HURLBERT CPA
regulatory audit services

Pembroke Telephone Company, Inc.

Agreed-Upon Procedures Applied to the Universal Access Fund Application for the period ending 6/30/2023

REDACTED

May 3, 2024

Independent Accountant's Report on Applying Agreed-Upon Procedures

PEMBROKE TELEPHONE COMPANY, INC.

To the Georgia Public Service Commission:

We have performed the procedures enumerated below on the application for funding from the Georgia Universal Access Fund provided to us by management of Pembroke Telephone Company, Inc. (or the "Company"). The responsible party Pembroke Telephone Company, Inc. is responsible for the application.

The engaging party, Georgia Public Service Commission ("GPSC") has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assessing the application's reasonableness prior to funds being distributed to Pembroke Telephone Company, Inc. as of June 30, 2023. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures are listed below with associated findings listed on the following pages.

AUP	Agreed-Upon Procedures
1	Obtain UAF company pre-filed information and schedules filed with the GPSC
2	Issue specific Contractor data requests to the UAF Companies and schedule field work
3	Audit the Company's UAF model (printed version as well as spreadsheet testing)
4	Trace amounts on the Applicant's Form M back to Company prepared schedules matching their General Ledger
5	Trace Form M data to the UAF Model column entitled Balance Per Books
6	Trace amounts in the "subject to separations" adjustment column of the UAF Model to Net Operating Income (NOI) and Rate of Return (ROR) on rate base calculations
7	Trace amounts in the "non-regulated" adjustment column of UAF Model to supporting journal entries of cost study. Selected supporting work papers are reviewed for reasonableness, accuracy, and conformance.
8	Test the FCC Part 36 study and review allocation/traffic factors
9	Test and recalculate the Revenue Requirement Section on the UAF Model
10	Review each invoice over $250 and select those invoices that appear unreasonable
11	Review corporate allocations and the Company's Cost Allocation Manual

12 Verify fixed asset amounts in the Company's Continuing Property Record and identify 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

13 Verify the amounts of Federal universal service fund support reported in the UAF Application. Review UAF Applicant work

14 Verify 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

15 Verify that any Patronage Dividends credited (not necessarily received in cash) from long term lenders are treated as a reduction to the cost of debt

16 Review the outside auditor's report on the financial statements and report any adverse findings or qualified opinions

17 Review and test the requested amount for Executive Compensation and Corporate Operations Expense and compared the amount shown in the UAF application to the GPSC caps

18 Review depreciation rates used for the UAF application and compare to the rates adopted by the GPSC

19 Review cost allocation manual, verify that it is being used, test a sample of allocations and report when the manual was last updated

20 Incorporate revised factors or methods adopted by GPSC, such as cost of equity, into the UAF model

21 Prepare exhibits of financial results and support mechanisms. Analyze as to why increases/decreases occurred

22 Identify Construction Work in Progress and Retirement amounts for the test year

23 Identify the Company's affiliates and non-regulated services

24 Identify 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 appear unreasonable, propose adjustments or informed GPSC staff and recommend an affiliated transactions engagement be performed

25 For ACAM UAF companies only, obtain the Company spreadsheet depicting calculated amounts, review Company prepared adjustments, trace adjustments in the UAF application model to the spreadsheet and identify impact of the adjustment

26 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

27 Finalize work papers and prepare final report

28 Prepare testimony if requested.

We were engaged by the GPSC to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct and examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the application. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of Pembroke Telephone Company, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our agreed-upon procedures engagement. This report is intended solely for the information and use of the Georgia Public Service Commission and Pembroke Telephone Company, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Vic Hurlbert, CPA
Hurlbert CPA LLC
Liberty, Missouri
May 3, 2024

Current Request for UAF Disbursements – Summary of Findings

Pembroke Telephone Company, Inc.'s final revenue deficiency is $675,152. We propose no adjustment.

Table 1
Pembroke Telephone Company, Inc.

Georgia UAF Summary	Amounts
Original Company Requested Amount from Georgia Universal Access Fund	$675,152
Total Adjustments	$0
Revised Deficiency for the Company	$675,152
Final Amount Recommended by Staff	$675,152

As presented in Table 1, we propose Pembroke Telephone Company, Inc. receive a UAF disbursement of $675,152 annual disbursement based upon the test year for the twelve months ending June 30, 2023.

Profile of Pembroke Telephone Company, Inc.

Pembroke Telephone Company, Inc. is a traditionally regulated telephone company with business and maintenance offices located in Pembroke, Georgia. The Company serves approximately 1,456 access lines in north Bryan County.

Agreed Upon Procedures

Procedure 1: Obtained UAF company pre-filed information and schedules filed with the GPSC.

Conclusion – We reviewed pre-filed files downloaded from the GPSC web site. There were no discrepancies noted.

Procedure 2: Issued specific Contractor data requests to the UAF Companies and scheduled field work

Conclusion – Data requests were sent to the Company and the Company responded to all data requests.

Procedure 3: Audited the Company's UAF model (printed version as well as spreadsheet testing).

Conclusion – There were no discrepancies noted.

Procedure 4: Traced amounts on the Applicant's Form M back to Company prepared schedules matching their General Ledger.

Conclusion – There were no discrepancies noted.

Procedure 5: Traced Form M data to the UAF Model column entitled Balance Per Books

Conclusion – There were no discrepancies noted.

Procedure 6: Traced amounts in the "subject to separations" adjustment column of the UAF Model to Net Operating Income (NOI) and Rate of Return (ROR) on rate base calculations.

Conclusion – There were no discrepancies noted.

Procedure 7: Traced amounts in the "non-regulated" adjustment column of UAF Model to supporting journal entries of cost study. Selected supporting work papers are reviewed for reasonableness, accuracy, and conformance.

Conclusion – There were no discrepancies noted.

Procedure 8 Tested the FCC Part 36 study and review allocation/traffic factors.

Conclusion – The factors appeared reasonable.

Procedure 9: Tested and recalculate the Revenue Requirement Section on the UAF Model.

Conclusion – There were no discrepancies noted.

Procedure 10: Reviewed each invoice over $250 and select those invoices that appear unreasonable.

Conclusion – There were no discrepancies noted.

Procedure 11: Reviewed corporate allocations and the Company's Cost Allocation Manual

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

Procedure 12 Verified fixed asset amounts in the Company's Continuing Property Record and identify those assets that are inappropriately included in rate base in the UAF application. If applicant is a recipient of Federal or state Broadband Grants, determined 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.

Pembroke Telephone Company, Inc. was awarded a loan/grant combination from the Rural Utilities Service ReConnect Program during the year ended June 30, 2020. The award was for a Grant of $2,036,250 and a loan in the amount of $2,036,250 with an amortization period of 19 years, carrying the interest rate at the Treasury rate for the remaining amortization period at the time of each advance of funds. Under the terms of the Loan/Grant, agreement all loan funds must be requested and expended before a request for grant funds.

As of June 30, 2023, there has been no request or expenditure of grant funds. In addition, all amounts under this agreement will be for facilities outside the Company's service area and will be excluded from UAF filings as deregulated activities.

Pembroke Telephone Company, Inc. was awarded a $4,564,575 grant under the Rural Securities Service ReConnect program. The Grant has a matching requirement of $1,521,525. The funds will be used to construct fiber optic network in underserved areas outside Pembroke's service area and will be excluded from UAF filings. No Grant funds have been received as of June 30, 2023.

Conclusion – There were no discrepancies noted.

Procedure 13 Verified the amounts of Federal universal service fund support reported in the UAF Application. Review UAF Applicant work.

Conclusion – There were no discrepancies noted.

Procedure 14: 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 15: Verified that any Patronage Dividends credited (not necessarily received in cash) from long term lenders are treated as a reduction to the cost of debt.

Conclusion – Not applicable.

Procedure 16: Reviewed the outside auditor's report on the financial statements and report any adverse findings or qualified opinions.

Conclusion – The Company's outside auditor's 2023 report provided an unqualified opinion.

Procedure 17: 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.

Conclusion – There were no discrepancies noted.

Procedure 18: 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 $1,311,923 in the UAF application. Per the UAF model, Total Plant in Service was $23,352,730. Composite depreciation rate equals depreciation per year divided by total historical cost. The composite rate is shown below.

Depreciation Expense	$1,311,923
Total Plant in Service	$23,352,730
Composite Rate	5.62%

Procedure 19: Reviewed cost allocation manual, verify that it is being used, test 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 20: 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 9.24929%. Because the Company's WACC did exceed the GPSC's 8% cap, the allowed return on rate base was the 8%.

Procedure 21: Prepared exhibits of financial results and support mechanisms. Analyzed as to why increases/decreases occurred.

Conclusion – Revenues decreased while expenses increased causing net income to decrease. Net plant decreased due to retirements and depreciation expense.

Financial Results: 2018 – 2023

Description	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Net telecom plant	(REDACTED	(REDACTED)	(REDACTED)	(REDACTED)	(REDACTED)	(REDACTED)
Operating Revenues	(REDACTED)	(REDACTED)	(REDACTTED)	(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 2018 – 2023

Support	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
HCLS	$776,646	$965,918	$846,673	$745,150	$631,596	$461,544
ICLS	923,820	1,083,216	1,244,296	1,546,356	2,149,186	2,191,760
LSS	0	0	0	0		
SNA	0	0	0	0		
SVS	0	0	0	0		
Lifeline	7,460	6,562	6,722	5,611	4,257	4,280
Total	$1,707,926	$2,055, 696	$2,097,691	$2,297,117	$2,785,039	$2,657,584

Procedure 22: Identified Construction Work in Progress and Retirement amounts for the test year.

Conclusion – The Company had Construction Work in Progress and Plant Retirements at 6/30/2023 of $2,108,650 and $126,806, respectively.

Procedure 23 Identified the Company's affiliates and non-regulated services.

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

Pembroke Advanced Communications provisions dialup and broadband internet access, toll services, wireless services, video/cable TV, computer repair and technical support services. The Company does not have a parent and the Company did not pay any amount to an affiliate during the year ended June 30, 2023.

Procedure 24 Identified the total costs charged to the regulated company by the affiliate or parent company.

Conclusion - Pembroke Telephone Company, Inc. does not have a parent and the Company did not pay any amount to an affiliate during the year ended June 30, 2023.

Total costs charged to the regulated company by the affiliate(s) or parent company were $0 for the year ending 6/30/2023.

Cost per Access Line

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.

Pembroke had a reasonable average cost per access line among all UAF companies.

Procedure 25 For ACAM UAF companies only, obtained the Company spreadsheet depicting calculated amounts, Reviewed Company prepared adjustments, trace adjustments in the UAF application model to the spreadsheet and identify impact of the adjustment.

Conclusion – Not applicable

Procedure 26 Tested and reviewed 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 27 Finalize work papers and prepare final report.

Procedure 28 Prepare testimony if requested.

Exhibit Nos. 1 – 3

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

Exhibit 1

Pembroke Organization Chart

(REDACTED)

Exhibit 2

(REDACTED)

Exhibit 3

(REDACTED)