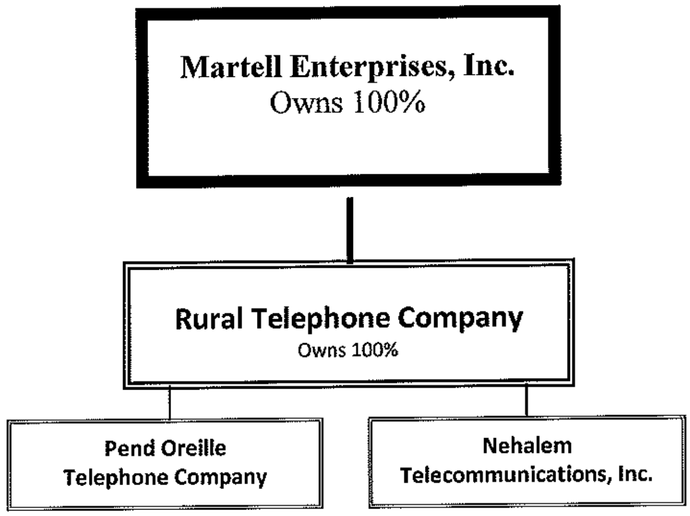
EXHIBIT 1

CORPORATE ORGANIZATION CHART



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

EXHIBIT 2

AFFILIATED TRANSACTIONS

Pend Oreille Telephone Company and its parent, Rural Telephone Company, have a service agreement in which Rural Telephone provides management and operational service to Pend Oreille Telephone Company. These services are direct assigned to Pend Oreille as the expenses are incurred. Rural provided $ 402,333 and $297,712 of such services in 2015 and 2014, respectively. (The difference in 2015 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 2015 and 2014.

EXHIBIT 3

DEMONSTRATION OF RISK OF RATE INSTABILITY OR SERVICE INTERRUPTION OR CESSATION

The operating environment in which the Company finds itself has created a climate of great financial uncertainty. The Company has been working over the past several years to address growing competition. The Company has taken steps to increase the availability and attributes of advanced services offered by the Company, including broadband. This has resulted in the Company making additional investments in regulated plant of approximately $2,729,663 during the period January 1, 2011 through December 31, 2015. As a result, the Company has a substantial debt obligation to cover the investment that has been made.

The overall financial condition of the Company is detailed on other Exhibits to this Petition. What this information demonstrates is that, when adjusted to eliminate the support from the state Universal Communications Services Program that the Company received or accrued in 2015, the Company's total regulated revenue decreased by 2 percent from 2011 through 2015. The Company has looked for ways to lower expenses. However, much of the Company's operating expenses are fixed obligations, such as debt-related payments.

At the same time, the Company is seeing increased competition. For example, the Company has seen some migration of customers "cutting the cord" to move to wireless or other service as their sole method of telecommunications. Since 2011, the Company has lost 332 access lines. A loss of customers equates to a loss of revenue without a corresponding reduction in expenses or corresponding increase in rates. This trend of access line loss is exacerbated by the Federal Communications Commission's requirement that the Company increase its rates to remain eligible for full federal USF support. Since 2012, the Company has increased its local exchange service rates in order to be in compliance with the national urban rate floor prescribed by the Federal Communications Commission. However, those increases have been insufficient to fully replace the revenues that have been lost due to the reduction in access lines. In addition, those rate increases have tended to stimulate a surge in disconnection of service by customers.

As another example, some of the financial uncertainty that the Company faces stems from the USF/ICC Transformation Order issued by the Federal Communications Commission.[1] The USF/ICC Transformation Order has built in an automatic decline in the Company's intrastate and interstate access revenues. The intercarrier compensation portion of the Transformation Order

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[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*).

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 the calendar year 2017, 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 $ 245,213 through 2017.

On top of all this, during the four-year period ended December 31, 2014, the Company has seen its total federal support undergo a significant reduction, declining from $ 555,611 in 2011 to $534,683 in 2015.

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

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

STATE USF FILING

FINANCIAL TEMPLATE

NON-"S CORP" COMPANIES

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

Company Name: (Below)
Pend Oreille Telephone Company

ASSETS	Balance End of Year 2014 (A)	Part 64 Adj to NonReg 2014 (B)	Adj. Balance End of Year 2014 (C)
CURRENT ASSETS			
1. Cash and Equivalents	566,521		566,521
2. Cash-RUS Construction Fund	865		865
3. Affiliates:			
a. Telecom, Accounts Receivable	0		0
b. Other Accounts Receivable	293,882		293,882
c. Notes Receivable	80,747		80,747
4. Non-Affiliates:			
a. Telecom, Accounts Receivable	57,788		57,788
b. Other Accounts Receivable	209,747		209,747
c. Notes Receivable	0		0
5. Interest and Dividends Receivable	0		0
6. Material-Regulated	218,892		218,892
7. Material-Nonregulated	9,717	(9,717)	0
8. Prepayments	0		0
9. Other Current Assets	67,799		67,799
10. Total Current Assets (1 Thru 9)	1,505,958	(9,717)	1,496,240
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	332,265		332,265
13. Nonregulated Investments (B1)	0	14,516	14,516
14. Other Noncurrent Assets	0		0
15. Deferred Charges	0		0
16. Jurisdictional Differences	0		0
17. Total noncurrent Assets (11 thru 16)	332,265	14,516	346,782
PLANT, PROPERTY AND EQUIPMENT			
18. Telecom Plant-In-Service	16,626,707	(31,050)	16,595,657
19. Property Held for Future Use	1,250	(1,250)	0
20. Plant Under Construction	40,128	2,397	42,525
21. Plant Adj.,Nonop Plant & Goodwill	0		0
22. Accumulated Depreciation (CR.)	(14,314,403)	25,104	(14,289,299)
23. Net Plant (18 thru 21 less 22)	2,353,683	(4,799)	2,348,884
24. TOTAL ASSETS (10+17+23)	4,191,906	0	4,191,906

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

LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2014 (A)	Part 64 Adj to NonReg 2014 (B)	Adj. Balance End of Year 2014 (C)
CURRENT LIABILITIES			
25. Accounts Payable	142,660		142,660
26. Notes Payable	0		0
27. Advance Billings and Payments	0		0
28. Customer Deposits	4,910		4,910
29. Current Mat. L/T Debt	93,408		93,408
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	52,379		52,379
35. Total Current Liabilities (25 thru 34)	293,357	0	293,357
LONG-TERM DEBT			
36. Funded Debt-RUS Notes	1,200,832		1,200,832
37. Funded Debt-RTB Notes	0		0
38. Funded Debt-FFB Notes	0		0
39. Funded Debt-Other	0		0
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 thru 45)	1,200,832	0	1,200,832
OTHER LIAB. & DEF. CREDITS			
47. Other Long-Term Liabilities	342,946	(636)	342,310
48. Other Deferred Credits (C)	0		0
49. Other Jurisdictional Differences	0		0
50. Total Other Liab. & Def. Credits (47 thru 49)	342,946	(636)	342,310
EQUITY			
51. Cap. Stock Outstanding & Subscribed	2,666,346		2,666,346
52. Additional Paid-in-Capital	0		0
53. Treasury Stock	0		0
54. Membership and cap. Certificates	0		0
55. Other Capital	0		0
56. Patronage Capital Credits	0		0
57. Retained Earnings or Margins (B2)	(311,575)	636	(310,939)
58. Total Equity (51 thru 57)	2,354,771	636	2,355,407
59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	4,191,906	0	4,191,906

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

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

Company Name: (Below)
Pend Oreille Telephone Company

ASSETS	Balance End of Year 2015 (A)	Part 64 Adj to NonReg 2015 (B)	Adj. Balance End of Year 2015 (C)
CURRENT ASSETS			
1. Cash and Equivalents	1,159,709		1,159,709
2. Cash-RUS Construction Fund	865		865
3. Affiliates:			
a. Telecom, Accounts Receivable			0
b. Other Accounts Receivable	179,221		179,221
c. Notes Receivable	82,377		82,377
4. Non-Affiliates:			
a. Telecom, Accounts Receivable	46,076		46,076
b. Other Accounts Receivable	183,224		183,224
c. Notes Receivable			0
5. Interest and Dividends Receivable			0
6. Material-Regulated	185,149		185,149
7. Material-Nonregulated	5,843	(5,843)	0
8. Prepayments			0
9. Other Current Assets	71,882		71,882
10. Total Current Assets (1 Thru 9)	1,914,346	(5,843)	1,908,503
NONCURRENT ASSETS			
11. Investment in Affiliated Companies			
a. Rural Development			0
b. Nonrural Development			0
12. Other Investments			
a. Rural Development			0
b. Nonrural Development	291,118		291,118
13. Nonregulated Investments (B1)		29,850	29,850
14. Other Noncurrent Assets			0
15. Deferred Charges			0
16. Jurisdictional Differences			0
17. Total noncurrent Assets (11 thru 16)	291,118	29,850	320,968
PLANT, PROPERTY AND EQUIPMENT			
18. Telecom Plant-In-Service	16,754,233	(95,412)	16,658,821
19. Property Held for Future Use	1,250	(1,250)	0
20. Plant Under Construction	99,076		99,076
21. Plant Adj.,Nonop Plant & Goodwill			0
22. Accumulated Depreciation (CR.)	(14,576,779)	72,655	(14,504,124)
23. Net Plant (18 thru 21 less 22)	2,277,780	(24,007)	2,253,773
24. TOTAL ASSETS (10+17+23)	4,483,244	0	4,483,244

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

LIABILITIES AND STOCKHOLDERS' EQUITY	Balance End of Year 2015 (A)	Part 64 Adj to NonReg 2015 (B)	Adj. Balance End of Year 2015 (C)
CURRENT LIABILITIES			
25. Accounts Payable	169,683		169,683
26. Notes Payable			0
27. Advance Billings and Payments	213,068		213,068
28. Customer Deposits	4,650		4,650
29. Current Mat. L/T Debt	98,188		98,188
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	52,702		52,702
35. Total Current Liabilities (25 thru 34)	538,291	0	538,291
LONG-TERM DEBT			
36. Funded Debt-RUS Notes	1,102,618		1,102,618
37. Funded Debt-RTB Notes			0
38. Funded Debt-FFB Notes			0
39. Funded Debt-Other	40,598		40,598
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)	1,143,216	0	1,143,216
OTHER LIAB. & DEF. CREDITS			
47. Other Long-Term Liabilities	335,110	(1,908)	333,202
48. Other Deferred Credits (C)			0
49. Other Jurisdictional Differences			0
50. Total Other Liab. & Def. Credits (47 thru 49)	335,110	(1,908)	333,202
EQUITY			
51. Cap. Stock Outstanding & Subscribed	2,666,346		2,666,346
52. Additional Paid-in-Capital			0
53. Treasury Stock			0
54. Membership and cap. Certificates			0
55. Other Capital			0
56. Patronage Capital Credits			0
57. Retained Earnings or Margins (B2)	(199,719)	1,908	(197,811)
58. Total Equity (51 thru 57)	2,466,627	1,908	2,468,535
59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	4,483,244	0	4,483,244

Footnotes:
Pend O (B1) - Part 64 offset to nonreg investment
(B2) - Part 64 offset to retained earnings
(C) - Includes deferred taxes

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

Company Name: (Below)
Pend Oreille Telephone Company

ASSETS	Adjusted Prior Year Balance 2014	Adjusted Current Year Balance 2015	LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2014	Adjusted Current Year Balance 2015
CURRENT ASSETS			**CURRENT LIABILITIES**		
1. Cash and Equivalents	566,521	1,159,709	25. Accounts Payable	142,660	169,683
2. Cash-RUS Construction Fund	865	865	26. Notes Payable	0	0
3. Affiliates:			27. Advance Billings and Payments	0	213,068
a. Telecom, Accounts Receivable	0	0	28. Customer Deposits	4,910	4,650
b. Other Accounts Receivable	293,882	179,221	29. Current Mat. L/T Debt	93,408	98,188
c. Notes Receivable	80,747	82,377	30. Current Mat. L/T Debt Rur. Dev.	0	0
4. Non-Affiliates:			31. Current Mat. - Capital Leases	0	0
a. Telecom, Accounts Receivable	57,788	46,076	32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	209,747	183,224	33. Other Taxes Accrued	0	0
c. Notes Receivable	0	0	34. Other Current Liabilities	52,379	52,702
5. Interest and Dividends Receivable	0	0	35. Total Current Liabilities (25 - 34)	293,357	538,291
6. Material-Regulated	218,892	185,149	**LONG-TERM DEBT**		
7. Material-Nonregulated	0	0	36. Funded Debt-RUS Notes	1,200,832	1,102,618
8. Prepayments	0	0	37. Funded Debt-RTB Notes	0	0
9. Other Current Assets	67,799	71,882	38. Funded Debt-FFB Notes	0	0
10. Total Current Assets (1 Thru 9)	1,496,240	1,908,503	39. Funded Debt-Other	0	40,598
			40. Funded Debt-Rural Develop. Loan	0	0
NONCURRENT ASSETS			41. Premium (Discount) on L/T Debt	0	0
11. Investment in Affiliated Companies			42. Reacquired Debt	0	0
a. Rural Development	0	0	43. Obligations Under Capital Lease	0	0
b. Nonrural Development	0	0	44. Adv. From Affiliated Companies	0	0
12. Other Investments			45. Other Long-Term Debt	0	0
a. Rural Development	0	0	46. Total Long-Term Debt (36-45)	1,200,832	1,143,216
b. Nonrural Development	332,265	291,118	**OTHER LIAB. & DEF. CREDITS**		
13. Nonregulated Investments	14,516	29,850	47. Other Long-Term Liabilities	342,310	333,202
14. Other Noncurrent Assets	0	0	48. Other Deferred Credits	0	0
15. Deferred Charges	0	0	49. Other Jurisdictional Differences	0	0
16. Jurisdictional Differences	0	0	50. Total Other Liab. & Def. Credits (47 thru 49)	342,310	333,202
17. Total noncurrent Assets (11 thru 16)	346,782	320,968	**EQUITY**		
			51. Cap. Stock Outstanding & Subscribed	2,666,346	2,666,346
PLANT, PROPERTY AND EQUIPMENT			52. Additional Paid-in-Capital	0	0
18. Telecom Plant-in-Service	16,595,657	16,658,821	53. Treasury Stock	0	0
19. Property Held for Future Use	0	0	54. Membership and cap. Certificates	0	0
20. Plant Under Construction	42,525	99,076	55. Other Capital	0	0
21. Plant Adj.,Nonop Plant & Goodwill	0	0	56. Patronage Capital Credits	0	0
22. Accumulated Depreciation (CR.)	(14,289,299)	(14,504,124)	57. Retained Earnings or Margins	(310,939)	(197,811)
23. Net Plant (18 thru 21 less 22)	2,348,884	2,253,773	58. Total Equity (51 thru 57)	2,355,407	2,468,535
24. TOTAL ASSETS (10+17+23)	4,191,906	4,483,244	**59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)**	4,191,906	4,483,244

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 2014	Adj. Balance End of Year 2015	Average Adj End of Year Balance
	Average Rate Base:				
1	Total Regulated Adjusted Telecom Plant-in-service	18	16,595,657	16,658,821	16,627,239
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(14,289,299)	(14,504,124)	(14,396,711)
4	Total Regulated Materials & Supplies	6	218,892	185,149	202,021
5	Deferred Income Taxes (CR)		(342,310)	(333,202)	(337,756)
6	**Total Regulated Rate Base**		2,182,941	2,006,644	2,094,792

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

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

Company Name: (Below)
Pend Oreille Telephone Company

Line #	Description	Prior Year End of Yr. Balance - 2014	Current Year End of Yr. Balance - 2015	Difference	% Change
	Access Lines:				
1	Residential	1,161	1,120	(41)	-3.5%
2	Business	347	320	(27)	-7.8%
3	Total	1,508	1,440	(68)	-4.5%

Note: If 2014 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 2014 (A)	Part 64 Adj. to NonReg (B)	Prior Year Adjusted 2014 (C)
1	Local Network Services Revenues	393,106		393,106
2	Network Access Services Revenues	1,905,132		1,905,132
3	Long Distance Network Services Revenues	0		0
4	Carrier Billing and Collection Revenues	0		0
5	Miscellaneous Revenues	27,027	(13,195)	13,832
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(9,913)		(9,913)
7	**Net Operating Revenues (1 thru 6)**	**2,315,353**	**(13,195)**	**2,302,158**
8	Plant Specific Operations Expense	673,124	1,644	674,768
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	191,957	(1,980)	189,977
10	Depreciation Expense	315,948	(633)	315,315
11	Amortization Expense	0		0
12	Customer Operations Expense	165,053	(37,612)	127,441
13	Corporate Operations	797,211	(26,999)	770,212
14	**Total Operations Expenses (8 thru 12 +13b)**	**2,143,293**	**(65,580)**	**2,077,713**
15	Operating Income or Margins (7 less 14)	172,060	52,385	224,445
16	Other Operating Income and Expenses ( )	0		0
17	State and Local Taxes	0		0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	383,585	(343,866)	39,719
19	Other Taxes	54,556	(37)	54,519
20	**Total Operating Taxes (17+18+19)**	438,141	(343,903)	94,238
21	**Net Operating Income or Margins (15+16-20)**	(266,081)	396,288	130,207
22	Interest on Funded Debt	67,118	(16,828)	50,290
23	Interest Expense - Capital Leases	0		0
24	Other Interest Expense	3,297		3,297
25	Allowance for Funds Used During Construction (CR)	(65)		(65)
26	**Total Fixed Charges (22+23+24-25)**	70,350	(16,828)	53,522
27	Nonoperating Net Income	11,916	(11,916)	0
28	Extraordinary Items	0		0
29	Jurisdictional Differences	0		0
30	Nonregulated Net Income (B1)	28,767	(413,116)	(384,348)
31	**Total Net Income or Margins (21+27+28+29+30-26)**	(295,748)	(11,916)	(307,664)
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	(15,828)		(15,828)
34	Miscellaneous Credits Year-to-Date	0		0
35	Dividends Declared (Common)	0		0
36	Dividends Declared (Preferred)	0		0
37	Other Debits Year-to-Date	0		0
38	Transfers to Patronage Capital	0		0
39	**Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38)(A2)**	(311,575)	(11,916)	(323,491)
40	Patronage Capital Beginning-of-Year			0
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	94,997		94,997
45	Cash Ratio ((14+20-10-11)/7)	0.9785	30.9846	0.8065
46	Operating Accrual Ratio ((14+20+26)/7)	1.1453	32.3078	0.9667
47	TIER ((31+26)/26)	(3.2039)	1.7081	(4.7483)
48	DSCR ((31+26+10+11)/44)	0.9532	#DIV/0!	0.6440

Footnotes:

(A) As reported on RUS Form 479

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

(A2) Column A, Line 39 must equal Column A, Line 57 of Page 1, Balance Sheet

(B) Part 64 adjustment from regulated to nonregulated

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

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 2015 (A)	Part 64 Adj. to NonReg (B)	Current Year Adjusted 2015 (C)
1	Local Network Services Revenues	410,863	3	410,866
2	Network Access Services Revenues	2,203,921		2,203,921
3	Long Distance Network Services Revenues			0
4	Carrier Billing and Collection Revenues			0
5	Miscellaneous Revenues	26,373	(14,555)	11,818
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(18,879)		(18,879)
7	**Net Operating Revenues (1 thru 6)**	**2,622,278**	**(14,552)**	**2,607,726**
8	Plant Specific Operations Expense	676,176	(4,965)	671,211
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	213,547	(17,129)	196,418
10	Depreciation Expense	318,962	(1,888)	317,074
11	Amortization Expense			0
12	Customer Operations Expense	176,809	(7,307)	169,502
13	Corporate Operations	803,756	(9,625)	794,131
14	**Total Operations Expenses (8 thru 12 +13b)**	**2,189,250**	**(40,914)**	**2,148,336**
15	Operating Income or Margins (7 less 14)	433,028	26,362	459,390
16	Other Operating Income and Expenses ( )			0
17	State and Local Taxes			0
18	Federal Income Taxes (A1) - (LINE IS ZERO IF COMPANY IS S CORP)	117,039	4,850	121,889
19	Other Taxes	52,621	(110)	52,511
20	**Total Operating Taxes (17+18+19)**	169,660	4,740	174,400
21	**Net Operating Income or Margins (15+16-20)**	263,368	21,622	284,990
22	Interest on Funded Debt	63,615	(22,457)	41,158
23	Interest Expense - Capital Leases			0
24	Other Interest Expense	2,311	(2,311)	0
25	Allowance for Funds Used During Construction (CR)	(2,362)		(2,362)
26	**Total Fixed Charges (22+23+24-25)**	63,564	(24,768)	38,796
27	Nonoperating Net Income	9,050	(16,274)	(7,224)
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	82,314	(46,390)	35,924
31	**Total Net Income or Margins (21+27+28+29+30-26)**	291,168	(16,274)	274,894
32	Total Taxes Based on Income			
33	Retained Earning or Margins Beginning-of-Year	(311,576)		(311,576)
34	Miscellaneous Credits Year-to-Date			0
35	Dividends Declared (Common)	179,311		179,311
36	Dividends Declared (Preferred)			0
37	Other Debits Year-to-Date			0
38	Transfers to Patronage Capital			0
39	**Retained Earnings End-of-Period ((31+33+34)-(35+36+37+38)(A2)**	(199,719)	(16,274)	(215,993)
40	Patronage Capital Beginning-of-Year			0
41	Transfers to Patronage Capital			0
42	Patronage Capital Credits Retired			0
43	**Patronage Capital End-of-Year (40+41-42)**	0	0	0
44	Annual Debt Service Payments	155,131		155,131
45	Cash Ratio ((14+20-10-11)/7)	0.7779	2.3561	0.7691
46	Operating Accrual Ratio ((14+20+26)/7)	0.9238	4.1879	0.9056
47	TIER ((31+26)/26)	5.5807	1.6571	8.0856
48	DSCR ((31+26+10+11)/44)	4.3427	#DIV/0!	4.0660

Footnotes:

(A) As reported on RUS Form 479

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

(A2) Column A, Line 39 must equal Column A, Line 57 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)

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 2014	Adjusted Current Year 2015
1	Local Network Services Revenues	393,106	410,866
2	Network Access Services Revenues	1,905,132	2,203,921
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	0	0
5	Miscellaneous Revenues	13,832	11,818
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(9,913)	(18,879)
7	**Net Operating Revenues (1 thru 6)**	2,302,158	2,607,726
8	Plant Specific Operations Expense	674,768	671,211
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	189,977	196,418
10	Depreciation Expense	315,315	317,074
11	Amortization Expense	0	0
12	Customer Operations Expense	127,441	169,502
13	Corporate Operations	770,212	794,131
14	**Total Operations Expenses (8 thru 12 +13b)**	2,077,713	2,148,336
15	Operating Income or Margins (7 less 14)	224,445	459,390
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)	39,719	121,889
19	Other Taxes	54,519	52,511
20	**Total Operating Taxes (17+18+19)**	94,238	174,400
21	**Net Operating Income or Margins (15+16-20)**	130,207	284,990
22	Interest on Funded Debt	50,290	41,158
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	3,297	0
25	Allowance for Funds Used During Construction	(65)	(2,362)
26	**Total Fixed Charges (22+23+24-25)**	53,522	38,796
27	Nonoperating Net Income	0	(7,224)
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	(384,348)	35,924
31	**Total Net Income or Margins (21+27+28+29+30-26)**	(307,664)	274,894
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	(15,828)	(311,576)
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	0	179,311
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)**	(323,491)	(215,993)
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	94,997	155,131
45	Cash Ratio ((14+20-10-11)/7)	0.8065	0.7691
46	Operating Accrual Ratio ((14+20+26)/7)	0.9667	0.9056
47	TIER ((31+26)/26)	(4.7483)	8.0856
48	DSCR ((31+26+10+11)/44)	0.64	4.0660

	Footnote	2014	2015
(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 2014	Current Year 2015
1	End User Revenue (SLC, ARC, etc.)	5081	198,134	196,469
2	Switched Access (excluding USF):	5082		
2a	Intrastate		104,407	149,903
2b	Interstate (includes CAF)		30,993	813,375
3	Special Access:	5083		
3a	Intrastate		111,417	100,009
3b	Interstate		302,822	336,869
4	Federal USF (ICLS/HCL/SN)	Varies	1,158,803	452,927
5	State USF		0	154,369
6	Other*		(1,444)	
7	Total (must equal line 2 of Income Stmt.)		1,905,132	2,203,921
8	Line 2 of Income Stmt.		1,905,132	2,203,921
9	Difference		(0)	0

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

Line #	PY 2014 using 2015 Categorization	CY 2015 using 2014 Categorization
1	198,354	182,218
2		
2a	179,737	88,385
2b	697,172	28,369
3		
3a	111,417	100,009
3b	302,822	336,869
4	417,074	1,313,702
5	(1,444)	154,600
6	0	(231)
7	1,905,132	2,203,921

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) - 2015 (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 Consolidated Return on Equity

Company Name: (Below)
Pend Oreille Telephone Company

Line #	Description	2015 (A)	2015 (B)
1	Rate Base (Jan. 1)	2,182,941	2,182,941
2	Rate Base (Dec 31)	2,006,644	2,006,644
3	**Average Rate Base**	2,094,792	2,094,792
4	Net Operating Income	284,990	284,990
5	Out-of-Period Adjustments Net of FIT (1)		
6	**Adjusted Net Operating Income**	284,990	284,990
7	**Earned Regulated Rate of Return**	13.60%	13.60%
8	Consolidated Equity (Jan 1)	2,355,407	2,355,407
9	Consolidated Equity (Dec 31)	2,466,627	2,466,627
10	**Average Equity**	2,411,017	2,411,017
11	Consolidated Net Income	291,168	291,168
12	Out-of-Period Adjustments Net of FIT (1)		
13	**Adjusted Consolidated Net Income**	291,168	291,168
14	**Earned Return on Equity**	12.08%	12.08%

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

WASHINGTON 545
PEND OREILLE TELEPHONE COMPANY
GLENNS FERRY, IDAHO

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
Years ended December 31, 2015 and 2014

PEND OREILLE TELEPHONE COMPANY
GLENNS FERRY, IDAHO

Contents

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying balance sheets of Pend Oreille Telephone Company (an Idaho corporation) as of December 31, 2015, and the related statements of operations, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment; including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pend Oreille Telephone Company as of December 31, 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued a report dated April 25, 2016, on our consideration of Pend Oreille Telephone Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Company's internal control over financial reporting and compliance.

Kiesling Associates LLP

Madison, Wisconsin
April 25, 2016

PEND OREILLE TELEPHONE COMPANY
GLENNS FERRY, IDAHO

BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,205,652	$ 566,521
Special construction account	865	865
Marketable securities	20,016	67,799
Accounts receivable:		
Due from customers	46,076	57,788
Interexchange carriers	177,735	199,843
Affiliates	261,598	374,629
Other	5,490	9,904
Materials and supplies at average cost	185,149	218,892
Inventory at average cost	5,843	9,717
	1,908,424	1,505,958
OTHER NONCURRENT ASSETS		
Marketable securities	5,923	-
Other investments	291,118	332,265
	297,041	332,265
PROPERTY, PLANT AND EQUIPMENT		
Telephone plant in service	16,754,231	16,626,705
Other property	26,904	26,904
	16,781,135	16,653,609
Less accumulated depreciation	14,603,682	14,341,305
	2,177,453	2,312,304
Plant under construction	99,076	40,128
Property held for future use	1,250	1,250
	2,277,779	2,353,682
TOTAL ASSETS	$ 4,483,244	$ 4,191,905

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

PEND OREILLE TELEPHONE COMPANY
GLENNS FERRY, IDAHO

BALANCE SHEETS
December 31, 2015 and 2014

LIABILITIES AND STOCKHOLDERS' EQUITY	2015	2014
CURRENT LIABILITIES		
Current portion of long-term debt	$ 105,293	$ 93,408
Accounts payable:		
Interexchange carriers	23,668	25,366
Affiliates	52,873	53,859
Other	93,142	63,435
Advance payments	213,068	-
Customer deposits	4,650	4,910
Other accrued liabilities	52,702	52,379
	545,396	293,357
LONG-TERM DEBT, LESS CURRENT PORTION	1,136,111	1,200,832
OTHER NONCURRENT LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes	335,110	342,946
STOCKHOLDERS' EQUITY		
Common stock - no par value, 25,000 shares authorized, 5,000 shares issued and outstanding	2,666,346	2,666,346
Retained deficit	(199,719)	(311,576)
	2,466,627	2,354,770
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,483,244	$ 4,191,905

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

PEND OREILLE TELEPHONE COMPANY
GLENNS FERRY, IDAHO

STATEMENTS OF OPERATIONS
Years ended December 31, 2015 and 2014

	2015	2014
OPERATING REVENUES		
Local network services	$ 410,863	$ 393,108
Network access services	2,203,921	1,905,133
Internet services	453,684	419,799
Other nonregulated services	23,448	20,812
Miscellaneous	26,373	27,027
Uncollectible	(18,879)	(9,913)
	3,099,410	2,755,966
OPERATING EXPENSES		
Plant specific operations	694,879	693,426
Plant nonspecific operations	213,547	191,957
Cost of internet services	375,277	388,260
Depreciation and amortization	318,962	315,948
Customer operations	176,810	165,053
Corporate operations	803,756	797,211
General taxes	52,621	54,556
	2,635,852	2,606,411
OPERATING INCOME	463,558	149,555
OTHER INCOME (EXPENSE)		
Interest and dividend income	20,505	17,951
Allowance for funds used during construction	2,362	65
Interest expense	(65,926)	(70,415)
Other, net	(8,061)	(6,100)
	(51,120)	(58,499)
INCOME BEFORE INCOME TAXES	412,438	91,056
INCOME TAXES	121,270	386,804
NET INCOME (LOSS)	$ 291,168	$ (295,748)

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

PEND OREILLE TELEPHONE COMPANY
GLENNS FERRY, IDAHO

STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2015 and 2014

	Common Stock Shares	Common Stock Amount	Retained Deficit	Total Stockholders' Equity
Balance at December 31, 2013	5,000	$ 2,666,346	$ (15,828)	$ 2,650,518
Net loss			(295,748)	(295,748)
Balance at December 31, 2014	5,000	2,666,346	(311,576)	2,354,770
Net income			291,168	291,168
Dividends paid			(179,311)	(179,311)
Balance at December 31, 2015	5,000	$ 2,666,346	$ (199,719)	$ 2,466,627

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

PEND OREILLE TELEPHONE COMPANY
GLENNS FERRY, IDAHO

STATEMENTS OF CASH FLOWS
Years ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 291,168	$ (295,748)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	318,962	315,948
Deferred income taxes	(7,836)	342,946
Patronage in business conducted with cooperatives	(8,799)	(5,547)
Patronage distributions received from business conducted with cooperatives	50,050	41,039
Allowance for funds used during construction	(2,362)	(65)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	151,265	(66,517)
Material and supplies and inventory	37,617	(2,221)
Increase (Decrease) in:		
Accounts payable	27,023	18,613
Customer deposits	(260)	1,240
Advanced payments	213,068	-
Other accrued liabilities	323	(2,392)
Net cash provided by operating activities	1,070,219	347,296
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(242,697)	(8,978)
Purchases of investments	(26,042)	(576)
Proceeds from sales of investments	67,798	-
Salvage, net of cost of removing plant	2,000	-
Net cash used in investing activities	(198,941)	(9,554)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowing	46,938	-
Repayment of long-term debt	(99,774)	(89,024)
Dividends paid	(179,311)	-
Net cash used in financing activities	(232,147)	(89,024)
Net Increase in Cash and Cash Equivalents	639,131	248,718
Cash and Cash Equivalents at Beginning of Year	566,521	317,803
Cash and Cash Equivalents at End of Year	$ 1,205,652	$ 566,521

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management has evaluated subsequent events through April 25, 2016, the date the financial statements were available for issue. Telephone operations reflect practices appropriate to the telephone industry. The accounting records of the telephone company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Federal Communications Commission (FCC) as modified by the state regulatory authority.

Cash Equivalents

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

Accounts Receivable

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Marketable securities bought and held principally for selling in the near future are classified as trading securities and carried at fair value. Unrealized holding gains and losses on trading securities are reported in earnings. Marketable securities classified as available-for-sale are carried at fair value with unrealized holding gains and losses recorded as a separate component of stockholders' equity. Debt securities for which the Company has both the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. The Company uses the specific identification method of computing realized gains and losses. As of December 31, 2015 and 2014, 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 2016 state of Washington Universal Service Fund payments which were received in 2015.

Property, Plant and Equipment

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

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

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

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

Asset Retirement Obligations

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset Retirement Obligations (Continued)

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, 2015 and 2014.

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 Assets

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

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

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

Revenue Recognition

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

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

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Revenues from network access and long distance services were increased/(decreased) by approximately $54,000 and $(72,000) in 2015 and 2014, respectively, as a result of adjustments to prior years' estimates.

The Company recognizes internet revenue as the total amount earned from charges to customers in the statement of operations as internet services. In accordance with tariffs filed with the FCC by NECA, the Company charges its non-regulated internet operations the tariffed wholesale DSL rate for the use of the Company's regulated plant facilities. These charges in network access services and cost of internet services totaled $107,584 and $154,455 in 2015 and 2014, respectively.

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $75,960 and $75,570 in 2015 and 2014, respectively.

Fair Value Measurements

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

Level 1 Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform with the 2015 presentation.

PEND OREILLE TELEPHONE COMPANY
GLENNS FERRY, IDAHO

NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

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
December 31, 2015:				
Held-to-Maturity:				
US Government obligations	$ 25,939	$ -	$ -	$ 25,939
Amounts classified as:				
Current marketable	$ 20,016			
Marketable securities	$ 5,923			
Total	$ 25,939			
December 31, 2014:				
Held-to-Maturity:				
US Government obligations	$ 67,799	$ -	$ -	$ 67,799
Amounts classified as:				
Marketable securities	$ 67,799			

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

The amortized cost and fair value of debt securities at December 31, 2015, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Amortized Cost	Fair Value
Held-to-Maturity:		
Due in one year or less	$ 20,016	$ 20,016
Due after one year through three years	5,923	5,923
	$ 25,939	$ 25,939

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	2015	2014
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	443,274	454,922
Switching equipment	6,657,944	6,655,361
Outside plant	8,930,679	8,794,088
Subtotal	16,754,231	16,626,705
Other property:		
Internet equipment	26,904	26,904
Total property, plant and equipment	$ 16,781,135	$ 16,653,609

Depreciation on depreciable property resulted in composite rates of 1.92% and 1.91% for 2015 and 2014, respectively.

NOTE 4. OTHER INVESTMENTS

Other investments consist of the following at December 31:

	2015	2014
Cobank patronage capital certificates	$ 110,761	$ 159,178
National Rural Telecommunications Cooperative patronage capital certificates	163,371	156,204
Independent NECA Services stock	10,000	10,000
Other	6,986	6,883
Total	$ 291,118	$ 332,265

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, 2015 is not impaired.

NOTE 5. INCOME TAXES

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

	2015	2014
Federal income taxes:		
Current tax expense	$ 129,106	$ 43,858
Deferred tax expense	(7,836)	342,946
Total income tax expense	$ 121,270	$ 386,804

No cash was paid for income taxes during 2015.

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

	2015	2014
Deferred Tax Liabilities		
Federal	$ 335,110	$ 342,946
Net Deferred Tax Liabilities - Long-Term	$ 335,110	$ 342,946

The tax provision differs from the expense that would result from applying the federal statutory rates to operations before income taxes because of a prior period adjustment related to the Company's conversion from an S Corporation to a C Corporation.

The Company has evaluated its income tax positions and determined that there are no uncertain income tax positions that need to be recorded or reported in the consolidated financial statements at December 31, 2015 and 2014.

The Company's federal income tax returns for years 2012 to present remain subject to examination.

NOTE 6. LONG-TERM DEBT

Long-term debt consists of:

	2015	2014
Chrysler Credit - 5.99%	$ 40,598	$ -
RDUP mortgage notes - 5%	$ 1,200,806	$ 1,294,240
Less current portion	105,293	93,408
	$ 1,136,111	$ 1,200,832

NOTE 6. LONG-TERM DEBT (Continued)

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

2016	$ 105,293
2017	110,700
2018	116,500
2019	122,500
2020	128,900

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 2015 and 2014 totaled $62,513 and $70,350, respectively.

Unadvanced funds at December 31, 2015 and 2014 for long-term notes totaled $0 and $6,495,000, respectively.

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

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

NOTE 7. 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 2015 and 2014 were $53,540 and $55,422, respectively.

NOTE 8. 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 $245,016 and $237,620 of such services in 2015 and 2014, respectively.

The Company leased equipment from an affiliate, Little Valley Elk Ranch, in the amount of $14,526 in both 2015 and 2014.

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

	2015	2014
Accounts receivable, stockholders and employees	$ 82,376	$ 81,522
Accounts receivable, Little Valley Elk Ranch	166,319	161,038
Accounts receivable, Rural Telephone Company	12,903	132,069
Accounts receivable (payable), Nehalem Telecommunications, Inc.	(52,873)	(53,859)
	$ 208,725	$ 320,770

NOTE 9. 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 71% of its 2015 revenues from access revenues and assistance provided by the Federal Universal Service Fund. As a result of the Telecommunications Act of 1996, the manner in which access revenues and Universal Service Funds are determined is currently being modified by regulatory bodies.

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

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

NOTE 10. REGULATORY ACCOUNTING

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

NOTE 11. REGULATORY MATTERS

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

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

On March 30, 2016, the FCC released a Report and Order, Order on Reconsideration, and Further Notice of Proposed Rulemaking to reform USF. The FCC will give rural local exchange carriers ninety days from the date of the publication of the Order to determine whether to opt-in to a new Alternative Connect America Model or to go with a revised version of rate-of-return. The effective date has not been established nor has the overall impact on network access service revenues been determined.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Pend Oreille Telephone Company as of and for the year ended December 31, 2015, and have issued our report thereon dated April 25, 2016.

Internal Control Over Financial Reporting

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

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

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

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

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

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

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

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

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

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

Compliance and Other Matters

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

Pend Oreille Telephone Company' Response to Findings

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

Purpose of This Report

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

Kiesling Associates LLP

Madison, Wisconsin
April 25, 2016

Kiesling
foresight for your future

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Pend Oreille Telephone Company, which comprise the balance sheet as of December 31, 2015, and the related statements of operations, stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2016. In accordance with Government Auditing Standards, we have also issued our report dated April 25, 2016, on our consideration of Pend Oreille Telephone Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings and recommendations related to our audit have been furnished to management.

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

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

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

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

Kiesling Associates LLP

Madison, Wisconsin
April 25, 2016

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, 2015

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

6/16/2016
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	566,521	1,159,709	25. Accounts Payable	142,660	169,683
2. Cash-RUS Construction Fund	865	865	26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments		213,068
a. Telecom, Accounts Receivable			28. Customer Deposits	4,910	4,650
b. Other Accounts Receivable	293,882	179,221	29. Current Mat. L/T Debt	93,408	98,188
c. Notes Receivable	80,747	82,377	30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable	57,788	46,076	32. Income Taxes Accrued		
b. Other Accounts Receivable	209,747	183,224	33. Other Taxes Accrued		
c. Notes Receivable			34. Other Current Liabilities	52,379	52,702
5. Interest and Dividends Receivable			35. Total Current Liabilities (25 thru 34)	293,357	538,291
6. Material-Regulated	218,892	185,149	LONG-TERM DEBT		
7. Material-Nonregulated	9,717	5,843	36. Funded Debt-RUS Notes	1,200,832	1,102,618
8. Prepayments			37. Funded Debt-RTB Notes		
9. Other Current Assets	67,799	71,882	38. Funded Debt-FFB Notes		
10. Total Current Assets (1 Thru 9)	1,505,958	1,914,346	39. Funded Debt-Other		40,598
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan		
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt		
a. Rural Development			42. Reacquired Debt		
b. Nonrural Development			43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies	0	
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development	332,265	291,118	46. Total Long-Term Debt (36 thru 45)	1,200,832	1,143,216
13. Nonregulated Investments			OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets			47. Other Long-Term Liabilities	342,946	335,110
15. Deferred Charges			48. Other Deferred Credits		
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
17. Total Noncurrent Assets (11 thru 16)	332,265	291,118	50. Total Other Liabilities and Deferred Credits (47 thru 49)	342,946	335,110
PLANT, PROPERTY, AND EQUIPMENT			EQUITY		
18. Telecom, Plant-in-Service	16,626,707	16,754,233	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	40,128	99,076	53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill			54. Membership and Cap. Certificates		
22. Less Accumulated Depreciation	14,314,403	14,576,779	55. Other Capital		
23. Net Plant (18 thru 21 less 22)	2,353,682	2,277,780	56. Patronage Capital Credits		
24. TOTAL ASSETS (10+17+23)	4,191,905	4,483,244	57. Retained Earnings or Margins	(311,576)	(199,719)
			58. Total Equity (51 thru 57)	2,354,770	2,466,627
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	4,191,905	4,483,244

Total Equity = 55.02% % of Total Assets

USDA-RUS **OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS**	BORROWER DESIGNATION WA0545
INSTRUCTIONS- See RUS Bulletin 1744-2	PERIOD ENDING December, 2015

PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS

ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	393,106	410,863
2. Network Access Services Revenues	1,905,132	2,203,921
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues	0	
5. Miscellaneous Revenues	27,027	26,373
6. Uncollectible Revenues	9,913	18,879
7. Net Operating Revenues (1 thru 5 less 6)	2,315,352	2,622,278
8. Plant Specific Operations Expense	673,124	676,176
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	191,957	213,547
10. Depreciation Expense	315,948	318,962
11. Amortization Expense	0	
12. Customer Operations Expense	165,053	176,809
13. Corporate Operations Expense	797,211	803,756
14. Total Operating Expenses (8 thru 13)	2,143,293	2,189,250
15. Operating Income or Margins (7 less 14)	172,059	433,028
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes	383,585	117,039
19. Other Taxes	54,556	52,621
20. Total Operating Taxes (17+18+19)	438,141	169,660
21. Net Operating Income or Margins (15+16-20)	(266,082)	263,368
22. Interest on Funded Debt	67,118	63,615
23. Interest Expense - Capital Leases		
24. Other Interest Expense	3,297	2,311
25. Allowance for Funds Used During Construction	65	2,362
26. Total Fixed Charges (22+23+24-25)	70,350	63,564
27. Nonoperating Net Income	11,916	9,050
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	28,768	82,314
31. Total Net Income or Margins (21+27+28+29+30-26)	(295,748)	291,168
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	(15,828)	(311,576)
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)		179,311
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)]	(311,576)	(199,719)
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	94,997	155,131
45. Cash Ratio [(14+20-10-11) / 7]	0.9785	0.7779
46. Operating Accrual Ratio [(14+20+26) / 7]	1.1453	0.9238
47. TIER [(31+26) / 26]	-3.2040	5.5807
48. DSCR [(31+26+10+11) / 44]	0.9532	4.3427

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, 2014

BORROWER DESIGNATION: WA0545

CERTIFICATION

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

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

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

[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

6/2/2015
DATE

PART A. BALANCE SHEET

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

Total Equity = 56.17% % of Total Assets

USDA-RUS	BORROWER DESIGNATION
OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS	WA0545
	PERIOD ENDING
INSTRUCTIONS- See RUS Bulletin 1744-2	December, 2014

PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS

ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	400,950	393,106
2. Network Access Services Revenues	2,148,410	1,905,132
3. Long Distance Network Services Revenues		
4. Carrier Billing and Collection Revenues	(5,281)	0
5. Miscellaneous Revenues	21,345	27,027
6. Uncollectible Revenues	5,840	9,913
7. Net Operating Revenues (1 thru 5 less 6)	2,559,584	2,315,352
8. Plant Specific Operations Expense	623,800	673,124
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	172,200	191,957
10. Depreciation Expense	300,876	315,948
11. Amortization Expense	0	0
12. Customer Operations Expense	167,108	165,053
13. Corporate Operations Expense	783,978	797,211
14. Total Operating Expenses (8 thru 13)	2,047,962	2,143,293
15. Operating Income or Margins (7 less 14)	511,622	172,059
16. Other Operating Income and Expenses		
17. State and Local Taxes		
18. Federal Income Taxes		383,585
19. Other Taxes	52,375	54,556
20. Total Operating Taxes (17+18+19)	52,375	438,141
21. Net Operating Income or Margins (15+16-20)	459,247	(266,082)
22. Interest on Funded Debt	69,518	67,118
23. Interest Expense - Capital Leases		
24. Other Interest Expense	1,422	3,297
25. Allowance for Funds Used During Construction	12,054	65
26. Total Fixed Charges (22+23+24-25)	58,886	70,350
27. Nonoperating Net Income	32,246	11,916
28. Extraordinary Items		
29. Jurisdictional Differences		
30. Nonregulated Net Income	48,877	28,768
31. Total Net Income or Margins (21+27+28+29+30-26)	481,484	(295,748)
32. Total Taxes Based on Income		
33. Retained Earnings or Margins Beginning-of-Year	(497,312)	(15,828)
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)		
36. Dividends Declared (Preferred)		
37. Other Debits Year-to-Date		
38. Transfers to Patronage Capital		
39. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]	(15,828)	(311,576)
40. Patronage Capital Beginning-of-Year		
41. Transfers to Patronage Capital		
42. Patronage Capital Credits Retired		
43. Patronage Capital End-of-Year (40+41-42)	0	0
44. Annual Debt Service Payments	76,614	94,997
45. Cash Ratio [(14+20-10-11) / 7]	0.7030	0.9785
46. Operating Accrual Ratio [(14+20+26) / 7]	0.8436	1.1453
47. TIER [(31+26) / 26]	9.1765	-3.2040
48. DSCR [(31+26+10+11) / 44]	10.9803	0.9532

ALTERNATE EXHIBIT 7

CORPORATE OPERATIONS EXPENSE ADJUSTMENT CERTIFICATE

I, Michael J. Martell, an officer of Pend Oreille Telephone Company with personal knowledge and responsibility, under penalty of perjury, hereby certify that no corporate operations adjustment to existing high-cost loop and interstate common line support mechanisms, as required by the Federal Communications Commission, applied to the Company for 2015 and 2014.

Date this 27 day of July, 2016.

Michael J. Martell, Vice President

EXHIBIT 8

FINANCIAL ACCOUNTING CERTIFICATE

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

Dated this 27 day of July, 2016.

Michael J. Martell

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Michael J. Martell, an officer of Pend Oreille Telephone Company "the Company", under penalty of perjury, hereby certify that if the Company receives Program support, the Company will continue to provide communications services pursuant to its tariffs on file with the Commission throughout its service territory in Washington for which the company is seeking and receives Program support during the entirety of 2017.

Dated this 27 day of July, 2016.

Michael J. Martell, Vice President