RTI™
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July 31, 2017

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

RE: Pend Oreille Telephone Company
USF Petition

Dear Mr. King:

Pend Oreille Telephone Company hereby submits its Petition for USF Support with demonstration of eligibility under WUTC WAC 480-123-100 and WAC 480-123-110. This USF Support Petition submission, also filed electronically at http://www.utc.wa.gov/docs/Pages/howToFile.aspx , includes : (1) a description of transactions with affiliates; (2) most recent consolidated audited financial statements ; (3) revenues from statements of income and retained earnings or margin section of RUS 479 for prior two years; and (4) the line count by residential and business for 12/31/2016 and 12/31/2015, 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 2018.

Sincerely,

Michael J. Martell
Vice President

MJM/baa

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

IN RE PETITION OF Pend Oreille Telephone Co., 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, 2018.

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, 2016, and December 31, 2015, and copies of the Company's statements of income and retained earnings or margin for the years ended December 31, 2016 and December 31, 2015.

6. WAC 480-123-110(1)(e)(ii): A copy of the Company's consolidated annual financial statements for the years ended December 31, 2016 and December 31, 2015, 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. 170011 filed on or about 06/30/2017.

14. WAC 480-123-110(1)(g): 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 residential local exchange access lines served by the Company as of December 31, 2015, was 1120, 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 number of business local exchange access lines served by the Company as of December 31, 2015, was 320, 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, 2016, was $18.00. The monthly recurring rate charged by the Company for residential local exchange access service on December 31, 2015, was $16.00.

The rate charged by the Company for single line business local exchange access service on December 31, 2016, was $25.03. The rate charged by the Company for single line business local exchange access service on December 31, 2015, 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 7/1/2017 - 6/30/2018 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 31st day of July, 2017.

CERTIFICATION

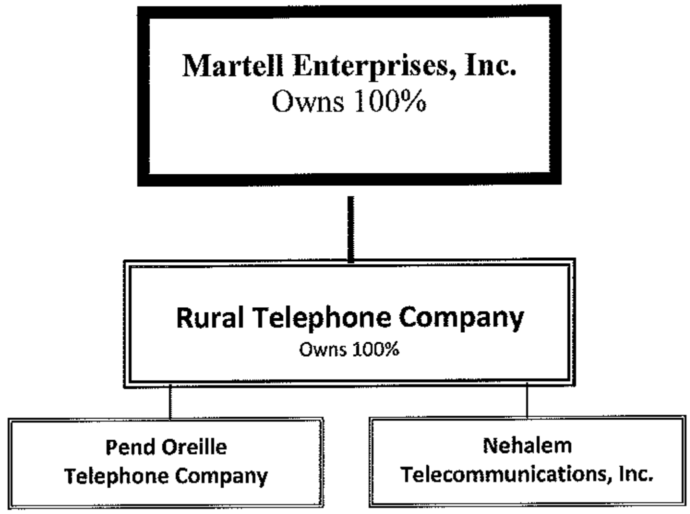
I Michael J. Martell, an officer of the Company that is responsible for the Company's business and financial operations, hereby certify under penalty of perjury that the information and representations set forth in the Petition, above, are accurate and the Company has not knowingly withheld any information 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 $ 434,029 and $402,333 of such services in 2016 and 2015, 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 2016 and 2015. In addition, Little Valley Elk Ranch owes Pend Oreille $ 169,676 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

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 $2,252,737 during the period January 1, 2011 through December 31, 2016. 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 2016, the Company's total regulated revenue increased by 27.64 percent from 2011 through 2016. 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 219 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 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 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 top of all this, during the six-year period ended December 31, 2016, the Company has seen its total federal high cost support undergo a significant reduction, declining from $ 178,049 in 2011 to $127,710 in 2016.

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.

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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*).

EXHIBIT 4

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 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.
(C) - Adjusted Balance after Part 64

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	0	-	0
48. Deferred Income Taxes	335,110	(1,908)	333,202
49. Other Deferred Credits (D)			0
50. Other Jurisdictional Differences			0
51. Total Other Liab. & Def. Credits (47 thru 50)	335,110	(1,908)	333,202
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)	(199,719)	1,908	(197,811)
59. Total Equity (52 thru 58)	2,466,627	1,908	2,468,535
60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	4,483,244	0	4,483,244

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 2016 (A)	Part 64 Adj to NonReg 2016 (B)	Adj. Balance End of Year 2016 (C)
CURRENT ASSETS			
1. Cash and Equivalents	1,086,322		1,086,322
2. Cash-RUS Construction Fund			0
3. Affiliates:			
a. Telecom, Accounts Receivable	262,136		262,136
b. Other Accounts Receivable	143,105		143,105
c. Notes Receivable			0
4. Non-Affiliates:			
a. Telecom, Accounts Receivable			0
b. Other Accounts Receivable			0
c. Notes Receivable	84,039		84,039
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			0
10. Total Current Assets (1 Thru 9)	1,799,312	(7,895)	1,791,417
NONCURRENT ASSETS			
11. Investment in Affiliated Companies			
a. Rural Development			0
b. Nonrural Development			0
12. Other Investments			
a. Rural Development	245,972		245,972
b. Nonrural Development			0
13. Nonregulated Investments (B1)		69,172	69,172
14. Other Noncurrent Assets			0
15. Deferred Charges			0
16. Jurisdictional Differences			0
17. Total noncurrent Assets (11 thru 16)	245,972	69,172	315,144
PLANT, PROPERTY AND EQUIPMENT			
18. Telecom Plant-In-Service	17,387,546	(173,436)	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)	2,601,798	(61,277)	2,540,521
24. TOTAL ASSETS (10+17+23)	4,647,082	0	4,647,082

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	101,383		101,383
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	103,223		103,223
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	116,833		116,833
35. Total Current Liabilities (25 thru 34)	572,532	0	572,532
LONG-TERM DEBT			
36. Funded Debt-RUS Notes	1,294,192		1,294,192
37. Funded Debt-RTB Notes			0
38. Funded Debt-FFB Notes			0
39. Funded Debt-Other			0
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	40,598	-	40,598
46. Total Long-Term Debt (36 thru 45)	1,334,790	0	1,334,790
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)	(308,306)	3,791	(304,515)
59. Total Equity (52 thru 58)	2,358,040	3,791	2,361,831
60. TOTAL LIABILITIES AND EQUITY (35+46+51+59)	4,647,083	0	4,647,083

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 2015	Adjusted Current Year Balance 2016		LIABILITIES AND STOCKHOLDERS' EQUITY	Adjusted Prior Year Balance 2015	Adjusted Current Year Balance 2016
CURRENT ASSETS				**CURRENT LIABILITIES**		
1. Cash and Equivalents	1,159,709	1,086,322		25. Accounts Payable	169,683	101,383
2. Cash-RUS Construction Fund	865	0		26. Notes Payable	0	0
3. Affiliates:				27. Advance Billings and Payments	213,068	245,213
a. Telecom, Accounts Receivable	0	262,136		28. Customer Deposits	4,650	5,880
b. Other Accounts Receivable	179,221	143,105		29. Current Mat. L/T Debt	98,188	103,223
c. Notes Receivable	82,377	0		30. Current Mat. L/T Debt Rur. Dev.	0	0
4. Non-Affiliates:				31. Current Mat. - Capital Leases	0	0
a. Telecom, Accounts Receivable	46,076	0		32. Income Taxes Accrued	0	0
b. Other Accounts Receivable	183,224	0		33. Other Taxes Accrued	0	0
c. Notes Receivable	0	84,039		34. Other Current Liabilities	52,702	116,833
5. Interest and Dividends Receivable	0	0		35. Total Current Liabilities (25 - 34)	538,291	572,532
6. Material-Regulated	185,149	215,815		**LONG-TERM DEBT**		
7. Material-Nonregulated	0	0		36. Funded Debt-RUS Notes	1,102,618	1,294,192
8. Prepayments	0	0		37. Funded Debt-RTB Notes	0	0
9. Other Current Assets	71,882	0		38. Funded Debt-FFB Notes	0	0
10. Total Current Assets (1 Thru 9)	1,908,503	1,791,417		39. Funded Debt-Other	40,598	0
				40. Funded Debt-Rural Develop. Loan	0	0
				41. Premium (Discount) on L/T Debt	0	0
NONCURRENT ASSETS				42. Reacquired Debt	0	0
11. Investment in Affiliated Companies				43. Obligations Under Capital Lease	0	0
a. Rural Development	0	0		44. Adv. From Affiliated Companies	0	0
b. Nonrural Development	0	0		45. Other Long-Term Debt	0	40,598
12. Other Investments				46. Total Long-Term Debt (36-45)	1,143,216	1,334,790
a. Rural Development	0	245,972		**OTHER LIAB. & DEF. CREDITS**		
b. Nonrural Development	291,118	0		47. Other Long-Term Liabilities	0	0
13. Nonregulated Investments	29,850	69,172		48. Deferred Income Taxes	333,202	377,930
14. Other Noncurrent Assets	0	0		49. Other Deferred Credits	0	0
15. Deferred Charges	0	0		50. Other Jurisdictional Differences	0	0
16. Jurisdictional Differences	0	0		51. Total Other Liab. & Def. Credits (47 thru 50)	333,202	377,930
17. Total noncurrent Assets (11 thru 16)	320,968	315,144		**EQUITY**		
				52. Cap. Stock Outstanding & Subscribed	2,666,346	2,666,346
PLANT, PROPERTY AND EQUIPMENT				53. Additional Paid-in-Capital	0	0
18. Telecom Plant-in-Service	16,658,821	17,214,110		54. Treasury Stock	0	0
19. Property Held for Future Use	0	0		55. Membership and Capital Certificates	0	0
20. Plant Under Construction	99,076	187,714		56. Other Capital	0	0
21. Plant Adj.,Nonop Plant & Goodwill	0	0		57. Patronage Capital Credits	0	0
22. Accumulated Depreciation (CR.)	(14,504,124)	(14,861,303)		58. Retained Earnings or Margins	(197,811)	(304,515)
23. Net Plant (18 thru 21 less 22)	2,253,773	2,540,521		59. Total Equity (52 thru 58)	2,468,535	2,361,831
24. TOTAL ASSETS (10+17+23)	4,483,244	4,647,082		**59. TOTAL LIABILITIES AND EQUITY (35+46+51+59)**	4,483,244	4,647,083

Footnote:
Adjusted Balances represents balances
after Part 64 adjustments

7/31/2017

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 2015	Adj. Balance End of Year 2016	Average Adj End of Year Balance
	Average Rate Base:				
1	Total Regulated Adjusted Telecom Plant-In-service	18	16,658,821	17,214,110	16,936,466
2	Total Property Held for Future Use	19	0	0	0
3	Total Regulated Adjusted Accumulated Depreciation (CR)	22	(14,504,124)	(14,861,303)	(14,682,714)
4	Total Regulated Materials & Supplies	6	185,149	215,815	200,482
5	Deferred Income Taxes (CR)	48	(333,202)	(377,930)	(355,566)
6	**Total Regulated Rate Base**		2,006,644	2,190,692	2,098,668

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 - 2015	Current Year End of Yr. Balance - 2016	Difference	% Change
	Access Lines:				
1	Residential	1,120	1,129	9	0.8%
2	Business	320	313	(7)	-2.2%
3	Total	1,440	1,442	2	0.1%

Note: If 2015 does not equal last year's petition and template, explain.

 7/31/2017

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 2015 (A)	Part 64 Adj. to NonReg (B)	Prior 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 13)**	**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	99,774		99,774
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)	6.7522	#DIV/0!	6.3219

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 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 2016 (A)	Part 64 Adj. to NonReg (B)	Current 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	12,672		12,672
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(33,780)		(33,780)
7	**Net Operating Revenues (1 thru 6)**	**2,497,747**	**0**	**2,497,747**
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)	186,718	27,435	214,153
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	56,647	(217)	56,430
20	**Total Operating Taxes (17+18+19)**	121,220	(27,608)	93,612
21	**Net Operating Income or Margins (15+16-20)**	65,498	55,043	120,541
22	Interest on Funded Debt	70,241	(28,443)	41,798
23	Interest Expense - Capital Leases			0
24	Other Interest Expense	450	(450)	0
25	Allowance for Funds Used During Construction (CR)	(6,688)		(6,688)
26	**Total Fixed Charges (22+23+24-25)**	64,003	(28,893)	35,110
27	Nonoperating Net Income	3,436	-	3,436
28	Extraordinary Items			0
29	Jurisdictional Differences			0
30	Nonregulated Net Income (B1)	136,902	(83,936)	52,966
31	**Total Net Income or Margins (21+27+28+29+30-26)**	141,833	0	141,833
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)**	(307,893)	0	(307,893)
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	131,852		131,852
45	Cash Ratio ((14+20-10-11)/7)	0.8145	#DIV/0!	0.7935
46	Operating Accrual Ratio ((14+20+26)/7)	0.9994	#DIV/0!	0.9658
47	TIER ((31+26)/26)	3.2160	1.0000	5.0397
48	DSCR ((31+26+10+11)/44)	4.5791	#DIV/0!	4.3395

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 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 2015	Adjusted Current Year 2016
1	Local Network Services Revenues	410,866	419,794
2	Network Access Services Revenues	2,203,921	2,099,061
3	Long Distance Network Services Revenues	0	0
4	Carrier Billing and Collection Revenues	0	0
5	Miscellaneous Revenues	11,818	12,672
6	Uncollectible Revenues (Normal Balance is debit or in brackets)	(18,879)	(33,780)
7	**Net Operating Revenues (1 thru 6)**	**2,607,726**	**2,497,747**
8	Plant Specific Operations Expense	671,211	662,116
9	Plant Nonspecific Operations Expense (excluding Depreciation & Amort.)	196,418	234,575
10	Depreciation Expense	317,074	395,231
11	Amortization Expense	0	0
12	Customer Operations Expense	169,502	169,660
13	Corporate Operations	794,131	822,012
14	**Total Operations Expenses (8 thru 13)**	**2,148,336**	**2,283,594**
15	Operating Income or Margins (7 less 14)	459,390	214,153
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)**	121,889	37,182
19	Other Taxes	52,511	56,430
20	**Total Operating Taxes (17+18+19)**	174,400	93,612
21	**Net Operating Income or Margins (15+16-20)**	284,990	120,541
22	Interest on Funded Debt	41,158	41,798
23	Interest Expense - Capital Leases	0	0
24	Other Interest Expense	0	0
25	Allowance for Funds Used During Construction	(2,362)	(6,688)
26	**Total Fixed Charges (22+23+24-25)**	38,796	35,110
27	Nonoperating Net Income	(7,224)	3,436
28	Extraordinary Items	0	0
29	Jurisdictional Differences	0	0
30	Nonregulated Net Income	35,924	52,966
31	**Total Net Income or Margins (21+27+28+29+30-26)**	274,894	141,833
32	Total Taxes Based on Income		
33	Retained Earning or Margins Beginning-of-Year	(311,576)	(199,719)
34	Miscellaneous Credits Year-to-Date	0	0
35	Dividends Declared (Common)	179,311	250,007
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)**	(215,993)	(307,893)
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	99,774	131,852
45	Cash Ratio ((14+20-10-11)/7)	0.7691	0.7935
46	Operating Accrual Ratio ((14+20+26)/7)	0.9056	0.9658
47	TIER ((31+26)/26)	8.0856	5.0397
48	DSCR ((31+26+10+11)/44)	6.32	4.3395

	Footnote	2015	2016
(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 2015	Current Year 2016
1	End User Revenue (SLC, ARC, etc.)	5081	196,469	193,766
2	Switched Access (excluding USF):	5082		
2a	Intrastate		149,903	107,653
2b	Interstate (includes CAF)		813,375	762,162
3	Special Access:	5083		
3a	Intrastate		100,009	35,911
3b	Interstate		336,869	329,750
4	Federal USF (ICLS/HCL/SN)	Varies	452,927	468,631
5	State USF		154,369	201,187
6	Other*			
7	Total (must equal line 2 of Income Stmt.)		2,203,921	2,099,060
8	Line 2 of Income Stmt.		2,203,921	2,099,061
9	Difference		0	(1)

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) - 2016 (As Recorded) OR Pro Forma (PF)Adjustment for Current Year Petition or Reversing from Prior Year	Year	OOP or PF?	Part 32 Account Debit	Part 32 Account 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	2016 (A)	2016 (B)
1	Rate Base (Jan. 1)	2,006,644	2,006,644
2	Rate Base (Dec 31)	2,190,692	2,190,692
3	**Average Rate Base**	2,098,668	2,098,668
4	Net Operating Income	120,541	120,541
5	Out-of-Period Adjustments Net of FIT (1)		
6	**Adjusted Net Operating Income**	120,541	120,541
7	**Earned Regulated Rate of Return**	5.74%	5.74%

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

 7/31/2017

EXHIBIT 4.1

State USF Petition Filing Requirement - WAC 480-123-110(e)
Prior and Current Year Broadband and Gross Capital Expenditures

Exhibit 4.1

Company Name: (Below)
PEND OREILLE TELEPHONE COMPANY

Description	Prior Year End of Yr. Balance - 2015	Current Year End of Yr. Balance - 2016	Difference	% Change
Broadband Connections:				
Residential	629	693	64	10.2%
Business	75	78	3	4.0%
Total	704	771	67	9.5%
Gross Regulated and Nonregulated Capital Expenditures:	2015	2016	Difference	% Change
Total Annual Amount	$127,526	$632,533	$505,007	396.0%

EXHIBIT 5

PEND OREILLE TELEPHONE COMPANY

Independent Auditor's Report and Financial Statements

December 31, 2016 and 2015

BKD LLP
CPAs & Advisors

PEND OREILLE TELEPHONE COMPANY
GLENNS FERRY, IDAHO

Contents

BKD LLP
CPAs & Advisors

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Pend Oreille Telephone Company (an Idaho corporation), which comprise the balance sheet as of December 31, 2016, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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, 2016, and the results of its operations and its cash flows for the year 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 have also issued our report dated April 28, 2017, 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 the Company's internal control over financial reporting and compliance.

Prior Year Audited by Other Auditors

The 2015 financial statements were audited by other auditors and their report thereon, dated April 25, 2016, expressed an unmodified opinion.

BKD, LLP

Madison, Wisconsin
April 28, 2017

PEND OREILLE TELEPHONE COMPANY
GLENNS FERRY, IDAHO

BALANCE SHEETS
December 31, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,029,937	$ 1,205,652
Special construction account	865	865
Marketable securities	-	20,016
Accounts receivable:		
Due from customers	41,103	46,076
Interexchange carriers	221,033	177,735
Affiliates	255,640	261,598
Other	8	5,490
Materials and supplies at average cost	215,815	185,149
Inventory at average cost	7,894	5,843
	1,772,295	1,908,424
OTHER NONCURRENT ASSETS		
Marketable securities	48,535	5,923
Other investments	252,958	291,118
Deferred charges	780	-
	302,273	297,041
PROPERTY, PLANT AND EQUIPMENT		
Telephone plant in service	17,386,765	16,754,231
Other property	26,904	26,904
	17,413,669	16,781,135
Less accumulated depreciation	15,001,616	14,603,682
	2,412,053	2,177,453
Plant under construction	187,714	99,076
Property held for future use	1,250	1,250
	2,601,017	2,277,779
TOTAL ASSETS	$ 4,675,585	$ 4,483,244

See Notes to Financial Statements

PEND OREILLE TELEPHONE COMPANY
GLENNS FERRY, IDAHO

BALANCE SHEETS
December 31, 2016 and 2015

LIABILITIES AND STOCKHOLDER'S EQUITY	2016	2015
CURRENT LIABILITIES		
Current portion of long-term debt	$ 171,457	$ 105,293
Accounts payable:		
Interexchange carriers	27,611	23,668
Affiliates	75,343	52,873
Other	79,686	93,142
Advance payments	245,213	213,068
Customer deposits	5,880	4,650
Other accrued liabilities	64,078	52,702
	669,268	545,396
LONG-TERM DEBT, LESS CURRENT PORTION	1,266,142	1,136,111
OTHER NONCURRENT LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes	381,721	335,110
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 deficit	(307,892)	(199,719)
	2,358,454	2,466,627
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 4,675,585	$ 4,483,244

See Notes to Financial Statements

PEND OREILLE TELEPHONE COMPANY
GLENNS FERRY, IDAHO

STATEMENTS OF INCOME
Years ended December 31, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Local network services	$ 419,794	$ 410,863
Network access services	2,099,061	2,203,921
Internet services	489,201	453,684
Other nonregulated services	24,449	23,448
Miscellaneous	30,682	26,373
Uncollectible	(33,780)	(18,879)
	3,029,407	3,099,410
OPERATING EXPENSES		
Plant specific operations	690,637	694,879
Plant nonspecific operations	228,910	213,547
Cost of internet services	377,445	375,277
Depreciation	397,934	318,962
Customer operations	175,397	176,810
Corporate operations	835,335	803,756
General taxes	56,646	52,621
	2,762,304	2,635,852
OPERATING INCOME	267,103	463,558
OTHER INCOME (EXPENSE)		
Interest and dividend income	12,123	20,505
Allowance for funds used during construction	6,688	2,362
Interest expense	(70,691)	(65,926)
Other, net	(6,695)	(8,061)
	(58,575)	(51,120)
INCOME BEFORE INCOME TAXES	208,528	412,438
INCOME TAXES	66,694	121,270
NET INCOME	$ 141,834	$ 291,168

See Notes to Financial Statements

PEND OREILLE TELEPHONE COMPANY
GLENNS FERRY, IDAHO

STATEMENTS OF STOCKHOLDER'S EQUITY
Years Ended December 31, 2016 and 2015

	Common Stock Shares	Common Stock Amount	Retained Deficit	Total Stockholders' Equity
Balance at December 31, 2014	5,000	$ 2,666,346	$ (311,576)	$ 2,354,770
Net income			291,168	291,168
Dividends paid, $35.86 per share			(179,311)	(179,311)
Balance at 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 at December 31, 2016	5,000	$ 2,666,346	$ (307,892)	$ 2,358,454

See Notes to Financial Statements

PEND OREILLE TELEPHONE COMPANY
GLENNS FERRY, IDAHO

STATEMENTS OF CASH FLOWS
Years ended December 31, 2016 and 2015

	2016	2015
OPERATING ACTIVITIES		
Net income	$ 141,834	$ 291,168
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	397,934	318,962
Deferred income taxes	46,611	(7,836)
Patronage in business conducted with cooperatives	(9,272)	(8,799)
Patronage distributions received from business conducted with cooperatives	47,432	50,050
Allowance for funds used during construction	(6,688)	(2,362)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(26,885)	151,265
Material and supplies and inventory	(32,717)	37,617
Prepayments and deferred charges	(780)	-
Increase (Decrease) in:		
Accounts payable	12,957	27,023
Customer deposits	1,230	(260)
Advanced payments	32,145	213,068
Other accrued liabilities	11,376	323
Net cash provided by operating activities	615,177	1,070,219
INVESTING ACTIVITIES		
Capital expenditures	(714,484)	(242,697)
Purchases of investments	(48,535)	(26,042)
Proceeds from sales of investments	25,939	67,798
Salvage, net of cost of removing plant	-	2,000
Net cash used in investing activities	(737,080)	(198,941)
FINANCING ACTIVITIES		
Proceeds from long-term borrowing	328,047	46,938
Repayment of long-term debt	(131,852)	(99,774)
Dividends paid	(250,007)	(179,311)
Net cash used in financing activities	(53,812)	(232,147)
Net Increase (Decrease) in Cash and Cash Equivalents	(175,715)	639,131
Cash and Cash Equivalents at Beginning of Year	1,205,652	566,521
Cash and Cash Equivalents at End of Year	$ 1,029,937	$ 1,205,652

See Notes to Financial Statements

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 28, 2017, 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 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, 2016 and 2015, 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 2017 state of Washington Universal Service Fund payments which were received in 2016.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment (Continued)

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:

	2016	2015
Interest costs capitalized	$ 6,688	$ 2,362
Interest costs charged to expense	70,691	65,926
Total interest incurred	$ 64,003	$ 63,564

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, 2016 and 2015.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Revenues from network access were increased by approximately $54,000 in 2015 as a result of adjustments to prior years' estimates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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 $85,344 and $107,584 in 2016 and 2015, respectively.

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $77,736 and $75,960 in 2016 and 2015, respectively.

Fair Value Measurements

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. The Company determines 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.

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, 2016:				
Held-to-Maturity:				
US Government obligations	$ 48,535	$ -	$ -	$ 48,535
Amounts classified as:				
Noncurrent marketable securities	$ 48,535			
December 31, 2015:				
Held-to-Maturity:				
US Government obligations	$ 25,939	$ -	$ -	$ 25,939
Amounts classified as:				
Current marketable securites	$ 20,016			
Noncurrent marketable securities	5,923			
Total	$ 25,939			

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, 2016, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Amortized Cost	Fair Value
Held-to-Maturity:		
Due after one year through three years	$ 5,971	$ 5,971
Due after three years through five years	42,564	42,564
	$ 48,535	$ 48,535

NOTE 3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	2016	2015
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	818,091	443,274
Switching equipment	6,881,229	6,657,944
Outside plant	8,965,111	8,930,679
Subtotal	17,386,765	16,754,231
Other property:		
Internet equipment	26,904	26,904
Total property, plant and equipment	$ 17,413,669	$ 16,781,135

Depreciation on depreciable property resulted in composite rates of 2.34% and 1.92% for 2016 and 2015, respectively.

NOTE 4. OTHER INVESTMENTS

Other investments consist of the following at December 31:

	2016	2015
Cobank patronage capital certificates	$ 68,321	$ 110,761
National Rural Telecommunications Cooperative patronage capital certificates	167,651	163,371
Independent NECA Services stock	10,000	10,000
Other	6,986	6,986
Total	$ 252,958	$ 291,118

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, 2016 is not impaired.

NOTE 5. INCOME TAXES

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

	2016	2015
Federal income taxes:		
Current tax expense	$ 20,083	$ 129,106
Deferred tax expense	46,611	(7,836)
Total income tax expense	$ 66,694	$ 121,270

No cash was paid for income taxes during 2016 and 2015, however the Company paid its parent company their share of income taxes due through the intercompany payable account. This amounted to $20,083 and $129,106 in 2016 and 2015, respectively.

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

	2016	2015
Deferred Tax Liabilities		
Federal	$ 381,721	$ 335,110
Net Deferred Tax Liabilities - Long-Term	$ 381,721	$ 335,110

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.

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, 2016 and 2015.

The Company's federal income tax returns for years 2013 to present remain subject to examination.

NOTE 6. LONG-TERM DEBT

Long-term debt consists of:

	2016	2015
Chrysler Credit - 5.99%	$ 33,683	$ 40,598
RDUP mortgage notes - 5%	1,102,546	1,200,806
Ford Credit - 6.59%	31,089	-
Ford Credit - 7.09%	32,157	-
Ford Credit - 6.89%	30,957	
Long-term note to Umpqua Bank - 4.25%	207,167	-
Total long-term debt	1,437,599	1,241,404
Less current portion	171,457	105,293
	$ 1,266,142	$ 1,136,111

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

2017	$ 171,457
2018	180,500
2019	189,900
2020	199,700
2021	165,100

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 2016 and 2015 totaled $64,003 and $62,513, respectively.

There were no unadvanced funds at December 31, 2016 and 2015 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 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 2016 and 2015 were $74,850 and $53,540, 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 $288,845 and $245,016 of such services in 2016 and 2015, respectively.

The Company leased equipment from an affiliate, Little Valley Elk Ranch, in the amount of $14,526 in both 2016 and 2015.

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

	2016	2015
Accounts receivable, stockholders and employees	$ 85,964	$ 82,376
Accounts receivable, Little Valley Elk Ranch	169,676	166,319
Accounts receivable, Rural Telephone Company	-	12,903
	$ 255,640	$ 261,598
Accounts payable, Rural Telephone Company	$ 21,402	$ -
Accounts payable, Nehalem Telecommunications, Inc.	53,941	52,873
	$ 75,343	$ 52,873

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 69% of its 2016 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.

NOTE 9. CONCENTRATIONS OF CREDIT RISK (Continued)

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 received 69% of its 2016 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.

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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 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, 2016 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 28, 2017, which includes an other matter paragraph referring to other auditors.

Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Company's 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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.

We consider the following deficiencies in the Company's internal control to be significant deficiencies:

- **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.

- **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.

  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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 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 responses to the findings identified in our audit are described above. Pend Oreille Telephone Company's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 28, 2017

BKD LLP
CPAs & Advisors

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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, 2016, 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 28, 2017. In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2017, 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, 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 28, 2017

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, 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)			57. Retained Earnings or Margins	(199,719)	(307,892)
			58. Total Equity (51 thru 57)	2,466,627	2,358,454
	4,483,244	4,675,585	**59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)**	4,483,244	4,675,585

Total Equity = 50.44% % of Total Assets

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

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
CURRENT ASSETS		
1. Cash and Equivalents	566,521	1,159,709
2. Cash-RUS Construction Fund	865	865
3. Affiliates:		
a. Telecom, Accounts Receivable		
b. Other Accounts Receivable	293,882	179,221
c. Notes Receivable	80,747	82,377
4. Non-Affiliates:		
a. Telecom, Accounts Receivable	57,788	46,076
b. Other Accounts Receivable	209,747	183,224
c. Notes Receivable		
5. Interest and Dividends Receivable		
6. Material-Regulated	218,892	185,149
7. Material-Nonregulated	9,717	5,843
8. Prepayments		
9. Other Current Assets	67,799	71,882
10. Total Current Assets (1 Thru 9)	1,505,958	1,914,346
NONCURRENT ASSETS		
11. Investment in Affiliated Companies		
a. Rural Development		
b. Nonrural Development		
12. Other Investments		
a. Rural Development		
b. Nonrural Development	332,265	291,118
13. Nonregulated Investments		
14. Other Noncurrent Assets		
15. Deferred Charges		
16. Jurisdictional Differences		
17. Total Noncurrent Assets (11 thru 16)	332,265	291,118
PLANT, PROPERTY, AND EQUIPMENT		
18. Telecom, Plant-in-Service	16,626,707	16,754,233
19. Property Held for Future Use	1,250	1,250
20. Plant Under Construction	40,128	99,076
21. Plant Adj., Nonop. Plant & Goodwill		
22. Less Accumulated Depreciation	14,314,403	14,576,779
23. Net Plant (18 thru 21 less 22)	2,353,682	2,277,780
24. TOTAL ASSETS (10+17+23)	4,191,905	4,483,244

LIABILITIES AND STOCKHOLDERS' EQUITY	BALANCE PRIOR YEAR	BALANCE END OF PERIOD
CURRENT LIABILITIES		
25. Accounts Payable	142,660	169,683
26. Notes Payable		
27. Advance Billings and Payments		213,068
28. Customer Deposits	4,910	4,650
29. Current Mat. L/T Debt	93,408	98,188
30. Current Mat. L/T Debt-Rur. Dev.		
31. Current Mat.-Capital Leases		
32. Income Taxes Accrued		
33. Other Taxes Accrued		
34. Other Current Liabilities	52,379	52,702
35. Total Current Liabilities (25 thru 34)	293,357	538,291
LONG-TERM DEBT		
36. Funded Debt-RUS Notes	1,200,832	1,102,618
37. Funded Debt-RTB Notes		
38. Funded Debt-FFB Notes		
39. Funded Debt-Other		40,598
40. Funded Debt-Rural Develop. Loan		
41. Premium (Discount) on L/T Debt		
42. Reacquired Debt		
43. Obligations Under Capital Lease		
44. Adv. From Affiliated Companies	0	
45. Other Long-Term Debt		
46. Total Long-Term Debt (36 thru 45)	1,200,832	1,143,216
OTHER LIAB. & DEF. CREDITS		
47. Other Long-Term Liabilities	342,946	335,110
48. Other Deferred Credits		
49. Other Jurisdictional Differences		
50. Total Other Liabilities and Deferred Credits (47 thru 49)	342,946	335,110
EQUITY		
51. Cap. Stock Outstand. & Subscribed	2,666,346	2,666,346
52. Additional Paid-in-Capital		
53. Treasury Stock		
54. Membership and Cap. Certificates		
55. Other Capital		
56. Patronage Capital Credits		
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	383,585	117,039
18. Federal Income Taxes	54,556	52,621
19. Other Taxes		
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

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 2016 and 2015.

Date this 31st day of July, 2017.

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 31st day of July, 2017.

Vice President

EXHIBIT 9

EXHIBIT 9

CONTINUED OPERATIONS CERTIFICATE

I, Michael J. Martell, 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 2018.

Dated this 31st day of July, 2017.

Vice President