666,346
53. Additional Paid-in-Capital			0
54. Treasury Stock			0
55. Membership and Capital Certificates			0
56. Other Capital			0
57. Patronage Capital Credits			0
58. Retained Earnings or Margins (B2)	443,634	(36,477)	407,157
59. Total Equity (52 thru 58)	3,109,980	(36,477)	3,073,503
60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	5,434,912	0	5,434,912

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

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

Company Name: (Below)
Pend Oreille Telephone Company

ASSETS	Adjusted Prior Year Balance 2016	Adjusted Current Year Balance 2017
CURRENT ASSETS		
1. Cash and Equivalents	1,008,470	1,309,923
2. Cash-RUS Construction Fund	0	865
3. Affiliates:		
a. Telecom, Accounts Receivable	0	0
b. Other Accounts Receivable	171,601	810,957
c. Notes Receivable	84,039	85,735
4. Non-Affiliates:		
a. Telecom, Accounts Receivable	41,103	35,663
b. Other Accounts Receivable	221,039	252,218
c. Notes Receivable	0	0
5. Interest and Dividends Receivable	0	0
6. Material-Regulated	215,815	227,782
7. Material-Nonregulated	0	11,492
8. Prepayments	0	0
9. Other Current Assets	70,867	67,322
10. Total Current Assets (1 Thru 9)	1,812,934	2,801,957
NONCURRENT ASSETS		
11. Investment in Affiliated Companies		
a. Rural Development	0	0
b. Nonrural Development	0	232,647
12. Other Investments		
a. Rural Development	0	0
b. Nonrural Development	252,958	0
13. Nonregulated Investments	68,392	(40,193)
14. Other Noncurrent Assets	0	0
15. Deferred Charges	780	610
16. Jurisdictional Differences	0	0
17. Total noncurrent Assets (11 thru 16)	322,130	193,064
PLANT, PROPERTY AND EQUIPMENT		
18. Telecom Plant-in-Service	17,214,110	17,661,528
19. Property Held for Future Use	0	0
20. Plant Under Construction	187,714	70,337
21. Plant Adj.,Nonop Plant & Goodwill	0	72,321
22. Accumulated Depreciation (CR.)	(14,861,303)	(15,364,295)
23. Net Plant (18 thru 21 less 22)	2,540,521	2,439,891
24. TOTAL ASSETS (10+17+23)	4,675,585	5,434,912

LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2016	Adjusted Current Year Balance 2017
CURRENT LIABILITIES		
25. Accounts Payable	182,640	268,919
26. Notes Payable	0	0
27. Advance Billings and Payments	245,213	287,151
28. Customer Deposits	5,880	4,850
29. Current Mat. L/T Debt	171,457	180,391
30. Current Mat. L/T Debt Rur. Dev.	0	0
31. Current Mat. - Capital Leases	0	0
32. Income Taxes Accrued	0	0
33. Other Taxes Accrued	0	0
34. Other Current Liabilities	64,078	60,516
35. Total Current Liabilities (25 - 34)	669,268	801,827
LONG-TERM DEBT		
36. Funded Debt-RUS Notes	999,177	890,488
37. Funded Debt-RTB Notes	0	0
38. Funded Debt-FFB Notes	0	0
39. Funded Debt-Other	266,965	195,085
40. Funded Debt-Rural Develop. Loan	0	0
41. Premium (Discount) on L/T Debt	0	0
42. Reacquired Debt	0	0
43. Obligations Under Capital Lease	0	0
44. Adv. From Affiliated Companies	0	0
45. Other Long-Term Debt	0	0
46. Total Long-Term Debt (36-45)	1,266,142	1,085,573
OTHER LIAB. & DEF. CREDITS		
47. Other Long-Term Liabilities	0	0
48. Deferred Income Taxes	377,930	268,056
49. Other Deferred Credits	0	0
50. Other Jurisdictional Differences	0	205,953
51. Total Other Liab. & Def. Credits (47 thru 50)	377,930	474,009
EQUITY		
52. Cap. Stock Outstanding & Subscribed	2,666,346	2,666,346
53. Additional Paid-in-Capital	0	0
54. Treasury Stock	0	0
55. Membership and Capital Certificates	0	0
56. Other Capital	0	0
57. Patronage Capital Credits	0	0
58. Retained Earnings or Margins	(304,101)	407,157
59. Total Equity (52 thru 58)	2,362,245	3,073,503
59. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	4,675,585	5,434,912

Footnote:
Adjusted Balances represents balances after Part 64 adjustments.

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

Company Name: (Below)
Pend Oreille Telephone Company

Line #	Description	B/S Line #	Adj. Balance End of Year 2016	Adj. Balance End of Year 2017	Average Adj End of Year Balance
	Average Rate Base:				
1	Total Regulated Adjusted Telecom Plant-In-Service	18	17,214,110	17,661,528	17,437,819
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(14,861,303)	(15,364,295)	(15,112,799)
4	Total Regulated Materials & Supplies	6	215,815	227,782	221,799
5	Deferred Income Taxes (CR) * - Manually input		(377,930)	(268,056)	(322,993)
6	**Total Regulated Rate Base**		2,190,692	2,256,959	2,223,826

Footnotes:
1. Normal balance of deferred operating income taxes and accumulated depreciation is a credit.
* 2. Deferred Income Taxes (Line 5) may not equal the Balance Sheet Deferred Income Taxes (Line 48) if the later includes non-operating.
3. Adjusted balance includes Part 64 adjustments

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

Company Name: (Below)
Pend Oreille Telephone Company

Line #	Description	Prior Year End of Yr. Balance - 2016	Current Year End of Yr. Balance - 2017	Difference	% Change
	Access Lines:				
1	Residential	1,129	1,023	(106)	-9.4%
2	Business	327	316	(11)	-3.4%
3	Total	1,456	1,339	(117)	-8.0%

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

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

Company Name: (Below)
Pend Oreille Telephone Company

Line #	Description	Prior Year 2016 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2016 (C)
1	Local Network Services Revenues	419,794		419,794
2	Network Access Services Revenues	2,099,061		2,099,061
3	Long Distance Network Services Revenues			0
4	Carrier Billing and Collection Revenues			0
5	Miscellaneous Revenues	30,682		30,682
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(33,780)		(33,780)
7	**Net Operating Revenues (1 thru 6)**	2,515,757	0	2,515,757
8	Plant Specific Operations Expense	673,453	(11,337)	662,116
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	228,911	5,664	234,575
10	Depreciation Expense	397,932	(2,701)	395,231
11	Amortization Expense			0
12	Customer Operations Expense	175,398	(5,738)	169,660
13	Corporate Operations	835,335	(13,323)	822,012
14	**Total Operations Expenses (8 thru 13)**	2,311,029	(27,435)	2,283,594
15	Operating Income or Margins (7 less 14)	204,728	27,435	232,163
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	64,573	(27,391)	37,182
19	Other Taxes	56,646	(217)	56,429
20	**Total Operating Taxes (17+18+19)**	121,219	(27,608)	93,611
21	**Net Operating Income or Margins (15+16-20)**	83,509	55,043	138,552
22	Interest on Funded Debt	67,744	(25,946)	41,798
23	Interest Expense - Capital Leases			0
24	Other Interest Expense	2,947	(450)	2,497
25	Allowance for Funds Used During Construction (Record as a Credit)	(6,688)		(6,688)
26	**Total Fixed Charges (22+23+24+25)**	64,003	(26,396)	37,607
27	Nonoperating Net Income	3,436		3,436
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	118,892	(81,439)	37,453
31	**Total Net Income or Margins (21+27+28+29+30-26)**	141,834	0	141,834
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	(199,719)		(199,719)
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)	250,007		250,007
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	**Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38)(A2)**	(307,892)	0	(307,892)
40	Patronage Capital Beginning-of-Year			0
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	**Patronage Capital End-of-Year (40+41-42)**	0	0	0
44	Annual Debt Service Payments	161,085		161,085
45	Cash Ratio ((14+20-10-11)/7)	0.8086	#DIV/0!	0.7878
46	Operating Accrual Ratio ((14+20+26)/7)	0.9922	#DIV/0!	0.9599
47	TIER ((31+26)/26)	3.2161	1.0000	4.7715
48	DSCR ((31+26+10+11)/44)	3.7481	#DIV/0!	3.5675

Footnotes:

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

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

Company Name: (Below)
Pend Oreille Telephone Company

Line #	Description	Current Year 2017 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2017 (C)
1	Local Network Services Revenues	422,422		422,422
2	Network Access Services Revenues	3,227,453		3,227,453
3	Long Distance Network Services Revenues			0
4	Carrier Billing and Collection Revenues			0
5	Miscellaneous Revenues	19,940	(9,892)	10,048
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(79,196)		(79,196)
7	**Net Operating Revenues (1 thru 6)**	3,590,619	(9,892)	3,580,727
8	Plant Specific Operations Expense	638,843	(8,035)	630,808
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	362,420	(45,946)	316,474
10	Depreciation Expense	474,380	(1,856)	472,524
11	Amortization Expense			0
12	Customer Operations Expense	164,821	(3,362)	161,459
13	Corporate Operations	824,192	(8,323)	815,869
14	**Total Operations Expenses (8 thru 13)**	2,464,656	(67,522)	2,397,134
15	Operating Income or Margins (7 less 14)	1,125,963	57,630	1,183,593
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	377,425	(23,029)	354,396
19	Other Taxes	93,308	(149)	93,159
20	**Total Operating Taxes (17+18+19)**	470,733	(23,178)	447,555
21	**Net Operating Income or Margins (15+16-20)**	655,230	80,808	736,038
22	Interest on Funded Debt	68,907	(24,743)	44,164
23	Interest Expense - Capital Leases			0
24	Other Interest Expense	1,762	(1,762)	0
25	Allowance for Funds Used During Construction (Record as a Credit)	(4,923)		(4,923)
26	**Total Fixed Charges (22+23+24+25)**	65,746	(26,505)	39,241
27	Nonoperating Net Income	13,834		13,834
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	148,208	(107,313)	40,895
31	**Total Net Income or Margins (21+27+28+29+30-26)**	751,526	0	751,526
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	(307,892)		(307,892)
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)			0
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	**Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38)(A2)**	443,634	0	443,634
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	250,288		250,288
45	Cash Ratio ((14+20-10-11)/7)	0.6854	8.9814	0.6625
46	Operating Accrual Ratio ((14+20+26)/7)	0.8358	11.8485	0.8054
47	TIER ((31+26)/26)	12.4307	1.0000	20.1516
48	DSCR ((31+26+10+11)/44)	5.1607	#DIV/0!	5.0473

Footnotes:

(A) As reported on RUS Form 479

(A1) S Corps provide effective tax rate from Cost study on Page 9, Income Statement Summary Schedule Footnote

(A2) Column A, Line 39 must equal Column A, Line 58 of Page 3, Balance Sheet

(B) Part 64 adjustment from regulated to nonregulated

(B1) Column B, automatic offset to Nonregulated Net Income (No Impact to Retained Earnings)

(C) Adjusted balance after Part 64 adjustments

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

Company Name:
Pend Oreille Telephone Company

Line #	Description	Adjusted Prior Year 2016	Adjusted Current Year 2017
1	Local Network Services Revenues	419,794	422,422
2	Network Access Services Revenues	2,099,061	3,227,453
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	0	0
5	Miscellaneous Revenues	30,682	10,048
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(33,780)	(79,196)
7	**Net Operating Revenues (1 thru 6)**	2,515,757	3,580,727
8	Plant Specific Operations Expense	662,116	630,808
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	234,575	316,474
10	Depreciation Expense	395,231	472,524
11	Amortization Expense	0	0
12	Customer Operations Expense	169,660	161,459
13	Corporate Operations	822,012	815,869
14	**Total Operations Expenses (8 thru 13)**	2,283,594	2,397,134
15	Operating Income or Margins (7 less 14)	232,163	1,183,593
16	Other Operating Income and Expenses ( )	0	0
17	State and Local Taxes	0	0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	37,182	354,396
19	Other Taxes	56,429	93,159
20	**Total Operating Taxes (17+18+19)**	93,611	447,555
21	**Net Operating Income or Margins (15+16-20)**	138,552	736,038
22	Interest on Funded Debt	41,798	44,164
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	2,497	0
25	Allowance for Funds Used During Construction (Record as a Credit)	(6,688)	(4,923)
26	**Total Fixed Charges (22+23+24+25)**	37,607	39,241
27	Nonoperating Net Income	3,436	13,834
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	37,453	40,895
31	**Total Net Income or Margins (21+27+28+29+30-26)**	141,834	751,526
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	(199,719)	(307,892)
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	250,007	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)**	(307,892)	443,634
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	161,085	250,288
45	Cash Ratio ((14+20-10-11)/7)	0.7878	0.6625
46	Operating Accrual Ratio ((14+20+26)/7)	0.9599	0.8054
47	TIER ((31+26)/26)	4.7715	20.1516
48	DSCR ((31+26+10+11)/44)	3.57	5.0473

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

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

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

Company Name: (Below)
Pend Oreille Telephone Company

Line #	Description	Part 32 Account	Prior Year 2016	Current Year 2017
1	End User Revenue (SLC, ARC, etc.)	5081	193,766	200,611
2	Switched Access (excluding USF):	5082		
2a	Intrastate		107,653	138,632
2b	Interstate (includes CAF)		762,162	727,569
3	Special Access:	5083		
3a	Intrastate		35,911	33,097
3b	Interstate		329,750	328,338
4	Federal USF (except CAF and ACAM/BLS)	Varies	468,631	(8,712)
5	Federal USF (ACAM or BLS)	Varies	0	1,562,611
6	State USF	Varies	201,068	245,307
7	Other*		120	
8	Total (must equal line 2 of Income Stmt.)		2,099,061	3,227,453
9	Line 2 of Income Stmt.		2,099,061	3,227,453
10	Difference		0	0

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

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

Company Name: (Below)
Pend Oreille Telephone Company

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

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

Company Name: (Below)
Pend Oreille Telephone Company

Line #	Description	Company 2017 (A)	Staff 2017 (B)
1	Rate Base (Jan. 1)	2,190,692	2,190,692
2	Rate Base (Dec 31)	2,256,959	2,256,959
3	**Average Rate Base**	2,223,826	2,223,826
4	Net Operating Income	736,038	736,038
5	Out-of-Period Adjustments Net of FIT		
6	**Adjusted Net Operating Income**	736,038	736,038
7	**Earned Regulated Rate of Return**	33.10%	33.10%

Footnotes:
(A) Column A to be completed by Company,
(B) Column B should equal Column A, but may include any Staff Adjustments

EXHIBIT 5

Pend Oreille Telephone Company

Independent Auditor's Reports and Financial Statements and Supplementary Information

December 31, 2017 and 2016

BKD
CPAs & Advisors

Pend Oreille Telephone Company
December 31, 2017 and 2016

Contents

BKD LLP
CPAs & Advisors

8517 Excelsior Drive, Suite 301 // Madison, WI 53717-2910
608.664.9110 // fax 608.664.9112 // bkd.com

Independent Auditor's Report

Board of Directors
Pend Oreille Telephone Company
Glenns Ferry, Idaho

Report on Financial Statements

We have audited the accompanying financial statements of Pend Oreille Telephone Company (an Idaho corporation), which comprise the balance sheets as of December 31, 2017, and 2016, and the related statements of income, stockholder's 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 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, as of December 31, 2017, and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated April 30, 2018, 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* in considering Pend Oreille Telephone Company's internal control over financial reporting and compliance.

BKD, LLP

Madison, Wisconsin
April 30, 2018

Pend Oreille Telephone Company
Balance Sheets
December 31, 2017 and 2016

Assets

	2017	2016
Current Assets		
Cash and cash equivalents	$ 1,309,923	$ 1,029,937
Special construction account	865	865
Marketable securities	5,984	-
Accounts receivable:		
Due from customers	35,663	41,103
Interexchange carriers	259,270	221,033
Affiliates	625,731	255,640
Other	4,948	8
Materials and supplies at average cost	227,782	215,815
Inventory at average cost	11,492	7,894
	2,481,658	1,772,295
Other Noncurrent Assets		
Marketable securities	61,338	48,535
Other investments	232,647	252,958
Affiliate receivables	258,961	-
Deferred charges	610	-
Goodwill	60,321	-
Intangibles	12,000	780
	625,877	302,273
Property, Plant and Equipment		
Telephone plant in service	17,650,157	17,386,765
Other property	81,627	26,904
	17,731,784	17,413,669
Less accumulated depreciation	15,475,994	15,001,616
	2,255,790	2,412,053
Plant under construction	70,337	187,714
Property held for future use	1,250	1,250
	2,327,377	2,601,017
Total assets	$ 5,434,912	$ 4,675,585

See Notes to Financial Statements

Liabilities and Stockholder's Equity

	2017	2016
Current Liabilities		
Current portion of long-term debt	$ 180,391	$ 171,457
Accounts payable:		
Interexchange carriers	18,477	27,611
Affiliates	55,029	75,343
Other	195,412	79,686
Advance payments	287,151	245,213
Customer deposits	4,850	5,880
Deferred revenue	12,000	-
Other accrued liabilities	60,517	64,078
	813,827	669,268
Long-term Debt, less current portion	1,085,573	1,266,142
Other Noncurrent Liabilities and Deferred Credits		
Deferred income taxes	219,579	381,721
Deferred regulatory liability	205,953	-
	425,532	381,721
Stockholder's Equity		
Common stock - no par value, 25,000 shares authorized, 5,000 shares issued and outstanding	2,666,346	2,666,346
Retained earnings (deficit)	443,634	(307,892)
	3,109,980	2,358,454
Total liabilities and stockholder's equity	$ 5,434,912	$ 4,675,585

Pend Oreille Telephone Company

Statements of Income

Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Local network services	$ 422,422	$ 419,794
Network access services	3,227,453	2,099,061
Internet services	530,302	489,201
Other nonregulated services	18,468	24,449
Miscellaneous	19,940	30,682
Uncollectible	(79,196)	(33,780)
	4,139,389	3,029,407
Operating Expenses		
Plant specific operations	653,489	690,637
Plant nonspecific operations	362,420	228,910
Cost of internet services	385,720	377,445
Depreciation	474,380	397,934
Customer operations	164,821	175,397
Corporate operations	824,192	835,335
General taxes	93,308	56,646
	2,958,330	2,762,304
Operating Income	1,181,059	267,103
Other Income (Expense)		
Interest and dividend income	24,790	12,123
Allowance for funds used during construction	4,923	6,688
Interest expense	(70,669)	(70,691)
Other, net	(4,126)	(6,695)
	(45,082)	(58,575)
Income Before Income Taxes	1,135,977	208,528
Income Tax Expense	384,451	66,694
Net Income	$ 751,526	$ 141,834

Pend Oreille Telephone Company
Statements of Stockholder's Equity
Years Ended December 31, 2017 and 2016

	Common Stock		Retained Earnings (Deficit)	Total Stockholder's Equity
	Shares	Amount		
Balance, December 31, 2015	5,000	$ 2,666,346	$ (199,719)	$ 2,466,627
Net income			141,834	141,834
Dividends paid, $50.00 per share			(250,007)	(250,007)
Balance, December 31, 2016	5,000	2,666,346	(307,892)	2,358,454
Net income			751,526	751,526
Balance, December 31, 2017	5,000	$ 2,666,346	$ 443,634	$ 3,109,980

See Notes to Financial Statements

Pend Oreille Telephone Company

Statements of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Net income	$ 751,526	$ 141,834
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	474,380	397,934
Deferred income taxes	43,811	46,611
Patronage in business conducted with cooperatives	(11,042)	(9,272)
Patronage distributions received from business conducted with cooperatives	31,564	47,432
Allowance for funds used during construction	(4,923)	(6,688)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(666,789)	(26,885)
Material and supplies and inventory	(12,384)	(32,717)
Deferred charges	170	(780)
Increase (Decrease) in:		
Accounts payable	(33,106)	12,957
Customer deposits	(1,030)	1,230
Advanced payments	41,938	32,145
Other accrued liabilities	8,439	11,376
Net cash provided by operating activities	622,554	615,177
Investing Activities		
Capital expenditures	(136,935)	(714,484)
Down payment for purchase of Northstar Broadband	(15,000)	-
Purchase of investments	(18,998)	(48,535)
Proceeds from sales of investments	-	25,939
Net cash used in investing activities	(170,933)	(737,080)
Financing Activities		
Proceeds from long-term borrowing	-	328,047
Repayment of long-term debt	(171,635)	(131,852)
Dividends paid	-	(250,007)
Net cash used in financing activities	(171,635)	(53,812)
Increase (Decrease) in Cash and Cash Equivalents	279,986	(175,715)
Cash and Cash Equivalents, Beginning of Year	1,029,937	1,205,652
Cash and Cash Equivalents, End of Year	$ 1,309,923	$ 1,029,937

See Notes to Financial Statements

Pend Oreille Telephone Company

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and 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. 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported 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.

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

Receivables are reported at the amounts the Company expects to collect on balances outstanding at year end. The Company monitors outstanding balances and periodically writes off balances that are determined to be uncollectible. The Company has concluded that losses on balances outstanding at year end will be immaterial.

Inventory

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

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 stockholder's 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, 2017 and 2016, 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.

Advance payments

Advance payments represent the 2018 state of Washington Universal Service Fund payments which were received in 2017.

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.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	25 years
Furniture and office equipment	4-16 years
Vehicles and work equipment	4-7 years
Switching equipment	8-12 years
Outside plant	16-22 years
Internet equipment	3-5 years

The Company capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred each year was:

	2017	2016
Interest costs capitalized	$ 4,923	$ 6,688
Interest costs charged to expense	70,669	70,691
Total interest incurred	$ 65,746	$ 64,003

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.

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, 2017 and 2016.

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.

Long-Lived Asset Impairment

The Company would provide for impairment losses on long-lived assets when no longer cost of service regulated, indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Income Taxes

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

Revenue Recognition

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

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

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.

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 $102,241 and $85,344 in 2017 and 2016, respectively.

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $82,032 and $77,736 in 2017 and 2016, respectively.

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
Held-to-Maturity Securities:				Stockholder's
December 31, 2017:				
U.S. government obligations	$ 67,322	$ -	$ -	$ 67,322
Amounts classified as:				
Current marketable securities	5,984			
Noncurrent marketable securities	61,338			
Total	$ 67,322			
December 31, 2016:				
U.S. government obligations	$ 48,535	$ -	$ -	$ 48,535
Amounts classified as:				
Noncurrent marketable securities	$ 48,535			

The amortized cost and fair value of debt securities at December 31, 2017, 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 Securities:		
Within one year	$ 5,984	$ 5,984
One to five years	61,338	61,338
	$ 67,322	$ 67,322

Pend Oreille Telephone Company

Notes to Financial Statements

December 31, 2017 and 2016

Note 3: Property, Plant and Equipment

Property, plant and equipment includes the following:

	2017	2016
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	875,331	818,091
Switching equipment	6,911,049	6,881,229
Outside plant	9,141,443	8,965,111
Subtotal	17,650,157	17,386,765
Other property		
Internet equipment	81,627	26,904
Total property, plant and equipment	$ 17,731,784	$ 17,413,669

Depreciation on depreciable property resulted in composite rates of 2.71% and 2.34% for 2017 and 2016, respectively.

Note 4: Goodwill and Intangibles

The gross carrying amounts of goodwill and accumulated amortization were as follows for the year ended December 31:

	2017	2016
Balance at beginning of year	$ -	$ -
Goodwill acquired	60,321	-
Goodwill amortized	-	-
Total interest incurred	$ 60,321	$ -

Goodwill includes $60,321 added during the year ended December 31, 2017, attributable to the acquisition of Sweetwater Cable Television as described in Note 14.

Beginning in 2017, the Company amortizes goodwill on the straight-line method over ten years unless a shorter life is more appropriate. There was no amortization expense for the year ended December 31, 2017.

Intangible assets at December 31 include the following

	2017	2016
Amortized intangibles		
Subscriber list	$ 12,000	$ -

Estimated amortization expense for the next five years is:

2018	$ 8,432
2019	8,432
2020	8,432
2021	8,432
2022	8,432

The Company annually assesses its recorded balances of goodwill and indefinite lived intangible assets for impairment. The fair value of goodwill and intangibles is based on level 3 inputs of the fair value hierarchy. As a result, the Company determined no impairment needed to be recorded for the years ended December 31, 2017 and 2016.

Note 5: Other Investments

	2017	2016
Cobank patronage capital certificates	$ 41,513	$ 68,321
National Rural Telecommunications Cooperative patronage capital certificates	173,938	167,651
Independent NECA Services stock	10,000	10,000
Other	7,196	6,986
Total	$ 232,647	$ 252,958

Because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs, management has determined it is not practical to estimate the fair value of these investments. However, management believes that the carrying amount of these investments at December 31, 2017 is not impaired.

Note 6: Income Taxes

Income taxes reflected in the statements of income consist of the following:

	2017	2016
Federal income taxes:		
Current tax expense	$ 340,640	$ 20,083
Deferred tax expense	43,811	46,611
Income tax expense	$ 384,451	$ 66,694

No cash was paid for income taxes during 2017 and 2016, however the Company paid its parent company their share of income taxes due through the intercompany payable account. This amounted to $340,640 and $20,083 in 2017 and 2016, respectively.

Deferred federal tax liabilities and assets reflected in the balance sheets are summarized as follows:

	2017	2016
Deferred tax liabilities		
Federal	$ 262,829	$ 381,721
Deferred tax assets		
Federal	$ 43,250	$ -
Net Deferred Tax Liability - Long-Term	$ 219,579	$ 381,721

The tax provision differs from the expense that would result from applying the federal statutory rates to income before income taxes because of an adjustment to actual filed 2015 tax returns.

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act, which significantly changes the U.S. tax laws, including a reduction in the Company's corporate tax rate from 34% to 21%, as well as other changes. This resulted in no impact to the Company's statement of income.

Deferred credits includes a regulatory liability at December 31, 2017 of $205,953. The regulatory liability represents an amount associated with excess deferred income taxes as a result of the Tax Cuts and Jobs Act. This amount will be amortized over the remaining regulatory life of the plant which produced the liability.

The Company has evaluated its income tax positions and has determined that there are no uncertain income tax positions that need to be recorded or reported in the financial statements at December 31, 2017 and 2016.

The Company has evaluated its income tax positions and determined that there are no uncertain income tax positions that need to be recorded or reported in the financial statements at December 31, 2017 and 2016.

The Company's federal income tax returns for years 2014 to present remain subject to examination.

Note 7: Long-Term Debt

Long-term debt consists of:

	2017	2016
Chrysler Credit - 5.99%	$ 26,141	$ 33,683
RDUP mortgage notes - 5.00%	999,236	1,102,546
Ford Credit - 6.59%	24,197	31,089
Ford Credit - 7.09%	25,083	32,157
Ford Credit - 6.89%	25,228	30,957
Long-term note to Umpqua Bank - 4.25%	166,079	207,167
	1,265,964	1,437,599
Less current portion	180,391	171,457
	$ 1,085,573	$ 1,266,142

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

2018	$ 180,391
2019	190,000
2020	199,800
2021	165,100
2022	132,500

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 2017 and 2016 totaled $65,746 and $64,003, respectively.

There were no unadvanced funds at December 31, 2017 and 2016 for long-term notes.

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 8: 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 2017 and 2016 were $48,000 and $74,850, respectively.

Note 9: 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 $269,879 and $288,845 of such services in 2017 and 2016, respectively.

The Company leased equipment from an affiliate, Little Valley Elk Ranch, in the amount of $14,526 in both 2017 and 2016.

Affiliates accounts receivable and payable at December 31 consists of the following:

	2017	2016
Current accounts receivable, stockholders and employees	$ -	$ 85,964
Current accounts receivable, Little Valley Elk Ranch	-	169,676
Noncurrent accounts receivable, stockholders and employees	85,860	-
Noncurrent accounts receivable, Little Valley Elk Ranch	173,101	-
Accounts receivable, Rural Telephone Company	625,731	-
	$ 884,692	$ 255,640
Accounts payable, Rural Telephone Company	$ -	$ 21,402
Accounts payable, Nehalem Telecommunications, Inc.	55,029	53,941
	$ 55,029	$ 75,343

Note 10: 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 78% and 69% of its 2017 and 2016 revenues, respectively, 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.

Note 11: 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 12: Regulatory Matters

The Company receives revenues from access revenues and assistance provided by the Federal Universal Service Fund. The manner in which access revenues and Universal Service funds are determined has been modified in several recent Federal Communications Commission proceedings. Changes include modifications to rate-of-return support including caps on the recovery of certain expenditures, and reductions in terminating access charges billed with eventual transition to a bill-and-keep framework for the exchange of traffic between carriers.

On March 30, 2016, the FCC released a Report and Order, Order on Reconsideration, and Further Notice of Proposed Rulemaking to reform USF. The order in this proceeding (1) provides support for standalone broadband; (2) requires broadband deployment based on the number of locations lacking service and cost of providing service; (3) requires allowances for capital investments and further limits operational expenses; and (4) phases out support for areas served by qualifying competitors. In addition, the FCC created a new Universal Service Support mechanism named the Alternative Connect America Model (A-CAM). The Order allows eligible rate-of-return carriers to elect A-CAM or remain on a revised version of the legacy rate-of-return funding. Carriers not eligible for the A-CAM will fall under the revised version of the legacy rate-of-return funding. The Order provides a total budget of $2 billion for Universal Service Support to cover the A-CAM and legacy rate-of-return mechanisms.

The Company has elected to accept the A-CAM support offer. The Company is eligible to receive funds of $1,562,611 per year for ten years.

Whether a rate-of-return carrier chooses model-based support or remains on legacy mechanisms, it will be required to meet service obligations, adhered to reporting obligations, and retain records.

Note 13: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

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 supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Note 14: Asset Purchase

On December 29, 2017, the Company acquired certain assets of Northstar Broadband, LLC (Northstar). Northstar provides video and broadband services in northeast Washington.

Acquisition costs related to this purchase were expensed as incurred in 2017 and were immaterial. These expenses are included in corporate operations expense in the Company's statement of income.

The Company paid Northstar $134,384 through cash payments. Of this amount $15,000 was paid in 2017 with the remaining $119,384 recorded in accounts payable at December 31, 2017. This amount is treated as a non-cash item in the statement of cash flows.

Recognized Amounts of Identifiable Assets Acquired

Inventory	3,181
Property, plant and equipment	58,882
Subscriber list	12,000
Goodwill	60,321
	134,384

Note 15: Subsequent Events

Subsequent events have been evaluated through April 30, 2018, which is the date the financial statements were available to be issued.

Supplementary Information

BKD LLP
CPAs & Advisors

8517 Excelsior Drive, Suite 301 // Madison, WI 53717-2910
608.664.9110 // fax 608.664.9112 // bkd.com

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*

Independent Auditor's Report

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 (Company), which comprise the balance sheet as of December 31, 2017, and the related statements of income, stockholder's 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 30, 2018.

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.

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 Company'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 by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2017-001 and 2017-002 that we consider to be significant deficiencies.

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. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Pend Oreille Telephone Company's Response to Findings

The Company's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Company's, response was not subjected to the auditing 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 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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Madison, Wisconsin
April 30, 2018

Pend Oreille Telephone Company

Schedule of Findings and Responses

Year Ended December 31, 2017

Findings Required to be reported by *Government Auditing Standards*

Reference Number	Finding
	Significant Deficiencies
2017-001	***Criteria*** – Complete segregation of duties and a formal risk assessment process are essential in maintaining internal controls over financial reporting and managing the information technology system of the Company. ***Condition*** – The Company's limited resources and personnel do not allow for complete segregation of duties or a formal risk assessment, antifraud program, and monitoring system. ***Cause*** – The Company has a limited number of personnel and it therefore is not able to dedicate the required resources to maintain complete segregation of duties or prepare formal risk assessment and monitoring systems. ***Effect*** – Due to the lack of a formal internal control and information technology system and segregation of duties, there is a potential for an employee to perpetrate and conceal a theft of assets from the Company. ***Recommendation:*** Complete segregation of incompatible duties in the accounting department may not be possible at the current staffing levels. Management and those charged with governance should be aware of the limitations of the internal control system as currently implemented and should remain alert for opportunities to improve the segregation of duties through the reallocation of duties or reassignment of responsibilities. ***Management's Response:*** The Company periodically performs an informal risk assessment and monitors the business risk associated with assignment of personnel to various activities.
2017-002	***Criteria*** – In order for the Company to fulfill its reporting requirements and prepare complete financial statement disclosures it must put in place personnel and properly designed controls to ensure fairly stated financial statements. ***Condition*** – The Company has utilized accounting assistance from another party to draft financial statements and assist with the preparation of certain normal annual closing entries. ***Cause*** – The Company has a limited number of personnel. ***Effect*** – Lack of 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 on users of the financial statements.

Pend Oreille Telephone Company

Schedule of Findings and Responses

Year Ended December 31, 2017

Findings Required to be reported by *Government Auditing Standards*

Reference Number	Finding
	Significant Deficiencies
2017-002	***Recommendation:*** While putting in place the personnel and properly designed controls may not be a cost effective solution to completing the Company's reporting requirements, management should strive to educate staff on changing reporting requirements and review the financial statements with disclosures at multiple levels prior to issuance.
	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.

BKD LLP
CPAs & Advisors

8517 Excelsior Drive, Suite 301 // Madison, WI 53717-2910
608.664.9110 // fax 608.664.9112 // bkd.com

Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Telecommunications Borrowers Independent Auditor's Report

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 (Company), which comprise the balance sheet as of December 31, 2017 and the related statements of income, stockholder's 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 30, 2018. In accordance with *Government Auditing Standards*, we also have issued our report dated April 30, 2018, 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 responses 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, provision 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 the 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 the Company's accounting and records to indicate that the 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;
- Comply with the requirements for the detailed schedule of investments.

This report is intended solely for the information and use of the board of directors, management of the Company, and the Rural Development Utilities Program 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.

BKD, LLP

Madison, Wisconsin
April 30, 2018

EXHIBIT 6

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

USDA-RUS	*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. For detailed instructions, see RUS Bulletin 1744-2. Report in whole dollars only.	PERIOD ENDING December, 2017	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)

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

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

Mark Martell — 6/6/2018
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	1,007,605	1,309,923	25. Accounts Payable	182,640	268,919
2. Cash-RUS Construction Fund	865	865	26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments	245,213	287,151
a. Telecom, Accounts Receivable			28. Customer Deposits	5,880	4,850
b. Other Accounts Receivable	171,601	810,957	29. Current Mat. L/T Debt	171,457	180,391
c. Notes Receivable	84,039	85,735	30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable	41,103	35,663	32. Income Taxes Accrued		
b. Other Accounts Receivable	221,039	252,218	33. Other Taxes Accrued		
c. Notes Receivable			34. Other Current Liabilities	64,078	60,516
5. Interest and Dividends Receivable			**35. Total Current Liabilities (25 thru 34)**	669,268	801,827
6. Material-Regulated	215,815	227,782	LONG-TERM DEBT		
7. Material-Nonregulated	7,895	11,492	36. Funded Debt-RUS Notes	999,177	890,488
8. Prepayments			37. Funded Debt-RTB Notes		
9. Other Current Assets	70,867	67,322	38. Funded Debt-FFB Notes		
10. Total Current Assets (1 Thru 9)	1,820,829	2,801,957	39. Funded Debt-Other	266,965	195,085
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan		
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt		
a. Rural Development			42. Reacquired Debt		
b. Nonrural Development			43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies		
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development	252,958	232,647	**46. Total Long-Term Debt (36 thru 45)**	1,266,142	1,085,573
13. Nonregulated Investments		15,872	OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets			47. Other Long-Term Liabilities	381,721	231,579
15. Deferred Charges	780	610	48. Other Deferred Credits		
16. Jurisdictional Differences			49. Other Jurisdictional Differences		205,953
17. Total Noncurrent Assets (11 thru 16)	253,738	249,129	50. Total Other Liabilities and Deferred Credits (47 thru 49)	381,721	437,532
PLANT, PROPERTY, AND EQUIPMENT			EQUITY		
18. Telecom, Plant-in-Service	17,386,766	17,689,008	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	187,714	70,337	53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill		72,321	54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation	14,974,712	15,449,090	55. Other Capital		
23. Net Plant (18 thru 21 less 22)	2,601,018	2,383,826	56. Patronage Capital Credits		
24. TOTAL ASSETS (10+17+23)			57. Retained Earnings or Margins	(307,892)	443,634
			58. Total Equity (51 thru 57)	2,358,454	3,109,980
	4,675,585	5,434,912	**59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)**	4,675,585	5,434,912

Total Equity = 57.22% % of Total Assets

USDA-RUS **OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS** *INSTRUCTIONS- See RUS Bulletin 1744-2*	BORROWER DESIGNATION WA0545 PERIOD ENDING December, 2017

PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS

ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	419,794	422,422
2. Network Access Services Revenues	2,099,061	3,227,453
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues		
5. Miscellaneous Revenues	30,682	19,940
6. Uncollectible Revenues	33,780	79,196
7. Net Operating Revenues (1 thru 5 less 6)	2,515,757	3,590,619
8. Plant Specific Operations Expense	673,453	638,843
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	228,911	362,420
10. Depreciation Expense	397,932	474,380
11. Amortization Expense		
12. Customer Operations Expense	175,398	164,821
13. Corporate Operations Expense	835,335	824,192
14. Total Operating Expenses (8 thru 13)	2,311,029	2,464,656
15. Operating Income or Margins (7 less 14)	204,728	1,125,963
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes	64,573	377,425
19. Other Taxes	56,646	93,308
20. Total Operating Taxes (17+18+19)	121,219	470,733
21. Net Operating Income or Margins (15+16-20)	83,509	655,230
22. Interest on Funded Debt	67,744	68,907
23. Interest Expense - Capital Leases		
24. Other Interest Expense	2,947	1,762
25. Allowance for Funds Used During Construction	6,688	4,923
26. Total Fixed Charges (22+23+24-25)	64,003	65,746
27. Nonoperating Net Income	3,436	13,834
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	118,892	148,208
31. Total Net Income or Margins (21+27+28+29+30-26)	141,834	751,526
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	(199,719)	(307,892)
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)	250,007	
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)]	(307,892)	443,634
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	161,085	250,288
45. Cash Ratio [(14+20-10-11) / 7]	0.8086	0.6854
46. Operating Accrual Ratio [(14+20+26) / 7]	0.9922	0.8358
47. TIER [(31+26) / 26]	3.2161	12.4307
48. DSCR [(31+26+10+11) / 44]	3.7481	5.1607

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.
For detailed instructions, see RUS Bulletin 1744-2. Report in whole dollars only.

PERIOD ENDING: December, 2016

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)

[X] 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

5/3/2017
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	1,159,709	1,007,605	25. Accounts Payable	169,683	182,640
2. Cash-RUS Construction Fund	865	865	26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments	213,068	245,213
a. Telecom, Accounts Receivable			28. Customer Deposits	4,650	5,880
b. Other Accounts Receivable	179,221	171,601	29. Current Mat. L/T Debt	98,188	171,457
c. Notes Receivable	82,377	84,039	30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable	46,076	41,103	32. Income Taxes Accrued		
b. Other Accounts Receivable	183,224	221,039	33. Other Taxes Accrued		
c. Notes Receivable			34. Other Current Liabilities	52,702	64,078
5. Interest and Dividends Receivable			**35. Total Current Liabilities (25 thru 34)**	538,291	669,268
6. Material-Regulated	185,149	215,815	LONG-TERM DEBT		
7. Material-Nonregulated	5,843	7,895	36. Funded Debt-RUS Notes	1,102,618	999,177
8. Prepayments			37. Funded Debt-RTB Notes		
9. Other Current Assets	71,882	70,867	38. Funded Debt-FFB Notes		
10. Total Current Assets (1 Thru 9)	1,914,346	1,820,829	39. Funded Debt-Other	40,598	266,965
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan		
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt		
a. Rural Development			42. Reacquired Debt		
b. Nonrural Development			43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies		
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development	291,118	252,958	**46. Total Long-Term Debt (36 thru 45)**	1,143,216	1,266,142
13. Nonregulated Investments			OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets			47. Other Long-Term Liabilities	335,110	381,721
15. Deferred Charges		780	48. Other Deferred Credits		
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
17. Total Noncurrent Assets (11 thru 16)	291,118	253,738	50. Total Other Liabilities and Deferred Credits (47 thru 49)	335,110	381,721
PLANT, PROPERTY, AND EQUIPMENT			EQUITY		
18. Telecom, Plant-in-Service	16,754,233	17,386,766	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	99,076	187,714	53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill			54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation	14,576,779	14,974,712	55. Other Capital		
23. Net Plant (18 thru 21 less 22)	2,277,780	2,601,018	56. Patronage Capital Credits		
24. TOTAL ASSETS (10+17+23)	4,483,244	4,675,585	57. Retained Earnings or Margins	(199,719)	(307,892)
			58. Total Equity (51 thru 57)	2,466,627	2,358,454
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	4,483,244	4,675,585

Total Equity = 50.44% % of Total Assets

USDA-RUS **OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS**	BORROWER DESIGNATION WA0545
INSTRUCTIONS- See RUS Bulletin 1744-2	PERIOD ENDING December, 2016

PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS

ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	410,863	419,794
2. Network Access Services Revenues	2,203,921	2,099,061
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues		
5. Miscellaneous Revenues	26,373	30,682
6. Uncollectible Revenues	18,879	33,780
7. Net Operating Revenues (1 thru 5 less 6)	2,622,278	2,515,757
8. Plant Specific Operations Expense	676,176	673,453
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	213,547	228,911
10. Depreciation Expense	318,962	397,932
11. Amortization Expense		
12. Customer Operations Expense	176,809	175,398
13. Corporate Operations Expense	803,756	835,335
14. Total Operating Expenses (8 thru 13)	2,189,250	2,311,029
15. Operating Income or Margins (7 less 14)	433,028	204,728
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes	117,039	64,573
19. Other Taxes	52,621	56,646
20. Total Operating Taxes (17+18+19)	169,660	121,219
21. Net Operating Income or Margins (15+16-20)	263,368	83,509
22. Interest on Funded Debt	63,615	67,744
23. Interest Expense - Capital Leases		
24. Other Interest Expense	2,311	2,947
25. Allowance for Funds Used During Construction	2,362	6,688
26. Total Fixed Charges (22+23+24-25)	63,564	64,003
27. Nonoperating Net Income	9,050	3,436
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	82,314	118,892
31. Total Net Income or Margins (21+27+28+29+30-26)	291,168	141,834
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	(311,576)	(199,719)
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)	179,311	250,007
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)]	(199,719)	(307,892)
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	155,131	161,085
45. Cash Ratio [(14+20-10-11) / 7]	0.7779	0.8086
46. Operating Accrual Ratio [(14+20+26) / 7]	0.9238	0.9922
47. TIER [(31+26) / 26]	5.5807	3.2161
48. DSCR [(31+26+10+11) / 44]	4.3427	3.7481

EXHIBIT 7

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 2017 and 2016.

Date this 31 day of July, 2018.

Vice-President

EXHIBIT 8

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 that handle such matters, under penalty of perjury, state that the Company complies with state and federal accounting, cost allocation and cost adjustment rules pertaining to incumbent local exchange companies.

Dated this 31 day of July, 2018.

Vice-President

PETITION OF Pend Oreille Telephone Company TO
RECEIVE SUPPORT FROM THE STATE UNIVERSAL
SERVICE COMMUNICATIONS PROGRAM –
EXHIBIT 8 – 1

EXHIBIT 9

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

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

Dated this 31 day of July, 2018.

Vice-President