Brantley Telephone Company

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

BRANTLEY 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 Brantley Telephone Company's assertion that Brantley'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 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 Brantley 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

Brantley's final revenue deficiency is $1,660,388. We propose one adjustment involving the cost of debt applied in the UAF application.

Table 1
Brantley Telephone Company, Inc.

Georgia UAF Summary	Amounts
Original Company Requested Amount from Georgia Universal Access Fund	$1,688,916
Procedure 1 – Adjustment Proposed Staff Adjustments Separated into Intrastate Amounts	$28,528
Total Adjustments	$28,528
Revised Deficiency for the Company	$1,660,388
Final Amount Recommended by Staff	$1,660,388

As presented in Table 1, we propose Brantley Telephone Company, Inc. receive a UAF disbursement of $1,660,388 based upon the test year for the twelve months ending June 30, 2019.

Profile of Brantley Telephone Company

Brantley Telephone Company is a rate of return regulated telephone company headquartered in Nahunta, Georgia, serving approximately 4,301 access lines as of December 31, 2018. The Company is a wholly owned subsidiary of Strickland Communications, Inc. which is a diversified holding company that offers non-regulated communications products and services through its subsidiaries. An organizational chart is provided in Exhibit No. 1. The Development of the Test Year Rate Base and Net Operating Income as submitted by the Company in support of its request is provided in Exhibit No. 2. The Company's calculation of the claimed revenue deficiency is presented in Exhibit No. 3.

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.

Proposed Adjustment – We propose an adjustment to the Company's cost of debt as follows. Brantley's reductions to book Long Term Debt (LTD) artificially reduces the company LTD in its allowed capital structure in the UAF Model and simultaneously inflates the claimed interest rate on the debt. The separated adjustment of $28,528 is proposed as an adjustment to the Company's requested amount.

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 – There were no discrepancies noted.

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 – 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 – There were no discrepancies noted.

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 – There were no discrepancies noted.

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

Conclusion – The Company'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 (salary and benefits) was charged to the following accounts.

Executive	**Dereg**	**ISW**	**Plant Oper**	**Prod Adv**
6711.00.01	**6362.50.01**	**6362.60.01**	**6534.00.01**	**6613.00.01**
86%	1%	1%	6%	5%

One of the executives performs hands on supervision of some of the above departments while other executives perform only executive functions.

Conclusion – The Company eliminated $395,469 in the Executive Expense by properly applying the GPSC approved Executive expense 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 $2,287,736 in the UAF application. Per the UAF model, Total Plant in Service was $32,056,701. Composite depreciation rate equals depreciation per year divided by total historical cost. The composite rate is shown below.

Depreciation Expense	$2,287,736
Total Plant in Service	$32,056,701
Composite Rate	7.14%

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 did employ a current cost allocation manual and the allocations tested were accurate.

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 9.99992%. 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.

Financial Results: 2014 – 2019

Conclusion – Net Plant was increased by the additions to plant investment due to the Company's Fiber to the Home project among other investment enhancements. Revenues, expenses and operating income held steady.

Description	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Net Prop, Plant & Equipment	**$(REDACTED)**	**$(REDACTED)**	**$(REDACTED)**	**$(REDACTED)**	**$(REDACTED)**	**$(REDACTED)**
Operating Revenues	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**
Operating Expenses	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**
Operating income/(loss)	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**
Total access Lines	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**	**(REDACTED)**

Receipt of Federal Universal Service Support 2014 – 2019

Support	2014	2015	2016	2017	2018	2019
HCLS	$2,255,874	$2,117,993	$1,703,911	$1,594,278	$1,486,300	$1,831,108
ICLS	1,443,230	1,470,378	1,689,162	1,576,164	1,550,038	1,884,213
LSS	0	0	0	0	0	0
SNA	252,948	196,818	0	0	0	0
SVS	0	0	0	0	0	0
Lifeline	10,964	9,179	5,523	5,060	3.532	3,309
Total	$3,963,016	$3,794,368	$3,398,596	$3,175,502	$3,039,870	$3,718,630

3

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 $0 and $1,265,355, respectively.

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

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

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 affiliate(s) or parent company was $0 for the year ending 6/30/2019.

Brantley did not have the highest or lowest average per access line for all accounts as compared to all UAF applicants, but rather fell in the middle range. 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 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. Brantley Telephone Company Organization Chart
2. Brantley Telephone Company UAF Net Operating Income and Rate of Return on Rate Base Calculation
3. Brantley Telephone Company UAF Cost of Capital Structure and Return on Equity Calculation

Exhibit 1

Brantley Organization Chart

(REDACTED)

Exhibit 2

(REDACTED)

Exhibit 3

(REDACTED)