

# Waverly Hall Telephone Company

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Agreed-Upon Procedures Applied to the Universal Access Fund  
Application for the period ending 6/30/2019

**May 4, 2020**

## Independent Accountant's Report on Applying Agreed-Upon Procedures

### WAVERLY HALL TELEPHONE COMPANY

#### To the Georgia Public Service Commission:

We have performed the procedures enumerated below, which were agreed to by the Georgia Public Service Commission (GPSC), solely to assist the GPSC in evaluating Waverly Hall Telephone Company's assertion that Waverly Hall's Application for the period ending June 30, 2019 for assistance from the Georgia Universal Access Fund is proper, regulatory compliant, accurate and reasonable. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Specifically, for purposes of this report, we have performed the procedures listed below.

- Procedure 1:** Verified amounts found in the "balance per books" column of the UAF Application back to the form M and supporting general ledger. Provide the general ledger supporting schedules used to populate the Form M.
- Procedure 2:** Verified the amounts of federal universal service fund support reported in the UAF Application and classified as intrastate revenue for UAF purposes against disbursements reported by the Universal Services Administrative Company. Reviewed UAF Applicant work papers that reconcile USAC reported disbursements to amounts shown in the UAF Application.
- Procedure 3:** Reviewed all ILEC invoices over \$250 and selected a significant number of ILEC invoices to assess reasonableness and compliance of the expenditure. Determine whether prior year(s) disallowances are removed from the current year filing and report on results.
- Procedure 4:** Traced amounts in the "subject to separations" adjustment column of the UAF Application to Net Operating Income (NOI) and Rate of Return (ROR) on rate base calculations.
- Procedure 5:** Traced amounts in the "non-regulated" adjustment column of UAF Application to supporting journal entries of cost study. Supporting journal entries are tied back to supporting work papers that show the actual development of adjustment amounts. Selected supporting work papers are reviewed for reasonableness, accuracy, and conformance to Cost Allocation Manual elements.
- Procedure 6:** Verified fixed asset amounts in the company's Continuing Property Record and identified those assets that are inappropriately included in rate base in the UAF application. If applicant is a recipient of Federal or state Broadband Grants, determine whether the grants were to be used as revenue, expense offsets, or for capital acquisitions. To the extent such grants are/were used for capital acquisition, review books to ensure that such purchased assets are excluded from the rate base for UAF purposes.

- Procedure 7:** Reviewed cost study allocation methods and factor percentages for reasonableness and consistency.
- Procedure 8:** Tested and recalculated the Revenue Requirement Section on the ILEC application.
- Procedure 9** Verified that any long term debt interest costs treated as AFUDC (Allowance for Funds Used During Construction) were treated either as current year income or as a reduction to interest rates.
- Procedure 10** Verified that any Patronage Dividends credited (not necessarily received in cash) from long term lenders is treated as a reduction to the cost of debt.
- Procedure 11:** Reviewed the outside auditor's report on the financial statements and reported any adverse findings or qualified opinions.
- Procedure 12:** Reviewed and tested the requested amount for Executive Compensation and Corporate Operations Expense and compared the amount shown in the UAF application to the GPSC caps.
- Procedure 13:** Reviewed depreciation rates used for the UAF application and compared to the rates adopted by the GPSC.
- Procedure 14:** Reviewed cost allocation manual, verified that it is being used, tested a sample of allocations and report when the manual was last updated.
- Procedure 15:** Incorporated revised factors or methods adopted by GPSC, such as cost of equity, into the UAF model.
- Procedure 16:** Obtained and prepared exhibits comparing financial results and support mechanisms. Provide an analysis as to why increases/decreases occurred.
- Procedure 17:** Identified Construction Work in Progress and Retirement amounts for the test year.
- Procedure 18:** Identified the company's affiliates and non-regulated services.
- Procedure 19:** Identified the total costs charged to the regulated company by the affiliate or parent company. Quantified costs by FCC USOA Account and determined the per access line amount over the past 3 years. If the costs appeared unreasonable, proposed adjustments or informed GPSC staff and recommended an affiliated transactions engagement be performed.
- Procedure 20** For ACAM UAF companies only, obtained the company spreadsheet depicting calculated amounts, reviewed company prepared adjustments, traced adjustments in the UAF application model to the spreadsheet and identified the impact of the adjustment.
- Procedure 21** Tested and review the Approved Cost of Equity and Cost of Capital Rates of Tier II local exchange carriers for the purpose of evaluating applications for reimbursement from the UAF. The rate of return on rate base will be limited to the lesser of 8.0% or the level computed based on a 9.25% return on equity, using the applicant's actual cost of debt and the applicant's actual debt/equity structure. Verify that the above calculation was used in the respective UAF Model.
- Procedure 22** Prepared final report.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion. Accordingly, we do not express such an opinion. Had we been engaged to perform additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of the Georgia Public Service Commission and Waverly Hall Telephone Company and should not be used by anyone else other than those specified parties for any other purpose.

Vic Hurlbert, CPA  
Liberty, Missouri  
May 4, 2020

## Current Request for UAF Disbursements – Summary of Findings

Waverly Hall’s final revenue deficiency is \$5,409. We propose one adjustment to properly reflect the tax rate percentage for Waverly.

**Table 1**  
**Waverly Hall Telephone Company, Inc.**

Georgia UAF Summary	Amounts
Original Company Requested Amount from Georgia Universal Access Fund	\$17,962
Procedure 8 – Adjustment of Tax Rate from 27.55% to 21%	\$12,553
Total Adjustments	\$12,553
Revised Deficiency for the Company	\$5,409
Final Amount Recommended by Staff	\$5,409

As presented in Table 1, we propose Waverly Hall Telephone Company, Inc. receive a UAF disbursement of \$5,409 based upon the test year for the twelve months ending June 30, 2019.

### Profile of Waverly Hall Telephone Company

Waverly Hall Telephone Company serves approximately 975 access lines in Harris and Talbott Counties in Georgia. Waverly Hall Telephone was formed in 1944 by Julian Jones to provide local telephone service to people living within the city limits of Waverly Hall, GA.

## Agreed-Upon Procedures

**Procedure 1:** Verified amounts found in the “balance per books” column of the UAF Application back to the form M and supporting general ledger. Provide the general ledger supporting schedules used to populate the Form M.

Conclusion – There were no discrepancies noted.

**Procedure 2:** Verified the amounts of federal universal service fund support reported in the UAF Application and classified as intrastate revenue for UAF purposes against disbursements reported by the Universal Services Administrative Company. Reviewed UAF Applicant work papers that reconcile USAC reported disbursements to amounts shown in the UAF Application.

Conclusion – There were no discrepancies noted.

**Procedure 3:** Reviewed all ILEC invoices over \$250 and selected a significant number of ILEC invoices to assess reasonableness and compliance of the expenditure. Determine whether prior year(s) disallowances are removed from the current year filing and report on results.

Conclusion – We found no invoices that were unreasonable to us.

**Procedure 4:** Traced amounts in the “subject to separations” adjustment column of the UAF Application to Net Operating Income (NOI) and Rate of Return (ROR) on rate base calculations.

Conclusion – There were no discrepancies noted.

**Procedure 5** Traced amounts in the “non-regulated” adjustment column of UAF Application to supporting journal entries of cost study. Supporting journal entries are tied back to supporting work papers that show the actual development of adjustment amounts. Selected supporting work papers are reviewed for reasonableness, accuracy, and conformance to Cost Allocation Manual elements.

Conclusion – There were no discrepancies noted.

**Procedure 6:** Verified fixed asset amounts in the company’s Continuing Property Record and identified those assets that are inappropriately included in rate base in the UAF application. If applicant is a recipient of Federal or state Broadband Grants, determine whether the grants were to be used as revenue, expense offsets, or for capital acquisitions. To the extent such grants are/were used for capital acquisition, review books to ensure that such purchased assets are excluded from the rate base for UAF purposes.

Conclusion – There were no discrepancies noted. No broadband grants were noted.

**Procedure 7:** Reviewed cost study allocation methods and factor percentages for reasonableness and consistency.

Conclusion – There were no discrepancies noted.

**Procedure 8:** Tested and recalculated the Revenue Requirement Section on the ILEC application.

Conclusion – We propose an adjustment to the tax rate percentage used from the 27.55% Federal Income Tax Rate the proper rate of 21%. The separate amount to be adjusted is \$12,553.

**Procedure 9** Verified that any long term debt interest costs treated as AFUDC (Allowance for Funds Used During Construction) were treated either as current year income or as a reduction to interest rates.

Conclusion – Not applicable

**Procedure 10** Verified that any Patronage Dividends credited (not necessarily received in cash) from long term lenders is treated as a reduction to the cost of debt.

Conclusion – Not applicable

**Procedure 11:** Reviewed the outside auditor’s report on the financial statements and reported any adverse findings or qualified opinions.

Conclusion – The Company provided unaudited financial statements as of 12/31/2019.

**Procedure 12:** Reviewed and tested the requested amount for Executive Compensation and Corporate Operations Expense and compared the amount shown in the UAF application to the GPSC caps.

Finding – Executive expense (salary and benefits) was charged 100% to Account 6720 – Corporate Operations.

Conclusion – The Company was not above the GPSC Executive Compensation Cap or the Corporate Operations Cap.

**Procedure 13:** Reviewed depreciation rates used for the UAF application and compared to the rates adopted by the GPSC.

Conclusion – The Company’s depreciation rates matched or were less than the rates prescribed by the GPSC.

Regulated Depreciation Expense was REDACTED in the UAF application. Per the UAF model, Total Plant in Service was REDACTED. Composite depreciation rate equals depreciation per year divided by total historical cost. The composite rate is shown below.

Depreciation Expense	REDACTED
Total Plant in Service	REDACTED
Composite Rate	4.08%

**Procedure 14:** Reviewed cost allocation manual, verified that it is being used, tested a sample of allocations and report when the manual was last updated.

Conclusion – The Company does not employ a cost allocation manual. The Company directly assigns costs to cost functions.

**Procedure 15:** Incorporated revised factors or methods adopted by GPSC, such as cost of equity, into the UAF model.

Conclusion - The current cost of equity approved by the GPSC is 9.25%. Using the Company’s actual debt/equity ratio and actual cost of debt, the Company’s weighted average cost of capital (“WACC”) is 9.22836%. Because the Company’s WACC did exceed the GPSC’s 8% cap, the allowed return on rate base was the capped amount of 8%.

**Procedure 16:** Obtained and prepared exhibits comparing financial results and support mechanisms. Provide an analysis as to why increases/decreases occurred.

Conclusion – Net plant investment increased due to construction activity. Net Operating Margin increased resulting in the UAF support being decreased. Some staff reorganization occurred at the company resulting in less Operating Expenses.

Financial Results: 2014 – 2019

<b>Description</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Net telecom plant	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Operating Revenues	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Operating Expenses	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Net operating margins	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Total access lines	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED

Receipt of Federal Universal Service Support

<u>Support</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
HCLS	\$134,038	\$114,274	\$72,438	\$26,782	\$33,773	\$152,398
ICLS	242,286	233,514	174,508	141,376	206,142	304,130
CAF-BLS						
LSS	0	0	0	0	0	0
CAF/ICC	100,818	0	0	0	0	0
SNA		0	0	0	0	0
SVS		0	0	0	0	0
Lifeline	<u>4,803</u>	<u>2,757</u>	<u>3,331</u>	<u>2,260</u>	<u>916</u>	<u>1,799</u>
Total	\$481,945	\$350,545	\$250,277	\$170,418	\$240,831	\$458,327

**Procedure 17:** Identified Construction Work in Progress and Retirement amounts for the test year.

Conclusion – The Company had Construction Work in Progress and Plant Retirements at 6/30/2019 of REDACTED and REDCATED, respectively.

**Procedure 18:** Identified the company’s affiliates and non-regulated services.

Conclusion – Affiliated and non-regulated services were reviewed and found reasonable.  
Background:

All Corporate Operations expenses are paid by the Parent Holding Company (USCS) and charged back to the individual company. Individual expenses incurred for each company are charged to that company, both regulated and affiliates.

Allocated expenses are charged back to all companies based on the company revenues, both regulated and affiliates.

Annual management fees are set up as an estimate and trued up to actual expenses on a quarterly basis.

**Procedure 19:** Identified the total costs charged to the regulated company by the affiliate or parent company. Quantified costs by FCC USOA Account and determined the per access line amount over the past 3 years. If the costs appeared unreasonable, proposed adjustments or informed GPSC staff and recommended an affiliated transactions engagement be performed.

Conclusion - Total costs charged to the regulated company by the parent company were REDACTED for the year ending 6/30/2019. The costs do not appear unreasonable and therefore, no affiliate audit is recommended.

Waverly had the lowest average cost per access line for account 6210 – Central Office Expense among all UAF companies. Because of the size of the Company and

management's operational effectiveness, costs were reasonable as compared to other Georgia companies.

**Procedure 20** For ACAM UAF companies only, obtained the company spreadsheet depicting calculated amounts, reviewed company prepared adjustments, traced adjustments in the UAF application model to the spreadsheet and identified the impact of the adjustment.

Conclusion – Not applicable

**Procedure 21** Tested and review the Approved Cost of Equity and Cost of Capital Rates of Tier II local exchange carriers for the purpose of evaluating applications for reimbursement from the UAF. The rate of return on rate base will be limited to the lesser of 8.0% or the level computed based on a 9.25% return on equity, using the applicant's actual cost of debt and the applicant's actual debt/equity structure. Verify that the above calculation was used in the respective UAF Model.

Conclusion - There were no discrepancies noted.

**Procedure 22** Prepared final report.

Exhibit Nos. 1 – 3

1. Waverly Hall Telephone Company Organization Chart
2. Waverly Hall Telephone Company UAF Net Operating Income and Rate of Return on Rate Base Calculation
3. Waverly Hall Telephone Company UAF Cost of Capital Structure and Return on Equity Calculation



**WAVERLY HALL TELEPHONE, LLC**  
**RATE OF RETURN DEVELOPMENT**  
**YEAR ENDING 06/30/19**

NET OPERATING INCOME AND RATE OF RETURN ON RATE BASE CALCULATION				
		(1)	(2)	(3)
<b>NET OPERATING INCOME DEVELOPMENT</b>		<b>Subject To</b>	<b>Total</b>	<b>Total</b>
	<b>Source</b>	<b>Separations</b>	<b>Interstate</b>	<b>Intrastate</b>
<b>OPERATING REVENUES</b>				
Local Service	Net Operating Income, Ln 1	\$511,641		\$511,641
Access Charges	Net Operating Income, Ln 2, 3	\$1,287,198	\$948,384	\$338,814
LD Messages	Net Operating Income, Ln 5	\$18,363		\$18,363
Billing & Collection	Net Operating Income, Ln 6, 7	\$184	\$184	\$0
Other Miscellaneous Revenue	Net Operating Income, Ln 8	\$34,663		\$34,663
Less: Uncollectibles	Net Operating Income, Ln 11	(\$1,948)	\$0	(\$1,948)
<b>Total Regulated Operating Revenue</b>	<b>Ln 1+Ln 2+Ln 3+Ln 4+Ln 5-Ln 6</b>	<b>\$1,853,997</b>	<b>\$948,568</b>	<b>\$905,429</b>
<b>OPERATING EXPENSES</b>				
Plant Specific	Net Operating Income, Ln 20	\$396,701	\$159,233	\$237,468
Plant Non-Specific	Net Operating Income, Ln 21,22,23	\$162,104	\$71,403	\$90,701
Depreciation & Amortization	Net Operating Income, Ln 29	\$325,803	\$158,852	\$166,951
Customer Operations	Net Operating Income, Ln 33	\$124,769	\$58,011	\$66,758
Corporate Operations	Net Operating Income, Ln 36	\$359,389	\$176,181	\$183,208
<b>Total Operating Expenses</b>	<b>Ln 8+Ln 9+Ln 10+Ln 11+Ln 12</b>	<b>\$1,368,766</b>	<b>\$623,680</b>	<b>\$745,086</b>
<b>OPERATING TAXES</b>				
Federal Income Tax -Booked	Net Operating Income, Ln 38,39,40	(\$12,153)	(\$24,571)	\$12,418
Adjustment to Booked FIT	If Taxes are Imputed, Ln 16-Ln 14	\$99,286	\$85,362	\$13,924
Imputed FIT @ %	(Ln 7-Ln 14-Ln24-Ln21-(Op Inc Ln48))* Rate	\$87,133	\$60,791	\$26,342
Adjustment to Imputed FIT	If Taxes are per book, Ln 14-Ln 16	\$0	\$0	\$0
Booked - Imputed FIT (Net of Adj)		\$0	\$0	\$0
State Income Tax -Booked	Net Operating Income, Ln 41,42	\$56,301	\$26,821	\$29,480
Adjustment to Booked SIT	If Taxes are Imputed, Ln 21-Ln 19	(\$29,817)	(\$8,343)	(\$21,473)
Imputed SIT @ %	(Ln 7-Ln 14-Ln24-(Op Inc Ln48))* Rate	\$26,484	\$18,478	\$8,007
Adjustment to Imputed SIT	If Taxes are per book, Ln 14-Ln 16	\$0	\$0	\$0
Booked - Imputed SIT (Net of Adj)		\$0	\$0	\$0
Other Taxes	Net Operating Income, Ln 43,44,45	\$43,624	\$16,853	\$26,771
Total Booked Operating Taxes	Ln 14+Ln 15+Ln 19+Ln 20+ Ln 24	\$157,241	\$96,121	\$61,120
Total Imputed Operating Taxes	Ln 14+Ln 15+Ln 19+Ln 20+ Ln 24	\$157,241	\$96,121	\$61,120
<b>NET OPERATING INCOME</b>				
<b>Net Operating Income (NOI)</b>	<b>Ln 7 - Ln 13 - Ln 25</b>	<b>\$327,990</b>	<b>\$228,767</b>	<b>\$99,223</b>
<b>N.O.I. Adjustment</b>	<b>Net Operating Income, Ln 56,57</b>	<b>\$42,405</b>	<b>\$42,405</b>	<b>\$0</b>
<b>Adjusted Net Operating Income (NOI)</b>	<b>Ln 27 + Ln 28</b>	<b>\$370,395</b>	<b>\$271,172</b>	<b>\$99,223</b>
<b>RATE OF RETURN ON RATE BASE CALCULATION</b>				
		<b>As of End of Period</b>		
<b>RATE BASE</b>				
Land & Support	Rate Base Development, Ln 3	\$827,476	\$319,668	\$507,808
Central Office Equipment	Rate Base Development, Ln 14	\$2,421,711	\$1,365,998	\$1,055,713
Info. Orig. & Term. Equip.	Rate Base Development, Ln 20	\$0	\$0	\$0
Cable & Wire Facilities	Rate Base Development, Ln 31	\$4,725,078	\$1,332,061	\$3,393,017
Other Investment	Rate Base Development, Ln 34, 35	\$13,590	\$0	\$13,590
Total Plant in Service	Ln 30 - Ln 34	\$7,987,855	\$3,017,727	\$4,970,128
Accumulated Depreciation	Rate Base Development, Ln 46	\$6,030,671	\$2,340,678	\$3,689,993
Net Plant in Service	Ln 35 - Ln 36	\$1,957,184	\$677,049	\$1,280,136
Plant Held for Future Use	Rate Base Development, Ln 47	\$0	\$0	\$0
Plant Under Construction	Rate Base Development, Ln 48	\$26,568	\$10,264	\$16,304
RTB Class B Stock	Rate Base Development, Ln 49	\$0	\$0	\$0
Prepayments	Rate Base Development, Ln 50	\$110,903	\$42,844	\$68,059
Materials & Supplies	Rate Base Development, Ln 51	\$79,557	\$22,428	\$57,129
Cash Working Capital	Cash Working Capital Develop Ln 3	\$42,809	\$18,505	\$24,304
Deferred Income taxes	Rate Base Development, Ln 54	\$246,362	\$93,720	\$152,642
Customer Deposits	Rate Base Development, Ln 55	\$4,555	\$1,760	\$2,795
<b>Rate Base</b>	<b>Ln 37 + Ln 38-43, - Ln 44 - Ln 45</b>	<b>\$1,966,104</b>	<b>\$675,609</b>	<b>\$1,290,495</b>
<b>Rate of Return on Rate Base</b>	<b>Ln 29 / Ln 46</b>	<b>18.83900%</b>	<b>40.13732%</b>	<b>7.68875%</b>

**WAVERLY HALL TELEPHONE, LLC**  
**RATE OF RETURN DEVELOPMENT**  
**YEAR ENDING 06/30/19**

**COST OF CAPITAL STRUCTURE & RETURN ON EQUITY CALCULATION**

**ACTUAL COST OF CAPITAL - TOTAL COMPANY**

		Amount	% Total	Rate	Weighted Cost Rate
Short Term Debt	Rate Base, Ln 56	\$0	0.00000%	0.00000%	0.00000%
Long Term Debt	Rate Base, Ln 59	\$0	0.00000%	0.00000%	0.00000%
Other	Rate Base, Ln 53	\$4,555	0.22856%	7.00000%	0.01600%
Equity	Rate Base, Ln 64	\$1,988,390	99.77144%	18.86613%	18.82301%
Total Capital		\$1,992,945	100.00000%		18.83900%

**ACTUAL COST OF CAPITAL - INTRASTATE ONLY**

		Amount	% Total	Rate	Weighted Cost Rate
Short Term Debt	Rate Base, Ln 56	\$0	0.00000%	0.00000%	0.00000%
Long Term Debt	Rate Base, Ln 59	\$0	0.00000%	0.00000%	0.00000%
Other	Rate Base, Ln 53	\$4,555	0.22856%	7.00000%	0.01600%
Equity	Rate Base, Ln 64	\$1,988,390	99.77144%	7.69033%	7.67276%
Total Capital		\$1,992,945	100.00000%		7.68875%

**ALLOWED CAPITAL STRUCTURE - INTRASTATE**

		Amount	% Total	Rate	Weighted Cost Rate
Short Term Debt	Rate Base, Ln 56	\$0	0.00000%	0.00000%	0.00000%
Long Term Debt	Rate Base, Ln 59	\$0	0.00000%	0.00000%	0.00000%
Other	Rate Base, Ln 53	\$4,555	0.22856%	7.00000%	0.01600%
Equity	Rate Base, Ln 64	\$1,988,390	99.77144%	9.25000%	9.22886%
Total Capital		\$1,992,945	100.00000%		9.24486%

**REVENUE REQUIREMENT CALCULATION**

Rate Base (Adjusted Rate Base)	Earnings Report, Ln 46			\$1,290,495
Allowed Rate of Return on Rate Base	Per GA PSC		Capped	8.00000%
Net Operating Income Requirement	Line 1 x Ln 2			\$103,240
Net Operating Income Available (Imputed Adjusted NOI)	Earnings Report, Ln 29			\$99,223
Operating Income Excess (Deficiency)	Ln 4 - Ln 3			(\$4,017)
Income Expansion Factor	1-SIT-FIT+FITxSIT			74.260%
Revenue Excess (Deficiency)	Ln 5 / Ln 6			(\$5,409)