HURLBERT CPA
regulatory audit services

Trenton Telephone Company

Agreed-Upon Procedures Applied to the Universal Access Fund Application for the period ending 6/30/2018

May 2, 2019

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Independent Accountant's Report on Applying Agreed-Upon Procedures

TRENTON 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 Trenton Telephone Company's assertion that Trenton's Application for the period ending June 30, 2018 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 Trenton 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 2, 2019

Current Request for UAF Disbursements – Summary of Findings

Trenton's final revenue deficiency is $2,240,598. We propose an adjustment of $2,650 with a separated amount of $2,663 pertaining to expenses that we did not believe were reasonable.

Table 1
Trenton Telephone Company, Inc.

Georgia UAF Summary	Amounts
Original Company Requested Amount from Georgia Universal Access Fund	$2,243,261
Adjustment One – See Procedure 2 Proposed Staff Adjustments Separated into Intrastate Amounts – Expenses	$2,663
Total Adjustments	$2,663
Revised Deficiency for the Company	$2,240,598

As presented in Table 1, we propose Trenton Telephone Company, Inc. receive a UAF disbursement of $2,240,598 based upon the test year for the twelve months ending June 30, 2018.

Profile of Trenton Telephone Company

Trenton Telephone Company is a regulated telephone company with business and maintenance offices located in Trenton, Georgia. The Company serves approximately 2,845 access lines in north Georgia. An organizational chart of Trenton 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.

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 $2,650 and had a separated impact of $2,663. Proposed Adjustment - We propose a total separated adjustment of $2,663 to eliminate the following expenses that we did not believe were reasonable:

Account	Description of Item	Cause for adjustment	Amount
6722	Membership Tenn. Telephone Association & Scholarships	Not telephone related	$850
6725	Communications Advisory Counsel	Not telephone provision related	1,800
Total			$2,650

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 – Trenton is an average schedule company and this procedure was not applicable.

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 Company provided an unqualified outside auditor's report for the year 2018.

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 – 100% of Executive expense (salary and benefits) was charged to account 6711 – Executive Expense. There were no allocations of Executive expense to other accounts.

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 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	REDACTED

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 9.24976%. 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 – 2018

Description	2014	2015	2016	2017	2018
Net Property, Plant and Equipment	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Operating Revenues	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Operating Expenses	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Operating income/(loss)	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED
Total access lines	REDACTED	REDACTED	REDACTED	REDACTED	REDACTED

Conclusion – Net income decreased while Net Plant slightly increased contributing to the decrease of UAF support of about REDACTED

Receipt of Federal Universal Service Support
2014 – 2018

Support	2014	2015	2016	2017	2018
HCLS	$0	$0	$0	$0	$0
ICLS	523,662	495,642	610,492	611,610	1,140,906
LSS	-150	0	0	0	0
SNA	0	0	0	0	0
SVS	0	0	0	0	0
Lifeline	0	1,990	1,223	0	0
Total	$523,512	$497,632	$611,715	$611,610	$1,140,906

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 6/30/2018 of $165,243 and $519,514, respectively.

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

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

REDACTED

Further detail of the above includes the below.

REDACTED

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 **REDACTED** for the year ending 6/30/2018 as costs are directly assigned to affiliates, deregulated or unregulated entities. The costs do not appear unreasonable and therefore, no affiliate audit is recommended.

For the year 6/30/2018, the Access Expense Account 6540 was the highest average per access line in all UAF companies. The high average was due to a NECA audit increasing interstate access expense.

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

REDACTED

REDACTED

REDACTED