Planters Rural Telephone Cooperative, Inc.

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

May 4, 2020

P.O. Box 615 | Liberty, MO 64069 p 816.309.2682 f 816.429.6789 info@hurlbertcpa.com www.hurlbertcpa.com

Independent Accountant's Report

PLANTERS RURAL TELEPHONE COOPERATIVE, INC.

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 Planters Rural Telephone Cooperative, Inc.'s assertion that Planters 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 Test 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 Planters Rural Telephone Cooperative, Inc. 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

Planters's final revenue deficiency is $1,729,743. We propose one adjustment for expenses that were deemed not reasonable by us totaling (redacted) and having a separated impact of $10,660.

Table 1
Planters Rural Telephone Cooperative, Inc., Inc.

Georgia UAF Summary	Amounts
Original Cooperative Requested Amount from Georgia Universal Access Fund	$1,739,903
Adjustment One – See Procedure 2 Proposed Staff Adjustments Separated into Intrastate Amounts – Expenses	$10,660
Total Adjustments	$10,660
Revised Deficiency for the Cooperative	$1,729,743
Final Amount Recommended by Staff	$1,729,743

As presented in Table 1, we propose Planters Rural Telephone Cooperative, Inc. receive a UAF disbursement of $1,729,743 based upon the test year for the twelve months ending June 30, 2019.

Profile of Planters Rural Telephone Cooperative, Inc.

Planters is a rural telephone Cooperative with business and maintenance offices located in Newington, GA. Planters serves subscribers in portions of Screven and Effingham counties and operates five exchanges in Dover, Newington, Hiltonia, Guyton and South Guyton. Planters offers both regulated and non-regulated products and services to its customers. Planters has 6,697 access lines. Additional non-regulated products and services including internet, cellular and long distance are available from its subsidiaries.

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 – Of the selected invoices, we found a total amount of invoices that were unreasonable to us totaling (redacted) and had a separated impact of $10,660.

Account	Description of Item	Cause for adjustment	Amount
6720	(redacted)	(redacted)	(redacted)
6720	(redacted)	(redacted)	(redacted)
Total			(redacted)

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 Cooperative'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 – There were no discrepancies noted.

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 Cooperative's outside auditor's 2019 report provided an unqualified opinion.

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 was charged to the following accounts:

Account	Percentage
1190	2%
4360	2%
6212	10%
6534	29%
6711	49%
6724	7%
	100%

Conclusion – The Company was not above the GPSC Executive Compensation Expense 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 $4,451,024 in the UAF application. Per the UAF model, Total Plant in Service was $81,922,984. Composite depreciation rate equals depreciation per year divided by total historical cost. The composite rate is shown below.

Depreciation Expense	$4,451,024
Total Plant in Service	$81,922,984
Composite Rate	5.43%

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 Cooperative does not employ a cost allocation manual. The Cooperative 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 Cooperative's actual debt/equity ratio and actual cost of debt, the Cooperative's weighted average cost of capital ("WACC") is 8.68391%. Because the Cooperative'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. Net Plant Investment and Revenues remained steady while expenses increased 9% mostly by depreciation expense that is compliant with PSC depreciation rates.

Financial Results: 2014 – 2019

Description	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
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	6,191	6,235	6,383	6,631	6,888	6,697

Receipt of Federal Universal Service Support
2014 – 2019

Description	2014	2015	2016	2017	2018	2019
High-Cost Loop Support ("HCLS")	4,525,512	4,154,855	3,746,790	3,059,339	2,712,082	3,486,143
Interstate Common Line Support ("ICLS") (CAF-BLS)	2,434,830	2,262,186	2,263,758	2,317,700	2,071,932	2,835,954
Local Switching Support ("LSS")	0	0	0	0	0	0
Safety Net Additive Support ("SNA")	217,428	833,988	284,874	85,104	0	0
Safety Valve Support ("SVS")	0	0	0	0	0	0
Lifeline & Link-up Programs	12,249	13,618	14,376	10,556	6,303	2,569
Total	7,190,019	7,264,647	6,309,798	5,472,699	4,790,317	6,324,666

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

Conclusion – The Cooperative had Construction Work in Progress and Plant Retirements at 6/30/2019 of $1,726,134 and (redacted), respectively.

Procedure 18: Identified the Cooperative's affiliates and non-regulated services.

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

(Redacted)

Procedure 19: Identified the total costs charged to the regulated Cooperative by the affiliate or parent Cooperative. 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 – Planters has the highest depreciation expense per access line as compared to all UAF applicants. Some telephone companies have older and almost fully depreciated plant, whereas, Planters has newer plant investment applied to PSC approved rates resulting in a high depreciation expense. As noted in Procedure 13, Planters has an overall composite depreciation rate of 5.43%, whereas the ceiling is 8%.

Conclusion - Total costs charged to the regulated Cooperative by the affiliates was (redacted) for the year ending 6/30/2019. The costs do not appear unreasonable and therefore, no affiliate audit is recommended.

(Redacted)

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 Test 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.

Exhibit Nos. 1 – 3

1. Planters Rural Telephone Cooperative, Inc. Organization Chart
2. Planters Rural Telephone Cooperative, Inc. UAF Net Operating Income and Rate of Return on Rate Base Calculation
3. Planters Rural Telephone Cooperative, Inc. UAF Cost of Capital Structure and Return on Equity Calculation

Exhibit 1

(Redacted)

Exhibit 2

PLANTERS RURAL TELEPHONE COOPERATIVE, INC.
RATE OF RETURN DEVELOPMENT
YEAR ENDING 06/30/19

NET OPERATING INCOME AND RATE OF RETURN ON RATE BASE CALCULATION

NET OPERATING INCOME DEVELOPMENT	Source	(1) Subject To Separations	(2) Total Interstate	(3) Total Intrastate
OPERATING REVENUES				
Local Service	Net Operating Income, Ln 1	$6,112,725		$6,112,725
Access Charges	Net Operating Income, Ln 2, 3	$5,469,276	$4,967,200	$502,076
LD Messages	Net Operating Income, Ln 5	$0		$0
Billing & Collection	Net Operating Income, Ln 6, 7	$440	$0	$440
Other Miscellaneous Revenue	Net Operating Income, Ln 8	$359,951		$359,951
Less: Uncollectibles	Net Operating Income, Ln 11	$600	$0	$600
Total Regulated Operating Revenue	**Ln 1 + Ln 2 + Ln 3 + Ln 4 + Ln 5 - Ln 6**	$11,941,792	$4,967,200	$6,974,592
OPERATING EXPENSES				
Plant Specific	Net Operating Income, Ln 20	$1,896,298	$877,427	$1,018,871
Plant Non-Specific	Net Operating Income, Ln 21, 22, 23	$1,419,172	$477,515	$941,657
Depreciation & Amortization	Net Operating Income, Ln 29	$4,451,024	$1,595,269	$2,855,755
Customer Operations	Net Operating Income, Ln 33	$490,675	$165,961	$324,714
Corporate Operations	Net Operating Income, Ln 36	$1,378,388	$598,114	$780,274
Total Operating Expenses	**Ln 8 + Ln 9 + Ln 10 + Ln 11 + Ln 12**	$9,635,556	$3,714,286	$5,921,270
OPERATING TAXES				
Federal Income Tax - Booked	Net Operating Income, Ln 38, 39, 40	$0	$0	$0
Adjustment to Booked FIT	If Taxes are Imputed, Ln 16 - Ln 14	$0	$0	$0
Imputed FIT @ %	(Ln 7 - Ln 14 - Ln 24 - Ln 21 - (Operating Income Ln 48))* Rate	$0	$0	$0
Adjustment to Imputed FIT	If Taxes are per book, Ln 14 - Ln 16	$0	$0	$0
Booked - Imputed FIT (Net of Adjustment)		$0	$0	$0
State Income Tax -Booked	Net Operating Income, Ln 41, 42	$0	$0	$0
Adjustment to Booked SIT	If Taxes are Imputed, Ln 21 - Ln 19	$0	$0	$0
Imputed SIT @ %	(Ln 7 - Ln 14 - Ln 24 - (Operating Income Ln 48))* Rate	$0	$0	$0
Adjustment to Imputed SIT	If Taxes are per Book, Ln 14 - Ln 16	$0	$0	$0
Booked - Imputed SIT (Net of Adjustment)		$0	$0	$0
Other Taxes	Net Operating Income, Ln 43, 44, 45	$445,275	$141,482	$303,793
Total Booked Operating Taxes	Ln 14 + Ln 15 + Ln 19 + Ln 20 + Ln 24	$445,275	$141,482	$303,793
Total Imputed Operating Taxes	Ln 14 + Ln 15 + Ln 19 + Ln 20 + Ln 24	$445,275	$141,482	$303,793
NET OPERATING INCOME				
Net Operating Income (NOI)	**Ln 7 - Ln 13 - Ln 25**	**$1,860,961**	**$1,111,432**	**$749,529**
N.O.I. Adjustment	**Net Operating Income, Ln 56, 57**	**$12,098**	**$12,098**	**$0**
Adjusted Net Operating Income (NOI)	**Ln 27 + Ln 28**	**$1,873,059**	**$1,123,530**	**$749,529**
RATE OF RETURN ON RATE BASE CALCULATION		**As of End of Period**		
RATE BASE				
Land & Support	Rate Base Development, Ln 3	$4,988,442	$1,585,028	$3,403,414
Central Office Equipment	Rate Base Development, Ln 14	$14,272,120	$7,881,008	$6,391,112
Information Origination & Termination Equipment	Rate Base Development, Ln 20	$0	$0	$0
Cable & Wire Facilities	Rate Base Development, Ln 31	$62,662,332	$16,401,114	$46,261,218
Other Investment	Rate Base Development, Ln 34, 35	$0	$0	$0
Total Plant in Service	Ln 30 - Ln 34	$81,922,894	$25,867,150	$56,055,744
Accumulated Depreciation	Rate Base Development, Ln 46	$40,851,316	$13,662,763	$27,188,552
Net Plant in Service	Ln 35 - Ln 36	$41,071,579	$12,204,387	$28,867,192
Plant Held for Future Use	Rate Base Development, Ln 47	$0	$0	$0
Plant Under Construction	Rate Base Development, Ln 48	$1,726,134	$548,462	$1,177,672
RTB Class B Stock	Rate Base Development, Ln 49	$0	$0	$0
Prepayments	Rate Base Development, Ln 50	$286,661	$91,084	$195,577
Materials & Supplies	Rate Base Development, Ln 51	$865,348	$226,495	$638,854
Cash Working Capital	Cash Working Capital Develop Ln 3	$239,914	$95,476	$144,438
Deferred Income taxes	Rate Base Development, Ln 54	$0	$0	$0
Customer Deposits	Rate Base Development, Ln 55	$57,288	$18,203	$39,085
Rate Base	**Ln 37 + Ln 38 - 43, - Ln 44 - Ln 45**	**$44,132,348**	**$13,147,700**	**$30,984,648**
Rate of Return on Rate Base	**Ln 29 / Ln 46**	**4.24419%**	**8.54545%**	**2.41903%**

Exhibit 3

PLANTERS RURAL TELEPHONE COOPERATIVE, INC.
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	$8,264,491	9.99368%	3.60113%	0.35989%
Other	Rate Base, Ln 53	$57,288	0.06927%	7.00000%	0.00485%
Equity	Rate Base, Ln 64	$74,375,423	89.93705%	4.31352%	3.87945%
Total Capital		$82,697,202	100.00000%		4.24419%

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	$8,264,491	9.99368%	3.60113%	0.35989%
Other	Rate Base, Ln 53	$57,288	0.06927%	7.00000%	0.00485%
Equity	Rate Base, Ln 64	$74,375,423	89.93705%	2.28415%	2.05430%
Total Capital		$82,697,202	100.00000%		2.41903%

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	$8,264,491	9.99368%	3.60113%	0.35989%
Other	Rate Base, Ln 53	$57,288	0.06927%	7.00000%	0.00485%
Equity	Rate Base, Ln 64	$74,375,423	89.93705%	9.25000%	8.31918%
Total Capital		$82,697,202	100.00000%		8.68391%

REVENUE REQUIREMENT CALCULATION

Rate Base (Adjusted Rate Base)	Earnings Report, Ln 46		$30,984,648
Allowed Rate of Return on Rate Base	Per GA PSC	Capped	8.00000%
Net Operating Income Requirement	Line 1 x Ln 2		$2,478,772
Net Operating Income Available (Imputed Adjusted NOI)	Earnings Report, Ln 29		$749,529
Operating Income Excess (Deficiency)	Ln 4 - Ln 3		($1,729,243)
Income Expansion Factor	1 - SIT - FIT + FIT x SIT		100.000%
Revenue Excess (Deficiency)	Ln 5 / Ln 6		($1,729,243)